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Performance Audit

# **Container Examination Facilities Follow-up**

**Australian Customs Service**

Australian National Audit Office

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of Australia 2007

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Canberra ACT  
8 August 2007

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Customs Service in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Container Examination Facilities Follow-up*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations

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ANAO	Australian National Audit Office
CEF	Container Examination Facility
CRA	Cargo Risk Assessment
CRE	Corporate Research Environment
Customs	Australian Customs Service
CXM	Container X-ray Management
EXAMS	Examination Data Management System
ICS	Integrated Cargo System
JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
SLA	Service Level Agreement
TEU	Twenty-foot Equivalent Units





# Summary and Recommendations



# Summary

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## Background

1. The Australian Customs Service (Customs) is the regulatory agency with primary responsibility for protecting Australia's borders. Customs seeks to prevent illegal and harmful goods from entering Australia. To strengthen its border protection capability Customs has established Container Examination Facilities (CEFs) in Melbourne, Sydney, Brisbane and Fremantle as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports.<sup>1</sup>

2. The CEFs combine container X-ray technology with physical examination and a range of other resources such as pallet and mobile X-ray units, drug detector dogs and ionscan technology. CEFs were implemented to:

- prevent the flow of prohibited and restricted items<sup>2</sup> into Australia;
- increase the volume of sea cargo inspected;
- minimise losses to revenue from smuggling and revenue evasion;
- protect legitimate industry from non-compliant importers and exporters; and
- improve the security of sea cargo trade.

3. Prior to the introduction of the CEFs, Customs examined between 4000 and 5000 twenty-foot equivalent unit (TEU) containers a year.<sup>3</sup> The establishment of the CEFs has allowed Customs to increase the national inspection target to 133 000 TEUs per year.<sup>4</sup> The CEFs have been used to detect illicit drugs, alcohol, tobacco and firearms. CEFs have also identified compliance breaches such as undeclared, undervalued or misdescribed goods and copyright and trademark infringements.

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<sup>1</sup> Customs' has examination facilities in Adelaide and Darwin that operate a range of technology but do not have container X-ray technology.

<sup>2</sup> Prohibited and restricted items include illicit drugs, weapons, pornography, unsafe products, therapeutic goods, wildlife, quarantine items and items that breach intellectual property rights.

<sup>3</sup> Twenty-foot equivalent units is the industry standard measure of shipping containers.

<sup>4</sup> Customs also maintains a target of 13 300 TEU to be physically examined.

## Previous audit

4. The ANAO completed a performance audit of Customs' Container Examination Facilities in December 2004, Report No.16 2004–05, *Container Examination Facilities*. The report concluded that, overall, the CEFs were administratively effective but that improvements could be made to CEF administration and operational effectiveness. The audit made eight recommendations directed to improving the targeting of cargo containers for X-ray and examination, data management and performance reporting, logistical operations and contract management. Customs agreed to all of the recommendations.

## Review by the Joint Committee of Public Accounts and Audit

5. The Joint Committee of Public Accounts and Audit (JCPAA) reviewed the previous audit and published its findings in Report 404, *Review of Auditor-General's Reports 2003–2004: Third & Fourth Quarters; and First and Second Quarters of 2004–2005*. The report supported the ANAO's findings and made two additional recommendations. These related to data integrity and the management of contracts for logistical service providers.

## Significant developments have occurred since the previous audit and the JCPAA review

6. Since the original audit there have been a number of developments that have affected CEF operations. These include the introduction of the Integrated Cargo System (ICS) and Cargo Risk Assessment (CRA) system. Customs has also completed reviews of both its intelligence operations and CEF effectiveness.

7. The ICS and CRA were fully implemented in 2005 and replaced existing legacy systems. The ICS is the transaction processing system that receives and records cargo information. The CRA system forms part of the ICS and assesses cargo information to identify potentially high-risk cargo. These systems play a major role in determining which cargo containers are selected for CEF inspection.

8. In late 2006 Customs undertook a review of intelligence operations. This identified deficiencies in Customs' intelligence processes and operations. Customs has introduced structural changes and commenced a number of

projects to improve intelligence and targeting. Customs intends that, for the CEFs, this will include the provision of dedicated intelligence support.

9. The CEF effectiveness review was undertaken in October 2006. The review brought to notice a number of areas requiring attention, including image analysis, targeting, intelligence and training. The review made 40 recommendations, which Customs is working to implement.

## **Audit objective**

10. The objective of this follow up audit was to examine Customs' implementation of the eight recommendations in the ANAO Report No.16 2004–05 and the two related recommendations from JCPAA Report 404. The audit has had regard to issues affecting the implementation of the recommendations and has taken into account changed circumstances and new administrative arrangements since the previous audit.

## **Overall conclusion**

11. The ANAO concluded that Customs has made significant progress in implementing the eight recommendations from ANAO Audit Report No.16 2004–05, which were directed at improving the targeting of cargo containers for X-ray and examination, data management and performance reporting, logistical operations and contract management. Customs has also made significant progress in respect of the two recommendations from JCPAA Report 404, which related to data integrity and the management of contracts for logistical service providers.

12. Six of the ANAO recommendations have been fully implemented, one has been substantially implemented and one has been overtaken by Customs' efforts to strengthen target development and selection processes. One of the JCPAA recommendations has been fully implemented and the other has been substantially implemented. Table 1 below provides a summary of the original recommendations and the ANAO's assessment of progress against each.

13. Since the previous audit, Customs has undertaken a number of initiatives to improve its CEF operations. These included the reviews of both intelligence operations and CEF effectiveness. Customs is progressively implementing the recommendations arising from these reviews. In implementing the ANAO and JCPAA recommendations, and reviewing and revising its operations, Customs has improved CEF administration and operational effectiveness.

14. In the current audit, the ANAO identified two areas which offer further opportunities for improvement. These related to the adoption of improved analytical tools for evaluating cargo information and developing mechanisms for measuring the effectiveness of cargo profiles. Customs has undertaken to review these issues.

**Table 1**

**Summary of the original ANAO and JCPAA recommendations and the findings of the follow-up audit**

Rec.	Summary of Recommendation	ANAO assessment of implementation status
ANAO 1	Adopt a nationally consistent approach to the logistical coordination process	<p>This recommendation has been substantially implemented. Customs undertook an analysis of the management of the logistical coordination of containers selected for X-ray and defined roles and responsibilities relating to their work. Customs implemented a system (Container X-ray Management) to monitor and track containers selected for X-ray.</p> <p>Customs is working to address some inconsistencies between regions in how they manage logistical coordination.</p> <p>See paragraphs 2.5 to 2.18.</p>
ANAO 2	Complete an operational assessment of sea cargo imports and exports at CEF ports	<p>This recommendation has been overtaken by Customs' efforts to strengthen target development and selection processes.</p> <p>Customs undertook some work to improve the assessment of sea cargo imports and exports at CEF ports. Customs subsequently undertook a major review of intelligence operations. Customs has put in place a number of projects to address the recommendations arising from this review.</p> <p>See paragraphs 3.8 to 3.14.</p>
ANAO 3	Review the risk profiles of origin countries to strengthen high-risk country identification	<p>This recommendation has been fully implemented. Customs' Central Office completed a comprehensive review of country of origin profiles.</p> <p>See paragraphs 3.28 to 3.30.</p>
ANAO 4	Develop common system business rules and reporting parameters for the EXAMS system <sup>5</sup>	<p>This recommendation has been fully implemented. Customs' Sea Cargo Technologies have created specific CEF business rules and reporting parameters for the EXAMS system.</p> <p>See paragraphs 4.3 to 4.4.</p>

<sup>5</sup> The Examination Data Management (EXAMS) system is Customs' application for recording the details of cargo selected for inspection and the results.

Rec.	Summary of Recommendation	ANAO assessment of implementation status
ANAO 5	Develop and implement guidelines that clearly articulate what constitutes a positive find at the CEF, how this information is to be recorded and treated in the EXAMS system and who is responsible for completing records	This recommendation has been fully implemented. Customs has articulated what a positive find is and how it is recorded in the EXAMS system. Although the ANAO noted a number of regions still using their own user-developed applications, Customs has advised it is now committed to reviewing these applications and developing a nationally consistent approach. See paragraphs 4.9 to 4.15.
ANAO 6	Develop performance measures and targets specific to the CEFs to assess their operational effectiveness	This recommendation has been fully implemented. Customs has developed appropriate performance measures for reporting on the operational effectiveness of the CEFs. See paragraphs 4.18 to 4.20.
ANAO 7	Develop logistics plans in all CEF ports to address problems associated with segregating, prioritising and transporting selected containers to and from the CEFs	This recommendation has been fully implemented. Customs developed logistics plans in consultation with the container terminal operators and transport service providers. See paragraphs 5.7 to 5.8.
ANAO 8	Comprehensively review logistics services (container handling, transport and unpack/repack) contracts	This recommendation has been fully implemented. Customs engaged a consultant to undertake a comprehensive review of the logistical services contracts for the CEFs. The review addressed the findings in the original CEF audit relating to contracts. See paragraphs 5.11 to 5.18.
JCPAA 35	Rectify EXAMS data integrity issues; clearly define business rules for data entry into EXAMS; and implement a one-day target selection officer X-ray training course	This recommendation has been substantially implemented. Business rules are clearly defined and data is being entered consistently across the regions. Customs has been conducting data integrity checks since December 2005. Rather than implement the target selection officer X-ray training, Customs has implemented a trial placement of tactical analysis officers at the Sydney CEF. This should substantially improve communication links between target selection officers and the CEFs. See paragraphs 6.4 to 6.9.
JCPAA 36	Report to the JCPAA by June 2006 on the review of service provider contracts and strengthen reporting requirements within contracts	This recommendation has been fully implemented. Customs reported to the JCPAA in March 2006. New contracts with logistical service providers have strengthened reporting requirements. See paragraph 6.11.

## Agency response

15. Customs welcomes the follow up Audit on the Container Examination Facilities and the ANAO conclusions that Customs has improved CEF administration and operational effectiveness since the first audit.

16. Customs is pleased with the findings that six of the ANAO recommendations have been fully implemented, one has been substantially implemented and one has been overtaken by Customs' internal work on target development and selection processes. In addition, Customs agrees that one of the JCPAA recommendations has been fully implemented and the other has been substantially implemented.

17. As noted in the ANAO report, Customs has undertaken a number of initiatives to improve the CEF operations and continues to be committed to continuous improvement across all its program areas.

18. Customs also acknowledges the two areas that ANAO has identified which may offer further improvement and undertakes to review improved analytical tools for evaluating cargo information and developing mechanisms for measuring the effectiveness of cargo profiles.



# **Audit Findings and Conclusions**



# 1. Background and Context

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*This chapter discusses the Australian Customs Service's border management role and provides an overview of the function of the Container Examination Facilities (CEFs). It also discusses the findings of the previous ANAO audit, the subsequent Joint Committee of Public Accounts and Audit inquiry, and considers recent developments impacting on the operations of the CEFs. In addition, the objective and methodology of the audit are outlined.*

## Introduction

1.1 In 2005–06, Australia's imports were valued at \$171 885 million and exports at \$156 833 million.<sup>6</sup> Imports are expected to increase by 6.5 per cent in 2007–08 and exports are forecast to grow by 5 per cent.<sup>7</sup>

1.2 The majority of Australia's imports and exports are containerised sea cargo.<sup>8</sup> In 2005–06, Australia's major ports (Sydney, Melbourne, Brisbane, Fremantle and Adelaide) imported 2.5 million twenty-foot equivalent unit (TEU) containers<sup>9</sup> and exported 2.3 million TEUs.<sup>10</sup>

1.3 The Australian Customs Service (Customs) is responsible for regulating the movement of goods and people across Australia's border and collecting customs duty and other revenue. Customs seeks to prevent illegal and harmful goods from entering Australia. It has to balance protecting the community with the need to ensure that legitimate cargo is not unnecessarily impeded. The vast majority of imports are legitimate but a small number contain prohibited and restricted items.<sup>11</sup>

1.4 The volume of sea cargo makes it neither feasible nor practical for Customs to examine every container. Customs adopts a risk management

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<sup>6</sup> Bureau of Transport and Regional Economics, Department of Transport and Regional Services, *Australian transport statistics*, 2007, p. 10.

<sup>7</sup> Australian Government, 2007, Budget Paper No. 1, Statement 3: Economic Outlook, Overview [Internet]. Australian Government, Australia, 2007, available from <[http://www.budget.gov.au/2007-08/bp1/download/bp1\\_bst3.pdf](http://www.budget.gov.au/2007-08/bp1/download/bp1_bst3.pdf)> [accessed 21 May 2007].

<sup>8</sup> Approximately 99.5 per cent of Australia's volume of international trade and 76 per cent of value is moved by sea.

<sup>9</sup> Twenty-foot equivalent units is the industry standard measure of shipping containers.

<sup>10</sup> Bureau of Transport and Regional Economics, Department of Transport and Regional Services, *Waterline*, Issue No. 41, 2006, p. 23.

<sup>11</sup> Prohibited and restricted items include illicit drugs, weapons, pornography, unsafe products, therapeutic goods, wildlife, quarantine items and items that breach intellectual property rights.

approach and has a complex infrastructure and process for screening, risk assessing, targeting and examining sea cargo consignments. To strengthen its border protection capability, Customs established Container Examination Facilities (CEFs) in Melbourne, Sydney, Brisbane and Fremantle. In addition, Customs has facilities in Adelaide and Darwin that operate a range of technology but do not have container X-ray technology. The CEFs form part of a comprehensive and integrated approach to sea cargo examination in Australia's major ports.<sup>12</sup>

## Overview of the Container Examination Facilities

1.5 Prior to the introduction of the CEFs, Customs examined between 4000 and 5000 TEUs per year for border protection purposes. The introduction of CEFs has enabled Customs to increase the national inspection target to 133 000 TEUs each year.<sup>13</sup> CEFs combine container X-ray technology with physical examination and a range of other resources such as pallet and mobile X-ray units, drug detector dogs and ionscan technology. Customs maintains a target of 13 300 TEU to be physically examined.

1.6 CEFs were implemented to:

- prevent the flow of prohibited and restricted items into Australia;
- increase the volume of sea cargo inspected;
- minimise losses to revenue from smuggling and revenue evasion;
- protect legitimate industry from non-compliant importers and exporters; and
- improve the security of sea cargo trade.

1.7 The CEFs have been used to detect illicit drugs, alcohol, tobacco and firearms. CEFs have also identified compliance breaches such as undeclared, undervalued or misdescribed goods and copyright and trademark infringements. These detections and breaches are recorded in Customs' EXAMS system.<sup>14</sup>

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<sup>12</sup> Melbourne CEF opened in November 2002, Sydney and Brisbane in March 2003, and Fremantle in November 2003. A pallet X-ray system was introduced in Adelaide in March 2005 and an examination facility was opened in Darwin in July 2005.

<sup>13</sup> This target is based on the capacity of the technology and logistical requirements and consultation with Government regarding an appropriate level of inspection.

<sup>14</sup> The Examination Data Management (EXAMS) system is Customs' application for recording the details of cargo selected for inspection and the results. The Corporate Research Environment is used to extract reports on the data contained in EXAMS.

## The original audit

### Overall findings and conclusions of the 2004 audit report

1.8 The ANAO's original audit of Customs' Container Examination Facilities was reported in ANAO Report No.16 2004–05, *Container Examination Facilities*, December 2004. The report concluded that, overall, the CEFs were administratively effective but that improvements could be made to CEF administration and operational effectiveness. The ANAO made eight recommendations, which were agreed by Customs. These were directed at Customs:

- adopting a nationally consistent approach to the logistical coordination process;
- completing an operational assessment of sea cargo imports and exports at CEF ports;
- reviewing the risk profiles of origin countries to strengthen high-risk country identification;
- developing common system business rules and reporting parameters for the EXAMS system;
- developing and implementing guidelines that clearly articulate what constitutes a positive find at the CEF, how this information is to be recorded and treated in the EXAMS system and who is responsible for completing records;
- developing performance measures and targets specific to the CEFs to assess their operational effectiveness;
- developing logistics plans in all CEF ports to address problems associated with segregating, prioritising and transporting selected containers to and from the CEFs; and
- comprehensively reviewing logistics services (container handling, transport and unpack/repack) contracts.

### Review by the Joint Committee of Public Accounts and Audit

1.9 The Joint Committee of Public Accounts and Audit (JCPAA) reviewed the ANAO report and published its findings in JCPAA Report 404, *Review of Auditor-General's Reports 2003–2004: Third & Fourth Quarters; and First and Second Quarters of 2004–2005* (October 2005). The report supported the ANAO's

findings and made two additional recommendations. These relate to data integrity and the management of contracts for logistical service providers.

## **Some significant developments have occurred since the previous audit and the JCPAA review**

1.10 Since the original audit there have been a number of developments that have affected CEF operations. These include the introduction of the Integrated Cargo System (ICS), which also comprises the Cargo Risk Assessment (CRA) system, and reviews of both intelligence operations and CEF effectiveness.

### **Integrated Cargo System and Cargo Risk Assessment**

1.11 Customs implemented the ICS to replace the legacy systems that were in place at the time of the original audit. This included the introduction of a revised system for assessing potentially high-risk cargo, the CRA system.

1.12 All cargo information is reported into the ICS and then processed through the CRA system. The CRA system identifies cargo reports and import declarations that have matched a risk profile. This cargo is automatically held and the cargo report or declaration is referred to a workgroup for further action. Target selection officers (targeters) within the workgroup decide whether the cargo is released or held for further inspection. This is the basis for selecting cargo for X-ray at the CEFs.

1.13 The ANAO examined Customs' implementation of the ICS in a recent audit.<sup>15</sup> The audit included coverage of Customs' mechanisms for risk assessing cargo. The CRA system was to significantly improve Customs' risk assessment capability but the ANAO audit found that this had not yet occurred. Target identification and selection processes were less efficient and some areas of Customs considered them to be less effective than the processes they replaced.

1.14 The audit found that the expected reporting and research functionality, crucial to Customs' intelligence function, was not available when the system went live. The limited reporting and data interrogation capability has meant that Customs was unable to determine the effectiveness of its profiles or retrieve data for research and intelligence assessments. Using the CRA was far more time consuming for creating and acquitting profiles than the legacy systems. There were few perceived benefits from the CRA system and a

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<sup>15</sup> ANAO Audit Report No.24 2006–07, *Customs' Cargo Management Re-engineering Project*, February 2007.

general view that Customs' ability to target high risk cargo effectively has been compromised by poor system performance and lack of functionality.

1.15 The CRA was reviewed as part of Customs' recent review of intelligence operations (discussed below). The review noted that:

CRA is a powerful tool, but one which is relatively opaque to Customs staff. CRA profiling tools will need further tuning and exploration to maximise their efficiency and effectiveness, and as such systems become more powerful it will be increasingly important to deeply understand their capabilities.<sup>16</sup>

1.16 Customs is taking steps to improve the functionality and useability of the CRA system. It has initiated a national profile review project, which includes examining the effectiveness of profiles.

### **Review of intelligence operations**

1.17 In late 2006 Customs engaged consultants Booz Allen Hamilton to undertake a review of intelligence operations. The review identified deficiencies in Customs underlying intelligence processes and the interactions between intelligence and targeting functions, passenger operations, compliance and enforcement operations, the CEFs, investigations, and policy and technology staff. To address these concerns the review outlined a high-level transformation roadmap for the intelligence and targeting program.

1.18 The report said, *inter alia*, that the implementation of this transformational program will encourage Customs intelligence to evolve to a culture that has an operational rather than administrative focus. There are significant opportunities to improve intelligence support to CEFs, whose managers have had limited access to structured intelligence to support more complex or threshold examination decisions, especially with regard to known methods of concealment. Provision of dedicated intelligence support to the CEFs will allow better support of managers making examination decisions.<sup>17</sup>

1.19 In December 2006 Customs announced structural changes that elevate intelligence and targeting functions to the level of a national program. Customs convened a workshop in January 2007 to establish workgroups to implement the report's recommendations. Customs has prepared project plans

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<sup>16</sup> Booz Allen Hamilton, *Toward a New Operating Model for Intelligence and Targeting: Outcomes of the Review of Customs Intelligence Operations*, December 2006, p. 26.

<sup>17</sup> *ibid.*, pp. 2 and 20.

and expects to complete most of the major deliverables arising from the review by late 2007.

## **Review of CEF effectiveness**

1.20 In October 2006 Customs reviewed the effectiveness of CEF operations. The review brought to notice a number of areas requiring attention, including image analysis, targeting, intelligence and training.<sup>18</sup> It identified a number of opportunities for improvement, including: enhanced systems support and system functionality; improved intelligence and intelligence support; and changes to CEF administration.

1.21 The review made 40 recommendations, which Customs is working to implement. Progress reports are keeping staff informed of issues as they arise.

### *Review of container X-ray image analyst capability*

1.22 In response to the CEF effectiveness review, Customs engaged a contractor to undertake a container X-ray image analyst capability review. The review involved research to identify the characteristics that contribute to effective container X-ray image analysis and determine whether these characteristics can be learned or developed in staff. Customs received a report on Phase 1 of the review in April 2007. Further analysis work is currently progressing in Phase 2.

## **How the ANAO undertook the follow-up audit**

### **Audit objective**

1.23 The objective of this follow up audit was to examine Customs' implementation of the eight recommendations in the ANAO Report No.16 2004–05 and the two related recommendations from JCPAA Report 404. The audit has had regard to issues affecting the implementation of the recommendations and has taken into account changed circumstances and new administrative arrangements since the previous audit.

### **Audit methodology**

1.24 The ANAO wrote to Customs at the commencement of the audit to request information on implementation of the recommendations from the previous audit and the JCPAA review. The ANAO assessed the

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<sup>18</sup> Australian Customs Service, *Enhancing the Effectiveness of CEF Operations*, October 2006.



implementation of the recommendations by analysing Customs' response and undertaking further quantitative and qualitative analysis, file and documentation reviews and interviews with agency officers in Canberra, Brisbane, Melbourne and Sydney. The ANAO also consulted representatives from Australia's major stevedoring operators. Audit fieldwork was undertaken in February and March 2007.

1.25 The audit was undertaken in accordance with ANAO auditing standards and cost \$188 665.

## **Acknowledgements**

1.26 The ANAO would like to express its appreciation to Customs' management and staff for their assistance in the conduct of this audit.

## **Report structure**

1.27 The audit findings are reported in the next five chapters. Each chapter provides a brief background of the previous reports' findings and the original recommendations in full. Any new or related issues are also discussed as appropriate.

1.28 The eight recommendations from the previous audit fall under four broad categories: container target selection; container target development; intervention processes; and logistical operations and contract management.

1.29 Chapters 2 and 3 deal with container target selection and container target development. Chapter 4 considers intervention processes including data management and performance reporting. Chapter 5 reviews logistical operations and contract management.

1.30 Chapter 6, *Implementation of JCPAA Recommendations*, reviews the implementation status of Recommendation Nos 35 and 36 of the JCPAA Report 404. These recommendations were concerned with the business system supporting the CEFs, X-ray image analysis training for target selection officers and Customs' contracts with service providers.

## 2. Container Target Selection

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*This chapter presents the ANAO's findings in Audit Report No.16 2004–05 Recommendation No.1. This recommendation related to Customs adopting a nationally consistent approach to the logistical coordination of targets.*

### Background

2.1 Customs' targeting of cargo containers for CEF examination involves daily evaluation of cargo data against profile matches to identify further indicators of risk.<sup>19</sup> Industry parties (such as importers and customs brokers) report cargo information into Customs' Integrated Cargo System (ICS) and this is then processed through the Cargo Risk Assessment (CRA) system. The cargo reports and import declarations that match a risk profile in CRA are assessed by Customs officers to decide whether the cargo will be released immediately or referred for further examination.

2.2 The Examination Data Management (EXAMS) system was designed to notify the CEFs of containers selected for X-ray in their region.<sup>20</sup> The EXAMS record is automatically created when a container is selected and a number of fields are pre-populated with data from the ICS. EXAMS also records the results of examinations.

### Logistical coordination

2.3 The Government requires that Customs inspect 133 000 TEU per year. The original audit reported that Customs was not selecting sufficient containers to enable the CEFs to meet this inspection target. Each region had a person assigned to the role of 'logistor'<sup>21</sup>, who is responsible for ensuring a continuous flow of containers to the CEF and maintaining a sufficient number of selections to meet daily throughput requirements.<sup>22</sup> However, as Customs had not clearly defined the responsibilities associated with this position, the requirements for the position had been interpreted differently across the regions. There was also no training or guidance for this specialist position.

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<sup>19</sup> A profile is one or a cluster of risk indicators (such as the origin of the consignment or concealment potential of the cargo) that present the characteristics of a high risk consignment.

<sup>20</sup> The current version of the system is EXAMS2.

<sup>21</sup> The 'logistor' was also referred to as a target selection coordinator in ANAO Report No.16 2004–05.

<sup>22</sup> For 2006–07, Customs met its throughput and inspection targets. This is discussed in detail in paragraphs 4.6 to 4.7.

Overall, Customs had limited understanding of the complex and time-consuming nature of this task.

2.4 The volume of cargo selected daily by Customs' Melbourne and Sydney regional offices meant that it was not possible to monitor throughput numbers manually. Therefore, the Melbourne office had developed a database (known as 'SCAThing') to manage the process. This was not suited to all regions and was not supported by Customs' IT service provider. It was evident that Customs needed to adopt a consistent national approach to logistical coordination by:

- defining the roles and responsibilities of the 'logistor' position;
- providing training and establishing guidelines for the position; and
- assessing the feasibility of using EXAMS to monitor and track selected containers.

### **ANAO Report No.16 2004–05 – Recommendation No.1**

To more effectively manage logistical coordination, the ANAO recommends that Customs consider adopting a consistent national approach by:

- (a) assessing the feasibility of using the EXAMS system to monitor and track selected containers, including the reporting capability of the Corporate Research Environment;
- (b) clearly defining the roles and responsibilities associated with the target selection coordinator's position; and
- (c) providing appropriate training and developing procedural guidelines for this specialist position.

Customs response: Agreed

### **Findings of the follow-up audit**

2.5 Recommendation No.1 has been substantially implemented.

## *Monitoring and tracking selected containers*

2.6 Customs conducted a project to analyse the logistical management of containers.<sup>23</sup> The project considered:

- the impact of the implementation of the ICS and EXAMS2 on the use of 'SCAThing'; and
- options for a preferred solution to replacing or upgrading 'SCAThing'.

2.7 The project found that the ICS and EXAMS2 would not support the use of 'SCAThing'. The project noted that there was variation in how each region undertakes the logistical management of containers selected for X-ray and this may be attributed to local factors unique to each region. To resolve this issue, the project suggested a framework including standard business processes, supporting tools and a standardised training package. Workshops were subsequently held to determine the core business processes and corresponding outcomes common to each region. System user requirements were developed to deliver the functionality to support these outcomes.

2.8 In May 2005 Customs decided to develop a new application, the Container X-ray Management (CXM) system, through Customs' Small Systems Development Unit. The product was to replace 'SCAThing' and provide a range of enhancements. This was selected as the preferred option because the development of an EXAMS-based or ICS-based solution would have required more development and testing and therefore additional time and costs.

2.9 The CXM system provides a facility for 'logistors' to maintain a continuous flow of containers through the CEFs. CXM displays a calendar highlighting the following information for each day:

- target number of containers required for X-ray;
- number of selected containers estimated to be available for X-ray;
- remaining number of containers required to meet the target; and
- actual number of containers X-rayed.

EXAMS data is uploaded into CXM, approximately three times per day by the Sydney regional office for all regions.<sup>24</sup> After each EXAMS upload, the CXM figures change to reflect new container selections and containers processed.

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<sup>23</sup> Australian Customs Service, *Analysis—Logistical Management of Containers by Target Selection Coordinators*, 12 May 2005.

<sup>24</sup> Other regions can request an upload but Sydney is the only region with system access for uploads.

2.10 CXM generates reports that include a list of containers available and pending X-ray for a set period (as set by the 'logistor'). Currently CXM operates for imports only. Customs developed and submitted a business case for CXM Phase 2 in April 2006, which specified the following enhancements:

- capability to incorporate exports into daily targeting routines;
- a facility to track 'Less than Container Load' importations;
- a search facility for locating and managing container records;
- ability to detect the variance between the number of containers scheduled for X-ray against those actually X-rayed; and
- a capacity to upload new CXM applications data when the upload file has anomalies/errors.

2.11 Customs suspended the CXM Phase 2 implementation and resources have been given to the projects addressing the findings of the review of intelligence operations.<sup>25</sup> Customs also advised that it is collating and logging all CXM incidents and issues, and fixes are being developed where possible.

#### *Roles and responsibilities*

2.12 Customs' analysis of the management of logistical coordination was comprehensive and the roles and responsibilities for the 'logistor' have been clearly defined.

#### *Training*

2.13 Customs advised that the CXM system was designed to automate the logistical coordination process and therefore it has not developed a training package or standard operating procedures for the 'logistor' role. The ANAO was advised that, after rolling out CXM, training was provided to all regions but this training was not ongoing. New officers to the role receive on-the-job training, with the CXM Quick Reference Guide used as a training manual.

#### *Some inconsistencies still present*

2.14 Although the original recommendation has been substantially implemented, the ANAO identified some inconsistencies in logistical coordination between regions. CXM was intended to automate the logistical coordination process. However, most regions advised that it remains a manual

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<sup>25</sup> The review is discussed in paragraphs 1.17 to 1.19.

process. Some regions expressed reservations about the data in CXM and used their own spreadsheets to supplement the system.

2.15 The ANAO found the Sydney region's logistical coordination, using the CXM system, to be particularly effective. The targeter's shift supervisor, rather than the 'logistor', reviews CXM and delegates work depending on the selection requirements of CXM. The 'logistor' reviews outstanding containers, updates vessel arrival dates in EXAMS, reviews withdrawn sea cargo reports and researches industry complaints.

2.16 As the Sydney region's approach is more automated, less complex and work can be easily transferred between available staff, the ANAO suggests that Customs consider developing national guidelines and training to enable all regions to adopt this methodology or another agreed nationally consistent approach.

2.17 Customs has advised that it is working to address these inconsistencies in logistical coordination between regions and expects completion by December 2007.

#### *Target selection controlled sampling regime*

2.18 To assist Customs in selecting sufficient containers to enable the CEFs to meet their inspection targets, in April 2007, Customs implemented a controlled sampling regime. This supports the establishment of new service level standards between Customs and industry and focuses the activities of Customs' targeters on higher risk targets. Customs has created a series of profiles that match against a statistically valid sample of containers in Sydney, Melbourne, Brisbane and Fremantle. These matches provide opportunities for developing ongoing enhancements to Customs' targeting processes. In the ANAO's view this system improves the quality of risk based CEF inspections without impacting on achieving its annual target.

## 3. Container Target Development

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*This chapter reviews the ANAO's findings in Audit Report No.16 2004–05 Recommendation Nos 2 and 3, which relate to target development. It also considers recent developments following the implementation of the Integrated Cargo System and Customs' review of intelligence operations.*

### Background

3.1 Customs defines target development as taking a large pool of potential targets and selecting primary and secondary targets for enforcement activity.<sup>26</sup> Successful target development is based on thorough research and analysis and an understanding of the environment. Analysts must also be aware of the nature of criminality and remain informed of developments in the domestic and international criminal environment.

3.2 Target development and risk profiling are interdependent. Effective profiling requires high-quality current intelligence. ANAO Report No.16 2004–05 commented that Customs' intelligence framework was comprehensive, well structured and generally well implemented but that communications strategies could be made more effective in some regions.

3.3 Since the original audit, Customs target development and risk profiling operations have changed with the implementation of the ICS and the Booz Allen Hamilton intelligence review.<sup>27</sup> Previously targeters assessed the majority of cargo reports and import declarations regardless of whether the report/declaration matched a profile in the system. The ICS requires cargo information to be processed through the CRA system. The CRA system automatically places a hold on cargo that matches a profile and the cargo is referred to a workgroup for further action. Targeters within the workgroup then decide whether the cargo is released or held for examination.

3.4 The Booz Allen Hamilton intelligence review outlined a high-level plan for directing Customs' intelligence and targeting program. It identified design objectives, principles and implementation projects to build on Customs' program's strengths and address deficiencies. Customs has initiated 11 projects to implement the recommendations of this review. In December 2006 the CEO

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<sup>26</sup> A target may be an individual, a company, an organisation or group, a commodity, an occurrence or other activity that Customs or other law enforcement agencies seek to focus on.

<sup>27</sup> The ICS and Booz Allen Hamilton review are discussed in paragraphs 1.11 to 1.19.

announced structural changes across Customs that elevate intelligence and targeting functions to the level of a national program.

3.5 In following up the recommendations and associated issues in relation to target development, the ANAO reviewed Customs’:

- operational intelligence processes;
- intelligence capabilities;
- dissemination of intelligence information; and
- national and regional profiles.

## Operational intelligence processes

3.6 Operational intelligence assessments are generally prepared by the regions to inform and support target development and operational response activity. ANAO Report No.16 2004–05 commented that, although the subjects varied, all regions produced operational assessments.

3.7 In 2003 the Fremantle region undertook a systematic assessment of sea cargo containers discharged into its port. This comprehensive and resource-intensive project examined patterns and volumes of trade, commodities traded, major importers and suppliers and major importing countries. The ANAO considered that each of the three other major regional offices should make a similar assessment to provide a sound basis for developing, reviewing and refining regional risk profiles and target development strategies for sea cargo discharged in these ports.

### **ANAO Report No.16 2004–05 – Recommendation No.2**

To strengthen target development and target selection processes and to provide a better understanding of the sea cargo environment in which regions are operating, the ANAO recommends that the New South Wales, Victorian and Queensland regions:

- (a) complete an assessment of the sea cargo imports and exports discharging into their respective ports; and
- (b) regularly review and update this data so that it may be used as a reference source for developing risk profiles.

Customs response: Agreed



## Findings of the follow-up audit

3.8 Recommendation No.2 has been addressed by Customs' efforts to strengthen target development and selection processes, particularly through initiatives aimed at improving intelligence capabilities.

3.9 Customs completed assessments examining the nature of sea and air cargo imports and exports between Australia and other selected countries as part of its country of origin profile review. However, as part of this national profile review Customs did not complete individual assessments of CEF ports.

3.10 Independently of the national profile review, the Brisbane regional office did assess its sea cargo imports and exports. The assessment was a snapshot of sea cargo discharged in Brisbane to assist with the development of effective compliance and targeting strategies. The assessment analysed the major importers and suppliers, major importing countries and types of goods imported. The region advised that the assessment has provided some benefits.

3.11 The Sydney regional office advised the ANAO that it did not have sufficient resources to conduct an assessment of its region. In addition, it suggested that there would be difficulties in analysing commodities because of the large variety of imports and that the data produced could well be meaningless. For similar reasons, the Melbourne regional office advised that it has not undertaken a local assessment.

3.12 The strengthening of target development and selection processes is now being addressed through projects arising from Customs review of intelligence operations.

### *Review of intelligence operations*

3.13 The 2006 Booz Allen Hamilton review of intelligence operations found significant opportunities to improve intelligence support to the CEFs. Managers have limited access to structured intelligence to support more complex examination decisions. The review recommended the establishment of a new operating model providing:

- more focused intelligence support to decision makers;
- improved targeting approaches that identify entities of interest and disrupt threats to the border; and

- strategic development including an intelligence career model.<sup>28</sup>

3.14 In response to the Booz Allen Hamilton report, a Customs workshop in January 2007 established workgroups to initiate a number of projects to address these recommendations. Customs advised that it expects most of the major deliverables arising from the review to be completed during 2007.

## Intelligence capabilities

3.15 Customs has only limited analytical tools to search, assess and review ICS information for target development and target selection purposes. The regions are required to build their own mechanisms to attempt to cover the gaps. The regions advised that the ICS search facility does not satisfy their requirements. Nor can the regions make effective use of EXAMS data, because it is not always fully recorded and the Corporate Research Environment (CRE), which is designed to report EXAMS data, does not have real-time data. There are no CRE reporting templates for analysing profile effectiveness. The ANAO was advised that the profile field is rarely, if ever, completed in the EXAMS record. As a result, the CRE cannot be searched on the basis of the profile for detections or any other information.

3.16 Currently the ability to measure the effectiveness of a risk profile is limited to reviewing the number of matches against that profile. To undertake a more comprehensive analysis is difficult. Regions must first produce CRE reports on examinations with positive detections and then review the examination records to find out why a positive find was recorded. The ICS must then be searched for the cargo information, including the profile number, and the information manipulated to match detections with profiles to see whether additional risk indicators can be identified for future profile development.

3.17 Some defects with this process are that:

- it is resource intensive and time consuming;
- where multiple profile matches have occurred, it is unlikely that the officer will know which profiles were responsible for the selection of the container; and

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<sup>28</sup> Booz Allen Hamilton, *Toward a New Operating Model for Intelligence and Targeting: Outcomes of the Review of Customs Intelligence Operations*, December 2006, p.10.

- analysis could be incomplete as regions advised that some CRE reports are inaccurate and might have incomplete data sets of examinations with positive detections.

3.18 Customs advised that it is undertaking a review of all profiles nationally. It recently conducted a workshop to discuss the review and develop a national process for profile management, identify good practice and develop expert users. This review also includes a project for developing means to measure the effectiveness of profiles.

3.19 In addition, one of the projects Customs has initiated following the Booz Allen Hamilton review is considering: creating a national analytical work program encompassing the development of data mining and analytical support capabilities; improving analytical support to operational areas (such as the CEFs); and delivering improved intelligence products.

## Dissemination of intelligence and information

3.20 ANAO Report No.16 2004–05 reported that Customs disseminates intelligence material through various formal and informal means. Central Office and the regions provided intelligence updates, notices and briefs to intelligence analysts and targeters but the audit identified that communication across regions could be improved, particularly as there was little awareness of relevant work by other regional offices. There was limited communication between intelligence analysts and CEF staff in some regions.

### Findings of the follow-up audit

3.21 The ANAO found that Customs could further improve communication across regions as there remains little awareness of relevant work by other regions. Customs advised that its recent restructure would provide better coordination of information and intelligence between the regions.

3.22 Communication within regions amongst intelligence analysts, targeters and CEF staff has improved. CEF staff are regularly briefed on current projects and provide feedback when requested on certain containers. However, Customs' regions had concerns that delayed feedback affects the targeter or analyst's ability to react to the findings in real time.

3.23 The ANAO found that several regions did not provide all information that may have assisted CEF officers in their X-ray image analysis and physical examination processes. Although targeters could provide this information

using the additional notes feature in EXAMS, it was time-consuming and affected their ability to select the required throughput of containers.

3.24 The Booz Allen Hamilton intelligence review examined this issue and suggested:

- dissemination of intelligence be actively managed;
- significant intelligence information should be disseminated via verbal briefings to all relevant parties; and
- providing broadly accessible intelligence product libraries.

3.25 The ANAO agrees with these suggestions. Customs has established a project team to consider dissemination and product access. In addition, to improve communication Customs has begun a trial placement of tactical analysis officers at the Sydney CEF. This is further discussed in paragraphs 6.7 to 6.8.

## National and regional profiles

3.26 The effectiveness of Customs automated risk assessment depends on the presence of relevant and effective profiles in the CRA system.

3.27 ANAO Report No.16 2004–05 examined the profile review that Customs undertook between February 2003 and March 2004. The review highlighted the need to evaluate all profiles and measure profile effectiveness. Customs recognised the limitations of country of origin profiles and was considering other approaches to risk-rating and targeting countries of origin. Given the importance of profiles, the ANAO recommended that the risk profiles of origin countries should be reviewed.

### ANAO Report No.16 2004–05 – Recommendation No.3

To strengthen high-risk country identification and target selection practices, the ANAO recommends that Customs review the risk profiles of cargo origin countries and, as part of this review:

- (a) re-evaluate the risk ratings for all major countries;
- (b) revise the weighting applied to country risks; and
- (c) develop a process to regularly review this risk rating set.

Customs response: Agreed

## Findings of the follow-up audit

3.28 Recommendation No.3 was implemented in January 2005. Customs reviewed country of origin profiles to provide a comparative threat assessment of countries for the importation of illicit drugs into Australia. As countries were assessed from a national perspective, no regional statistics or parameters were taken into consideration.

3.29 Customs' country of origin profile assessment evaluated the risk ratings for all major countries and revised the weighting applied to country risks. The ANAO's considers that the review was sound. It included data analysis from several Australian and international sources. Customs clearly defined the criteria for calculating risk ratings to categorise countries into high, medium and low risk.

3.30 Customs' intended to review the document twice a year, but the latest iteration provided to the ANAO was dated January 2005. The review also reported that future assessments would attempt to include other threats such as currency, tobacco, weapons and firearms. The ANAO suggests that incorporating other threats and undertaking a bi-annual review of the assessment would assist Customs in developing better and more current profiles.

## 4. Intervention Processes

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*This chapter outlines the ANAO's findings in respect of Audit Report No.16 2004–05 Recommendation Nos 4, 5 and 6, which relate to data management and performance reporting. It also presents performance information relating to CEF inspection and examination targets.*

### Background

4.1 The CEFs have enabled Customs to significantly increase its intervention capability. The CEFs inspect some 133 000 TEUs annually and examine physically 13 300 of them. The original audit found that Customs had well-defined and documented processes for inspecting and examining containers.

### Data management

4.2 ANAO Report No.16 2004–05 reported that all Customs regional offices had concerns about EXAMS data integrity and data entry requirements and had difficulties in accessing, extracting and analysing examinations results data. The ANAO compared EXAMS data with corresponding regional data but was unable to reconcile the data sets. The ANAO's analysis demonstrated that there were no clear search parameters or common system business rules that the regions could use to generate CEF reports. There were also no reports in the Corporate Research Environment (CRE) specific to CEFs.<sup>29</sup>

#### **ANAo Report No.16 2004–05 – Recommendation No.4**

To enable accurate reporting of the inspections and examinations carried out by the Container Examination Facilities (CEFs) using EXAMS system data, the ANAO recommends that Customs develop:

- (a) common system business rules and reporting parameters for the EXAMS system; and
- (b) standardised report templates in the Corporate Research Environment that are specific to the CEFs.

Customs response: Agreed

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<sup>29</sup> The CRE enables Customs' users to run queries across data provided from the ICS and other cargo and trade systems, such as EXAMS.

## Findings of the follow-up audit

4.3 Recommendation No.4 has been implemented. Customs has created EXAMS business rules and reporting parameters specifically for the CEFs. Overall, in the ANAO's view, the business rules are comprehensive and their implementation has been satisfactory. The business rules and CRE report templates provide a good basis for corporate reporting, management and monitoring.

4.4 Since December 2005 Customs has undertaken data integrity checks to ensure the accuracy of the CEF data in EXAMS. The ANAO observed that these checks were well structured and conducted progressively. Customs used the regional databases to compare their data with EXAMS data and identified the causes of anomalies. In July 2006 Customs decided that it was confident in EXAMS data and began using it as the sole reporting tool. Data integrity checks are still carried out for the recording of positive finds and also to identify occurrences of Customs' officers not following business rules.

## Recording inspections and examinations

4.5 The EXAMS system contains a history of containers selected for X-ray. The information includes the priority rating assigned to the container and the results of the inspection and physical examination.<sup>30</sup> The ANAO requested CEF data for the period 1 July 2005 to 30 June 2007, including the number of:

- TEUs inspected;
- physical examinations; and
- positive finds.

4.6 As outlined in Table 4.1 and Table 4.2, over the period 1 July 2005 to 30 June 2007, Customs exceeded the 133 000 TEU national inspection target.<sup>31</sup> Customs also maintains a target of 13 300 TEU to be physically examined. Audit Report No.16 2004–05 highlighted that no regions achieved the physical examination target. Table 4.1 and Table 4.2 show that Customs' is now achieving this target. The ANAO considers Customs has significantly increased its inspections and examinations since the previous audit.

<sup>30</sup> The priority ratings include: Priority 1–X-ray and physical examination; Priority 2–X-ray with a view to physical examination; Priority 3–X-ray to verify commodities; Priority 4–X-ray of a controlled sample.

<sup>31</sup> Customs inspected over 105 per cent of its target for 2005–06. Regionally, Melbourne, Sydney and Brisbane exceeded their inspection targets but Fremantle only inspected 95.5 per cent of their target. For 2006–07, Customs inspected almost 106 per cent of the target. All regions exceeded their individual inspection targets.

**Table 4.1****CEF throughput, inspection and examination data for the period 1 July 2005 to 30 June 2006**

	Melbourne	Sydney	Brisbane	Fremantle	Other <sup>1</sup>	Total
Inspection target <sup>2</sup>	38 171	38 171	38 171	20 122	No target assigned	133 000
TEU inspected	38 932	41 466	39 035	19 216	1 365	140 014
TEU inspected as a percentage of target	102.0	108.6	102.3	95.5	Not applicable	105.3
Physical examinations target <sup>2</sup>	3 818	3 818	3 818	2 013	No target assigned	13 300
Physical examinations	3 406	3 508	3 593	1 901	1 365	13 773
Positive finds	258	229	467	126	84	1 164

Note 1: Other regions include Adelaide and Darwin, which undertaken examinations but do not have container X-ray technology. The total number of national inspections and examinations includes the figures for these regions.

Note 2: The regional inspection and examination targets reflect Customs internal notional targets developed to assist in work area planning. As a result, these targets are greater than the national annual inspection target of 133 000 TEU and physical examination target of 13 300 TEU.

Source: ANAO analysis of Customs' EXAMS2 system data

**Table 4.2****CEF throughput, inspection and examination data for the period 1 July 2006 to 30 June 2007**

	Melbourne	Sydney	Brisbane	Fremantle	Other <sup>1</sup>	Total
Inspection target <sup>2</sup>	38 200	38 200	38 200	20 160	No target assigned	133 000
TEU inspected	40 536	38 630	38 478	21 226	1 669	140 539
TEU inspected as a percentage of target	106.1	101.1	100.7	105.3	Not applicable	105.7
Physical examinations target <sup>2</sup>	3 820	3 820	3 820	2 016	No target assigned	13 300
Physical examinations	4 095	3 816	3 454	2 028	1 669	15 062
Positive finds	352	232	360	115	81	1 140

Note 1: Other regions include Adelaide and Darwin, which undertaken examinations but do not have container X-ray technology. The total number of national inspections and examinations includes the figures for these regions.

Note 2: The regional inspection and examination targets reflect Customs internal notional targets developed to assist in work area planning. As a result, these targets are greater than the national annual inspection target of 133 000 TEU and physical examination target of 13 300 TEU.

Source: ANAO analysis of Customs' EXAMS2 system data



4.7 In addition to the inspection and examination targets, Customs requires the CEF to fully unpack for all Priority 1 containers. The original audit identified that none of the regions examined all Priority 1 containers. The ANAO assessed data covering 2006–07 and found that, since the previous audit, Customs have increased the percentage of Priority 1 containers physically examined by more than 40 per cent. Customs now physically examine nearly all Priority 1 containers.<sup>32</sup>

## CEF positive finds

4.8 The previous audit highlighted that there were inconsistencies in recording CEF positive finds and that EXAMS data was inaccurate. Customs was unable to accurately assess or report the performance of the CEFs. The ANAO considered that Customs needed to develop guidelines that clearly articulated what constitutes a positive find, how positive finds are to be recorded and treated in EXAMS and who is responsible for completing the record.

### ANAO Report No.16 2004–05 – Recommendation No.5

To capture inspection and examination data accurately and consistently, the ANAO recommends that Customs develop and implement guidelines that clearly articulate:

- what constitutes a positive find at the Container Examination Facility (CEF), including when the cargo is referred to another area;
- how the find is to be recorded by the CEF in the EXAMS system;
- how this information will be treated by the EXAMS system; and
- who is responsible for completing the EXAMS record.

Customs response: Agreed

## Findings of the follow-up audit

4.9 Recommendation No.5 has been implemented. Customs has developed business rules, a training manual and a quick reference guide for using EXAMS. To manage the difficulties encountered with identifying and

<sup>32</sup> Noting that Priority 1 consignments may not be physically examined following X-ray if the X-ray image is clear and the image analyst has liaised with the targeter.

recording positive finds, the business rules clearly outline what constitutes a positive find and how it is to be recorded.

4.10 The ANAO found EXAMS to be more useable, from a regional perspective, than it was during the original CEF audit. However, some targeters are not using the EXAMS notes for target selections due to the increased effort and time taken to do so. As a result the communication to the CEFs is unreliable. Most regions have developed workarounds to manage the situation. Regions put considerable effort into building databases to fill the gaps but these also duplicate effort.

4.11 In March 2007, Customs undertook a review of the targeting officers' use of the ICS and EXAMS to provide information to assist the CEFs in understanding the rationale for a container selection. The review suggested:

- all targeting areas commit to providing as much information as practicable to the CEFs;
- the type of information at minimum to be provided for Priority 1 and 2 selections; and
- targeting areas should utilise the EXAMS notes facility for Priority 1 and 2 selections.

Customs is currently considering the results of the review.

4.12 Customs has implemented improvements in respect of the number of EXAMS records being finalised by the responsible area. The major users of EXAMS, being the CEFs, Sea Cargo Operations and the Compliance branch, have developed business rules for using the system. In addition, all users are working together to reach agreement on responsibilities and achieve consistency. Sea Cargo Operations conducts annual checks on the system to identify outstanding CEF records that have not been finalised.

*Customs' review of CEF effectiveness also found problems with EXAMS*

4.13 In October 2006, Customs reviewed the effectiveness of CEF operations. The review brought to notice a number of areas requiring attention and showed that EXAMS is not operating as well as it should be. The reasons given for this included:

- its poor reputation and minimal support;
- no active governance to support the business owners;
- poor data integrity and reporting functionality;

- uncertainty about who should input data into EXAMS;
- duplication of regional effort in data entry; and
- other areas that interface with EXAMS have developed their own systems to meet their specific requirements.<sup>33</sup>

4.14 Regions developed their own user-designed applications so that the information they needed to track progress and facilitate local management reporting is available at one location. To rectify the situation, the CEF effectiveness review recommended that:

...the Information Management Branch progress development of the Customs Information Management Strategy, noting the effect the current inadequate arrangements are having on operational issues.<sup>34</sup>

4.15 The ANAO supports this recommendation. Customs has improved data integrity by resolving some of the problems associated with positive finds but must continue to monitor the regions' use of the EXAMS system. Customs advised that it is now committed to reviewing user-developed applications and developing consistent approaches.

## Monitoring and reporting performance outcomes

4.16 Customs undertakes its performance monitoring and reporting in accordance with its Outcome and Outputs framework.<sup>35</sup> Outputs Two (Border Compliance and Enforcement) and Three (Cargo Regulation, Trade Facilitation and Revenue Collection) are relevant to the CEFs.

4.17 Sound performance information would enable Customs to assess the effectiveness of its operations. ANAO Report No.16 2004–05 stated that the performance measures being reported did not enable Customs to assess the operational effectiveness of the CEFs.

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<sup>33</sup> Australian Customs Service, *Enhancing the Effectiveness of CEF Operations*, October 2006, pp. 26–27.

<sup>34</sup> *ibid.*, p. 26.

<sup>35</sup> This framework outlines how Customs' work is measured and/or assessed (through the application of accrual-based budgeting and reporting), and what is measured (through specifying outcomes, administered items and outputs). Relevant performance information must be identified for outcomes, outputs and administered items.

## **ANAO Report No.16 2004–05 – Recommendation No.6**

To enable the operational effectiveness of the Container Examination Facilities (CEFs) to be assessed and reported on, the ANAO recommends that Customs:

- (a) develop performance measures and targets specific to the CEFs; and
- (b) include these measures in Customs' Outcome/Outputs framework performance information.

Customs response: Agreed

### **Findings of the follow-up audit**

4.18 The ANAO found that Recommendation No.6 has been implemented. Customs' 2005–06 Outcome and Outputs framework detailed the number of TEUs inspected (X-rayed) at CEFs, the number of TEUs physically examined at CEFs and the number of complaints received about CEF operations. The ANAO recognises that Customs cannot measure the effectiveness and efficiency of CEF operations solely by the number of containers inspected and examined. However, these measures are a reasonable means for reporting on the performance of the CEFs and offering assurance to Government that stated objectives are being achieved.

4.19 The performance measures enable Customs to demonstrate the impact of its container X-ray strategy. They also allow managers to monitor progress, prioritise direction and resources and provide feedback to staff. This information enables Customs to undertake time series analysis across a number of years.

4.20 In addition to the publicly reported performance measures, the ANAO reviewed a sample of Customs' monthly 'strike rate' report. These reports are analysed by the Cargo Branch and a summary is provided to Customs' Executive. The reports outline the quantity and nature of finds across the priority ratings over time at the CEFs. They also compare the total CEF finds for each month as a percentage of total inspections (X-rays) and as a percentage of the total physical examinations. The strike rate report is a useful representation of the CEF's operational effectiveness and performance.

## 5. Logistical Operations and Contract Management

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*This chapter reports the ANAO's findings in respect of Audit Report No.16 2004–05 Recommendation Nos 7 and 8, which relate to logistical operations and contract management.*

### Background

5.1 The CEFs were established as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports. There are many participants in the logistics chain that Customs must rely on to maintain CEF throughput. Their efficiency and other external factors can impact on Customs' ability to meet agreed inspection targets.

### Customs' management of CEF contracts

5.2 ANAO Report No.16 2004–05 included a review of Customs' contracts for logistics services (container handling, transport and unpack/repack). The ANAO identified deficiencies in the development of logistics plans; physical segregation and ranking of selected containers; and priority access for transport services contractors.

5.3 Customs' contracts for container handling and transport services required that service providers, in consultation with Customs, develop logistics plans. Although there were agreed procedures to facilitate movement of containers, there were no formal plans for any of the CEF ports.

5.4 Containers selected by Customs were not always physically segregated as the contracts required. This detracted from the physical security requirements outlined in the container handling contracts.

5.5 The means by which Customs' transport service providers were to be given priority access to the terminals varied from one region to another. Operational realities and contrasting interpretations of priority created considerable confusion for Customs and service providers. In addition, there were inconsistencies in how the contractors measured the achievement of key performance indicators (KPIs).

5.6 The ANAO recommended that the problems associated with logistical arrangements for segregating, ranking and transporting containers be addressed by developing a logistics plan for each port.

## **ANAO Report No.16 2004–05 – Recommendation No.7**

To identify and address problems associated with segregating, prioritising and transporting selected containers to and from the Container Examination Facilities (CEFs), the ANAO recommends that Customs, in consultation with the container terminal operators and transport service providers, develop a logistics plan for each CEF port.

Customs response: Agreed

### **Findings of the follow-up audit**

5.7 Customs has implemented this recommendation. It held detailed discussions with its service providers to develop a national framework for logistical planning at each CEF. Subsequently, each region's CEF manager, container terminal operators and transport service provider developed and implemented formal logistics plans for imports, exports and late reported cargo.

5.8 The logistics plans comprehensively specify the requirements for managing the flow of containers through the CEF. The regions advised that the plans have provided benefits by delivering clear definition to the roles and responsibilities of each party and standardising practices across regions. The regions also noted that the task of managing the flow of containers to the CEFs and maintaining daily throughput numbers remains a challenge and requires constant communication between the container terminal operators, transport providers and the 'logistor'. An ongoing issue for Customs is ensuring that appropriate resources are available to manage the logistics of transporting containers to the CEF.

### **Monitoring performance of CEF contracts**

5.9 It is the responsibility of the contract manager(s) to monitor the actual performance of the service providers against the performance specified in the service level agreements (SLAs). All CEF logistics services contracts provide for monitoring mechanisms to assess the service provider's performance against the relevant KPIs.

5.10 The original audit found some deficiencies in Customs' monitoring of performance against requirements in the CEF contracts. The ANAO recommended a comprehensive review of the logistics services arrangements

to provide Customs an opportunity to prepare for re-negotiation of the container handling and transport services contracts.

### **ANAO Report No.16 2004–05 – Recommendation No.8**

Prior to renegotiating its container handling, transport services and unpack and repack services contracts, the ANAO recommends that Customs undertake a comprehensive review of these contracts including:

- an assessment of the risks associated with the contracted service delivery;
- benchmarking performance across ports;
- an evaluation of existing service level agreements, service specifications and key performance indicators;
- reviewing the existing performance management framework; and
- developing a standardised performance reporting regime.

Customs response: Agreed

### **Findings of the follow-up audit**

5.11 Recommendation No.8 has been implemented. Customs engaged a specialist consultant to review and report on issues raised in the ANAO report, specifically Recommendation No.8, and provide possible solutions for CEF procurement and market testing for future CEF logistics services. The ANAO considered the review to be comprehensive. The review covered the three CEF logistics services:

- stevedoring – container handling at the terminal;
- transport of containers to the CEF and back to the terminal; and
- unpack and repack of containers chosen by Customs for further examination.

5.12 The consultant reported to Customs in June 2005. In summary, the consultant identified that:

- Management of the contracts has been relatively good but improvements could be made to SLAs and contract management

structure and roles, contract management meetings and communication protocols to better reflect best practice.

- For stevedoring and transport providers logistics planning processes required improvement.
- Performance measurement and reporting also could be improved, including further standardisation of reporting.
- Performance of stevedoring contracts had not been ideal but was improving. Performance of transport contracts was largely a reflection of factors outside the transport providers' control. Performance of unpack/repack contracts varied. Time to unpack/repack a container was well below SLA requirements and varied significantly between CEFs.
- SLAs lacked clarity in separation of responsibilities and service levels; there was no clear link between services and service levels and between the contract and performance management arrangements; and there was unnecessary overlap and inconsistencies between the contract and its schedules.
- KPIs in the SLAs were generally not focused on key contract objectives and were not measured or reported. Many KPIs were vague and open to interpretation. Turnaround time KPIs were measured differently by stevedoring and transport providers.

5.13 The report made numerous recommendations, including:

- revising all SLAs and KPIs;
- considering aligning transport services contracts for all regions and having one procurement process; and
- market testing and re-tendering for unpack/repack services nationally.

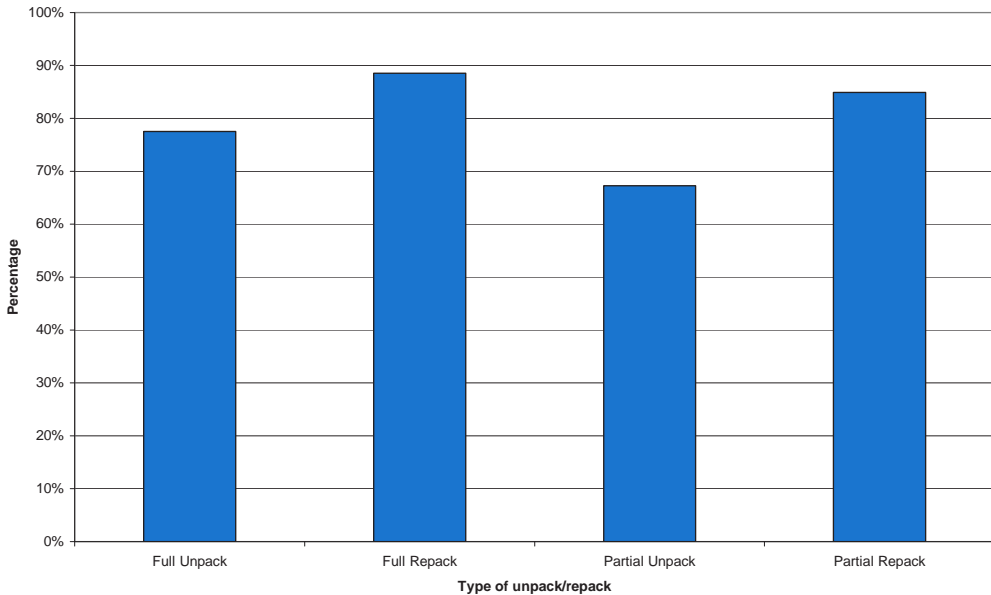
5.14 In response to the report, Customs released a nationwide Request for Tender in September 2005 for transport and unpack/repack services in all regions. SLAs and KPIs were revised and most contracts were signed in early 2006. The new contracts provide for monthly reporting in a nationally consistent format and standardised benchmarking of performance against revised KPIs.



5.15 One example of Customs revised KPIs and performance reporting relates to unpack/repack service providers. The unpack/repack KPIs require a container unpack minimum average time of 45 minutes for partial unpack and 90 minutes for full unpack (repack minimum average time of 45 minutes for partial and 100 minutes full repack). Figure 5.1 shows the national average time taken as a percentage of allowable time to unpack and repack containers for the period 1 July 2006 to 28 February 2007. On average all regions' contractors are achieving the KPIs for unpack and repack services.

**Figure 5.1**

**National average time taken as a percentage of allowable time to unpack/repack containers for the period 1 July 2006 to 28 February 2007**



Source: ANAO analysis of Customs data

5.16 New contracts for CEF container handling services specify, in their KPIs, monthly average in-terminal truck turnaround times. Customs is actively monitoring the contractors' performance against KPIs. The majority of terminals are achieving the KPIs and in cases where they are not, Customs has evoked sanctions specified in the contracts.

5.17 The new contracts also specify requirements for quarterly contract management meetings and reports, monthly operational management meetings and reports and an open issues register.

5.18 The ANAO considers that the revised KPIs, combined with the development of logistics plans<sup>36</sup> and the regular performance reporting regime required by the revised contracts, have improved CEF operations.

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<sup>36</sup> Logistics plans are discussed in paragraphs 5.2 to 5.8.

## 6. Implementation of JCPAA Recommendations

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*This chapter reports the ANAO's findings in respect of Recommendation Nos 35 and 36 of the JCPAA Report 404. These recommendations were concerned with the business system supporting the CEFs, X-ray image analysis training for target selection officers and Customs' contracts with service providers.*

### JCPAA review

6.1 The Joint Committee of Public Accounts and Audit (JCPAA) held a public hearing on 28 April 2005 to review progress made against the ANAO report's recommendations. The JCPAA reported its review to the Parliament in its Report 404, *Review of Auditor-General's Reports 2003–2004: Third & Fourth Quarters; and First and Second Quarters of 2004–2005* (October 2005). The report supported the ANAO's findings and made two recommendations, Nos 35 and 36, which relate to data integrity and the management of contracts for logistical service providers.

### Customs' response to JCPAA recommendations

6.2 The Minister for Justice and Customs, in March 2006, provided the JCPAA with Customs' response to the two JCPAA recommendations, advising that Customs supported both recommendations and that significant progress had been made in their implementation.

### EXAMS data integrity and business rules and target selection officer X-ray training

6.3 The recording of container inspections and examinations was identified as an issue by the JCPAA. The Committee indicated concern about data integrity issues and business rules for data entered in EXAMS. The JCPAA also considered staff training and interpretation of procedures. X-ray training remained a concern for the JCPAA. Customs had informed the JCPAA that training was focused on the changes for the introduction of the ICS.

## JCPAA Report 404 – Recommendation No.35

The Committee recommends that the Australian Customs Service:

- continues to rectify data integrity issues within EXAMS;
- creates clearly defined business rules for data entered in EXAMS2 for consistency across regions; and
- ensures that the one day Target Selection Officer X-ray training course is implemented across all regions.

### Findings of the follow-up audit

6.4 This recommendation has been substantially implemented. As noted in paragraph 4.4, Customs has been checking EXAMS data integrity since December 2005. The data integrity concerns raised in the original CEF audit have been considerably reduced. Customs is progressively working through issues associated with the recording of positive finds and referrals in EXAMS. Customs has acknowledged that there are inaccuracies in some of the historical data contained in EXAMS, but advised that accurate reports are available for data entered after July 2006.

6.5 The EXAMS business rules are clearly defined and data is being entered consistently across the regions. On 6 September 2006 Customs implemented an interface between ICS and EXAMS2, which pre-populates mandatory fields in the EXAMS record. This has also assisted in increasing accuracy and consistency of data in EXAMS.

6.6 In respect of the one-day target selection officer training, Customs advised the JCPAA in March 2006 that:

a one-day target selection officer X-ray familiarisation package was developed and delivered in Victoria in 2003. This package provided [targeters] with an understanding of the capabilities and limitations of the container X-ray, as well as an opportunity to understand the CEF operations. While this [targeter] specific X-ray training package was initially beneficial, as experience with CEF operations became more widespread the need for separate, [targeter] specific training package diminished.

Customs is currently redeveloping its Cargo Targeting and Evaluation Training Package to cover all aspects of target selection. This package will include a comprehensive module on the capabilities and limitations of the

container X-ray, other Customs technologies employed at the CEF and CEF business processes.<sup>37</sup>

6.7 During the ANAO's fieldwork, some targeters expressed interest in undertaking the X-ray course, but others felt their strong communication links with the CEFs made such training unnecessary. Rather than implement the target selection officer X-ray training, Customs has begun a trial placement of tactical analysis officers at the Sydney CEF to improve CEF effectiveness by enhancing sea cargo target selection processes.

6.8 Access to tactical analysis officers should substantially improve communication links between target selection officers and the CEFs. Although the tactical analysis officers will not undertake image analysis, their presence and observations at the CEF will offer an effective alternative to targeters attending the one-day X-ray training course.

6.9 In addition, Customs advised that its Research and Development Branch has produced a training package for CEF staff including X-ray training. In the future this training may be available for intelligence and targeting staff. Customs expects enhanced training to be an outcome of the container X-ray image analyst capability review, which is discussed in paragraph 1.22.

## Reviewing and strengthening CEF logistics contracts

6.10 The JCPAA, while recognising the major logistical challenge the CEFs present for Customs and industry, endorsed the ANAO's view that improvements could be made in the area of CEF performance against Key Performance Indicators (KPIs). Customs advised the JCPAA that logistical plans had been developed since the audit and that some KPIs had been revised. The JCPAA agreed with the ANAO's recommendation to review the service providers' contracts prior to their renegotiation.

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<sup>37</sup> Letter from Senator the Hon. Christopher Ellison, Minister for Justice and Customs, to Chair of JCPAA, dated 31 March 2006 [Internet]. Australian Government, Australia, 2006, available from <[http://www.aph.gov.au/house/committee/jpaa/auditor\\_generals/exmincustoms.pdf](http://www.aph.gov.au/house/committee/jpaa/auditor_generals/exmincustoms.pdf)> [accessed 4 May 2007], p. 3.

## JCPAA Report 404 – Recommendation No.36

The Committee recommends that the Australian Customs Service:

- report to the Committee by June 2006 on the progress and findings of the current review of contracts with service providers; and
- strengthen its reporting requirements within service providers' contracts for ease of reconciliation and comparison.

### Findings of the follow-up audit

6.11 This recommendation has been fully implemented. Customs responded to the JCPAA in March 2006 on the progress and findings of its review of contracts with service providers and proposed reporting requirements. Customs advised that a specialist consultant completed a review of the logistics contracts in June 2005. The response also stated that KPIs and service level agreements had been analysed and revised to provide some transparency in measuring the service providers' performance. New contracts with logistical service providers have strengthened reporting requirements. All contractors are providing monthly reports in a nationally consistent format and have standardised benchmarking of performance against revised KPIs.

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Ian McPhee  
Auditor-General

Canberra ACT  
8 August 2007

# Appendix





## Appendix 1: Agency Response



Australian Government  
Australian Customs Service

CHIEF EXECUTIVE OFFICER

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Mr P F White  
Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr White

**Re: ANAO Performance Audit – Customs' Container Examination Facilities (follow-up)  
Australian Customs Service**

Thank you for your letter of 19 June 2007 and for the opportunity to provide comments on the proposed report on the follow up audit of the Australian Customs Service Container Examination Facilities (CEF).

We are pleased that the ANAO has concluded that Customs has improved CEF administration and operational effectiveness since the first audit through the substantial implementation of the ANAO and Joint Committee of Public Accounts and Audit (JCPAA) recommendations and reviewing and revising our operations.

The ANAO report includes a summary of the original ANAO and JCPAA recommendations and the findings of the follow-up audit. We welcome the finding that six of the ANAO recommendations have been fully implemented, one has been substantially implemented and one has been overtaken by Customs' internal work on target development and selection processes. In addition, we are pleased with the ANAO's finding that one of the JCPAA recommendations has been fully implemented and the other has been substantially implemented.

As noted in the ANAO report, Customs has undertaken a number of initiatives to improve the CEF operations and continues to be committed to continuous improvement across all its program areas. This commitment has included initiatives that have overtaken the recommendation No 2 in the original audit report which was aimed at strengthening target development and target selection processes. In 2006 Customs commissioned Booz Allen Hamilton to undertake review of intelligence operations. The review recommendations included the establishment of a new operating model which would provide more focused intelligence to decision makers and improved targeting approaches. These recommendations address a number of the issues noted in the ANAO follow up audit report such as the development of a National Targeting strategy, improving the capability to disseminate intelligence and the development of analytical support tools to support the review of profile effectiveness. Customs is well progressed in implementing the outcomes of the review and is confident that the current program of work will address the issues identified in the original recommendation No.2.

protecting our borders

The ANAO report notes that two of the three elements of the JCPAA recommendation No. 35 were implemented but that the x-ray training for target selection officers was not. Customs acknowledges the importance of shared understanding across the different roles involved in the selection, inspection and examination of cargo. Customs has recently implemented a trial placement of intelligence officers at the CEF to enhance communication between the functional areas. The technical skills required to assess an x-ray image are specialised and appropriate training is provided to the image analysis within the CEF environment.

Customs also notes the two areas which ANAO has identified which may offer further improvement and undertakes to review these issues of improved analytical tools for evaluating cargo information and developing mechanisms for measuring the effectiveness of cargo profiles.

Overall, Customs is very pleased with the outcome of the Container Examination Facilities Audit (follow-up). I would like to acknowledge the professional approach taken to the follow-up audit and recognise the positive and constructive manner in which the ANAO team approached the audit. I look forward to working with the ANAO on future reviews.

Yours sincerely



Michael Carmody  
Chief Executive Officer

18 July 2007

### **Summary of Customs Response**

Customs welcomes the follow up Audit on the Container Examination Facilities and the ANAO conclusions that Customs has improved CEF administration and operational effectiveness since the first audit.

Customs is pleased with the findings that six of the ANAO recommendations have been fully implemented, one has been substantially implemented and one has been overtaken by Customs' internal work on target development and selection processes. In addition, Customs agrees that one of the JCPAA recommendations has been fully implemented and the other has been substantially implemented.

As noted in the ANAO report, Customs has undertaken a number of initiatives to improve the CEF operations and continues to be committed to continuous improvement across all its program areas.

Customs also acknowledges the two areas that ANAO has identified which may offer further improvement and undertakes to review improved analytical tools for evaluating cargo information and developing mechanisms for measuring the effectiveness of cargo profiles.

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