

UNCTAD Trust Fund for Trade Facilitation Negotiations¹

Technical Note 5

Post-clearance audit

Background

Post-clearance audit means audit-based Customs control performed subsequent to the release of the cargo from Customs' custody. The purpose of such audits is to verify the accuracy and authenticity of declarations and covers the control of traders' commercial data, business systems, records and books. Such an audit can take place at the premises of the trader, and may take into account individual transactions, so-called "transaction-based" audit, or cover imports and/or exports undertaken over a certain period of time, so-called "company based" audit.

Post-clearance audits can be conducted on a case-by-case basis, focusing on targeted operators, selected on the grounds of risk analysis of the commodity and the trader, or in a planned, regular way, set out in an annual audit programme. Furthermore, the audit could also be used as criteria to offer special treatment to certain economic operators.

Chapter 6 of the General Annex of the Revised Kyoto Convention sets out a large number of recommended standards relating to all aspects of Customs control, including the use of audit-based controls. (Standard 6.6. and 6.10).

Introducing post-clearance audit reflects a different approach to Customs control, as it has the effect of offering an immediate release of goods or reduced release times. Implementation of post-clearance audit is part of the risk management strategy.

Reduced release time

The time taken while goods are in Customs custody will be reduced as compared to traditional Customs control, and traders can dispose of their goods promptly upon their arrival in the country.

In applying risk management techniques and audit-based control, the Customs authority is able to release the vast majority of shipments (up to 80–90 per cent of total imports in most countries) and retain only consignments matching identified risk profiles. Non-selected cargo is released immediately but may be subject to control *ex post facto*, i.e. post-clearance audit.

Saving storage fees

As a direct consequence of the expedite clearance process, storage and warehouse fees – together with insurance costs for goods under storage – will be reduced.

More efficient control

Post-clearance audits can cover all Customs regimes – i.e. temporary importation, inward processing, duty-free zones, end-use tariff items – and therefore enhance Customs control over some of these regimes which could not be checked at the border.

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Post-clearance audit allows Customs to change the approach from a purely transaction-based control to a more comprehensive, company-oriented control. Customs audit can benefit from a broader picture of the transactions over a longer period of time. Details for comparison will come from local or national databases and include information from each Customs declaration registered. By comparing prices and tariff headings for identical or similar commodities related to different companies, inconsistencies may indicate fraud.

Similarly, comparison between countries of origin or different suppliers or pattern of intra-company trading may reveal false declarations. If the audit detects an incorrect declaration, the audit officer will ask for the correction of the declaration. This may entail an additional payment of duties or taxes by the trader and even raise Customs' revenues.

Implementation issues

Audit-based control methods are normally implemented as part of a Customs modernization package. In general, modernization programmes introduce a number of reform elements, such as:

- Automated clearance;
- Pre-arrival clearance;
- Use of risk management methods and post-clearance audit; and
- Separation of release from clearance.

Post-clearance audits are often introduced in conjunction with the implementation of automated procedures in Customs operations. However, audit-based control can also be applied in a manual or semi-automated environment. Post-audit controls are an integral part of Risk Management Systems.

Prerequisites

Commitment and support – As it is the case with any reform programme, the most critical prerequisite is the firm commitment and long-term support for it of the highest levels in the organization. This would lead to the set up of an audit team with the necessary skills, guidelines and regulations, inside the Customs departments.

Amendment of legislation and regulations – In many countries, Customs laws and regulations define the mandate and obligation of Customs, among others, to inspect imports and exports both on physical and documentation bases. Moreover, those norms seldom allow Customs to inspect books and records on the premises of traders. Therefore, countries could consider revising their laws and provide necessary authority to implement the new audit methods. Likewise, overall national accounting principles, which lay down general requirements for traders' record-keeping, may need to be drafted or revised. Additionally, national legislation may be required to ensure traders cooperate in providing not only access to books records, etc., but working space during the audit and access to personnel.

Strategy and planning – Customs management must develop an audit strategy and a clear step-by step process, which gives guidance to the staff on its implementation.

Capacity-building – Customs staff must be trained to fully understand the effectiveness of post-clearance audits. Furthermore, training courses must be provided to create

awareness of the analytical work that is necessary to take advantage of the system. Training in common bookkeeping methods and audit methods is also required.

Cooperation with traders – Post-clearance audit is often undertaken on the premises of traders when Customs requires additional documentation to verify the clearance documents. Therefore, it is important to establish a positive and cooperative atmosphere between the Customs service and the traders.

Skills required

Post-clearance audit is a trade facilitation measure based on specific knowledge of audit methods. Such knowledge can only be made available through training courses, mostly in connection with the implementation of risk management.

Assessment of the effective implementation

A reporting system should provide management (and the supervisory authorities to the Customs service) with adequate evidence of the results achieved by the audit team. Assessments can be undertaken regularly by Customs management, i.e. using the WCO self-assessment guidelines. It should also be stressed that involvement of local business organizations in the assessment process can be very useful, adding credibility to the evaluation and strengthening cooperation between the Customs service and the business community.

The purpose of introducing of post-clearance is to contribute to more effective and simplified Customs procedures leading to a better compliance in the first instance – thus, a reduction in the amount of duty and taxes collected by means of an audit will also show the effectiveness of both post-clearance audit and simplified procedures.

Local capacity

The modernization of Customs procedures, including the introduction of post audit-based control, is relevant and necessary for countries with aspirations of taking full advantage of global, liberalized trade. While legislation and the overall strategy for modernization are established by governments, their actual implementation and operation will be undertaken by local Customs offices. Local Customs staff needs to be trained to understand the benefits and the operation of post-clearance audit measures.

References and tools available

World Customs Organisation (WCO)

The WCO has developed a “Self Assessment Checklist” and other diagnostics tools and surveys that are available at the WCO website at <http://www.wcoomd.org>

The Global Facilitation Partnership for Transportation and Trade (GFP)

The Global Facilitation Partnership for Transportation and Trade (GFP) brings together the world’s leading organizations and practitioners in trade and transport facilitation. It creates an open information and exchange platform on major new developments and all aspects of trade and transport facilitation. See www.gfptt.org.

Further UNCTAD Technical Notes

Further Technical Notes are available via <http://www.unctad.org/technicalnotes>. See in particular:

- Technical Note No. 3: Use of Customs automation systems
- Technical Note No. 12: Risk management for Customs control
- Technical Note No. 21: ASYCUDA