



House of Commons  
Public Accounts Committee

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# HMRC: The Control and Facilitation of Imports

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Thirty-eighth Report of Session  
2008–09

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by the House of Commons  
to be printed 29 June 2009*

## The Public Accounts Committee

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### Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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## Summary

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In 2007–08, HM Revenue & Customs (the Department) processed some 22 million import declarations from 16,000 traders, accounting for over £186 billion of goods imported from outside the European Union (EU). It collected £2.5 billion in Customs Duty and £19.3 billion in Import VAT. It is responsible for enforcing controls over imports to collect revenue and protect the United Kingdom from social and physical threats, such as drugs and firearms, whilst making it quick and easy to import legitimate goods.

Submitting import declarations and paying duty are relatively straightforward. Some 99% of declarations are submitted electronically and the Department clears around 90% of imports without further check beyond its initial system scrutiny.

Customs rules are set by the EU and are complex, with 34 categories of prohibited and restricted goods, 30 different regimes that traders can use to reduce or defer payment of duty, and 16,000 different goods classifications that define the level of duty payable and any restrictions. The Department provides services to help traders navigate the rules and procedures, but traders find it difficult to comply, and simple errors can lead to demands for large back duty payments.

The Department controls imports by undertaking documentary checks, physical checks at the frontier (the UK Border Agency took over responsibility for carrying out such checks in April 2008), and trader audits. The Department has sought to limit the number of physical checks carried out at the border and shift controls to documentary checks and trader audits. However, the number of documentary checks has fallen significantly even though the number of consignments has increased, and the rate of physical examinations of goods at the frontier was well below the EU average of 9%. The number of trader audits also halved between 2005–06 to 2007–08, leading to reduced revenue from this work, while levels of non-compliance detected increased, particularly among new traders.

The Department's management of customs work and risk assessment is spread across eight directorates and, since April 2008, the UK Border Agency. Poor management information has hindered effective oversight of performance and risk management. In 2007, the Department established the Customs Strategy Delivery Group to improve its strategic and operational management of customs activities.

On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> the Committee examined HM Revenue & Customs on helping traders to comply with customs rules, controlling imports into the UK, the organisation and management of customs activities, and identifying risks and gathering intelligence.

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1 C&AG's Report, *HM Revenue and Customs: The Control and Facilitation of Imports*, HC (2007–08) 942



## Conclusions and recommendations

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- 1. Customs rules are complex, making it difficult for traders to comply with their obligations.** There are 34 categories of prohibited and restricted goods, 30 different regimes, and 16,000 different codes for classifying goods. The Department should propose to the European Commission an EU taskforce to reduce the complexity and number of rules.
- 2. Simple errors on import documentation can lead to large demands for back duty payments.** Traders also find it frustrating to take assurance from a successful audit only for errors to be discovered in subsequent audits, which result in back duty demands. Where traders can demonstrate they have taken reasonable steps to comply with the rules, the Department should be able to waive demands for back duty payments.
- 3. The Department has performed well in providing help to traders, although traders find it difficult to get correct and timely advice on more complex matters.** The Department's systems allow traders to manage their declarations and payments electronically, and it provides a range of help and support on customs matters. It should allow the National Advice Service to refer customers with more complicated questions directly to its specialist trade teams.
- 4. The UK reported a 0.1% rate of physical examination of goods, which is one of the lowest in the EU.** This rate did not, however, include examinations selected locally by detection officers, so the actual rate was likely to be 2–3%. The EU average is 9%, but comparisons are difficult as the remit of national customs authorities and their frameworks of control vary widely. The Department should work with the European Commission and member countries to improve the robustness of reported data, publish that data and develop minimum standards for the level of physical examination.
- 5. The Department has sought to speed up clearance of imports at ports by shifting the emphasis of its work from physical examination to documentary checks and trader audits, but in practice this has led to an erosion of control.** Even though the number of imports has increased, the Department is carrying out a lot fewer documentary checks and trader audits, and levels of detected non-compliance have increased. The Department is re-examining the risks of each customs regime to generate a complete picture of the risks by the end of 2009. In the light of that assessment, it should re-assess the level and nature of the controls it should deploy to manage the risks identified.
- 6. The Department detects irregularities in 27% of those consignments selected for examination using risk profiles in its trade system, whereas irregularities are found in only 1% of the consignments selected locally by detection officers.** Despite this, each month there are 7,000 to 10,000 locally selected examinations, but only 200 trade system examinations. The Department should achieve a better balance by including additional risk profiles in its trade system.

7. **The Department and the UK Border Agency lack robust processes to assess risk and manage intelligence.** This weakness is a major barrier to identifying new and emerging risks and making sure they introduce effective mechanisms to counter them. They should integrate their customs risk and intelligence processes and carry out structured risk testing to identify new and emerging risks.
8. **The Department's management structure for customs activities is fragmented and disjointed, accountabilities are blurred and management information is poor.** The transfer of responsibility to the UK Border Agency for carrying out physical examinations of goods creates a further division that requires careful management. The Customs Strategy Delivery Group should define responsibilities, set clear objectives and performance targets, and report on its performance every six months to the boards of HM Revenue & Customs and the UK Border Agency.
9. **There is a risk that the physical examination of goods may become of secondary importance to the UK Border Agency as it seeks to manage customs work alongside its other responsibilities for immigration and visas.** The Agency plans to train all Border Force staff in these activities so it can use them flexibly. It should publish in its annual report the rate of customs examinations undertaken at airports, seaports and ferry ports, the level of irregularities identified, in addition to currently published data on seizures of drugs and other prohibited goods.

# 1 Helping traders to comply with customs rules

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1. HM Revenue & Customs (the Department) is responsible for controlling imports from outside the European Union (EU), facilitating the trade of legitimate goods and collecting revenue due from import taxes and duties. In 2007–08, the Department processed 22 million import declarations from 16,000 traders, accounting for over £186 billion of goods imported from outside the EU. It collected £2.5 billion in Customs Duty and £19.3 billion in Import VAT. On 1 April 2008, the UK Border Agency, operating as a shadow agency of the Home Office, assumed responsibility for carrying out physical examinations of goods at the frontier. Detection Officers who carry out these examinations were transferred from the Department to the UK Border Agency. The Agency is operating in shadow form until Parliament approves the relevant legislation on its powers, planned for summer 2009.<sup>2</sup>

2. The United Kingdom is part of the customs union of 27 member countries. The EU provides the legislation and framework under which the Department operates its customs activities and manages the flow of international trade. The legislation and rules on what traders can import to the UK and the taxes and duties payable are complex. For example, there are 34 categories of prohibited and restricted goods, such as drugs, firearms and products of animal origin. The Department considered that much of the complexity resulted from efforts to provide beneficial treatment to particular types of trade and business, through various schemes that allow traders to take advantage of reduced rates of duty or defer payment of duty if the goods meet certain criteria.<sup>3</sup>

3. The customs duty rates, set by the European Commission, vary generally between 0% and 20%, depending on the type of good and its country of origin. Goods subject to anti-dumping duties can attract higher rates. Duty rates have been falling in line with international trends towards reducing trade barriers. There are 16,000 commodity codes that define the level of duty payable and any restrictions. Traders must include the commodity code on their customs declaration for each import. The number of commodity codes has increased over the years to give greater precision in identifying those commodities that should attract lower rates of duty or benefit from preferential trade agreements. **Figure 1** illustrates the complexity for traders in selecting the correct commodity code.<sup>4</sup>

4. There are also around 30 regimes, which allow traders to take advantage of reduced rates of duty or defer the payment of duty. For example, under the Inward Processing Relief scheme traders can suspend or defer payment of duty on imported goods from outside the EU if they are used in processing goods intended for re-export outside the EU. Similarly, the customs warehousing regime allows traders to suspend or defer payment of duty

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2 Qq 94, 112–115; C&AG's Report, paras 1, 2, 6

3 Q 14; C&AG's Report, paras 1, 1.14, 3.17

4 Qq 13–14; C&AG's Report, paras 1.9, 3.5

and/or import VAT when they store imported goods from outside the EU in designated customs warehouses.<sup>5</sup>

**Figure 1: Example of the complexity of identifying for import the correct classification of an Easter snow globe**

A trader applied to the Department for a commodity code for an Easter snow globe with a glass globe, a polyresin base, containing a depiction of rabbits and spring, and playing music. The Department considered that it could fall under the following areas of classification:

- polyresin ornaments
- glass
- festive items
- music boxes

Each area of classification has a different rate of customs duty payable. The Department sent it to the EU for a decision. The EU has now issued a regulation stating that snow globes should be classified according to the material of the globe, as such goods always have a globe of either glass or plastic, but there will be other features that will vary enormously.

*Source: C&AG's Report, para 3.5, Figure 14*

5. One consequence of the complexity for traders is the risk of making errors in applying the rules, which can in turn lead to retrospective demands for payment of duty. **Figure 2** illustrates how a simple error led to a significant demand for back duty.<sup>6</sup>

**Figure 2: Example of the risk of demands for back duty because of simple errors**

Under the Inward Processing Relief scheme, traders can seek suspension or relief from duty on imported goods used in processing products to be re-exported outside the EU. Traders should use a specific customs procedure code to notify the Department when such goods are being re-exported. A number of traders used the incorrect code at export, indicating the goods were destined for within the EU, instead of outside the EU. The goods were re-exported correctly and the only error was the failure to notify the Department that the exported goods contained goods that were designated under Inward Processing Relief. The Department has issued back duty demands on the imports, covering the last three years.

The Department first discovered the error in a Scottish company. However, it soon realised that it was a widespread problem affecting approximately 500 companies. One trader owes over £5 million, and the total demands for back duty run to tens of millions of pounds.

The traders have already sold the goods, so they cannot recoup the costs. The Department is not able to waive debts once identified, as the money is due to the EU.

*Source: C&AG's Report, para 3.17, Figure 16*

6. The Department's aim is to enforce controls over imports while making it quick and easy to import legitimate goods into the UK, recognising the costs to business of delaying entry. For each import, traders have to submit a customs declaration. Submitting declarations is relatively straightforward, and 99% of import declarations are submitted by traders electronically to the Department's main trade system. In addition, 99% of duty is paid by automatic transfer. The Department also operates procedures that allow authorised traders to submit a simplified declaration at the time of import and submit the additional information required later. The Department clears about 90% of imports from outside the

<sup>5</sup> Qq 14, 120–121; C&AG's Report, para 1.12

<sup>6</sup> C&AG's Report, para 3.17

EU immediately without further checks beyond initial electronic scrutiny of the declarations submitted to its trade system.<sup>7</sup>

7. In the Department's 2007–08 survey of traders 54% agreed that the Department was striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business. Traders also considered that the Department does a better job in consulting them, compared to other EU countries. The Department consults the Joint Customs Consultative Committee, which includes representatives from various interested organisations, to understand the impact of operational or policy changes on traders.<sup>8</sup>

8. The Department helps traders to navigate the customs rules and procedures in various ways. It runs a helpline and Binding Tariff Information service to assist with goods classifications. It also provides advice and information through its websites, National Advice Service, Customs Information papers and education teams. The National Advice Service can refer more complex queries to the Department's specialist trade teams, although traders cannot contact them directly, which can lead to delays in traders obtaining the information they require.<sup>9</sup>

9. The Department recognises that new businesses in particular find it difficult to comply with customs rules. The rate of error found in its audits of new traders increased from 32% to 47% between 2005–06 and 2007–08. The Department has a commitment to contacting all new traders within their first year. Of the 40,000 registered in 2007–08, it contacted 33,000. It contacted the remaining 7,000 in the first 16 weeks of 2008–09, and expected to contact all new traders in 2008–09.<sup>10</sup>

10. Traders welcome audits in as far as they provide some assurance that they are correctly complying with their obligations. However, feedback from traders suggested this was an area where the Department did not perform strongly. Traders find it frustrating to take assurance from a successful audit only for errors to be discovered in subsequent audits, which result in back duty demands. They would appreciate more feedback to improve their systems and controls. The Department acknowledged that the majority of mistakes by traders were genuine errors rather than deliberate fraud. It considered that as duty is payable to the EU, it could not waive demands for back duty if errors occurred.<sup>11</sup>

11. Traders also considered the burden of the audit increased when the Department's staff lacked an understanding of the industry sector, or the skills and knowledge to carry out customs checks. There was also a view within the Department that the grading of officers was too low for the complexity of the work involved. The Department recognised that, at the time of the National Audit Office study, some of its staff were new to customs work. It

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7 Q 66; C&AG's Report, paras 15, 3.1, 3.8, 3.11, 3.15

8 Q 117; C&AG's Report, paras 3.2, 3.31

9 C&AG's Report, paras 3.6, 3.28–3.29, Appendix 8

10 Q 120; C&AG's Report, para 2.24, Figure 11

11 Qq 101, 103–104, 122; C&AG's Report, para 3.19

had recently introduced a programme for all tax specialist staff to have a minimum of five days continuous professional development each year.<sup>12</sup>

12. As part of their normal business, traders often carry out their own checks, and may discover underpayments and overpayments. The Department operates different arrangements for correcting underpayments and overpayments. For example, where an underpayment is identified, the Department immediately demands full payment within 10 days. On overpayments, traders have to apply for a refund. The Department has 30 working days to make a decision and issue the repayment, once a valid and complete application is received. In January 2009, the Department reduced the interest rate it charges on overdue payments of duty from 8.5% to 3.5%. At the same time it reduced the interest rate it pays on delayed refunds, from 5% to zero.<sup>13</sup>

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12 Q 109; C&AG's Report, para 3.19

13 Q 99; C&AG's Report, para 3.22, Figure 17

## 2 Controlling imports into the UK

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13. Traders are required to submit declarations for imports to the Department's trade system. The Department controls imports by checking traders' documents, physically examining goods at the frontier, and undertaking audits of traders at their premises. In April 2008, the UK Border Agency assumed responsibility for carrying out the physical examinations of goods at the frontier. To speed up clearance of imports at ports, the Department aimed to limit the number of physical checks carried out at the border and shift its controls more towards documentary checks and trader audits.<sup>14</sup>

14. The Department requires the importer to fax or email relevant documentation such as licences, country of origin certificates, and import approvals for cultural goods to its National Clearance Hub. When it centralised documentary checks into the Hub in 2007, it set a target to clear 95% of entries within two hours of receiving the documents. In 2007–08, the Department performed 280,000 documentary checks, and it cleared on average 87% of entries in two hours. It had since improved its performance so that 94.5% of entries were cleared in two hours in January 2009. Between 2003–04 and 2007–08, consignments increased by 19% from 3.4 million to 4.1 million, while the proportion of documentary checks fell from 15.9% to 5.5%.<sup>15</sup>

15. When the Hub was established, 30 of the 150 staff had previous customs experience. To overcome difficulties staff had in interpreting the requirements of the work, the Department introduced quality and technical teams. A review in February 2008 revealed that 18% of checks had an error. The Department subsequently concluded that no goods had been imported that should not have been, because the errors were largely in the administrative processes, such as recording the time or date incorrectly. The Department considered that the two hour turnaround target had not affected the quality of the document checks, but to improve quality it had introduced a new target on the accuracy of checks.<sup>16</sup>

16. Goods are selected for physical examination at the frontier for customs checks, to detect for example, counterfeit goods and endangered species, and excise checks, to detect for example, the smuggling of tobacco and alcohol. In 2007, the Department reported to the EU that its rate of physical examination was 0.1% of all goods imported from outside the EU. However, this rate was based only on the 200 imports selected for checking by the Department each month using its main trade system. It excluded other examinations selected as a result of detection officers reviewing cargo and manifest information. The Department started recording this examination activity in April 2007, but only introduced a standardised process in March 2008. The National Audit Office examined the data from April to September 2008 and identified gaps and inconsistencies in recording. In particular, it was not possible to calculate the examination rate at ferry ports, as detection officers did

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14 Qq 2–3, 33, 122–123; C&AG's Report, paras 6, 2.1, 3.20

15 Q 110; C&AG's Report, paras 2.3–2.5

16 Qq 8–11, 108, 110; C&AG's Report, para 2.6

not record the origin of the freight. The UK Border Agency is now exploring different ways of capturing the data and how to improve its reporting.<sup>17</sup>

17. Notwithstanding the gaps and inconsistencies, the data suggested that on average detection officers carried out 7,000 to 10,000 examinations each month, giving a total examination rate of between 2% and 3% of imports (including the Department's trade system examinations).<sup>18</sup>

18. The EU collects information from the 27 member countries on their rate of physical examinations at the frontier. In 2007, the average examination rate was 9.1% but rates varied up to 40%. **Figure 3** shows the distribution of examination rates reported across the EU. Comparisons between member states are problematic as their customs organisations have different remits and approaches to controls and there is no single standard for reporting examinations. For example, some customs authorities undertake and count product safety examinations, whereas in the United Kingdom these checks are undertaken by Trading Standards. The Department indicated that the European Commission was working to address such differences to improve benchmarking. The Department considered that its overall risk-based approach justified lower levels of physical examination.<sup>19</sup>

**Figure 3: Distribution of examination rates of EU countries in 2007**

EXAMINATION RATE (%)	NUMBER OF COUNTRIES
0–0.99	2
1–1.99	5
2–3.99	2
4–5.99	1
6–7.99	4
8–9.99	1
10–39.99	12

The UK reported a rate of 0.1% in 2007, based on its trade system examinations only. The National Audit Office estimated that by including the additional examinations selected locally, by detection staff, the UK's examination rate was between 2% and 3% in the first half of 2008–09.

Source: C&AG's Report, para 2.18, Figure 9

19. In 2007–08, the Department detected irregularities in 27% of the examinations selected using risk profiles in its main trade system (200 examinations a month). Of the 7,000 to 10,000 examinations selected locally by detection officers each month, the Department identified irregularities in 1%. The Department considered that its main trade system should identify a higher proportion of irregularities as it effectively scrutinises electronically all the information contained on each import declaration. Detection officers were less able to target so precisely because they used manifest and cargo information from shipping lines.<sup>20</sup>

17 Qq 2, 33–34, 53–55, 57, 86–87, 96; C&AG's Report, paras 2.9, 2.13–2.18

18 Q 57; C&AG's Report, para 2.14, 2.16, Ev 14

19 Qq 3–4, 16, 35–37, 56, 62, 122–123; C&AG's Report, paras 2.16, 2.18

20 Q 7; C&AG Report, paras 2.9, 2.11, 2.16–2.17

20. The Department carries out audits on traders to check compliance with legal obligations. Audits may check a single aspect, such as compliance on valuations or adherence to standards for using the simplified procedures, or they may be a full compliance audit. From 2005–06 to 2007–08, the number of audits of the largest traders fell by 51% from 377 to 188. The associated revenue yield from these audits decreased by 67% in real terms to £36.4 million. Fewer than 1,000 large traders account for half of the total imports of non-EU goods, so individual issues can have a significant revenue effect, and the total revenue yield from audits can fluctuate markedly from year to year. The number of audits had reduced because the Department was seeking to do fewer, but more in depth examinations, with the aim of completing a comprehensive audit of each large trader every three years. It had assigned nearly 100 staff to this work.<sup>21</sup>

21. Between 2005–06 and 2007–08, the number of the Department’s audits of small and medium sized businesses also fell by 42% from 15,800 to 9,130. The revenue from these audits increased, however, by 14% in real terms to £141.4 million. Over the three years, the rate of errors identified in these audits also increased from 32% to 39%, and the average yield per audit increased in real terms by 98%. The chance of these traders receiving an audit had fallen from 18% to less than 10%. The Department considered that it had sufficient resources to carry out its trader audits, but that in determining its programme of work, it needed to take into account compliance priorities across all taxes and duties.<sup>22</sup>

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21 Qq 12, 75–78, 82, 106; C&AG’s Report, paras 2.19, 2.21

22 Qq 25, 107; C&AG’s Report, paras 2.22–2.23

## 3 The organisation and management of customs activities

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22. The Department's structure for managing customs activities is complex. The Customs and International Directorate has overall lead responsibility but coordinates activity with seven other directorates across the Department. These directorates provide information to traders, process imports and payments, undertake compliance and investigation work, and provide risk analysis and intelligence. It has service level agreements with various other departments to detect on their behalf prohibited and restricted goods, such as products of animal origin. Since April 2008, it has also worked with the UK Border Agency which took over responsibility for carrying out physical examinations at the frontier. To simplify its management of customs activities, the Department had recently moved the National Clearance Hub and the collection of trade statistics to the Customs and International Directorate. It had no plans to move other functions because it saw benefits in deploying resources flexibly across taxes.<sup>23</sup>

23. Customs and International Directorate has found it difficult to influence the overall level of work across the various directorates and to hold them to account for their performance. Customs work forms a relatively small part of the work of these directorates. Each directorate has its own recording and reporting system and also produces its own information on risk, intelligence and compliance outcomes which is not easily comparable or brought together across the Department. The Department recognised that the lack of complete and accessible management information hindered effective oversight of performance. In 2007, it established the Customs Strategy Delivery Group with representatives from each directorate to improve management of customs activities at a strategic and operational level. The Group was developing a clearer delivery plan and strategic framework, and identifying where to improve performance, targeting and resource deployment.<sup>24</sup>

24. Around 4,000 detection officers responsible for carrying out physical examinations at the frontier transferred from the Department to the UK Border Agency when it was set up in 2008. In total the Agency has a workforce of around 8,000 to carry out customs and immigration checks. It planned to provide all these staff with the skills needed to carry out both types of work, once it obtained the necessary legislative powers, so that it could deploy resources flexibly. It had also developed a mobile capability which it could deploy in small ports where it has little or no presence.<sup>25</sup>

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23 Qq 25, 27; C&AG's Report, paras 5, 6, 1.18

24 Qq 25, 89, 98; C&AG Report, paras 23, 1.20, 1.22–1.23

25 Qq 15, 24, 95–97, 111; C&AG Report, para 1.23

## 4 Identifying risks and gathering intelligence

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25. The Department considered that its overall risk-based approach justified lower levels of physical examination compared to the EU average. However, its risk identification and management of intelligence was spread across the different directorates involved in international work, and there was no consistent approach to enable it to build an aggregate view of risks and priorities. The Department acknowledged that it lacked an in-depth understanding of risks. It had begun to analyse the risks of the different customs regimes to develop a more holistic picture of risk by the end of 2009. This improved understanding would help it target resources more effectively. The UK Border Agency was also improving its risk management and targeting, having set up a new intelligence group involving the Department during 2008.<sup>26</sup>

26. The Department uses the risk and intelligence information it obtains to build risk profiles on its main trade system. The system automatically selects goods for examination by checking detailed information on the import declaration against the risk profile. While these examinations detected irregularities in 27% of cases selected in 2007–08, the number of examinations had fallen from 10,000 in 2003–04 to 2,400 in 2007–08, mainly because the Department reduced the number of risk profiles, which had become out of date.<sup>27</sup>

27. The Department does not have a programme of risk testing to identify emerging risks. It stopped random inspections of imports in 2001 due to resource constraints and rising volumes of trade, which undermined the statistical validity of the sample. It considered that in operating 34 prohibition and restriction regimes, 30 customs regimes, and 16,000 different tariff classifications, it was impractical to conduct random checks as a way of assessing risks to the UK on imports. It recognised, however, that a structured approach to risk testing could provide such information in a cost-effective way.<sup>28</sup>

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26 Qq 26, 30–32, 93, 95; C&AG's Report, paras 2.18, 2.27, Appendix 7

27 Q 7; C&AG's Report, paras 2.7, 2.9, 2.11–2.12

28 Q 13; C&AG's Report, para 2.27, Appendix 7

## Formal Minutes

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**Monday 29 June 2009**

Members present:

Mr Edward Leigh, in the Chair

Rt Hon David Curry

Nigel Griffiths

Rt Hon Keith Hill

Mr Austin Mitchell

Geraldine Smith

Rt Hon Alan Williams

Draft Report (*HMRC: The Control and Facilitation of Imports*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 27 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Thirty-eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

[Adjourned till Wednesday 8 July at 3.30 pm]

## Witnesses

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**Monday 9 March 2009**

*Page*

**Ms Lesley Strathie**, Permanent Secretary, **Ms Melanie Dawes**, Acting Director General Business Tax, **Mr Douglas Tweddle CBE**, Director Customs and International, HM Revenue and Customs, **Mr Brodie Clark**, Head of Border Force, UK Border Agency, Home Office

Ev 1

## List of written evidence

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## List of Reports from the Committee of Public Accounts 2008–09

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# Oral evidence

## Taken before the Committee of Public Accounts on Monday 9 March 2009

Members present:

Mr Edward Leigh, in the Chair

Angela Browning  
Nigel Griffiths  
Mr Austin Mitchell

Dr John Pugh  
Mr Don Touhig  
Mr Alan Williams

**Mr Tim Burr CB**, Comptroller and Auditor General, **Ms Caroline Mawhood**, Assistant Auditor General and **Ms Jane Wheeler**, Director, National Audit Office, gave evidence.

**Ms Paula Diggle**, Treasury Officer of Accounts, HM Treasury, was in attendance.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL (HC 942)

#### HM REVENUE AND CUSTOMS: THE CONTROL AND FACILITATION OF IMPORTS

*Witnesses:* **Ms Lesley Strathie**, Permanent Secretary, **Ms Melanie Dawes**, Acting Director General Business Tax, **Mr Douglas Tweddle CBE**, Director Customs and International, HM Revenue and Customs, and **Mr Brodie Clark**, Head of Border Force, UK Border Agency, Home Office, gave evidence.

**Q1 Chairman:** Good afternoon. Welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on The Control and Facilitation of Imports. We welcome back to our Committee Ms Leslie Strathie who is the Chief Executive of HM Revenue and Customs. I think it would be easier if you introduce your team.

**Ms Strathie:** Thank you, Chairman; good afternoon. On my left I have Ms Melanie Dawes who is the Director General for Business Tax; Mr Doug Tweddle who is the Director for Customs and International; on my right is Brodie Clark who is the Head of the UK Border Force.

**Q2 Chairman:** If we look at the summary of our Report on controlling imports and we read paragraphs seven, eight and nine on page five and paragraphs 12 and 13 on page six these are a useful summary of how you do control imports—this is imports of things of course rather than people; we were looking at people last week, today we are looking at things—what we see there is a rather fragmented regime. I am sure you would agree with that. We have complex rules, errors in documentary checks, fewer and fewer trader audits and you do not know how many imports are checked centrally. Are these the hallmarks of a well-run organisation, Ms Strathie?

**Ms Strathie:** No, I do not think they are but I do not think that is quite how I would put it. We have come a long way since the Report was written and much has changed, including the transfer in day to day working of many of our functions to the new UK Border Agency. The checks that you refer to are a small element of the entire checking regime that is carried out. Those are the checks identified by the CHIEF system and in relation to physical checks at the border. They do not include all the pre-checks

and post-checks and all of the audits that are carried on inland. Would you like me to expand on those points?

**Q3 Chairman:** No, I think actually we can go into detail one by one. I always assumed that goods coming into the UK were much more rigorously checked than goods going to the rest of the EU but if we look at paragraphs 2.16 and 2.18 that there is quite a low rate of examination. Apparently we examine 2% to 3% of goods and the EU averages 9.1%. I find this rather worrying, Ms Strathie. Are we seen in the UK as a safe haven for imported guns or other prohibited goods?

**Ms Strathie:** First and foremost we need to say that this is about control and facilitation of imports coming from non-EU into the EU and the UK. That is the first distinction. In addition to the physical examinations carried out by the UKBA using shipping information, we have a large number of documentary examinations carried out as well. The other thing that is worth mentioning is that there is no direct comparison between the Member States because we do not all carry out the same functions.

**Q4 Chairman:** We have the figure of 9.1% as the European average; is that right?

**Ms Strathie:** Right in terms of numbers—we accept those—but in terms of comparing apples and pears it is not right. Different functions are carried out in different Member States by their equivalent organisations. These checks here are simply the ones HMRC and now UKBA are responsible for.

**Q5 Chairman:** If we read paragraph 2.17 you have this CHIEF system; what does CHIEF stand for?

**Mr Tweddle:** Customs Handling of Import and Export Freight.

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**Q6 Chairman:** It is driven by some sort of central IT system which seems to be more successful.

**Mr Tweddle:** CHIEF is a centralised IT system which all imports into the UK from outside the EU are electronically reported to.

**Q7 Chairman:** You do not use CHIEF for everything and the rate of irregularities identified on imports selected by detection officers is a lot less than for the CHIEF-based examinations. Why do you not use CHIEF more often?

**Mr Tweddle:** CHIEF works on the freight declarations where each of the 22 million freight declarations has quite a lot of detailed information inputted into the computer system and you are able to use the computer to identify things which do not look right. That is why we get a high proportion of irregularities. On the detection side we have officers working at the ports and airports, working on much less refined information and they are looking at things like manifests and they are getting information from the shipping lines and they are not able to target so precisely. Inevitably what they are looking at is going to be less successful.

**Q8 Chairman:** There seem to be a large number of errors. Looking at paragraph 2.6 on page 14 it says, "In February 2008, a review of 430 cleared documents showed that 18% of checks had an error". Does that mean that quite a lot of stuff is getting into this country that we do not know about, is there something wrong with it?

**Ms Strathie:** The errors referred to are administrative errors.

**Q9 Chairman:** So that does not mean that goods are coming into this country that we do not know about.

**Ms Strathie:** No.

**Q10 Chairman:** It then says, "and did not meet the clearance standard" so it is not just administrative errors, they did not meet the clearance standard apparently.

**Mr Tweddle:** We have looked at this closely, Mr Leigh, and we can give an assurance that nothing is being allowed into the country which should not have been because of the errors which were subsequently detected.

**Q11 Chairman:** How can you be so confident of that?

**Mr Tweddle:** We have done an analysis of what the errors were and they were essentially recording things after the goods declaration had been made. It was the way we process the goods declaration rather than the nature of the goods declaration itself. I think we can also give the Committee an assurance that we have worked very hard to improve the quality levels which are operating at our centralised clearance hub in Salford and we are now very close to meeting the targets which the NAO suggested we should be achieving.

**Q12 Chairman:** I was surprised to read in paragraph 2.21 on page 18 that you have halved the number of trader orders over the last three years. It says here:

"The number of audits conducted by the Large Business Service from 2005-06 to 2007-2008 has decreased by 51%". Is that a good thing to do?

**Ms Dawes:** That relates to the Large Business Service and yes we have changed our approach to audits of the largest customers and we are now doing fewer but more in depth audits. We are still able to do a completely comprehensive audit of all customs and international trade issues for those biggest customers every three years and every single customer has a named point of contact that they can speak to on a day by day basis for checking detailed information and so on.

**Q13 Chairman:** Later on on this page we read about the Department's performance in assessing and monitoring risk. Surely if you are going to find out whether there is a new and emerging threat you should have more random inspections, should you not? It says on page 19, "The Department stopped random inspections of imports in 2001 as resource constraints and rising volumes of trade affected the statistical viability". What is wrong with occasional random inspections?

**Mr Tweddle:** Perhaps I could answer that, Mr Leigh. As you will see from this Report import procedures are complex and the opportunities to find irregularities are wide. Our experience of random testing was that it was not producing worthwhile information which led to a more intelligent use of our resources. If I could expand a little further, there are 34 different prohibition and restriction regimes; there are 30 different customs regimes; there are 16,000 different tariff classifications. Doing a random check to try to inform your overall risk would just not be practical and you would have to actually check a very high proportion of the goods which are coming into the country. We think a process using structured risk targeting in particular areas is a much more sensible way of deploying our operational resources.

**Q14 Chairman:** I am glad you mentioned the 16,000 different commodity codes; that is staggering. If you are a trader it is very complex keeping up with it. Paragraph 3.4 on page 26 says, "There are many changes being made to the importing process currently" so it seems that the traders are having some difficulty keeping up. There is an interesting figure which really sums up the problem. Figure 14 on page 21 reads: "Example of the complexity of identifying the correct commodity code. A trader applied to the Department for a commodity code for an Easter snow globe with a glass globe, a polyresin base, containing a depiction of bunnies and spring, and playing music. The Department considered that it could fall under the following areas of the Tariff: Chapter 39 on polyresin ornaments; Chapter 70 on glass; Chapter 95 on festive items; Chapter 92 on music boxes. The Department sent it to the EU for a decision." This is ridiculous; this is an Easter snow globe.

**Mr Tweddle:** If I could respond, Mr Leigh, first of all I do not want to sound defensive but HMRC does not establish the commodity codes. Most of them

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have come from requests from business to have more precise identification of the goods which are involved in international trade. I am not quite old enough to remember, but if you go back to the customs tariff of the 1930s I think the number of commodity codes was not much more than a thousand but over the last 60 to 70 years, because of demands of business and the demands to have more accurate identification of particular commodities, you end up with this example. I must say, our colleagues in the NAO have chosen a particular difficult one of course over how you actually classify that. It can be quite important. Let me give another example. We have mobile phones which now have cameras on them and MP3s and global positioning systems and classifying what it is—is it a mobile phone, is it a GPS system, et cetera—is quite difficult and it does affect the duty rates which have been decided, so the classification can be very important. Also, when you come to things like preferential trade agreements and origin you need that precise level of classification.

**Q15 Chairman:** Okay, you have convinced me that you have the Easter snow globe right. My last question relates to the general pressure on the UK Border Agency. We had a hearing last week on asylum and they are obviously under huge pressure with people, and I notice that the rate of examination at seaports is significantly lower than at airports. With all the problems of asylum and the rest of it, to what extent have you taken your eye of the goods because you are worried about people? By the way, I think it is very important to worry about people and I am not blaming you for it.

**Mr Clark:** In terms of last week and this week I think the changes to the UK Border Agency have happened relatively recently in terms of customs and immigration coming together. That should and will increase the flexibility of the force at the border to deal more effectively with people and goods and work through an effective prioritisation process with good intelligence coming from both sides in terms of targeting the resource. Instead of 4000-plus staff at the border looking for goods, it will in effect mean 8000-plus staff there who will have the ability, the skills and the powers to look for both people and goods.

**Q16 Mr Williams:** Ms Strathie, we have one of the lowest rates of examinations in Europe so it would not be unreasonable to assume that you focus on the areas of high risk. That would be a logical conclusion but not an appropriate conclusion because even then you only detect irregularities in 1% of this smallest number of examinations. How on earth do you reconcile those two facts?

**Mr Tweddle:** Mr Williams, as the person responsible for the customs procedures maybe I could begin to answer that. First of all, if you look at some of the other more advanced customs administration—I am not ashamed to say that I think Britain does have an advanced customs administration—our figures are not out of step with countries like the Netherlands, Sweden or Denmark.

**Q17 Mr Williams:** You mean they only identify 1% as well?

**Mr Tweddle:** We do not have the information about—

**Q18 Mr Williams:** Then how can you say they are not out of step?

**Mr Tweddle:** I am looking at the physical examinations which they have conducted.

**Q19 Mr Williams:** That does not matter, does it? It is outcomes that matter.

**Mr Tweddle:** If you actually look at the result of the checking that we do on the cargo declarations, we actually find a much higher proportion of irregularity. It is not just dependent on physical examination.

**Q20 Mr Williams:** The actuality is that you are doing the least and you are getting the least. The least for the least; it is unbelievably bad. You must have walked into that department feeling delighted at the promotion you got, Ms Strathie (which you undoubtedly genuinely deserved), and after a few weeks you must have looked around and thought, “Who did this to me?” You have inherited an absolute shambles, have you not?

**Ms Strathie:** No I do not recognise that at all, Mr Williams.

**Q21 Mr Williams:** You say you do not recognise it, but it is divided into eight directorates and in addition you now have the UK Border Agency, so there are nine separate organisations. The customs and international directorate is in the process of developing a customs operational framework which will set the objectives, the priorities and reporting for their work. Why are they only just doing it? Why now? Seven directorates and another body added on and still you do not have any meaningful method of liaison.

**Ms Strathie:** I am going to hand over to Mr Clark in a moment to give you some of the detail and achievements of the UK Border Force in relation to this. I do have to say that this is one part of HMRC and that most of this work has been drawn into Customs and International as part of the business tax area.

**Q22 Mr Williams:** This is one part which itself divided into many parts, and yet even though it is only one part of HMRC you cannot even get the one little part properly organised or structured.

**Ms Strathie:** I do not accept that at all.

**Q23 Mr Williams:** You say you do not accept it, but if you turn to appendix seven it says, “The Customs EU definition of risk management is a technique for the systematic identification and implementation of all measures necessary to limit the likelihood of risk occurring”. That is the statement of risk objectives and yet we are told in appendix seven that, “Risk identification is fragmented against isolated objectives and limited feedback”. Does that sound like systematic work to you?

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**Mr Clark:** The UK Border Agency is not part of HMRC. The UK Border Agency is a very separate agency that works to the Home Office.

**Q24 Mr Williams:** Even more importantly therefore that its work is integrated into what you want as the prime customer.

**Mr Clark:** Absolutely. That is exactly the opportunity we have taken in setting up the Border Force and pulling together custom detection services—

**Q25 Mr Williams:** Yes, but you are not answering the question I asked. They are new, but you had seven other directorates and they were not coordinated according to this; it is in the process of developing an operational framework. Why is it only in the process of developing it? Did you start that process, Ms Strathie?

**Ms Strathie:** No. Much as I would like to take the credit for that I think the good work had already started long before I arrived in HMRC.

**Ms Dawes:** You are quite right that it was a very fragmented picture and we have reduced that fragmentation firstly by introducing a much clearer strategic framework for customs work. We did that in 2007 and it is beginning to bear fruit with a much clearer delivery plan that we are improving all the time in the course of our work. We have also moved a number of those operations, including the clearance hub and the collection of trade statistics, into the Customs and International area so it is no longer eight directorates, it is now six directorates. More generally, we do still, across HMRC on all of our business tax regimes, choose to operate our compliance work as a group rather than having our compliance work separated into the regimes and that actually gives us more resource flexibility and it allows us to look across the taxes.

**Q26 Mr Williams:** It says again in this appendix that there is “No consistent assessment approach to enable comparative and aggregate risk view”; it does not exist. Why not?

**Ms Dawes:** I think again that that is an area where we do accept the NAO’s recommendation that we need to look more holistically and to develop a much more holistic picture of risk. We have begun to do that and we are prioritising the regimes where we know we have already got either the biggest use by companies or we think they are subject to greatest areas of risk like warehousing and so on. We are working through each of our regimes in turn and hope to have that much more holistic picture by the end of the year. You are right, it will allow us to target our resource much more effectively once we have got that picture in place.

**Q27 Mr Williams:** What comes over is that you are lost; I do not mean individually, I am not being impolite to you personally. The organisation is lost in a morass that it cannot control. We even have service level agreements with other government

departments but they have limited or no risk assessment or defined outcomes. What point is there in having them if you do not have set targets?

**Mr Tweddle:** I have to say, Mr Williams, that I would refer you to page six of the Report which gives a list of the various parts of HMRC which come together to form the customs business. When Revenue and Customs were formed the decision was made to set up particular directorates looking after particular activities and therefore the work of customs was spread over a number of directorates.

**Q28 Mr Williams:** Exactly. We are back where I started; we have gone full circle. That is exactly where I started with you: a mass of different organisations, so it is all the more important to integrate their activities so they can cross feed and operate to similar standards.

**Mr Tweddle:** That is the road we are very much going down, recognising—

**Q29 Mr Williams:** Very much going down? It says here, “In the process of developing”. You are not very much going down; you are just starting going down. What have you been doing all these years?

**Mr Tweddle:** We started this about two years ago and we are finding, as we are going along --

**Q30 Mr Williams:** Two years ago? What happened before the two years? Nothing seems to have happened; it was just a mess. It is still a mess and you are trying to create something out of the mess.

**Mr Clark:** In the last 12 months within the framework of the UK Border Force we have pulled together an absolutely fresh and new intelligence organisation. We have developed that in the light of the experience of HMRC and in comments associated with the sorts of observations of this Report. We have pulled that together. That operates centrally; it links in with HMRC and it works right through the regions to the front line delivery in terms of Border Force activity. There are very, very clear signs of improvement and development on intelligence, risk management and risk targeting and the results are beginning to show that.

**Q31 Mr Williams:** I will come back to the phrase I quoted to you at the beginning, “a technique for the systematic identification”. Elsewhere in the appendix we read, “The various directorates involved in managing an aspect of international trade each have their own recording and reporting systems but the information is not always widely available across the Department or easily comparable.” You have the information but you do not how to use it because it has not been translated into common form where one section can understand what another section is doing. No wonder it is a mess.

**Mr Tweddle:** We have established a central risk theme which is coming together which will actually be pulling all these strands together.

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**Q32 Chairman:** I have to say, Ms Strathie, that the National Audit Office wanted to put to you in my initial questions that this Report conveys a chaotic picture and I, always trying to defend government departments—as I do—said that I should put it to you as a fragmented regime. After the questions that have just been asked by Mr Williams do you think perhaps the description “chaotic picture” is more accurate than “fragmented regime”?

**Ms Strathie:** No, I think it is less fragmented than it is and it is more systematised than it was, but the notion that we live in a world where we can put things in one directorate and simply have a command and control regime is one that is not sustainable. The fact that we had things fragmented over a number of years meant there was increased risk and we welcome the NAO Report on this, but modern delivery has to be about supply chain management. During the journey we had the announcement of the machinery of government change, the creation of the UK Border Agency; we are in transition and at the moment people who were technically HMRC personnel are operating in that integrated way. I think this is a huge effort to ensure that every part of the supply chain, every bit of intelligence, is a virtual circle. It is still more fragmented than we would like but I am much more confident that we have made inroads and we are well placed.

**Chairman:** Thank you. Don Touhig?

**Q33 Mr Touhig:** Ms Strathie, Britain remains on alert and the days of terrorist attack are with us and are very, very real. Both the Chairman and Mr Williams have referred to pages 16 and 17, paragraphs 2.16 and 2.18 which tell us that we have the lowest rates of physical examination of goods coming into this country for the whole of the European Union. Why is this and are you not compromising our country’s security?

**Ms Strathie:** We have probably answered some of the questions already, but I would restate the levels. The levels that are quoted in the Report—we accept them and we have spent a long time looking at them—reflect those of the CHIEF system and physical examinations at the port. It does not in any way show the full extent of our interventions both inland—through business—and through other audits (pre-entry checks and post-entry). I think it is really, really important to understand that this is about the control and facilitation of trade and imports and we have to strike the right balance—from all the intelligence we have and all of the constant risk assessment and moving our resources as risk moves—from having the just in time approach that business requires to move its products, between the cost of delaying entry into the country as business would need to warehouse and store, and indeed what would happen if we stopped much more at the border and the tailbacks we would get.

**Q34 Mr Touhig:** In our present economic times, Ms Strathie, nobody would want to interfere with trade, but surely our country’s security is more important.

If you have the lowest rate of examination of goods coming into any EU country I come back to my question, are you not putting our country’s security at risk?

**Mr Tweddle:** It is not correct to say that we have the lowest rate of examination.

**Q35 Mr Touhig:** That is what the Report says.

**Mr Tweddle:** It does not. If you actually look at the chart on page 17 we are between 2% and 3.9% so there are seven countries with a lower rate of examination than ourselves.

**Q36 Mr Touhig:** Is that supposed to reassure us?

**Mr Tweddle:** It is not as bad as if we were the lowest.

**Q37 Mr Touhig:** It is a pretty low rate compared with many in the rest of the European Union. Ms Strathie, you talked about paperwork and so on; are you putting a great reliance on paperwork checks? The fact that it says that that container has agricultural machinery yet it has explosives that are meant to kill and maim British citizens, provided the paperwork is all right that is okay, is it?

**Ms Strathie:** No, I do not think that is okay at all.

**Q38 Mr Touhig:** You said you had paperwork checks; what does that tell you? You do not physically do the checks.

**Ms Strathie:** What I was saying is that our approach is one of balance; our approach is one of facilitation; our approach is one of building compliance and working with trade to make sure that when we do intervene we have very good reason for intervening and for examination.

**Q39 Mr Touhig:** You intervene in so little. We have one of the lowest examinations of goods coming into this country of any country in the European Union. Do you work closely with the security systems?

**Ms Strathie:** Physical examination is absolutely for the UK Border Agency; perhaps Mr Clark can answer your question.

**Mr Clark:** On the one hand there is examining vehicles for illegal goods coming in, there is another agenda around the security into the UK. We have equipment around the borders in terms of detecting radioactive material coming into the country. I would prefer to write to you privately around that.

**Q40 Chairman:** Are you going to write privately or will you send a note to the Committee?

**Mr Clark:** To the Committee.<sup>1</sup>

**Q41 Chairman:** We determine whether it is kept private or not.

**Mr Clark:** We also do another range of scanning of vehicles and freight coming into the UK. Last year we scanned 60,000 vehicles on the journey in.

**Q42 Mr Touhig:** You do not have a presence in every port.

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**Mr Clark:** No.

**Q43 Mr Touhig:** So if the security services say they are concerned about a ship which might be docking at a fairly remote British port, what do you do?

**Mr Clark:** We would deploy to that remote port. We have very close relationships with security services and the police.

**Q44 Mr Touhig:** Who has the lead role in trying to ensure that materials that are helpful to terrorists do not get into the United Kingdom?

**Mr Clark:** Security services have the lead role in that.

**Q45 Mr Touhig:** Coming back to my first question, how closely do you work with the security services?

**Mr Clark:** I was saying that we work very closely with them. They are part of our tasking and deployment arrangements. We have a chief constable on the UKBA board and we continue to develop links with serious and organised crime and other parts of security services. They have the primacy on security issues but we will deploy to their risks as they identify them.

**Q46 Mr Touhig:** Do you have the capacity to do that bearing in mind you are not in every port?

**Mr Clark:** We have increased mobile capability across the business significantly over the last 12 months and we do have the ability to deploy in that way.

**Q47 Mr Touhig:** You say you work closely with the security services. It is not a hit and miss, ad hoc arrangement; this is a regular meeting between you and security services.

**Mr Clark:** What I would say to you is that if the security services have identified a risk at a port and seek our deployment we will, without question, deploy.

**Q48 Mr Touhig:** You say you have the capacity for that.

**Mr Clark:** Absolutely.

**Q49 Mr Touhig:** We see at paragraph 2.18 on page 17 that in 2007 the United Kingdom examined just 0.1% of goods coming into the country and the EU average is 9.1% and the median was 7.6%. That is not much of a record, is it?

**Mr Tweddle:** Again I think that is misreading the overall Report, with respect.

**Q50 Mr Touhig:** If you disagree with the Report why have you not told the Comptroller and Auditor General?

**Mr Tweddle:** We are not disagreeing with the Report.

**Q51 Mr Touhig:** That is what the Report says.

**Mr Tweddle:** You are missing out the words “based on the CHIEF examination only”. There are 2-3% of other examinations which get done for other reasons.

**Q52 Mr Touhig:** Why have you not told the Comptroller and Auditor General that his Report is unclear? I assume you have.

**Ms Strathie:** The Report actually was delayed in sign off whilst we worked through this process and extra work was indeed asked for in this Report. We did harness all of it, not just 0.1% but 2% to 3% and to provide more context for that. I think we are clear. We are about seventh.

**Q53 Mr Touhig:** The European median is 7.6% and we are 0.1%. Is that right? Is that a fact?

**Ms Strathie:** Only CHIEF system generated is 0.1%

**Q54 Mr Touhig:** So what else is covered outside the CHIEF system?

**Mr Tweddle:** We examine a much higher proportion of the cargo as a result of—

**Q55 Mr Touhig:** What percentage compared with the rest of the EU, outside the CHIEF system?

**Mr Tweddle:** We believe that the figures for the rest of the EU actually include the sort of examinations which are done beyond the CHIEF system.

**Q56 Mr Touhig:** Is it a fact or do you assume? Let us not have assumptions. Is it a fact?

**Mr Tweddle:** I think the National Audit Office would agree that it is very difficult to establish the basis on which figures abroad have been made but our belief is that the figures for other countries actually include the sorts of checks that are taking place—

**Q57 Mr Touhig:** You believe but you are not sure. Does anybody know?

**Mr Burr:** If I could just comment on this, we know that the figures that we report are only partial estimates because they are based on CHIEF and the full picture is estimated at 2% or 3% as paragraph 2.16 says rather than at the 0.1%. What we do not know, of course, is whether estimates by other EU Member States as reported are also partial estimates.

**Q58 Mr Touhig:** You also say in the Report that, “The Department considers that its risk targeting justifies lower levels of examination, but the fragmented nature of its risk and intelligence information makes it difficult to assess.” What is risk targeting?

**Mr Tweddle:** Risk targeting is taking all the information that you have about consignments coming to the country—

**Q59 Mr Touhig:** So an intelligence led operation.

**Mr Tweddle:** Yes.

**Q60 Mr Touhig:** That is your modus operandi, that is how you work?

**Mr Clark:** Yes.

**Q61 Mr Touhig:** Do you think that is proving effective as far as you are concerned? Are we getting results?

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**Mr Tweddle:** We are getting results. One figure I can give you is that the heroin seizures which have been made this year are already considerably in excess in both quantity and number of what was achieved in the previous year.

**Q62 Mr Touhig:** On the confusion of what is included and what is not included in the EU could you perhaps send us a non-confidential note so we can better understand precisely what you are talking about and perhaps you might want to collaborate with the NAO so we can perhaps get one story.<sup>2</sup>

**Ms Strathie:** We know there is no direct comparison for many of the countries. I think that is important.

**Q63 Mr Touhig:** Perhaps we could have examples as to why; that would be helpful. In appendix four we see that among the goods banned completely include indecent and obscene material featuring children, obscene material depicted violence, et cetera. In terms of your work are we seeing a reduction in that sort of material coming into the country? Are people using the internet and so on now? Is there some hope that we are seeing some improvement there?

**Mr Tweddle:** I think you are right that there is a reduction in the nature of that sort of material because it can cross borders electronically rather than in physical movement. I do not have the figures for the number of seizures with me but we do target paedophilia type material. It is an important priority but, as you say, there are other means of getting this obnoxious material across borders.

**Chairman:** Thank you Mr Touhig. John Pugh?

**Q64 Dr Pugh:** Can I start by asking you about traditional smuggling of the Robert Louis Stevenson kind? Clearly this is not an area that features in this Report but you must have some sort of private estimate of the nature of that trade compared with the amount of stuff that actually has some documentation but the documentation turns out to be inaccurate or inappropriate and so on. What is your feeling about that? How much do you actually not see at all that is imported into the country in terms of value of goods or in terms of quantity of contraband?

**Ms Strathie:** Are you talking about inside the EU?

**Q65 Dr Pugh:** I was hoping you would give me some sort of fix on what actually gets into the country be it cigarettes or whatever—which is not detected through any of the normal processes because it does not enter through any of the normal processes.

**Mr Tweddle:** The international supply chains for significant quantities of goods go through the traditional ports and the airports. We are not seeing boats turning up on beaches and people bringing containers or anything like that.

**Q66 Dr Pugh:** The vast bulk of stuff that should not be in the country in a sense comes in through ports. In terms of the actual process of checking, it says somewhere in the Report (I think it is paragraph 15)

that 99% of the duty is collected by automatic transfer. I assume—correctly or incorrectly—that there are two processes going on all the time. There is the containers being pulled out of the ship and onto the lorries and away wherever, and there is another office somewhere where people are actually looking at bits of paper as they shuffle through and payments coming in and so on. Is that an accurate picture?

**Mr Tweddle:** It is much more paperless than that, Dr Pugh, in that for every bit of cargo that arrives in the UK there is a declaration made. In 99% of the cases it is done electronically. We have centralised the office dealing with those electronic messages in Manchester. Most of the importers are using what are called duty deferment arrangements so they do not pay the money just as the container moves but on the 15<sup>th</sup> day of the following month we put a direct debit on their bank accounts for all the money they have clocked up for the previous month.

**Q67 Dr Pugh:** There is a presumption that these two streams are connected, that what is on paper corresponds to what is happening on the dock side, in the airports and so on. Presumably you check to see whether that is in fact the case either through the CHIEF system or through local inspection. The CHIEF system seems to be relatively effective but in terms of the local inspections clearly they are triggered by local concerns or maybe a need to make spot checks anyway. Are you in any way capable of assessing whether there are any differences in what I call local competence? It seems to be not a very successful process, just simply opening a container and looking at the paperwork and seeing if they correspond, but it must be more successful in some places than in others. Is it?

**Mr Tweddle:** The nature of the traffic going through ports is very different of course in that if you are looking at a roll-on/roll-off port with driver accompanied traffic that is very different from a port dealing with deep sea containers. If you look at Felixstowe, for example, that tends to deal with the Far East and Southampton can deal with Africa, so where the containers are coming from is different as well.

**Q68 Dr Pugh:** Would you expect there to be different profiles then?

**Mr Tweddle:** There are different profiles.

**Q69 Dr Pugh:** These profiles would not entirely be explained by the efficiency of the local inspection the intelligence of the local inspectors; it would be determined to some extent also by the nature of the consignments coming through.

**Mr Tweddle:** Exactly.

**Q70 Dr Pugh:** Going on to the CHIEF system at paragraph 2.2, the CHIEF system appears to be pretty successful but does not seem to be getting any more efficient. Is that a fair conclusion?

**Mr Tweddle:** It is a highly efficient system which has made Britain's import trade essentially paperless and it applies appropriate controls in an electronic

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environment. It would be difficult on the basis of transaction controls to see how it could be made more efficient.

**Q71 Dr Pugh:** I was surprised to learn how much of our imports come in by air, more than come in by sea and far more than come in by road. Is there any difference, in terms of those three different routes or avenues into the country, in the level of fraud and evasion detected?

**Mr Tweddle:** The reason why the number of declarations in the air environment is so much greater is because there is a great deal of express traffic and courier traffic so they have a very high number of small consignments, whereas under the maritime system they have a smaller number of very large consignments. If you are looking for things like smuggled cigarettes you are unlikely to get that by air because the volume is too big and you will want to do that by a container or a truck. If you are looking at things like drugs, it is much more likely that they will be travelling by air. It is a little bit like what I said earlier, the nature of the smuggling is affected by the nature of the traffic and the bulk of the traffic.

**Q72 Dr Pugh:** So you cannot give percentage figures for each of those means in terms of the level of fraud and evasion.

**Mr Tweddle:** We could produce some figures for the fraud and evasion for each of the means but it would be meaningless to compare them unless you have the other analysis.

**Q73 Dr Pugh:** In terms of collecting back duties, I was surprised to learn from the NAO Report that you expect every trader to hang onto their documentation for three years and I was wondering whether in fact they did.

**Mr Tweddle:** I think the answer is yes.

**Q74 Dr Pugh:** All of them?

**Mr Tweddle:** Those importing into the country will keep their documentation for the period that they are required to in our experience.

**Q75 Dr Pugh:** The last question I have to ask you is about the differential treatment of big business versus small business. I got the impression from the NAO Report that although there was no particular reason for it your focus had been more on smaller businesses than on larger businesses. Am I correct in thinking that?

**Ms Dawes:** We try to focus on all sizes of business and we actually have very high staff ratios for the large businesses, with just under 100 staff looking after only 650 customers, accounting for about half of trade by value from outside the EU. We actually try to adopt quite a balanced approach and if anything put really very high resources into the large business side.

**Q76 Dr Pugh:** Why is it then that paragraph 12 says, "The revenue generated from audits of large businesses has decreased by 67% in real terms" and

then in paragraph 13 it mentions that the proportion of audits identifying irregularities in smaller businesses has obviously gone up and the amount you are getting from them has also gone up. Have large businesses become very law abiding?

**Ms Dawes:** They might have done.

**Q77 Dr Pugh:** What is your reason for thinking that they might have?

**Ms Dawes:** Behind those figures there are two very large individual repayments of VAT duty that were included in the figures for 2006 and if you take those out the reduction in yield from audits from the large business side is—

**Q78 Dr Pugh:** Was there a huge serial offender in the previous year?

**Ms Dawes:** There were two big cases where there had been very large areas where—

**Q79 Dr Pugh:** What, as a matter of interest, were those two big cases about?

**Ms Dawes:** We have to be careful here about customer confidentiality. This is an area where, as I understand it, errors were made and where we recently settled quite a large set of issues over a number of years.

**Q80 Dr Pugh:** But you can tell us who made the errors.

**Ms Dawes:** I cannot tell you who made the errors no, I am afraid not.

**Q81 Dr Pugh:** The companies that benefited from the errors then?

**Ms Dawes:** No, I am afraid I cannot give you any individual names of companies, no. We are not able to do that.

**Q82 Dr Pugh:** They obviously had a huge significance.

**Ms Dawes:** It is the sort of thing that happens with large business work all the time. We do get large amounts of money. From the nature of these companies they are accounting for very large amounts of trade and large amounts of duty and so when we have an individual issue with one company it can have a big impact on the figures. I was really just trying to explain that if you take those impacts out there is a fall in the yield from the large business side.

**Dr Pugh:** It must be a very big company.

**Q83 Chairman:** Why do you say you cannot give the names of the companies? Perhaps you cannot give them in public session but you can send us a note.

**Ms Dawes:** We are not able to release those figures in the public domain. I think this is a debate that we have probably had with you before.

**Q84 Chairman:** We would not release them. You cannot just announce to the Committee that you are not prepared to give a parliamentary committee the names of companies in confidence. You do not have that right.

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**Ms Strathie:** I think you know we are bound by taxpayer confidentiality and you did point out earlier that if we give you something in confidence you then decide whether it stays in confidence.

**Q85 Chairman:** I am not asking you to reveal the individual's tax affairs, we are talking about companies. We often get given details about companies, for instance from the Ministry of Defence. Are you refusing point blank to give us this information?

**Ms Strathie:** That is our position because of taxpayer confidentiality. I know that you often receive information about companies and indeed very often when something is in the public domain, perhaps as a result of prosecution or something else, then those matters become public. However, regarding the tax affairs of individual companies that is not something that we can reveal.

**Chairman:** We may have to think about that; I may have to take this up with the cabinet secretary I think. Mrs Browning?

**Q86 Angela Browning:** I wonder if I could bring Mr Clark back to sea ports. I do think it is extremely concerning that the NAO Report tells us, "We were not able to determine the number of examinations at ferry ports as detection officers do not record the country of origin of arriving vehicles." That seems to be rather important that they are able to say exactly the number of vehicles they examine. Surely that cannot be right even in the turmoil of what you have all inherited.

**Mr Clark:** I think the Report reflects that there has been recording but it has been inconsistent and patchy right across the estate and the ports. We have taken up some measures to get the end of shift report—as I think it is referred to in the document—much more consistently done and in a way and format that can more ably help the statistics and the understanding of what is actually going on. We are looking at other ways of getting that information rather than relying on the end of shift report. We are looking at more effective ways of doing that and ways that are more technology based and then getting a report at the end of shift.

**Q87 Angela Browning:** How do you know whether people are actually doing their job or just sitting down having endless cups of coffee if there is no record of what they have actually been doing, never mind what they might have missed in the meantime?

**Mr Tweddle:** The problem that we had was whether it was an intra-community—something moving within the community—or was it from a third country? The officers were recording what they had done and what success or otherwise they have achieved, but they were not always putting down whether the consignment was from within the community or from outside it.

**Q88 Angela Browning:** Have you corrected that now?

**Mr Tweddle:** Yes.

**Q89 Angela Browning:** Is that all part of what we read on page seven, paragraph 23 as the establishment of the Customs Strategy Delivery Group? Is that anything to do with solving some of these problems that are outlined in paragraph 23 which gives quite a poor description of the way these matters are managed? What does this Customs Strategy Delivery Group aim to do?

**Mr Tweddle:** I chaired that group and what it seeks to do is to bring together all the elements which were involved in the customs process and so you are absolutely right, we are looking at a performance framework, we are identifying each of the elements where we want to improve performance, including the examinations carried out by the Border Agency so that can help to improve the targeting and the resource deployment.

**Q90 Angela Browning:** Was that set up before you saw even the first outline draft of the NAO Report?

**Mr Tweddle:** Yes, it was.

**Q91 Angela Browning:** It was something that you had already identified needed to be addressed.

**Mr Tweddle:** Yes.

**Ms Strathie:** Implemented following HMRC's capability review.

**Q92 Angela Browning:** Can I just ask each of you a question? It seems to me that this is really quite an appalling catalogue of mismanagement and a laissez-faire approach. From each of your individual responsibilities what is the weakest link in your organisation?

**Ms Strathie:** Can I phone a friend?

**Q93 Angela Browning:** You have all told us you are getting your act together in the light of this Report, but what is the weakest link?

**Mr Tweddle:** The weakest link is the lack of an in-depth understanding of the risks that we are facing. As Ms Strathie has said, what we are trying to do is facilitate legitimate trade but to identify that very small proportion which, for one reason or another, is illegitimate. We want to do that better so that we are not affecting the legitimate traffic and we are being effective in stopping the illegitimate. We recognise that our risk frameworks have not been as robust and as extensive as they need to be and that work is in hand so that we will be better in the future.

**Q94 Angela Browning:** Mr Clark, the ports?

**Mr Clark:** I would put it a different way and say that in the development of pulling together the UK BA the two big areas that we just have to get finished and right are firstly around the powers that staff have at the ports to carry out their duties as Border Force officers giving them access to current customs powers and also to immigration powers, and secondly to make sure that the intelligence, the risk assessment and the targeting is working as effectively as we can get it.

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**Q95 Angela Browning:** Can I ask you about ports where there is no permanent staffing but you said if they received intelligence information they would be deployed there? In another debate in this place in relation to illegal immigration as opposed to goods coming in I can think of an example which I personally witnessed in a small port but one which had links coming in from Europe. I will not do it because I think it would be very irresponsible to do it, but I can think of at least three or four ports of the same kind along our south coast that would actually give me concern. Are you not concerned about this plethora of small ports that are not manned and are not checked, from your perspective not from the illegal immigration perspective?

**Mr Clark:** In terms of the deployment, as I said earlier we have more mobile capability now, particularly in the south, to deploy to places where there is no permanent presence. The bringing together of borders and immigration allows us to have much greater flexibility in using people in the broadest range of duties at those smaller ports. We get a much better bang for our bucks and are much more able to deploy than ever before with the new arrangements. That is why I think actually for me much of the concern to get right is the intelligence and the targeting of that resource and making sure we get that right to the highest risk areas and in a speedy way. So we have the resource; that is emerging out of the new UK Border Force. We are actually visiting more small ports now than we have done for many, many years. That is being reflected by the ports themselves who are seeing us there and we want to build up better relationships so that the feedback loop from small ports is more effective in inter-intelligence arrangements.

**Q96 Angela Browning:** Are there any more weakest links?

**Ms Dawes:** One of the difficulties is that we do not always have the management information systems that we would ideally like to be able to draw together this information, to analyse it properly and that can be very difficult. I think the end of shift report is a really good example because that was a local management initiative where local managers wanted to have some kind of way or recording the work they were doing, checking the outputs and looking at their efforts and the impact of those efforts over a period of time. We extended that system across the whole detection service which was a good thing to do, but in the end it is something that is relying on manual data, on individual staff that are entering results into a system that has not actually been properly put together on a stable IT platform.

**Q97 Angela Browning:** Why is that? Are you held back by lack of resources or is it technology on the IT front?

**Ms Dawes:** I think we always have to prioritise and this is an area where UKBA have already made some improvements and are looking at where they might be able to build a more strategic solution across the whole range of activities at the border.

**Q98 Angela Browning:** Ms Strathie, I see you are not going to confess anything.

**Ms Strathie:** I think management information and risk would be the areas that I would look at because we are an island, it is quite different from a country with lots of land mass around. That means that we will be constantly having to review risk and constantly redeploying resources and using all the intelligence we have. Having good systems, skilled personnel and being able to move quickly to tackle risk I think will be a challenge for us like any organisation and continues to be a challenge for UKBA.

**Mr Clark:** I think we have made moves in very positive ways in that direction and I am not sure that I would like to reflect that as a weakest link but it is a very, very important area of development for the future.

**Q99 Angela Browning:** I notice on page 24 when it talks about correcting over payments, traders have to apply for interest due at a rate of 5%. Is there any question that you are going to change that 5% rate?

**Ms Strathie:** It changed in January.

**Mr Tweddle:** When I was re-reading the Report I realised that in these days the rates of 8.5% and 5% might seem to be not appropriate. They did actually change in January. The rate which HMRC charges on overdue money has been dropped to 3.5%; the rate that we pay on money that we need to repay has dropped to zero.

**Q100 Chairman:** Perhaps I should be a questioner at Civil Service College for up and coming civil servants. When you are asked the question "What is the weakest link in your department?" do you tell the truth? The whole truth? What helps your careers best?

**Ms Strathie:** Absolutely the truth.

**Q101 Mr Mitchell:** I would like to start my questions with an every day story of Grimsby folk which casts a curious light on the operations of your department. This is a firm called Icelandic which supplies fish to another Icelandic firm called Cold Water which employs 700 people in Grimsby. It is a reputable firm, a big business. In 2004 they decided—this is one of these curious things in the fish trade which I never try to understand—to process their fish (primary processing) in China because it was cheaper. Naturally to find out and abide by the rules they took the advice of a top man locally who told them that all that was necessary, because this was imported duty free from Norway, was an EUR1 certificate. Trade begins and it works well. In November 2006 two customs officers come on a routine visit, they went through the papers and said that they were not quite sure but they thought the company might have to apply for outward processing relief on the fish they had been importing on EUR1 certificates. They said they would check and come back. They did not come back but they suggested that the company should pay duty on the

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Norwegian fish which is normally imported free and of course they kept the money back as a safety precaution. Then the company began to pay the duty. By the time they had paid over a quarter of a million quid they applied for relief, claim form C285 as the customs officers indicated they should. They are then told, amazingly, that they could not have the money back because they should have known at the start of the trade that it had to be done on an outward processing relief accreditation. They handed over the money; they cannot get it back. Then later on in the saga there was a visit from HMRC. They go through three years of records and issue a demand for a total duty of £600,000 which, with the quarter of a million, comes up to nearly a million pounds of back duty. This is absolutely barmy. Your department does not know what it is doing. Here we have four sets of opinions on what the company has to do. It checked right at the start to make sure it was all right. There are four sets of opinion, all different and a bill for a million quid on a company which threatens its survival. This is totally unacceptable. Does this indicate the state of organisation and education in your department?

**Ms Strathie:** As I understand it this case is subject of a tribunal. I can understand why you would say the things that you have said about it, but my understanding is that there is nothing we can do after the error has been made.

**Q102 Mr Mitchell:** Which was based on your advice.  
**Ms Strathie:** I do not know that, Mr Mitchell.

**Q103 Mr Mitchell:** There is evidence in the Report that firms are being misadvised on what they can and cannot import and what they have to do.

**Ms Strathie:** I simply know that if the company records the error it is not within our gift to change it. This is subject to challenge and it is subject to tribunal.

**Mr Tweddle:** I am aware of this case, Mr Mitchell, and we have looked very closely at what occurred. It is a complicated exchange. We want to make the case for the HMRC side because when it comes up to the tribunal—

**Q104 Mr Mitchell:** It was on the advice of the HMRC throughout and that advice has varied throughout.

**Mr Tweddle:** I do not think it is appropriate to go into the details but I think that advice was not given in any formal way

**Q105 Mr Mitchell:** It was. They went along to the top man and asked what they should do. They were told. Then come two inspectors on a routine visit who told them differently. Then comes a letter from the department giving different advice again. Then they finally get a bill for a million quid.

**Mr Tweddle:** I think if you look into the case, Mr Mitchell, there was rather more contact than you have been made aware of.

**Q106 Mr Mitchell:** Is your department understaffed or staffed by under-trained people? I see from the Report that the year starting 2005 to 2008 audits on the largest traders are down by 51%; the returns you make from them—the revenue extracted from them—is down by 67% and the small and medium traders it is down by 42%. You must be understaffed.

**Ms Dawes:** On the large business side I was explaining before that we are actually doing fewer audits but we are doing them across the whole set of customs regimes. We are building in compliance for the future; we are building in more checks for what companies will do in the future.

**Q107 Mr Mitchell:** Are you doing fewer audits because you are understaffed?

**Ms Dawes:** No, I do not believe we are. This is a question about how we prioritise our resources and how we choose to do audits rather than a lack of resources in question.

**Q108 Mr Mitchell:** If your staff are well trained and adequate in numbers and have sufficient understanding, why are 18%—according to the Report—of the checks for documentation process in error?

**Ms Dawes:** As Mr Tweddle was saying earlier, that 18% certainly was not acceptable. This was a very new part of the department; this was the hub when it was first put together. We have taken steps to improve that so that 82% quality is now over 90% and in fact it is nearly at 95% which is the recommendation that the NAO put to us. It was not an acceptable standard but it is something that we are addressing.

**Q109 Mr Mitchell:** It says also at paragraph 2.6 that staff had difficulties in interpreting what documentation is required. This is your staff. They cannot tell importers what documentation they need.

**Ms Dawes:** Some of those staff were new to customs work and it is very complicated as I think the discussions have already got across very well. We have improved the training. We do now have an absolute minimum of five days continuous professional development for all our tax specialist staff at HMRC.

**Q110 Mr Mitchell:** Are those mistakes errors on the documentation process because you are trying to compress it all into two hours? Is it a case of more haste makes less speed or what?

**Ms Dawes:** No, we do not think so. Most of these were quite minor clerical errors. They are still not acceptable but they were things like getting the date and time wrong rather than the more fundamental question of whether the right documents were there. We are meeting the two hour turnaround time. We have 94.5% in January and we do not believe that that is something that we should change. We think we can do that and we can maintain the quality. We are more or less at those standards now and we are committed to maintaining them.

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**Q111 Mr Mitchell:** We have had a policy for 12 years now of keeping the pound over value so it subsidises imports and penalised exports and there you are facilitating them. There must be stuff pouring into this country, not only stock but people, drugs, whatever, that you are not detecting and which are not paying the adequate duty.

**Ms Dawes:** We are trying to keep a balance all the time between facilitation and control. We do put an enormous amount of resource into the control side. We have around 4000 staff in our detection service and we have a lot of people working on compliance across the department. So we resource that quite heavily and it is a big priority for us, but we have to strike a balance. Of course a lot of imports into the UK are actually to facilitate further exports. A lot of the time this is companies who are bringing things in, they will then process them or use them in their own manufacturing, for example, before exporting later. So it is quite a integral part of the wider trade picture.

**Q112 Mr Mitchell:** I am a bit mystified about one other thing in the Report and that is that the physical examinations are now going to be done not by your people but by the UK Border Agency, presumably looking for very different things to what your people are looking for. What effect is that going to have?

**Ms Strathie:** That has already started and Mr Clark can probably tell you some of the numbers and the benefits.

**Q113 Mr Mitchell:** It could keep out bomb parts and allow in all sorts of stuff at a lower rate of duty than it should be paying.

**Ms Strathie:** I think when the law changes—when the bill gets Royal Assent hopefully in July—at that point then all of our personnel will transfer to the UKBA—

**Q114 Mr Mitchell:** Your personnel will transfer.

**Ms Strathie:** Yes, and they will then have the powers to collect revenues which they do not have at the moment. However, in reality all of our people are working to a much greater effect in an integrated service.

**Mr Clark:** There are flexibilities that were not there before and so we have staff who can search vehicles for people and illegal goods whereas previously there were two different searches taking place.

**Q115 Mr Mitchell:** This must lead to a situation in which the requirements of Customs and Excise take second place to the requirements of fighting terrorism.

**Mr Clark:** Not at all. The priorities remain in terms of targets that UKBA has set either through the home secretary or through the chancellor in terms of seizures at the border. It is quite interesting to know that this past nine months has seen the number of successful seizures increase in nearly every respect on high risk type goods such as drugs and cigarettes, such as firearms coming into the country, and part of that is attributable to the broader spread arising from the flexibility of the new force.

**Q116 Nigel Griffiths:** The Chairman, myself and Alan Williams are all former Trade and Industry ministers so we are used to discussing with business the need to facilitate trade. I notice in the Overall Conclusions at paragraph 21 that, “Overall it has performed well in facilitating trade, with speedy clearance of most imports”. I also see that 12 trade associations and 23 companies attended workshops and I wondered how much they warned of interfering with a regime that is facilitating trade.

**Ms Strathie:** Sorry, I do not quite understand.

**Q117 Nigel Griffiths:** What came out of those workshops? We have a conclusion that on facilitating trade you are getting very good marks and on controlling imports whilst these do not look like bad marks there is certainly criticism in paragraph 22, page seven.

**Mr Twedde:** I think it is fair to say that the list we have on pages 28 and 29 are representing legitimate firms and legitimate trade associations. They welcome that we are seen as perhaps the most consultative customs service within the European Union and also the UK has high degrees of facilitation of legitimate trade. They do not say that we want you to have more checks and to control more because the people they represent and the firms that are bringing things in do not believe they need a high level of checking.

**Q118 Nigel Griffiths:** Presumably they are as keen as everyone to weed out anyone who might undermine them through dishonest practice so their opinion on that counts. I note that the NAO says on page 6 at paragraph 11 that actually the 9.1% figure that has been the focus of questioning is problematic in making a direct comparison of data between EU countries. I also note that although there is an average examination where presumably we are being compared as one of the world’s greatest trading countries with Malta with 400,000 population, Luxembourg with 500,000, Estonia with 1.2 million and Slovenia with two million, so how good is that as an average figure? I put this to the NAO: do we have an average figure for more comparable countries like France, Germany or Italy?

**Mr Burr:** My understanding is that we do not.

**Ms Wheeler:** The analysis we have is in figure nine on page 17 which gives you the sort of distribution which takes it from 0–0.99% through to 10–39.99%, so there is quite a range there. This is summarised information that we were able to obtain from the European Commission.

**Mr Burr:** We do know that it is not comprehensive.

**Ms Wheeler:** These are rates which the individual countries report themselves to the Commission.

**Q119 Nigel Griffiths:** I can understand why there might be problems then. I think we all remember when one major country restricted the import of Japanese cars by bringing a couple of customs officers in one port and making sure that they all came through there. Getting back to one of the

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points that you made in respect of my question on the trade associations and others, there are 22 million import declarations I see from this and 280,000 documents to check. If we were to get up to the 9.1 level that would presumably require about two million checks. How much are we being lobbied by the most responsible of British importers and exporters to achieve those sorts of figures and how many staff would you need to do it?

**Mr Tweddle:** We are not being lobbied at all to increase the number of checks. You are completely correct that the people we consult with actually do not want to see successful fraudsters undermining their businesses and we are seeking to development trade sources of information to improve our intelligence and risk targeting. I have to say that this is quite difficult because although businesses may think that there are strange things going on they are very rarely able to give evidence that we can use to improve our targeting.

**Q120 Nigel Griffiths:** Paragraph 13 on page six highlights the level of errors among new traders. To what do you ascribe that increase which is labelled as significant?

**Mr Tweddle:** If I can continue, as the Report shows—and as I am fully aware—importing is a complex process. We would love to make it simpler but there are lots of reasons why it is difficult to do that. Of course new businesses actually do find it extremely difficult, having to comply with all the myriad requirements. That is why we do have as a priority to actually help new businesses and to contact them, to see what assistance we can give. We did contact 33,000 of the 40,000 new businesses. What the Report does not go on to say—I think that might have come later—is that the remaining 7,000 were contacted within 16 weeks of the end of that year. We will continue to give priority to helping new businesses and indeed we can report at the moment that all new importers who come to our attention will be contacted within the current fiscal year.

**Q121 Nigel Griffiths:** In terms of the complexity, how much of that is domestically grown and created and how much of the complexity complies with necessary EU rules?

**Mr Tweddle:** Most of what we are talking about here is actually directly applicable EU law rather than national law. I mentioned earlier that there are something like 30 different customs regimes. Each of those has been developed to actually give some beneficial arrangement to particular segments of business, for example, to take a simple one, customs warehousing where you bring your goods into the country and you do not have to pay the duty until you take them out of the warehouse. That is a complication but clearly it is a very beneficial complication if you want to delay the payment of your duty. There are a lot of other regimes like that. I think it is true to say that the complexity is as a result of trying to give beneficial treatment to particular segments of trade and traffic.

**Q122 Nigel Griffiths:** You have mentioned the complexity and it is highlighted in the Report as well. In terms of the errors that you detect, what proportion do you think are because of genuine mistakes as against the proportion due to fraud? If you increased to 9.1% and increased your staff from 4,000 to 12,000 how much would you drive down either element of that, the fraudulent element I suppose being the most important?

**Mr Tweddle:** My view would be that most of it is error rather than deliberate fraud. If we actually tripled the number of physical examinations we made it would not make a great deal of difference to that level of error but it would certainly significantly interrupt UK-international trade.

**Ms Dawes:** I think it is important to get across here that the 2% to 3% physical examination rate which compares with the 9.1% EU average, certainly it is clear that the EU figures are not a reliable benchmark at the moment and the European Commission recognised that and they have actually put some work in train to try to improve that. Secondly, a lot of what we are doing to check that errors and documents are correct is not actually done through physical examinations, it is done through documentary checks generated by CHIEF where the checking rate is around 12% either pre-clearance or post-clearance. In addition to that we do a lot of audit work on the fiscal side with new traders, as Doug has already mentioned, but also through audit in our compliance team. So the overall level of activity is considerably higher than that 2.8 figure suggests because we are doing checks for a number of different reasons.

**Q123 Nigel Griffiths:** If you were to summarise the control of the facilitation of imports, how would you rate your performance as against other European countries.

**Ms Strathie:** We do not have the evidence to back up anything that we would say; the comments have already been made. To give an example, France carries out product safety examinations which HMRC in the UK does not; these are carried out by trading standards. We believe that we are improving and we believe that the 9000 resource deployment the UK Border Agency has built on that physical examination. We do not believe that there is any evidence in any of the comparisons of a greater proportion of physical examination giving a greater hit rate overall. We think there will always be increased changes to risk and increased risk but we believe we can continue to get better and we really do genuinely believe that we are building a compliance regime with trade and we are getting the balance right between facilitating trade and collecting duties and control of the border.

**Q124 Chairman:** Mr Tweddle, who might lobby you to increase the number of checks, apart from ourselves?

**Mr Tweddle:** Probably not many people I would think.

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**HM Revenue and Customs and UK Border Agency**


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**Q125 Chairman:** That concludes our hearing, Ms Strathie. As you know, you are a great favourite of this Committee because we have launched you into the stratosphere because of your management of Jobcentre Plus. We look to you to get a grip on this because, although obviously there has to be a

balance between facilitating trade and imports, this Report does highlight the lack of clear accountability and management information, so we look to you to put things right.

**Ms Strathie:** Thank you very much. We shall do all we can to ensure that your confidence is well placed.

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**Supplementary memorandum from HM Revenue and Customs**

Question 62 (Mr Touhig): *On the confusion of what is included and what is not included in the EU could you perhaps send us a non-confidential note so we can better understand precisely what you are talking about and perhaps you might want to collaborate with the NAO so we can get one story.*

The European Commission gathers information from Member States each year on the number of physical controls carried out on goods entering the Community.

The figures provided by the UK to the EU in 2007 only reflected the physical examinations generated by the UK's system for processing all import and export declarations, the Customs Handling of Import and Export Freight (CHIEF). These examinations amounted to 0.1% of all goods coming in to the UK from outside the EU. Other physical examinations carried out, in addition to those generated by CHIEF, were not included in HMRC's return to the European Commission. This was because the management information on these additional examinations at the time was not routinely collected and of the same quality as the CHIEF data. Improving the quality of management information in this area forms the substance of one of the NAO's recommendations in its report. Further work done by the NAO and by HMRC calculated that for the period April to September 2008 these examinations added a further 2 to 3% to the level of goods examined coming in to the UK. This is reported by the NAO in paragraphs 2.13 to 2.18.

The NAO report (paragraph 2.18) refers to the problems comparing examination data directly between EU countries. Since the completion of the report, HMRC has spent some time looking further at how the EU report is compiled. It has been established that there are three main reasons for the difficulty:

- (i) differing remits of the individual countries customs authorities;
- (ii) data quality; and
- (iii) differing approaches to control.

For example; some customs authorities are responsible for undertaking product safety examinations and count these as part of their physical control figures. The UK does not count these as they are not carried out by Customs; they are undertaken by Trading Standards. In addition some Member States count postal traffic examinations, the UK does not. The UK does not count the large number of X ray scans and screening to detect nuclear and radioactive material. Finally, in general terms it is noticeable that where a country has land boundaries at the eastern borders of the EU, 100% of traffic is examined. In such cases all the traffic is via road and all drivers are stopped. Finally customs authorities are not required to report to the EU information related to the quality of examinations.

HMRC understands that the EU is aware that there are inconsistencies in reporting performance by Member States and the Commission will be looking to address this later in the year.

29 April 2009

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**Supplementary memorandum from UK Border Agency, Home Office**

During my oral evidence to the Committee on 9 March in relation to the above NAO report I undertook to write to you with regards to what the UK Border Agency (UKBA) is doing to help counter terrorism at the border.

Programme Cyclamen is a joint initiative between UKBA and the Home Office. It forms a key element of the UK's Counter-Terrorism Strategy CONTEST (PROTECT) and represents a major step towards reducing the threat to the UK from a terrorist attack. Its purpose is to detect and deter the importation of radioactive or nuclear materials by terrorists or criminals.

Programme Cyclamen consists of both fixed and mobile capabilities, operated by Border Force officers. A number of fixed portals have already been installed at major sea and airports, known as Early Capability sites, and are operating successfully. This is complemented by a fleet of Mobile Radiation Detection Units (MRDUs).

SERCO, the system provider, are installing the strategic fixed capability detection portals at 40 plus selected points of entry throughout the UK. The current date for roll out is August 2009.

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Cyclamen screens a significant volume of sea and rail traffic including containers, freight, vehicles and passengers that pass through the portals. If there is an alarm, trained Border Force officers will use handheld devices to further investigate the source of the radioactivity and the type of radiation present.

The MRDUs are deployed on a risk and intelligence-led basis throughout the UK. The Police also have access to the MRDUs through the Border Force, for inland VIP or public events, again on a risk basis. In such cases the MRDU would be deployed with a Border Force crew, working in collaboration with the Police.

All of the detection equipment used is entirely passive. It does not emit any radiation and is safe for objects and people subject to screening.

*24 March 2009*

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