

RISK MANAGEMENT GUIDE¹

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Foreword

Transition to market economy and private sector-led development is a feature common to all member countries of the Central Asia Economic Cooperation (CAREC) Program supported by the Asian Development Bank (ADB) and other multilateral institutions. Integral to this transition is the need to set in place an enabling environment by implementing trade policy reforms and trade facilitation measures. Toward this end, CAREC member countries—Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People’s Republic of China, Tajikistan, and Uzbekistan—have embarked on a laudable regional approach, bolstered by a collective commitment to accede to the World Trade Organization rules and agreements as well as concerted efforts to reform each country’s customs codes and modernize customs services.

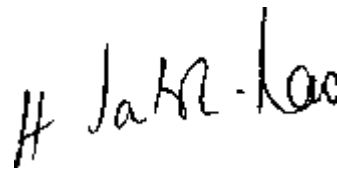
Development of customs control practices based on risk management has become synonymous with customs modernization, and is a key objective of CAREC’s trade facilitation program. With the rapid rise in the volume of trade and limited resources of customs administrations, the traditional method of inspecting every item upon arrival at customs borders has become a barrier to trade and is no longer practical. Risk management offers a solution, enabling customs administrations to balance their control functions with trade facilitation.

Risk management is a system that involves systematic risk assessment, profiling and selectivity, intelligence gathering, and analyses that enables customs to target high risk cargos and traders while maintaining effective controls at all stages of clearance. Its growing application reflects a fundamental change in the role of government in economic development and its relationship with the private sector. Increasingly, government is becoming a catalyst for private sector development. Customs administrations are today adopting a role of “informers” and “facilitators” of customs rules and procedures.

However, risk management cannot be effectively implemented without cooperation between countries in exchange of customs information. A prerequisite for such cooperation is a bilateral Agreement on Customs Mutual Administrative Assistance as promoted by the World Customs Organization (WCO). The CAREC has made significant progress in promoting such agreements between the CAREC member countries and extending training in partnership with the WCO and other development partners. By jointly publishing this Risk Management Guide, we present a common and regional framework within which each CAREC member country can develop their own risk management system based on their strategic priorities and country circumstance.



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1. Executive summary

Any organization benefits from the application of a risk management strategy since this benefits organizational performance as a whole. Risk management in any organization consists of well-defined steps which, when taken in sequence, support better decision making by contributing to greater insight into risks and their impacts.

For Customs administrations adoption of risk management as an organizational philosophy is essential since it provides quantifiable improvements in the effectiveness and efficiency of the administration as a whole. Risk Management can operate in any organization with manual or automated application ranging from tactical to strategic approaches. It can be applied to nearly every decision-making situation.

The WCO defines Risk Management as the systematic application of management procedures and practices providing Customs with the necessary information to address movements or consignments which present a risk. This focus is necessary since the fundamental task of the Customs is to control the movements or consignments across national frontiers and ensure compliance with national laws. When adopted as a management philosophy it enables the Customs to not only carry out its key responsibilities effectively but also organize its resources and deploy them in a manner so as to improve its overall performance.

Such a fundamental approach has the potential to radically improve effectiveness and efficiency and can help significantly in the ability to deploy resources towards the greatest areas of risk. Risk management should not be confused with “risk assessment” which comprises of a series of technical processes intended to identify and quantify individual risks.

In the past, risk management has been perceived as a process utilized only by highly developed customs administrations with automated and fully computerized systems. This is a misconception as risk management programmes are relevant to all customs administrations.

Effective risk management can operate in any organisation with manual or automated application, ranging from tactical to strategic approaches. Effective risk management will require managers and staff to understand the nature of the risks in their work areas and systematically identify, analyse, evaluate, treat, monitor and review those risks. This process will provide management and staff with a rigorous and defensible tool to assist in decision making.

The benefits of risk management to customs administrations can be categorized in the following way:

- Achieving organizational objectives
- Improved management processes
- Improved public and business profile.

The benefits emanating from these categories include:

- Better use of existing resources, or the capacity to work with fewer resources
- Dedicated resources to the greatest risk areas
- Increased facilitation, flow of goods and inward investment

Customs administrations operating in the modern global economy are faced with a complex range of challenges. The prime responsibilities remain the collection of revenues and the protection of society, but these demanding tasks must be performed effectively and efficiently, whilst at the same time facilitating the flow of legitimate goods. Senior customs managers are also required to deliver greater outputs with the same, or fewer resources. Such changes require us to adopt a completely new approach to managing our customs business and to develop new strategies. The traditional customs methods of control, based upon percentage and random selection criteria, fall a long way short of our business objectives and expectations today.

Most would agree that there is a need to progressively implement a system of “intelligent controls” where the risks have been assessed and appropriate resources have been deployed to meet the challenge. At first sight this approach seems to be logical and achievable, but implementing “risk management” affects all aspects and functions of the customs’ business. For those customs administrations taking their first steps towards the introduction of risk management, the whole process can seem a daunting task, but the benefits are considerable and can assist customs administrations in meeting national government objectives.

Further benefits are, for example,:

- More “intelligent” approach and professionalism of personnel
- Better outcomes and results, leading to compliance with national government objectives

In the past, and in order to introduce the risk management process, the WCO Secretariat and Members have tended to compartmentalize their methods of delivery. For example, by developing highly technical “risk assessment, profiling and targeting” regimes in the area of enforcement controls when dealing with the movement of passengers and goods or, by applying a number of specific risk management measures in respect of the Kyoto Convention. These are clearly valuable first steps and help to form the foundations of successful risk management regimes. It is important however for Heads of Administrations, senior managers and all customs personnel, to understand that risk management affects all areas of customs business and should not be confined to a series of single processes. This Guide should be read in conjunction with Chapter 6 of the

Revised Kyoto Convention, which remains the substantive reference resource for this risk management Guide.

The experience of customs administrations where risk management is already operating is very positive. In most cases full implementation has taken a number of years. The work has not been easy and many problems are still being solved with development work continuing, but in a number of member countries, for the first time, Heads of Administration are able to demonstrate to government ministers that they can:

- Quantify risk using scientific methods;
- Manage risk, by deploying staff to address the greatest areas of risk, whilst allowing legitimate trade to flow freely;
- Significantly improve outcomes with the same, or fewer resources.

Such a series of positive results justifies customs commitment to risk management, enhances professionalism, facilitates development of legitimate trade, increases overall business confidence, helps to promote inward investment and stimulates national economies.

Management planning

Resource implications and managing change

Implementation of risk management affects the way in which customs' business is managed and therefore has resource implications across all customs business areas. Those senior officials working in policy divisions will be managing activities that have been fundamentally changed by the introduction of risk management. The deployment of front-line resources at key border locations will be affected and therefore the regional management arrangement within a country may also need to be adjusted.

Staff reaction to new initiatives is not always positive. Customs officers rightly take pride in their exceptional ability to detect high-risk passengers and consignments of goods by applying the skills and experience they have acquired over many years. Consequently, there is a vital need for senior managers to carefully manage the change processes relating to the introduction of risk management. Traditional customs skills and aptitudes should continue to contribute as an integral part of the risk management process. In this respect it is important that all relevant personnel are kept fully involved and informed of developments.

Support services

It is important to also consider the support services for effective risk management programmes such as information technology and their supporting infrastructure, office facilities, training and other services. These resources will be necessary in order to modify the delivery of services with operational functions during implementation of the risk management strategy.

The role of business

There is also a growing realization that this degree of change can only be achieved with the active participation of legitimate business. The partnership approach should no longer be viewed as a soft option. In fact, it provides for greater efficiency and more effective controls, which are based on knowledge of commercial operations. As a result only high-risk goods and passengers will be targeted for examination. From a business perspective this results in quicker, smoother clearance of legitimate trade through simplified procedures.

Adjusting plans and strategies, monitoring and reviewing

Management and strategic plans will need to take account of these infrastructure changes and key milestones for implementation will need to be agreed and introduced. Managers will also need to monitor the success of new initiatives in the risk management regime as they are introduced and be able to report periodically against previously identified realistic objectives.

The effect of increased security and assurance on risk management

In order to energise risk management in today's international climate, customs must ensure its access to vital information and intelligence on people and goods and, to "commercial information" through key relationships with importers, exporters, customs brokers, carriers and others is effectively analysed and outcomes efficiently managed. It is extremely important that customs administrations actively contribute to national security strategies and plans by developing appropriate the effective risk management strategies.

2. Introduction

Risk management is a logical and systematic method of identifying, analyzing and managing risks. Risk management can be associated with any activity, function or process within the organization and will enable the organization to take advantage of opportunities and minimize potential losses.

Risk management is successfully applied in the private sector, where insurance, banking, trade and industry find that it creates opportunities to improve business results. The use of risk management can also help the public sector to determine where the greatest areas of exposure to risk exist, and can support management in deciding how to allocate limited resources effectively.

In managing risk a balance must be struck between costs and benefits, as clearly it will not be cost effective to address all risks equally. Criteria are needed to decide what constitutes an acceptable or unacceptable level of risk.

The broad legal basis for application of risk management by Customs is provided for in the Standards of Chapter 6 of the General Annex of the revised Kyoto Convention. This Guide makes references to the revised Kyoto Convention texts where appropriate.

The application of risk management enhances the effectiveness and efficiency of customs business in collecting revenue and protecting society. Risk

management will have a beneficial impact on all Customs activities and responsibilities, including, the collection of revenue, implementing trade policy, ensuring public safety and provide trade facilitation to legitimate traders, travellers and carriers. Customs administrations should also apply risk management for general and IT Security concerns and in the preparation of corporate business continuity planning strategy and support services, such as IT.

For the Customs administration the collaboration between Customs and the trade has the advantage of improving its knowledge of trading practices. Greater familiarity with the conditions of international trade means more effective risk management. The assistance of legitimate trade in the risk management process providing many benefits to both Customs administration and the trade organization; for Customs administrations they provide a further valuable source of information. In return, traders with a good record of co-operation may expect less Customs intervention. Memoranda of Understanding with individual companies (as recommended in the WCO Business Partnership programme) can formalize this kind of Customs/Trade co-operation.

3. Definitions

To assist with the application of this Guide the following terms are defined :

Audit-based control : Measures by which Customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned (General Annex, Chapter 2, definition E3/F4 – Revised Kyoto Convention).

Customs offence : Any breach or attempted breach of Customs law. (WCO Glossary of Customs Terms)

Document : Any physical or electronic medium designed to carry and actually carrying a record of data entries.

Mutual administrative assistance : Actions of a Customs administration on behalf of or in collaboration with another Customs administration for the proper application of Customs laws and for the prevention, investigation and repression of Customs offences (General Annex, Chapter 2, definition E21/F1– Revised Kyoto Convention).

Risk : The potential for non-compliance with Customs laws.

Risk analysis : Systematic use of available information to determine how often defined risks may occur and the magnitude of their likely consequences.

Risk areas : Those Customs procedures and categories of international traffic which present a risk.

Risk assessment : The systematic determination of risk management priorities by evaluating and comparing the level of risk against predetermined standards, target risk levels or other criteria.

Risk indicators : Specific criteria which, when taken together, serve as a practical tool to select and target movements for the potential for non-compliance with Customs law.

Risk management : The systematic application of management procedures and practices which provide Customs with the necessary information to address movements or consignments which present a risk.

Risk profile : A predetermined combination of risk indicators, based on information which has been gathered, analyzed and categorized.

Systems-based control : Measures to ensure that a trader's system contains the checks and controls necessary for compliance with Customs laws.

4. Steps to implement risk management in Customs

For Customs administrations there is always an element of risk in facilitating the movement of goods and persons. The extent of controls to ensure compliance with the laws and regulations which the Customs are responsible for enforcing should be proportionate to the level of assessed risk.

Customs administrations today are required to provide extensive facilitation while maintaining control over the international movement of goods, means of transport and persons. The level of risk is determined in the context of the priorities of the Customs administrations e.g. whether the priority is collection of duties and taxes or checking prohibitions and restrictions or any other specific area that has been identified.

The selection of goods, means of transport, or documents for examination, should be based on risk profiles to target specific transactions . Such selectively based procedures should also permit a random selection based on statistical sampling or an officer's input based on experience or intuition. A transaction can be targeted on the basis of any of a number of risk profiles. Examples of risk profiles are contained in Section 7.

The selection of persons/companies for audit should also be based on risk profiles. Audits should generally be conducted for compliance verification purposes in the areas of valuation, origin, tariff classification, duty relief/drawback/remission programmes, etc., but other areas should be targeted as necessary. Depending on the profile of the auditee and its business (e.g. type of business, goods, revenue involved, etc.) the audit may be conducted on a continuous, cyclical or occasional basis.

Once an administration adopts a risk management philosophy, it will implement the risk management process which will include as its integral part selectivity, profiling and targeting for assessing risks and addressing them appropriately.

Selectivity criteria for dutiable goods include the history of the importer, exporter, carrier, agent, etc., the origin and routing of the goods, and prohibitions or restrictions. Further examples can be found in the WCO Manual on Risk Assessment, Profiling and Targeting as well as in the WCO Handbook on Container Control.

Risk indicators are specified selectivity criteria such as : specific commodity code, country of origin, country whence consigned, licensing indicator, value, trader, level of compliance, type of means of transport, purpose

of the stay in the Customs territory, financial consequences, or financial situation of the trader/person.

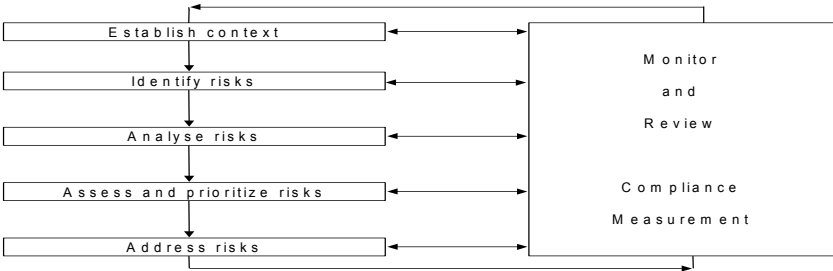
Risk profiling is the means by which Customs puts risk management into practice. It replaces random examination of documents and goods with a planned and targeted working method, making maximum use of Customs resources. A risk profile is a document which can be set out in a number of ways but it should be comprehensive and relevant to the traffic throughput in a Customs office.

The risk profile should contain a description of the risk area, an assessment of the risk, the counter-measures to be taken, an action date, the results and an evaluation of the effectiveness of the action taken. A risk profile can be kept in a binder or on a local computer and it should be as accessible as possible to Customs officers.

Once established, the profiles along with other information and intelligence will provide a basis for targeting potentially high risk movements of consignments, means of transport, or travellers.

4.1. The risk management process

The risk management process comprises the establishment of the risk management context, risk identification, risk analysis, risk assessment, addressing the risks and monitoring and reviewing the process through compliance measurement.



RISK MANAGEMENT OVERVIEW

(a) Establish the context

This step establishes the strategic and organizational context in which risk management will take place. Risk areas have to be identified and criteria against which risk will be assessed established and the structure of the analysis defined.

Risk management within Customs can be strategic, operational or tactical. It should be remembered that the risk management process can apply across all of these levels.

Strategic risk management - By studying comprehensive information, Customs administrations can identify areas of risk, sift out those of minor importance, and intervene only where experienced and practical judgement indicates it is necessary. Risk areas in the Customs context can include social issues (exclusion of drugs, pornography etc) , import/export prohibitions and restrictions (eg CITES), public health, environment, commercial policy measures (e.g. IPR, GSP), quotas, and duty and tax issues.

Operational risk management - is the determination of the level of control necessary to deal effectively with the assessed risk. An example of this is determining the audit controls applied to an importer or how to deploy limited staff and equipment effectively. Using this approach the Customs moves from being a “gatekeeper” checking every movement, to checking only selected movements which demonstrate the greatest risk.

Tactical risk management - is used by officers at their workplace in dealing with immediate situations. Using set procedures combined with intelligence, experience and skill, they decide which movements require greater controls.

(b) Identify risks

Identify what, why and how risks can arise as the basis for further analysis. This step requires an in depth description of the current control process, to include:

- participants/clients/stakeholders;
- strengths and weaknesses;
- where, when, how is the risk likely to be incurred and by whom;
- what are the threats and their impact in case of circumvention;
- why do opportunities arise for circumvention.

(c) Analyse risks

Determine controls and analyse risks in terms of likelihood and consequence. The analysis should consider :

- how likely is an event to happen; and
- what are the potential consequences and their magnitude.

Combine these elements to produce an estimated level of risk. Customs should apply compliance measurement to support this function.

If the estimated levels are low, then risks may fall into an acceptable category and action may not be needed.

(d) Assess and prioritise risks

Compare estimated levels of risk against the pre-established criteria. Rank the risks to identify management priorities. There are different types of ranking

systems. The assessment into HIGH, MEDIUM, and LOW is widespread. In complex environments a more detailed system may be needed, such as a range from 1 to 100. The latter also requires the determination of high and low risks but allows for more precision.

Risks must be continually monitored for any change in their nature, level or significance.

(e) Address risks

Accept and monitor low-priority risks. For other risks, develop and implement a specific management plan which includes consideration of resources (human, financial and technical).

(f) Monitor and review - Compliance measurement

Monitor and review the performance, effectiveness and efficiency of the risk management system and changes which might affect it.

To remain effective any system of risk management has to test the assessment of previously identified risks and be flexible enough to reflect newly identified risks. Evaluation of the effectiveness of risk management should be undertaken regularly at all stages. The success rate is an important criterion for evaluating the effectiveness of the risk profiles.

Evaluation and review should be carried out by Customs through a regular compliance measurement process. It can also be carried out through external government audits by statutory audit authorities, such as the Comptroller or Auditor General. Although the scope and methodologies of these reviews differ, their objective is to identify weaknesses in the control programme and to make recommendations for improvement.

Risk indicators are emerging all the time. Customs should keep them up to date by accessing various information sources such as the WCO Enforcement Bulletin, international databases on trader information (e.g. Dun & Bradstreet, Lloyd's Shipping register), etc.

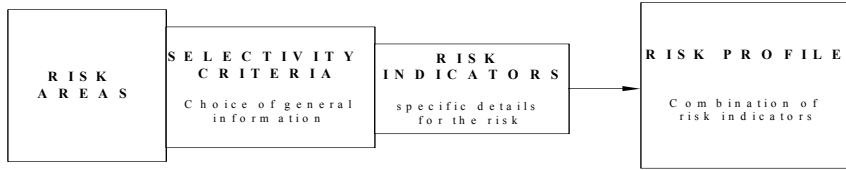
Risk profiles should be reviewed at regular intervals to ensure that they are always up to date, and to rid the system of information that is no longer relevant. It is important also to retain an element of surprise by carrying out random checks, because companies that are in regular contact with Customs will be aware of profiling methods or sometimes the profiles themselves. These random checks can also provide a cost effective means of identifying other types of risk and of monitoring or estimating their significance, or any changes in the risk pattern.

Review and evaluation within the risk management process should be incorporated into a regular review procedure to measure, assess and evaluate the effectiveness of the overall Customs control programme and should take into account the findings of external government audits.

Staff at all levels should be involved in these regular reviews. Feedback from staff is essential so that constant validation can take place and the necessary updating can be applied.

(g) Documentation

There should be a risk register which gives the rationale behind selecting the risks, and records the assumptions on which assessments have been made, to establish an audit trail that ensures important information is not lost.



- Quota	- kind of goods	- textiles under quota	textiles under quota AND/OR
- GSP	- country of origin	- specific country of origin	specific country of origin AND/OR
- CITES	- transport route	- unusual transport route	unusual transport route AND/OR
- Trader	- principal	- specific principal	specific principal
- etc.	- etc.	- etc.	

4.2.Compliance Measurement

(Standard 6.4)

For any risk management process to be successful and effective it will have to be constantly monitored and evaluated. One of the methods for this is the use of compliance measurement. Many Customs administrations have instituted a modern and philosophical approach to their mission which specifies that their ultimate goal is to achieve compliance. The measure of success is for their traders and for the imported and exported goods to be in full compliance with trade laws. Many Customs have also instituted a programme of “informed compliance” wherein their officers assist traders and industries to understand and apply the trade rules and to improve their internal company procedures to comply with import and export requirements.

“Compliance measurement” is a phrase used when statistically valid random sampling techniques are used to determine the degree to which traders, carriers, imported goods, etc conform to Customs rules and procedures. When designed in a systematic and appropriate manner, compliance measurement methodologies provide objective and statistically valid results. Compliance measurement can be used as a diagnostic tool to identify areas of non-compliance.

Compliance measurement as a diagnostic tool for Customs administrations should be used in conjunction with risk assessment, profiling and other targeting procedures. Used strategically, compliance measurement and targeting can provide the necessary balance to focus resources effectively in areas of concern to Customs. In addition, results of initial compliance measurements can provide important information to enhance the risk assessment methodologies.

The programme also provides a basis for Customs to assess its own performance for revenue protection and enforcement of laws, to improve its efficiency and effectiveness and to develop strategies to improve compliance.

4.2.1. Compliance Measurement Areas

Using the risk management programme, Customs should identify the priority areas to focus their resources. One approach is to consider that in some countries or economic unions, as much as 10% of the traders account for over 80% of the imports and exports. By focusing on the top 5-10% of these highest volume manufacturers, importers, exporters and commodities, Customs can ensure that those which have the most significant impact on the national economy are being reviewed most effectively.

The areas may include:

Documentary issues:

Proper tariff classification by traders,
Proper valuation by traders,
Country of origin.

Procedural issues:

Importation and exportation (from the goods declaration through revenue collection),
Transit operations,
Warehousing, Free Trade Zones, Processing.

Revenue issues:

Timely and accurate revenue payments,
Proper posting of securities.

Transport issues:

Accurate reporting of the quantity of goods,
Accurate description of goods on the manifest and/or transport document,
Accuracy of container quantities and identification numbers,
Transporter compliance.

Specific concerns:

Compliance by tariff number or range of tariff numbers,
Public health and safety issues,

Intellectual property rights and copyright issues,
Compliance with trade agreements,
Proper country of origin marking on goods,
High revenue commodities,
Selected traders.

4.2.2. The Measurement Process

Customs gathers data from a variety of sources, both internal and external, and through both manual and automated means. With the data (import and export records), the tools (statistical analysis) and the methodology (systematic analysis of large traders or commodities), Customs can make reasonable, informed conclusions about the compliance rates of many entities. These rates can be determined for each step of a transaction process, e.g. for imports, from the manifest to the goods declaration to the collection of duty and taxes. The automated systems that Customs uses to evaluate high risk shipments can support the compliance review requirements for a scientific approach to accurate data collection, analysis and projections, although compliance rates can also be effectively measured without automation.

Customs should determine a designated universe of transactions and, using a statistically valid sampling methodology, select the specific transactions or entities from this universe for review or verification. Depending upon the results, the universe may be modified in many ways.

Customs must also determine the level of compliance which is acceptable. For example, a compliance rate of 95% of the transactions or entities reviewed in a given area may be the acceptable level for an administration. This can also be called the level of tolerance.

Some of the transaction processes for compliance verifications would be :

- Goods declaration compliance;
- Trader compliance;
- Transit compliance;
- Free zone or warehouse compliance;
- Manifest and transport document compliance;
- Transporter Compliance.

Below are a few factors that should be considered during a verification review for a selected example of these processes.

Goods Declaration Compliance

- a) Is there evidence of documentation to support an accurate goods declaration?
- b) Do the quantities declared match what is contained in the consignment?
- c) Does the declared country of origin match the country of origin marking on the goods?
- d) Does the declared description of the goods match the actual goods?

Thus, a typical Compliance Measurement review relating to Intellectual Property Rights for a selected commodity, at a tolerance level of 95%, might progress as follows :

a) Conduct a statistically valid random sampling of goods declarations for the selected HS number.

b) If the resulting compliance rate is less than 95%, conduct another measurement of the same HS number but stratified by selected countries of origin.

c) For countries of origin found to have a compliance rate of less than 95 %, conduct a measurement for each of the major importers.

d) For importers found to have a compliance rate of less than 95 %, Customs should seek to :

- Inform the importer (“informed compliance”),
- Establish profiles/targets for the identified areas of non-compliance,
- Conduct subsequent measurements to ensure that the importer has corrected the problem,
- Conduct more reviews and/or examinations, and
- Issue fines or penalties, if appropriate, in cases of continued non-compliance.

4.2.3. Use of Compliance Measurement Results within the Control Programme

As stated earlier, compliance measurement is part of an effective Customs control programme. The use of statistically valid compliance measurement procedures can be used in various ways :

- Define any revenue gap
- Prevent widespread commercial fraud
- Assess performance by major key industries
- Assess performance by major importers and exporters
- Increase commercial compliance
- Accurately measure international trade

The results of these measurements can help direct resources effectively. In determining compliance rates for individual importers, those found to have high compliance rates may have their goods examined less frequently, while those having low compliance rates might have their goods examined more frequently.

The findings of compliance reviews for commodities, traders and industries provide information to update the existing selectivity criteria used to target high-risk transactions as well as the overall effectiveness of an administration’s risk management programme. In addition, they contribute significantly toward determining trends and issues relating to specific industry sectors. The result should be that focused, up-to-the-minute analytical information is available to assist Customs officers in their daily activities.

4.3. Supporting infrastructure

4.3.1. Organisation

Effective Customs control is a major feature of a modern Customs administration. It depends on a well-established control organization based on good co-operation and a comprehensive information flow between the various Customs units, as well as on having a risk management strategy to make the best use of available resources.

4.3.1.1. Resources

Customs should identify human, technical and financial resource needs for implementing control programmes by assessing and analyzing current and potential international trading activities in their respective countries or regions.

4.3.1.2. Management Philosophy

Customs should develop an organizational risk management philosophy with the support of senior management. This could be done by training, education, and briefing of senior Customs management. The designation of a senior manager to sponsor the risk management initiative would be helpful. Building on the organizational philosophy, Customs should develop and document a corporate policy and framework for managing risks, which should receive endorsement by the senior management and be implemented throughout the organization.

The corporate policy may include the objectives and rationale for managing risk, the links between the policy and the management/strategic plan, the extent or range of issues to which the policy applies, guidance on what may be regarded as acceptable risk, who is responsible for managing risks, the support/expertise available to assist those responsible for managing risks, the level of documentation required and the plan for reviewing organizational performance.

4.3.1.3. Degree of Centralisation

Differences in countries' traditions, legal procedures, volumes of trade, national priorities, geography and aims make it impractical to prescribe a uniform organizational structure for all Customs administrations. The deployment of resources devoted to risk management should be determined by the kind of controls to be employed and by the location of the control procedure. Such locations need not necessarily be at the frontiers.

The main difference in Customs administrations' organization lies in their degree of centralization. Centralization may result from the need to limit dispersal of resources and to ensure the integration of risk management in the overall planning and management process. Decentralization may result from the need to motivate local Customs staff by increasing their responsibility.

The optimal organization is balanced between centralization, where Customs sets up a central office responsible for the risk management process and the Customs control programme, and decentralization, where individual Customs officers have responsibility for the testing of risks, identification of targets and building of expertise in areas which require additional focus.

4.3.1.4. Headquarters

In all countries, the Customs Headquarters necessarily assumes overall responsibility for the risk management process.

The size and composition of the central risk management unit will vary from country to country depending on the national requirements and the degree of centralization, but should always be staffed by officers with a variety of backgrounds, [e.g. inspectors, auditors, investigators, program analysts, etc.]. They should return periodically to their respective local offices to update themselves on any recent developments which may not have been brought to the attention of Headquarters.

Once the policy and framework for the risk management process have been established, the Headquarters should develop and implement an infrastructure to ensure that risk management becomes an integral part of the planning and management process of the entire Customs organization.

This may involve establishing a team of senior management personnel to be responsible for internal communications, raising awareness about managing risks, acquiring risk management skills, and developing the skills of staff through education and training, ensuring appropriate recognition, rewards and sanctions and establishing performance management processes.

The central risk management unit will carry out high-level risk assessment for the entire Customs territory, produce strategic information reports for local Customs offices and audit units; act as a point of contact with other agencies and international bodies; and interface with local Customs risk management teams and audit units.

The existence of a centralized intelligence unit would enable the collection and analysis of information which can be used to develop risk assessments on commodities, importers, industries, sources, etc. This would allow for more efficient targeting of shipments for examination at importation. This unit would also be responsible for developing information sharing networks with other Customs administrations and throughout the entire law enforcement community.

The establishment of properly trained audit units would enable officers to visit the premises of the auditee to verify declarations.

4.3.1.5. Local Customs offices

The main functions of the local offices are to ensure the effective operation of the risk management process by carrying out local risk assessment, producing operational information for local Customs officers responsible for import/export clearance, and for inspection teams, audit units and investigation units, interfacing with the central risk management unit.

Teams of Customs officers at local offices/ports specializing in the analysis of goods declarations and commercial documents such as invoices and transport documents, can target high risk consignments on which a physical examination should be made.

4.3.2. Procedures

Customs administrations should develop procedures to implement control methods to ensure uniform application throughout the Customs territory. In

doing so, they should try to shift the emphasis from exclusive use of movement controls to greater use of audit-based controls, with a view to :

- reducing delays during the movement of goods/persons,
- increasing the use of periodic lodgement of declarations,
- encouraging trader self-assessment,
- enabling retention by the trader (instead of Customs) of accompanying official and commercial documents,
- increasing the use of advance information submission and submission by electronic means,
- increasing the use of the trader's commercial system and records instead of requiring the maintenance of designated Customs records,
- encouraging greater compliance with Customs laws thereby giving the trading community a greater stake in working in partnership with Customs to reduce risk levels.

In order to optimize the application of modern control methods the use of automation is recommended.

Customs administrations should put in place appropriate analysis and review mechanisms for ensuring the effectiveness of the control procedures implemented throughout the Customs territory (see Section 4.2 on "Compliance measurement"). Procedures must be kept under review and adjusted, if necessary, to meet evolving demands.

4.3.3. Use of information technology for effective implementation of Risk Management

(Transitional Standard 6.9 and Chapter 7)

The use of information technology is an effective tool for risk management. It enables a more rapid analysis of selectivity criteria than would be possible manually. Automation allows Customs administrations to establish a national database of information on all transactions and movements which can be updated and used for rapid information sharing and identification of changing risk areas. It can also provide a database of all risk profiles which would form the basis for a selectivity module within an automated clearance system.

An automated system allows Customs administrations to subject declarations to a series of selectivity filters to determine which declarations may require further examination. Such a system may direct claims to different routes.

In an automated environment 4 selectivity filters can be applied, namely international, national, regional and local profiles as well as a random selection system.

The first two of these are based on a system of profiles which are built up from the knowledge base of (*international*) Customs and from utilising data analysis systems which assess the risk of loss and non-compliance. Artificial Intelligence and Expert systems such as pattern recognition systems will be of great help to support risk assessment and a profiling policy.

When building up a set of profiles the designer should be aware that the system needs to be flexible and capable of handling relatively complicated combinations of data elements as well as simple single data elements. Using combinations allows Customs to fine-tune its targeting capabilities. In other

words, Customs might, for example, only want to select a particular commodity if it comes from a particular country and not if it comes from any other country. Appendix I and II to this document outline the conceptual approach of a selectivity system.

The principal difference between national and local profiling is that national ones are mandatory for all Customs offices while local profiles only affect a group, or a single Customs office. However, information from the local profiles should be used as part of the general risk analysis, and where relevant, upgraded to national status. All profiles should be reviewed on a regular basis. Security measures related to who can change profiles at both levels needs to be established.

The random selection system uses an algorithm to select a declaration for further examination by Customs.

Another important element in the system design is to ensure that the co-ordinated interaction between the three levels of selectivity is monitored so that the overall target for examinations is not exceeded.

The system will also have to be designed to ensure all data goes through the national profiles but only the declaration data relevant to a specific region or Customs office goes through the local profiles for that region or office. Facilities are often included to allow profiles to be switched off temporarily by authorized managers.

Selectivity profiles are only as good as the information they contain. Regular review of profiles will tell Customs officials which data elements and combinations of data elements have successfully detected non-compliant declarations. Analysis of the declaration information itself will also present clues to trends and identify potentially high-risk consignments.

4.3.4. Human Resource Development

Customs controls should be carried out by professionally trained Customs personnel. With the increased use of electronic record-keeping and the sophistication of global trade, the need for higher standards of training becomes increasingly important. Customs administrations should be committed to providing control officers with the levels of training necessary to equip them to perform their duties. The ability to draw on the following skills is important and will improve efficiency and effectiveness :

- accounting techniques and principles, including GAAP,
- auditing standards and procedures,
- international trade/business including banking procedures,
- Customs laws, regulations and procedures (valuation codes, origin, etc.),
- electronic record-keeping and computer systems (I.T., EDI, etc.).

Customs recruitment and training should address these needs. The WCO has prepared a number of training modules which will be of value to Customs administrations in organizing the training of its staff.

4.3.5. Mutual administrative assistance

(Standard 6.7)

The increase in international trade and the newly developed methods of Customs control have highlighted the shortcomings of a system in which controls are based solely on goods declarations and supporting documents submitted after the goods' arrival in the Customs territory. It may be desirable for Customs to receive such information at an earlier stage and to have access to further information, not available in their own territory.

To that end, Customs look to other Customs administrations to obtain pre-arrival information on goods bound for their Customs territory and for other types of assistance to ensure the proper application of Customs laws (including the collection of Customs duties) and to prevent, investigate and combat Customs offences. This is known as mutual administrative assistance.

Once the necessary basis for mutual administrative assistance is in place, the information exchanged can also assist in risk management. The information provided by other administrations either spontaneously or on request, is an extra and sometimes very specific source on which to base risk analysis.

Other provisions in mutual assistance agreements can be of direct benefit to control efforts where another Customs administration carries out certain controls on behalf of the requesting administration (e.g. verification of certificates of origin or transit documents, and cross-country audits.), or provides officials to assist in controls carried out abroad or to act as experts or witnesses. In case of juxtaposed offices Customs may even be authorized to assess and collect import duties and taxes on behalf of the other State.

The WCO has recently adopted a revised model bilateral agreement for the proper application of Customs law and for the prevention, investigation and combating of Customs offences. The Council has recently recommended this model as the basis for negotiations between Customs administrations (see Appendix III). The WCO also has a multilateral Convention on mutual administrative assistance for the prevention, investigation and repression of Customs offences (the "Nairobi Convention", June 1977).

5. Customs/Trade Co-operation

(Standards 6.8, 7.3, 8.5 and Chapter 9)

In a modern Customs administration there are a wide variety of complex control tasks to undertake and, increasingly, resources are limited. The Customs response has been to apply selection, targeting and risk management to maximize the effectiveness of these resources.

The increasing use of risk management techniques coupled with demands for greater facilitation, good communication, consultation and co-operation between the trade and Customs administrations is vital to achieve a satisfactory balance between effective control and facilitation. Customs administrations see legitimate traders as partners in this process.

Many Customs administrations now maintain formal consultative committees with traders, carriers, agents, banks, port and airport operators and their representative organizations. The role of such committees typically includes the discussion of projected changes in control requirements,

identification of difficulties experienced by declarants in complying with actual or proposed procedures and arriving at mutually acceptable solutions. In addition some Customs administrations have introduced the idea of “client-coordinators” who keep contact with individual companies.

There should be continuous collaboration at all levels; at local/regional level between Customs officials and business and at national level between Customs administrations and business.

For the Customs administration such collaboration has the advantage of improving its knowledge of trading practices. Greater familiarity with the conditions of international trade means more effective risk management

In this spirit Customs administrations may consider inviting business representatives to spend short periods with the Customs service as a means of familiarizing themselves with the regulations.

Co-operation is particularly valuable to a Customs administration in drug interdiction, CITES, dangerous goods, and hazardous waste control. It is increasingly encouraged and sustained through a range of Memoranda of Understanding in which trade organizations, nationally and internationally, sign general undertakings with the WCO and national Customs administrations, backed by detailed guidelines, specifying the practical improvements in information exchange, training and communications arrangements appropriate to each trade sector.

MOUs are also concluded in Customs-to-company memoranda and guidelines. The benefits to both Customs administration and the trade organization can be many; for Customs administrations they provide a further valuable source of information. In return, traders with a good record of co-operation may expect less Customs intervention.

6. Conclusions

Customs administrations should aim for a reasonable and equitable balance between ensuring compliance and minimising disruption and costs to legitimate trade and the public. Facilitation and control need not conflict. If managed well, facilitation can enhance the success of control procedures.

Customs administrations are encouraged to implement control procedures based on the use of risk management and profiling techniques as a means to identify reliable operators/persons who may then benefit from greater facilitation as opposed to those operators/persons which require higher levels of control.

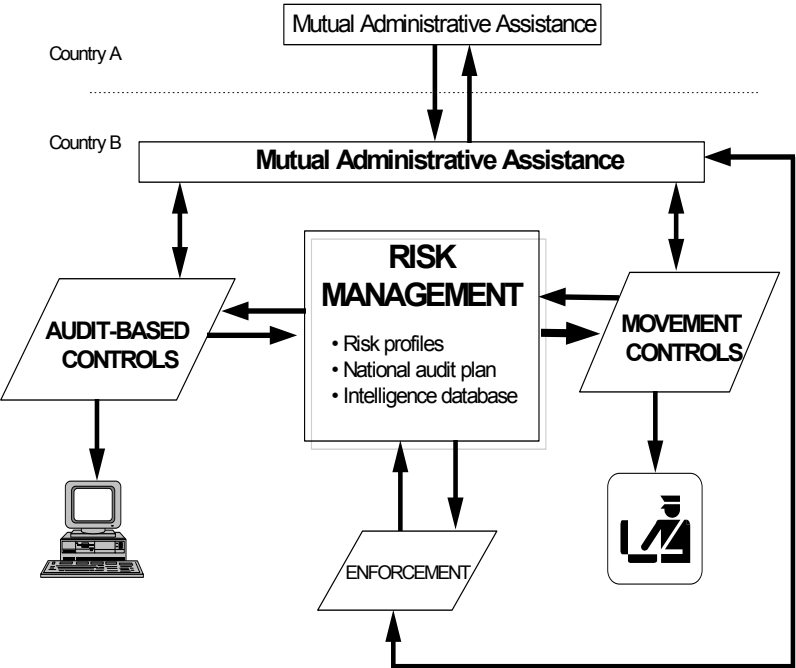
Risk management is a basic principle of modern Customs control methods. It allows optimum exploitation of Customs’ resources without threatening the effectiveness of controls, while relieving a majority of the trade/public from excessive bureaucratic constraints.

Procedures based on risk management techniques concentrate controls on areas of highest risk while leaving the bulk of goods/persons to pass relatively freely through Customs.

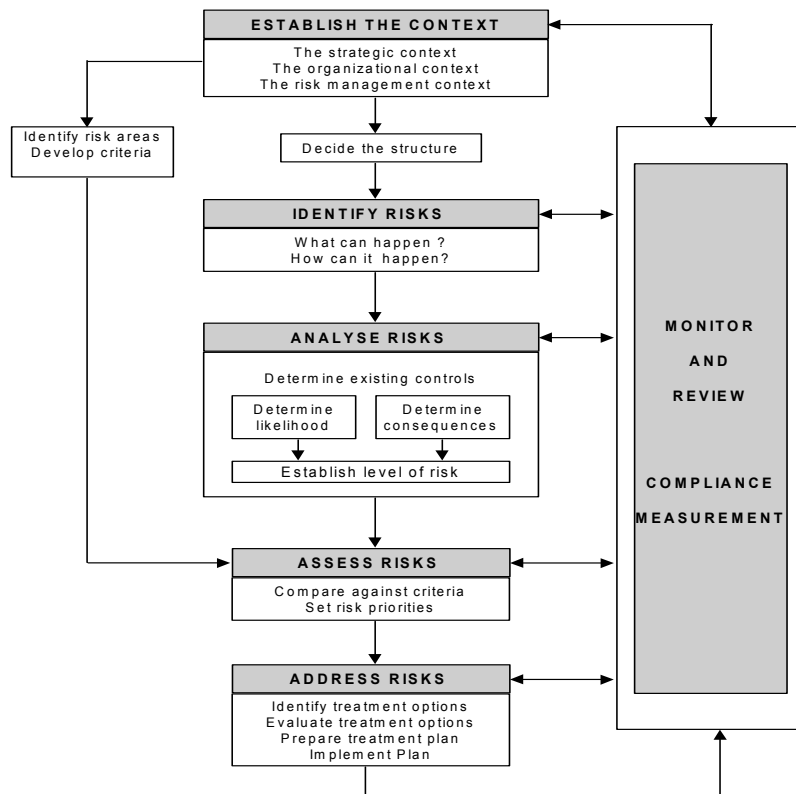
Customs administrations should put in place analysis and review mechanisms to ensure the effectiveness of control procedures throughout the Customs territory. Procedures must be kept under review and adjusted if necessary to meet evolving demands.

7. Example of a Customs control process

7.1. High-Level Scenario of a Customs control process

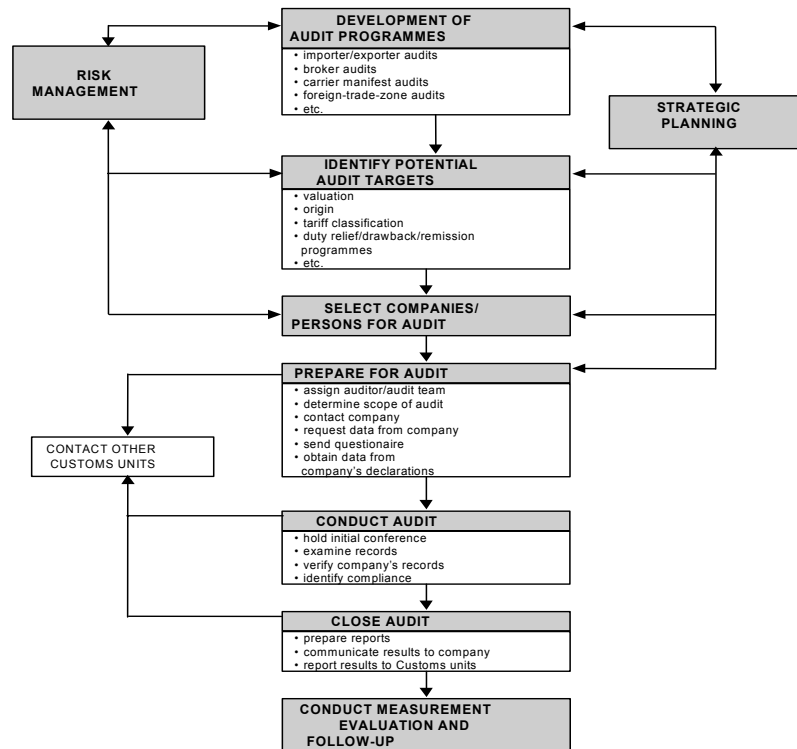


7.2. Low-Level Scenario of a risk management process



Reference : Based on Australian/New Zealand Standard "Risk management", AS/NZS 4360:1995 p.11

7.3. Low-Level Scenario of a post-clearance audit



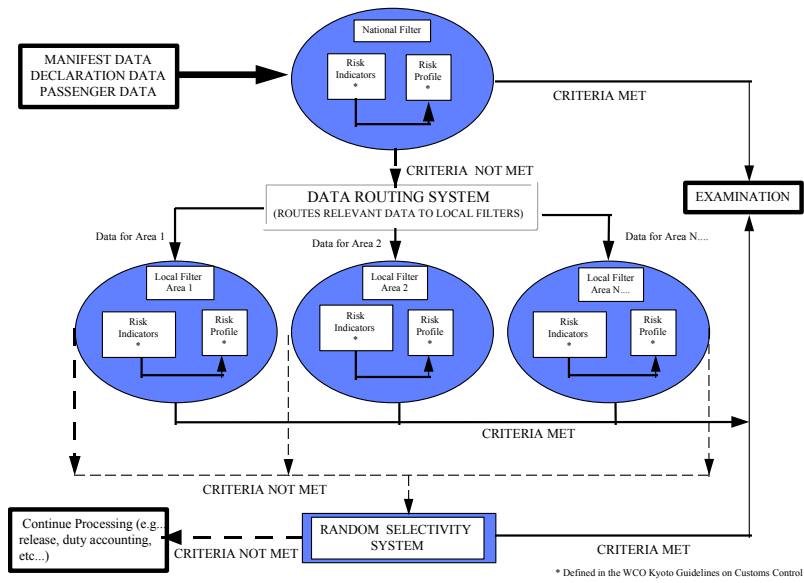
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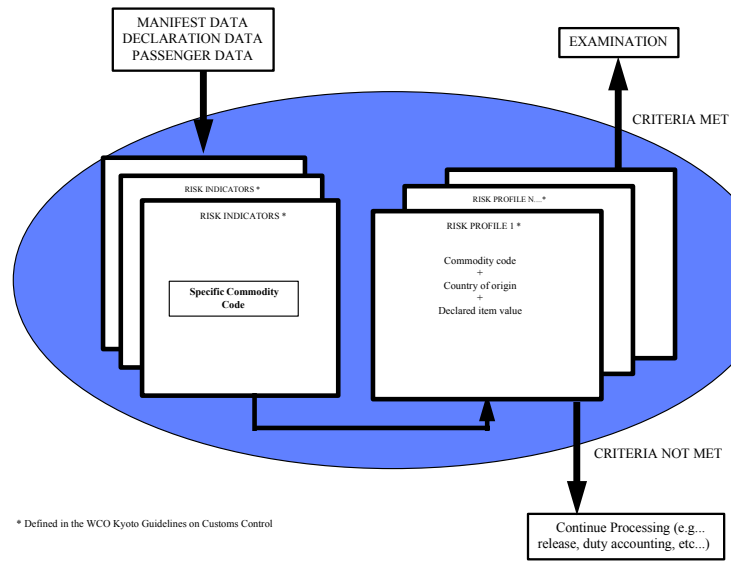
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9. Appendices

9.1. Appendix I - Local Selectivity Process



9.2. Appendix II - Selectivity Profile Filter System



9.3. Appendix III : CCC Recommendation on MAA

RECOMMENDATION OF THE CUSTOMS CO-OPERATION COUNCIL* CONCERNING BILATERAL AGREEMENTS ON MUTUAL ADMINISTRATIVE ASSISTANCE

THE CUSTOMS CO-OPERATION COUNCIL,

CONSIDERING that offences against Customs law are prejudicial to their economic, commercial, fiscal, social and cultural interests,

CONSIDERING the importance of accurate assessment of Customs duties and other taxes collected at importation or exportation and of ensuring proper enforcement of measures of prohibition, restriction and control,

RECOGNIZING the need for international co-operation in matters related to the application and enforcement of their Customs laws,

CONVINCED that action against Customs offences can be made more effective by close co-operation between their Customs Administrations based on clear legal provisions,

HAVING REGARD TO the relevant instruments of the Customs Co-operation Council, in particular the Recommendation on mutual administrative assistance of 5 December 1953, and Article 11 of the international Convention on mutual administrative assistance for the prevention, investigation and repression of Customs offences (Nairobi, 9 June 1977),

HAVING REGARD ALSO TO international Conventions containing prohibitions, restrictions and special measures of control in respect of specific goods,

RECOMMENDS that Members of the Council and members of the United Nations Organization or its specialized agencies, and Customs or Economic Unions should :

1. conclude bilateral agreements on mutual administrative assistance for the proper application of Customs law, and for the prevention, investigation and combating of Customs offences,
2. use the Customs Co-operation Council's Model Bilateral Agreement as a basis for the negotiation of any such Agreement,
3. use the Customs Co-operation Council as an intermediary, as necessary, for the conclusion of any such Agreement,

REQUESTS Members of the Council and members of the United Nations Organization or its specialised agencies, and Customs or Economic Unions which accept this Recommendation to notify the Secretary General of their acceptance, and of the date from which they will apply the Recommendation and the conditions of its application. The Secretary General will transmit this information to the Customs administrations of all Members. He will also transmit it to any Customs administrations of non-Members and any Customs or Economic Unions which have accepted this Recommendation.

9.4. Appendix IV : Methods of Application

List of URL related to Risk Management

- ADB : <http://www.adb.org/Projects/TradeFacilitation/>
- APEC : <http://www.sccp.org/frames-library.htm>
- Australia : <http://www.customs.gov.au/corp/riskman/rmindex.htm>
- Canada : <http://www.ccra-adrc.gc.ca/taxcredit/sred/conference/conf5/mcrisk01-e.html>
- EU :
 - http://europa.eu.int/comm/taxation_customs/customs/information_notes/c2002/documents/usfinalreport.pdf
 - http://europa.eu.int/comm/taxation_customs/publications/working_doc/customs/sec2001_1329/sec200113291_en.pdf
- U.S.A : <http://www.customs.ustreas.gov/imp-exp2/pubform/risk2/customs.pdf>