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Report of the
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of Canada**
to the House of Commons

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Chapter 8
Facilitating the Flow of Imported Commercial Goods—
Canada Border Services Agency



Office of the Auditor General of Canada

The Fall 2010 Report of the Auditor General of Canada comprises Matters of Special Importance, Main Points—Chapters 1 to 9, Appendices, and nine chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

8

Facilitating the Flow of Imported
Commercial Goods—Canada Border
Services Agency

Table of Contents

Main Points	1
Introduction	5
Importance of imports to Canada	5
The Canada Border Services Agency's mandate to facilitate imports	5
Importing commercial goods	7
Focus of the audit	9
Observations and Recommendations	9
Facilitating commercial shipments	9
The Agency is working to further automate and integrate systems for information collection	10
Quality assurance of electronic information needs improvement	11
A more consistent risk-based approach to selecting shipments for examination is needed	13
Most major examination facilities are adequate, but there is a lack of monitoring mechanisms for licensed warehouses	14
The Agency is working to coordinate service levels for examinations with other government departments	15
The Agency needs to improve its measurement and reporting on services provided at the border	16
The Agency is taking steps to improve predictability of examination times	17
Assessing and collecting duties and taxes	18
The Agency lacks assurance that commercial clients are accurately assessing the duties and taxes they owe	19
There are gaps in the Agency's latest compliance verification approach	19
A more consistent approach to monitoring is needed	21
The Agency is working to modernize its revenue systems	22
Conclusion	23
About the Audit	25
Appendix	
List of recommendations	28



Facilitating the Flow of Imported Commercial Goods—Canada Border Services Agency

Main Points

What we examined

The Canada Border Services Agency is the lead federal agency for operations at border ports of entry. Under the *Canada Border Services Agency Act*, the Agency has a dual mandate to provide integrated border services that support national security and public safety priorities and that facilitate the free flow of persons and goods that meet all regulatory requirements. The Agency works with other partners to provide these services.

We examined how the Agency fulfills the second part of its mandate, which is to provide integrated border services that facilitate the free flow of imported commercial goods and collect the revenues owed. The Agency has interpreted facilitation to mean minimizing administrative costs, minimizing intervention in the movement of goods, and minimizing delays, to the greatest possible extent while managing risks and ensuring compliance with regulatory requirements.

We examined the Agency's systems and practices for collecting and processing information to assess risk before goods arrive at the border, providing examination facilities and ensuring that they are adequate, developing service standards and monitoring performance against them, and assessing and collecting duties and taxes. We did not examine the Agency's responsibilities and activities related to unlawful or non-commercial goods being imported or exported; commercial goods being imported or exported by post; goods in transit or temporary admission of vessels for coastal trade; or the entry, detention, or removal of travellers.

Audit work for this chapter was substantially completed on 31 May 2010.

Why it's important

In the 2008–09 fiscal year, the Agency provided commercial services for 217,000 importers, 3,000 carriers, and 250 licensed brokers. It processed about 12 million commercial import transactions and more than 29 million low-value courier import transactions, many of which were also commercial goods. The Agency is the government's second

largest tax collector. It reported collecting \$23 billion in import tax revenues in 2008–09, almost all of which was from commercial goods.

Canada imports large volumes of goods every year. From 2005 to 2008, Canadian imports of goods rose from \$388 billion to \$443 billion. The Organization for Economic Co-operation and Development reported that about 28 percent of the goods consumed by Canadians in 2008 were provided by imports. Imports are also critical components of many Canadian exports.

The process of importing goods adds to importers' costs, including those associated with transportation, required examinations, and providing information to government organizations. Canadians benefit when these costs are minimized, because any increases can weaken the competitive position of Canadian industries, and because cost increases may also be passed on to the consumer. Members of the trade community have indicated that they want the Agency to deliver border services in an open and transparent manner so that the commercial importing process is more predictable and consistent.

What we found

- The Agency's systems and practices facilitate the flow of imported commercial goods. However, there are still some limitations that lead to inconsistent levels of facilitation, depending on where and when the goods enter the country. The Agency has undertaken two initiatives—the eManifest project and the Single Window Initiative—to align its operations with the best-case scenario of moving low-risk shipments through the border with minimal intervention. These initiatives aim to further automate and integrate the information the Agency requires from importers to assess risk.
- The Agency does not have reasonable assurance that the information provided electronically by commercial clients at various stages of the importing process is accurate, complete, and timely. Its monitoring process is unsystematic and limited in scope, which has an impact on the Agency's ability to effectively assess risk. The Agency has recognized this gap and has plans designed to provide it with better information about the extent to which the data it receives is accurate, complete, and timely.
- The Agency has established service standards for many of its key services to importers, such as processing times for electronic information and wait times at land border crossings. However, some of these standards cannot be measured accurately and the results are published only for land border wait times. Without better published information, the importing process is less predictable and it is difficult for importers to make informed business decisions about

how, when, and where to import goods. The Agency has begun to develop a service strategy to address these issues.

- The Agency does not have reasonable assurance that commercial clients' assessments of duties and taxes owed are based on accurate information. Without such assurance, the Agency cannot verify that assessments are correct and that it is collecting the correct revenues owed. It also risks providing other government organizations, such as Statistics Canada and the Department of Finance Canada, with inaccurate and incomplete trade and revenue information. The Agency has recognized this gap and is working on a strategy to address it.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

Importance of imports to Canada

8.1 Canada imports large volumes of goods every year. From 2005 to 2008, the value of Canadian imports of goods rose from \$388 billion to \$443 billion, before declining to \$374 billion in 2009, during the recent recession. The Organisation for Economic Co-operation and Development reported that about 28 percent of the goods consumed by Canadians in 2008 were imports. In addition to supporting Canada's standard of living, imported goods are used to produce many Canadian exports.

8.2 The process of importing goods adds to importers' costs, including those associated with transportation, required examinations, and providing information to government organizations. Canadians benefit when these costs are minimized, because any increases can weaken the competitive position of Canadian industries, and because cost increases may also be passed on to the consumer.

The Canada Border Services Agency's mandate to facilitate imports

8.3 The Canada Border Services Agency is the lead federal agency for operations at border ports of entry. According to the *Canada Border Services Agency Act*, the Agency has a dual mandate to provide "integrated border services that support national security and public safety priorities and facilitate the free flow of persons and goods, including animals and plants, that meet all requirements under the program legislation." Exhibit 8.1 provides information about the Agency's activities in the 2008–09 fiscal year.

8.4 Although the mandates of security and safety and facilitation are not easily separated, our 2007 audit—in the 2007 October Report of the Auditor General, Chapter 5, *Keeping the Border Open and Secure*—examined whether the Agency's approach to border management achieved the desired levels of border openness and security. Our current audit examines the other part of the Agency's mandate—facilitation, that is, how the Agency integrates its border services to facilitate the free flow of imported commercial goods and how it collects the revenues owed under legislation.

8.5 The Agency has interpreted facilitation to mean minimizing administrative costs, minimizing intervention in the movement of goods, and minimizing delays, to the greatest extent possible—while

Exhibit 8.1 Information about the Canada Border Services Agency’s activities in the 2008–09 fiscal year

Number of employees	14,600
Major commercial points of service*	<ul style="list-style-type: none"> • 23 land crossings (designated commercial offices) • 13 international airports • 3 marine ports
Commercial clients	<ul style="list-style-type: none"> • 217,000 importers • 3,000 carriers • 250 licensed brokers • 49 freight forwarders
Number of shipments	<ul style="list-style-type: none"> • 12 million commercial import transactions • 29.5 million low-value (less than \$1,600) courier import transactions, many of which were also commercial goods
Revenues collected	Total: \$23 billion, as follows: <ul style="list-style-type: none"> • \$18 billion in goods and services tax • \$4 billion in import duties • \$1 billion in excise taxes and non-tax revenues

*The Agency may also process some commercial goods at its smaller points of service.

Source: Canada Border Services Agency

undertaking the processes necessary to manage risks to national security and public safety, and to ensure compliance with regulatory requirements.

Commercial clients—Businesses that participate in the importing process and that use Canada Border Services Agency services—specifically importers, brokers, carriers, and freight forwarders.

8.6 Processing imports is a service that the Agency provides to **commercial clients** when they import goods into Canada. The Agency must offer this service at the same time as it addresses broader public interests, policy requirements, and resource limitations. The Government of Canada’s long-standing commitment to improving service delivery requires that federal organizations determine their clients’ service priorities and develop service standards and targets. It also requires that these organizations use these standards and targets to measure performance and continuously improve service. Through consultations, commercial clients have indicated that they want the Agency to deliver services in an open and transparent manner so that the commercial importing process is more predictable and consistent. This will help them make informed business decisions about how, when, and where to import goods.

8.7 More information on the federal government's service improvement agenda can be found in Chapter 3, Service Delivery, of this report.

Importing commercial goods

8.8 Commercial goods are imported into Canada through a process largely established by the *Customs Act*, under which all goods must be reported to the Agency. The Agency determines whether those goods will be **released** into Canada.

Release—A decision by the Canada Border Services Agency to allow goods to leave customs control and enter the Canadian economy. This may occur at border points of entry or at inland points of service.

8.9 For air and marine shipments, carriers and freight forwarders must send conveyance and cargo data to the Agency before the shipment arrives in Canada. The Agency uses this information to decide whether the shipment will be allowed to enter Canada.

8.10 Importers—or exporters, in the case of courier shipments—must provide another set of more detailed information about the goods and the importer, which may be provided before or after the shipment arrives in the country. The Agency uses this information—most of which is submitted electronically—to decide whether to release the goods into Canada. Under legislation and regulations, commercial clients are required to provide accurate and complete information.

8.11 Border services officers use automated systems, as well as their own judgment, to determine whether a shipment represents a high risk and, therefore, should be held for examination. If an officer decides that an examination is not required, the goods are released. If it is determined that an examination is required, the goods are directed to an examination facility and are released only after they pass the examination. Shipments can be examined at a number of facilities, some at the border, some inland, and some at a foreign port of loading.

8.12 Whether a shipment is selected for examination, and how long that examination takes, affects how quickly the commercial shipment enters the country. Commercial clients pay the cost of offloading the shipment for examination. For example, in early 2010, the trade community estimated that the average cost to examine a marine container was \$1,000. Other costs, such as drivers' wages and fees for late deliveries, may also be borne by importers.

8.13 Once imports have been released, importers assess the taxes and duties they owe—mainly under the *Customs Tariff Act*, *Excise Act*, *Excise Tax Act*, and *Special Import Measures Act*—and report this information to the Agency. The *Customs Act* allows importers with account security to accumulate the amounts they owe over the course

of a month, and pay the total at the end of the month. Most importers take advantage of this provision.

8.14 Once the taxes and duties have been paid, the Agency checks a sample of importers to verify that they have reported the goods properly and paid all taxes and duties. This process is known as compliance verification. Exhibit 8.2 describes the process for importing goods into Canada.

Exhibit 8.2 Summary of the process for importing commercial goods into Canada

Stages	Responsibilities	
	Commercial clients	Canada Border Services Agency
Pre-arrival	<ul style="list-style-type: none"> Submit advance commercial information for risk assessment purposes (electronic) (air and marine only). Submit declaration documents (paper, electronic, and other government entry permits) prior to the arrival of the shipment; most are submitted prior to arrival. Trusted traders are not required to provide advance transactional information. 	<ul style="list-style-type: none"> Screen shipments—using electronic information, risk scores, and targets generated through automated systems—to identify threats to national security, public safety, and regulatory requirements. Decide whether to reject a shipment or refer it to secondary examination.
Primary inspection (at port of entry)	<ul style="list-style-type: none"> Submit declaration documents (paper, electronic, other government entry permits) or proof of membership in trusted trader programs. Wait for the Agency's decision. 	<ul style="list-style-type: none"> Screen shipments, using declaration documents and targets in the computer system. Decide whether to refuse entry, allow to proceed inland, release the shipment, or refer it to secondary examination.
Secondary examination (at border facility or inland warehouse)	<ul style="list-style-type: none"> Wait for completion of examination. 	<ul style="list-style-type: none"> Examine the shipments for contraband, regulatory, and trade requirements. Decide whether to release, refuse entry, or seize the shipment.
Accounting and payment	<ul style="list-style-type: none"> Submit assessment and reporting documents on goods. Make payments. 	<ul style="list-style-type: none"> Confirm amounts owing. Accept payments.

Trusted traders—Companies that are members of one or more of the following Canada Border Services Agency programs: Free and Secure Trade, Partners in Protection, and Customs Self-Assessment. Because these companies have met certain system and risk requirements and are subject to audit by the Agency, they are trusted and considered low-risk.

Exhibit 8.2 Summary of the process for importing commercial goods into Canada (continued)

Stages	Responsibilities	
	Commercial clients	Canada Border Services Agency
Post-release verification	<ul style="list-style-type: none"> • Make books and records available to the Agency so the assessment and reporting information can be verified. • If required by the Agency, correct assessment and reporting errors and pay additional duties, taxes, and interest (within 90 days). 	<ul style="list-style-type: none"> • Review importer's accounting systems, books, and records. • Verify the country of origin, value, and tariff classification. • Verify permits. • Monitor that corrections are made.

Focus of the audit

8.15 The objective of the audit was to determine whether the Agency's integrated border services facilitate the free flow of imported commercial goods and collect the revenues owed on those goods. We examined the Agency's systems and practices for

- collecting and processing information for risk assessment purposes,
- ensuring provision of adequate examination facilities,
- developing service standards and monitoring performance against them, and
- assessing and collecting duties and taxes.

8.16 More details about the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Facilitating commercial shipments

8.17 According to the service policies of the Treasury Board, as well as importing processes established in legislation and its own mandate, the Canada Border Services Agency must take the following steps to facilitate the import of commercial goods:

- Automate and integrate information collection for risk assessment, in consultation with the trade community—to minimize administrative costs to commercial clients.
- Ensure that the information it uses to conduct risk assessments is accurate, complete, and timely, and that it selects shipments for

examination on the basis of risk—to minimize intervention in the movement of goods.

- Process information promptly and have the necessary facilities to process shipments through the border and to conduct examinations as quickly as possible—to minimize delays.
- Engage in public consultation to develop and publish service standards and targets, use these to measure and report on performance, and continuously improve service—to process commercial goods in a transparent, predictable, and consistent manner.

8.18 Overall, we found that the Agency's systems and practices facilitate the flow of imported commercial goods. However, there are still some limitations that lead to inconsistent levels of facilitation, depending on where and when the goods enter the country. The Agency has plans designed to address these limitations.

The Agency is working to further automate and integrate systems for information collection

8.19 The best-case scenario in the importing process is when a low-risk shipment moves through the border with minimal intervention, with risk assessment and release decisions based on the necessary electronic information that was provided before the goods arrived at the port of entry. The Agency currently receives most of its risk assessment and release information electronically, and prior to the arrival of the shipment. It is working to facilitate the commercial import process by designing its operations with this best case in mind, that is, by further automating and integrating its information requirements for risk assessment through two initiatives—**eManifest** and the **Single Window Initiative**.

eManifest—An information system through which commercial clients will be required to submit cargo, crew, conveyance, and importer information to the Canada Border Services Agency, within prescribed time frames, prior to arrival of a shipment at the border.

Single Window Initiative—A project to expand the number of other government department programs that interact electronically with the Canada Border Services Agency.

8.20 By the time it is fully implemented in 2014, the eManifest project will require most participants in the importing process—importers, freight forwarders, and cargo carriers—to electronically submit full risk assessment information, within specified time frames, before their goods reach Canada. The Agency expects that this project will provide it with information that is timelier and better designed for risk assessment purposes. This will increase the amount of information that commercial clients are required to provide to the Agency. However, the Agency expects that any increased costs that the client incurs as a result of this requirement, will be partly offset by improved risk assessment and reduced scrutiny of low-risk shipments.

8.21 In addition, the Agency is working to reduce the cost of providing information under the eManifest project, based on feedback from its commercial clients. First, it modified its requirements for the type of information to be provided and for the way the information will be provided. Second, at the time of our audit, the Agency was examining options to expand its Trusted Trader programs. Because Trusted Trader participants undergo a risk assessment before they are accepted in these programs, they are allowed to provide less information than non-participants about each shipment.

8.22 eManifest is complemented by the Single Window Initiative, which is intended to streamline border clearance processes and to reduce the paper burden through the increased sharing of electronic information between the Agency and other government departments. Some imported commercial goods are subject to the import requirements of other government departments and agencies, but the Agency plays a role in administering these requirements. The Agency administers about 25 programs that impose additional requirements on commercial imports, on behalf of 14 other government departments. Only four of these programs—one each from Natural Resources Canada, the Canadian Food Inspection Agency, Foreign Affairs and International Trade Canada, and Transport Canada—have electronic interfaces with the Agency; the remainder are paper-based.

8.23 In 2005, the Agency received \$10 million over five years for the Single Window Initiative. Over this five-year period, the Agency analyzed data and legislative requirements, and developed business models. At the time of the audit, the Agency was planning to implement additional electronic links to transfer commercial data to some other government departments as pilot projects. However, expanding the Single Window Initiative, to further reduce paper-based processes and increase sharing of electronic information, depends on the Agency working with other government departments to identify additional sources of funding.

Quality assurance of electronic information needs improvement

8.24 To make the best use of electronic information, in order to minimize intervention in the movement of goods through effective risk assessment, the Agency needs reasonable assurance that this information is accurate, complete, and timely. At the time of our audit, the Agency did not have a monitoring process in place to gain such assurance.

8.25 We examined the Agency's approach to monitoring the quality of electronic information provided by commercial clients at various stages in the importing process. We found that the Agency has conducted a number of studies and pilot projects to examine whether the electronic information submitted accurately describes the goods that are being brought into the country. However, these studies are limited in scope; they often examine information quality at only one point in the importing process, and most are not conducted consistently over time.

8.26 The studies found that between 7 and 21 percent of the information provided by commercial clients was inaccurate. For example, a national study conducted by the Agency in 2009 found that, in about 14 percent of cases, the **tariff classification** provided by the importer at the time of release was significantly different from the one provided when the duties and taxes were assessed. This means that the description used to decide whether to release or examine the good was not the same as the one used later to assess the duties and taxes owed. According to the Agency, such inaccuracy has an impact on its ability to assess the risk that the shipment poses to the health, safety, and security of Canadians, before releasing it.

8.27 Because the Agency does not regularly monitor data quality, it does not know whether the quality of the electronic information provided by commercial clients is improving. It also does not know whether the results of its studies are good or bad, that is, whether error rates reflect acceptable levels of accuracy, completeness, and timeliness. The Agency is planning to pilot a monitoring program for its **Courier Low Value Shipment Program** in 2010 and a Commercial Programs Compliance Plan in early 2011. These plans are intended to provide the Agency with baseline information that it can use to assess whether the information it receives is accurate, complete, and timely.

8.28 Recommendation. The Canada Border Services Agency should improve its systems and practices for monitoring the quality of electronic information that it receives during the commercial importing process—to obtain reasonable assurance that this information is accurate, complete, and timely. The Agency should then use the results of its monitoring process for continuous improvement.

The Agency's response. Agreed. As the Auditor General has acknowledged, the Agency has begun to address possible gaps in the commercial import process, in part through the development of the Commercial Programs Compliance Plan, a pilot project that will be

Tariff classification—A 10-digit code assigned to every traded commodity. This code is used to assess risk, identify the rates of duty applicable to the commodity, and distinguish commodities for national trade statistics. It is based on the Harmonized Commodity Description and Coding System, which was developed and is maintained by the World Customs Organization, and is sometimes referred to as the "HS Code."

Courier Low Value Shipment Program—A program for approved courier companies that expedites the release of qualifying shipments valued at less than \$1,600. Duties and taxes are paid monthly.

initiated in spring 2011 with full implementation in 2012. The Agency is also enhancing monitoring of commercial import process data transmission requirements and is developing a comprehensive monitoring framework as part of the eManifest project. These compliance monitoring processes will be put in place in fall 2010 to support the initial implementation of eManifest in the highway mode.

By 2014, systems will be in place to enable the Agency to assess risk and compare commercial information from the pre-arrival through to the post-release phases of the import process. Legislative and regulatory changes related to eManifest will prescribe that specific parties within the trade chain will be held liable for the accuracy and timeliness of this information.

The Administrative Monetary Penalty System (AMPS) program is another tool that the Agency uses to encourage importers and exporters to comply with trade laws and regulations, as well as laws it enforces on behalf of other government departments. The program includes penalties for inaccurate, incomplete, and untimely transmission of trade data. The Agency will further develop the AMPS program to provide compliance support for new initiatives, such as the eManifest project, as each phase of the project is implemented.

Taken together, these initiatives will ensure that the electronic information received from clients is increasingly accurate, complete, and timely.

A more consistent risk-based approach to selecting shipments for examination is needed

8.29 Examining shipments is necessary to mitigate risk and verify compliance. However, examining a shipment increases commercial clients' costs and can delay their imports. To minimize intervention in the movement of goods, the Agency needs to process information promptly and use that information to select shipments with a risk of non-compliance. Such a risk-based approach also requires the Agency to conduct some random examinations.

8.30 We found that, in the case of Trusted Trader programs, the Agency uses a risk-based approach to select shipments for examination. This practice facilitates the import of goods because low-risk shipments are selected for examination less often. According to Agency data, participants in Trusted Trader programs have lower examination rates than other commercial clients. Since members in these programs have been assessed in advance and deemed low-risk, this result is consistent with a risk-based approach.

Risk rating—A measure of the relative risk of goods moving through a port of entry.

8.31 We examined whether the Agency treats commercial clients consistently, by assessing whether the frequency of examinations at each port reflects the risk posed by shipments entering Canada at that port. We found that examinations did not align with the **risk rating** that the Agency assigned to each port.

8.32 The Agency told us that the factors it considers when deciding how many examinations to conduct are not strictly risk-based. As a result, commercial clients may not be treated consistently and the intervention in the movement of goods is not minimized at some ports of entry.

8.33 The Agency has recognized the need to improve its risk-based approach to examinations. It recently developed a Border Risk Management Plan, which is expected to be implemented in the 2010–11 fiscal year. One of the plan's goals is to better align expected examination rates, by port of entry, with the port's risk rating.

Most major examination facilities are adequate, but there is a lack of monitoring mechanisms for licensed warehouses

8.34 The Agency owns many facilities at ports of entry, including at several larger land-border crossings and many smaller ports of entry. At these locations, the Agency is responsible for providing its own examination facilities. Other ports of entry—including airports, marine ports, and some large land border crossings—are owned by third parties. At these locations, under the *Customs Act* and other acts, the owner or operator is responsible for providing the examination facilities to the Agency free of charge. The Agency also licenses about 1,200 **sufferance warehouses** that are owned by private operators, who are also required to provide adequate examination facilities to the Agency free of charge.

Sufferance warehouses—Privately owned and operated facilities that are licensed by the Canada Border Services Agency for the short-term storage and the examination of imported goods pending their release from Customs. Sufferance warehouse keepers charge fees for storage and handling.

8.35 Through its investment planning process, the Agency has prioritized upgrades to its larger land border crossings. Once the construction projects that were under way at the time of the audit are completed, the Agency will consider most of them adequate to conduct the full range of examinations with minimal delay. The Agency conducts only certain types of examinations at smaller land border ports of entry, and it is not planning to invest a lot more in examination facilities at those locations. Therefore, shipments made through these smaller ports of entry that are selected for examination may be redirected to an alternative examination facility so the required examinations can be completed.

8.36 The Agency also monitors the examination facilities that operators provide under the *Customs Act*. It has assessed most of them as being adequate and, where it found deficiencies, the operator has plans designed for improvement. However, at two major commercial airports—Montreal-Mirabel International Airport and Vancouver International Airport—some of the examination facilities are not provided free of charge as required under the *Customs Act* and other acts. Instead, Public Works and Government Services Canada has been paying for space, leased on behalf of the Agency, at a cost of about \$547,000 per year, which represents non-compliance with the *Customs Act* and additional costs for the Government of Canada. The Agency intends to bring these arrangements into compliance with the legislation when the leases expire in 2012.

8.37 An evaluation done by the Agency in 2010 noted that importers and carriers had complained that some highway sufferance warehouses were inadequate. According to the evaluation, the Agency's capacity for identifying deficiencies is limited, and it did not conduct enough monitoring to verify that these warehouses met the requirements of current regulations. The Agency committed to implementing a risk assessment and audit strategy for warehouses by April 2011.

The Agency is working to coordinate service levels for examinations with other government departments

8.38 Examining certain types of shipments, such as pharmaceuticals or explosives, requires the expertise and participation of other government departments. Therefore, to minimize delays, the Agency needs to coordinate service levels for examinations with other government departments and agencies. To determine whether it is clear what levels of service other government departments should provide to the Agency, we examined guidance documents for 13 program areas where the Agency may need to call on the services of other departments and agencies. We found that levels of service were well-defined for 8 program areas but were not for the remaining 5.

8.39 In several cases, the service-level guidance states that, when Agency officers request services from other government departments, they can expect a reply within one to twenty-four hours. However, some of the arrangements exclude weekends and holidays, whereas the Agency's large commercial land border crossings are always open to offer services. This means that if a shipment that requires other government department services arrives on a Saturday, it may not be processed until Monday at the earliest. The Agency publishes only

limited information on these different hours of service—information that commercial clients need to plan the timing of their shipments.

8.40 As part of its work on the Single Window Initiative, the Agency is working with other government departments to improve service levels for examination.

The Agency needs to improve its measurement and reporting on services provided at the border

8.41 To process commercial goods in a transparent, predictable, and consistent manner, the Agency needs to develop and publish service standards and targets. It needs to use these to measure and report on performance and to continuously improve service. Published service standards help commercial clients make informed decisions about when and where to import.

Land border wait time—The time it takes, in minutes, for a vehicle to reach the primary inspection booth after arriving at the end of the queue.

8.42 We found that the Agency had published service standards for processing the information needed to release goods and for **land border wait times**. These service standards measure key processes that determine whether the Agency is minimizing delays in the movement of commercial goods.

8.43 However, there are gaps in the Agency's measurement and reporting against these standards, specifically, the following:

- Some performance is not measured accurately against the standards. For example, to measure performance against the land border wait time standard, border services officers observe traffic and estimate the time it takes to reach the primary inspection line from an arbitrary roadside marker. This information is then uploaded to the Agency's website for 20 of the biggest land border commercial crossings. However, when the line-ups extend beyond the marker, trucks at the end of the line may wait longer than the wait time reported between the marker and the primary inspection line.
- Performance targets have not been set. For example, Agency data indicates that one electronic processing time standard—"release on minimum documentation," which accounted for 14 percent of releases—was met 82 percent of the time during the 2008–09 fiscal year. However, some regions met the standard more than 90 percent of the time, while others met it less than 70 percent of the time. The Agency has not determined which of these outcomes represents adequate service to commercial clients.

- Results are not published for all service standards. The Agency only publishes results for its land border wait time standards. It does not publish the results for its electronic processing service standards for the commercial importing process.

8.44 The Agency has recognized the need to improve measurement and reporting on services provided at the border. In 2008, the Agency began a pilot project, in British Columbia and Southern Ontario, with Transport Canada and the United States Customs and Border Protection to improve the measurement of land border wait times. The project involves using various technologies to measure these wait times in a more systematic and scientific way. Also, in 2010, the Agency began developing a Resource Modelling Framework to determine how to optimize scheduling of border services officers and investments in border infrastructure to minimize land border wait times. The model is scheduled for completion in summer 2011.

The Agency is taking steps to improve predictability of examination times

8.45 The time it takes to conduct examinations varies, making it difficult to predict entry times for shipments into Canada. Because the extent and complexity of examinations can vary significantly, it is not practical to publish precise time standards. However, some information about how long examinations take, such as averages or ranges, would be useful to importers.

8.46 As a first step, the Agency is leading an examination subcommittee of the Border Commercial Consultative Committee to analyze each step in the marine container examination process. Terminal operators and third-party off-loaders have been asked to provide information on how long containers remain in their possession. The Agency told us that it expects this information to show sources of delay in moving these types of shipments. The Agency plans to use information on examination turnaround times to develop a standard for the examination of marine containers.

8.47 In 2009, the Agency also began developing a Client Service Strategy that included the following objectives:

- Establish governance structures.
- Conduct consultations.
- Create an inventory of services.
- Publish service standards.

8.48 We found that the Agency had made some progress toward meeting these objectives, including conducting consultations with commercial clients on how to improve land border wait times. In its 2009–10 Report on Plans and Priorities, the Agency committed to publishing updated service standards by the end of the 2010–11 fiscal year.

8.49 Recommendation. The Canada Border Services Agency should improve its measurement of service standards and should collect and publish service information to increase predictability in the commercial importing process.

The Agency's response. Agreed. The Agency has undertaken a three-year service improvement strategy that will strengthen the Agency's commitment to service, enhance the service culture, and simplify and streamline how the Agency and clients interact. One goal of the strategy is to set targets and to measure and publish service standards, ultimately improving predictability for commercial clients and resulting in continued service improvements. External stakeholder input on priorities and recommendations with respect to this initiative is being sought through the Border Commercial Consultative Committee's sub-committees on wait times, examinations, and service standards. As service standards are identified, they will be progressively implemented starting in January 2011.

Under its service strategy initiative, the Agency is developing an inventory of service standards and external services that identifies tasks, outputs, and clients. To guide the consistent development of future service standards and performance measures, the Agency is developing a comprehensive training package; delivery to staff will begin by fall 2010. This will enable specific service line owners to develop new service standards for their programs.

Assessing and collecting duties and taxes

8.50 Under the *Customs Act*, importers self-assess the duties and taxes they owe on imported commercial goods. They provide the assessment information per release to the Canada Border Services Agency and pay the amounts owing at the end of the month. In the 2008–09 fiscal year, the Agency collected \$23 billion in duties and taxes through this process, almost all of which was from commercial goods, making it the Government of Canada's second largest revenue collector. As such, the Agency needs systems and practices that provide reasonable assurance that the assessments and information provided by importers are accurate and complete. It also needs a revenue management system that, in addition to efficiently processing payments and

reporting on revenues, will keep pace with technology and current business practices.

The Agency lacks assurance that commercial clients are accurately assessing the duties and taxes they owe

8.51 Country of origin, value of the goods, and tariff classification are used to determine what, if any, duties and taxes are payable on imported goods. Inaccurate information from commercial clients on any of these factors may result in an inaccurate assessment of duties and taxes. This may also affect the accuracy of trade and revenue information provided by the Agency to Statistics Canada and the Department of Finance Canada, as well as the Agency's understanding of whether commercial clients are complying with trade rules.

8.52 To verify the accuracy and completeness of information provided by commercial clients, the Agency selects samples of transactions and conducts compliance verifications—a kind of audit that examines whether importers' records support their transactions. While the Agency's Compliance Verification function also assesses importers' compliance with other government requirements, including policies related to the health and safety of imported commercial goods, our audit focused on its role in verifying the amounts of duty and tax owed by importers.

8.53 The Agency has periodically analyzed some of its compliance verification results. According to studies undertaken since 2005, it is estimated that importers have provided inaccurate information on country of origin or undervalued their imported goods for between 5 and 20 percent of releases and have misclassified between 17 and 30 percent of releases.

8.54 The results of these studies cannot be extrapolated to estimate the revenue the Agency would have collected if all importers had accurately assessed the revenue they owed. However, the Agency's compliance verification work identifies substantial additional revenues owing each year due to the errors in the information provided. In the 2009–10 fiscal year, the Agency conducted about 2,700 compliance verifications, which covered three percent of the value of imports that year, and assessed about \$59 million in additional duties and taxes owing from importers.

There are gaps in the Agency's latest compliance verification approach

8.55 Over the years, the Agency has changed its approach to compliance verification several times to try to obtain better

information on compliance trends and to align verification plans with resources. Our audit reports in 1994, 1997, 2001, and 2003 found that the Agency has had difficulties implementing each new approach.

8.56 In 2009, the Agency again adopted a new strategy with the goal of making compliance verification more consistent and risk-based. The strategy includes the following initiatives:

- a risk assessment committee to determine which goods and importers represent the highest risk and should, therefore, be targeted for verification;
- a sampling methodology intended to allow national measurement of results;
- a standardized method for conducting verifications, which includes an information system to store the verification results;
- a monitoring program to follow up with importers to ensure that corrections are made and any duties and taxes are paid;
- a quality assurance review to ensure that verifications are conducted properly and consistently; and
- increased outreach to clients.

8.57 At the time of the audit, the new strategy was not yet fully implemented. At the national level, the Agency continued to rely on spreadsheets to document the results of verifications. This process did not ensure that all completed verifications were entered into the system. Thus, although the Agency was conducting preliminary analyses of verifications, identifying high-risk commodities, and documenting classification error rates, it was using an incomplete database to do so. Without complete information, the Agency cannot identify and address non-compliance effectively.

8.58 We found that properly implementing the strategy, as it was designed, may require more resources than were being devoted to it. For example, regional verification teams were unable to complete all the verifications they were assigned to do within a year, using the new sampling methodology and risk-based approach. As well, the verification work in larger companies was insufficient to determine the level of compliance within those companies, which limited the accuracy of national measurement of compliance.

8.59 Recommendation. To have better assurance that the assessments provided by importers are accurate and complete, the

Canada Border Services Agency should improve its measurement and monitoring of

- trend information on importer compliance,
- significant changes in compliance patterns, and
- the estimated revenue impact of non-compliance with the rules for assessing duties and taxes owing on imported commercial goods.

The Agency's response. Agreed. As noted, the Agency has planned significant changes to its current compliance activities that will result in identifying the revenue impact of non-compliance by statistically sampling at the tariff item level. The results of these verifications will be analyzed to identify long-term trends in importer compliance and will assist the Agency with its focused verification targeting, as well as help to identify specific causes of non-compliance, so that effective corrective measures may be put into place. The compliance strategy is expected to be fully implemented by 1 April 2011. By ensuring the adequate collection and analysis of both quantitative and qualitative data through the implementation of this strategy, the Agency will significantly increase its assurance that assessments provided by importers are accurate and complete.

A more consistent approach to monitoring is needed

Reassessment policy—A policy that applies at the conclusion of each compliance verification, when errors are found, and requires that importers correct their records for a period of between one and four years.

8.60 Once compliance verifications are completed, if errors are found, Agency procedures require that its **reassessment policy** be applied. Under the policy, importers are required to make corrections and pay the duties and taxes owing within 90 days. Agency procedures further require compliance verification teams to monitor such cases to ensure that importers make the necessary corrections. If importers do not make the corrections, they are subject to penalties and further monitoring.

8.61 In the 2009–10 fiscal year, by following up on 468 cases, the Agency assessed an additional \$44 million in duties and taxes as a result of the monitoring process. This means that importers were not always making the required corrections and paying the additional taxes and duties owing. It also means that the monitoring identified substantial additional revenues owing.

8.62 However, the Agency does not monitor all closed cases where non-compliance was found, as required. As well, where monitoring is conducted and continued non-compliance is found, the decision on whether to conduct further monitoring is left to the compliance

verification officer. The Agency is developing a monitoring process, which includes formal criteria to guide the decision.

8.63 In addition, the Agency's 2009 compliance verification Quality Assurance Review pilot found that the reassessment policy was not being applied consistently. In 11 of the 71 verifications reviewed, the policy was not correctly applied, that is, importers in these cases were not properly instructed to correct their accounting documents and pay the additional revenues owing.

8.64 Recommendation. The Canada Border Services Agency should ensure that the reassessment policy is applied consistently and correctly. It should then monitor importers to ensure that they comply with the required corrective actions.

The Agency's response. Agreed. The Agency has already designed a detailed monitoring program that will facilitate the nationally consistent application of both the verification follow-up activities and the subsequent monitoring of non-compliant importer activities. This mandatory monitoring program will ensure that all of the expected self-corrections for the re-assessment period are properly filed and that any subsequent declarations remain fully compliant. The program will be implemented across the country by fall 2010. The Agency will also continue with its commitment to train regional verification officers and management on the proper application of the reassessment policy, and will include both the monitoring program and the application of the reassessment policy in its quality assurance reviews. Together, these initiatives will ensure that the requirements for monitoring compliance verifications and the application of the reassessment policy are met.

The Agency is working to modernize its revenue systems

8.65 Once the amounts due on imported commercial goods have been assessed, the Agency needs to collect them from importers. It collects almost all revenue through two month-end invoicing processes for authorized account holders: a process for members of the Customs Self Assessment program and the **K84** process for the other account holders. The Agency conducted an internal audit of Customs Self Assessment payments in 2009 and of K84 payments in 2010. Both audits concluded that payments were being made appropriately.

8.66 However, over the past 10 years, numerous internal and external reviews of the Agency's revenue management and reporting systems and procedures have recognized the need for the Agency to modernize its revenue systems. At the time of the audit, the Agency used

K84—A billing statement issued by the Canada Border Services Agency on a daily and monthly basis for clients with account security.

five separate information systems to assess and collect revenue from importers. These five systems all feed the Agency's main revenue reporting system, the Revenue Ledger; however, transfers and reconciliations between the systems and the Revenue Ledger are performed manually. As a result, and as we have reported in our observations on the Public Accounts of Canada since 2006, the Agency is unable to fully reconcile the revenue information across its systems. As well, the most recent review of the Agency's revenue systems, conducted in 2009, concluded that its main system—the Customs Commercial System—was increasingly expensive to maintain, difficult to modify, and at significant risk of failure.

8.67 The existing systems also do not allow importers to make payments electronically; most importers or their brokers must deliver cheques in person to Agency offices. As a result, the Agency does not have timely information on accounts that have been paid.

8.68 The March 2010 Budget provided \$185 million over five years to the Agency to modernize its revenue systems. The initial modernization efforts, which focus on improving the management of accounts receivable, are scheduled to be in place by December 2012.

Conclusion

8.69 Overall, we found that the Agency facilitates the flow of imported commercial goods. However, there are still some limitations that lead to inconsistent levels of facilitation, depending on where and when the goods enter the country. The Agency has plans and initiatives under way designed to address these limitations.

8.70 To facilitate the flow of imports, the Agency uses electronic information that is provided before goods arrive at the port of entry to conduct risk assessment and make release decisions. To minimize administrative costs to commercial clients and to minimize intervention in the movement of goods, the Agency has two initiatives to further automate and integrate the information it requires electronically from commercial clients—the eManifest project and the Single Window Initiative.

8.71 However, the Agency does not have a monitoring process in place to have reasonable assurance that the electronic information it receives during the importing process is accurate, complete, and timely. Without such assurance, the Agency cannot effectively assess

risk and collect the correct revenues owed. The Agency has plans designed to provide it with better assurance.

8.72 To minimize delays and to process goods in a transparent, predictable, and consistent manner, the Agency has investment plans to ensure that most of its major examination facilities are adequate. It is also working with other government departments to coordinate service levels for examinations, and it is taking steps to increase the predictability of examination times. The Agency has also begun to develop a service strategy to better measure, monitor, and make publicly available its performance against service standards for many of its key services.

8.73 The Agency does not have reasonable assurance that commercial clients' assessments of the duties and taxes owed are based on accurate information. Without such assurance, the Agency cannot verify that assessments are correct and it cannot be certain that it is collecting the correct revenues owed. It also risks providing other government organizations, such as Statistics Canada and the Department of Finance Canada, with inaccurate and incomplete trade and revenue information. The Agency is working on a strategy to address these gaps.

8.74 While its internal audits demonstrate that revenues assessed are paid, the Agency has recognized that its revenue systems need to be modernized. The March 2010 Budget provided \$185 million over five years for this purpose. The initial modernization efforts, which focus on improving the management of accounts receivable, are scheduled to be in place by December 2012.

About the Audit

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objectives

The objective of the audit was to determine whether the Canada Border Services Agency's integrated border services facilitate the free flow of imported commercial goods and collect the revenues owed on those goods.

Scope and approach

This was the first performance audit looking at how the Canada Border Services Agency is fulfilling the facilitation component of its mandate since the Agency was formed in December 2003. It covered the Agency's pre-border, at-the-border, and post-border processes for the processing of imported commercial goods.

We examined

- how the Agency collects and analyzes advance information for risk assessment purposes;
- how the Agency assesses the adequacy of examination facilities;
- whether the Agency has developed service standards;
- whether the Agency tracks performance against those standards to improve border services; and
- what mechanisms the Agency uses to collect accurate and complete accounting information, as well as the systems and practices it needs to collect appropriate duties, taxes, and penalties.

Our audit work consisted primarily of interviews, document reviews, process and system walk-throughs, as well as site visits to the Agency's major commercial operations in five regions. We verified the methodologies, working papers, and statistics that support the studies, internal audits, and evaluations cited in this report, to determine whether we could rely on the work. For the internal audits and evaluations, we also assessed the qualifications of the teams conducting the work. We concluded that we could rely on these analyses for the purposes of this audit.

We did not examine the Agency's responsibilities and activities related to

- unlawful and non-commercial goods being imported or exported;
- commercial goods being imported or exported by post;
- goods in transit or temporary admission of vessels for coastal trade; or
- the entry, detention, or removal of travellers.

Criteria

To determine whether the Canada Border Services Agency's integrated border services facilitate the free flow of imported commercial goods and collect the revenues owed on those goods, we used the following criteria:	
Criteria	Sources
<p>The Canada Border Services Agency has service standards for the assessment of commercial information that</p> <ul style="list-style-type: none"> • reflect client needs (client opinions, expectations, priorities, and preferences); • are communicated to clients; • are measured regularly to identify service quality issues; and • are acted on to improve service. 	<ul style="list-style-type: none"> • <i>Canada Border Services Agency Act</i>, section 5 • <i>Customs Act</i>, sections 8, 12, and 107 • Results for Canadians—A Management Framework for the Government of Canada, Treasury Board, 2000 • A Policy Framework for Service Improvement in the Government of Canada, Treasury Board, 2000 • Integrated Risk Management Framework, Treasury Board, 2001, Element 3 • Communication Policy of the Government of Canada, Treasury Board, Policy Statement 1 • D-Memorandum D17-1-4 (Release of Commercial Goods), Canada Border Services Agency, sections 3, 4, 59, and 60, and Appendix B • International Convention on the Simplification and Harmonization of Customs Procedures, World Customs Organization, General Annex, sections 3.18, 3.25, 6.3, 7.1, and 7.4
<p>The Agency requests only the commercial information that it needs to assess commercial goods prior to their arrival at the border, on the basis of identified risks.</p>	<ul style="list-style-type: none"> • <i>Customs Act</i>, sections 7, 8, and 12. • D-Memorandum D17-1-4 (Release of Commercial Goods), Canada Border Services Agency, sections 5, 6, 30, 46, 52, and 53 • D-Memorandum D3-1-7 (CSA Program for Carriers), Canada Border Services Agency, section 1 • International Convention on the Simplification and Harmonization of Customs Procedures, World Customs Organization, General Annex, section 3.12
<p>At its ports of entry, the Agency provides timely and consistent border services for imported commercial goods.</p>	<ul style="list-style-type: none"> • <i>Canada Border Services Agency Act</i>, section 5 • <i>Customs Act</i>, section 101 • Results for Canadians, Treasury Board, 2000 • Policy Framework for Service Improvement in the Government of Canada, Treasury Board, 2000 • Integrated Risk Management Framework, Treasury Board, 2001, Element 3 • D-Memorandum D1-2-1 (Special Services), Canada Border Services Agency, sections 1 to 11 • Report on Plans and Priorities (RPP), Canada Border Services Agency, 2009–10, Client Service

To determine whether the Canada Border Services Agency's integrated border services facilitate the free flow of imported commercial goods and collect the revenues owed on those goods, we used the following criteria:	
Criteria	Sources
	<ul style="list-style-type: none"> • RPP, Canada Border Services Agency, 2009–10, Program Activity—Facilitated Border • International Convention on the Simplification and Harmonization of Customs Procedures, World Customs Organization, General Annex, sections 3.1 and 3.35 and sections 6.2 to 6.5
The Agency's asset management and investment plans provide for facilities for the timely, consistent, and risk-based examination of imported and in-bond commercial goods.	<ul style="list-style-type: none"> • <i>Canada Border Services Agency Act</i>, section 5(d) • <i>Customs Act</i>, sections 5 and 6 • Policy Framework for the Management of Assets and Acquired Services, Treasury Board, 2006
The Agency has systems and practices in place to collect accurate and complete information from importers to account for their imported commercial goods.	<ul style="list-style-type: none"> • <i>Customs Act</i>, sections 7, 32, and 42 • Integrated Risk Management Framework 2001, Treasury Board, 2001, Element 3
The Agency has systems and practices in place to collect the duties, taxes, and penalties it is owed from commercial importers.	<ul style="list-style-type: none"> • <i>Customs Act</i>, sections 32, 33, 42, 109, 124, and 127 • <i>Accounting for Imported Goods and Payment of Duties Regulations</i>, sections 3, 4, and 6

Management reviewed and accepted the suitability of the criteria used in the audit.

Period covered by the audit

This audit covered the period between April 2008 and May 2010. However, some documents reviewed go back to 2005. Audit work for this chapter was substantially completed on 31 May 2010.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 8. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Facilitating commercial shipments	
<p>8.28 The Canada Border Services Agency should improve its systems and practices for monitoring the quality of electronic information that it receives during the commercial importing process—to obtain reasonable assurance that this information is accurate, complete, and timely. The Agency should then use the results of its monitoring process for continuous improvement. (8.24–8.27)</p>	<p>Agreed. As the Auditor General has acknowledged, the Agency has begun to address possible gaps in the commercial import process, in part, through the development of the Commercial Programs Compliance Plan, a pilot project that will be initiated in spring 2011 with full implementation in 2012. The Agency is also enhancing monitoring of commercial import process data transmission requirements and is developing a comprehensive monitoring framework as part of the eManifest project. These compliance monitoring processes will be put in place in fall 2010 to support the initial implementation of eManifest in the highway mode.</p> <p>By 2014, systems will be in place to enable the Agency to assess risk and compare commercial information from the pre-arrival through to the post-release phases of the import process. Legislative and regulatory changes related to eManifest will prescribe that specific parties within the trade chain will be held liable for the accuracy and timeliness of this information.</p> <p>The Administrative Monetary Penalty System (AMPS) program is another tool that the Agency uses to encourage importers and exporters to comply with trade laws and regulations, as well as laws it enforces on behalf of other government departments. The program includes penalties for inaccurate, incomplete, and untimely transmission of trade data. The Agency will further develop the AMPS program to provide compliance support for new initiatives, such as the eManifest project, as each phase of the project is implemented.</p> <p>Taken together, these initiatives will ensure that the electronic information received from clients is increasingly accurate, complete, and timely.</p>

Recommendation	Response
<p>8.49 The Canada Border Services Agency should improve its measurement of service standards and should collect and publish service information to increase predictability in the commercial importing process. (8.38–8.48)</p>	<p>Agreed. The Agency has undertaken a three-year service improvement strategy that will strengthen the Agency's commitment to service, enhance the service culture, and simplify and streamline how the Agency and clients interact. One goal of the strategy is to set targets and to measure and publish service standards, ultimately improving predictability for commercial clients and resulting in continued service improvements. External stakeholder input on priorities and recommendations with respect to this initiative is being sought through the Border Commercial Consultative Committee's sub-committees on wait times, examinations, and service standards. As service standards are identified, they will be progressively implemented starting in January 2011.</p> <p>Under its service strategy initiative, the Agency is developing an inventory of service standards and external services that identifies tasks, outputs, and clients. To guide the consistent development of future service standards and performance measures, the Agency is developing a comprehensive training package; delivery to staff will begin by fall 2010. This will enable specific service line owners to develop new service standards for their programs.</p>
<p>Assessing and collecting duties and taxes</p> <p>8.59 To have better assurance that the assessments provided by importers are accurate and complete, the Canada Border Services Agency should improve its measurement and monitoring of</p> <ul style="list-style-type: none"> • trend information on importer compliance, • significant changes in compliance patterns, and • the estimated revenue impact of non-compliance with the rules for assessing duties and taxes owing on imported commercial goods. (8.50–8.58) 	<p>Agreed. As noted, the Agency has planned significant changes to its current compliance activities that will result in identifying the revenue impact of non-compliance by statistically sampling at the tariff item level. The results of these verifications will be analyzed to identify long-term trends in importer compliance and will assist the Agency with its focused verification targeting, as well as help to identify specific causes of non-compliance, so that effective corrective measures may be put into place. The compliance strategy is expected to be fully implemented by 1 April 2011. By ensuring the adequate collection and analysis of both quantitative and qualitative data through the implementation of this strategy, the Agency will significantly increase its assurance that assessments provided by importers are accurate and complete.</p>

Recommendation	Response
<p>8.64 The Canada Border Services Agency should ensure that the reassessment policy is applied consistently and correctly. It should then monitor importers to ensure that they comply with the required corrective actions. (8.60–8.63)</p>	<p>Agreed. The Agency has already designed a detailed monitoring program that will facilitate the nationally consistent application of both the verification follow-up activities and the subsequent monitoring of non-compliant importer activities. This mandatory monitoring program will ensure that all of the expected self-corrections for the re-assessment period are properly filed and that any subsequent declarations remain fully compliant. The program will be implemented across the country by fall 2010. The Agency will also continue with its commitment to train regional verification officers and management on the proper application of the reassessment policy, and will include both the monitoring program and the application of the reassessment policy in its quality assurance reviews. Together, these initiatives will ensure that the requirements for monitoring compliance verifications and the application of the reassessment policy are met.</p>

Report of the Auditor General of Canada to the House of Commons—Fall 2010

Main Table of Contents

	Matters of Special Importance
	Main Points—Chapters 1 to 9
	Appendices
Chapter 1	Canada's Economic Action Plan
Chapter 2	Management and Control in Small Entities
Chapter 3	Service Delivery
Chapter 4	Managing Conflict of Interest
Chapter 5	Regulating and Supervising Large Banks
Chapter 6	Acquisition of Military Helicopters
Chapter 7	Registered Charities—Canada Revenue Agency
Chapter 8	Facilitating the Flow of Imported Commercial Goods—Canada Border Services Agency
Chapter 9	Animal Diseases—Canadian Food Inspection Agency

