



GUIDELINES FOR POST-CLEARANCE AUDIT (PCA) VOLUME 1

**WORLD CUSTOMS ORGANIZATION
JUNE 2012
(Updated in JUNE 2018)**

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I. INTRODUCTION

The traditional public image of the Customs official is often portrayed as the uniformed man or woman at a frontier post or airport. The physical presence of Customs at the gateway to a country means checks can be conducted in real time before a decision is made to release a consignment of goods. It can also act as a deterrent to would-be fraudsters.

Border controls still have a part to play in a modern Customs service; however, excessive and time-consuming checks at the point of clearance can be counterproductive. Modern international commerce works to tight deadlines and national economic benefits can be derived as the result of the smooth and timely clearance of goods. Furthermore, the majority of international trade involves large corporations with global networks and complex business systems and supply chains. The limited documentation required to be produced at the time of importation does not provide the whole picture and context of a commercial transaction, which is necessary to properly determine, inter alia, the correct Customs value, classification and entitlement to preferential origin.

Most of the time, it becomes unfeasible, therefore, for Customs to make conclusive decisions regarding duty liability in the narrow time frame available. It is not appropriate to delay clearance of goods whilst resolving such enquiries, unless fraud is suspected. Many administrations, therefore, nowadays concentrate their controls on the post-importation/exportation environment, whilst retaining selective and targeted checks at the frontier.

By application of a post-clearance, risk-based approach, Customs are able to target their resources more effectively and work in partnership with the business community to improve compliance levels and facilitate trade. The Post-Clearance Audit (PCA) process can be defined as the structured examination of a business' relevant commercial systems, sales contracts, financial and non-financial records, physical stock and other assets as a means to measure and improve compliance.

A dynamic risk management programme is indispensable for PCA. Further information on this topic is available in the WCO's Risk Management Compendium.



Steps towards an effective PCA system

The transition from border-focused controls to PCA as the prime basis for Customs controls typically evolves over several years, as new processes and procedures are developed and new skills learnt. However, PCA implementation is not a standalone process; it needs to be embedded in a wider facilitation context, allowing simplified clearance procedures at the borders, warehousing procedures and other Customs regimes (e.g. regimes which build on a regularly functioning relationship between the Customs administration and the trader). Customs controls are *required to be* normally migrated from the border to the post-importation environment, such as transaction-based controls (for low and medium risk transactions) as well as adopting compliance-based PCA (for high risk transactions). Such an approach may be considered by those administrations embarking on the transition to PCA. See section 1.3 and the WCO Implementation Guidelines for more information.

These Guidelines are presented in two volumes. Volume 1 is primarily targeted at management level to assist with the development and administration of a PCA programme (this volume is freely available). Volume 2 focuses on the operational aspects of PCA, with practical guidance and checklists for auditing officials (restricted to Customs administrations). Further information on the technical Customs topics related to the subject of a Customs audit (e.g. Customs valuation, classification and origin) are available in other guidance material produced by the WCO (see Revenue Package Schedule).



GLOSSARY

Term	Explanation
Trader	An importer, exporter, one who engages in transit or the like, who has a relationship with Customs, excluding forwarders, etc., who merely convey international cargos, and Customs brokers who merely submit declarations on behalf of the “trader”
Auditee	A entity selected for an audit, not limited to importers, as it can include exporters or transportation companies, Customs broker etc.
Business sector (or business community)	Collective term for commercial or industrial enterprises usually referred to as the Customs’ counterpart
Industry	Group of productive or profit-making enterprises
Company	Commercial enterprise, regardless of any relationship with Customs
Stakeholder	One who is involved in or affected by a course of action
Whole business transaction / transaction / transaction pattern	A business pattern with particular commercial / physical distribution of an import / export cargo, including the payment conditions
PCA policy	Statement of an administration's overall intentions and direction regarding PCA
Audit plan	Scheme/strategy for audits specifying the objectives, scope, methodologies and assignment of auditor/team members for the audit
Desk audit	An audit conducted at auditors’ premises usually by calling information through correspondence or telephone
On-site audit	An audit conducted at the premises of the auditee



II. VOLUME 1

1. OVERVIEW OF POST-CLEARANCE AUDIT (PCA)

1.1. What are the objectives of PCA?¹

The overall objectives of PCA is to assure that Customs declarations have been completed in compliance with Customs legal requirements as well as other requirements under any other law applicable in respect of import or export, via examination of a traders' systems, accounting and other business records and premises. Objectives can be further described as follows:

- To verify that the value, origin and classification of goods is declared correctly and the amount of revenue legally due has been identified and collected;
- To ensure goods liable to specific import/export controls are properly declared, including prohibitions and restrictions, licenses, quota, etc.;
- To ensure conditions relating to specific approvals and authorizations are being observed, e.g. pre-authenticated transit documents, preferential origin/movement certificates, licenses, quota arrangements, Customs and excise warehouses and other simplified procedure arrangements; and
- To facilitate international trade movements of the compliant traders.

This can build a good relationship of trust between the Customs and the traders. Thus, PCA is a means to measure and improve compliance of the traders.

Revised Kyoto Convention

General Annex - Chapter 6 (Customs Control)

To manage the worldwide increase in trade and to provide traders with greater facilitation, Customs increasingly rely on audit-based controls, using traders' commercial systems. These controls may vary from a simple post-clearance audit to trader self-assessment. Standard 6.6 of the General Annex to the Revised Kyoto Convention concerns the principle of audit-based control. The Guidelines to Chapter 6 include details of post-clearance audit and trader self-assessment.

6.6. Standard

Customs control systems shall include audit-based controls.

“**audit-based control**” means measures by which the Customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned.

¹ PCA should not be confused with “internal audit,” which is a mechanism to verify and review, either conducted by a company to review its own internal procedures or by Customs to review Customs' own internal rules and procedures. Internal audits may be useful for management purposes and are an important part of an integrity programme but are quite distinct from the concept of PCA.



Agreement on Trade Facilitation

- 5.1. With a view to expediting the release of goods, each Member shall adopt or maintain post-clearance audit to ensure compliance with customs and other related laws and regulations.
- 5.2. Each Member shall select a person or a consignment for post-clearance audit in a risk-based manner, which may include appropriate selectivity criteria. Each Member shall conduct post-clearance audits in a transparent manner. Where the person is involved in the audit process and conclusive results have been achieved the Member shall, without delay, notify the person whose record is audited of the results, the person's rights and obligations, and the reasons for the results.
- 5.3. The information obtained in post-clearance audit may be used in further administrative or judicial proceedings.
- 5.4. Members shall, wherever practicable, use the result of post-clearance audit in applying risk management.

1.2. Benefits derived from PCA

- Compliant trade is facilitated at the point of Customs clearance and border controls can be reduced;
- Enables Customs to gain better information on and understanding of traders' business;
- Risk levels can be more easily assessed and reviewed: a premises visit provides the opportunity to identify risks and weaknesses in traders' systems;
- Facilitates client education, long-term and comprehensive compliance management focus;
- Customs administrations' resources are more effectively deployed;
- Customs can promote the concept of voluntary compliance and self-assessment;
- Suspected fraudulent activities including cases of illicit financial flows (IFF), trade-based money laundering (TBML) may be identified and referred to competent authorities and/or enforcement unit for appropriate action;
- Provides a platform for evaluating continued entitlement to Authorized Economic Operator status, where applicable.

PCA and AEO validation

PCA is not one to one with AEO validation/audit but they can complement each other during the different stages of the process. Also validation/audit seeks to verify whether the applicant meets, and the AEO continues to meet, the requirements of its scope of authorization. This can involve different methods, including examinations of trader's systems. PCA involves examination of trader's systems, accounting and other business records and premises to test and measure compliance of information submitted for Customs declarations. Feedback results from PCA work conducted on the applicant or approved AEO can be used as part of the information gathering during the AEO validation process and vice-versa. If a company is already an AEO, any PCA should take into account the validations in order to avoid duplication. Please refer to AEO Validator Guide and training modules for guidance in carrying out AEO validation.





1.3. Types of Audit

- **Comprehensive audit (Systems-based audit)**

This type of audit looks at the entire business control environment and the impact this might have on Customs compliance. Analytical procedures are used heavily and substantive testing is reduced where control environment and corporate governance systems are good. This kind of audit takes place at the premises of the auditee (field audit). The amount of information to be examined by auditors is potentially large although it depends on frequency audit. A complete picture of the business can be captured by the field audit, including examination of its business systems, trading methods, partners/directors and internal control.

Mostly relevant for administrations with a trader-focused targeting approach².

- **Focused audit (Issue-based audit)**

This type of audit concentrates on one or a few areas of Customs e.g. valuation, country of origin etc. Tests on related systems and controls and substantive tests may also be carried out.

Criteria will be necessary to decide which type of audit is appropriate in each case, based on the most effective use of resources and the desired objectives.

Mostly relevant for administrations with an issue-focused targeting approach³.

- **Post-importation Transaction-based audit (TBA)**

As mentioned in the introduction, administrations that have newly implemented post-importation controls may consider introducing checks on individual transactions. This can work in two ways: 1) Referrals from the port/border post when an officer has doubts concerning a particular declaration at the time of clearance. If it is deemed that significant duty may be at stake, an enquiry is then referred to the appropriate Customs office to further examine the declaration, normally in consultation with the importer/exporter. The goods in question may be released or other action may be taken as appropriate. 2) A targeting team scrutinizes individual Customs declarations after clearance and selects those where doubts arise regarding their accuracy. These declarations are then verified as above, normally in consultation with the importer/exporter, and action is taken as appropriate. In each case, it is highly recommended that risk-based selection criteria are used to determine which Customs declarations will be verified.

At a later stage, the administration can consider developing a post-import, systems-based audit approach along with TBA.

² See 3.3.3 of the Implementation Guidance on Post Clearance Audit (PCA), WCO.

³ See 3.3.2 of the Implementation Guidance on Post Clearance Audit (PCA), WCO.



2. LEGAL AND OPERATIONAL FRAMEWORK FOR PCA

2.1. Legal framework and essential powers

To facilitate PCA, it is necessary to implement legislation which provides Customs with the legal basis to conduct an audit and also sets out the rights and obligations of the auditee. Each Customs administration will develop laws and regulations based on national requirements or, in cases where a Customs union exists, at a regional level.

Customs laws and regulations should provide the following:

- definition of PCA coverage (persons/company subject to PCA)
- authority and powers of Customs officials/auditors conducting PCA
- obligations and rights of auditees
- penalty scheme
- right of appeal

PCA scope and coverage

The scope and coverage of PCA - namely, which persons may be subject to an audit - should be clearly defined in Customs laws and regulations. Potentially, all businesses involved in the import and/or export of goods or in the receipt, storage, manufacture and delivery of goods subject to Customs controls may be audited.

This may include:

- importers/exporters;
- declarants;
- consignees of the imported goods;
- owners or beneficial owner of the imported goods;
- subsequent acquirers of the imported goods;
- Customs clearing agents of the imported/exported goods;
- storage agents of the imported/exported goods;
- transporters of the imported/exported goods; and
- other persons/companies directly or indirectly involved in the transaction of the imported or export goods.



Authority, powers and obligations of Customs officers

Customs laws and regulations should provide officers conducting PCA with the authority to conduct an audit at the premises of the auditee and at the premises of auditor. Necessary powers include:

- the right to access auditee's premises;
- the right to examine business records, business/trading systems and commercial data relevant to Customs declarations;
- the right to inspect auditee's premises;
- the right to uplift and retain documents and business records;
- and the right to inspect and take samples of goods.

An obligation to maintain confidentiality should also be provided by Customs laws and regulations to keep a good relationship between the Customs and the traders.

Obligations and rights of auditees

Customs laws and regulations should set out the rights and obligations of persons/companies involved in international trade. Provisions should include:

- a requirement to maintain specified documentation, information and records. The duration for retaining such records should be no less than the maximum period after importation or exportation when Customs may legally demand underpaid duty and make refunds for overpaid duty;
- a requirement to make such documentation, information and records available in a timely manner;
- a right to appeal⁴;
- a right to an explanation from Customs concerning determination of Customs value⁵;
- a right to expect confidential treatment of business documentation;
- a right to clearance of goods at the frontier with provision of security⁶;
- and a right to amend declarations without penalty in the appropriate circumstances⁷.

When the scope of auditees is expanded to persons other than declarants and importers, it will come into question whether a legal obligation for keeping records can be imposed on all persons/companies designated as complementary auditees. The problem is whether it is reasonable to impose a legal obligation for keeping business records on persons/companies other than those who have close relation to import or export transactions and Customs clearances such as the importer, exporter, a Customs clearing agent, a transporter, etc. under the Customs laws and regulations. Other national legislations regarding the business activities, such as income tax or commercial tax law, may stipulate their obligation.

⁴ Revised Kyoto Convention, Chapter 10 and WTO Valuation Agreement, Article 11

⁵ WTO Valuation Agreement, Article 16

⁶ WTO Valuation Agreement, Article 13

⁷ WTO Trade Facilitation Agreement, Article 12.1.1



The adequacy of powers available to Customs administrations under national law needs to be kept under review and powers should be modified where necessary to respond to new national and international commitments.

Other non-Customs legislation may be of relevance and interest to Customs in the course of conducting a PCA. For example:

- regulation of business entities and their activities, such as commercial law, company law, income tax law, etc.
- import/export licensing requirements
- foreign currency control, etc.
- obligations deriving from binding UN Security Council Resolutions: Chapter VII UN Charter (e.g. embargos, export controls).

2.2. Organizational structure

PCA has an interface with many other areas within the Customs department, including risk management, intelligence sharing, enforcement, debt / revenue collection and legal support. The organizational and management structure should therefore reflect this and facilitate close working and effective communication among these areas and these agencies.

Normally, a PCA programme will be driven by a central team responsible for managing the audit programme. Depending on the situation of a particular country, an administration will set up one or more operational PCA units. The need for Customs staff to be able to visit a trader's premises means Customs offices should be located accordingly. For example, a small island economy may have just one main business center and require just one PCA office. A large country, on the other hand, may have many centers, separated by long distances and time zones.

A number of administrations have set up dedicated teams responsible for the control of large businesses. In this model, a number of officers will be appointed to the large business team with a unique responsibility for ensuring the continued compliance of those businesses. It can also be useful to develop trade sector specialists; e.g. car industry, textiles, chemicals, etc. within a large business team.

Types of organizational structure

- **Centralized audit**

This structure has established a single PCA unit within the administration.

Advantages of Centralized audit includes

- ✓ Enhanced communication, coordination and sharing of knowledge;
- ✓ Better supervision and management control; and



- ✓ More effective risk management. (feedbacks are sent to Risk Management Unit in more coordinated manner)

Disadvantage of Centralized audit includes

- ✓ Difficult to physically verify the business premises of trader prior to the start of the audit; and
- ✓ Field audit may be time consuming and costly particularly when auditors have to travel a long distance to conduct this exercise.

- **Decentralized audit**

This structure seeks to establish several PCA units within the administration.

Advantages of Decentralized audit includes

- ✓ Easy to locate and contact importer/exporter;
- ✓ Cost and time effective – more audits can be performed;
- ✓ Auditors of different regions can compete to perform better;
- ✓ Knowledge is improved in specific trade sectors; and
- ✓ Local risk factors are considered more effectively.

Disadvantage of Decentralized audit includes

- ✓ Difficult to coordinate with other units;
- ✓ Lack of effective communication with each regional PCA units; and
- ✓ May lead to high administrative cost due to recruitment of additional auditors, managers and cost of training.

The actual organizational structure and allocation of responsibilities will vary between administrations.



3. STRATEGIC PLANNING FOR PCA

3.1. General

Once a PCA structure and system is in place, the next step is to develop the PCA policy. The PCA policy contains the following essential elements:

- objective and scope of PCA;
- potential risks in the PCA scope;
- annual/monthly working plan;
- selection of the audit types;
- standardized PCA procedures/techniques.

The development of the PCA policy should also be linked to the overarching strategy for conducting pre-arrival controls (in the case of import) and controls at the time of clearance (in the case of both import and export). This ensures a unified strategy to the complete Customs control cycle.

3.2. Overarching strategy of Customs

In developing the PCA policy, the Administration should consider how to incorporate the policy with the measures at the border, i.e. how to strike a proper balance between border control with overall facilitations considering risk assessment. This means that the Administration should first take into account how the PCA function fits in the overarching strategy of the Administration, and for this purpose “Voluntary Compliance Framework” is worth considering, which aims to improve the level of voluntary compliance of traders and create the conditions necessary to facilitate voluntary compliance as the most cost effective and efficient approach. It will help traders comply voluntarily and correctly with Customs requirements through the voluntary disclosure programmes, which give clients a chance to correct inaccurate or incomplete information or to disclose information that clients have not reported during previous dealings with Customs authorities, without penalties in the appropriate circumstances.

Segmentation of traders

The Voluntary Compliance Framework includes the method of trader (client) segmentation to approach the different categories of traders (clients). Conceptually, traders can be divided into four broad-based categories:

- Type 1 traders are voluntarily compliant;
- Type 2 traders try to be compliant but do not necessarily always succeed;
- Type 3 traders will avoid complying if possible;
- Type 4 traders deliberately do not comply

As mentioned in the introduction, PCA is a means to measure and improve compliance. The audit results can be used for this segmentation of traders.



Segmentation of Traders



Risk based Compliance Management Pyramid

The Voluntary Compliance Framework focuses on the traders of types 1 and 2. But it could be applied to type 3 traders as well, if they show the necessary improvement to be changed into the higher level traders like type 1 or 2 traders. The main strategy of the framework is to create a trend from enforced compliance towards informed compliance.

Voluntary compliance can be achieved through three broad ways:

- 1) Decreasing compliance cost;
- 2) Increasing incentives on compliance; and
- 3) Increasing probability of exposure.

In this sense, Customs is encouraged to provide compliance programmes or facilitation measures at the border as an incentive for traders to be more compliant and promote the Customs - Business partnership concept.

Promoting improved compliance via self-assessment

PCA provides an opportunity for Customs to encourage traders to comply with Customs requirements through self-assessment and for Customs to provide advice accordingly. Customs administrations should actively promote the benefits of compliance to the business community and provide information and advice via telephone enquiry lines, Internet or other publicity means.

Some administrations offer advance rulings in the areas of classification, Customs valuation and preferential origin as a further means to provide greater certainty to the importer or exporter, prior to the clearance of the goods.

In the course of an audit, auditors should make recommendations that encourage auditees to establish, maintain, and improve their internal controls and systems. Strength of Internal Control



system of importer/exporter determines/assures proportionate reliability of financial accounting and compliance with applicable laws and regulations. Better internal controls can help importer/exporter to detect and prevent fraud, negligence, or operational errors, which would have otherwise affected the correctness and completeness of Customs declarations. This can be effective in a number of areas such as the reliability of financial accounting and compliance with applicable laws and regulations. Internal controls can also detect and prevent fraud, negligence, or operational errors which may have affected Customs declarations. When auditors judge that the auditee's internal controls are well designed and performing effectively, this should be reflected in the business' risk rating.

Where internal control is sufficient to fulfill the conditions or requirements set by Customs, such a trader may be considered eligible for a facilitated Customs procedures as stipulated in the Transitional Standard 3.32⁸ (Authorized Trader) of the Revised Kyoto Convention/RKC.

Traders can also be given the option to voluntarily request an amendment of a Customs declaration without penalty when errors have been identified, even after submission and processing of the declaration or clearance of the goods, if it is not a case of deliberate contravention. This could also be included in the national/regional Customs legislation.

When PCA is newly introduced, Customs may prepare a publicity or education program to disseminate necessary information to make traders aware of the objectives and benefits of PCA, raise awareness and improve the level of cooperation. Initially, there may be some resistance as some traders may not understand how they can benefit from PCA, and they may be unfamiliar with the idea of visits from Customs officers.

In order to improve the compliance level of Customs declarations through self-assessment, it is effective to inform declarants, including brokers and importers/exporters, about typical and frequent errors found on Customs declarations, and assist them in avoiding such errors in future. It is also important to encourage a mutual responsibility between importers/exporters and their brokers to ensure declarations are accurate; the importer/exporter should provide all necessary information to his broker and, likewise, the broker should actively challenge the information provided by an importer/exporter if he considers it to be inaccurate or incomplete.

3.3. Risk Management

The WCO Risk Management Compendium defines risk management as “coordinated activities undertaken by administrations to direct and control risk.” When adopted as a management philosophy, it enables Customs to carry out its key responsibilities effectively and organize and deploy its resources in a manner which improves overall performance and facilitates trade.

A risk-based approach is often driven by necessity, as Customs administrations are often required to deliver better results with the same or fewer resources.

⁸ Authorized Trader as defined in RKC Transitional Standard 3.32 should not be confused with Authorized Economic Operator (SAFE Framework of Standards Chapter 2.3. and Chapter 5.1.)

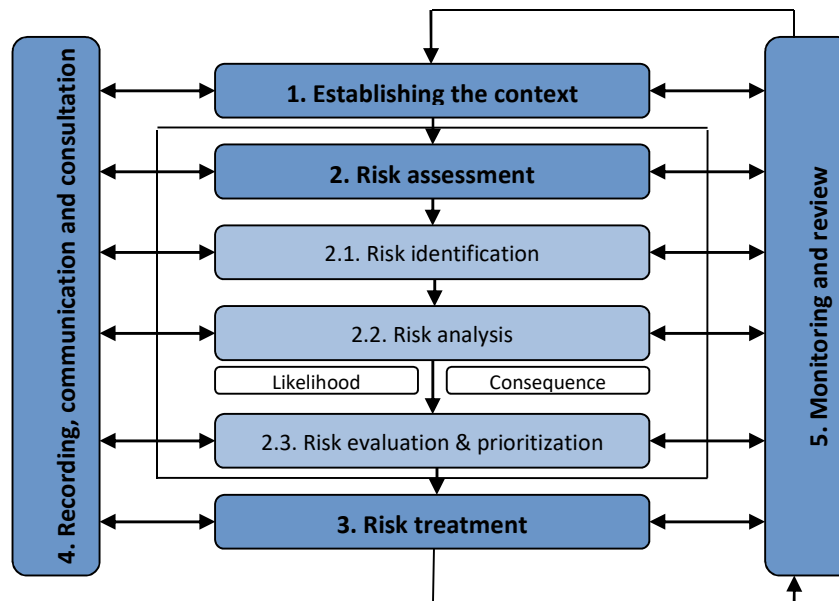


3.3.1. Outline of the risk management process

The risk management process comprises:

1. Establishing the context
2. Risk assessment
 - 2.1. Risk identification
 - 2.2. Risk analysis
 - 2.3. Risk evaluation and prioritization
3. Risk treatment
4. Recording, communication and consultation
5. Monitoring and review

The following diagram outlines the process to be followed in managing risk, both for a high-level examination of risk in regard to PCA planning at a national level, or lower-level operational activities like the selection of auditees within a monthly audit plan.



Establishing the context

Establishing the risk management context involves establishing the goals, objectives, strategies, scope and parameters of the activity or part of the organization to which the risk management process is being applied.

This step is also about establishing the risk criteria, i.e., criteria against which risk will be measured. Examples of risk criteria are revenue leakage, delivery of government policy intent, impact on environment, susceptibility to Trade Based Money Laundering, proliferation of dual use technology, intellectual property right violations etc. These will form a fundamental basis for decisions made in the later steps of the cycle.



These criteria should be used to determine acceptable and unacceptable levels of risk (i.e., what level of revenue leakage is acceptable, what level of deviation away from government policy intent is acceptable and what level of overall compliance is acceptable.).

Risk Management Techniques

Risk management within the PCA context can be: (a) strategic and (b) tactical. The risk management process can apply across all of these levels.

(a) Strategic risk management

Strategic risk assessment is based on Customs being able to identify the overall risk posed by an entire sector or a group of importers. By identifying such a group, a Customs administration will be able to target all or selected companies within an industry sector identified as high risk.

An industry sector may be classified as high risk for various reasons, such as:

- the strategic importance of the industry to the national interest;
- the international trade agreements which govern the industry;
- public health and safety considerations;
- intellectual property rights;
- and the economic and environmental impact of the imports/exports.

Studies on specific commercial sectors

A general study of the commercial sector or goods involved will help the officer deal with the information in context. The use of specific sector studies is a reliable source for collecting information in the field. For example, sector studies may be on specific program areas such as:

- valuation;
- textile transshipment;
- classification of new products;
- intellectual property rights, etc.

The sector would be targeted in advance according to criteria such as:

- estimates of the value of the commodity;
- sensitivity of nationals or industry to illegal activity, etc.

Once the sector is chosen, information must be defined and collected on the various components, at both macroeconomic (sector size, production, consumption, etc.) and microeconomic levels (the number of firms involved, their technological capacity, structure, the type of fraud to which they are exposed, etc.). This information may be compiled and maintained in a database or in some other electronic format.

(b) Tactical risk management



This is the process of identifying groups of high-risk transactions by particular importers or exporters. Considerations when identifying these groups include:

- values and volumes of imports/exports
- types of goods imported/exported
- previous irregularities in respect of importer/exporter or commodities
- first time importer/exporter

Other factors which could increase the level of risk in any of the above mentioned types of risk assessment are:

- referral information from other Customs units / any other government agency including taxation authorities;
- risk of revenue loss;
- government program priorities or specific intelligence;
- risk to trade based money laundering.

Risk identification

The following elements can assist in identifying risk:

- performance of an industry against legislative/administrative requirements;
- performance of individual auditees;
- elements of individual auditees' operations (e.g., robustness of internal control, separation of duties/tasks, results of external reviews if appropriate.).

Risk analysis

The WCO Risk Management Compendium defines risk analysis as the systematic use of available information to determine how often defined risks may occur and the magnitude of their likely consequences. Likelihood and consequence can be determined using a rating scale (e.g. high, medium and low or 1- 6, etc.). These two measures, likelihood and consequence, taken together determine the overall level of risk, once again rated as high, medium or low.

Risk evaluation and prioritization

Risk evaluation should be based on the determined likelihood and consequence of each risks. By considering the level of each risks, it is possible to evaluate and prioritize the key risks that need to be analysed in more detail and monitored thereafter.

Risk treatment



The key risks which were identified as to be monitored by the administration should be treated in order to reduce the likelihood or consequence of the risks occurring by putting in place control measures and actions that are intended to modify the level of risks to fit the organizational tolerance.

Recording, communication and consultation

Communication and consultation with internal and external stakeholders should be conducted as appropriate at each stage of the audit process, and for the process as a whole.

Good governance requires decision making that is accountable and transparent. To ensure accountability, it is important that the recording indicates why decisions were made and actions were taken. Therefore, the audit results need to be well recorded and stored in a way that enables their quick retrieval and dissemination.

Monitoring and reviewing risk

Monitoring and review are integral steps in the process of managing risk. This is necessary to:

- determine if previously identified risks are still current/valid;
- identify new risks;
- reevaluate risk levels assigned previously in the light of updated information;
- and evaluate the effectiveness of compliance activity/measures undertaken.⁹

3.3.2. Establishment of risk intelligence systems¹⁰

Intelligence can be defined as a product, derived from the collection and processing of relevant information, which acts as a basis for evaluating risk and making informed decisions when developing an audit plan. Each Customs administration should establish its own intelligence network and systems, tailored to its own needs and based on perceived risks. This network is likely to include both local intelligence units based in ports and airports and a central intelligence unit that is able to collect and collate information and disseminate it throughout the entire service. Intelligence officers should proactively seek information from all available sources, which includes border authorities, all other national government agencies, taxation authorities, open sources as well as from any other country / jurisdiction. Financial Action Task Force (FATF) publishes list of jurisdictions with strategic anti-money laundering (AML) / combating the financing of terrorism (CFT) deficiencies. Companies / entities having transaction with units located in such countries need deeper analysis and such factors may also be considered while evaluating risk.

Risk and intelligence

⁹ WCO Customs Risk Management Compendium

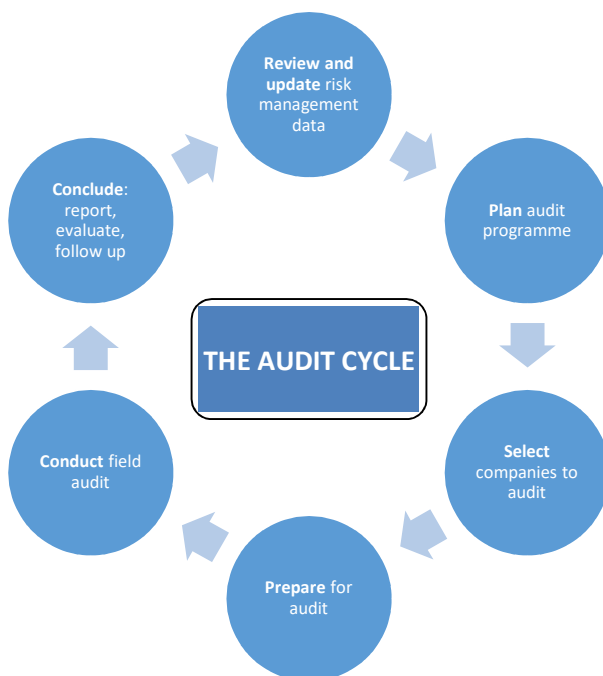
¹⁰ WCO Customs Risk Management Compendium and GIIIS



A risk and intelligence team may serve the whole Customs department. The team's role will normally include the following:

- identify, manage and cultivate information sources
- contribute to the identification and measurement of risk
- communicate with operational colleagues enabling them to take effective and appropriate action in a timely manner
- review intelligence data by obtaining feedback and reviewing targets at regular intervals accordingly

The following chart outlines a recommended cycle for planning a comprehensive audit (systems-based audit) programme:



3.4. Targeting: selection for audit

This work could be carried out by a dedicated risk analysis/targeting team. The selection should be based on risk assessment and take into account the human resources available to conduct audits. The team will then present or propose a plan to the PCA team who will be responsible for carrying out the audits. The frequency for auditing a particular business entity will vary depending on the perceived risk and availability of resources.

It is important that the audit results are communicated to the risk analysis/targeting team so that the risk rating of the business / commodity in question can be adjusted accordingly. This information will also help to determine the need for follow-up audits and also its frequency.



Besides planned audits which were selected on the basis of risk assessment, issue-based audits may also be conducted in particular areas (e.g. trade sectors or countries of origin) for a limited period where high levels of irregularities are anticipated/suspected. This can be an effective use of resources and help to improve compliance level.

3.5. Resource management

The redirection of controls from the border towards the post-importation environment poses significant resource implications for a Customs administration. The increase in PCA activities should coincide with a commensurate decrease in border controls; based on an adequate risk assessment, it may be considered to reduce the number of staff in ports and border posts and to increase staff in PCA teams. New offices may also need to be set up. This raises a number of considerations, including the need for skill improvement of officials, upgrading I.T. infrastructure and considering a number of human and financial resource issues.

Posting/Personnel

The effective posting of the staff in PCA team needs proper description of the job profile. Job profiling is based upon meeting the aims and objectives of the PCA team, which is also in alignment with overarching strategy of the Administration.

A good job profile is essential to qualify a new post when setting up a new job, and a job description is virtually indispensable when the Administration starts to recruit for a vacant post, either internally or externally. The following may be useful as it provides a template gathering the major categories which should be included in any job profile or job description along with an explanation of what to include in each category.¹¹

- Job Information
 - General: Job title, Reports to, Job grade, Location
 - Work conditions
 - Job location/ local jurisdiction
 - Terms of employment
- Personal Requirements
 - Job content: Job purpose/objective, Key performance Areas, Duties and responsibilities
 - Competencies and Qualifications: Job level, Level of education, Competencies, Level of experience, Professional Certification

Training needs/professional skills

¹¹ For details, please refer to “WCO Framework of Principles and Practices on Customs Professionalism”



A combination of skills, knowledge and experience is required to carry out PCA effectively. With the increased use of electronic recordkeeping and the complexity and diversity of global trade, the need for higher standards of training becomes increasingly important. Customs administrations should be committed to providing auditors with the levels of training necessary to equip them to perform their duties. Training departments have an important part to play in ensuring that officers acquire the required skills to conduct an audit.

All auditors need a range of general skills relevant to the task of auditing. These skills include:

- familiarity with Customs laws and regulations;
- knowledge of Customs procedures (valuation, classification, origin, etc.);
- knowledge of auditing standards and procedures;
- accounting techniques and principles, based on Generally Accepted Accounting Principles (GAAP);
- knowledge of computer-based accounting systems;
- a commercial awareness and knowledge of business strategies in international trade; and
- good communication skills.

It is also recommended that certain staff working in audit have specialist skills for particular technical areas, such as:

- Customs Valuation, Rules of Origin, Tariff Classification;
- I.T.-based accounting;
- multinational corporation accounting, including transfer pricing;
- knowledge of specific trade sector/area including emerging issues such as E-commerce, new payment methods etc.; and
- risk management method including risk indicators relevant to trade based money laundering.

Customs recruitment and training policy should address the above needs. In some cases, external support may be necessary to provide the specialist skills. With regard to knowledge of transfer pricing, assistance may be sought from direct tax officials. With regard to knowledge of money laundering, assistance may be sought from agency investigating money laundering cases.

Ethical standards for auditors

Auditors must maintain high professional standards when conducting PCA.



(a) Integrity

The WCO has developed a Model Code of Ethics and Conduct that sets out the minimum required attitude and behavior expected of all Customs officers. The Code of Conduct should be respected in the context of conducting PCA.

(b) Confidentiality

Auditors must maintain adequate levels of confidentiality when accessing and examining auditees' records. Auditors should not disclose any business/Customs information they have acquired during the performance of their duties, unless national laws provide for disclosure of information in specific cases.

(c) Professional competence, due care and diligence

Auditors should act diligently and in accordance with applicable technical and professional standards. Further, they should take due care of the auditee's property including account books, systems etc., and respect company health and safety and security policies and requirements (e.g. wearing of safety helmets).

(d) Equity/Impartiality

Auditors are required to be objective, maintain fair and just judgment over similar cases and not to treat them arbitrarily or allow bias, conflicts of interest or undue influence of others to override professional or business judgments. They should not misuse their authority over the auditee.

3.6 Limitations of PCA

It is recognized that PCA is the most effective means of ensuring compliance with Customs requirements. Particularly in such areas as Customs valuation, effective verification requires access to the importer's/exporter's records and accounting system which is not possible at the time of clearance. Customs administrations should therefore continually strive to implement PCA to the greatest extent possible.

However, many countries have significant levels of informal trade, characterized by poor or non-existent accounting systems, cash-based trading and lack of permanent premises. In such cases, PCA is not the most practical tool; there may be problems locating the trader and, once located, there is often a lack of a structured accounting system and supporting books and records, etc.

Therefore, border controls are the only realistic methodology/option to exercise proper controls, which should be targeted via risk management techniques. Notwithstanding this, Customs should continue to enhance compliance level and ensure that those operating in the informal sector are given opportunity and assistance to formalize their procedures in line with Customs requirements.



4. LIAISON WITH OTHER/FOREIGN CUSTOMS UNITS AND TAX DEPARTMENTS

As previously mentioned, PCA is not a standalone system but one function of the Customs organization optimally linked to the other relevant functions.

Suspected fraud

Where a potential Customs offense is discovered during the course of the audit, the audit team may withdraw from the audit without alerting the auditee and communicate and coordinate with the appropriate enforcement unit, who will decide whether to start a formal investigation.

Legal advice

If, during the course of the audit, issues arise which require further legal interpretation, the auditor may seek advice from the Customs' legal department. Auditees also may seek reconsideration of the specific rulings provided by Customs as they are applied to specific transactions. In the event that disputes regarding the audit findings cannot be resolved by a dialogue with the importer or exporter, the option should be available for requesting a formal review of the decision in question and the right of appeal in accordance with the procedures provided in national legislation.

Other Customs units

It is recommended that communication channels are established with Customs clearance units and other control, risk and enforcement units to share knowledge and information on a particular commercial operator or sector.

Liaison with Tax and VAT departments

Benefits can be had by exchanging knowledge and information with departments responsible for collection and investigation of cases relating to VAT, excise and direct taxes, to the extent that national legislation allows.¹²

Liaison with foreign Customs administrations

Cooperation with foreign Customs administrations may be sought using the pertinent tools for Mutual Administrative Assistance.

¹² For further details, please refer to "Guidelines for strengthening cooperation and exchange of information between Customs and Tax authorities at the national level"

