Organizational Risk Management

Module 2: Unit 2

Chapter Aim:

Describes the principles, components, processes and roles of responsibility in Risk Management

Chapter Objectives:

You will be able to:

- Outline the principles, components and processes of Risk Management
- Outline the roles of senior managers
- Explain the Risk Management process and the sources of information
- Explain how risks are identified and documented

Chapter Objectives cont'd:

- Explain the differences between likelihood and consequence
- Explain the Risk Significance Matrix in evaluating and prioritizing
- Explain the contribution of documentation, communication and consultation
- Describe the importance of monitoring, reviewing and continual improvements
- Explain Risk Maturity

Chapter Objectives cont'd:

- Explain Risk Management techniques and tools in risk identification analysis and prioritization
- Describe Compliance Management and how it is used

Overview:

2.1 Developing an Organizational Framework for Managing Risk

2.2 Implementing Risk Management

2.3 Embedding Risk Management as an Organizational Culture

2.4 Risk Management Techniques and Tools

2.5 Compliance Management

A Risk Management System

requires strong ongoing commitment from managers and staff at all levels.

Administrations should monitor, review and assess their risk management practices and continuously develop them.

A holistic approach requires:

Ongoing assessment of potential risks for an administration at all level

and

Collection of those results at the organizational level

to

Facilitate priority setting and improved decision making

The framework needs to be integrated at operational and strategic levels allowing alignment of risk management activities with an administration:
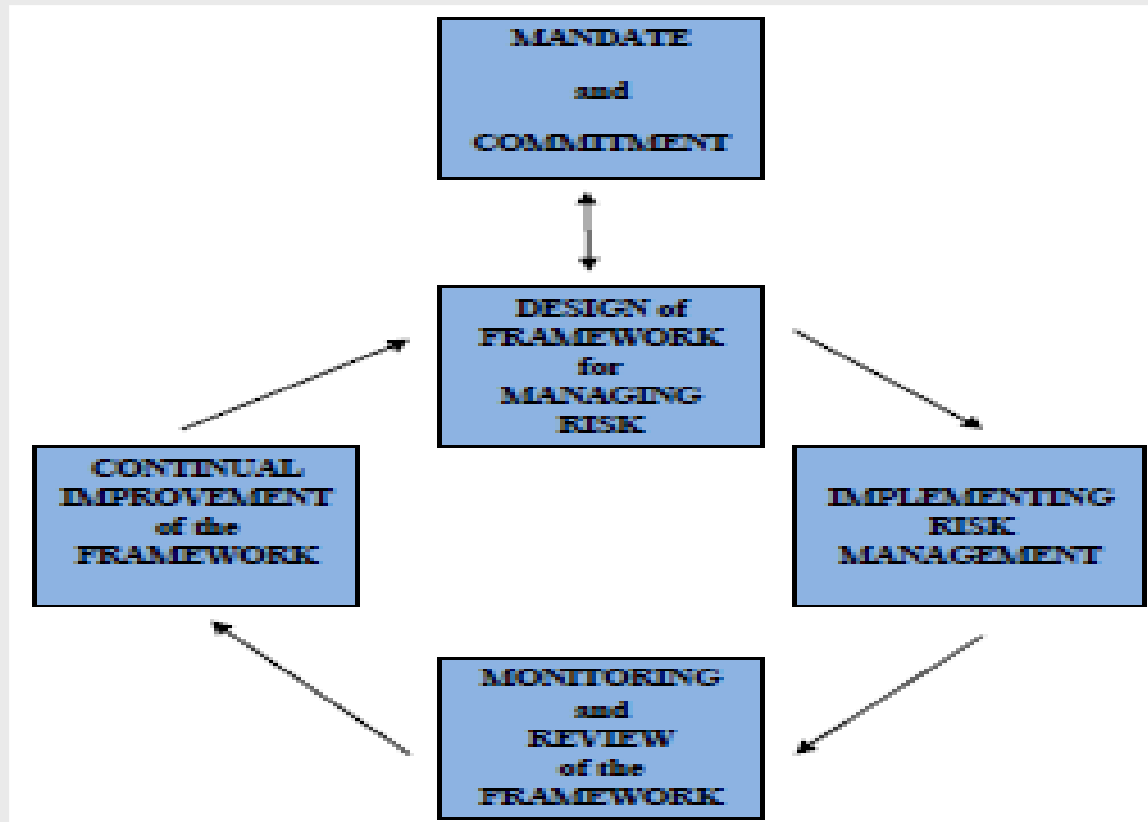
- Overall objectives
- Corporate focus
- Strategic direction
- Operating practices

5 Key Elements of a Risk Management Framework

Source: ISO 3100:2009 Risk Management-Principles and Guidelines

High-level **mandate and commitment** are crucial for effective risk management

- **Senior managers** must:
- Set the policy, objectives and authorization to plan, deploy resources and make decisions
- **Customs leaders** must:
- Adopt a risk management policy that matches organizational strategy and objectives
- Clearly articulate and communicate the policy and accountabilities
- Develop indicators that complement the organization's performance measurement
- Ensure the policy continues to be valid

Risk Management Architecture Principles:

- Contribute to the achievement of objectives and improve performance
- Tailored and aligned with the administration's external and internal contexts and role
- An integral part of all organizational processes
- Part of all the decision making processes
- Systematic, structured and timely
- Based on best available information

Risk Management Architecture Principles cont'd:

- Transparent and inclusive

- Dynamic, iterative and responsive to change

- Facilitate continual improvement

- Consider human and cultural factors recognizing capabilities, perceptions and intentions of external and internal people that can facilitate or hinder achievement of authority's goals

Practices only materialize when management of risks is embedded in the way

"*WE DO BUSINESS AROUND HERE*"

Understanding the operating environment is important in developing the organizational risk management framework.

An **environmental scan** can identify factors and risks that influence the achievement of objectives.

- **Risk faced**
- **Type and source of risk**
- **What is at risk**
- **Level of ability to control the risk**

Factors may include:

- Overall management framework
- Existing governance and accountability structures
- Stakeholders
- Values and ethics
- Operational work environment
- Individual and organizational risk management culture and tolerances
- Existing risk management expertise and practices
- Information flows and systems
- Policies, procedures and processes

Review and assessment of risk management capacity should be conducted of:

- The mandate - maturity, characteristics and effectiveness of existing business and risk management culture and systems
- Degree of integration
- Governance
- Decision-making structures
- Planning processes
- Infrastructure
- Human and financial resources

Risk management policy statement should outline:

- Linking organizational goals and objectives with risks
- Rationale and commitment for managing risks – *risk strategy*
- Linking risk management to strategic and business planning processes
- Level and nature of acceptable risk - *risk tolerance*
- Risk management organization and arrangements
- Information on risk identification and evaluation techniques
- List of documentation for analyzing and reporting risk

Risk management policy statement cont'd:

- Risk mitigation requirements and control mechanisms
- Specific accountabilities and responsibilities for managing risk - **risk owners**
- Criteria for measuring risk management performance
- Assigning dedicated resources to manage implementation
- Internal and external communication, reporting plans and systems
- Timeframe for periodic review

An effective risk management policy will contribute to:

- Sustained and transparent risk management environment

- Environment where all employees take responsibility for managing risk and make decisions based on sound risk assessment

- Effective and efficient resource deployment

- Continuous monitoring and evaluation culture leading to improved operational capability

- Assurance that the organization can respond or recover quickly and effectively to risks

Responsibilities, authority and competence for managing risk must be clearly defined.

- Allocating responsibility and authority is a key aspect of embedding risk management into an organizational culture

- Defining accountabilities includes:

  ❑ Identifying and allocating accountability for the development, implementation and maintenance of the risk management framework

  ❑ Defining risk owners for different key risks across the organization

Organizational head and senior management have accountability for:

- Policies and practices
- Providing leadership and support
- Meeting stakeholder expectations and requirements
- Owning risks and being accountable for individual areas
- Resourcing individual areas according to organizational priorities

Organizational head and senior management accountability cont'd:

- Risk identification, assessment and treatment plans incorporated into planning processes
- Intelligence capability to effectively assess strategic and operational risks is maintained
- Managers and staff having tools to manage risks

Managers are accountable for:

- Managing risks in their respective areas of responsibility
- Priority areas within their control are resourced
- Operational systems and procedures are efficient and operating effectively
- Continuous training, guidance and support for staff
- Staff having tools to manage risks

Managers and staff are expected to:

- Record key risks
- Develop a risk picture - identify and document assessment and treatment details to provide an audit trail
- Guarantee reporting systems are contributed to
- Ensure risk documentation is relevant and up-to-date

Frontline staff are responsible for:

- Intervention
- Knowing and understanding legislation, delegated authorities and powers
- Following instructions, policies and procedures
- Identifying risks, opportunities and likely consequences
- Taking appropriate actions to mitigate risks

Organizational structures may provide for:

- A risk management committee
- A central risk management unit and/or
- A risk assessment/targeting centre

Risk management committee is responsible for:

- Oversight and reporting on framework effectiveness and adherence to the policy

- Preparation and advice on risk tolerance and strategy

- Review of reports for high level risks

- Analysis of risk management processes and effectiveness

- Review of organizational internal controls and effectiveness

Central risk management unit or

Risk assessment/targeting centre is responsible for:

- Information collation and analysis
- Assessment of raw information
- Evaluation in operational context - providing risk indicators and profiles

Resources:

- Analysis should be conducted of people, skills, experience and competencies

- Provide managers and staff with training

- Evaluation of ICT capability

- Ensure availability of appropriate tools

- Provide all levels with good risk management products to be able to identify organizational risks and recommend necessary treatments

EFFECTIVE

RISK MANAGEMENT

MUST BE INTEGRATED INTO ORGANIZATIONAL STRUCTURES

AND

PROCESSES

Each administration will individually integrate risk management considering:

- Aligning risk management with objectives at all levels of the organization

- Introducing risk management into existing strategic planning and operational processes

- Communicating organizational directives on acceptable levels of risk

- Improving control and accountability systems and processes

Integration is supported by organizational **philosophy and culture** that encourages the management of risk:

- Seeking excellence in management practices
- Encouraging managers and staff to develop skills
- Including risk management as part of performance measurement at all levels
- Introducing incentives and rewards
- Recruiting risk management expertise capability
- Encouraging innovation
- Providing guidance and support in situations where something goes wrong

Effective and efficient internal communication and reporting support and encourage:

Accountability

Ownership of risk

Flow of risk related information internally

All staff should:

Know and understand what risk management is

Know their role in the process

Internal communication and reporting cont'd:

- Communication of modifications to risk governance arrangements and framework
- Relevant information on practices made available at appropriate levels in a timely manner
- Internal consultation and feedback mechanisms exist between different levels and functions of the organization

External communication and reporting mechanisms:

- Inform, involve and engage external audiences about the risk management strategy
- Give effect to expectations and requirements
- Ensure risk reporting with national legal, regulatory and governance requirements
- Build confidence in the organization to support its risk management approach
- Communicate with relevant stakeholders in the event of crisis or contingency

A plan and implementation strategy must be applied at all levels and should:

- Describe implementation of organizational arrangement
- Define timing and strategy
- Apply policy to organizational activities
- Adopt a common, continuous and systematic process providing a standard methodology
- Provide well-defined steps that support better decision making
- Provide insight into risks and their impact
- Outline a common foundation for management decisions regarding the allocation of resources and prioritizing treatment actions

Risk Management Process 5 Components
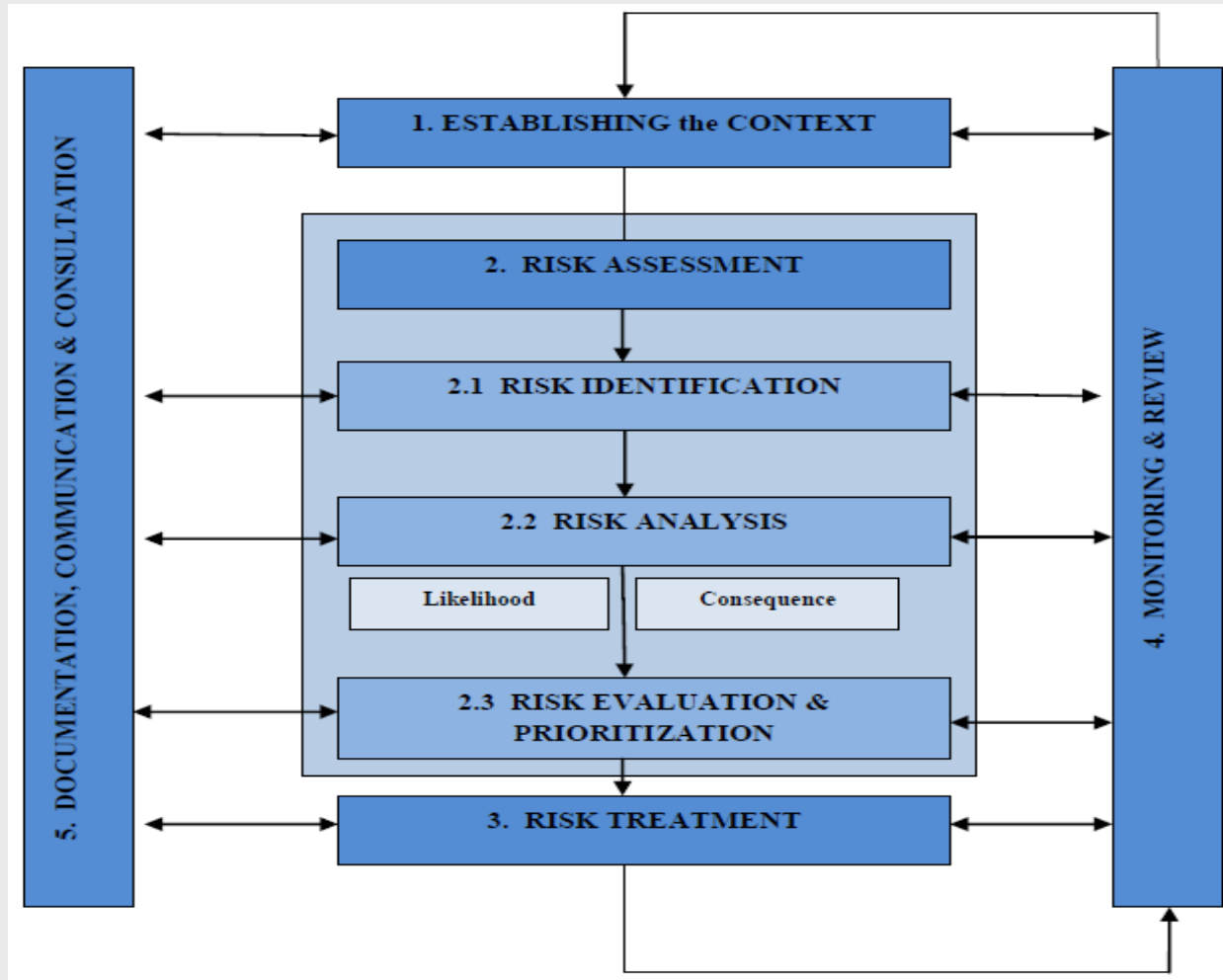
Source: ISO 3100:2009 Risk Management-Principles and Guidelines

Establishing the Context – determining what needs to be managed

- What are the objectives in the context where the risk management process occurs?

- What is the operating environment?

- What capabilities and resources are available?

- What criteria are used to assess risks and determine if additional control is needed?

- What are the scope and limits?

- What are the expectations of stakeholders?

- What other details are known about the process or activity?

Risk Identification phase - risks identified and recorded

- What are the sources of risk?
- What risks could occur, why, and how?
- What controls may detect or prevent risks?
- What accountability mechanisms and controls—internal and external—are in place?
- What, and how much, research is needed about specific risks?
- How reliable is the information?

Risk Identification Activities – occur at all levels of the organization

- **Administration level**: Strategic risks identified they are handed down to managers

- **Managers**: Further refine the broad strategic risks and determine priority areas

- **Operational Line Management**: Begin the process of identifying specific cases for further action

Risk Analysis - quantifying the risk

- Considering the sources of the identified risks
- Judgement as to the **likelihood** that the **consequences** will occur
- Relying upon data and information to substantiate the consequences
- Knowledge about the business environment, expert judgment and common sense
  - ❑ Considering how **likely** is an event to happen
  - ❑ What are the potential **consequences** and their magnitude?

The extent of the risk at each level is progressively reduced and managed

Combining all of these elements produces an estimated level of risk

Risk estimation can be **quantitative or qualitative** or a combination of the two

Implementing Risk Management

Based on tolerance judgments using a 3x3 matrix the diagram below suggests possible descriptions and indicators for estimating the **likelihood of a risk occurring**

LIKELIHOOD	DESCRIPTION	INDICATORS
HIGH (Probable)	Likely to occur or more than a 20% chance of occurring	Has occurred in the last 12 months
MEDIUM (Possible)	Could occur but less than a 20% chance of occurring	Has occurred between 1 year and 3 years ago. Has occurred on another country within the last 2 years
LOW (Remote)	Not likely to occur and less that 5% chance of occurring	Has not occurred in the last 3 years or more Has not occurred in another Member country in the last 2 years

Implementing Risk Management

Based on tolerance judgments using a 3x3 matrix the diagram below suggests possible descriptions and indicators for estimating the **consequences of a risk occurring**

CONSEQUENCE/IMPACT	DESCRIPTION	INDICATORS
HIGH (Serious)	If adverse risk occurs then there could be a severe community, economic or political crisis	Long term ramifications for government or organization
MEDIUM (Manageable)	An adverse risk occurring would obstruct workflows and harm community or business	Damage to ability to meet organizational goals and commitments to governments, community and business
LOW (Treatment within existing workflows)	An adverse risk would cause minor delays to service delivery	Adverse risk event can be absorbed within existing standard operating procedures

Regularly repeating the likelihood and consequence exercise is required and normally results in changes to the estimated level of risk

These changes occur because of the treatments and preventative measures put in place

Risk evaluation and prioritization involves comparing the assessed risks against a pre-determined significance criterion

Implementing Risk Management

The below diagram is a simple 3x3 risk significance matrix with response criteria

High		
↑		
Consequence		
↓		
Low		
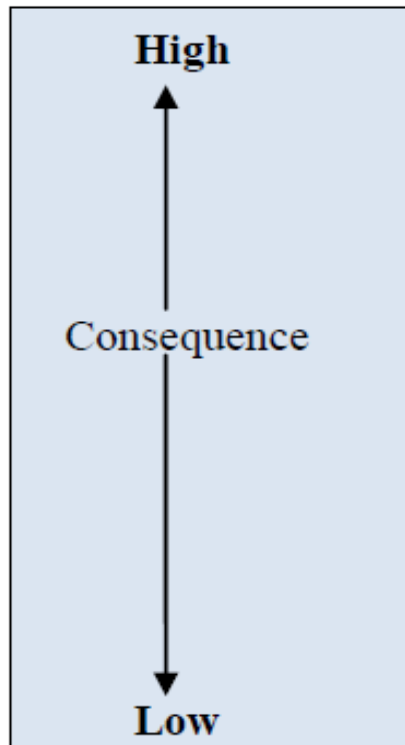
MEDIUM	**HIGH**	**HIGH**
Considerable management required	Must manage & monitor risks	Extensive management required
LOW	**MEDIUM**	**HIGH**
Risk may be worth accepting & monitoring	Management effort worthwhile	Management effort required
LOW	**LOW**	**MEDIUM**
Accept risks	Accept, but monitor risks	Manage & monitor risks

Low ← — Likelihood — → High
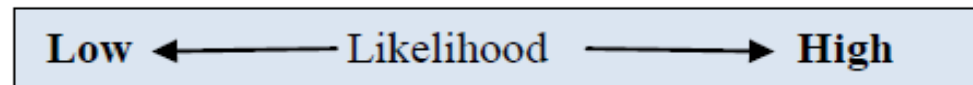
Evaluation process-deciding if risk is tolerable and how imminent

Decisions about which risks to respond to and which to monitor will be impacted by:

- ❑ Internal capability
- ❑ Internal capacity
- ❑ Is there an effective capability to implement treatment?
- ❑ Risk rating/level
- ❑ Return of treatment
- ❑ Effects to reputation
- ❑ Cost/benefits of proposed treatments

Risk Treatment - decisions or actions taken in response to identified risk

Treatment options can include:

- Tolerating Risk
- Treating Risk
    - ❑Preventative
    - ❑Detective
    - ❑Enforcement
- Transferring Risk
- Termination

Tolerating Risk

- Acceptable in many instances

  ❑ Example: Where resources are scarce or risk is considered to be as well managed as possible with existing controls in place

Treating Risks

- Reduce likelihood or consequence of risks by control measures and actions

- Other treatments include preventive, detective and enforcement measures

- Deciding on treatment concentration needed on causes of risks instead of only on symptoms

Transfer - to a 3rd party for mitigation either internally or externally

❑<u>Example</u>:

Internally - A risk could be transferred from Operations to IT

Externally - A risk could be transferred to another law enforcement agency

Termination - avoiding a risk by discontinuing an activity that may cause the risk to be realized

Residual Risk

Risk Remaining after:

- A risk treatment option has been implemented
- Reducing the risk
- Removing the source of the risk
- Modifying the consequences
- Changing the probabilities
- Transferring the risk
- Retaining the risk

Monitoring and Review

Performance of system, changes that might affect it and whether original risks remain static

Possible questions include:

❑ Are assumptions about risks still valid?

❑ Are there any new or emerging risks?

❑ Are treatments for minimizing risks effective, efficient and cost effective?

❑ Do treatments comply with legal requirements, government and organizational policies?

❑ Are management and accounting controls adequate?

❑ How can the system be improved?

Robust evaluation framework is needed with criteria against which outcomes are compared

Compliance measurement activities include:

- Campaigns
- Random checks
- Statistically valid analysis methods
- Surveys

Documentation must include:

- Assumptions
- Methods used
- Data sources
- Logic and analysis
- Results
- Decisions made and reasoning behind them

Responsibilities for collection and reporting of information could be assigned to groups within the administration

Reporting facilitates learning and improved decision making by:

- Assessing both successes and failures
- Monitoring use of resources
- Disseminating information on best practices and lessons learned

Monitoring and reviewing should consider:

- Performance against identified indicators
- Continuing confidence in risk ratings and indicators
- Suitability of accountabilities assigned to risk owners
- Reviewing framework, policy and plan against current contexts
- Reporting on treatments and subsequent utilization of plans
- Assessing the ongoing relevance of risk treatments
- Communicating feedback on progress, benefits and results throughout organization, and if appropriate, to external stakeholders

Continual improvement of the framework contributes to:

- Better risk management

- Strengthens an administration's capacity to manage risks

- Facilitates the integration of risk management into organizational structures and culture

Diagram of a Risk Management Framework

OBJECTIVE	RISKS	LIKELIHOOD	CONSEQUENCE	SIGNIFICANCE	RISK OWNER	TREATMENT
1. Effective & Efficient Collection of Revenue	1.1 Fraud	H	H	H	Head of Operations	Treat: A thorough mitigation strategy & plan needed
	1.2 Lack of competence	M	M	M	Head of Revenue Collection & International Trade	Tolerate: Once additional training to staff is provided. Monitor continuously
	1.3 Integrity	L	L	L	Head of Administration	Tolerate: Monitor through SOPs
2. Community Protection & Security	2.1 Narcotics	H	M	H	Head of Community Protection & Security	Treat: A thorough mitigation strategy & plan needed
	2.2 Illegal importation of weapons & ammunition	L	M	L	Head of Community Protection & Security	Tolerate: Monitor through SOPs
	2.3 IPR	M	L	L	Head of Community Protection & Security	Tolerate: After raising awareness among public Monitor through SOPs
3. Trade Facilitation	3.1 Ineffective procedures	L	H	M	Head of Revenue Collection & International Trade	Tolerate: After a thorough review & alignment against international best practices
	3.2 Lack of coordination with other agencies	H	H	H	Head of Operations	Treat: A thorough coordination & stakeholder engagement strategy & plan needed
	3.3 IT failure	L	H	M	Head of Administration	Transfer: To a 3rd party service provider. Create a contingency plan

Embedding risk management as an organizational culture may take several years, and requires strong ongoing commitment from managers and staff at all levels

Risk Management Maturity - organizational risk management capacity and agility

- Assists administrations continuously develop practices

- Allows common baseline to be established against which practices can be benchmarked

- Administrations should define and design a model that fits their unique context

Risk Management Maturity

Risk Naïve	Risk Aware	Risk Defined	Risk Managed	Risk Enabled
- Initial - Ad-hoc - Undefined - Reliance on key people	- Repeatable - Intuitive - Defined tasks - Initial infrastructure	- Standardized - Rigorous - Defined policies, processes & appetite - Uniformity	- Embedded - Comprehensive - Widely adopted - Measured - Increased competency	- Optimized - Continuous - Integral - Competitive advantage - Core competency
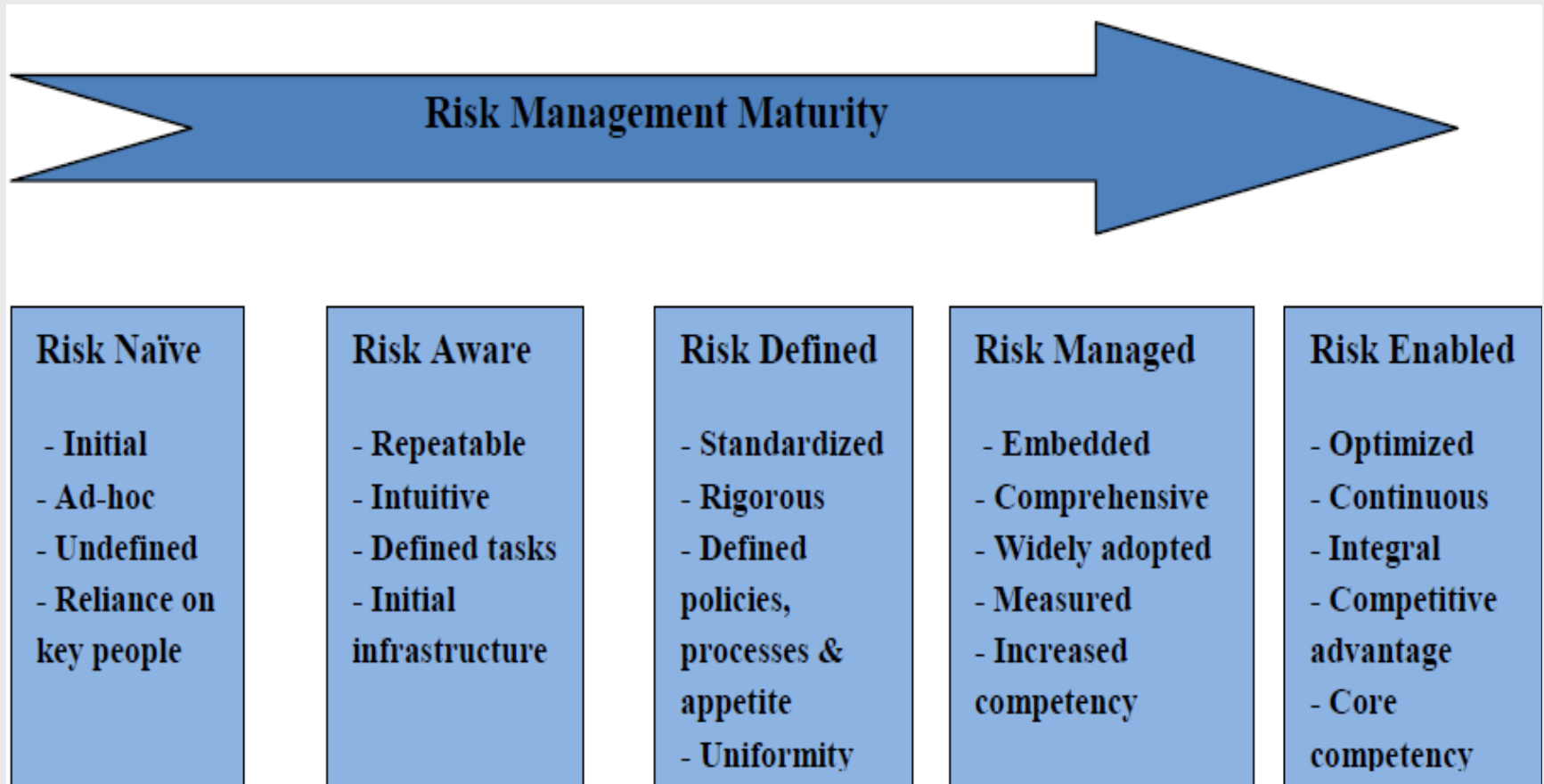
Source: Netherlands Customs 2010

Risk Naïve - First maturity level

- Growing understanding of the difference between available resources and demand

- No clear understanding of formal processes, procedures and techniques

- Lack of a high-level mandate

- Risks managed are on an ad hoc basis with lack of application to organizational programmes and business processes

Embedding Risk Management as an Organizational Culture

To move to next level the following must occur:

- Obtaining high organizational mandate and commitment
- Objectives of implementation need to be established
- Defining key accountabilities and risk ownership
- Adequate training and support
- Awareness briefings - vision and benefits
- Pilots selected to maximize chances of early success
- Communication of successes
- Planning for the long term
- Building effective controls into the process
- Produce draft risk procedures

Risk Aware – Second maturity level

- Organization aware of its mission, objectives and related risks
- Know stakeholders and their needs
- High-level mandate and commitment
- Concept and benefits are understood at all levels
- Accountabilities are defined and an initial organizational infrastructure being developed
- Overall approach to managing risk is still somewhat intuitive

Embedding Risk Management as an Organizational Culture

To move to next level the following must occur:

- Reinforcing and strengthening corporate backing for implementation
- Developing and communicating organizational policy
- Formalizing process with defined scope and objectives
- Properly selected tools and training
- Allocation of adequate resources
- Selecting key projects demonstrating benefits
- Communicating success and encouraging wider application
- Ensure managers utilize model as routine management
- Collect data - process, identification, responses and costs
- Creation of checklists

Risk Defined – 3rd maturity level

- Risks are well defined
- Approach is standardized and rigorous
- Infrastructure well established including defined policy, procedures, accountabilities and culture
- Defined operational plans and management strategies
- Resources and tools are identified and developed
- Training and awareness continuously occurring
- Operational activities supported guaranteeing uniformity in application

Embedding Risk Management as an Organizational Culture

To move to next level the following must occur:

- Ensure effective learning from experience
- Undertake regular reviews
- Amend and strengthen - tools, new methods and training
- Develop a culture encouraging thought processes, awareness and use of techniques
- Ensure risk is included as routine criteria in decision making
- Identification and counteracting staff fatigue to risk management process

Risk Managed–the fourth maturity level

- Risks are effectively and efficiently managed
- Risk management is embedded in organizational processes and a strong culture exists
- Effective two-way communication about managing risk exists
- Risk management practices are comprehensive
- Practices and outcomes are measured, monitored and developed continuously

Embedding Risk Management as an Organizational Culture

To move to next level the following must occur:

- Continued commitment of senior management;
- Audit and review
- Proactive management of uncertainty
- Extending management is all areas of the business
- Continual investment in improving - tools, techniques, personnel skills, etc
- Continual involvement and consultation with stakeholders

Risk Enabled – the fifth maturity level

- Very high maturity of risk management
- Risks managed in mitigating and exploiting positive risks and opportunities
- Practices are optimized and integrated into all organizational processes
- High-quality intelligence and knowledge exists for decision making
- Is an integral part of daily work at all levels of the organization

ISO Standard 31010:2009

"Risk Management – Risk Assessment Techniques"

lists techniques that can be used in the identification of risks

A combination of different tools and combining aspects of qualitative and quantitative analysis in order to reach the best outcomes should be used

Risk Register

- Is an essential documentation tool.
- Is an 'Index' of an administration's risks.
- Should be tailored to meet requirements of organization.

Risk Management Techniques and Tools

The following 2 slides show examples of
Risk Management Registers

	The Risk	Likelihood Rating	Consequence Rating	Tolerance	Risk Priority	Risk Treatment
1	Strategic Management					
2	Resources					
3	Legal Framework					
4	Customs Systems & Procedures					
5	Information, Technology & Communication					
6	External Cooperation, Communication & Partnership					
7	Good Governance					

Organizational Elements

Organizational Priority

	The Risk	Likelihood Rating	Consequence Rating	Tolerance	Risk Priority	Risk Treatment
1	Revenue Collection					
1.1	eg. Duty					
1.2	eg. Excise					
2	National Security					
3	Community Protection					
3.1	eg. Narcotics					
3.2	eg. IPR					
4	Trade Facilitation					
5	Collecting Trade Data					

Organizational Structure

	The Risk	Likelihood Rating	Consequence Rating	Tolerance	Risk Priority	Risk Treatment
1	Head Office/Corporate					
	eg. Personnel					
	eg. Legislation					
	eg. Finance					
2	Maritime					
	eg. Wharf/Port Offices					
	eg. Sea Cargo					
	eg. Sea Passengers/Crew					
	eg. Vessels					
3	Aviation					
	eg. Airports					
	eg. Air Cargo					
	eg. Air Passengers/Crew					
	eg. Aircraft					
4	Land					
	eg. Border Control Points					
	eg. Conveyances					

Example of a Likelihood Scale (5x5)

Example of Qualitative Measure		Example of Quantitative Measures				Other Measures
Almost Certain	Expected to occur in most circumstances	Once per week or more frequently	10 chances a year	> 1 in 10	9 to 10 times out of 10 occurrences	If these scales do not match the individual administrations circumstance, then the administration should develop their own scale
Likely	Will probably occur in most circumstances	On average once per month	Once a year or more	1 in 10 -100	7 to 8 out of 10 occurrences	
Possible	Might occur at some time	On average once per year	Once in 10 chances a year	1 in 100 - 1,000	4 to 6 times out of occurrences	
Unlikely	Not expected to occur in most circumstances	Typically once every 10 years	One in 100 chances a year	1 in 1,000 – 10,000	2 to 3 times out of 10 occurrences	
Rare	May occur only in exceptional circumstances	Typically once every 100 years	1 in 1,000 chances a year	1 in 10,000 – 1000,000	0 to 1 times out of 10 occurrences	

Severity of Risk					
Risk	**Insignificant**	**Minor**	**Moderate**	**Major**	**Severe**
Cargo/ Passengers	Rare for pax clearance targets not to be met. Few clients are affected by delays. Air & sea cargo delays are causing minor insignificant financial & community impact	Pax clearance targets sometimes aren't met. Air & sea cargo delays are causing financial & community impact	Pax clearance delays are occurring, causing moderate disruption to client. Air & sea cargo delays are causing moderate financial & community impact	Pax clearance delays are occurring, causing major disruption to client. Air & sea cargo delays are causing major financial & community impact	Pax clearance delays are causing severe disruptions to client. Air & sea cargo delays are causing severe financial & community impact
Border Enforcement	Rare for non-compliers to avoid detection & action. Applies particularly for serious offences under Customs Act & other agency's legislation enforced by Customs	Unlikely those non-compliers will avoid detection & action. Applies particularly for serious offences under Customs Act & other agency's legislation enforced by Customs	Possible those non-compliers will avoid detection & action. Applies particularly for serious offences under the Customs Act & other agency's legislations enforced by Customs	Highly likely that non-compliers will avoid detection & action. Applies particularly for serious offences under Customs Act & other agency's legislation enforced by Customs	Almost certain that no-compliers will avoid detections & action. Applies particularly for serious offences under Customs Act & other agency's legislation enforced by Customs
Revenue Collection	Collections against revenue forecast are under target & it could be justified by statistical error	Collections against revenue forecast are under target but only by a small amount	Collections against revenue forecast are under target & the shortfall is not linked to general economic conditions	Collections against revenue forecast are unexpectedly &/or significantly under target. The shortfall cannot be linked to general economic conditions. An explanation may be required for Parliament & Government	Collections against revenue forecast are unexpectedly &/or significantly under target. The shortfall cannot be linked to general economic conditions. It's possible that Parliament &/or Governments will initiate an enquiry into the shortfall

Example of a Likelihood Scale (5x5)

Risk Criteria

- Are terms of reference against which significance of a risk is evaluated

- Defined in establishing the context

- Based upon organizational objectives

- Context is from standards, laws, policies and other requirements

- Can take the form of a risk significance or tolerance matrix

Risk Tolerance/Significance Matrix Examples

	Minimal 1	Minor 2	Moderate 3	Major 4	Severe 5
Almost Certain 5	5	10	15	20	25
Likely 4	4	8	12	16	20
Possible 3	3	6	9	12	15
Unlikely 3	2	4	6	8	10
Rare 1	1	2	3	4	5

	Minimal	Minor	Moderate	Major	Severe
Almost Certain	MEDIUM	HIGH	HIGH	EXTREME	EXTREME
Likely	LOW	MEDIUM	HIGH	EXTREME	EXTREME
Possible	LOW	MEDIUM	MEDIUM	HIGH	HIGH
Unlikely	LOW	LOW	MEDIUM	MEDIUM	HIGH
Rare	LOW	LOW	LOW	LOW	MEDIUM

Compliance Measurement

A diagnostic tool to identify areas of
non-compliance

- Use in conjunction with risk assessment, profiling and other targeting procedures
- Strategically with targeting can assist with effective allocation of resources
- Results provide important information to enhance risk assessment methodologies
- Provides a basis for Customs to assess own performance, improve efficiency and effectiveness and develop strategies

Compliance measurement may include:

Documentary issues:
- Proper tariff classification by traders
- Proper valuation by traders
- Country of origin

Procedural issues
- Importation and exportation
- Transit operations
- Warehousing, free trade zones, processing

Compliance measurement cont'd:

Revenue issues:
- Timely and accurate revenue payments
- Proper posting of securities

Transport issues:
- Accurate reporting of the quantity of goods
- Accurate description of goods on the manifest and/or transport document
- Accuracy of container quantities and identification numbers
- Transporter compliance

Compliance measurement cont'd:

Specific concerns:
- Compliance by tariff number or range of tariff numbers
- Public health and safety issues
- Intellectual property rights and copyright issues
- Compliance with trade agreements
- Proper country of origin marking on goods
- High revenue commodities
- Selected traders

Data collected from various sources enables Customs to reach informed conclusions about compliance rates for each step of a transaction process

- Internal and external data
- Manual and automated- import and export records
- Tools - statistical analysis
- Methodology -systematic analysis of large traders or commodities

Transaction processes for compliance verification are:

- Goods declaration compliance
- Trader compliance
- Transit compliance
- Free trade zone or warehouse compliance
- Manifest and transport document compliance
- Transporter compliance

Verification Review

Goods Declaration Compliance

•Is there evidence of documentation to support goods declaration?
•Do quantities declared match what is contained in consignment?
•Does declared country of origin match markings on the goods?
•Does declared description of the goods match the actual goods?

Verification Review

Importers with compliance rate less than 95% Customs should

- Inform the importer - 'informed compliance'
- Establish profiles/targets for areas of non-compliance
- Conduct further measurements to ensure correction
- Conduct more reviews and/or examinations
- Issue fines or penalties for continued non-compliance

Use of Compliance Measurement Results can:

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

Determining compliance rates for individual importers could be as follows:

•High compliance rates may have goods examined less frequently
•Low compliance rates may have goods examined more frequently

The results from a verification review can:

• Provide information for updating selectivity criteria to target high-risk transactions
• Demonstrates overall effectiveness of an administration's risk management programme
•Contributes towards determining trends and issues relating to specific industry sectors
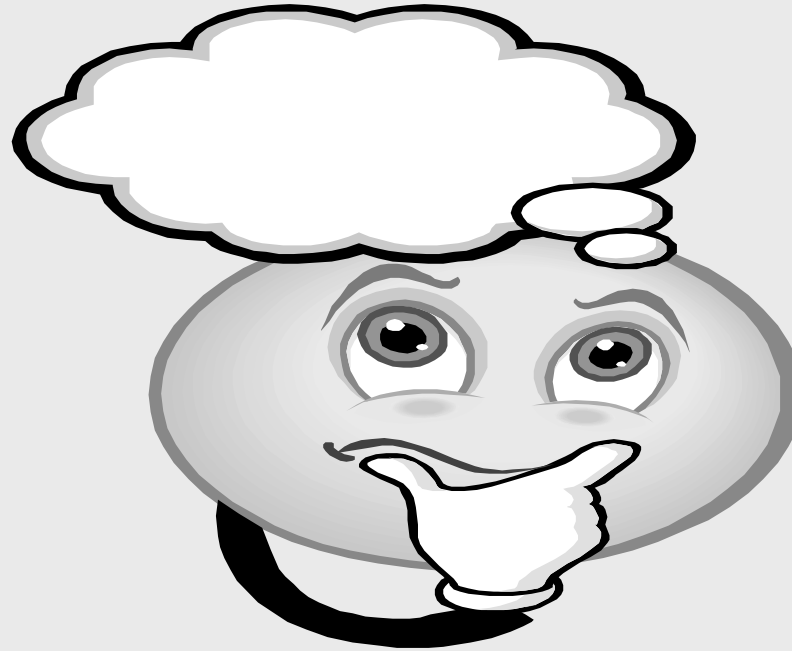•Provides current analytical information

Complete Activity 2 and Activity 3