PREFACE

This Customs Post Clearance Audit manual is an EAC publication which sets out guidelines on operationalization of the EAC Customs Post Clearance Audits as set out in the EAC Customs Management Act, 2004 in order to verify taxpayers’ compliance with provisions of the EAC Customs Management Act, 2004. The manual spells out in detail the process of conducting Customs Post Clearance Audit.

This manual has been developed to enable uniform interpretation and application of Customs post clearance audit provisions in the Community. It is designed to assist Customs officers and other officers involved in Customs Post Clearance Audit.

The manual can be used both as an operational instrument and a tool in training of Customs officers and other stakeholders. Periodical review will be done on the manual to ensure that it is consistent with any new changes in trade both at regional and international level for which the Community subscribes to.
ACKNOWLEDGEMENT

This manual would not have been possible without the support of the partner states’ Customs Administrations and particularly the Commissioners of Customs who availed to the EAC Secretariat technical experts to develop this manual.

The EAC Secretariat hereby expresses its appreciation to USAID-COMPETE, a regional program whose aim is to enhance trade competitiveness in East and Central Africa for the support in development of this manual.
ABBREVIATIONS

AWB – Airway Bill
B/L – Bill of Lading
CIF – Cost Insurance and Freight
CITES – Convention on International Trade in Endangered Species
COMPETE – Competitiveness and Trade Expansion
CPC – Customs Procedure Code
Ditto – Same as above
EAC – East African Community
EACCMA – East African Community Customs Management Act
EX-WORKS – Ex Factory Price
FOB – Free on Board
GAAPs – Generally Accepted Accounting Principles
HS – Harmonised System
L/C – Letter of Credit
MIS – Management Information System
NSBC – Non Systems Based Controls
PCA – Post Clearance Audit
SAD – Single Administrative Document
SBC – System Based Controls
US – United States of America
USAID – United States Agency for International Development
VAT – Value Added Tax
WCO – World Customs Organisation
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CHAPTER ONE

INTRODUCTION

1.1 Background to Post Clearance Audit
The growth in international trade, coupled with declining resources for Customs administrations worldwide relative to the increase in volume of international trade and the need for trade facilitation, has necessitated the adoption of risk management and audit-based controls. These permit Customs authorities to release the vast majority of shipments and retain only consignments matching the risk profiles. Non-selected cargo will be released immediately but may be subjected to Post Clearance Audit later.

1.2 Definition of Post Clearance Audit
PCA is a systematic Customs control measure that ensures the accuracy and authenticity of declarations through the examination of relevant books, records, business systems and commercial data kept by persons/companies directly or indirectly involved in international trade.

In particular, PCA is regarded as one of the most effective measures for compliance verification with Customs laws, regulations, procedures and trade facilitation through fast clearance.

1.3 Importance of Post Clearance Audit

1.3.1 Customs efficiency and trade facilitation
Post Clearance Audit enables faster clearance and release of goods by applying simplified procedures, shifting from close examination of every declaration to risk based examination of Customs declarations.

1.3.2 Improved collaboration between Traders and Customs
Interaction between Customs and Traders through PCA is part of the process that fosters the assessment of risks related to goods carried or imported/exported by specific traders. This facilitates risk profiling that is beneficial to both Customs and Traders.

1.3.3 Improved compliance with Laws and Regulations
It is a general experience that the improved efficiency in Customs together with the traders’ incentive to achieve faster release of goods brings about better compliance on the part of traders.

1.3.4 Better human resource allocation
Following implementation of risk-based clearance, Customs management can upgrade staff from laborious work generating relatively low results to high quality work leading to better results.

1.3.5 Increased revenue yield
The improved efficiency and professionalism in Customs controls brought about by PCA leads to an increase in duty collection.

1.3.6 Reduced release time
Post Clearance Audit enables Customs Administrations to employ risk based management techniques which fosters efficiency in clearance of cargo.

1.3.7 Lower transaction cost
The fact that only a minimum percentage of goods are examined under efficient risk-based clearance implies that Customs can concentrate on this smaller portion of imports and release the vast majority of shipments immediately after the clearance documents have been lodged with Customs. This reduces the cost of doing business.
1.4 Objectives of Post Clearance Audit
(a) To establish whether all imports and exports are accurately declared to Customs.
(b) To verify whether import and export prohibitions and restrictions (license, quota, CITES, and others.) are observed.
(c) To confirm if the client's internal systems relating to Customs activities provide accurate and reliable data in order to comply with Customs legislation.
(d) To evaluate the level of compliance in each Customs transaction and identify areas of potential weaknesses for which corrective actions may be required.
(e) To establish whether the conditions of approval were observed and all duties due to Customs were fully paid.
(f) To confirm whether the traders are complying with their obligation to retain all supporting documents for the period stipulated in law.
(g) To verify if all goods leaving customs controlled areas are properly documented.
(h) To determine if all conditions of drawback, refunds, remissions, rebates and any other scheme are met.

1.5 Legal framework of PCA under the EAC
The laws governing Customs operations in the EAC Partner States from which Customs audit derives its mandate are enshrined in the EACCMA, 2004 and are supported by the EAC Customs Management Regulations, 2006.

1.5.1 Specific legal provisions

1.5.1.1 Production of documents
Section 234 as amended requires an owner of goods to keep every document required or authorised for the purposes of the EACCMA, 2004 for a period of five years. Failure to do so is an offence as prescribed by the Act.

Section 235 of EAC-CMA stipulates that the proper officer may, within five years of the date of importation, exportation or transfer or manufacture of any goods, require the owner of the goods or any person who is in possession of any documents relating to the goods:
(a) to produce all books, records and documents relating in any way to the goods; and
(b) to answer any question in relation to the goods; and
(c) to make declaration with respect to the weight, number, measure, strength, value, cost, selling price, origin, destination or place of transhipment of the goods, as the proper officer may deem fit.

1.5.1.2 Inspection or audit
Section 236 of EAC-CMA grants the Commissioner powers to:
(a) verify the accuracy of the entry of goods or documents through examination of books, records, computer stored information, business systems and all relevant customs documents, commercial documents and other data related to the goods;
(b) question any person involved directly or indirectly in the business, or any person in the possession of documents and data relevant to the goods or entry;
(c) inspect the premises of the owner of the goods or any other place of the person directly or indirectly involved in the operations; and
(d) examine the goods where possible for the goods to be produced.

1.5.1.3 Other supporting legislation
In implementing the sections of the EAC-CMA referred to in 1.5.1 above, other regional and national laws should be referred. These include but not limited to:
(a) VAT Act in relation to import.
(b) Income Tax Act in relation to withholding tax on imports and the records a taxpayer is required to maintain.
(c) Excise Act for application of excise duty rates.
(d) Any other relevant legislation or publication.

1.6 Scope of Post Clearance Audit
All businesses involved in the import and/or export of goods or in the receipt, storage, manufacture and delivery of duty suspended goods may be the subject of an audit for a period of time stipulated in the law.

1.6.1 Customs Post Clearance Audit Manual
The Customs Post Clearance Audit (PCA) Manual outlines the principles and policies of post clearance audits conducted in line with the East African Community Customs Management Act, 2004 and national laws. This manual is designed primarily as a compendium to assist Customs auditors and Customs officers in carrying out the planning, execution, reporting, follow-up of Post Clearance Audits and Post Audits Management.

1.6.2 The Purpose of the Customs Post Clearance Audit Manual is to:-
(a) Set out the principles and policies that have been established in order to organise and carry out audit activities.
(b) Describe the process of audit and the concept on which it is based.
(c) State guidelines for PCA activities and meant to provide clear guidance to all PCA staff when carrying out the audit processes (risk assessment, planning, conducting and reporting).
(d) Aid delivery of high level outputs for all PCA activities.
(e) Ensure that, Post Clearance Audits are carried out in a uniform, efficient, economical and comprehensive manner adhering to stipulated principles and policies.
(f) Guide auditors in ensuring that audit standards are observed while conducting audits.

1.6.3 Scope of the Customs PCA Manual
This manual covers subjects that are related to principles, policies and special issues pertaining to conduct of post clearance audits. It outlines in detail the background, importance, objectives, legal framework of PCA, PCA standards, audit processes and post audit management.
CHAPTER TWO

POST CLEARANCE AUDIT STANDARDS

2.0 Introduction
Post Clearance Audits should be carried out by Customs post clearance audit officers. The increased use of electronic record-keeping and the sophistication of global trade have necessitated the need for higher standards of training. Standards ensure consistency, quality and provide a framework for the audit processes. Customs post clearance audit officers should be trained and equipped with necessary skills and tools in order to perform their duties effectively and efficiently.

In conducting post clearance audits, audit officers must strictly comply with the relevant laws and regulations. The main audit standards to be followed when performing a post clearance audit are:-

2.1 Competence
The audit is to be performed by persons having adequate technical training, proficiency and experience in Customs, accounting and auditing. The following areas are most likely to increase the efficiency and effectiveness of PCA:-
(a) Accounting techniques and principles as outlined in Generally Accepted Accounting Principles (GAAPs).
(b) Auditing standards and procedures.
(c) International trade/business including banking procedures.
(d) Customs laws, regulations and procedures (valuation, HS codes, origin and others).
(e) Electronic record keeping and computer systems.
(f) Common language in international trade with sufficient knowledge to understand contents of business documents.

2.1.1 Professional due care
Auditors should perform their duties with due professional care, competence and diligence. The work is to be adequately planned and assistants, if any, are to be properly supervised. A sufficient understanding of internal controls is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.

They should strive to keep abreast with developments in practice, legislation and techniques to ensure that a client receives the advantage of competent professional services. They should enhance their knowledge and skills through participation in continuous training programmes and workshops.

They should take maximum care of the clients\’ property if usage of such is necessary and they should not misuse their authority.

2.1.2 Objectivity
The Principle of objectivity requires auditors to base their judgement solely on the facts of reality and in accordance with the provisions of the law. Sufficient and appropriate evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the accuracy of declarations under audit. They should not be influenced by emotions or personal prejudices. Therefore, auditors should be fair, intellectually honest and free of conflict of interest or influence of their colleagues or clients overriding their objectivity.

2.1.3 Independence
An independent mental attitude for an auditor is a state of mind of not being biased or fraudulent. That is, being objective in thinking and undertaking. The auditor should be free from prejudice and be able to express his/her opinion without fear or favour.
It is of fundamental importance that the auditor is and remains independent of the subject being audited and should be seen as such.

2.1.4 Integrity
Auditors should be straightforward, honest, with strong character and courage of conviction and recognition of the professional obligation to exercise reasonable skill, care and caution in performing their duties. Integrity implies not merely honesty but fair dealing and truthfulness. Integrity breeds trust and confidence.

Auditors are therefore expected to be incorruptible, objective and unprejudiced in the performance of their duties. Judgement should be exercised without compromising efficiency as well as courtesy for clients.

2.1.5 Confidentiality
The information gained in the course of audit should not be disclosed without the consent of the client unless there is a public duty or legal right to disclose, although there are circumstances even under these situations the auditor has to invoke his right of non-disclosure.

Clients should be assured that the information presented to auditors shall not be disclosed beyond what is required for execution of the tax laws and regulations. Therefore confidentiality justifies desire of protecting a client's privacy.

2.1.6 Equality
Auditors should maintain fair and just judgement over similar cases and should not treat them arbitrarily. They should ensure that their actions do not result in inequality before the law.

2.1.7 Transparency
Post clearance audits should be executed in an open, transparent and fair manner. Communication and co-operation between Customs organization and the client is of paramount importance, if the audit is to be successful. The officer in charge of the case should be in contact with the client on a regular basis, to keep them informed of audit progress and results. In addition, the clients' responses to the audit results should be included in the final report.
CHAPTER THREE
POST CLEARANCE AUDIT PROCESS

PRE-PLANNING
- Selection of audit case
- Allocation of audit case
- Pre-audit survey:
  - Client Profile
  - Audit sampling

PLANNING
- Audit planning
  - Objective
  - Audit test
  - Scope
  - Resources
- Client notification
- Client profile update
- Developing audit program

AUDIT EXECUTION
- Entry Conference
- System review & audit approach
- Audit options
- Review audit samples
- Evidence gathering & data analysis
- Review & evaluate audit program

REPORTING
- Preliminary audit report
- Exit conference
- Audit report
- Communicate results to client

FOLLOW-UP ACTIVITIES
3.1 Pre-planning

3.1.1 Selection of audit cases
The selection of clients for audit shall be as a result of risk profiling. The following risk parameters shall guide the selection of audit cases:

3.1.1.1 Volume
The total volume of clients’ transactions may be an indication/sign of risk. An analysis should be carried out on the frequency and size of shipments.

3.1.1.2 Value
A large value for imports may be considered a high risk. In addition, an analysis of value and quantity, as well as average unit values for commodities, by country, should be undertaken as part of a risk assessment strategy.

3.1.1.3 Rate of duty
A zero rate of duty does not pose a valuation risk unless other factors come into play.

Very high duty rates on the other hand do pose a risk, even where the value may be low, because the resultant duty liability (or loss thereof) would be significant.

3.1.1.4 Country of origin
The country where goods are produced, manufactured or supplied may also become a factor in determining risk.

3.1.1.5 Others
These may include such risk parameters like compliance history of the importers/exporters, nature of commodity/industry, referrals from other units, strategic importance of the sector, duty exemption, number of different tariff codes used, number of Customs procedures used, previous audit results and risk of revenue loss.

3.1.2 Allocation of audit cases
Audit cases shall be allocated to auditors every financial year taking into consideration such factors as staff numbers, skills, knowledge, experiences and other available resources.

3.1.3 Pre audit survey
The first step in the audit process is to assess and evaluate the strength and weaknesses within the client’s business system. The size and location of the client to be audited may give Customs an option to perform an on-site survey or request corporate data of the client via an audit questionnaire. Such survey may include gathering data regarding corporate organisation and structure, commodity information, method of payment, value of commodities, cost associated with commodities, related party transactions, record keeping systems and any other relevant information.

The objectives of the pre-audit survey are to identify and focus on specific risk areas through analysis of available data and to draft an audit plan that includes audit objective, tests, scope and resources.

Pre-audit survey should include analysis of basic data, cross-checking with relevant units (internal and external), performing audit sampling, review of audit survey and planning checklist and consolidation of findings (documentation of integrated study parameters).
3.1.3.1 Analysis of basic data

The examination of basic data is based on two profiles:
(a) Client profile
(b) Transaction profile

The following table adopted from WCO’s Guidelines and modified to suit local conditions shows the items to be examined and their possible sources:

**Client Profile Table**

<table>
<thead>
<tr>
<th>Category</th>
<th>Analysis items</th>
<th>Possible source of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company outline</td>
<td>• Address</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td>• Organizational form (form of business entity, capital, shareholders, business items, business (accounting) year, etc.)</td>
<td>- Past audit records - Publications and other available sources</td>
</tr>
<tr>
<td></td>
<td>• Organization structure</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Accounting system</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Business performance</td>
<td>- ditto -</td>
</tr>
<tr>
<td>Summary data of transactions</td>
<td>• Total amount and quantity of import</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td>• Major items’ shipping point, total amount and quantity</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Existence of transactions between related parties</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Records of export transactions with the seller of imported goods</td>
<td>- Export declarations - Publications and other available sources</td>
</tr>
<tr>
<td>Others</td>
<td>• Past audit records</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• Past offense records</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• Content of internal/external intelligence</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>• Content of other internal/external data</td>
<td>-</td>
</tr>
</tbody>
</table>
## Transaction Profile Table

<table>
<thead>
<tr>
<th>Category</th>
<th>Items for survey</th>
<th>Possible source of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>• Price-related terms (price, delivery and payment)</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td>• Amount of freight and insurance, and payees</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Fluctuation in declared value</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td>• Comparison with values of identical or similar goods (if any)</td>
<td>- Other importers’ declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Price list/data-base</td>
</tr>
<tr>
<td>Category</td>
<td>Items for survey</td>
<td>Possible source of data</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Foreign and domestic market price and resale profit ratio (if any)</td>
<td>- Publications</td>
<td></td>
</tr>
<tr>
<td>Application of valuation declaration and its contents</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
<td></td>
</tr>
<tr>
<td>Volume of trade &amp; the number of declarations</td>
<td>• Quantity, amount and the number per imported item (or HS)</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Statistical data-base</td>
</tr>
<tr>
<td></td>
<td>• Quantity, amount and the number per exporter</td>
<td>- ditto -</td>
</tr>
<tr>
<td>Tariff</td>
<td>• Tariff codes (HS) of imported items</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Tariff schedule</td>
</tr>
<tr>
<td></td>
<td>• Tariff rates per imported items</td>
<td>- ditto -</td>
</tr>
<tr>
<td>Import/Export restrictions</td>
<td>• Content of import restriction involved in imported goods, if any</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country of Export</td>
<td>• Export country and shipping point</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Production and collection points</td>
<td>- ditto -</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Domestic circumstances in export country</td>
<td>- ditto -</td>
</tr>
<tr>
<td>Exporter</td>
<td>• Name of exporter</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Name of exporter concerning identical or similar goods, if any</td>
<td>- ditto -</td>
</tr>
<tr>
<td>Others</td>
<td>• Specification (nature, shape, quality and usage) of imported goods</td>
<td>• Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Records of entry examination</td>
</tr>
<tr>
<td></td>
<td>• Status of documentary/physical examination at customs clearance</td>
<td>- Records of entry examination</td>
</tr>
<tr>
<td></td>
<td>• Status of offense and errors involved in trade item, exporter, and export country</td>
<td>- Records of investigation for customs offense</td>
</tr>
</tbody>
</table>
The most basic and important sources of data include the following:

(a) Import declarations and attached documents
(b) Statistical data sheets on past import and paid Customs duty

3.1.3.2 Analysis of the Import Declarations
Most of the entered particulars of imported goods, including the following items, should be compiled as a data sheet for analysis.
(a) Date of declaration/release
(b) Declaration number
(c) Country of shipment
(d) Country of origin
(e) Description of goods and/or tariff classification code (full digits)
(f) Quantity (units and weight)
(g) Customs value of goods (CIF and FOB basis)
(h) Rate of duty
(i) Amount of duty
(j) Rate of tax
(k) Amount of tax
(l) Customs regime
(m) Customs procedure code (CPC)
(n) Status of valuation declaration
(o) Status of price range (if available)
(p) Other items in case of need

3.1.3.3 Analysis of the Commercial Invoice
The Commercial invoice is the most useful supporting document to the import declaration that represents essential terms and conditions of a transaction including price of goods. Each invoice should be analyzed from the following viewpoints:

<table>
<thead>
<tr>
<th>Participation of third parties in a transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particular descriptions are often shown in a commercial invoice to imply any indirect transaction. One example is a third party's name preceded with &quot;c.c&quot;. In such cases, the party under &quot;c.c&quot; could be a commission agent. Findings of such indications should be input into an audit plan, and fact concerning payment of commission and brokerage should be examined during the field audit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delivery terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>The delivery term might not be presented in an invoice. Even if presented, it might differ from the fact. For instance, it might be &quot;Ex-works&quot; in fact, even if represented as &quot;FOB&quot; in an invoice.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional payment or refund</th>
</tr>
</thead>
<tbody>
<tr>
<td>When actual payment is not in accordance with the payment terms agreed between a seller and a buyer, it may cause a change of the transaction value since it could include an additional payment or a refund.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shipping points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Places where imported goods are produced, collected and shipped are checked to identify required expense elements for transportation.</td>
</tr>
</tbody>
</table>
**Signature of an exporter**
Blank invoices might be sent from an exporter to an importer to utilize them for false declarations. Such fake invoices may be detected by comparing consistency in signatures on other invoices for other consignments from the same supplier.

**Unit price**
It is necessary to examine whether unit price, tariff classification and duty rate of the same item are unified in every invoice, and whether the same unit price is given to different goods.

### 3.1.3.4 Valuation declaration
The valuation declaration and the attached documents, if any, provide very useful data for the pre-audit survey. The following facts should be examined with the valuation declarations:

(a) Status of the importer and the exporter in terms of whether they are a buyer and a seller respectively.
(b) Relation between a seller and a buyer that affects transaction value
(c) The involvement of third parties in the import transactions.

**Analysis points of the valuation declaration**

**Relation between a seller and a buyer**
Various relations among parties involved in the import transactions are taken into consideration to determine the Customs value of imported goods. These relations include: a head office and branch office, a parent company and subsidiary/associated company, a core company and affiliated company, a principal and an agent and others.

**Price list**
In case where a price list of imported goods is attached to a valuation declaration, reliability of the price list should be examined. For instance, a price list that is typed and addressed only to an importer may be an indicator that the listed price is only applicable to the importer. Even if a price list is a printed catalogue, it should be examined whether any special instructions concerning condition for application of listed prices are described. In examination of a price list, it is necessary to pay attention not only to content of description but also to peculiarity of appearance such as a queer blank column in a list, difference of the fonts of characters, and a particular note like "net price".

**Separate payment**
Payment separate from price of goods include a part of transaction value, such as royalty and license fee, commission and brokerage, and so on. If separate payment exists, it is necessary to examine the amount, rate, and calculation base of payment as well as the existence and the content of the contract.

**Comparative examination with other declarations of the same transaction**
Comprehensive examination with other transactions is necessary in addition to the examination of each item of an individual valuation declaration. For instance, commission once added in a valuation declaration might not be declared for another transaction even though both transactions were made by the same parties dealing the same commodity.

### 3.1.3.5 Statistical data sheets on past imports and paid Customs duty
The auditor should obtain a statistical data sheet of the importations made by the company for the period under audit. The datasheet should contain information that is pertinent to country of origin, HS code, CIF, quantity and other relevant details.

Similar information for Companies in the same line of business should be obtained for comparison purposes.

All file notes made should be clearly indicated on the face of the document since all documents form part of audit working papers.
3.1.3.6 Cross-checking with relevant units (internal and external)
In the pre-audit survey, it is necessary to request for professional opinions of other units that processed data for analysis, depending on circumstances.

The auditor should consult with all the relevant divisions/sections like specialists of cargo clearance, valuation and offence investigation. These consultations should be recorded and may include the following:-

(a) Valuation division on all cases where issues of value are in question.
(b) Reference to all past tariff and valuation rulings given on the item(s) under audit.
(c) Reference to all relevant information circulars issued.

These specialists may provide useful information, which could lead to the identification of irregularities that may have occurred during Customs declarations either by intention, negligence or error. This is crucial in implementing efficient and effective PCA for the following reasons:
(a) It helps in identifying potential risk areas. The existence of possible fraud, negligence and errors already indicates potential risk areas.
(b) It aids in clarifying types of information that should constitute the client’s profile, which is necessary for appropriate assessment of client’s risk.
(c) It assists in clarifying types of records that should be examined in the field audits.

3.1.3.7 Perform audit sampling

Meaning
Sampling refers to the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable auditors to obtain and evaluate audit evidence about some characteristic of items selected in order to form or assist in forming conclusion concerning the population which makes up the account balance or class of transactions.

Generally, sampling is the examination of few items (or sampling units) drawn from a mass of data (population), with a view of inferring characteristics about the mass of data as a whole.

Options for sampling available to PCA:-
(a) Statistical sampling
Involves the use of techniques from which mathematically constructed conclusions regarding the population can be drawn. It is used to determine:
(i) How large the sample should be?
(ii) Whether to accept or reject the population on the basis of the results from the sample.

This permits quantification of sampling risk. For example if a sample is selected on the basis of a 95% confidence level, there is a 5% sampling risk implying that there is a 5% risk that the sample is not representative of the population and as a result, incorrect conclusions may be drawn about the population.

(b) Non-statistical (Judgmental)
Sampling is not statistically based and results should not be extrapolated over the population, as the sample is unlikely to be representative of the population. The auditor relies on his judgment to decide.

When to use Statistical Sampling
Statistical sampling methods should be used when any of the following criteria applies:-
(a) Cost-benefit analysis supports the additional costs and time required.
(b) The sample errors or exceptions must be extrapolated to quantify for the population or a
defensible expression of the test results is required.

(c) The objective of the audit is to state an opinion on the reliability of the balances reported.

(d) The availability of computer software for sampling makes statistical sampling simple to apply.

(e) When employing statistical sampling, it is important to quantify the risk of a sampling error.

When to use non-statistical sampling

Non-statistical sampling methods may be used when any of the following criteria applies:-

(f) An auditor encounters a well-designed, well-controlled system, good management, well-trained employees and a feedback mechanism that highlights errors and it would therefore be extravagant to spend a great deal of time performing extensive substantive tests.

(g) An auditor encounters a system that is so weak (for example inadequate controls and/or procedures, insufficiently trained personnel) that no reliance can be placed on the system of internal controls and it would therefore be extravagant to spend a great deal of time performing extensive substantive tests.

(h) The audit objectives are fully met by a non-statistical sample.

(i) It is known that the population has no variability.

Documentation of sampling methodology and process

Auditors should make sure that the audit working papers include sufficient detail to describe clearly the sampling objective and the sampling process used. It should be noted that all aspects of selecting the sample must be clearly and fully documented in the audit working papers.

The working papers should include the source of the population, the sampling method used, size of sample, sampling parameters (for example random start number or method by which random start was obtained, sampling interval, and others) items selected, details of audit tests performed and conclusions reached.

3.1.3.8 Audit survey and planning checklist

On completion of pre-planning, an audit survey and planning checklist shall be submitted for review and approval (Appendix 1).

3.1.3.9 Consolidation of findings

Any irregularities identified from the analysed data should be consolidated in a certain format in order to draw up focal points and examination methods of the audit. Each outcome of the analysis should be summarized for ease of reference.

3.2 Planning

3.2.1 The audit plan

Good preparation is essential in enabling auditors to gain an understanding of the company to be audited and to identify the main areas of risk. The audit plan is a summary of the information gathered during the planning phase. It outlines the type, objectives, scope, tests and resources needed for the audit, roles and responsibilities and other specific areas of concern (For a sample audit plan refer to Appendix 2).

It should be noted that when conducting a desk audit or single area premises audit, an audit planning memorandum may not be necessary or would be less extensive than in the case of a comprehensive audit.

The following should be contained in an audit plan:-

(a) Company information.
(b) Reason(s) for selection.
(c) Type, objectives and scope of Audit.
(d) Company Profile.
(e) Resources needed for the audit.
(f) Roles and responsibilities of auditors.
(g) Tests to be performed for example valuation, HS classification, origin, quantities and others. Auditors should develop detailed audit program for the test to be conducted. (For guidance, see sample of audit programs in appendices to this manual).
(h) Time frame for each activity to be carried out.

PCA teams must establish and agree on the type of audit approach to be used and the reasons for the selection shall be recorded as part of the planning stage of the audit.

Planning of time to be spent on individual audits is key to the achievement of audit objectives and optimize on output.

Planned audit time depend on the level of audit risk and overall complexity of the client transactions. As the resource is scarce and limited in order to be effective, efficient and economical in accomplishing audit work; effective control of individual audits is important.

Taking into consideration the levels of risk, nature of the business, complexity of the audit case, the audit scope and the availability of resources, these are the indicative hours to be spent on audits from entry conference to issuance of management letter:-
(a) High level - 20 working days: 160 hours
(b) Medium Level - 10 working days: 80 hours
(c) Low level - 5 working days: 40 hours

The auditors are responsible for making sure that when the indicated/planned hours are likely to be exceeded the supervisor is informed. The supervisor is also supposed to monitor the time spent on audits. The alternatives are: -
(a) If justifiable the audit time should be increased.
(b) If not, the audit should be brought to an end.

It is important to note that, in spite of the type of audit, in practice and normal circumstances the idea of a hundred percent (100%) verification is impractical.

All audit testing plans as indicated in the programs should be based on sufficient information that allows for percentage-based program. For example where a percentage of clients’ SADs within a given time period have been selected for testing and results show a high level of compliance then the results should be used to determine whether further time should be spent on the audit or not. Similarly a high level testing failure rate would necessitate more time to be spent on the audit.

**Circumstances where 100 % verification is justifiable:-**
(a) Normally this is for cases of suspected fraud.
(b) High level error or non compliance.
(c) Where complete breakdown in the client systems and/or accounting records has occurred.

### 3.2.2 Notification to client

The person to be audited shall be informed in writing fifteen days in line with regulation 22 of the EAC Customs Management (Compliance and Enforcement Regulations), 2011 prior to commencement of the audit (**Appendix 3**).

The letter will detail the following:-
(a) Legal authority to conduct the audit
(b) Proposed period to be audited
(c) Proposed commencement date of the audit
(d) Name of contact person for purposes of the audit
(e) Assurance of confidentiality
(f) Relevant documents, books and records relating to the audit period required by the auditor for verification.

These books and records may include:-
(a) Commercial invoices
(b) Shipping records
(c) Purchase orders
(d) Delivery notes
(e) Chart of accounts
(f) Record of contracts
(g) Royalty and marketing agreements
(h) Inventory records
(i) Journals
(j) Ledgers
(k) Business correspondence
(l) Records of payments, among others

The notification letter will be accompanied by an audit questionnaire to be completed by the person to be audited. This questionnaire is one of the tools employed in pre-audit survey. The information collected may be commercially sensitive and should, therefore, be treated as confidential.

Audit questionnaire

The purpose of the audit questionnaire is to gain an understanding about the company’s organizational structure, internal processes and controls related to Customs transactions.

The questionnaire assists the auditor to focus on the main areas of concern. Since each company’s operations are unique, questionnaires may be designed to meet purposes of each audit.

When the importer responds to the questionnaire comprehensively, the audit team can plan its approach for the audit. The results of the questionnaire, interviews with company officials and Customs personnel, survey of company procedures, and limited testing will be used to determine the effectiveness of the company’s internal control system. A Pre-Audit Survey of the company’s importing operations and internal controls will be used to determine whether more extensive testing is necessary. For guidelines on preparation of an audit questionnaire refer to appendix 4.

3.2.3 Client profile updates

Prior to moving to the execution phase of the audit, it is important to review the client’s submitted documents, as requested in the notification letter and the completed audit questionnaire.

All of this information may raise specific concerns and issues that need to be clarified and addressed during the execution phase. From the questionnaire, the teams should identify the key systems and significant types of transactions relevant to Customs and the key accounting, Customs and systems personnel. All concerns identified must be addressed. Some may be short lived, but taking note of them ensures that questions raised are satisfactorily answered.

The following are client profile concerns:-
(a) Invoice descriptions that are too complex or vague may lead to misclassification.
(b) Intelligence data (complaints, results of past audits or current border examinations, prosecutions and seizures may have identified goods, clients or suppliers that have a history of non-compliance).
(c) New policies/requirements may be a risk indicator because they are new.
(d) First time imports may pose a risk because the goods have never been imported.
(e) First time importers may carry an element of risk because they do not know the rules.
(f) The number of entry points the client imports through.
(g) The nature of the commodity (high value for duty, high rate of duty/revenue risk, high volume and others).
(h) The number of different commodities imported and possibilities of wrong HS classifications.
(i) Existence of peak season shipments may have correlating higher Customs errors.
(j) Goods which previously were the object of a negative ruling i.e. one that resulted in additional duties owing.
(k) Whether the entries are completed in-house or by a broker/consultant.
(l) Whether or not the client is related to the supplier.
(m) The company has experienced rapid growth and has not been able to keep up with Customs requirements.
(n) Comparisons of duty paid against value declared for current year to prior years.

3.2.4 Develop audit program/check list
Audit program is a tool primarily used by officers to examine the level of compliance in the areas of tariff classification, value for duty, origin and others. Each Audit program has its own set of procedures to be followed.

The list of procedures provides columns for reference, officer's initials and dates. As each procedure is completed, the officer responsible for completing the procedure will initial and cross-reference the corresponding working paper.

If a procedure has not been completed, an explanation must be documented in those areas in lieu of auditor’s initials and reference. An explanation must also be given when a procedure has been altered or modified.

To ensure that minimum standards as well as a systematic approach is maintained, a series of audit programs have been developed to provide broad guidance to auditors.

The following programs cover the main PCA activity areas and should act as a structure for all audits:-
(a) Valuation (Appendix 5)
(b) Classification (Appendix 6)
(c) Quantities (Appendix 7)
(d) Origin (Appendix 8)
(e) Export and Re-export (Appendix 9)
(f) Temporary Importation (Appendix 10)
(g) Exemption (Appendix 11)
(h) Refunds and Duty Drawback (Appendix 12)
(i) Duty Remission (Appendix 13)
(j) Custom Bonded Warehouse (Appendix 14)
(k) Manufacturing Under Bond Scheme – MUB (Appendix 15)
(l) Export Processing Zones (EPZ) and Free Ports (Appendix 16)

These programs show the main risk areas relevant to each activity. However auditors are encouraged to think beyond obvious risk areas and plan their audits using their own experiences, local knowledge, specific risk intelligence and any other sources of information relevant to the activity and client. These audit programs are not exhaustive the auditors may develop audit programs in different risk areas of Customs activities.
It is the obligation of PCA to ensure that these audit programs remain relevant from both legal and operational points of view. Auditors are encouraged to communicate any improvements/weaknesses they identify within the audit program to the relevant authorities. It is essential that operational best practices be identified and shared throughout the whole Post Clearance Audit office if the required continuous improvement of operational effectiveness and efficiency is to be maintained.

3.3 Execution

3.3.1 Entry Conference
The initial meeting is attended by the auditors assigned to perform the audit and representatives of the taxpayer preferably at the taxpayer’s premises. Representation by someone at the executive level of the company is invaluable in ensuring a high level of cooperation.

During the entry conference, the following areas should be covered:-
(a) Introductions of the audit team and the taxpayer’s representatives.
(b) Objectives and benefits of the audit should be explained.
(c) A discussion on the taxpayer’s business processes and the problems faced by them while transacting business with Customs Administrations.
(d) Discussion on the information that will be needed during the course of the audit.
(e) Taxpayer’s contact person for purposes of the audit.
(f) Venue for conducting the audit.

Auditors should take a record of the deliberations at the entry conference. Minutes of the meeting should be signed by the auditors and availed to the taxpayer for acknowledgement. Where the taxpayer refuses to acknowledge the minutes, the auditors should immediately bring this fact to the attention of their supervisor.

3.3.2 System review and audit approach
There are two approaches that auditors can apply in conducting audits, namely:-
(a) System Based Controls (SBC), and
(b) Non System Based Controls or Transactions Based Audits.

3.3.2.1 Systems based controls (SBC)
In this approach, the auditor examines and tests the client’s internal control systems to ascertain their level of reliability. This is a more scientific method of auditing complex organizations. The nature and depth of audit will depend on the effectiveness of the system of internal controls in place.

Areas which show weaknesses and prove to be of revenue significance are targeted for detailed verification and control actions. In case any irregularities are identified, a tax liability should be established, if any. The amount established should be collected and the client should be encouraged to take action to correct deficiencies in his/her systems.

Benefits
The benefits of systems based control approach are:-
(a) Enhances greater management control.
(b) Allows auditors to clearly focus on what is expected of them.
(c) Allows for consistent audit work and control to be applied to all clients.

Limitations
(a) This method is expensive in terms of resources.
(b) Requires high level training.
(c) Time consuming.
(d) Application limited to big clients.

**Steps to Systems Based Controls:**

(a) **Understand the client’s business**
   Identify and gain understanding of client’s business processes i.e. identifying business risks, operational controls that are in place and the flow of transactions.

(b) **Develop strategic audit plan**
   Audit plan enables auditors to obtain a better understanding of the flow of transactions and provide an opportunity to identify client’s level of risk and establish the extent of reliability of client’s controls. This involves establishing audit scope, objectives, preparation of audit program and allocation of resources and others.

(c) **Assess client’s systems**
   Obtain comprehensive information about the client’s system and identify the objective of the system being examined.

(d) **System documentation**
   Document the client’s system as appropriate.

(e) **Perform walkthrough tests**
   Conduct walkthrough tests to confirm understanding of the transactions, processes and that the controls identified are in operation. This will help the auditor to make a preliminary evaluation of the effectiveness of the controls.

(f) **Perform test of controls**
   Use the understanding of the processes and execute tests of controls (compliance tests) to see whether they are complied with as intended.

(g) **Perform risk assessment**
   Assess whether the systems procedures and controls will provide accurate and timely information to enable the client to declare the right amount of taxes and comply with legal obligations at the right time.

(h) **Perform test of details**
   Use representative sampling or other substantive tests to obtain sufficient audit evidence as to completeness, accuracy and validity of the transactions. The extent of audit testing will depend on the information obtained in controls risk assessment. Substantive tests include vouching, tracing, verifications, analytical reviews, tests of balances and others.

(i) **Conclude the audit tests**
   Audit information is examined and conclusions formed on the adequacy of the client’s systems and controls in meeting the revenue objectives.

(j) **Client Feedback**
   Meet the client to discuss the audit findings. Where weaknesses exist, clients should be reminded of their responsibilities and any proposed remedial action.

**3.3.2.2 Non systems based controls (NSBC) - Transactions based audits**

Although the systems and procedures of client may be in place, there are circumstances and situations where the use of SBC is not advisable. In view of these, a Non System Based Controls approach must be considered.
This approach is mainly adopted in entities where the internal control systems on which the auditor could place reliance upon, are notably unreliable or absent.

It focuses mainly on proving transactions to the underlying documentary evidence. Many transactions should be traced to the supporting documents, in order to improve the effectiveness of the approach.

Each item is assumed to represent only itself and unless very substantial proportions of transactions are vouched, the auditor cannot make a conclusion regarding all transactions of the period under audit. The aim is to obtain reasonable assurance that, the underlying records accurately reflect the nature of the transactions entered into.

**Circumstances and situations where the use of NSBC is appropriate:-**

(a) **Non-complexity of records.**

   Suitable for clients with relatively small volume of import or export transactions and it is possible to verify their accuracy, correctness and completeness.

(b) **Cost**

   The cost of conducting a full SBC audit does not match with the potential revenue at risk.

(c) **Poor segregation of duties**

   Clients are so small that no reliance can be placed on internal controls for example all controls are carried out by the same individual or because staff are so inadequately trained that they are unable to perform adequate checks.

(d) **Management override of controls**

   A senior manager requires a junior staff to record entries in the accounting records that are not consistent with the transactions substance and violate internal controls.

(e) **Collusion between staff**

   This destroys the effectiveness of segregation of duties.

**Inherent limitations of NSBC**

(a) It takes more time to establish audit evidence. Too much time spent on one audit means resources are being lost contrary to the overall strategy of conducting economical audits.

(b) Audit evidence may not be available in the documentary form.

In view of circumstances under which SBC approach is not required, it is expected that the majority of audits undertaken by the PCA teams will initially fall into this category.

When deciding to use NSBC audit approach the basic principles of SBC must be followed which primarily consist of planning, audit testing and reporting. Here the auditor will not test the client’s system of internal controls.

The Audit approach therefore should be flexible in such a way that it is tailored to achieve individual client assurance.

**3.3.3 Audit options**

In view of the above the auditor has got a number of options available to him/her in conducting his/her audit assignments.
The following are options available to auditors:

(a) **Full premises audit**

This option is for use when conducting audits on big and small clients. The full SBC approach would be utilised and all aspects of the client’s Customs activities would be tested.

(b) **Transaction premises audit**

This option is designed to look at and test a number of areas of non-compliance but not all aspects of client’s Customs activities.

The NSBC approach should be adopted for such audits for instance where a client is involved with Customs both as an importer and a manufacturer, the audit should target only the valuation and re-exportation evidence of certain high duty imports.

(c) **Single area premises audit**

This option is designed to look at and test a single area of non-compliance at the client’s premises. The NSBC approach should be adopted for example where a product is targeted because it was declared at an import duty rate of 10% instead of 25%.

(d) **Desk audit**

This option is designed to look at and test a single/number of areas of non-compliance but where the client has either a limited number of transactions or few records. In these circumstances, a premises visit would not add significant value and a NSBC approach is recommended.

3.3.4 **Review audit sampling**

At execution, the auditor may review the sample size depending on the circumstances on the ground.

3.3.5 **Audit evidence gathering and data analysis**

This process involves reviewing both the physical documents and soft data obtained from the client and Customs Administrations databases to carry out various compliance tests as defined in the audit plan.

Audit evidence is the information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence will comprise source documents and records underlying the Customs related information and corroborating information from other sources.

In conducting the audit, sufficient, appropriate and complete audit evidence should be collected to enable the auditor to draw conclusions with respect to audit findings.

3.3.5.1 **Methods of gathering audit evidence**

Using professional judgment, the auditor develops the approach and methodology of gathering evidence based on the nature and extent of evidence needed to reach a conclusion. He/she should apply the most appropriate and cost-effective mix of audit tests and procedures to gather audit evidence.

An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. The strengths and weaknesses of method chosen vary, for example one may require a high degree of technical skill, yet another may demand a high degree of interpersonal skills, one may be expensive but reliable, another may be inexpensive but less reliable, among a host of strengths and weaknesses associated with the various methods.
Some common methods of creating or gathering audit evidence include the following:

(a) **Interviews**
   Interviewing is a frequently used technique to gather evidence and opinions. Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between auditors and client on findings and observations.

(b) **Surveys**
   Surveys are structured approaches to gathering information on a defined set of common factors from a large population. Surveys might be used to obtain input from all the members of the client. The key element in any survey is the existence of a structured, tested questionnaire, regardless of whether the survey is administered in person, by telephone, on the internet or by mail.

(c) **Flow charts**
   Flow charts are a graphic representation of a process or system and provide a means for analyzing complex operations, for example key control points and redundant activities. A system flow chart would provide an overall view of the inputs, processes, and outputs while a document flow chart would depict value adding activities and critical controls.

(d) **Observation**
   Observation entails looking at a process or procedure being conducted by client staff. Many service transactions and internal control routines can only be evaluated by seeing the client perform. Whenever possible, two or more auditors should be present to make observation in order to provide additional support to the observations.

(e) **Confirmation**
   Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the client's records or other less reliable sources for instance confirmations from client's banker(s) and suppliers.

(f) **Data Analysis**
   Analysis consists of examining information obtained and using it to corroborate other findings such as comparing current information against past operations and trend analysis among others.

(g) **Audit tests**
   Testing implies placing selected activities or transactions on trial to reveal inherent qualities or characteristics. Audit tests are developed and conducted for either compliance or substantive verification purposes.

   Compliance-oriented tests are designed to assess the adequacy and effectiveness of client internal controls.

   Substantive test procedures include the detailed examination of selected transactions.

   In practice, many tests are dual-purpose tests. For instance, verifying calculations may show that an internal control checking function is being properly executed (compliance) and may provide assurance as to the accuracy of the amount recorded in the books (substantive).

   Many tests may include the re-performance or mathematical checking of source documents and other records.

   Once the appropriate test has been selected, it is important to determine how it will be applied. It can be applied either as a specific item test or a representative item test.
In a specific item (or "judgmental") test, individual items are selected for examination because of their size or other characteristic and reliable conclusions can only be drawn relative to the items tested.

In a representative item test, the objective is to examine a random selection of items, usually accomplished through statistical sampling techniques, to support the formulation of conclusions with respect to the entire population based on the sample examined.

(h) **Inspection**

It is one of the core PCA procedures to substantiate accuracy and authenticity of Customs declarations made by a client in the past through examination of books and records relating to international trade.

Inspection consists of confirming the existence or status of records, documents, or physical assets. Inspection of physical assets provides a highly reliable evidence of their existence or status/condition. Inspection of records could confirm the existence of source documents for data entry.

**Examples of books and records that need auditors’ attention during inspection**

<table>
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<tr>
<th>Books &amp; records</th>
<th>Business related</th>
<th>Correspondences</th>
<th>Accounts related</th>
<th>Financial statements</th>
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<td>Letters, telegrams, telexes, e-mails</td>
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<td>Sale/Purchases contracts, quotations, orders, agent agreements, sole distributor agreement, license contracts and others.</td>
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<td>Statement of comprehensive income, statement of financial position, cash flow statements, statement of changes in equity and notes to the financial statements.</td>
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<td>B/L, AWB, L/C, insurance policies, invoices, packing lists, SADs.</td>
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<td>Price lists, catalogues, memorandums and others.</td>
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Note:
Books and records such as shipping documents, Customs declarations, tax receipts and business contracts may be categorized into either group depending on client's rules of documentation and accounting policy.

Common procedure for documentary inspection:
(i) Enquire from the client about internal rules of documentation such as sorts of records created, received, retained, function of each record and staff in charge of each record created.
(ii) Request the client to present books and records.
(iii) Inspect the contents of each record according to each auditor's assignment planned beforehand or corrected, if necessary.

Basic guidelines for inspection
The following are general guidelines recommended during inspection:
(a) Pay attention to the order of filing. Extreme interval of date on sequential pages and a missing number of pages or other sequential numbers indicate extraction of documents.
(b) Pay attention to peculiar matters in qualities of paper, styles, symbols and signature. Documents relating to intentional misconduct often use a special sort of paper, form and signature to distinguish from normal documents.
(c) Pay attention to the person who creates documents. It should be noted that external documents, which are created by an external person/organization, provide higher credibility and evidence power.
(d) Pay attention to notes that are hand-written in a margin and inserted paper; matters relating to fraud and errors are often written in this way.
(e) Pay attention to peculiar appearances on a page, such as an abnormally broad blank, an unusual crease and unnecessary punch holes.
(f) Examine the original document. Copies and duplicates have high risk of falsification.
(g) Attention should be paid to contradictions between figures and descriptions in account books and records.
(h) Special attention should be paid to additional description in prescribed columns and to hand written comments or additions.
(i) Start the examinations from documents which are for daily use, in case the client denies existence of records, or refuse to present them.

3.3.5.2 Audit working papers
The audit working papers shall provide a guide to the audit tests to be performed by the auditors. Refer to appendix 17 for audit test review format.

Documentation must be sufficiently complete to enable the reader to review the work performed and determine how the evaluation and conclusions were reached.

The audit working papers should be complete, legible, well structured, indexed and adequately cross referenced to the physical evidence from which the audit tests were performed.

The audit working papers should be reviewed and duly signed by the reviewers. Refer to appendix 18 for audit working papers review format.

Working papers should:
(a) provide accessible information
(b) be complete and accurate
(c) be legible and neat
(d) be logically arranged
(e) be understandable
(f) facilitate reporting
(g) facilitate future audits
(h) provide dependable and robust audit information
(i) aid the reviewer

3.3.5.3 Audit File
From the audit planning stage, an audit file should be opened and all documents relating to the
person being audited be listed. This file shall be updated continuously as the audit progresses. The
audit file shall contain the following:-
   a. All information pertaining to the selection and planning of the audit.
   b. Copy of the notification letter and a filled in questionnaire.
   c. Minutes of the entry conference.
   d. The audit working papers/audit evidence gathered during the course of the audit.
   e. Minutes of the exit conference.
   f. The audit report and accompanying schedule.
   g. Other correspondences relating to the audit.

Organisation of working papers in the audit file
The structure of working papers should follow the standard format appearing under *appendix 20.*

This standard format group audit work into the following major steps: -
(a) Communicating results
(b) Test work for field audit
(c) Audit program (s) for test work
(d) Review of internal control
(e) Pre audit survey and planning
(f) Correspondence with client
(g) Other supporting document (s)

In summary, the above structure presents the final product of an audit assignment that consist of the
report first, followed by supporting details of findings, administrative information about the
assignment, then other supporting documents for the audit findings. Each working paper should have
a descriptive heading of: -
(a) Post Clearance Audit
(b) Client being audited
(c) Date
(d) Audit period
(e) Description of the audit test

A working paper summarizes the activities undertaken for each of the audit program. It provides a
snapshot of the audit findings and conclusions reached on each audit test. The information captured
on the working paper includes:-
(a) objective (s) of audit test
(b) a summary of work done
(c) the result of work performed i.e. the findings resulting from the procedures undertaken
(d) the conclusion reached as a result of the findings
(e) the requirements and recommendations to client.

The information carried from one working paper to another should be cross-referenced on both
working papers. This is done by including the working paper reference number at the top right hand
corner and this number must be cross referenced to other working paper.
3.3.6 Review and evaluation of audit program
The concern at this stage is to confirm that the audit tests defined in the audit program have been executed to achieve the objectives of the audit. It entails the following steps:-
(a) Review audit procedures for all programs that are to be covered in the scope of the audit.
(b) Determine adequacy of samples selected to ensure appropriate coverage.
(c) Complete the audit program(s) using the sample selected to ensure compliance with Customs laws, regulations and procedures.
(d) Complete working papers in preparation for internal and external reporting requirements.
(e) Complete any required re-assessments and penalty documentation.

3.4 Reporting
Reporting is the means by which auditors communicate audit results to client and senior management. This communication is an ongoing process, which takes place throughout the phases of the audit. Findings may be communicated by exit interviews, letters and final reports. Reports should include the purpose, objectives, scope, findings as well as applicable conclusions, requirements and recommendations.

The report shall state whether or not the client complies with the Customs laws and regulations and shall identify those circumstances in which the non-compliance was noted and recommend causes of action to address the situation.

Reports should be accurate, objective, clear, concise, constructive, complete and timely in line with legal provisions.

3.4.1 Preliminary audit report
Having concluded the examination of the taxpayer’s records, the audit team shall summarize the findings and generate a preliminary audit report to the supervisor for review and approval in preparation for the exit conference. The preliminary report shall highlight the following:-
(a) Taxpayer’s particulars
(b) Case origin
(c) Objectives of the audit
(d) Methodology used to carry out the audit
(e) Records examined
(f) Audit work done
(g) Audit observations/findings
(h) Recommendations

3.4.2 Exit conference
During the exit conference the taxpayer shall be made aware of the following:-
(a) The audit findings
(b) That they may be liable to being audited again in future.
(c) The action to take to avoid repetition of what may have been found lacking.
(d) Appropriate action, if any that will be taken by Customs following the audit.
(e) That a written report confirming the points rose will follow including any subsequent issues that may have come up after the exit conference.
(f) The appeals procedures where the taxpayer is not in agreement with the audit findings.

Auditors should take a record of the deliberations at the exit conference. Minutes of the meeting should be signed by the auditors and the taxpayer immediately at the close of the exit conference. Where the taxpayer refuses to acknowledge the minutes, the auditors should immediately bring this fact to the attention of the supervisor and the same should be reflected in the management report.
3.4.3 Final report
Auditors should ensure that all relevant information and evidence required to support their conclusions about a client’s declarations for duty have been properly tested, findings evaluated and documented.

The report should be sufficient in order to address any issues arising subsequent to the preliminary report and should be clearly cross-referenced to the supporting working papers. The length and level of detail in the report should be commensurate with the work carried out, size and overall risk of the client’s activity.

The final report should be submitted to the supervisor after the last visit to the client or when all additional tests have been conducted and reviewed.

3.4.4 Management letter
Once the exit meeting is conducted, necessary adjustments shall be made to the preliminary report and a management letter shall be prepared. Both shall be submitted to the supervisor for review and approval.

The final audit findings communicated to the taxpayer through the management letter shall include the following:-
(a) The period covered by the audit
(b) The legal basis for the audit
(c) The objective of the audit
(d) Documents examined
(e) The work done
(f) Findings
(g) Conclusions
(h) Recommendations

3.5 Follow up

3.5.1 Demand note/assessment
This is a notice issued to the taxpayer calling for payment of additional taxes resulting from an audit. It is done through a written notice to the taxpayer giving him a time frame within which payment of the additional taxes must be made (Appendix 19).

3.5.2 Internal management report
Where a taxpayer has agreed to the audit findings, or where an objection decision has been made, an internal management report highlighting the final audit position shall be prepared and submitted on need/information basis to all relevant internal stakeholders. The communicated information in the internal management report should highlight significant risk indicators attaching to final audit position for purposes of enabling such internal stakeholders to take remedial action for future preventive purposes.

3.5.3 Closure of the audit and file archiving
(a) Complete audit performance evaluations for each auditor and compile lessons learnt.
(b) Provide input for future Post Clearance Audit office audit plans, for example update the audit entity risk profile or client file, and recommend follow-up activity.
(c) Archive audit file.

3.5.4 Returning of clients’ records
All documents that were submitted by the taxpayer to the PCA for audit verification should be returned intact and acknowledged by the client after the completion of the verification exercise. Records obtained internally shall be returned to the respective offices.
CHAPTER FOUR

POST AUDIT MANAGEMENT

4.1 Recovery of identified duties and taxes
The PCA may discover short-levied duty and taxes as well as erroneous refunds which shall be demanded from the taxpayer within 30 days from the date of service of the demand note as per section 135 of the EACCMA, 2004.

The tax liability in the Customs context may take the form of import duty, excise duty, VAT on imports and any other. Payment follow-up should be made from the day the demand note was served.

Proper records of the debt raised shall be kept by the respective debt section for follow up. The following follow-up steps should be taken for the recovery of the identified duties and taxes:-
(a) Maintain a debt register with an aged debt analysis.
(b) Ensure that immediately after the expiry of the period provided in the demand note, recovery measures provided under sections 130 and 131 of the EACCMA, 2004 are evoked when deemed necessary.
(c) Manage all commitment letters issued to the taxpayer or his agent by the Authority in relation to post clearance debt recoveries.
(d) To make submissions to the Commissioner for any deserved debt write offs.

4.2 Objections and appeals
All Customs matters must be treated in a transparent and fair manner, consequently:-
(a) A person directly affected by the decision or omission of the Commissioner on matters relating to Customs shall within thirty days of the date of the decision or omission lodge an application for the review of that decision or omission, according to section 229 of the EACCMA, 2004. This right of appeal ensures protection for the individual against decisions of Customs that may be in compliance with the laws and regulations which they are responsible to administer and enforce.
(b) The Commissioner should communicate his/her decision to the taxpayer within a period not exceeding thirty days of the receipt of the application and any further information the Commissioner may require from the person lodging the application. Otherwise, the Commissioner shall be deemed to have made a decision to allow the application.
(c) Any person dissatisfied with the decision of the Commissioner under Section 229 of the EACCMA 2004, may appeal to a tax appeals tribunal established in accordance with section 231 of the EACCMA 2004.
(d) Appeals to the Tax Appeals Tribunal should be lodged within forty five days after the commissioner’s decision has been served.
(e) The commissioner shall be served with the copy of the appeal.
GLOSSARY

APPEAL/OBJECTION - The act by which a person (natural or legal) who is directly affected by a decision or omission of the Customs authorities and who deems himself to be aggrieved thereby seeks redress before a competent authority.

ASSESSMENT OF DUTIES AND TAXES - Determination of the amount of duties and taxes payable.

AUDIT - Means post clearance audit.

AUDIT SUPERVISOR – Refers to the audit team leader, audit manager, chief auditor and any other title referring to a person charged with responsibility of supervising audit cases.

AUDITOR - Means post clearance auditor.

BOND - An undertaking in due legal form, by which a person binds himself to the Customs to do or not to do some specific act.

BONDED WAREHOUSE - Any warehouse or other place licensed by the Commissioner for the deposit of dutiable goods on which duties has not been paid.

CLIENT - Any person (natural or legal) conducting an activity (ies) related to import and export of goods and/or services that is being audited.

CONTROLS - Means internal controls

COUNTRY OF ORIGIN OF GOODS - Country in which the goods have been produced or manufactured, according to the criteria laid down for the purposes of application of the Customs tariff, of quantitative restrictions or of any other trade.

CUSTOMS - Customs department of the Partner States.

CUSTOMS CONTROL - Measures applied to ensure compliance with the laws and regulations which the Customs are responsible for enforcing.

CUSTOMS DECLARATION - Any statement or action, in any form prescribed or accepted by the Customs, giving information or particulars required by the Customs.

CUSTOMS LAW - Means the East African Community Customs Management Act, 2004 Acts of the Partner States and of the Community relating to Customs, relevant provisions of the Treaty, the Protocol, regulations and directives made by the Council and relevant principles of the international law.

CUSTOMS OFFENCE - Any breach, or attempted breach, of Customs law.

CUSTOMS TERRITORY - Means the geographical area of the Republic of Uganda, the Republic of Kenya and the United Republic of Tanzania, Republic of Rwanda, Republic of Burundi and any other country granted membership of the Community under Article 3 of the Treaty.

DECLARANT - Any natural or legal person who makes a Customs declaration or in whose name such a declaration is made.
DUTY - Any cess, levy, imposition, tax or surtax imposed by any Act.

DUTY REMISSION - The waiver of duty or refraining from demanding of duty.

DUTY DRAWBACK - A refund of all or part of any import duty paid in respect of exported or used in manner or for a purpose prescribed condition for granting duty drawback.

ERRORS – Is a mathematical or clerical mistake in the underlying records, location or movement of goods or accounting data or oversight or misinterpretation of facts or unintentional misapplication of regulations or legislation.

EXEMPTION - Duty is not charged on the goods specified when imported or purchased before clearance through customs.

EXPORT - The act of taking any goods out of the Customs territory.

EXPORT PROCESSING ZONES (EPZ) - A designated part of Customs territory where any goods introduced are generally regarded, in so far as import duties and taxes are concerned, as being outside Customs territory but are restricted by controlled access.

FRAUD - Any act which a person deceives, or attempts to deceive, the Customs and thus evades, or attempts to evade, wholly or partly, the payment of import or export duties and taxes or the application of prohibitions or restrictions laid down by the statutory or regulatory provisions, enforced or administered by the Customs administrations or obtains, or attempts to obtain, any advantage contrary to such provisions, thereby committing a Customs offence.

HS CLASSIFICATION - Determination of the tariff subheading in a tariff nomenclature under which particular goods should be classified.

IMPORT - The act of bringing or causing any goods to be brought into a Customs territory.

INTERNAL CONTROLS - Procedures designed to identify/stop errors/non compliance. They provide reasonable assurance regarding the achievement of the following primary objectives: -

(i) The reliability and integrity of information
(ii) Compliance with policies, plans, procedures, laws, and regulations
(iii) The safeguarding of assets
(iv) The economical and efficient use of resources
(v) The accomplishment of established objectives and goals for operations.

IRREGULARITY - Means the breach of laws and regulations, regardless of its causes such as intention, negligence, or simple mistake. The irregularity comprises the "fraud", the "negligence" and the "error".

MANUFACTURING UNDER BOND SCHEME (MUB) - A facility extended to manufacturers to import plant, machinery, equipment and raw materials tax free, for exclusive use in the manufacture of goods for export.

PARTNER STATES - Means the Republic of Uganda, the Republic of Kenya, the United Republic of Tanzania, the Republic of Rwanda, the Republic of Burundi and any other country granted membership to the Community under Article 3 of the Treaty on the Establishment of the East African Community.

POST CLEARANCE AUDIT - Means Customs Post Clearance Audit (PCA) performed after release of cargo from Customs custody.
RELEASE - Action by the Customs to permit goods undergoing clearance to be placed at the disposal of the person concerned.

RE-IMPORT - Import into a Customs territory of goods previously exported from that territory.

RE-EXPORT - Export from Customs territory of goods previously imported into that territory.

REFUND - The return or repayment of duties already collected. This could be the return of overpaid charges, for example import or export duty paid in error or a refund of import duty paid in respect of goods which have been damaged or destroyed during the voyage or while subject to Customs control.

RISK - The potential for non-compliance within customs laws, procedures and controls.

RISK INDICATOR - A sign that shows the presence of potential for non compliance to Customs laws and procedures.

RISK MANAGEMENT - A systemic application of the management procedures and practices that provide Customs with the necessary information to address movements or consignments which present a risk.

RISK PROFILING - A risk profiling is the means by which a Customs office puts risk analysis into practice and enables ideas, theories and suspicions to be tested.

RULES OF ORIGIN - Specific provisions, developed from principles established by national legislation or international agreements ("origin criteria") and applied by a country to determine the origin of goods.

TEMPORARY IMPORTATION - Customs procedure under which certain goods can be brought into a Customs territory conditionally relieved from payment of import duties and taxes, such goods must be imported for a specific purpose and must be intended for re-exportation within a specified period and without having undergone any change except normal depreciation due to the use of the goods.
REFERENCES

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(7) U.S Customs Service Office of Strategic Trade Regulatory Audit Division, Focused Assessment Program October 31, 2001.
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(10) WCO - Glossary of international Customs terms, 1995.
(12) The EAC Customs Management (Compliance and Enforcement Regulations), 2011.