EAST AFRICAN COMMUNITY

CUSTOMS POST CLEARANCE AUDIT MANUAL

EAC SECRETARIAT
Arusha, Tanzania
May, 2013
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 East Africa Competitiveness and Trade Expansion Program (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
# TABLE OF CONTENTS

- PREFACE .............................................................................................................................. 2
- ACKNOWLEDGEMENT ........................................................................................................ 3
- ABBREVIATIONS .................................................................................................................. 4
- TABLE OF CONTENTS .......................................................................................................... 5

## CHAPTER ONE ...................................................................................................................... 8

### INTRODUCTION ................................................................................................................... 8
  1.1 Background to Post Clearance Audit .............................................................................. 8
  1.2 Definition of Post Clearance Audit ............................................................................... 8
  1.3 Importance of Post Clearance Audit ........................................................................... 8
    1.3.1 Customs efficiency and trade facilitation .............................................................. 8
    1.3.2 Improved collaboration between Traders and Customs ....................................... 8
    1.3.3 Improved compliance with Laws and Regulations ................................................ 8
    1.3.4 Better human resource allocation ......................................................................... 8
    1.3.5 Increased revenue yield ....................................................................................... 8
    1.3.6 Reduced release time .......................................................................................... 8
    1.3.7 Lower transaction cost ......................................................................................... 8
  1.4 Objectives of Post Clearance Audit ............................................................................. 9
  1.5 Legal framework of PCA under the EAC ................................................................. 9
    1.5.1 Specific legal provisions ....................................................................................... 9
    1.5.1.1 Production of documents ................................................................................... 9
    1.5.1.2 Inspection or audit ............................................................................................. 9
    1.5.1.3 Other supporting legislation ............................................................................... 9
  1.6 Scope of Post Clearance Audit ............................................................................. 10
    1.6.1 Customs Post Clearance Audit Manual .............................................................. 10
    1.6.2 Purpose of the Customs Post Clearance Audit Manual ..................................... 10
    1.6.3 Scope of the Customs PCA Manual ................................................................... 10

## CHAPTER TWO ................................................................................................................... 11

### POST CLEARANCE AUDIT STANDARDS ........................................................................... 11
  2.0 Introduction ................................................................................................................. 11
  2.1 Competence ................................................................................................................ 11
    2.1.1 Professional due care ........................................................................................ 11
    2.1.2 Objectivity ........................................................................................................... 11
    2.1.3 Independence ..................................................................................................... 11
    2.1.4 Integrity ................................................................------------------------------- 12
2.1.5 Confidentiality ..................................................................................................... 12
2.1.6 Equality .............................................................................................................. 12
2.1.7 Transparency ..................................................................................................... 12
CHAPTER THREE ............................................................................................................... 13
POST CLEARANCE AUDIT PROCESS ................................................................................. 13
  3.1 Pre-planning .......................................................................................................... 14
  3.1.1 Selection of audit cases ..................................................................................... 14
  3.1.1.1 Volume ............................................................................................................ 14
  3.1.1.2 Value ............................................................................................................... 14
  3.1.1.3 Rate of duty ..................................................................................................... 14
  3.1.1.4 Country of origin .............................................................................................. 14
  3.1.1.5 Others ............................................................................................................. 14
  3.1.2 Allocation of audit cases .................................................................................... 14
  3.1.3 Pre-audit survey ................................................................................................. 14
  3.1.3.1 Analysis of basic data ..................................................................................... 15
  3.1.3.2 Analysis of the Import Declarations ................................................................. 18
  3.1.3.3 Analysis of the Commercial Invoice ............................................................... 18
  3.1.3.4 Valuation declaration ...................................................................................... 19
  3.1.3.5 Statistical data sheets on past imports and paid Customs duty ...................... 19
  3.1.3.6 Cross-checking with relevant units (internal and external) .............................. 20
  3.1.3.7 Perform audit sampling ................................................................................... 20
  3.1.3.8 Audit survey and planning checklist ................................................................ 21
  3.1.3.9 Consolidation of findings ................................................................................. 21
  3.2 Planning ................................................................................................................ 21
  3.2.1 The audit plan .................................................................................................... 21
  3.2.2 Notification to client ............................................................................................ 22
  3.2.3 Client profile updates ......................................................................................... 23
  3.2.4 Develop audit program/check list ....................................................................... 24
  3.3 Execution .............................................................................................................. 25
  3.3.1 Entry Conference ............................................................................................... 25
  3.3.2 System review and audit approach .................................................................... 25
  3.3.2.1 Systems based controls (SBC) ....................................................................... 25
  3.3.2.2 Non systems based controls (NSBC) - Transactions based audits ................. 26
  3.3.3 Audit options ...................................................................................................... 28
  3.3.5 Audit evidence gathering and data analysis....................................................... 28
3.3.5.1 Methods of gathering audit evidence .............................................................. 28
3.3.5.2 Audit working papers....................................................................................... 31
Organisation of working papers in the audit file ......................................................... 32
3.3.6 Review and evaluation of audit program ............................................................ 33
3.4 Reporting............................................................................................................... 33
3.4.1 Preliminary audit report ...................................................................................... 33
3.4.2 Exit conference .................................................................................................. 33
3.4.3 Final report ......................................................................................................... 34
3.4.4 Management letter ............................................................................................. 34
3.5 Follow up............................................................................................................... 34
3.5.1 Demand note/assessment.................................................................................. 35
3.5.2 Internal management report ............................................................................... 35
3.5.3 Closure of the audit and file archiving ............................................................... 35
3.5.4 Returning of clients’ records ............................................................................... 35
CHAPTER FOUR ................................................................................................................. 36
POST AUDIT MANAGEMENT ........................................................................................... 36
  4.1 Recovery of identified duties and taxes ................................................................. 36
  4.2 Objections and appeals ......................................................................................... 36
GLOSSARY ......................................................................................................................... 37
REFERENCES ...................................................................................................................... 40
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)
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 the 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, e.t.c,) 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 which are 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><strong>Company outline</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Address</td>
<td></td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td>Organizational form</td>
<td>(form of business entity, capital, shareholders, business items, business</td>
<td>- Past audit records</td>
</tr>
<tr>
<td></td>
<td>(accounting) year, etc.)</td>
<td>- Publications and other available sources</td>
</tr>
<tr>
<td>Organization structure</td>
<td></td>
<td>- ditto</td>
</tr>
<tr>
<td>Accounting system</td>
<td></td>
<td>- ditto</td>
</tr>
<tr>
<td>Business performance</td>
<td></td>
<td>- ditto</td>
</tr>
<tr>
<td>Total amount and quantity</td>
<td></td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td>of import</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major items’ shipping point</td>
<td></td>
<td>- ditto</td>
</tr>
<tr>
<td>amount and quantity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existence of transactions</td>
<td></td>
<td>- ditto</td>
</tr>
<tr>
<td>between related parties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Records of export transactions with the seller of imported goods</td>
<td></td>
<td>- Export declarations</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>- Publications and other available sources</td>
</tr>
<tr>
<td>Past audit records</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Past offense records</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content of internal/external</td>
<td></td>
<td></td>
</tr>
<tr>
<td>intelligence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content of other internal/external data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></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.) - 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></td>
<td>• Foreign and domestic market price and resale profit ratio (if any)</td>
<td>- Publications</td>
</tr>
<tr>
<td></td>
<td>• Application of valuation declaration and its contents</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</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>• Quantity, amount and the number per exporter</td>
<td>- Statistical data-base</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>• Tariff rates per imported items</td>
<td>- Tariff schedule</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>Country of Export</td>
<td>• Content of export restriction in export country, if any</td>
<td>- Publications</td>
</tr>
<tr>
<td></td>
<td>• Export country and shipping point</td>
<td>- Import (Valuation) declarations &amp; supporting documents (invoice etc.)</td>
</tr>
<tr>
<td></td>
<td>• Production and collection points</td>
<td>- ditto -</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>• 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>• 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>Category</th>
<th>Items for survey</th>
<th>Possible source of data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Content of internal/external intelligence</td>
<td>- Miscellaneous</td>
</tr>
<tr>
<td></td>
<td>• Content of other internal/external data</td>
<td>- ditto -</td>
</tr>
</tbody>
</table>

#### Participation of third parties in a transaction
Particular descriptions are often shown in a commercial invoice to imply any indirect transaction. One example is a third party's name preceded with "c.c". In such cases, the party under “c.c” could be a commission agent. Findings of such indications should be input into an audit plan, and facts concerning payment of commission and brokerage should be examined during the field audit.

#### Delivery terms
The delivery term might not be presented in an invoice. Even if presented, it might differ from the facts. For instance, it might be "Ex-works" in fact, even if represented as "FOB" in an invoice.

#### Additional payment or refund
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.

#### Shipping points
Places where imported goods are produced, collected and shipped are checked to identify required expense elements for transportation.
**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 a 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 including 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 with 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 the 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

Definition
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 conclusions 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:

(a) 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.
(b) 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.
(c) The audit objectives are fully met by a non-statistical sample.
(d) 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 depends on the level of audit risk and overall complexity of the client transactions. As the resource is scarce and limited, effective control of individual audits is important in order to be effective, efficient and economical in accomplishing audit work.

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 58 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 and 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 the 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 an 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 the 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>
<thead>
<tr>
<th>Books &amp; records</th>
<th>Correspondences</th>
<th>Letters, telegrams, telexes, e-mails</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business related</td>
<td>Contracts</td>
<td>Sale/Purchases contracts, quotations, orders, agent agreements, sole distributor agreement, license contracts and others.</td>
</tr>
<tr>
<td></td>
<td>Shipping</td>
<td>B/L, AWB, L/C, insurance policies, invoices, packing lists, SADs.</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>Price lists, catalogues, memorandums and others.</td>
</tr>
<tr>
<td>Accounts related</td>
<td>Source documents</td>
<td>External</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Purchase orders, receipts, shipping documents, invoices, goods received note, debit/credit note, bank statements, vouchers, quotations, bank/supplier confirmation and others.</td>
</tr>
<tr>
<td></td>
<td>Internal</td>
<td>General journal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General ledger</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidiary journal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sales, purchases, cash receipts /payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accounts receivable, accounts payable, merchandise inventory, plant and equipment and others.</td>
</tr>
</tbody>
</table>
### Closing Accounts

<table>
<thead>
<tr>
<th>Financial statements</th>
<th>Statement of comprehensive income, statement of financial position, cash flow statements, statement of changes in equity and notes to the financial statements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>Trial balances, costing worksheets, bank reconciliation statement and chart of accounts.</td>
</tr>
</tbody>
</table>

**Others**  
Management and planning

---

**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 handwritten 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 groups 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 controls
(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 consists 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 the 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 papers.

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 which arose 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.

The supervisor should ensure that all results of the Audit are communicated internally and that the file has been reviewed and signs off. In addition he/she should ensure that:-

(a) File completion checklist to audit working papers has been completed (Appendix 22).
(b) Audit review checklist has been completed to ensure that all audit steps have been complete (Appendix 22).

### 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 goods exported or used in a 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

(2) Tanzania Revenue Authority Post Clearance Audit Manual.
(3) Kenya Revenue Authority Post Clearance Audit Manual.
(4) Uganda Revenue Authority Post Clearance Audit Manual.
(5) Rwanda Revenue Authority Post Clearance Audit Manual.
(7) U.S Customs Service Office of Strategic Trade Regulatory Audit Division, Focused Assessment Program October 31, 2001.
(8) ASEAN Post-Clearance Audit Manual.
(9) Draft WCO Guidelines for Post-Clearance Audit Annex III to Doc. EF0006E1.
(10) WCO - Glossary of international Customs terms, 1995.
(12) The EAC Customs Management (Compliance and Enforcement Regulations), 2011.
## Appendix 1

### Audit Survey and Planning Checklist

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Obtain MIS reports from Customs data base for data analysis.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Obtain client and commodity profiles and make analysis.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Communicate with other internal stakeholders such as risk management, enforcement, domestic revenue if necessary, advising them of the impending audit and requesting any relevant information or pending actions that would impact on initiation of audit (for example information with respect to previous performance and verification and enforcement results).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Conduct desk audit in order to review client’s compliance history and to establish risk areas to be included in the plan and field audit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Consult previous audit file and auditors to obtain information about the conduct and results of previous audits.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Prepare systems review questionnaire outlining required information from the importer to prepare for audit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The auditor should decide whether to notify client by sending visit letter or not (i.e. decide on announced or surprise visit).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Obtain audit case number and prepare file with indexing for appropriate file sections.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Prepare and send out the notification letter appending the questionnaire to the responsible senior company official and ensure their receipt.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Contact client to notify of upcoming audit and arrange for entrance meeting. When making arrangements, identify any documents or information that will be needed in the audit process.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Prepare an audit plan that identifies the audit period, estimated start date and duration of the audit, auditors assigned and facilities required.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Become familiar with area being audited by reviewing various types of information. Summarize results of reviews, highlighting key points, patterns, and trends. Draw conclusions about possible audit objectives suggested by: -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Information about structure and activities of areas audited such as key personnel and their responsibility, client’s business activities, organization chart and others.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Financial information to identify payment to suppliers, methods of payments and others.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Import and exportation files and prior working papers and reports for information about results of past audits, problems noted related areas, and others.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Audit materials to identify laws, regulations, policies, procedures, or recent developments related to client’s business.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACTIVITIES</td>
<td>W/P REF</td>
<td>INITIALS</td>
<td>DATE</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---------</td>
<td>----------</td>
<td>------</td>
</tr>
<tr>
<td>(e) Review reports or management letters issued by previous auditors to identify possibilities to coordinate work or problem areas that may need to be included in the audit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) If work performed by other auditors will be relied on, make arrangements to review the supporting work papers.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. Obtain approval of a planning memorandum which documents:
   (a) Planned scope, objectives, and audit period.
   (b) Roles and responsibilities of auditors
   (c) Client(s) areas, which will be excluded from the audit and reasons for the exclusion.
   (d) Resources necessary to complete audit.
   (e) Target completion dates.
   (f) Risk areas to be included in the audit programs

14. Update client profile and prepare audit programs for field audit.

15. Hold entrance conference and document the results. Ensure required supporting information is on hand.

16. Determine if a plant/premise tour is required and identify questions and issues to be addressed during the tour.

17. Contact client to discuss the scope and timing of the audit and arrange for initial meeting and plant tour.

Approval

Name ........................................ Date ..............................

Signature .................................

---

*EAC Customs Post Clearance Audit Manual.*
Appendix 2

Audit Plan

Give a brief description of the purpose or function of the activity being audited
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Audit objectives (test for valuation, classification and others)
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Scope of audit (areas of audit emphasis)
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Explain any significant areas excluded from the audit and give reasons for exclusion
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Audit techniques
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Sampling methodology
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Audit period
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Audit plan limitations (explain cause and effect)
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Resources necessary to complete the audit
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

Planned audit hours
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________
Audit activity Planned

| Planning                                   | ..........       |
| Review of internal controls (if any)       | ..........       |
| Audit program Development                  | ..........       |
| Audit fieldwork                            | ..........       |
| Draft report                               | ..........       |
| Final report                               | ..........       |
| **Total hours**                            | _______________|

<table>
<thead>
<tr>
<th>Auditor assigned</th>
<th>Area of Responsibilities</th>
<th>Planned hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other issues
_________________________________________________________________________________
_________________________________________________________________________________
_________________________________________________________________________________

*Submitted By*

1. ___________________________
2. ___________________________
3. ___________________________

*Approval of Audit Plan*

Name .....................  Date.................................
Appendix 3

Audit Notification Letter

Our Ref:

Date:

TIN/PIN:

Managing Director,
XYZ Ltd
P.O. Box 12345,
Arusha, Tanzania.

Dear Sir/Madam,

CUSTOMS POST CLEARANCE AUDIT COVERING THE PERIOD _____ TO _____.

It is normal practice for Customs to carry out post clearance audits in accordance with the provisions of section 235 and 236 of the East African Community Customs Management Act, 2004. Accordingly, we shall be carrying out an audit of the Customs transactions relating to your company for the period stated above.

We have planned that the said audit exercise begins on __ with an opening meeting preferably with your company’s top management at ___(time) at your company’s premises.

During the audit exercise, we intend to examine among others, the following records:

1. The sales and purchases ledgers
2. Copies of Customs Bills of Entry and their necessary attachments
4. Suppliers’ lists and statements
5. Copies of Audited financial statements/ accounts for __ to __
6. Details of payments for imports to your suppliers
7. Bank statements for the period mentioned
8. Copies of contracts/orders with your suppliers
9. V.A.T Returns and supporting schedules for the period under audit
10. Stock movement details and registers
11. Any other information that may be necessary for our audit

We shall be grateful if the above information can be prepared before the scheduled date of commencement of the audit.

We have attached a questionnaire intended to assist the audit team get familiar with your company business. You are advised that you fill it and return it on or before____(date).

We assure you that all the information provided in the course of our audit will be treated with utmost confidentiality.

For any clarification regarding the said Customs Post Clearance Audit, please contact the Customs Post Clearance Audit office at ABC Building, _ floor on telephone numbers: ___

Yours faithfully,

**For: COMMISSIONER OF CUSTOMS**
Appendix 4

Audit Questionnaire

The questionnaire aids in gaining an understanding of the business engaged by an organisation to be audited for purposes of ensuring a fast and smooth audit.

All the responses that will be given are to be used strictly for purposes of Customs auditing and should be handled with utmost confidentiality. The following provisions should be noted:-

a. Section 235 of the EACCMA, 2004 mandates Customs officers to seek for and obtain any information pertaining to imported and/or exported goods.

b. Section 203 of the EACCMA, 2004 makes it an offence to give a Customs officer information which is false in any particular.

<table>
<thead>
<tr>
<th>General Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Provide the name, title, and telephone number of the official(s) preparing information for this questionnaire.</td>
</tr>
<tr>
<td>2. Provide the name, title, and telephone number of the person who will be the contact for Customs during the focused assessment.</td>
</tr>
<tr>
<td>3. Company’s full name</td>
</tr>
<tr>
<td>4. Physical and postal address</td>
</tr>
<tr>
<td>5. Telephone/mobile number/ Fax</td>
</tr>
<tr>
<td>6. Email address(es)/website(s)</td>
</tr>
<tr>
<td>7. Directors and their nationality</td>
</tr>
<tr>
<td>8. Company’s bank details</td>
</tr>
<tr>
<td>9. Tax identification number(s)</td>
</tr>
<tr>
<td>10. Describe the nature of your business</td>
</tr>
<tr>
<td>11. List all other locations including manufacturing and warehousing facilities</td>
</tr>
<tr>
<td>12. What is your fiscal year-end?</td>
</tr>
<tr>
<td>13. Organizational structure, policy and procedures, assignment of responsibilities.</td>
</tr>
<tr>
<td>14. Provide a copy of the company’s organizational chart and related department descriptions.</td>
</tr>
<tr>
<td>15. Identify the key individuals in each office responsible for Customs compliance (may be included on the organization chart).</td>
</tr>
<tr>
<td>16. Provide the names and addresses of any related foreign and/or domestic companies, such as the company’s parent, sister, subsidiaries, or joint ventures.</td>
</tr>
<tr>
<td>17. Provide details of any currently Customs outstanding matters.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. If the company has operating policies and procedures manuals for Customs operations (import/export and others), provide a copy of the manuals (preferably in electronic format).</td>
</tr>
<tr>
<td>2. If the policies and procedures have the support and approval of management, identify the individuals who approve the procedures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employee Awareness Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What specialized Customs training is required for key personnel working in the import department/section?</td>
</tr>
<tr>
<td>If available, provide copies of records supporting training.</td>
</tr>
</tbody>
</table>
2. What Customs experience have key personnel involved in Customs related activities had?

3. Who in other departments is responsible for reporting Customs related activities to the import department/section?

4. What training is provided to personnel in other departments responsible for reporting Customs related activities to the import department/section?

5. How does the company obtain current information on Customs requirements?

**Risk Assessment**

1. How does the company identify, analyze, and manage risks related to Customs activities?

2. What risks related to Customs activities has the company identified, and what control mechanisms have been implemented?

**Control Procedures**

1. Using source records for support, provide a description and/or flowchart of the company’s activities, including general ledger account numbers for recording the acquisition of merchandise in the following areas:-
   (a) Purchase of foreign merchandise
   (b) Receipt of foreign merchandise
   (c) Recording in inventory
   (d) Payments made to foreign vendor
   (e) Payment made to Customs for taxes
   (f) Export of merchandise (for example, assists)

2. For each aspect of value listed below, respond to the following where procedures are documented, reference the applicable sections.
   (a) What internal control procedures are used to assure accurate processing of Customs transactions?
   (b) Who is the person assigned responsibility for accurate processing?
   (c) What records are maintained for?
      (i) Price Paid or Payable
      (ii) Packing
      (iii) Selling Commissions
      (iv) Assists (for example, Materials/Component Parts, Tools, Dies, Molds, Merchandise Consumed, Engineering, Development, Art Work, Design Work, Plans)
      (v) Royalties and License Fees
      (vi) Proceeds of Subsequent Resale
      (vii) Transportation Costs (for example, International Freight, Foreign Inland Freight, Transportation Rebates, Insurance)
      (viii) Retroactive Price Adjustments
      (ix) Price Increases
      (x) Rebates and Allowances
      (xi) Indirect Payments
      (xii) Payment of Seller’s Debt by Buyer (for example, Quota)
      (xiii) Price Reductions to Buyer to Settle Debts (for example, Reductions for Defective Merchandise)
      (xiv) Purchases on Consignment
      (xv) Quota/Visa
      (xvi) Currency Exchange Adjustments
      (xvii) Trade Contracts/Agreements

**Information and Communication**

1. Describe the procedures for the import/export department to disseminate relevant Customs
2. Describe the procedures for other departments to communicate with the Import/export department on matters affecting imported/exported merchandise.

3. Describe the procedures for the import/export department to participate in major planning processes involving importation/exportation activities.

**Monitoring**

1. What methods of oversight and monitoring does the import/export department management use to ensure compliance with Customs requirements?

2. Provide information and/or reports on the review and evaluation of compliance with Customs requirements by other internal and external entities (for example, internal audit department, financial statement auditors).

3. What level of management are these self-reviews reported to for action?

**Miscellaneous**

1. Provide a copy of your general ledger and post-closing trial balance.

2. Identify the account numbers in which costs for imported merchandise are recorded.

**Data Retention**

1. What type of system or accounting package does your company use?

2. Describe how files are generally maintained within the company (i.e. electronic; manual; or a combination of both)?

3. How long is the information retained?

4. Where do you maintain detailed books and records relating to import/export transactions?

5. Has your operating system changed from the audit period to present? If yes, please elaborate.

**Purchasing**

1. Who is responsible for the purchasing of imported goods?

2. Do you have documented purchasing procedures? If so, when was the last time they were updated?

3. Do you have an on-line purchase order system? If so, describe it.

4. Please fully describe all internal controls relevant to the purchasing system.

5. Do you issue different types of purchase orders and, if so, how are they distinguished?

6. Are procedures different for placing orders with related companies?

7. What type of documentation do you use to record purchases (confirmation of sale, informal, purchase order, and others.)?

8. Who is responsible for issuing purchase orders?

9. Are purchase orders issued in all instances?

10. Are purchase orders numbered? If so, how (provide an example)

11. How many copies comprise a purchase order and how are they distributed?

12. Do you purchase goods locally?

13. How do you distinguish between domestic and foreign purchases?

14. How is cancelled purchase order handled?

15. Do you issue blanket purchase orders? If so, please describe the process.

16. How shipments against the blanket purchase orders controlled are (for example release numbers, and others.)?

17. Are all purchase orders closed within the fiscal year?

18. Are purchases orders retained? If so, for what period?

19. Is the Purchasing system linked to the receiving, accounting or Customs systems? If so,
### Receiving of Goods

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>List the locations of your receiving docks/customs entry points.</td>
</tr>
<tr>
<td>2</td>
<td>Do you have documented receiving procedures? If so, when was the last time they were updated?</td>
</tr>
<tr>
<td>3</td>
<td>What are the procedures when goods are received?</td>
</tr>
<tr>
<td>4</td>
<td>Is there a receiving report prepared each time?</td>
</tr>
<tr>
<td>5</td>
<td>Are the reports numbered consecutively? If so, how (provide an example).</td>
</tr>
<tr>
<td>6</td>
<td>How many copies comprise a receiving report and how are they distributed?</td>
</tr>
<tr>
<td>7</td>
<td>How many different types of receiving reports do you maintain (for example local receiving reports, imports receiving reports)?</td>
</tr>
<tr>
<td>8</td>
<td>What is the retention period for the reports?</td>
</tr>
<tr>
<td>9</td>
<td>Is the receiving system linked to the purchasing, accounting or Customs systems? If so, how?</td>
</tr>
<tr>
<td>10</td>
<td>Is shipping notification given? If so, in what format (hard copy or electronic) and by whom?</td>
</tr>
<tr>
<td>11</td>
<td>Are physical receipts compared to the shipping notification?</td>
</tr>
<tr>
<td>12</td>
<td>Is the shipping notification compared to the purchase order?</td>
</tr>
<tr>
<td>13</td>
<td>How are the following types of goods reported to Customs?</td>
</tr>
<tr>
<td>a</td>
<td>Free goods for example gifts, samples?</td>
</tr>
<tr>
<td>b</td>
<td>Temporary exported goods?</td>
</tr>
<tr>
<td>c</td>
<td>Drop Shipments (i.e. goods delivered directly to a third party)?</td>
</tr>
<tr>
<td>14</td>
<td>Are controls in place to ensure the above transactions are reported to Customs?</td>
</tr>
<tr>
<td>15</td>
<td>How are discrepancies handled with respect to the supplier (i.e. shortages, overages, damaged, free goods or incorrect goods received)</td>
</tr>
<tr>
<td>16</td>
<td>Is a report generated of these discrepancies and to who are they reported and resolved?</td>
</tr>
</tbody>
</table>

### Accounting

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Who is responsible for accounting?</td>
</tr>
<tr>
<td>2</td>
<td>Do you have documented procedures for accounting? Is so, when was the last time they were updated?</td>
</tr>
<tr>
<td>3</td>
<td>Is it possible to readily identify foreign purchases within the accounts payable system? If so, please explain.</td>
</tr>
<tr>
<td>4</td>
<td>What payment methods are used (i.e. cheque, bank transfer, and others.)?</td>
</tr>
<tr>
<td>5</td>
<td>How are inter-company purchases settled?</td>
</tr>
<tr>
<td>6</td>
<td>How are credits accounted for?</td>
</tr>
<tr>
<td>7</td>
<td>How are invoices for free goods handled?</td>
</tr>
<tr>
<td>8</td>
<td>Are there any existing controls to ensure that all receipt of foreign goods/importations are reported to Customs? If so, describe.</td>
</tr>
<tr>
<td>9</td>
<td>What steps are taken if there is a discrepancy between receiving reports, purchase orders and invoices in terms of quantity or price?</td>
</tr>
<tr>
<td>10</td>
<td>Is the accounting system linked to the purchasing, receiving or Customs systems? If so, how?</td>
</tr>
<tr>
<td>11</td>
<td>What is your usual margin of goods sold?</td>
</tr>
</tbody>
</table>

### Customs Information

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Who is your primary contact person for Customs matters?</td>
</tr>
<tr>
<td>2</td>
<td>Do you maintain a separate system for Customs purposes?</td>
</tr>
<tr>
<td>3</td>
<td>Where is Customs-related documentation maintained? In what format, and for how long?</td>
</tr>
<tr>
<td>4</td>
<td>What system is in place to record Customs transactions (for example mainframe, micro computer, manual, and others.)?</td>
</tr>
<tr>
<td>5</td>
<td>Do you use the services of a clearing agent? If so, please provide the name(s).</td>
</tr>
<tr>
<td>6</td>
<td>What arrangements do you have with your clearing agent(s)?</td>
</tr>
<tr>
<td></td>
<td>Question</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>7.</td>
<td>Does the company provide input or instruction to the clearing agent(s) or person(s) responsible for Customs clearance?</td>
</tr>
<tr>
<td>8.</td>
<td>Who prepares Customs’ release documentation and from what source (i.e. purchase orders, invoice, and others.)?</td>
</tr>
<tr>
<td>9.</td>
<td>Are import transactions linked to purchasing, receiving and/or accounts payable transactions? If so, how?</td>
</tr>
<tr>
<td>10.</td>
<td>Are entry transactions ever reviewed for quality and completeness? If so, how often and by whom?</td>
</tr>
<tr>
<td>11.</td>
<td>Where are the exporter's certificates of origin maintained?</td>
</tr>
<tr>
<td>12.</td>
<td>Do you receive shipments from foreign sources that are free? If so, how are they accounted for to Customs?</td>
</tr>
<tr>
<td>13.</td>
<td>Do you have temporary exported goods (for example goods sent out of the country for repairs)?</td>
</tr>
<tr>
<td>14.</td>
<td>How do you determine the value for duty of temporary exported goods?</td>
</tr>
<tr>
<td>15.</td>
<td>How are discrepancies handled with respect to Customs (i.e. shortages, overages, free goods, wrong/damaged goods)?</td>
</tr>
<tr>
<td>16.</td>
<td>Provide copies of any existing Customs decisions/rulings, if applicable.</td>
</tr>
<tr>
<td>17.</td>
<td>What procedures are in place to ensure that all imported goods are properly reported and accounted for to Customs?</td>
</tr>
<tr>
<td>18.</td>
<td>Do you have any contract/agreement with foreign suppliers?</td>
</tr>
<tr>
<td>19.</td>
<td>Does the firm employ the service of a foreign buying agent(s)?</td>
</tr>
<tr>
<td>20.</td>
<td>When buying goods/services do you pay commissions to buying agents?</td>
</tr>
<tr>
<td>21.</td>
<td>Does the company provide any assistance to foreign suppliers? If yes, describe the form of assistance (tools, molds, parts, components, patterns, loans, design or engineering costs, labels and machinery) and their values.</td>
</tr>
<tr>
<td>22.</td>
<td>Does the firm receive any rebate or allowance directly or indirectly from the exporter</td>
</tr>
<tr>
<td>23.</td>
<td>Were any royalty or license fee paid by the company during importation?</td>
</tr>
<tr>
<td>24.</td>
<td>After buying goods/services does the seller gives you conditions on how to sell?</td>
</tr>
<tr>
<td>25.</td>
<td>Do you transfer any part of your sales proceeds, disposal or use of imported goods to the supplier?</td>
</tr>
<tr>
<td>26.</td>
<td>Have you paid the suppliers of imported goods from …………… (insert year) to date? If not give reasons.</td>
</tr>
<tr>
<td>27.</td>
<td>Provide us with the Name(s) of the tax consultants whom the company applies their services.</td>
</tr>
<tr>
<td>28.</td>
<td>Who are your major competitors?</td>
</tr>
</tbody>
</table>

I the undersigned, declare that all particulars given in this document are true and complete.

Name………………………………………………………………………………………………………………………………………………………………

Address………………………………………………………………………………………………………………………………………………………………

Telephone No…………………………………………………………………………………………………………………………………………

Title…………………………………………………………………………………………………………………………………………………………

Signature………………………………………………………………………………………………………………………………………………………… (of the officer answering this questionnaire).
In case the space provided is not sufficient you may write in a separate sheet and attach to this questionnaire.

To be filled and returned to the office of post clearance within 5 working days.
Appendix 5

Audit Program for Valuation

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The customs value of imported goods shall be the transaction value, that is, the price actually paid or payable for the goods when sold for export to the customs territory of the Community, adjusted, where necessary, in accordance with section 9 of the fourth schedule of the EACCMA, 2004. The main risk in this area is the undervaluation of the imported goods.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accordingly, the auditor should verify if the price actually paid or payable has been correctly declared and if it has been properly adjusted in accordance with the mentioned section.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note that in some cases overvaluation might be a risk especially for goods that have no import duty for example machinery. These enjoy depreciation and other deductions and thus may affect the taxable profits.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supporting documents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Verify if the SADs match the supporting documents presented at the time of the clearance of the goods. A select sample of SADs covering the identified risks of the importer’s import activity should be chosen.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Compare the value declared on the SADs with those on the source documents such as L/Cs, bank statements, overseas remittance applications and debit/credit notes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Check the delivery terms on the invoice for example ex-works, FOB and others. For Customs purposes CIF should be value for goods imported via import entry points other than airports. For Airport the Customs value should exclude Air freight.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Verify the payment terms which may be in advance, payment on delivery, differed payment and payment by instalments.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Verify terms of payment which may take the form of cash payment, bills of exchange (letter of credit – L/C, document against payment (D/P) and document against Acceptance (D/A) to check if payment terms are reasonable and justifiable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Verify if there is an existence of any additional terms on sale of goods for example buyer to provide seller with material or service free of charge or at a</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7. Check for unit price and duty rate for the imported good if they are unified in every invoice and whether the same unit price and duty rate is given to other goods of same nature.

8. Examine the price list as to whether the listed prices represent and acceptable level; compare to common prices of identical/similar goods. If the client denies the existence of price list verify the correspondences between the client and the seller.

9. Compare the currency on the accompanying purchase source documents with those declared on the SADs.

10. Check if the value shown in the accompanying purchase invoice is in accordance with purchase orders, contracts; vouchers (i.e. check the documentation generating the orders and also the existing contracts). This could include a check to ascertain if there are reductions or compensation in the purchase invoice as a result of other transactions.

11. Compare delivery terms on invoices with freight charges declared on the SADs and with freight documents for example Bill of lading, airway bills and freight invoices. Check also insurance policies.

12. Check whether a correct exchange rate has been applied.

13. Check for consistency of the values declared on the SADs vis-à-vis the values declared on the shipping bill/bill of entry if available.

14. Investigate the existence of double invoicing, additional payments for deliveries or some payments that are to be added to the price paid in accordance to the fourth schedule of the EACCMA, 2004.

Control of accounts matching SADs with book entries
The aim of this verification is to compare if the customs value declared on the SADs matches those entered on the company’s accounts books and vice versa. The transactions to be checked should be carefully selected to reflect the diversity of the business being audited.

1. Make a careful examination of the company’s accounts in order to ascertain that all purchases of goods imported are entered correctly in the books.

2. Check if the company has internal controls to ensure a reconciliation of import operations with accounting. The purpose is to ensure that all received invoices relating to imports have been submitted when declaring the goods for customs clearance.
<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cross-checking general amounts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The purpose of this test is to verify if the amounts declared on the official accounts matched with the customs values declared in the audited period.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Study the balance sheet and the profit and loss account for relevant accounts, such as costs and assets (for example goods purchased stocks, and others.) regarding purchases/imports.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Verify the reconciliation between accounting and customs declarations submitted by cross-checking the purchases’ accounts connected with sales by outside parties (suppliers) and the customs values declared. This may apply where there is mutual corroboration by other Revenue Authorities.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Compare VAT and imports shown in the VAT returns with VAT information obtained from Customs data base.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Checking of specific selected SADs against book entries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This test will confirm that the information declared on the SADs supported by the accompanying documents agrees with the company’s accounts.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Determine if the invoice used for the clearance of goods is the same as one posted in the ledger accounts. If it is different (for example the invoice entered in the accounts is for a higher value), the company should be asked to explain the difference.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Special attention should be paid when the value of transactions is stated on the basis of pro-forma invoices. In this case the auditor should check that the final invoice matches the pro-forma invoice.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. In the selection of SADs for checking, particular attention should be paid if the company indicates customs value as rounded-off amounts or as identical amounts.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Compare the customs value of selected products with average prices from the customs valuation database, if available.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. A selection of different SADs could be compared with each other to ascertain if there are different prices declared for the same product. Check high/low values in relation to other SADs under the same product.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. A selection of invoices could also be compared with each other to ascertain if they are consistent by comparing similar invoices during the year from the same supplier (for example the invoice numbers).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Checking of specific selected book entries against SADS
This test will confirm that the entries in the accounts are connected with the imported goods are supported by a SAD and have been properly declared.

12. Select individual entries in the accounts and ask the company to indicate the SAD that supports that entry; the transactions selected from the company’s records for this check will relate mainly to unusual values, unusual texts, and others that can be a sign of additional payments or payments not declared in the SADs;

13. Select some foreign suppliers’ accounts and reconcile the entries in that suppliers ledger with the SADs connected with those suppliers; to choose the suppliers for the reconciliation, it is important first to compare the general amounts declared on the SADs with the entries in the accounts of that supplier and select the suppliers where there are differences.

Control of money movements
It is important in an audit to connect the customs value declared with the payment made to the supplier in order to confirm that the customs value has been properly declared.

14. For that purpose, in addition to verifying the company’s payment accounts, the auditor should analyze information about money movements outside the country.

15. The movements that are analyzed should not only be connected with goods but also with services (for example transport, royalties, and others.). Once the movements are chosen the auditor should ask the company to justify them and to identify the SADs related to them.

16. Where the foreign currency outflows going abroad are much higher than the imports which have been declared and it has not been possible to totally justify this difference, it can be concluded that either imported goods are not declared to the Customs authorities or a value that is lower than the real value is being declared to the customs authorities.

Successive Sales
If the auditor finds that the Customs value declared has been the value of a sale prior to the purchase by the company, it should be studied to ascertain if that value should be accepted.

17. When the imported goods are sold only once it is accepted that the fact of their introduction into the
customs territory constitutes sufficient proof that the goods were sold for export.

18. If specific goods are ordered from an intermediary who sources the goods from a manufacturer and the goods are shipped directly to the country from that manufacturer, the acceptance of the value declared in a successive sales situation must be analyzed especially when all the parts in the chain are related parties, because the mechanism of the successive sales can be used to reduce the customs value.

19. The auditor could use the mutual assistance provision in DTA’s if s/he has doubts about the authenticity of the customs value declared to customs.

**Checking entries connected with fourth schedule**
When examining the classification of the importer’s accounts, the auditor should pay special attention to the accounts related to royalties, commissions, production contracts (for example outsourcing), and others. The auditor should be aware of research and development costs which might not have been included in the declared transaction value. This is particularly relevant where a relationship exists between the supplier and importer.

**Royalties**
In any audit, one of the main aspects that should be checked is the existence of royalties that could influence the customs value. A method of identifying the existence of royalty payments could be by checking the company accounts or analysing the money movements outside the country. This could also include companies whose brands of products are trade-marked and as a consequence there are likely to be royalties paid. Once the auditor has identified a payment connected with royalties, it is necessary to investigate if:-

1. The payment of the royalty is related to the goods being valued. In determining whether a royalty relates to the goods to be valued, **the key issue is not how the royalty is calculated but why it is paid**, i.e. what the licensee actually receives in return for the payment. Thus in the case of an imported component or ingredient of the licensed product, or in the case of imported production machinery or plant, a royalty payment based on the sale of the licensed product could be related.

2. The payment of the royalty constitutes a condition of sale of those goods. The question to be answered in this context is whether the seller would be prepared to sell the goods without the payment of a royalty or
license fee. The condition may be explicit or implicit, i.e. it is not essential that it is specified or stipulated in the license agreement whether the sale of the imported goods is conditional upon payment of a royalty or license fee.

3. When goods are purchased from one person and a royalty or license fee is paid to another person, the payment may nevertheless be regarded as a condition of sale of the goods. The seller, or a person related to him/her, may be regarded as requiring the buyer to make that payment when, for example, in a multinational group goods are bought from one member of the group and the royalty is required to be paid to another member of the same group. Likewise, the same would apply when the seller is a licensee of the recipient of the royalty and the latter controls the conditions of the sale.

4. Accordingly, in an audit it is important to ask for the license agreement which usually specifies in detail the licensed product, the nature of the rights assigned and know how provided, the responsibilities of the licensor and the licensee, and the methods of calculation and payment of the royalties or license fees. In many cases, an examination of license agreements and contracts of sale will reveal that a part only of the royalty payment will be seen to be potentially dutiable. Where under a license agreement the benefits conferred are a mixture of potentially dutiable and non-dutiable elements but the licensee does not in fact avail him/her of the non-dutiable elements, it may nevertheless be appropriate to regard the whole of the royalty or license fee as eligible for inclusion in the customs value.

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
</table>

Contracts/Assists
The auditors should check if the company has supplied certain goods or services either free of charge or at reduced cost, for use in connection with the production of the imported goods.

20. The auditor should:-
   (a) analyse the invoices and the contracts related to the goods imported to check if there is mention of any contracts (for example sometimes the invoice refers only to the value of manufacturing the goods);
   (b) check the accounts of the company to verify if there are research and development costs, tools costs, and others.;
   (c) verify if there are exports of goods mentioned in the above schedule to any of the supplier’s own
country;
(d) Check in the accounts if there are payments to companies in the country of supply or other suppliers that are not suppliers of the goods imported.

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Controls</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The following are other control that should have been done.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Verify if the values declared are consistent. Compare the customs value declared with the price of the internal sale. This is particularly relevant where a relationship exists between the supplier and importer. With this test the auditor could determine if the Customs value declared is very low in comparison with the internal sale. If that happens, it is a sign that the goods could have been undervalued at the time of the declaration to customs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Compare the value of similar goods purchased from different suppliers. If it varies greatly it is necessary to investigate why.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. If customs value decisions have been issued to the company, check that the customs values are properly declared in accordance with the decisions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Auditors should be aware that where specific duties (for example based on quantities) apply instead of, or together with, the imposition of ad valorem duties, checks must be done on quantities for example by checking stock records, packing lists, and others.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Any other activity relevant to the program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Audit Program for HS Classification

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The risks concerning tariff classification are that the importer, by using a wrong commodity code, can reduce the duty to be paid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Another reason for using a wrong commodity code is to avoid restrictions, like licenses or prohibitions on specific goods.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The auditor should study the imports data of the company by focusing on commodity codes and descriptions of goods with biggest quantities and/or value.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. As a part of the preparation or during the audit at the company’s premises, the auditor should ask for a list of the company’s imported goods.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The list should show how the items are classified for customs purposes and compare with the declarations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. If there has been a previous laboratory investigation/chemical test concerning the tariff classification, the auditor should ascertain the results of that exercise.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. When examining tariff classifications, the auditor should check whether the importer uses low or zero duty commodity codes, and if there are similar products with high duty. The same checks should be made concerning restrictions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Check the company’s list of goods imported from third countries. If the importer has a wide variety of such goods, a variation in commodity codes could be expected. Otherwise, a big variation in commodity codes could indicate that the importer uses different commodity codes for the same product. This could indicate that the importer has a lack of knowledge in the area of tariff classification. Another indication is if the importer uses the commodity code ‘other’.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Check also if there are imports of goods with unexpected commodity codes (not ordinarily associated with the importer’s type of business).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. To check the tariff classification, the auditor can ask for a sample of the product. Sometimes technical descriptions are also needed to be able to establish the commodity code. If no sample is still available in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUDIT ACTIVITIES</td>
<td>W/P REF</td>
<td>INITIALS</td>
<td>DATE</td>
<td>SUPERVISOR'S COMMENTS</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------</td>
<td>---------</td>
<td>----------</td>
<td>------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>stock, the auditor could use pictures, brochures or descriptions of the products.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. For some types of goods, laboratory checks on the product might be needed and a request should be generated for further investigations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. The auditor should also check the description made on sales goods.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Ask the importer’s clients for information about their purchases from the importer.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. It is also possible to ask for mutual assistance from sister revenue authorities to establish what has been sold to the importer.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*Any other activity relevant to the program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 7

### Audit Program to Establish Import/Export Quantities

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verify the accuracy of declared quantities of imported merchandise.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. During the tour of the importer’s storage facilities, observe whether the importer’s actual storage practices conform to the importer’s written policies and guidelines. Is the imported and domestic merchandise mingled?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Observe the receipt, unpacking, and inventory procedures exhibited during the receipt and unloading of a shipment of merchandise at the importer’s premises. Are the importer’s internal control procedures adequate?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is the receiving report reconciled with the commercial invoice, purchase order and packing list.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. On a sample basis, trace and reconcile imported merchandise quantities on import entry and accompanying commercial invoices to the respective receiving reports and inventory records. Compare with gate passes, material receipt notes, off loading records.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Select a receiving report with an acknowledged shortage and/or excess for review. Determine if excess and shortages are reported to Customs, the foreign exporter; and incorporated into purchases, inventory and payable records.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Does the importer dispose off obsolete inventory by exporting it back to the original seller or receive credit from the seller when the merchandise is destroyed locally.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Does the importer store any imported product in a bonded warehouse, foreign trade zone, or other location where duty is paid upon withdrawal of the imported merchandise?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Any other activity relevant to the program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 8

### Audit Program for Origin

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The risks in this field consist of:-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abuse of the preferential tariffs (i.e. declaring a false origin of the goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>imported in order to obtain the tariff benefits which the preferential origin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>confers) or to avoid other restrictions by declaring a false origin. The</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>auditor should check carefully if the origin has been correctly declared.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Check in the database system the origin declared in the SADs of the products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>imported.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Obtain an overview of the origins of the products and of the products in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>which the company benefits from preferential tariffs. The auditor should pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>particular attention to:-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Products where the country of origin declared in the SADs has changed in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the recent past.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Cases where the country of origin declared is close to countries for which</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>restrictions have been introduced for identical goods.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Cases where goods are imported from geographical areas with origin related</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. The auditor should verify the presence and validity of the proof of origin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and compare the origin with that declared on the SADs and the invoices.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Compare the goods imported with the proof of origin presented (i.e. match</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the nature and quantity of the goods imported with those stated in the proof of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>origin).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Check whether preferential documents have been issued after the goods were</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>imported.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Study the forwarded documents in order to verify the direct transport rule.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The auditor should check (for example through the bill of lading) that the</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>goods have been transported directly from the declared country of origin to the</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>country of importation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>If the goods imported pass through the territory of a third country, the audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or should check if the conditions of direct transport have been fulfilled.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This could be by a single transport document.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
covering the passage of the goods through the country of transit issued by the authorities of that country.

8. Verify any product markings that may indicate the country of origin (for example barcodes). The auditor should also verify if there are marks on the packaging relating to the product’s origin (for example, look for marks on cartons).

9. Check if the country of dispatch is inconsistent or in some way incompatible with the country of origin.

10. Check whether the supplier/manufacturer/exporter has been entered as a creditor. Check also whether there are suppliers with similar names in non-preferential countries in case these are the actual suppliers of the goods.

11. Check where and to whom payments for the goods have been made.

12. Verify if the origin certificates fulfils all of the requirements. Where necessary, at random or when there are reasonable doubts, request verification of the origin evidence by the issuing authorities.

13. Check if the importer is also importing the same type of goods from non-preferential countries.

14. If possible, assess the doubtful production capacity for the product in the country stated as the country of origin.

* Any other activity relevant to the program.
Appendix 9

Audit Program for Export and Re-Export

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export and re-exports - risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The main risks associated with exports/re-exports include:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. The export/re-export procedure may have been finalized to evidence export/re-export of goods but the actual exit of goods never took place.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Operators can also make an incorrect export /re-exports declaration by over-declaring the value, so that the VAT refund will be more than is otherwise due.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Also if operators over-declare the quantity of goods exported, those goods can be re-entered into the Country without payment of all taxes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tests to be carried out</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Select some export/re-exports declarations and match them with the account records or begin with the analysis of the operator’s account records, selecting some for a subsequent match with the customs declarations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. The auditor should verify the actual exit of goods from the warehouse or other premises of the operator, by analyzing procedures from the time the goods were ordered until their shipment. It may also be useful to gather documents relating to the exit note from the warehouse and its record in the accounting system. In this phase, the auditor can draw a flow chart of the operator’s procedures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. The auditor should also verify records of goods leaving the warehouse and match these exits with the relevant customs declarations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. In order to address and control the risks of over-declared value in export, the auditor may compare the declared invoiced value of the goods with the prices of similar types of goods as sold in the local market.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Suppliers’ and/or clients’ orders, invoices or production orders should be checked in order to determine if the goods exported have the same quality, quantity and value as those declared for export.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Auditors should confirm that the goods declared for export are paid for, and that the payment is recorded in the operator’s accounting system. Also, bank transfers in clients’ accounts should be checked and the amounts matched with the customs value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUDIT ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>declared.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. When the exporter is also the producer of the goods, the auditor must verify if, at the time of the export, s/he has sufficient stock available.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The auditor should also search for information concerning the transport route of the goods as declared to Customs. This can be done both by reference to databases, and in the records of the transport company. If the transport of the goods is undertaken by the exporter, records concerning the means of transport can be analyzed in order to confirm that the transport actually took place. In cases where an external transport company was used, auditors should verify from the transport documents if the related payment invoices are accounted for and if the payments have really been made. Auditors also need to perform cross-checks in the transport companies to certify that the transport actually took place. When analyzing transport documents, the auditor should also determine if the quantities of the goods declared to Customs match what is given in these documents.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. In case of doubt, auditors should ask for mutual assistance from the country of destination.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Any other activity relevant to the program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*
Appendix 10

Audit Program for Temporary Importation and Exportation

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customs procedures – temporary importation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The main risk is that goods under temporary import never leave the country after expiry of period granted and as a result, no customs duty is collected.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Tests to be carried out – temporary importation** | | | | |
| 1. For such importations, auditors should check if the procedure for temporary importation is completed according to the law (section 117 of EACCMA, 2004). | | | | |
| 2. Verify the import with the export by comparing tariff classification, there is always a risk that different commodity codes could be used either on import or export for the same goods. Further compare value and quantities of imports and exports. | | | | |
| 3. The identity of the exported goods should be verifiable. If the procedure is not completed, check if the time limit has passed. Auditors should also check if the reasons given actually correspond to the facts as declared, and that there has been no processing of the goods and no manufacturing in which they were used. | | | | |

**Note:**

When temporary importation is made, usually the importer is not the owner of the goods. Therefore, information about these goods may be more difficult to find in the accounting systems. What can be found is information concerning transportation of the goods, depending on the terms of delivery.

1. Verify that the export has taken place by checking export documents. It is also possible to compare the quantities of the exported goods with the quantities when they were temporarily imported.

2. The auditor should check the accounts for services such as loan of machines, leases, and others. Because these may disguise the presence of goods which should be declared as temporarily imported. The auditor should also check if the goods have been entered in the accounts of the importer as a normal purchase of goods, as this could suggest that the goods will stay in the country.

**Customs procedures – temporary exportations**
<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The main risk is that value addition on temporarily exported goods is not declared to Customs upon re-importation leading to no collection of customs duty where applicable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Tests to be carried out – temporary exports</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Test whether any import duty to which the goods were liable prior to their exportation has been paid.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Test that duty drawback or refund of any such import duty was not allowed on exportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Test that any temporarily exported goods have not been subjected to any process after being exported. If processed, test that their form or character has not changed and that on re-importation they are not liable to ad valorem duty.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Test that notice of temporary exportation was given in writing to the proper officer. Test further, that on re-importation such goods are availed to the proper officer for inspection at the port or place of temporary exportation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Test whether on re-importation the goods have undergone some process increasing their value or changing their character and form making them liable to duty. Test that duties have been collected on value attributable to the process. Generally, such value shall be taken to be the amount of such increase.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Any other activity relevant to the program.*
Appendix 11

Audit Program for Exemption

Relief from payment of taxes can be claimed in a number of different situations. Eligibility to claim exemption can be dependent upon the value of the goods, whether duty has previously been paid or the circumstances under which the goods are being imported.

To ensure exemptions were in accordance with the law, regulations and procedures and that the goods subject to exemption were used for intended purposes. Incorrect claims for duty exemption can result in non-payment of taxes.

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Auditors should check if the authorization produced covered the goods in question.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note that when an importer has claimed a full or partial exemption of duty/tax, the goods in question should include an exemption authorization (for example an approval letter) from the competent authority allowed to legally grant such exemptions.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Conduct physical existence of goods on which exemption was granted and confirm whether they are being used for the intended purposes. However, physical tally may not be possible for consumables.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Auditor should verify the eligibility of exempted person.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Auditor should verify if the CPC used for exempted goods in the SAD corresponds with authorization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The auditor should check if the commodity code declared matches the description entered in the SAD, invoice and the authorization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Auditors to check the quantities declared (weight, number or value) are correct and there is a sufficient balance covered by the authorization and that the authorization has been endorsed where applicable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Verify the quantity approved for exemption with actual quantities requested for exemption.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Auditor to verify the import license/permit incase the importation of the goods require such conditions (for example medicine).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Auditor should ensure that granting of exemption is limited to goods that qualify for exemption.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Any other activity relevant to the program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 12

Refund is the repayment of duty/tax or part thereof paid in respect of goods that have been damaged or pillaged during voyage or destroyed while subject to Customs control. It also includes repayment of duty/tax paid in error or on goods in respect of which an order remitting or exempting such duty/tax has been made.

A) Refund of taxes for products delivered for use by exempt persons

The objective is to ensure compliance with all customs procedures related to refunds for goods used by exempt person

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>(A) AT OFFICE</td>
<td>Read/review client’s file to update knowledge of client’s records.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Auditor obtains client’s file.</td>
<td>Verify Customs refund claim and ensure that the application for refund is within a period permitted from the time when delivered was made. Auditor should clearly understand as a general rule that under the system of PAY FIRST and REFUND LATER, the amount of refund claim should not exceed the actual amount of tax paid up-front.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Establish what goods are imported and exempted from duties and taxes.</td>
<td>Obtain the following documents: - (a) Customs entry (b) A copy of purchase order duly approved by Commissioner for Customs. (c) Covering letter issued by the Commissioner for Customs, which shows quantities, the necessary conditions to be adhered to, accountability of products and others. (d) An exemption authority such as EAC Gazette. (e) An endorsement by supplier showing the quantities delivered. (f) Original or duly certified delivery order/note. (g) Evidence of receipt and accounting of the product by beneficiary. (h) Tax invoice including payment receipt. (i) For cases that involve big quantities, a confirmation by supplier as to payment of taxes is required by way</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EAC Customs Post Clearance Audit Manual.
of attachment of tax payment receipts.

(j) Confirmation letter from Customs officer of the recipient region where goods reached the intended destination.

(k) An analysis from exempted beneficiary showing how goods were consumed.

4. Auditor identifies areas of risk and plans for an audit visit.

After reviewing client’s file including the previous audit reports and examining documents for processing of refunds, the auditor should decide on risks and tests to be conducted using part C below as a guide.

(B) AT CLIENT PREMISE

1. Review the questionnaire

Review to ensure details recorded are current.

Seek confirmation for the refund claims on goods imported and subsequently used by exempt persons.

2. Client’s records

Identify and obtain all current registers, cash books, bank statements, telegraphic transfers, financial statements, an analysis showing how goods have been used. Confirm records contain required information sufficient to allow for proper checking.

3. Audit trail

Ensure there is a clear audit trail from the receipt of goods to end-use by establishing a cut-off point and conduct reconciliation.

4. Other pertinent records

Identify and obtain any other records required to complete the audit tests.

5. Losses.

Confirm losses, if any from the police and whether compensation against the losses has been received from an insurance company.

(C) TESTING: REFUNDS

1. **Risk:** Are all the goods received recorded?
   
   Check the client’s records.
   
   Ensure receipt is recorded in the stock register.

2. **Risk:** Is there any Any identified transfers of goods without
<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>transfer of ownership without official permission?</td>
<td>proper official instructions to be treated as a discrepancy.</td>
</tr>
</tbody>
</table>

3. **Risk:** Were exempted goods used for the intended use?

   - Obtain confirmation from client management.
   - If possible physically verify the site where the goods were consumed.

4. **Risk:** Is actual consumption at the site reasonable?

   - Applicable mostly for mining and construction companies.
   - Auditor should have technical expertise in this area. Some companies used to tender at higher rate for the standard consumption of their plants, equipments, machinery and vehicles.
   - Try to obtain manufacturer standards for normal consumptions.
   - Compare the actual consumption against manufacturer and tendered standard and establish any variance.
   - Report for any anomaly

5. **Risk:** Does the amount claimed for refund exceed the amount of tax already paid?

   - Auditor should be aware that in any case the claimed amount should not exceed the amount of tax that was paid at the time of purchase from the supplier.
   - It is the duty of the applicant to carefully prepare his refund claim to avoid variations.

6. **Risk:** Was the refund appropriately approved?

   - Confirm that the approval was genuine.

7. **Risk:** Was the refund claim submitted within the allowed statutory period?

   - Ensure that the application for refund claim is within the statutory period.

8. **Risk:** Are client’s records reliable?

   - Identify and obtain all client records used to support the claim.

9. **Risk:** Are care must be taken to ensure that any
B) Duty drawback scheme

The objective is to ensure correct refund of all or part of any import duty paid in respect of goods exported or used in a manner or for a purpose prescribed as a condition for granting duty drawback.

(A) AT OFFICE

1. Auditor obtains client’s file.

Review client’s file to understand client’s business.

Ensure that the client is approved by the Commissioner under duty drawback scheme.

2. Ensure that the application for refund is within the permitted period.

Ensure that the application for refund is within the permitted period from the date of the exportation of the goods or the performance of the conditions on which duty drawback may be allowed.

In case of damaged goods or pillaged during the voyage or damaged or destroyed while in Customs controls or import or export duty which has been paid by error, the refund amount must be claimed within the statutory period from the date of payment of duty.
3. Auditor obtains the following documents for verification.

Obtain and verify the genuineness, accuracy and completeness of the following documents:

(a) Documents showing production formula of the product exported.
(b) SADs both for import and export.
(c) Input tax receipts.
(d) Export invoice.
(e) Landing certificates issued by Customs department/any other issuing authority of the country to where the goods have been exported.
(f) Airway bill/bill of lading/consignment note for export of goods.
(g) Any other document relevant for the verification.

4. Auditor should identify areas of risk to be tested.

After reviewing client’s file, and examining documents for processing of refunds, the auditor should decide on risks and tests to be conducted using part (C) below as a guide.

Previous reports, if any, may also be reviewed for indications of risk and/or outstanding issues.

(B) AT CLIENT PREMISES

1. Review the questionnaire

Review to ensure details recorded are current.

2. Client’s records

Identify and obtain all current records/information such as stock requisition, orders or any relevant manufacturing records.

3. Audit trail

Ensure that there is a clear audit trail from the importation of materials used in the production to the final product.

Seek information for the refund claims on materials imported and subsequently exported by verifying Customs refund claim forms and attachments.

4. Check on manufacturing process.

Verify documents showing production formula for the products exported and seek opinion from competent authority.

5. Duty drawback goods.

Check if the goods entered were properly declared with the correct tariff codes.
<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td>Wastage/loss. Confirm wastage/loss calculations. Seek evidence to support client's declaration (including physical examination and/or sampling if possible).</td>
</tr>
<tr>
<td>7.</td>
<td>Rate of yield Confirm the rate of yield.</td>
</tr>
<tr>
<td>8.</td>
<td>Completeness of records. Confirm who is responsible for the maintenance of records. Establish how client’s records are updated. Confirm if client records contain required information sufficient to allow proper review.</td>
</tr>
</tbody>
</table>

### 1.2 (C) TESTING: DUTY DRAWBACK

1. **Risk:** Are all received goods recorded? Compare Customs declarations with client records. Ensure SAD details correspond to entries in stock records.

2. **Risk:** Have goods been used for the prescribed purpose? Trace issuance of goods to manufacturing records. Check for unusual issuances, excessive wastage claims and/or transfers/sales to other companies.

3. **Risk:** Transfer of ownership without official permission? Any identified transfers of ownership of goods without proper authority or contrary to duty drawback instructions to be treated as a discrepancy.

4. **Any other Risks identified and tested (specify details).**

### (D) TESTING PHYSICAL STOCK

1. **Stock balances.** Identify stock balances that are to be physically verified.

2. **Physical stock count.** Auditor should identify individual stock, count and enter details onto stock testing sheets.

   **N.B.** Auditor must be accompanied by a client’s representative throughout stock count.
### 3. Identification of discrepancies

Physical balances to be checked against stock record balances and any discrepancy identified investigated and reported.

### 4. Treatment of discrepancies

The following discrepancies should result in a demand for duty/penalties being issued to the client:-

- (i) Stock shortages
- (ii) Time expired goods (refunds to be claimed within statutory limit).
- (iii) Prohibited goods
- (iv) Diverted goods
- (v) Transfers without proper authorization.

### (E) PROOF OF EXPORT

#### 1. Proof of exportation.

Auditor should ensure evidence supporting the exportation is availed.

**N.B**

Only original or certified copies of original documents should be accepted.

#### 2. Time limits

Confirm that application for refund was submitted within the prescribed time limit.

#### 3. Review of export records

Check that client’s records support the information recorded as export in accordance with official requirements.

### F) ACTION ON DISCREPANCIES

**CONTRARY TO EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT, 2004 & REGULATIONS**

Identification of discrepancy and action taken *(to be clearly cross-referenced to working papers)*

<table>
<thead>
<tr>
<th>Discrepancy</th>
<th>Penalty/Offence provisions</th>
<th>WP/REF</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
</table>

---

**EAC Customs Post Clearance Audit Manual.**

Page 76
<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMNTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Sells or disposes of goods entered under duty drawback of duty without obtaining official permission or paying the duty.</td>
<td>Section 210(h)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Uses goods entered under duty drawback otherwise than in accordance with the item under which entry was made.</td>
<td>Section 203(g)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Moves goods to non-registered premises for further processing or operation without official permission.</td>
<td>Section 210(f)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Diverts goods entered under duty drawback without official permission, to a destination other than that declared on the SAD or such delivers goods or causes such goods to be delivered contrary to the provisions of the EACCMA, 2004.</td>
<td>Section 210(f)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Goods retained in duty drawback store for a period longer than period allowed without official permission.</td>
<td>Section Sect. 78(1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Fails to produce a stock record as officially may require.</td>
<td>Section 204(a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Fails to maintain a proper/complete record of all receipts into or out of the duty drawback warehouse.</td>
<td>Section 204(a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Detail other discrepancies. (Specify details)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 13

Audit Program for Duty Remission Scheme

Remission is a scheme whereby duty is diminished in respect of goods imported for use in the manufacture of goods for export or in the manufacture of approved goods for home consumption as the council may announce in the gazette.

The objective is to ensure that procedures on remission of duty scheme are being adhered to as per laws and regulations.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPER VISOR ’S COMM ENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) AT OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Auditor obtains client’s File.</td>
<td>Review client’s file to update knowledge of client’s records. Check if the remission of duty was granted as per section 140 of EACCMA, 2004.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Ensure that the claim does not exceed the time limit.</td>
<td>Proof the valid period of remission of duty granted to client by the council.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Auditor obtains following documents for verification.</td>
<td>Obtain and verify the genuineness, accuracy and completeness of the following documents:- (a) Single bills of entry/ SAD both for import and export. (b) Airway Bill/Bill of Lading/ (c) Consignment note for importation and exportation of goods. (d) Input tax receipts. (e) Import and export invoices. (f) Landing certificates issued by customs department of the country to where the goods have been exported. (g) Other document that the auditor may think relevant for the audit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Auditor plans audit visit including identifying areas of risk to be tested.</td>
<td>After reviewing client’s file, and examining documents for processing of refunds the auditor should decide on risks and testing to be conducted use part (C) below as a guide. Previous reports are to be read for indications of risk and/or outstanding issues.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Management</td>
<td>Review audit plan (risks &amp; areas to be</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
agreement. Tested) with supervisor.

Obtain supervisor’s sign approval.

(B) AT CLIENT PREMISES

1. Confirming contents of questionnaire
   Review the questionnaire to ensure details recorded are current.

2. Client’s records
   Identify and obtain all books and records relating to:
   (a) Locally sourced goods
   (b) Goods imported by the manufacturer
   (c) Goods received by the manufacturer by way of transfer

3. Audit trail
   Ensure that there is a clear audit trail from the importation to the final product either for export or home consumption.

4. Bond security
   It is a condition that all goods imported and used in the manufacture of goods for export shall execute a bond security.

   Auditor should ensure that:
   (a) A bond executed cover the entire quantity approved.
   (b) The bond security has been cancelled upon proof of exportation, payment of duty and penalty where the imported goods were used in the manufacture of goods that were not exported, Commissioner approved the transfer of the goods to another person or there is proof of destruction of the goods under the supervision of a proper officer.

5. Other pertinent records
   Identify and obtain any other records required to complete the test program.

6. Goods whose duty is remitted.
   Check that goods exported were correctly declared and properly classified.
   Check that goods entered for home use were correctly declared and properly classified.

7. Returns
   Check if the client submits returns timely.

8. By-products, waste or scrap
   Ensure that duty is paid for any by-products, waste or scrap if entered for home consumption unless they have been...
<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPER VISOR ’S COMM ENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>exported or destroyed.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Completion of records.</td>
<td>Confirm who is responsible for the maintenance of the records.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Establish how client updates his/her records</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Confirm if client records contain required information sufficient to allow for proper checking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.3
(C) TESTING: REMMISION

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPER VISOR ’S COMM ENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Risk: Are all received goods recorded?</td>
<td>Test from Customs records to client records to ensure receipt of goods is properly recorded.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Risk: Have goods been produced as directed by approving authority?</td>
<td>Trace issues of goods to manufacturing records. Check for unusual issues, excessive wastage claims or transfers and sales of approved goods for home consumption.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Risk: Transfer of ownership without approval?</td>
<td>Any identified transfers of ownership of goods without proper approval or contrary to duty remission scheme instructions should be treated as a discrepancy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Any other risks identified and tested (specify details).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(D) TESTING: PHYSICAL STOCK

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPER VISOR ’S COMM ENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identifying stock balances.</td>
<td>All stock balances in stock records are to be clearly highlighted and the auditor is to initial and date.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Physical stock count.</td>
<td>Auditor to identify individual stock, count and enter details onto stock testing sheets.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**NOTE**
Auditor must be accompanied by a client’s representative throughout the stock count. Each stock sheet must be signed and dated by both the auditor and the client’s representative. The client representative must affix a stamp on the stock sheet.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPER VISOR ’S COMM ENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Closed accounts in stock records.</td>
<td>Closed accounts are to be crossed through, signed and dated, by the auditor.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Identification of discrepancies</td>
<td>Physical balances should be checked against recorded stock balances and discrepancies identified.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. Treatment of discrepancies

- Stock shortages, unauthorized goods, diverted goods and transfer of goods to other manufacturer without approval shall result in a demand for payment of duty/penalties from the client.

(E) PROOF OF EXPORT

1. Proof of Export
   - Auditor should ensure that export documents are obtained from the client and verified.
   
   **N.B**
   Only original or certified copies of original documents to be accepted.

2. Time limits
   - Confirm from the Gazette whether the client is allowed to manufacture under duty remission scheme and confirm the time limit.

3. Client’s records
   - Identify and obtain all client records used to support exportation.

4. Treatment of discrepancies
   - Auditors should ensure that the identified discrepancies are satisfactorily explained by the client.
   - Unexplained discrepancies should be discussed with the supervisor for decision on the issue of assessment of taxes and penalties.
(F) ACTION ON DISCREPANCIES
CONTRARY TO EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT, 2004 & REGULATIONS

Identification of discrepancy and action taken (to be clearly cross-referenced to working papers)

<table>
<thead>
<tr>
<th>Discrepancies</th>
<th>Penal Provision</th>
<th>WP/REF</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Obtains any remission of duty which to the best of the client’s knowledge is not entitled to obtain.</td>
<td>Sect. 203(d) of EACCMA, 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Any goods in respect of which remission of duty has been unlawfully obtained.</td>
<td>Sect. 210(h) of EACCMA, 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Imported goods that are not used in the manufacture of goods for export or where the goods so manufactured are not exported.</td>
<td>Sect. 7(3) of duty remission regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Failure to submit returns as required by EAC CMA Duty Remission Regulation.</td>
<td>Sect. 7(3) of duty remission regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Fails to produce a stock record as may be required officially.</td>
<td>204(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Fails to maintain a proper/complete record.</td>
<td>204(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Details other discrepancies (Specify details)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 14

Audit Program for Custom Bonded Warehouse

The objective of this program is to ensure that movement of goods and duties due have been accurately recorded and accounted for.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) AT OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Auditor obtains client’s records.</td>
<td>Obtain client’s records from archive or Customs database.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Desk audit</td>
<td>Review client’s records to check if goods were properly accounted for.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Auditor plans audit visit including identifying areas of risk to be tested.</td>
<td>After reviewing client’s file and examining client’s records, decide on risks and tests to be conducted. Refer part (C) below. Previous reports are to be read for indications of risk and/or outstanding issues.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Management agreement</td>
<td>Review audit plan (risks and areas to be tested) with supervisor. Obtain supervisor’s or manager’s approval</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Arrange visit to client.</td>
<td>Decide on announced or unannounced visit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(B) AT CLIENT PREMISES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Confirm contents of questionnaire</td>
<td>Ensure details recorded are current.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Client’s records</td>
<td>Identify and obtain all clients’ records (for warehousing and ex-warehousing). Ensure that bond security cover the goods in the warehouse at any point in time.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Other pertinent records</td>
<td>Identify and obtain any other records required to complete the test program.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Completion of records</td>
<td>Confirm that records kept are sufficient in relation to warehousing and ex-warehousing of goods. Establish how client updates the records. Confirm that records contain required information sufficient to allow proper checking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### (C) TESTING: WAREHOUSE RECORDS

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>RISK:</strong> Are all warehoused goods recorded? Test from Customs records to client records to ensure receipt detailed declared in SAD details on Customs records correspond to entries in warehouse records.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td><strong>RISK:</strong> Are all ex-warehoused goods recorded? Test from Customs records to client records to ensure removal details on SAD correspond to entries in warehouse records.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td><strong>RISK:</strong> Goods disposed off prior to SAD being passed. Test to ensure no goods were removed from warehouse on a date prior to that shown on ex-warehouse.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td><strong>RISK:</strong> Loss of stock in the warehouse. Ensure stock balances in the warehouse agree with balances shown in the Customs database system.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td><strong>RISK:</strong> Transfer of ownership without official permission. Any identified transfers of ownership of goods without proper official consent to be treated as a discrepancy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Any other Risks identified and tested (specify details) Auditors to ensure other identified risks are tested.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Results of testing and challenge of identified discrepancies. Auditors to ensure identified discrepancies are satisfactorily explained by the client. Unexplained discrepancies are investigated and noted for further action.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### (D) TESTING: PHYSICAL STOCK

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Stock balances Identify stock balances that are to be physically verified.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Physical stock count Auditor to identify individual stock, count and enter details onto stock counting sheets. N.B Auditor must be accompanied by a client’s representative throughout the stock count. Each stock sheet must be signed and dated by both the auditor and the client’s representative. The client representative should affix a stamp on the stock sheet.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Warehouse arrangement Auditor should ensure that stock is well arranged to facilitate the whole exercise of stock count.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Opened Identify any containers/boxes opened</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITEM</td>
<td>ACTION</td>
<td>W/P REF</td>
<td>INITIALS</td>
<td>DATE</td>
<td>SUPERVISOR'S COMMNTS</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>---------</td>
<td>----------</td>
<td>------</td>
<td>---------------------</td>
</tr>
<tr>
<td>containers (boxes)</td>
<td>without official permission.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Auditor or any proper officer should ensure that Customs seals are available should they wish to conduct any internal examinations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Identification of discrepancies</td>
<td>Auditor should mark on stock testing sheets any surplus or shortages of physical stock.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 6. Challenge of discrepancies | **Surplus stock**  
If satisfied that duty has been paid, goods must be removed from the warehouse. | | | | |
| | **Surplus stock**  
If no duty has been paid, either arrange for transfer of goods to Customs Warehouse or demand payment of duty. | | | | |
| | **Stock shortages**  
Demand for payment of duty/penalty. | | | | |
| | **Stock in excess of time limits**  
If satisfied that the goods were held in Warehouse for a period longer than prescribe without official permission, demand for payment of duty and interest. | | | | |

**E) ACTION ON DISCREPANCIES**

**CONTRARY TO EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT, 2004 & REGULATIONS**

Identification of discrepancy and action taken. *(to be clearly cross-referenced to working papers)*

<table>
<thead>
<tr>
<th>Discrepancy</th>
<th>Penalty/Offence provisions</th>
<th>WP/REF</th>
</tr>
</thead>
</table>
| 1. Section 64(1)(c)  
Failure to stack and arrange the goods in the bonded warehouse so as to permit reasonable access to and examination of every package at all times. | Section 64(2) | |
| 2. Section 67(1)  
Failure to produce on request, to the proper officer all goods deposited in bonded warehouse. | Section 67(2) and (3) | |
| 3. Section 57(1)  
Goods retained in Warehouse for a period longer than prescribed period without official permission. | Section 57(2) | |
4. **Section 60(1)**
   Failure to remove goods from warehouse 14 days after entry for home consumption or sold in accordance with this Act.  
   | Section 60(3) |

5. **Section 60(2)**
   Failure to remove goods from warehouse 30 days after entry for export  
   | Section 60(3) |

6. **Section 64(1)(b)**
   Failure to keep records of all goods warehoused and keeps such record at all times available for examination by the proper officer.  
   | Section 64(3) |

7. **Section 235(1)(a)**
   Failure to produce the required documents for warehousing of goods.  
   | Section 204 and 209 |

8. **Section 61(a)**
   Takes, or causes or permits to be taken, any goods from any warehouse otherwise than in accordance with this Act.  
   | Section 61 |

9. **Section 61(b)**
   Failure to carry into and deposit in the warehouse, any goods entered for warehousing.  
   | Section 61 |

10. **Section 61(c)**
    Willfully destroys or damages any warehoused goods otherwise than in circumstances specifically provided for in EACCMA, 2004.  
    | Section 61 |

11. **Sections 59(2) and (3)**
    Access to warehouse without proper permission.  
    | Sections 59(2) and Section 59(3) |

12. **Section 48(4)**
    Failure to take goods to the warehouse for which they were entered for within fourteen days.  
    | Section 48(5) |

13. **Section 51(1)**
    Repacking, skipping, bulking, sorting, lotting, packing, taking of samples by the owner, changing the name of the owner of goods and assembling or manufacturing without commissioner’s permission.  
    | Section 51 (2) |

14. **Section 53(1)**
    Delivery from warehouse in special circumstances without payment of duties and taxes.  
    | Section 53 (2) |

15. **Section 62**
    Contravention of terms of license.  
    | Section 62 (8) and 209 |
Appendix 15

Audit Program for Manufacturing under Bond – MUB

The objective of this program is to ensure that rules, regulations and procedures for MUB are adhered to.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(A) AT OFFICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Auditor obtains client's file</td>
<td>Obtain client’s records from archive or Customs database</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Desk audit</td>
<td>Review Client’s file to update knowledge of client’s business. Ensure copy of process/instruction manual is available</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Management agreement.</td>
<td>Review audit plan with team leader/manager. Obtain supervisor/manager approval</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Arrange visit to client</td>
<td>Decide on announced or surprise visit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(B) AT CLIENT PREMISES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Establish client’s controls</td>
<td>Identify who is responsible for completing company returns. How the information is obtained for the return. Establish controls that are in place to ensure accuracy and timely submission of the returns.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Identify company records</td>
<td>Ensure all relevant records are made available to allow proper testing to be conducted.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Explanation of records.</td>
<td>Ensure responsible client’s staff explain make up of records and how they relate to the MUB returns.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Transfer of ownership of goods</td>
<td>Ensure applicable procedures have been followed.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Movement of goods between bonded warehouses.</td>
<td>Ensure applicable procedures have been followed.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Quarterly MUB return testing</td>
<td>Follow the verification procedures as laid out in the MUB process/instructions manual, examination, programs /procedures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITEM</td>
<td>ACTION</td>
<td>WP/REF</td>
<td>INITIALS</td>
<td>DATE</td>
<td>SUPERVISOR’S COMMENTS</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>--------</td>
<td>----------</td>
<td>------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>7.</td>
<td>Results of testing</td>
<td>Ensure all identified discrepancies are recorded.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Clarification from client</td>
<td>Ensure identified discrepancies are satisfactorily explained by the client. Unexplained discrepancies to be noted for further action.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(C) ACTION ON DISCREPANCIES

CONTRARY TO EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT, 2004 & REGULATIONS

Identification of discrepancy and action taken. *(to be clearly cross-referenced to working papers)*

<table>
<thead>
<tr>
<th>Discrepancy</th>
<th>Penalty/Offence provisions</th>
<th>WP/REF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Section 160 (6)</strong> Use or permit premises to be used for manufacturing under bond without a license, or contravention of the terms of the license.</td>
<td><strong>Section 160 (6)</strong></td>
<td></td>
</tr>
<tr>
<td>2. <strong>Section 161 (2) (a)</strong> Make use of a building, room, place or item of plant in relation to which entry is required under this section unless there is, in respect thereof, a valid entry in the course of manufacturing.</td>
<td><strong>Section 161 (3) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>3. <strong>Section 161 (2) (b)</strong> Effecting an alteration in shape, position or capacity to a building, room, place or plant without prior permission of the Commissioner.</td>
<td><strong>Section 161 (3) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>4. <strong>Section 163 (1) (a)</strong> Failure to provide office accommodation and just weights, scales, measures and other facilities for examining and taking account of goods and for securing them as the proper officer may reasonably require.</td>
<td><strong>Section 163 (2), 163 (3) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>5. <strong>Section 163 (1) (b)</strong> Failure to keep a record of all types of plant, machinery and equipment, raw materials and goods manufactured in the factory and keep that record at all times available for examination by the proper officer.</td>
<td><strong>Section 163 (2) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>6. <strong>Section 163 (1) (c)</strong> Failure to provide all necessary labour and materials for the storing, examining, packing, marking, coopering, weighing and taking stock of the goods in the factory whenever the proper officer so requires.</td>
<td><strong>Section 163 (2) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>7. <strong>Section 164 (1)</strong> Failure to enter and deliver plant, machinery, spares and imported raw materials to the bonded factory within prescribed period and subject to such conditions as the Commissioner may prescribe.</td>
<td><strong>Section 164 (1) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>8. <strong>Section 164 (2)</strong> Failure to export or enter for home consumption manufactured goods within such time and subject to such conditions as the Commissioner may impose.</td>
<td><strong>Section 164 (3) and 209</strong></td>
<td></td>
</tr>
<tr>
<td>ITEM</td>
<td>ACTION</td>
<td>W/P REF</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>---------</td>
</tr>
<tr>
<td>9. Section 166(3)</td>
<td>Disposal of raw materials or manufactured goods from a bonded factory, within the Partner States, whether on payment or not, or acquisition, keeping, concealing of raw materials or manufactured goods from a bonded factory without the permission of the Commissioner.</td>
<td>Section 166(3)</td>
</tr>
<tr>
<td>10. Details other discrepancies (Specify details).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 16

Audit Program for Export Processing Zones –EPZ and Free Ports

Export Processing Zone refers to 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.

Free port refers to a port where goods are entered free of customs, the goods are usually for re-export.

The objective of this program is to ensure that rules, regulations and procedures for an Export Processing Zone or Free Port are adhered to.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(A) AT OFFICE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Auditor obtains Client's files.</td>
<td>Obtain client’s records from archive or Customs database.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Desk Audit</td>
<td>Read/review client's records to update knowledge of client’s history for example financial statements, manufacturing accounts, VAT returns and others.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Auditor obtains records</td>
<td>Obtains and verifies the genuineness, accuracy and completeness of importation and exportation records including any other relevant records for the audit.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(B) AT CLIENT PREMISES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Establishing Questionnaire</td>
<td>Complete to ensure details recorded are current.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Establish client’s controls</td>
<td>Identify who is responsible for completing company returns. How the information is obtained for the return. Ensure controls are in place for accuracy and timely submission of the returns submitted to proper authority.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Identify company records</td>
<td>Ensure all relevant records are made available to allow proper testing to be conducted.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Explanation of records</td>
<td>Ensure responsible client’s staff explain how records are prepared and how do they relate to the EPZ returns (reconciliation).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Quarterly EPZ returns testing</td>
<td>Follow the verification procedures as laid out in the regulation and ensure that the</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITEM</td>
<td>ACTION</td>
<td>W/P REF</td>
<td>INITIALS</td>
<td>DATE</td>
<td>SUPERVISOR'S COMMENTS</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
<td>---------</td>
<td>----------</td>
<td>------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>client timely submit the returns.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Audit trail</td>
<td>Ensure there is a clear audit trail from the import to the final product either for export or for home consumption. Ensure that client does not exceed the percentage allowed for goods sold locally (deemed exported to Customs Territory).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Import and export procedures</td>
<td>Check goods being entered for home use (deemed exported to Customs territory) are correctly declared and properly classified and duties and taxes paid. Check goods being exported are correctly declared and properly classified</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. By-products, waste or scrap</td>
<td>Ensure proper procedures are followed on goods declared as by-products, waste or scrap.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Results of testing</td>
<td>Ensure identified discrepancies are recorded.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Clarification from client.</td>
<td>Ensure the identified discrepancies are satisfactorily explained. Unexplained discrepancies to be noted and reported.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(C) TESTING OF RISK

1. Risk: Are all receipts recorded? Test from Customs records to client records to ensure receipt of goods is properly recorded.

2. Risk: Are goods being produced as directed by the approving authority? Trace issues of goods to manufacturing records. Check for unusual issues, excessive wastage claims and/or transfers/sales of approved goods for home consumption.

3. Risk: Transfer of ownership without official permission? Any identified transfers of ownership of goods without following proper procedure or approval should be treated as a discrepancy.

4. Risk: Goods declared for export outside Customs territory might be diverted into local market Auditors to ensure all goods declared for export are actually exported

5. Risk: Non-payment of duties Auditors to ensure payment of full duties and taxes for goods sold into the Customs
and taxes for the goods sold into the Customs territory (deemed exported). territory (home use).

6. Risk:
   Operating without necessary guarantees of compliance

   The auditor to ensure that the client provide for audit necessary guarantees from carrying on any activity in an EPZ.

7. Any other risks identified and tested (specify details)

(D) TESTING PHYSICAL STOCK

1. Identifying stock balances.
   All stock balances in stock records are to be clearly highlighted and the auditor has to initial and date.

2. Physical stock count.
   Auditor to identify individual stock, count and enter details onto stock testing sheets.

   NOTE
   A client’s representative must accompany the auditor throughout the stock count.

   Each stock sheet must be signed and dated by both the Auditor and the client’s representative. The client’s representative must affix a stamp on the stock sheet.

3. Identification of discrepancies
   Physical balances to be checked against recorded stock balances and discrepancies identified.

4. Treatment of discrepancies
   The following discrepancies should result in a demand for duty/penalties being issued to the client:
   - (a) Stock shortages
   - (b) Prohibited goods
   - (c) Diverted goods
   - (d) Transfer of goods to other manufacturer without approval.

(E) PROOF OF EXPORT
1. Proof of export
Auditor should ensure that export documents are obtained from the client and verified.

**N.B.**
Only original or certified copies of the original documents should be accepted.

2. Client’s records
Identify and obtain all client records used to support/prove exportation.

3. Treatment of discrepancies
Auditors should ensure that identified discrepancies are satisfactorily explained by the client.

Unexplained discrepancies should be discussed with Supervisor for decision on the issue of assessment for duties and taxes and/or penalties.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Proof of export</td>
</tr>
<tr>
<td>2.</td>
<td>Client’s records</td>
</tr>
<tr>
<td>3.</td>
<td>Treatment of discrepancies</td>
</tr>
</tbody>
</table>

---

**F) ACTION ON DISCREPANCIES**

**CONTRARY TO EAST AFRICAN COMMUNITY CUSTOMS MANAGEMENT ACT, 2004 & REGULATIONS**

Identification of discrepancy and action taken. *(to be clearly cross-referenced to working papers)*

<table>
<thead>
<tr>
<th>Discrepancy</th>
<th>Penalty/Offence provisions</th>
<th>WP/REF</th>
<th>SUPERVISOR’S COMMENT S</th>
</tr>
</thead>
</table>
| 1. Section 168(1)
Removal of goods from an export processing zone including waste from the manufacturing process to be entered for home consumption against commissioner’s imposed conditions and payment of duties. | Section 168(3) |        |                        |
| 2. Section 168(2)
Failure to determine the duty on goods removed from an export-processing zone in accordance with Section 122. | Section 168 (3) |        |                        |
| 3. Section 168(4)
Removals of goods from Export Processing Zones without the authority of the commissioner. | Section 168 (4) |        |                        |
<table>
<thead>
<tr>
<th>ITEM</th>
<th>ACTION</th>
<th>W/P REF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR'S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>Section 169(2)(a)</td>
<td>Failure to provide office accommodation and just weights, scales, measures and other facilities for examining and taking account of goods and for securing them as the proper officer may reasonably require.</td>
<td>Section 169 (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Section 169(2)(b)</td>
<td>Failure to keep a record of all types of plant, machinery and equipment, raw materials and goods manufactured in the factory and keep that record at all times available for examination by the proper officer.</td>
<td>Section 169 (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Section 169(2)(c)</td>
<td>Failure to provide all necessary labour and materials for the storing, examining, packing, marking, coopering, weighing and taking stock of the goods in the factory whenever the proper officer so requires.</td>
<td>Section 169 (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Details other discrepancies. (Specify details)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 17

Customs - Post Clearance Audit

Audit Test Review

W/P Ref

Client: ........................................  Prepared by……… Date ........

Period covered: .................................Reviewed by.........Date ........

Audit objective: ................................

Specific test conducted:

_________________________________________________________________________________

_________________________________________________________________________________

Audit work done

_________________________________________________________________________________

_________________________________________________________________________________

Audit result(s)

_________________________________________________________________________________

_________________________________________________________________________________

Conclusion (s)

_________________________________________________________________________________

_________________________________________________________________________________

Recommendation

_________________________________________________________________________________

_________________________________________________________________________________
Audit Query Sheet

CLIENT NAME: .................................................................

TYPE OF ACTIVITY: ...........................................................

REVIEW TYPE: ......................................................................

(PLANNING/WORK/FINAL)

DATE: .................................................................

<table>
<thead>
<tr>
<th>WP REF</th>
<th>REVIEWER COMMENTS</th>
<th>INITIAL</th>
<th>REVIEWEE ACTION TO THE COMMENTS</th>
<th>INITIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 19

Demand Notice/Assessment

REF: 
TIN/PIN: 
Date: 
Client’s Full Address

Dear Sir/Madam,

RE: TAX LIABILITY OF……RESULTING FROM POST CLEARANCE AUDIT

Kindly refer to the above captioned subject matter.

The audit verification conducted on the import/export transactions made by your company for the period from …… to ……. has revealed additional tax liability amounting to ………… resulting from incorrect declarations to Customs of the imported goods. Schedule of tax computation is attached for ease of reference.

The summary of the tax liability is as shown below:-
Import duty ..................................
VAT on import ..............................
Other taxes (specify) ........................
Total additional tax liability .................

You are required as per Section 135 of the East African Community Customs Management Act (EACCMA) 2004, to pay the said tax liability to the Commissioner of Customs within thirty (30) days from the date of service of this letter/notice.

Please note that if payment is not effected on or before due date, the amount of duty and taxes demanded will bear a penalty of five percent (5%) of the amount demanded and subsequent penalty of two percent (2%) for each month in default as per S.135(2) of the EACCMA, 2004.

Please comply accordingly.

Yours faithfully,

............... 
Signature 
............... 
Name 
............... 
Designation
## Appendix 20

### Customs - Post Clearance Audit

#### Working Paper Index

<table>
<thead>
<tr>
<th>Client: ........................................</th>
<th>Prepared by……… Date ……..</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period Covered: .............................</td>
<td>Reviewed by……… Date ……..</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Binder Number</th>
<th>A COMMUNICATING RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - 1</td>
<td>Audit Report</td>
</tr>
<tr>
<td>A - 2</td>
<td>Exit Conference Minutes</td>
</tr>
<tr>
<td>A – 3</td>
<td>Management Letter</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B TEST WORK FOR FIELD AUDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>B - 1</td>
</tr>
<tr>
<td>B - 2</td>
</tr>
<tr>
<td>B - 3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C AUDIT PROGRAM (S) FOR TEST WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>C - 1</td>
</tr>
<tr>
<td>C - 2</td>
</tr>
<tr>
<td>C - 3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D REVIEW OF INTERNAL CONTROLS</th>
</tr>
</thead>
<tbody>
<tr>
<td>D - 1</td>
</tr>
<tr>
<td>D - 2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E PRE AUDIT SURVEY AND PLANNING</th>
</tr>
</thead>
<tbody>
<tr>
<td>E - 1</td>
</tr>
<tr>
<td>E - 2</td>
</tr>
</tbody>
</table>
Audit Plan E - 3
Entry Conference Minutes E - 4

F CORRESPONDENCES

Audit Notification Letter F - 1
Other Correspondences with Client F - 2

G OTHER DOCUMENTS

Financial Statements G - 1
Article of Association and Memorandum of Association G – 2
Business License G - 3
Appendix 21

File Completion Checklist

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>WP/R EF</th>
<th>INITIALS</th>
<th>DATE</th>
<th>SUPERVISOR’S COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLANNING</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXECUTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
AUDIT ACTIVITIES | WP/R EF | INITIALS | DATE | SUPERVISOR’S COMMENTS
---|---|---|---|---
been provided

**REPORTING**

1. Ensure that the final report contains all significant findings and conclusions from the Audit.

2. Ensure that the management letter was reviewed and approved by the supervisor prior to being sent to the client.

3. Ensure that the exit conference was conducted with company officials to discuss audit findings and all client and Customs concerns were documented.

4. Ensure all outstanding issues from the exit conference were followed up and, where applicable, resolved.

5. Ensure that feedback obtained by the client has been incorporated into the “comments” sections of the final Audit report and, where warranted, our conclusions have been modified.

6. Ensure that any penalties assigned as a result of non-compliance have been properly authorized.

7. Ensure that the working paper file copy of the interim report has been cross-referenced to the applicable sections of the Audit file.

8. Ensure that the final audit report has been reviewed by the supervisor prior to sending of management letter to the client.

9. Where warranted, ensure that the “ruling-type decisions” and findings were recorded.

10. Ensure that the recorded information was updated for any changes in determinations.

11. Where appropriate, ensure that assessments were prepared.

12. Ensure that the management letter was sent to the client.

**FOLLOW-UP**

1. Any follow-up action that is required has been documented in the file and brought to the attention of the appropriate person(s) or authorities.

2. Ensure that all procedures are followed prior to closure of audit file and information adequately stored.
## Appendix 22
### Audit Review Checklist

<table>
<thead>
<tr>
<th>AUDIT ACTIVITIES</th>
<th>WP/ REF</th>
<th>INITIALS</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ensure that all issues and concerns identified in planning have been resolved</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Ensure that the audit objective for each audit program has been met</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Ensure that all working papers reflect the work actually performed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Ensure that all audit observation and conclusions are supported in the file by sufficient, appropriate and complete evidence.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Ensure that all working papers are legible, organized in a logical order, correctly titled and accurately cross referenced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Ensure that all taxes, penalties and interests have been correctly computed where applicable.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Ensure that the audit report has been proof read and that it is clear, concise and all recommendations made to the client are reasonable and relevant. The following should be taken care of:-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Correct dates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Typographic errors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Grammatical errors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Spelling mistakes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Numerical errors in tables, charts and others.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) Legislative reference errors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Ensure that all comments received from the client have been considered and where applicable have been included in the final report.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Ensure that action was taken where client assistance regarding the audit was requested but not given</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Ensure that all review queries have been satisfactorily answered.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Ensure that the time spent by all auditors has been captured.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Ensure senior management is advised of situations where application of law or policy results in inadequacies (if any)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Ensure that all review queries have been satisfactorily answered by auditors.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Any other activity relevant to the review.*