

For Departmental Use



**Manual  
For  
Customs  
On-Site Post Clearance Audit  
2011**

**Central Board of Excise & Customs  
Ministry of Finance  
Department of Revenue  
New Delhi**

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## PREFACE

Customs On-Site Post Clearance Audit (OSPCA) is an initiative based on global best practices and is aimed at creating an environment of increased compliance while allowing the Department the flexibility to increase the facilitation for importers and exporters. OSPCA marks a fundamental shift in the functioning of the Indian Customs since for the first time legal compliance and correct assessment of Customs duties will be verified by the Customs at the premises of importers and exporters. Therefore, it is incumbent upon the Department to avail this opportunity to bridge the communication divide and usher in a new era of partnership with trade.

2. OSPCA is not to be confused with the Post Clearance Audit (PCA) that was introduced in 2005 when the Risk Management System was operationalised. PCA, which is done in the Customs Houses, shall continue side by side with OSPCA, the latter being done at the premises of the importers / exporters. To prevent duplication both PCA and OSPCA shall not be done for the same transaction. By its very nature OSPCA is a broad based audit with focus on systems and procedures even though the short levies of duties, if any, shall continue to be determined on transaction basis.

3. OSPCA has requisite legal authority in terms of Sections 17 and 157 of the Customs Act, 1962. Furthermore, the Board has issued '**On-site Post Clearance Audit at the Premises of Importers and Exporters Regulations, 2011**' to provide the manner of conducting OSPCA. It merits emphasis that OSPCA should not be perceived as increasing the burden on the tax payer. Therefore, in the case of importers / exporters, who are subject to Central Excise / Service Tax Audit, OSPCA shall be conducted alongwith these audits.

4. OSPCA requires considerable coordination between Commissionerates of Central Excise when multi-locational importers / exporters are to be audited simultaneously. Furthermore, short levies can be demanded only by the Customs Commissionerates of import and this would require coordination between the auditing Commissionerate and the Customs House. Also, DG, Systems, DG, Audit and DG, NACEN are involved in the preparation for OSPCA by exchanging information on importers / exporters, issue of modus operandi circulars etc. as well as training of Auditors. Therefore, Chief Commissioners / Directors General should ensure proper coordination by appointing a Nodal Officer for OSPCA. Needless to state, communication including exchange of document / information by e-mail should be encouraged.

5. This Manual explains the procedure of conducting OSPCA. As may be observed, it draws heavily from Central Excise Audit Manual, 2008 and Service Tax Audit Manual, 2011 wherein on site audit is prevalent for some time. Hence, it would be useful for OSPCA Auditors to refer to these Manuals. This is especially relevant for Auditors with Customs background.

6. OSPCA shall begin from 1<sup>st</sup> October, 2011 and based on the experience / feed-back from Auditors / Customs Houses / importers and exporters, DG, Audit shall review, improve, and update this Manual each year by 15<sup>th</sup> May. This is necessary for keeping this Manual relevant and useful.

(S.K. Goel)  
Member (Customs)

## CHAPTER - 1

### ON-SITE POST CLEARANCE AUDIT

#### 1.1 Introduction

- 1.1.1 Introduction of self-assessment in Customs and Board's endeavour to provide enhanced facilitation in the clearance of cargo warrants a mechanism to ensure compliance to applicable laws. Audit is one such measure whereby Customs administration ensures proper payment of Customs duty including application of exemption notifications claimed, if any, and adherence to the conditions and requirements of relevant allied laws. In 2005, with introduction of Risk Management System (RMS) in Customs import transactions, the department introduced a transaction based Post Clearance Audit in the Customs Houses. The experience of this in-house audit as well as the need to further increase RMS facilitation to reduce the dwell time and transaction costs for the trading community led to a re-thinking on the conduct of audit. In this regard the global best practices were also examined. This resulted in suitable legislative changes in Finance Act, 2011 to support a record based audit at the premises of the importer/exporter, as is presently done in case of Central Excise and Service Tax. This new audit is referred to as On-Site Post Clearance Audit or OSPCA.
- 1.1.2 The authority for OSPCA flows from Section 17(6) of the Customs Act, 1962 and in terms of its Explanation this shall apply to goods that are cleared after the enactment of the Finance Bill, 2011 i.e. 08-04-2011. Thus, taking into account the advantage of having a reasonable quantum of transactions for audit, it has been decided that OSPCA shall begin from 1<sup>st</sup> October, 2011.
- 1.1.3 Section 157 of the Customs Act, 1962 provides that the Board may frame regulations prescribing the manner of conducting audit of the assessment of duty of the imported or exported goods at the premises of the importer or the exporter. Accordingly, the Board has issued the '**On-site Post Clearance Audit at the Premises of Importers and Exporters Regulations, 2011**'.
- 1.1.4 This Manual outlines the principles and policies for conduct of OSPCA under the Customs Act, 1962 and Regulations made thereunder with the objective of ensuring that

this audit is conducted in a uniform, efficient and comprehensive manner. For the present its focus is on importers availing ACP.

- 1.1.5 This Manual does not deal with the Customs law and its legal interpretations. Whenever considered necessary during the process of audit, the auditors shall refer to the Customs Act, 1962, relevant Rules/Regulations, Notifications, Circulars etc.

## **1.2 Scope and Purpose**

- 1.2.1 OSPCA is fully supported legislatively yet the Board is anxious to ensure that its implementation does not in any way impose an additional burden on the trade. Further, OSPCA requires the support of an effective RMS, which is so far not implemented for exporters. Therefore, OSPCA shall begin in a phased manner only for imports under the Accredited Client Programme (ACP). The expansion of OSPCA to other importers / exporters shall be announced by the Board from time to time.
- 1.2.2 OSPCA shall be conducted by an 'Auditor', an officer of Customs who is assigned the function of audit by the Commissioner of Customs at the place where imported or export goods and connected books of account, records of transaction and other documents are ordinarily kept by an importer or exporter including his registered office/premises indicated in his Importer Exporter Code (IEC).
- 1.2.3 The scope of OSPCA shall encompass examination of bills of entry, shipping bills, invoices, packing lists, import licences, books of account, and other records of transaction relating to imported and export goods, so as to check the accuracy and correctness of assessment of duty thereof and may include inspection of goods at the premises, if available. For this purpose, ledgers, day-books, cash books, account-books and other accounts whether kept in the written or printed form and data stored on a floppy, disc, tape, computer, pen drive or any other form in electro-magnetic data storage device will be relevant.

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## CHAPTER- 2

### RESPONSIBILITY OF AUDITORS

#### 2.1 Identification of Auditors

2.1.1 On the basis of the number of audits to be undertaken in a particular year, the Chief Commissioners and Commissioners concerned will identify the requirement of manpower keeping in mind the advantage of officers having Customs experience for OSPCA. For this purpose the following arrangement shall be made:

- (a) Concerned Chief Commissioners of Central Excise and Customs (except those in Chennai, Kolkata and Mumbai) will identify officers from their jurisdiction having reasonable experience of work in ICDs / Custom Houses / Air Cargo Complexes / Land Customs Stations etc. for working as Auditors.
- (b) In case of Chennai, Kolkata and Mumbai, the Chief Commissioners of Central Excise will determine the number of Auditors required and communicate their requirement to the cadre controlling Chief Commissioner of Customs who will identify the officers who are to be posted as auditors.
- (c) For audit by LTUs, Chief Commissioners concerned will ensure deployment of staff having requisite experience at the LTUs.

2.1.2 Officers identified as Auditors, both from Excise and Customs formations, shall be deputed for upgrading their audit skills to the Regional Training Institutes of NACEN in terms of the programme drawn up by the DG, NACEN.

#### 2.2 Responsibility of Zonal ADG, Audit

2.2.1 Zonal ADG, Audits shall be responsible for a systemic review of the conduct of OSPCA in their jurisdiction. In this direction, to begin with ADG, Audits shall each year select Audit Reports of 5 ACP importers that are Multi-locational Units (MLUs) (other than LTUs) and review the same to ensure completeness of audit. Suggestions for improvement shall be sent to the auditing Commissionerates with copy to DG, Audit.

2.2.2 Zonal ADG, Audits shall attend or send a representative to attend the Monthly Monitoring Committee meetings.

2.2.3 Zonal ADG, Audits shall ensure that each Central Excise / Central Excise and Customs Commissionerate in their jurisdiction has completed audits as per Audit Schedule and in case of shortfall inform DG, Audit.

### **2.3 Responsibility of Auditors**

2.3.1 While conducting audit, an Auditor is required to undertake his or her duties with utmost sincerity, integrity and diligence. An Auditor has immense responsibility in detection of non-compliance, procedural irregularities and leakage of revenue due to deliberate action or ignorance on the part of the importer. At the same time, an Auditor should keep in view the prevalent trade practices, the economic realities as also industrial and business environment in which the importer operates. Therefore, an Auditor should take a balanced, scrupulous and rational approach while conducting audit.

2.3.2 An Auditor is expected to play a key role in promoting voluntary compliance amongst the importers / exporters. Thus, if during the course of the audit certain technical infractions, without any revenue implications, arising due to bona-fide oversight or ignorance of the importer / exporter, are noticed, they should be guided for immediate correction. Such cases should also be mentioned in 'Working Papers'. An Auditor should also apprise the importer of the provisions of Section 28(2) of the Customs Act, 1962 and encourage him to take advantage of these provisions in order to avoid disputes and litigation.

2.3.3 Audit process should be transparent so that all findings are intimated to the importer / exporter. An Auditor should therefore give opportunity to the importer / exporter to tender an explanation before an objection is finalised and consequential action is initiated.

2.3.4 An Auditor should take into account the explanation from the importer / exporter on all points of dispute before taking a final view. If necessary, to ensure that views taken during the audit are consistent with law and the latest instructions an Auditor should consult with the supervising Assistant / Deputy Commissioner/ Additional Commissioner.

2.3.5 An Auditor should endeavour to take a final view on all issues raised during audit. An Auditor should also document all findings in the 'Working Papers' so that a record of steps leading to an audit point is available. The 'Working Papers' for each of the step should be filled as soon as that step is completed. These should be 'speaking documents' that clearly explain why a particular area was included in the Audit Plan as

well as basis for arriving at every objection that goes into the Draft Audit Report after audit verification. The documentary evidence relied upon for arriving at a certain conclusion should invariably be cited and enclosed.

2.3.6 An Auditor should bear in mind that since a large portion of Customs transactions are now RMS facilitated assessment/examination is not done in each case. Hence, audit checks assume a critical role and the responsibility to ensure proper assessment of taxes will largely depend on the quality of audit.

## **2.4 Dealing with the clients**

2.4.1 Board's objective is to collect the correct amount of duties and ensure compliance of all applicable laws in a cost effective, responsive, fair, and transparent manner, thereby inspiring public confidence in tax administration. This should get reflected in an Auditor's conduct and attitude.

2.4.2 An Auditor should establish and maintain a good professional relationship with clients by recognizing their rights including the right to impartial, uniform and transparent application of law and the right to be treated with courtesy and consideration. An Auditor's professionalism and quality of audit is expected to convince clients that they stand to gain from an audit in as much as:

- (i) They will be better equipped to comply with the Customs Law and Procedures;
- (ii) Self-assessment of Customs duties in future transactions will be correct and complete;
- (iii) Disputes / proceedings against them would be substantially reduced or even eliminated; and
- (iv) Good compliance will encourage the Department to increase facilitation thereby reducing dwell time and transaction costs for the trade and industry.

2.4.3 An Auditor should be tactful to gain the goodwill and confidence of the importer. However, in the event there is lack of co-operation or deliberate failure to provide information and records by the importer or in case of other exigency, an Auditor should immediately inform the superiors and follow it up by a written report, if necessary.

2.4.4 Records and documents submitted to an Auditor in electronic or manual format, should be used only for verification of assessment of Customs duty and compliance to relevant laws. Confidentiality must be maintained in regard to information/documents furnished to an Auditor during course of audit.

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## CHAPTER - 3

### AUDIT STEPS AND SELECTION OF IMPORTER / EXPORTER

#### 3.1 Steps for conducting OSPCA

3.1.1 An Auditor is expected to conduct OSPCA in a systematic manner on sound auditing principles to assess the degree of compliance. In this direction the Auditor shall follow the below mentioned steps sequentially.

- (i) Selection of importer / exporter for audit.
- (ii) Preparation of Master File of importer / exporter.
- (iii) Desk Review and preparatory interview to gather information about importer / exporter and review of internal system.
- (iv) Preparing Audit Plan.
- (v) Audit Verification including tour of premises, evaluation of internal controls, and preparation of Working Papers.
- (vi) Preparation of Audit Reports and follow up .

#### 3.2 Selection of importer / exporter

3.2.1 The first step is the selection of an importer/ exporter for audit. In this regard Board has decided that OSPCA shall begin in a phased manner with importers availing the facility under the Accredited Client Programme (ACP). Such importers shall be subjected to OSPCA once each financial year.

3.2.2 For coordinated and effective audit, ACP importers shall be placed in the following categories:

- (a) ACP importers registered with Large Taxpayers Unit (LTU) Commissionerates – To be audited by LTU;
- (b) ACP importers [other than those at (a) above] that are Multi-locational Units (MLUs) - To be audited by Central Excise / Central Excise and Customs Commissionerates in coordination with other Central Excise / Central Excise and Customs Commissionerates concerned; and

(c) Other ACP importers - To be audited by Central Excise and Central Excise and Customs Commissionerates.

- 3.2.3 The audit of ACP importers that are MLUs (other than LTUs) shall be the responsibility of the Central Excise / Central Excise and Customs Commissionerates having jurisdiction over the Registered Office / Head Office, address of which is given in IEC (Import-Export Code). The audit of such ACP importers that are MLUs (other than LTUs) shall be done in coordination with the Central Excise / Central Excise and Customs Commissionerates concerned. The audit shall include a visit to the Registered Office / Head Office or any other premises where the centralized records are kept as well the place where imported goods are kept if their verification is considered necessary.
- 3.2.4 As aforesaid, OSPCA shall begin with importers availing the facility under ACP. Accordingly, an updated list of ACP importers shall be sent by the ADG, RMD to the DG, Audit by 5th April each year.
- 3.2.5 On receipt of the list of ACP importers, DG, Audit shall categorize them as indicated in para 3.2.2 above and circulate the list by 10<sup>th</sup> April each year to the jurisdictional Commissionerate / LTU.
- 3.2.6 On receipt of the list of ACP importers to be audited from DG, Audit, the jurisdictional Commissionerate / LTU, as the case may be, shall draw up a Master Audit Schedule for the year indicating also targets of audit on a quarterly basis. If there is more than one Audit Group, the Master Audit Schedule shall be divided into Audit Schedules for each Audit Group. Such a schedule would give the Auditors sufficient time to obtain the required information from the importers.
- 3.2.7 Expansion of OSPCA to cover other importers / exporters will be announced by the Board on a date to be determined. At that stage the number of audits to be carried out would be determined by the number of importers / exporters and the frequency of audit as per criterion approved by the Board. The selection of non-ACP importers / exporters to be audited shall then be made by the jurisdictional LTU / Central Excise and Central Excise and Customs Commissionerates. In the case of Central Excise and Central Excise and Customs Commissionerates, the jurisdictional Audit authority for MLUs shall be determined on the basis of the location of the Registered Office / Head Office and in like manner of ACP MLUs this Commissionerate shall coordinate the audit. The selection of importers/ exporters for audit would be completed by 31<sup>st</sup> April each year.

3.2.8 In the event an importer / exporter is already subjected to Central Excise and Service Tax Audit, OSPCA shall be done simultaneously with these audits. This is aimed at reducing the burden on the taxpayer. However, since OSPCA is being newly introduced in the current financial year (2011-2012) it is possible the Central Excise and Service Tax audit may already have been completed for a particular ACP importer. In this case OSPCA may be done separately this year for the ACP importer, but it must be ensured that future audits viz. OSPCA, Central Excise and Service Tax, to the extent applicable, are done simultaneously.

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## CHAPTER - 4

### IMPORTER / EXPORTER MASTER FILE

#### 4.1 Importer / Exporter Master File

- 4.1.1 Once the Master Audit Schedule is ready, for the purpose of OSPCA the Auditor shall prepare a Master File of each identified importer / exporter. The Master File would contain all relevant information (statistical / narrative) about the importer / exporter from various sources, arranged in a systematic manner and updated periodically. The preparation of a Master File which is a comprehensive data base is essential for conducting an effective audit as well as for undertaking preliminary Desk Review. It would also subsequently aid in selection of importers / exporters to be audited besides serving as a ready reckoner for other purposes, such as replies to the Parliament Questions and generating Management Information System (MIS) reports.
- 4.1.2 Each Master File shall be allotted a unique serial number after due entry in the file opening register of the Audit Group. The Master File shall be in two forms i.e. (a) hard copies of certain documents and (b) information in electronic format in a folder. The format of a Master File is given in **Annexure-1**.
- 4.1.3 The Auditor shall intimate through a letter the date of audit to the importer / exporter and also call for the required information/documents ideally with a lead time of 3 months (from the date of audit). A standard format as per **Annexure-1B** is prescribed for calling for required information / documents. A substantial amount of data required for the Master File may also already be available in the various sections of the Commissionerate.
- 4.1.4 At the same time as information/documents are called for from the importer / exporter, the Additional / Joint Commissioner i/c Audit shall by e-mail to the Nodal Officer, Directorate General of System request for the electronic data of import / export of the importer / exporter. The Nodal Officer shall send this data electronically in EXCEL format containing all fields of the Bills of Entry / Shipping Bills.
- 4.1.5 On receipt of information about Customs Stations from where import / export has been made the Auditor shall also obtain the following information from the concerned Customs Station:
- (i) Central Revenue Audit (CRA) objections, if any, in last 3 years.

- (ii) Departmental investigation pending / completed including details of Show Cause Notices issued in the last 5 years, if any.
- (iii) Details of adjudication / litigation / Court matters, if any.
- (iv) Details of pending arrears of revenue, if any.
- (v) Details of Special Valuation Branch (SVB) orders, if any.

4.1.6 An important element of Master File would be the valuation data for the commodities imported. For this purpose the Auditor must have access to website of Directorate of Valuation and the National Imports Data Base (NIDB). Information for the relevant periods from the trade journals such as Public Ledger, London Metal Exchange (LME), PLATT journal etc. must also be kept.

4.1.7 Master File may also include other relevant documents such as Annual Report, Cost Audit Report and Income Tax Audit Report.

4.1.8 The Auditor concerned shall be responsible for data management, updating and upkeep of the Master File.

4.1.9 The Master File should be updated periodically on quarterly basis as well as after completion of each audit. The Audit Report, duly approved during the audit monitoring meeting, should also be filed along with the Audit Working Papers. The Auditor should also furnish certain relevant information as indicated vide **Annexure-1**(Part-B) for electronic data entry / updating during the course of every audit.

4.1.10 While making entries in the electronic folder, the date of the first entry of the proforma should be entered at the top of the first page of the proforma along with the name of the officer compiling the data. The date of last updating should also be invariably mentioned at the appropriate place on the first page of the proforma along with the name of the officer doing so. At the initial stages, most of the information would be available in the form of hard copies and the updating has to be done manually. Progressively, the information would be maintained in electronic format with automated data transfer through networking system and could be automatically updated.

4.1.11 Keeping in view the security of the information, the hard copies should be made accessible only if the information contained therein is not available in the electronic format. In any case, the hard copies should not be taken out of the Audit Cell without permission of the Additional / Joint Commissioner i/c of the Audit Cell and after due entry in the file movement register. The information contained in these files would, however, be available to all the officers for any legitimate official purpose.



4.1.12 The electronic data should be kept in properly secured format so that it can be altered or modified only by a duly authorized officer of the Audit Cell.

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## CHAPTER-5

### DESK REVIEW AND PREPARATORY INTERVIEW

#### 5.1 Objectives of Desk Review

5.1.1 The objective of Desk Review is to gather as much relevant information about the importer / exporter as possible and be prepared before visiting an importer's / exporter's premises for OSPCA. A good Desk Review under the supervision of senior officers is critical to the drawing up of a good Audit Plan.

#### 5.2 Modalities of Desk Review

5.2.1 Desk Review involves reviewing all the information available about the importer / exporter, its operations/activities, reason for selection for audit with a view to identify potential audit issues to be carefully looked into at the time of audit.

5.2.2 The Desk Review would be based upon the Master file and should inter alia involve an examination of the following aspects:

- (i) Important commodities imported and exported.
- (ii) Exemption notification availed and conditions thereof.
- (iii) Nature of expenses on account of remittance of foreign exchange and its effect on valuation of imported goods (trial balance study).
- (iv) Foreign Currency Transaction given as part of Notes to Account given in Balance Sheet and Profit and Loss Accounts.
- (v) Related party transaction as reported in Notes to Accounts given in Balance Sheet and Profit and Loss Accounts.
- (vi) Study of Form 3CEB (Transfer Pricing) and Form 3CD (Income Tax Audit Report).
- (vii) Audit Objections at different Customs Stations.
- (viii) Assessment practice at different Customs Stations for same product.
- (ix) Export Promotion Schemes availed.
- (x) Show Cause Notices issued by different Customs Stations.

- (xi) Court cases.
- (xii) Data from NIDB, PLATT, LME etc.
- (xiii) Reasons for Bond execution.
- (xiv) Relevant returns filed with other Government agencies.
- (xv) Website of importer / exporter.

### 5.3 Focus areas for Desk Review

- (i) Valuation.
- (ii) Tariff classification / description.
- (iii) Avoidance of Anti-dumping duty.
- (iv) Imports of goods from Preferential Areas/Countries at concessional rate of duty.
- (v) Import of goods at concessional rate for manufacture of specified goods.
- (vi) Imports against Export Promotion Schemes and Export Obligation thereof.
- (vii) Licensing Provisions.

### 5.4 Techniques of analysis

5.4.1 **Revenue Risk Analysis:** This method helps to identify potential revenue risk areas by employing modern techniques such as:

- (i) Reconciling various specific financial data, comparing it with different business accounts/documents;
- (ii) Deriving certain data and comparing with the actual figures in the financial document; and
- (iii) Comparing the key data figures of the importer with the average all industry figure of similar kind (if available) or part figures of the same importer.

For example, Customs duty payment shown in the returns can be reconciled with that shown in the financial accounts. Further, from the reconciled figure of Customs duty payment, assessable value of the import can be worked out. This can then be compared with the foreign remittance figure shown in financial records and the difference, if any, analysed. This method would give an idea whether the valuation and duty calculation system of the importer is high/low risk area.

5.4.2 **Trend Analysis:** Trend analysis is a type of computational support needed for the analysis preparatory to planning, by analysing historical data and working out future

projections. Historical data is analysed to discover patterns or relations. For audit purposes either absolute values or certain ratios are studied over a period of time to see the trend and the extent of deviation from the average values during any particular period.

## **5.5 Checks to be performed**

5.5.1 Following are some of the checks that can be performed to confirm compliance:

- (i) Trend of ratio of duty paid to total value of import (commodity-wise). When seen after accounting for any change in rate of duty during that period, this will indicate if there is any abnormal variation.
- (ii) From the Importer's Master File, Trial Balance and Annual Financial Statements (Profit & Loss Account and Balance Sheet) important financial ratios can be worked out. These ratios should be compared with those of earlier years and wherever significant variation is noticed, these areas may be selected for audit verification. It may however be kept in mind that an adverse ratio is only an indicator for verification of a particular area and there may be valid reasons for the same.
- (iii) Check unit values of imported items on average basis against the NIDB data as well as the price data in trade journals (PLATT, Public ledger, LME etc.)
- (iv) Whether importer has imported goods leviable to anti-dumping duty without payment of the same from the neighboring countries to anti-dumping duty countries? For this critical analysis of the shipping and contract documents would be required on site.
- (v) If imports are made under Duty Free Import Authorization (DFIAs) / Advance Authorizations / Export Promotion Capital Goods Scheme (EPCG) Licenses / Project Imports whether conditions thereof are fulfilled?
- (vi) Whether substantial amounts have been paid towards royalty, license fees etc. and its impact on value?

5.5.2 On the basis of Desk Review the Auditors shall verify different aspects aforementioned and ascertain the risk factors that need to be verified at the time of audit. Basically the Desk Review should enable the Auditors to crystallize the issues which have revenue and / or compliance implications so that during verification phase, they can gather evidences of short payment of Customs duty or other infringements without loss of time.

5.5.3 To aid a directed Desk Review and verification a set of Check Lists have been included at **Annexure-2**.

5.5.4 The summary results of Desk Review, along with the working papers, should be submitted to Deputy Commissioner / Assistant Commissioner (Audit) for approval and guidance, if any.

## 5.6 **Preparatory interview**

5.6.1 Before start of audit, the Auditors should have a working knowledge of the various functional areas in the premises of the importer / exporter to be audited, like purchase / imports, stores, accounts and foreign exchange transactions. Such information can be gathered during a brief preparatory interview of the importer or his authorised representatives. The Auditors should also go through the Working Papers prepared in the last audit in order and get acquainted with the broad procedures followed by various functional sections. For this purpose the Auditors may also interview various section heads and during discussions ascertain the various procedures adopted by them. Various types of records maintained for internal control purpose and reports generated by the units can also be found out by the auditors during discussions. Points noticed during Desk Review can also be enquired at this stage. Generally, discussion with the senior management should be handled at the level of Assistant / Deputy / Joint Commissioner. Importantly, such discussion should not take the role of interrogation and it should be restricted to fact finding.

5.6.2 In case, the importer / exporter is not forthcoming with the required information during the interview the Auditor should himself make a systemic study and fill up the relevant Working Papers. The Auditors should start with an overview of the importer's /exporter's business and organisation and follow up by a detailed review of various procedures with special attention to those having impact on the tax liabilities. A general review of all documents maintained such as number of accounts and returns filed with other departments would also give the Auditors a broad view of the activities.

5.6.3 At this stage, the Auditors should determine the areas of the premises, which they intend to tour.

5.6.4 A sample questionnaire to structure the discussions in the areas like imports, exports, purchase, stores, tax accounting, etc. is given in **Annexure-3**. The Auditors may add more questions depending upon the nature of the importer / exporter.

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## CHAPTER - 6

### AUDIT PLAN

#### 6.1 Audit Plan

- 6.1.1 Audit Plan is the end result of desk review and other preparatory steps like gathering of information by discussion with management and review of internal controls. Therefore, it is important that all these steps are completed and the relevant Working Papers of each of the steps filled up before commencing to prepare Audit Plan. By now, an Auditor is in a position to take a reasonable view regarding the vulnerable areas, the weak points in the systems, abnormal trends and unusual occurrences that warrant detailed verification. Certain unanswered or inadequately answered queries about the affairs of the importer / exporter may also be added to this list.
- 6.1.2 Audit Plan should be a detailed plan of action, preferably in a standard format. It should be consistent with the complexity of the audit and the reasons for selection of specific issues for audit. Audit Plan must specify, -
- (a) **Subject:** For example, avilment of exemption from duty, valuation etc.
  - (b) **Specific Issues:** Specific issues pertaining to the subject to be verified. For example, abnormal discounts received from supplier, royalties paid etc.
  - (c) **Source Document / Information:** Documents / information reflecting or having a bearing on payment of Customs duty, to be verified. For example to verify discount shown in Customs invoice to be checked against contract.
  - (d) **Back-up Document:** The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified.
  - (e) **Period of coverage:** Normally, the coverage will be for the whole of the audit period. However, an Auditor may cover a specific extended past period after recording reasons and obtaining permission from senior officer.
  - (f) **Selection Criteria:** In case, the volume of documents for verification is very large, an Auditor may adopt sample verification after recording reasons for the same. In such a case, the sample selection techniques should be spelt out in the

Working Papers. The sample should be chosen in such a way that it is a true representative of the whole.

- 6.1.3 An illustrative example for filling in Audit Plan is given as per **Annexure-4**.
- 6.1.4 Audit Plan must be discussed with the Deputy Commissioner / Assistant Commissioner (Audit) and should be finalised after approval by the Additional / Joint Commissioner (Audit).
- 6.1.5 The concerned Commissioners should ensure that Auditors complete the Desk Review and prepare draft Audit Plans at least three weeks prior to the verification date. It should be ensured that calculations done as part of the ratio analysis, trend analysis or revenue risk analysis are also sent.
- 6.1.6 In case of audit of MLUs, consolidated Balance Sheet, Profit and Loss Statement and other financial documents of the company should be obtained for scrutiny from the Registered Office / Head Office. Information contained in the company's response to the questionnaire and that gathered during the interview with management to clearly understand the role played by the Registered Office / Head Office in the conduct of business by individual units, the strength of internal controls, the availability of records in Registered Office / Head Office. On this basis, the draft Audit Plan should be prepared for the Registered Office / Head Office. Once Audit Plans for all the premises forming part of the company are received, the Commissioner concerned should convene a meeting with representatives (one per team) of each Audit Team for finalization of Audit Plans. This would also be an opportunity to explain the nature of relationship between the constituent units and common issues to be verified during the audit. Similarly the Audit Teams may have identified certain issues that would need to be verified from the records / documents maintained at the Registered Office / Head Office. Final Audit Plan for each unit would be approved by the Commissioner concerned.

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## CHAPTER – 7

### AUDIT VERIFICATION

#### 7.1 Importance of Audit Verification

- 7.1.1 Audit Verification at the premises of an importer / exporter is done on the lines of Audit Plan for checking the correctness of duty payment and compliance of the provisions of Foreign Trade Policy and other allied laws and conditions of relevant Customs notifications including those for imports under Export Promotion Schemes. An Auditor's approach should be to verify all relevant documents including financial records, production records, stores records, information filed with other departments etc. For example, in-house test report used for production or for sale to customer can be used to verify declared description; detailed import contract can be verified to confirm valuation; end use condition can be verified from production records; and Goods Receipt Note (GRN) can confirm quantity imported.
- 7.1.2 Besides verification of relevant documents, the process of Audit Verification would entail tour of premises / evaluation of internal controls / ABC analysis and preparation of Working Papers.

#### 7.2 Guidelines for Audit Verification

- 7.2.1 Audit Verification involves verification of data and documents submitted at Desk Review, points/issues identified in Audit Plan, Walk Through, Evaluation of Internal Controls etc. It may also involve inspection of goods, if available.
- 7.2.2 While conducting Audit Verification, utmost care should be taken that all the points discussed in Audit Plan are examined. If any additional point, not discussed in Audit Plan, emerges during verification, it should be recorded and examined.
- 7.2.3 During Audit Verification the Auditors should try to ascertain weaknesses in the internal control system of the importer and whether it has led to any loss of revenue. Any procedural infraction should also be identified.
- 7.2.4 The cross verification of details and facts reflected in documents / records maintained for the purpose of Customs must be done with all other relevant records like private record, returns filed with other Government Agencies, financial institutions, Banks etc.



The relevant material/details available from open sources like newspapers, magazines, internet should also be utilized for verification of affairs.

7.2.5 The following documents related with import / export and those detailed in **Annexure-1** need to be verified during the course of Audit Verification. These documents may also be called for during the course of Desk Review.

- (i) Bills of Entries / Shipping Bills of period under audit.
- (ii) Purchase / sale invoices.
- (iii) Packing list.
- (iv) Airway Bill/Bill of Lading.
- (v) Insurance documents.
- (vi) Test Reports.
- (vii) Catalogues.
- (viii) Freight documents.
- (ix) Price List.
- (x) Bond Records.
- (xi) Duty paying documents.
- (xii) Contracts/purchase orders.
- (xiii) Creditors' ledger for foreign suppliers.
- (xiv) Creditors' ledger for transporters and insurer.
- (xv) Sales invoices of imported goods sold as such.
- (xvi) Import licenses.

7.2.6 List of documents and the nature of verifications that can be done based thereon is indicated at **Annexure-5**.

7.2.7 The verification paper on completion of each step in Audit Plan shall be completed in the format given at **Annexure-6** (Para 15).

### **7.3 Tour of Premises / Plant**

7.3.1 The Auditors may tour the premises/ plant to familiarize themselves with activities relating to imports / exports and collect information having bearing on payment of duties of Customs, mis-use of export promotion schemes, infringements of Foreign Trade Policy or other laws. For example, if imports are made under EPCG License, the Auditors shall verify that such capital goods are actually installed and are being used in the manufacture of export goods. Similarly, if goods are imported at concessional rate of duty for the manufacture of specified goods, the Auditors shall verify as to whether plant and machinery of adequate capacity is available to manufacture the specified

goods. Similarly, if inputs are imported for manufacture of export goods, the Auditors shall verify that these are actually being so used.

7.3.2 The tour of different sections of the premises may be done to verify the documents being maintained for different purposes. For example, if it is to be verified as to whether the goods imported at concessional rate of duty with end use conditions or under DFIA have been actually used or not, the Auditors shall visit the stores section and ascertain the type of documents maintained for receipt and issue of inputs viz. Goods Receipt Note (GRN) / Merchant Receipt Note (MRN) / Inspection cum Receipt Report (ICRR), Gate Security Register etc. and check as to whether such imported goods have been shown as received or not. If there is balance of such imported goods, the Auditors may verify the physical existence of such goods and whether the same match the description as per import documents.

7.3.3 The tour of the premises and its different sections shall be done on the basis of risk factors and points to be verified as per the Audit Plan.

#### **7.4 Evaluation of Internal Controls**

7.4.1 The Auditors shall evaluate the internal controls of the importer / exporter to ascertain as to whether the accounting system followed by the importer unit is reliable or not. For this purpose the information relating to internal controls may be ascertained as per format at **Annexure-3**.

7.4.2 In order to evaluate Internal Control the Auditors may examine the following:

- (i) In case of manual records - discussion with persons handling the records to ascertain allocation of responsibilities at different levels, serial numbering of records, scope for alteration/replacement of records.
- (ii) In case of computerized records - the accounting software used, stages of data entry, data security and scope for human intervention and audit trail of the transactions.
- (iii) Independence of internal auditor, reporting mechanism for internal auditors and action taken on the basis of findings of the internal auditor.
- (iv) Whether any system audit is done to check the reliability of accounting systems.
- (v) Whether prompt action is taken on the findings of the statutory Auditors.
- (vi) Whether any system audit is done to check the reliability of accounting systems.

- (vii) Whether Cost Audit is conducted, if required, and prompt action is taken on such reports.
- (viii) The number, extent and frequency of violations noticed by various regulatory agencies.

7.4.3 If importer / exporter maintains data in computers, the Auditors shall ascertain the software used, different codes used for different types of entries especially payments to the foreign suppliers, transporters of imported goods, payments of royalties, License fee and other payments and receipt of export proceeds, if any. The printouts of the data in respect of different import / export activity may be taken to ensure that in respect of imports, the amounts sent to foreign suppliers match with the amounts declared in purchase invoices / Bills of Entry while in case of exports, the receipt of export proceeds match with the amounts given in Shipping Bill. Computer Assisted Audit Programme (CAAP) by the trained staff may also be done.

## **7.5 ABC Analysis**

7.5.1 It is a known fact that in any field of activity an enormous data is generated and all data is not equally important. In order to filter out the irrelevant or relatively insignificant data, various techniques are applied and ABC Analysis is one of such data management technique. In ABC analysis the whole data population is classified into three categories based on the importance. 'A' category is the class of data that is most important from the point of view of managing and controlling the same. 'B' category is the class of data, which should invariably be controlled, but the degree of control is not as intense as for 'A' category. 'C' category is the class of data, which has much less revenue-implications and can be controlled by suitable test-checks.

7.5.2 The Auditors can apply ABC analysis in case the quantum of data / information to be analysed is voluminous and classify the same according to potential risk into 'A', 'B' and 'C' categories. For example, Bills of Entry having assessable value greater than Rs.10 lakhs may be in category 'A', between Rs.5 to 10 lakhs in category 'B' and the balance in category 'C'. The cut-off points will depend on the particular importer and the amount of data involved. Likewise commodities imported / exported can also be categorised depending on their value or duty rate. The criteria for categorizing as 'A', 'B' and 'C' thus depends on several factors such as type of goods imported, rate of duty, importability under Foreign Trade Policy, levy of anti-dumping duty, import under Export Promotion Schemes etc.

## **7.6 Preparation of Working Papers**

7.6.1 Working Papers are a synopsis of audit operations conducted by the Auditors, reflecting each step taken during the process of audit. Format of Working Papers to be completed is given at **Annexure-6**. The Auditor must indicate the findings at the end of each entry in the Working Papers. The reasons for not conducting verification of any point from Audit Plan shall also be recorded. The objections raised must be supported by evidences/material available on record.

## **7.7 Conclusion of Verification**

7.7.1 It is essential that the Auditors discuss all the objections with the importer / exporter before preparing Draft Audit Report. Such discussion would offer an opportunity to the importer / exporter to present his side and clarification with supporting documents. This would lead to avoidance of unnecessary objections / litigation and would encourage voluntary payment / compliance.

7.7.2 In the case of non-LTU MLUs the verification in the Registered Office / Head Office would be done by an Audit Team deputed by the jurisdictional Commissioner while the connected premises would be covered by Audit Teams of the respective Commissionerates. Therefore, when conducting verification, the individual Audit Teams should remain in contact with the jurisdictional Commissioner so that any new issue that is detected can be quickly conveyed to the other Audit Teams. It would be the responsibility of the respective Additional / Joint Commissioner i/c Audit that each issue of Audit Plan is verified by the Audit Team and findings recorded since objections would eventually have to be raised against the individual importer/ exporter and not the Registered Office / Head Office. The jurisdictional Commissioner shall send a copy of the Verification Report of the Registered Office Head Office to each of the Commissionerates (of the Audit Teams) for finalizing their Audit Report. The Commissionerates would, in turn, send a copy of the Verification Report and the Draft Audit Report of each importer / exporter to the jurisdictional Commissioner. The Draft Audit Report of each importer /exporter would be finalized by the respective Monitoring Committees.

7.7.3 In cases where importer / exporter agrees with the short-levy of duty observed or of or any other undue benefit availed, if any, the Auditor shall persuade him to pay the duty / amount promptly alongwith applicable interest, if any. The importer / exporter may be

informed that of the benefit available under Section 28(2) of the Customs Act, 1962 on making spot payment. The importer / exporter may be advised to seek the said benefit vide letter as per format at **Annexure-11**.

- 7.7.3 Before leaving the premises, the Audit Team must discuss future compliance issues with the importer / exporter and Senior Management. The Audit Team may apprise the importers / exporters about lapses noticed and suggest improvements to enhance compliance level.

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## CHAPTER – 8

### PREPARATION OF AUDIT REPORT AND FOLLOW-UP

#### 8.1 Draft Audit Report

8.1.1 The Draft Audit Report shall be prepared by the Audit Team and finalized, in the format given at **Annexure-7**, within 30 days of the commencement of OSPCA. The Draft Audit Report shall be precise, to the point, and self-explanatory. It should invariably quote the relevant authority if objection raised is based on clarification / Circular by Board, Court Judgment / Tribunal decision etc. All objections should be sequentially numbered. The following documents shall be enclosed along with the Draft Audit Report.

- (a) Completed Working Papers of all steps prior to Audit Plan with summary report.
- (b) Copy of Audit Plan.
- (c) Copies of all documents / evidences relied upon for raising objection.
- (d) Copy of verification paper (as per proforma given at **Annexure-6** (para 15).

8.1.2 The Draft Audit Report should be given a unique Serial Number, as follows:

*“A.R. No. / Name of Commissionerate / Name of Jurisdictional Commissionerate of Customs”*

A.R. No. is a running serial number to be given Financial Year-wise to all such reports including ‘Nil’ Draft Audit Reports. The A.R. No. for OSPCA will be unique since there will be importers / exporters under OSPCA who may not be Excise / Service Tax assesseees. This unique serial number shall also be the file number in Audit Cell.

8.1.3 The Draft Audit Report, after vetting by the Assistant Commissioner / Deputy Commissioner shall be furnished to Audit Cell for consideration of the monitoring meeting.

#### 8.2 Audit Report

8.2.1 The Audit Cell shall organize Monitoring Committee meetings on monthly basis for examination of each of the audit objections to ascertain its sustainability. The Monitoring Committee shall be chaired by Commissioner / ADG concerned. For prompt and speedy decision, the officer from concerned jurisdictional Commissionerate of Customs may attend such meetings to offer views on the spot. The minutes of the meeting, recording

decision taken on each audit objection discussed, shall be drawn and circulated to all the concerned officers including Jurisdictional Commissioner of Customs.

8.2.2 Based on the decisions taken by the Monitoring Committee, the Draft Audit Report shall be finalized by the Audit Cell within 15 days from the date of meeting.

8.2.3 The Audit Report should also be prepared in proforma given at **Annexure-7**.

### **8.3 Administrative arrangement at Customs Houses for OSPCA**

8.3.1 Customs Houses will put in place a suitable monitoring arrangement in the form of a Post Audit Compliance Cell (PCAC) to ensure proper and timely action is initiated on receipt of audit objections. The Additional Commissioner i/c/ PCAC shall coordinate the finalization of the audit objections with the Audit Cell of the Commissionerate conducting audit.

8.3.2 Commissioner of Customs shall hold a monthly OSPCA meeting with officers of PCAC to discuss and monitor the audit objections and performance of both OSPCA and PCAC.

### **8.4 Follow up action on Audit Report**

8.4.1 Upon preparation of the Audit Report, the Commissioner shall ensure that the following follow up action is taken:

- (i) The Audit Report including 'Nil' Audit Report is provided to the importer / exporter.
- (ii) The Audit Report highlighting issues of short duty / non duty paid necessitating issue of Show Cause Notice is sent to the jurisdictional Commissioner of Customs from where the goods were imported alongwith draft of Show Cause Notice, brining out relevant facts, issue involved, documents / evidences relied upon, provisions of the Customs Act to be invoked etc. If any case needs detailed investigation by SIIB of the concerned Customs House, the same may be advised.
- (iii) The Audit Report in respect of ACP importers that are MLUs (other than LTUs) shall be sent to the jurisdictional Zonal ADG, Audit.
- (iv) Monitoring Committee shall evaluate the working of Auditors/ Audit Group in respect of each Audit. The scoring of Audit Report shall be carried out by the Commissioner and Additional / Joint Commissioner with a view to evaluate

standard of audit conducted. While scoring the Audit Report, emphasis should be placed on quality of 'Audit Plan' and 'systematic conduct of audit' and 'spot recovery'. A format of score sheet is given as **Annexure-8**.

- (v) Monitoring Committee should examine each Audit Report from the view of identifying issues fit for issue of modus operandi circular. Modus operandi circular on important/crucial cases may be issued invariably under intimation to DG, Audit.
- (vi) On completion of above action, the Audit Cell shall place the documents in relevant Master File.
- (vii) The monthly status report received from the Customs Commissionerate shall be used by the Audit Cell for updating the "Audit Follow Up Register". The Audit Cell shall also prepare a Monthly Report on OSPCA Performance and follow up action, as per format given at **Annexure-9**.

8.4.2 On receipt of the Audit Report the jurisdictional Commissioner of Customs shall ensure follow up action is taken, as given below:

- (i) Where considered necessary, cause investigation by SIIB. In case the issue(s) requiring investigation relate to imports falling in the jurisdiction of more than one Commissionerate, investigations will be caused by the SIIB of Commissionerate having maximum transaction in terms of revenue. As such, it is imperative that there is constant interaction between the Commissioner / ADG (Audit) conducting audit and the Custom House(s) concerned. The jurisdictional Commissioner of Customs is at liberty to conduct further enquiry if necessary.
- (ii) Forward to the Audit Cell of the Commissionerate that conducted the audit the Show Cause Notice issued and Monthly Status Report of the action taken on the audit objections, latest by the 10<sup>th</sup> of the each month, as per format given at **Annexure-10**.
- (iii) Considering the facts of each case, Commissioner of Customs may also bring the serious infringements to the notice of concerned Licensing Authority to take remedial measures.

## 8.5 Monitoring arrangement by DG, Audit



- 8.5.1 DG, Audit shall put in place a suitable monitoring arrangement to review the progress and performance of OSPCA. DG, Audit shall also develop and maintain a suitable database and identify audit gaps regularly to bridge so as to bring correctness, comprehensiveness and efficiency in its operations.
- 8.5.2 For the purpose of enhancing the effectiveness of OSPCA the jurisdictional ADG, Audit shall examine and review on selective basis 10% of the Audit Reports in respect of ACP importers / MLUs to see whether audit has been conducted as per prescribed procedure. ADG, Audit shall also be responsible for recommending to the DG, Audit the issue of a modus operandi circular in the event the review reveals issues having inter-Commissionerate ramifications.
- 8.5.3 DG, Audit shall send a quarterly report on efficacy of OSPCA to Member (Customs), CBEC starting from the quarter ending December, 2011. This report should reach the Board by 3<sup>rd</sup> week of January, 2012 and the same periodicity shall be maintained for the following quarters.

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## CHAPTER - 9

### RECORDS TO BE MAINTAINED BY AUDIT CELL

#### 9.1 Audit Planning Register (APR)

9.1.1 Audit Planning Register for OSPCA shall be maintained in the Audit Cell in the format given below. This Register will facilitate in ensuring:

- (a) All importers / exporters allotted to an Audit Group have been audited;
- (b) Scheduling of any audit that is missed in the subsequent quarters; and.
- (c) Audit Reports are issued in time.

#### Format of Audit Planning Register (APR)

APR No./ S. No. of Importer / Exporter	Name of Importer / Exporter	Internal Audit Party (IAP) No. & Name of the Supdt.	Propose d Month of Audit	Actual Dates of Audit	Date of submission of Draft Audit Report to Audit Cell	Audit Report No.	Date of Issue	Remark s
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

9.1.2 The APR No. and S. No. of the importer / exporter shall be assigned by the Audit Cell while issuing the Audit Schedule and Columns Nos. 1 to 3 entered at the same time. Subsequent columns shall also be entered by the Audit Cell on receipt of a monthly Audit Performance Report discussed in ensuing Paras.

9.1.3 To enable monitoring of the progress of audit after an importer /exporter is allotted to an Audit Team / Group, all the importers /exporters included in the Audit Schedule and all further action taken should be entered in the APR.

9.1.4 The Audit Cell shall update Columns 4 to 8 of the APR based on the reports received from the Audit Groups.

#### 9.2 Audit Schedule Register (ASR)

9.2.1 The Audit Schedule should be issued in each quarter to enable despatch of the advance audit intimation in time and also to plan the audit by the Audit Group as per

overall convenience of the importers / exporters. For this purpose, each Audit Schedule should be given a unique Serial No. as follows:

*“Serial No. / Serial No. of Importer / Exporter / Year”*

9.2.2 Audit Schedule Register (ASR) Serial No. may be given as ASR1/ASR2 and so on for each quarterly Audit Schedule. The Serial No. of the importer / exporter will be a running Serial No. starting from No. 1 at the start of the financial year, based upon the audit schedule.

### 9.3 Monthly OSPCA Performance Report

9.3.1 Each Audit Group shall submit a monthly OSPCA Performance Report by 5th of each month to the Audit Cell in the following format:

#### Format of Monthly OSPCA Performance Report

Audit schedule No. / Sl. No. of Importer / Exporter	Name of Importer / Exporter	Proposed Month of Audit	Actual dates of visit to Importer's premises	Date of submission of Draft Audit Report to Audit Cell
(1)	(2)	(3)	(4)	(5)

Audit Report A.R. No.	Date of Issue	Amount involved in Audit Paras (Rs.)	Spot recovery during Audit (Rs.)	Remarks
(6)	(7)	(8)	(9)	(10)

**Note:**

1. Column No. 8 to be entered only after Audit Report is approved in Monitoring Meeting.
2. Alongwith the Audit Report, an abstract of important Audit Objections should be given to the Audit Cell, which would be used for preparing Audit Bulletins.

9.3.2 In the 1<sup>st</sup> week of every month, the Audit Cell shall put up an abstract of the Monthly OSPCA Performance Report for all Audit Groups to Joint / Addl. Commissioner i/c Audit in the format given below:

### Abstract of Monthly OSPCA Performance Report

Audit Group No.	OB of Importers / Exporters to be Audited	No. of new Importers / Exporters planned for Audit during the month	No. of Audits completed during the month - Audit Reports (AR) issued	Balance Importers / Exporters for Auditing
(1)	(2)	(3)	(4)	(5)

Period of Pendency			Total Duty involved in objections raised during the month (Rs.)	Amount of Spot Recovery during the month (Rs.)
0 - 1 month	1 – 2 months	2 - 3 months		
(6)	(7)	(8)	(9)	(10)

**Note:**

1. Audit is treated to be completed only when an Audit Report has been issued.
2. Amount in Columns 9 and 10 should be entered only after Audit Reports have been approved in Monitoring Meetings.

9.3.3 This report will also be used for discussion during monthly meeting of Audit Officers to evaluate the performance of each Audit Group.

9.3.4 LTU / Central Excise / Central Excise and Customs Commissionerates conducting audit must follow up on the Audit Reports involving action by concerned Commissionerates of Customs and obtain details of adjudication and further actions like appeals etc. till finality of each issue.

#### **9.4 OSPCA Follow Up Register**

9.4.1 The details of Audit Reports discussed by Monitoring Committee, the decisions taken in its meetings and the further follow up action should be entered in the OSPCA Follow Up Register, as soon as the Audit Report is approved. The OSPCA Follow Up Register shall be maintained in the format given below.

### OSPCA Follow Up Register

Audit Report No.	Name and address of Importer / Exporter	Jurisdictional Commissionerate of Customs	IEC of Importer / Exporter	Period of Audit	Dates of Audit (dates of visit to Importer's premises)
(1)	(2)	(3)	(4)	(5)	(6)

Audit Party (AP) No. and Name of Supdt.	Para No. and objection in brief for each Para	Whether objection accepted by the Monitoring Meeting (yes or no)	Duty involved in each Para	Spot recovery during audit	Duty recovered other than spot recovery before issue of Show Cause Notice
(7)	(8)	(9)	(10)	(11)	(12)

File No. of Customs Commissionerate Concerned	Show Cause Notice No. & Date	Amount Demanded (Rs.)	Reasons for closure of Para	Date of closure of Para	Remarks
(13)	(14)	(15)	(16)	(17)	(18)

**Note:**

1. Col. Nos. 1 to 8 shall be entered by Audit Group while obtaining the file number.
2. Col. Nos. 9 to 11 shall be entered by the Audit Cell before issue of Audit Report.
3. Col. Nos. 12 to 15 shall be entered on receipt of replies from jurisdictional Customs Commissionerates.

9.4.2 The following abstract should be put up by the Audit Cell to Joint / Additional Commissioner i/c Audit by 10<sup>th</sup> of the following month.

**Monthly Abstract of OSPCA Follow-up Register**

Opening Balance		Total No. of Importers / Exporters Audited During the Month	Paras Accepted During the Month for Action		Total No. of Paras closed During the Month		Total Recovery during the Month		Closing Balance	
No. of Paras	Total Amount Involved (Rs.)		No. of Paras	Total Amount Involved (Rs.)	No. of Paras	Total Amount Involved (Rs.)	No. of Paras	Total Amount Involved (Rs.)	No. of Paras	Total Amount Involved (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Period wise Pendcy					
0 – 3 Months		3 – 6 months		> 6 months	
No. of Paras	Total Amount Involved (Rs.)	No. of Paras	Total Amount Involved (Rs.)	No. of Paras	Total Amount Involved (Rs.)
(12)	(13)	(14)	(15)	(16)	(17)

**Note:** The quarterly report to be sent to Zonal ADG, Audit shall be prepared based on this report.

**9.5 Quarterly Report for ADG, Audit**

9.5.1 The Commissioner concerned i/c Audit Cell shall send a Quarterly Report in the following format to the Zonal ADG, Audit indicating therein the details of the audit conducted and resultant action thereon. The report shall be sent in the format given below.

### Quarterly Audit Report

Name of Commissionerate:.....

Report for the Quarter Ending:.....

**(A) Details of Audits Conducted:**

No. of Importers / Exporters scheduled for Audit	No. of Importers / Exporters Audited	No. of Revenue Paras Raised	Total Short Levy Detected (Rs. in Lakhs)	Total Recovery (Rs. in Lakhs)
(1)	(2)	(3)	(4)	(5)

**(B) Action Taken on Audit Report Paras Accepted for Action:**

Opening Balance		Paras Accepted During the Quarter for Action		No. of Paras Closed During Quarter					
				SCN Issued		Amount Recovered and Paras Closed		Other Reasons like Closure on Merit	
No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Closing Balance		Period-wise pendency							
		0-3 months		3-6 months		6-12 months		> 1 year	
No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)	No. of Paras	Total Amount Involved (Rs. in Lakhs)
(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)

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**ANNEXURE – 1****MASTER FILE****A. Documents listed below shall be maintained in hard copy form in Master File**

<b>S. No.</b>	<b>Documents / Declarations / Returns / Information</b>	<b>Source of Documents</b>
1.	Organizational chart of the importer / exporter with names, designations and telephone numbers of the key persons i.e. M.D. / Directors / Partners / Prop. / CS / CA / Authorised Signatory, Officer handling import and export	Importer /Exporter
2.	Cost Audit / Tax Audit reports of past three years	
3.	Past three Audit Reports	
4.	Copies of Annual Report of the Company or Balance Sheet, Profit & Loss Account for the past three years	
5.	Copies of Trial Balance for the current year and for the past two years	
6.	Import Export Code No. Copy issued by DGFT	
7.	Audit points raised by Central Revenue Audit in the past three audits	Customs Houses
8.	Details of cases under investigation including SCN issued	
9.	Details of pending Arrears of Revenue	
10.	Any other document considered relevant by the Audit Party	Audit Party

**Note:** After first audit only current year documents / declarations / reports / information will be asked for.

**B. Importer / Exporter Profile**

(To be sent to the importer / exporter for completion and thereafter certified by the Departmental Auditor)

**Name of Importer / Exporter:** .....

**Address:** .....

**Import-Export Code (IEC) No.:** .....







iii. Details of Advanced Authorizations issued during preceding three years and current year:

(Rs. in lakhs)

S. No.	Advanced Authorization No.	Date	Value of Imports	Description of Major Goods Imported		Description of Export goods		Export obligation Period
				Qty	Value	Qty	Value	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

7. Please give a list of your major foreign suppliers?

.....  
 .....

8. Are you registered with Special Valuation Branch (SVB)? If yes, please mention the Customs House where registered.

.....  
 .....

9. Please give details of Show Cause Notice received, if any, during last five years and current year with respect to import or export of goods:

(Rs. in lakhs)

S. No.	Issue/Issues involved	Period of Demand	Duty Involved	Show Cause Notice No. & Date and Issuing Authority
(1)	(2)	(3)	(4)	(5)

10. Details of litigations (Appeals, Court Cases etc.) pending:

(Rs. in lakhs)

S. No.	Issue in Brief	Total Amount Involved			Forum Where Pending	Period of Pendency Before the Present Forum
		Duty	Fine	Penalty		
(1)	(2)	(3)			(4)	(5)

11. Are you subject to other agencies enforcing allied laws e.g. Food Safety and Standards Authority of India (FSSAI), Drug Controller, Plant Quarantine, Central Pollution Control Board (CPCB), Central Insecticide Board etc.? If yes please specify the agency(s) and the items subject thereto:

.....  
 .....

12. Please give a list of Bonds pending with Customs and the reason why executed:

.....  
 .....

13. Please furnish the following documents/information:

- 1) Central Excise Registration details, namely, Range, Division and Commissionerates alongwith Registration Numbers.
- 2) Name of the Customs Stations (Port, Airport, Inland Container Depot, Container Freight Station) from where import/exports have been made in past three years.
- 3) Total Import duty paid in past three years along with total CIF (Cost Insurance Freight) value of imports and FOB (Free on Board) value of exports.
- 4) Copies of Balance Sheet, Profit and Loss Account, Trial Balance [along with Grouping for preparation of Balance Sheet and P & L A/C (Profit and Loss Account)] and Annual Report for the past three years.
- 5) Copy of Income Tax Audit Report (Form 3 CD) for the past three years.
- 6) Cost Audit Reports, wherever applicable for the past three years.
- 7) Disclosure of Foreign Currency Transaction in the format as desired under Indian Accounting Standards (Number eleven) where importer is required to furnish a Schedule under Statement of Expenditure for Foreign Currency Transactions.
- 8) Statement or Returns filed as per requirement of Foreign Exchange Management Act and Reserve Bank of India Guidelines regarding remittance and receipts of foreign exchange.
- 9) Names of other Govt agencies with whom any return/statements are filed with reference to imported goods or goods manufactured out of imported goods.
- 10) Quarterly/Annual Returns filed by EOU /EHTP /STP /BTP units as per Hand Book of Procedure 2009 – 2014.
- 11) Chartered Accountant Report in Form No. 3CEB (Report on International Transactions – Transfer Pricing).
- 12) Auditor's Reports for past one year under the provisions of Companies Act, 1956.
- 13) Credit note issued during past one year and current year.
- 14) Journal vouchers through which adjustment entries and/or rectification entries are passed.
- 15) Accounts maintained by the manufacturer importer in terms of Customs (Import of Goods at Concessional rate of duty for manufacture of excisable goods) Rules, 1966.
- 16) Details of bankers with whom Importer is having the account for import/export transactions.
- 17) To furnish Directorate General of Foreign Trade yield norms for raw material vis a vis finished products, if the importer is also a manufacturer.

- 18) Any other relevant documents relating to receipt, purchase, manufacture, consumption, storage, sale, delivery or payment, as the case may be in regard to imported goods or any other relevant information.

*I certify that the documents/information given by me is correct and true and to the best of my knowledge.*

**(Signature)**

.....

**Name of Authorized signatory**

.....

**Designation**

**Contact No.....**

**Official seal of the importer / exporter**

.....

**Address of the importer /exporter**

.....

**(Registered office address /  
Head Office)**

**Date:.....**

.....

**Name & signatures of the Superintendent in charge of Audit Team**

**Date:.....**

.....

**Name & Signature of Assistant Commissioner / Deputy Commissioner i/c/ Audit**

**Date:.....**

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**ANNEXURE - 2****CHECK LISTS**

*(Points for verification, either at Desk Review stage or at the time of verification stage)*

**I Check List During Desk Review:**

<b>S.No.</b>	<b>Type of imports</b>	<b>Answer</b>
1.	Whether goods imported from Preferential Areas / Countries at concessional rate of duty	Yes/No
2.	Whether goods imported at Concessional rate of duty for manufacture of specified goods	Yes/No
3.	Whether on the goods imported, anti-dumping duty is leviable	Yes/No
4.	Whether Capital goods have been imported under Export Promotion Capital Goods Scheme License	Yes/No
5.	Whether goods have been imported under DFIs (Duty Free Import Authorization)	Yes/No
6.	Whether imported goods are Free Goods as per Import Policy	Yes/No
7.	Whether goods imported require a specific Import License.	Yes/No

**II Check List For Valuation Of Goods:**

Valuation is the most important aspect and hence the check list shall be filled carefully in respect of all types of goods imported. If the required documents are not available during Desk Review, same shall be obtained during preparation visit.

<b>S.No.</b>	<b>Type of Check</b>	<b>Answer</b>
1.	Value declared in foreign currency in contract / purchase invoices matches with the value declared in Bill of Entry	Yes/No
2.	Currency declared in contract / purchase invoices matches with the currency declared in Bill of Entry	Yes/No
3.	Check from Balance Sheet whether any Royalty / License fees paid to the foreign supplier(s)	Yes/No
4.	Check from contract whether the Royalty / License fees is a condition for Sale of goods	Yes/No
5.	Whether contract provides for payments to foreign supplier or 3 <sup>rd</sup> party on account of resale, use or disposal of imported goods	Yes/No
6.	Check from Bill of Lading that freight paid and currency of such	Yes/No

	payment matches with the freight declared in Bill of Entry	
7.	Whether value declared in Bill of Entry matches with the value of contemporaneous imports of identical goods as per NIDB (National Imports Data Base) data	Yes/No
8.	If unit has imported metals, whether declared value on average matches with the London Metal Exchange prices of relevant date	Yes/No
9.	If the unit has imported plastic granules, whether price declared matches with that declared in PLATT journal of relevant date	Yes/No
10.	Whether in the Bills of Entry cleared after proper assessment and examination, the Customs officer enhanced the value of imported goods (check from import data)	Yes/No
11.	If value was enhanced, whether in the Bills of Entry of identical goods, cleared through RMS (Risk Management System) without appraisalment, the unit has declared enhanced rates or lower values (check from import data)	Enhanced / Lower

On the basis of above check list, the auditors shall ascertain the risk factors to be verified during verification phase. If answer to any of the aforesaid checks is "NO", same can be taken as Risk factor and included in Audit Plan for detailed verifications.

### III Check List for Classification of Goods :

Classification of goods has bearing on rates of duties, exemption notifications, importability of goods etc. Following checks shall be conducted in respect of Classification of goods after going through the Bills of Entry and on the basis of answers to these checks, the Auditors shall find out the risk factors in Classification and exemption Notifications.

S. No.	Type of Check	Answer
1.	Whether goods have been correctly classified & cleared under proper import license (ITC-HS Classification).	Yes/No
2.	If unit has purchased identical goods indigenously and also imported the same goods, whether the tariff headings of both are same.	Yes/No
3.	Whether the tariff heading declared in Bills of Entry by Customs after review of assessment and examination, matches with the tariff heading declared in Bills of Entry cleared through RMS (Risk Management System) without appraisalment.	Yes/No
4.	If Customs has changed tariff heading, whether the Bills of Entry cleared through RMS (Risk Management System) contain changed heading or	Yes/No

	not.	
5.	Whether the conditions of exemption notifications have been fulfilled and required certificates produced by the importer	Yes/No

**IV Check list for Imports from Preferential Areas/Countries:**

S. No.	Type of Check	Answer
1.	Exemption Notification no. and Preferential Area/country.	
2.	Whether the certificate of origin matches with the country for which exemption notification is claimed.	Yes/No
3.	Whether quantity and nature of goods imported matches with the quantity and nature of goods given in certificate of origin.	Yes/No
4.	Whether the country of loading of consignment as per Bill of Lading/Airway Bill matches with the country as per certificate of origin.	Yes/No
5.	If country of loading the consignment is different from Preferential country, whether evidence for transportation of such goods from Preferential country to such third country produced.	Yes/No
6.	Whether prior to issue of Notification for concessional rate of duty, the importer was importing identical goods from the same supplier of same country.	Yes/No
7.	If importer was importing same goods from same supplier of different country, verify from website of the suppliers about its existence in the preferential country.	Exists / Does not Exist
8.	If answer to 6 above is "Does not exist", whether Bill of lading/Airway bill shows loading of consignment from preferential country or other country	Preferential / Other

**V Check list for the goods leviable to Anti-dumping Duty:**

Special attention shall be paid by the Auditors to ensure that the importer has not avoided payment of anti-dumping duty by mis-declaring the country of actual imports. Following checks may be conducted in this regard (similar checks may be performed for the Safeguard Duty also):

S. No.	Type of Check	Answer
1.	Major goods imported during the period of Audit and from which country.	1. (Country) 2. (Country) 3.



		(Country)
2.	Whether such goods are leviable to anti-dumping duty as per <b><u>Annexure X-13</u></b>	1. Yes/No 2. Yes/No 3. Yes/No
3.	If answer to Check No.2 is yes, whether goods have been imported from anti-dumping duty countries and said duty has been paid.	1. Yes/No 2. Yes/No 3. Yes/No
4	If goods are leviable to anti-dumping duty but such duty not paid because imported from non-anti-dumping duty country, check the following: (i) Whether Bill of Lading/Airway Bill shows that the goods were loaded from the non-anti-dumping country (NADC) or anti-dumping duty country (ADC). (ii) If loaded from anti-dumping duty country or a third country, whether transport documents from Country of import to Country of loading produced. (iii) The website of supplier shows its existence in the Country of supply. (iv) Payments have been transmitted to the supplier in Country of supply. (v) Payments of freight for transportation have been made to the transporter of Country of export. (vi) Whether Insurance Policy was issued by the Insurer of Country of export or not.	Yes/No  Yes/No  Yes/No  Yes/No  Yes/No
5.	Check whether before imposition of anti-dumping duty, same goods were being imported. If yes, whether then these were imported from same supplier of anti-dumping countries while after imposition of said duty, these are being imported from same supplier of non-anti-dumping duty country.	Yes/No
6.	If reply to check at S. No. 5 is Yes, verify whether : (i) As per website, supplier has office in non-anti-dumping duty country. (ii) Payments have been made to supplier of non-anti-dumping duty country. (iii) Transport documents show loading of goods from non-anti-dumping duty country. (iv) Insurer is from non-anti-dumping duty country and insurance	Yes/No  Yes/No  Yes/No  Yes/No

	premium has been remitted to such country.	
7.	Whether after imposition of anti-dumping duty, the description of goods and tariff classification has been changed.	Yes/No
8.	If changed, whether now goods are correctly classified and if not, whether the change in classification was done only to avoid anti dumping duty.	Yes/No

**VII Check List if Capital Goods Imported Under Export Promotion Capital Goods Scheme License:**

The Check List shall be filled separately for each EPCG License because export obligation for each License has to be ascertained separately.

<b>S. No.</b>	<b>Type of Check</b>	<b>Answer</b>
1.	Licence No. /Date of issue and Port of Registration.	
2.	Amount of duty saved and Export Obligation period viz., i. less than 100 crores and 8 years ii. more than 100 crores and 12 years	(i) / (ii)
3.	Whether goods as per table to relevant notification have only been imported.	Yes /No
4.	Date of completion of imports.	
5.	Dates of imports of spares for maintenance.	
6.	Goods to be exported and Free on Board value of exports.	
7.	If imports were completed 6 months before date of audit, whether installation certificate from Deputy / Assistant Commissioner of Central Excise obtained.	Yes/No
8.	If spares for maintenance were imported 3 years before date of audit, whether installation certificate from Deputy / Assistant Commissioner of Central Excise obtained.	Yes/No
9.	If duty saved was less than Rs.100 crores and license was issued 6 years before date of audit, whether 50% Export Obligation has been completed.	Yes/No
10	If duty saved was less than Rs.100 crores and license was issued 8 years before date of audit, whether 50% Export Obligation was fulfilled in the block of 1 <sup>st</sup> to 6 <sup>th</sup> year and remaining 50% was completed in the block of 7 <sup>th</sup> & 8 <sup>th</sup> year.	Yes/No

11	If duty saved was more than Rs. 100 crores and license was issued 10 years before date of audit, whether 50% of the Export Obligation has been fulfilled or not.	Yes/No
12.	If duty saved was more than 100 crores and license was issued 12 years before date of audit, whether 50% Export Obligation was completed in the block of 1 <sup>st</sup> to 10 <sup>th</sup> year and remaining 50% in the block of 11 <sup>th</sup> and 12 <sup>th</sup> year.	Yes/No
13.	If answer to any of the checks at 9 to 12 above is No, whether unit has obtained extension of Export Obligation period from Licensing Authority / Regional Licensing Authority.	Yes/No

### VIII Check List for the goods imported against *Duty Free Import Authorizations* (DFIAs)

The Check List shall be filled separately for each DFIA License because imports and exports under each DFIA are monitored separately.

S. No.	Type of Check	Answer
1.	DFIA No. and date of issue.	
2.	Port of Registration.	
3.	Description, quantity and value of import goods.	
4.	Export goods, Free on Board value and period of export.	
5.	Whether description of goods as per Bills of Entry matches with DFIA.	Yes/No
6.	Whether import of sensitive items allowed.	Yes/No
7.	If yes, whether specifications, technical characteristics and quality of sensitive items in Bills of Entry matches with the DFIA.	Yes/No
8.	Whether the DFIA holder imported goods before exports or after exports.	Before/After
9.	If goods were imported after exports and indigenous inputs were used in the manufacture of exports goods, whether DFIA holder availed Cenvat Credit or rebate of duty paid on such indigenous inputs.	Yes/No
10.	If answer to 9 above is 'Yes' and DFIA holder himself imported the goods, check whether he used the same in the manufacture of goods in his factory and submitted evidence in this regard within 6 months from date of import.	Yes/No
11.	If answer to 9 above is 'Yes' and DFIA was transferred by Regional	Yes/No

	Licensing Authority, check whether the condition of transfer is that the transferee at the time of import shall pay CVD.	
12.	If DFIA was issued to another person and was transferred in the name of unit being audited, check whether payment of CVD is a condition of transfer of DFIA and if so, whether the CVD has been paid at the time of import.	Yes/No
13.	In case of transferred DFIA's in the name of importer, check from website of DGFT whether such license is genuine or not.	
14.	In case of pre-imports, whether the export obligation has been completed or not.	Yes/No
15.	If export obligation period has expired, whether Export obligation Discharge Certificate has been issued by Regional Licensing Authority.	Yes/No

**Note:**

1. If a particular Check List is not applicable the same shall be mentioned.
2. The duly filled Check lists shall be signed by the Superintendent In-charge of the Audit Team and approved by Deputy / Assistant Commissioner i/c Audit.
3. Audit Plan shall be prepared on the basis of risk factors ascertained during Desk Review.

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**ANNEXURE - 3****SAMPLE QUESTIONNAIRE FOR INTERNAL CONTROL SYSTEM****I. Imports:**

1. Whether all imports are centralised or de-centralised. If all imports are authorised by few key persons like owner or Managing Director etc, it may require in-depth study.
2. Whether all the imports are made only by issue of purchase order and whether different series of purchase orders are issued. Also, the issuance of series of purchase order is centralised in the purchase section. Are there any cases where imports have been made without issue of purchase order?
3. Whether there is a system of authorised Vendor List. If not, what is the system of approving particular vendor? Are there instances where substantial imports have been made through unauthorised vendors? Whether the purchases are direct from the overseas supplier? Whether the purchase are through indenting agent/sole distributor or otherwise? Whether overseas agents are involved in negotiation/placing of purchase order or company's officers directly negotiate with the overseas supplier?
4. Whether overseas supplier is manufacturer? If not whether the supplier is any way related to the company? What are the documents related to negotiation of the purchase?
5. What are the terms of import? Whether goods are imported under Letter of Credit or Direct Payment or otherwise?
6. Who are your Custom House Agents (CHA) for clearance of goods? Had you changed your CHA in past? If yes, why?
7. Which is your regular port of import? Have you changed your port of import in past? If yes, why?
8. Who provide you logistic support in your business? Where are your godowns for storing the imported goods? Who is your transporter?

**II Stores and Production:**

9. Whether separate inventory for import items is prepared?
10. Whether locally procured goods are also placed in the store?
11. Whether Goods Received Note (GRN) is prepared for each goods imported? Whether separate series of GRN is prepared for goods meant for different section like raw material, capital goods, etc.?
12. Whether a separate code number is available for each type of goods and whether the same is entered on the GRN so that they can be identified?.

13. Whether inspection for physical quantity or technical specification is carried out before the preparation of GRN or afterward and what is the composition of inspection team? Whether report of inspection is documented and whether a separate record is maintained by Inspection Department?
14. Whether rejected goods are stored separately. What is the system of entering the rejected goods/short quantity on the GRN?
15. Whether any item supplied free of cost?

### III Payments:

16. How payments are made to the supplier?
17. How are the details of the payments maintained? Is the system for making payment overseas/outward remittance is centralized? The bank account remittance details and invoice value details may be verified.

### IV Others:

18. Whether any bonds are pending with customs? For examples: Any provisional assessments, Export Obligations, End use bonds, re-export bonds etc., are pending.
19. Whether pending bonds are shown as liabilities in balance sheets?
20. What is marketing pattern – is it through agents, direct, through depot?

*I certify that the documents/information given by me is correct and true and to the best of my knowledge.*

.....

**(Signature)**

**Authorized Signatory of the Importer**

.....

**Name of Authorized signatory  
on behalf of the Importer**

.....

**Designation  
Official seal of the importer**

.....

**Address of the importer  
(Registered Office /  
Head Office)**

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## ANNEXURE – 4

## ILLUSTRATIVE AUDIT PLAN

Sl. No.	Subject	Specific Issue	Source Document	Back-up Document	Coverage Period	Selection Criteria
1.	Valuation	Value is low vis-à-vis NIDB data for same items	Bills of Entry	1. Invoice 2. Purchase order 3. Purchase ledger 4. Payment details	All Bills of Entry for the months of April to October	All Bills of Entry of value greater than Rs. 5 lakhs
2.		Addition of Royalty paid	Bills of Entry	1. Contracts 2. Creditors' ledgers 3. Balance Sheets	Entire Audit Period	Bills of Entry of suppliers who received royalty
3.		CVD on MRP basis	Bills of Entry going to spares part division	1. Goods Receipt Register 2. Sales Ledger	Entire Audit Period	All documents for spares parts division
4.	Exemption	Specified end use of goods as per exemption notification	Bills of Entry	1. Stores Ledger 2. Merchant Receipt Note (MRN) / Goods Receipt Note (GRN) / Inspection cum Receipt Report (ICRR) 3. Sales data for final product 4. Details of goods traded	First half of the year	Entries on each Friday
5.	Anti-Dumping Duty	Imports from nearby countries to anti-dumping duty countries	Purchase Invoices	1. Transport documents 2. Bills of Lading 3. Certificates of Country of Origin. 4. Sales contract	One month prior to imposition of duty and one month after	All documents

					imposition	
6.	EPCG	Completion of export obligation for each block	EPCG Licenses	Shipping Bills for export under EPCG	Licenses issued 6 years before Audit	All Shipping Bills for exports under EPCG
7.	DFIA	Receipt of inputs used in the manufacture of export goods	Bills of Entry	1. Store Ledger 2. Merchant Receipt Note (MRN) / Goods Receipt Note (GRN) / Inspection cum Receipt Report (ICRR)	Last 3 months of Audit	All entries on each Monday.
8.		Availing double benefit	1. DFIA's 2. Bills of Entry under DFIA's	1. Cenvat Credit Account 2. Rebate claims	entire Audit period	All the documents
9.	Import Licensing	ITC-HS Classification specific license (if not Free Goods)	Bill of Entries of entire audit period	ITC-HS Classification List	Bills of Entry of entire Audit period	Bills of Entry of entire Audit period

#### Guidelines for Audit Plan:

1. **Subject:** For example Valuation, goods imported for manufacture of specified goods, correct payment of anti-dumping duty and imports under Export Promotion Schemes.
2. **Specific Issue to be verified:** Under this column, the Auditor should mention the precise issue pertaining to the subject. For example, Valuation of contemporaneous imports, completion of export obligation under Export Promotion Schemes etc.
3. **Source Document/ Information to be verified:** Documents/information reflecting or having a bearing on payment of Customs duty, to be verified. For example, ledgers show payment of duty royalty and contract shows such payment as condition for sale but bill of entry does not show addition of royalty in transaction value.
4. **Back-up Document:** The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example, contracts, balance sheets, creditor's ledgers show payment of royalty, contract shows that the payment of royalty was a condition for sale of goods but bill of entry shows that such royalty not included in transaction value.



5. **Period of coverage:** Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.
6. **Selection Criteria:** In case, the volume of documents for verification is large, the auditor may adopt sample verification. The sample should be chosen in such a way that it represents the whole, uniformly.

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**ANNEXURE - 5****DOCUMENTS' VERIFICATION**

*(Documents required and verifications to be conducted for valuation, classification, exemption, etc.)*

**1. Documents Required and Verifications for Valuation:**

On most items Customs import duty is levied on ad-valorem basis, which makes correct valuation of goods critical. While assessment at the time of import is done transaction wise, OSPCA gives an opportunity to examine the valuation holistically for the entire business of the importer. The verification should therefore look at the import transactions in totality as well as a sample of separate import transactions. The points for initial scrutiny are:

- (i) Tabulation of value of the particular goods, quantity imported and the duty paid thereon will give an idea whether per unit price is being declared consistently or not.
- (ii) Scrutiny of Balance Sheet / Trial Balance may be done for any remittances which are not made against any particular Bill of Entry.
- (iii) Whether supplier and importer are related?
- (iv) Whether any post import expenses were remitted?

Important aspects to be looked into in respect of particular transactions:

- (i) Whether the currency declared in the invoice is reflected correctly in the Bill of Entry and the exchange rate is calculated correctly as per the monthly notifications issued by Board?
- (ii) Terms of invoice whether C.I.F. or F.O.B. If the goods are invoiced as F.O.B. then the actual freight and insurance incurred if imported by sea may be verified. If imported by air then the same may be actual or 21.125%, whichever is less.
- (iii) Contracts and purchase orders may be verified for any additional costs that may have to be paid by the importer.
- (iv) Insurance policy may be verified if the value declared for the purpose of insurance is more than the invoice value.
- (v) To verify whether the goods attract Retail Sale Price based assessment for the purpose of levy of CVD.
- (vi) Comparison of the value of the goods with contemporaneous imports with the help of NIDB data.

- (vii) Comparison of prices declared with that of London Metal Exchange prices for metals, PLATT journal prices for plastics, Public Ledger for spices.
- (viii) Scrutiny of value vis-à-vis valuation bulletins issued by DG, Valuation.
- (ix) Sale invoices for the imported goods sold as such.

The relevance of each aspect mentioned above is delineated more elaborately below. These aspects are to be verified during on site Verification. If any discrepancy is noticed then relevant rule under Customs Valuation Rules, 2007 may be invoked and value would be required to be re-determined for the purpose of assessment.

S. No.	Document	Nature of Documents	Verifications Required to be Done
1.	Purchase Contracts / Purchase Orders and Purchase Invoices for imported goods	Documents that contain the price and other conditions for purchase of goods from a foreign supplier.	<p>(i) Verification of (a) valuation (b) classification (c) Anti-Dumping Duty.</p> <p>(ii) The value declared in purchase contracts/ purchase orders/ purchase invoices in foreign currency matches with the value declared in Bill of entry.</p> <p>(iii) The foreign currency declared in these documents is the same as declared in Bill of Entry.</p> <p>(iv) Check whether Bill of Entry was filled on the basis of proforma invoice. If so, whether value in final invoice is same or not.</p> <p>(v) Whether as per contract, some extra amounts are to be paid to the suppliers. If so, verify reasons thereof from the contract. It shall be checked from the contract that such amounts are paid as result of resale, use or disposal of imported goods. Verify as to whether such extra payments are includible in transaction value as per Section 14 of the Customs Act, 1962 read with Customs Valuation Rules, 2007.</p> <p>(vi) Check whether contract has clause for payment of royalty/license fee to the suppliers. Also verify from the contract as to whether such payments are condition for sale of goods and includible in transaction value as per rule 10(1) (c) of the Customs Valuation</p>

			<p>Rules, 2007. If includible whether same are included or not.</p> <p>(vii) Check whether contract provides for payment by importer to foreign supplier or the third party on resale, disposal or use of imported goods. Verify as to whether same has been added in transaction value as per rule 10(1)(d) of Customs Valuation Rules, 2007.</p>
2.	Bill of Lading / Airway Bill	Documents showing details of transportation of imported goods through Sea / Air.	<p>(i) Verification of (a) valuation (b) classification (c) quantity (d) Anti-Dumping Duty.</p> <p>(ii) The freight mentioned in these documents matches with the freight declared in Bill of Entry. In case of transport through Air, the freight to be added is 20% of F.O.B value.</p> <p>(iii) If freight is not known, freight @20% of F.O.B value is added in respect of imports through sea.</p> <p>(iv) The weight declared in Bill of Lading or Airway Bill matches with the weight declared in Bill of Entry.</p>
3.	Insurance Policy	Documents for insurance of goods from the supplier to destination.	<p>(i) For verification of valuation.</p> <p>(ii) The amount of insurance premium matches with the amount declared in Bill of Entry.</p> <p>(iii) If cost of insurance is not known, whether insurance @1.125% of F.O.B value is added in transaction value.</p>
4.	National Imports Data Base (NIDB) data	NIDB data is maintained by Directorate of Valuation in respect of imported goods from different countries in India.	<p>(i) NIDB data can be useful for verification of (a) valuation (b) classification.</p> <p>(ii) From the Bills of Entry, ascertain major goods imported, their quantity, country of origin, name of supplier, period of import etc.</p> <p>(iii) From NIDB data, ascertain the rates at which contemporaneous imports during same period of same quantity of identical or similar goods imported around the date of imports being audited. If the rates declared are much less than the rates given in NIDB</p>

			data, there is chance of undervaluation and needs detailed scrutiny during audit.
5.	Prices of relevant period as per London Metal Exchange (LME) / PLATT journal	<p>(i) LME prices show the range of rates at which metals are sold in London Metal Exchange. These are printed twice a week.</p> <p>(ii) PLATT compilation shows rates of different virgin plastic granules.</p>	<p>(i) These can be useful for verification of valuation.</p> <p>(ii) If the importer has imported the said items, ascertain the date(s) of contract for purchase. If contract is not available, ascertain the date(s) of purchase invoices and jot down the name of item, date of contract / purchase invoice and rate.</p> <p>(iii) Verify the rate of such metal / plastics as per LME / PLATT for a date prior to the date of contract / invoice. Check whether the rate shown in Bill of Entry is equal to the minimum rate given in LME / PLATT. If not, the matter may be mentioned in the Audit report.</p>
6.	Creditors' ledgers of foreign suppliers	These documents contain details of all the transactions of suppliers and the ledgers of only foreign suppliers are relevant for Customs Audit.	<p>(i) This can be useful for verification of valuation.</p> <p>(ii) The total payments made to each foreign supplier as per ledgers shall be matched with the total amounts declared in Bills of Entry for import from each such supplier. The adjustments on account of balances at the beginning and end of the year shall be made.</p> <p>(iii) If the payments made exceed the value declared in Bills of Entry for any of the supplier, reasons for such extra payments shall be ascertained and it shall be verified as to whether such amounts are includible in transaction value as per Customs Valuation Rules, 2007.</p> <p>(iv) The ledgers of one or two major suppliers from whom goods of substantial value have been imported shall be matched with each purchase invoice/ Bill of entry and it shall be ensured that the payments are covered by invoices for which bills of entry have been filed.</p>

			(v) Ascertain the payments made to foreign supplier on account of Royalty and license fees. It shall be ensured from the contracts as to whether such payments are a condition for sale of goods and includible in transaction value as per rule 10(1) (c) of the Customs Valuation Rules, 2007. If as per contract, any amounts were to be paid to the suppliers on account of resale, disposal or use of imported goods, ascertain the amounts so paid from the ledgers of such suppliers.
7.	Creditors' ledgers of transporters and insurers of imported goods		(i) This can be useful for verification of valuation.  (ii) The payments made to transporters and insurers of imported goods match with the amounts declared in corresponding Bill of Entry.
8.	Bills of Entry	Some Bills of Entry are cleared after full appraisalment and examination of goods while some are cleared through RMS without any appraisalment and examination.	(i) This can be useful for verification of (a) valuation (b) classification (c) Anti-Dumping Duty.  (ii) Segregate the Bills of Entry cleared through proper appraisalment and cleared without appraisalment through RMS. The Bills of Entry for same goods of two categories shall be matched with respect to classification, valuation, exemption notification, rate of duties , anti-dumping duty etc.  (iii) Verify whether in Bills of Entry cleared through appraisalment, any irregularity of mis-classification, valuation, payment of anti-dumping duty, licensing restriction etc. was pointed out by Customs. If so, there shall be similar irregularity in respect of similar goods cleared through RMS without appraisalment and examination. Such irregularities shall be noted and importer asked to explain during interview or the verification phase at the premises.
9.	Sale invoices of imported goods sold	Sale invoices of only imported goods sold 'as such' need to be selected.	(i) This can be useful for verification of (a) valuation (b) classification (c) MRP based duty payment.

	as such and Cenvat Credit Account		<p>(ii) In respect of imported goods, the importer is eligible for Cenvat credit of CVD, Education Cess and Higher Education Cess on CVD (not on Basic Customs Duty) as well as Special Additional Duty (S.A.D). If importer avails Cenvat credit on imported goods and sells 'as such', he is required to pay duty equal to credit taken. S.A.D is not payable on excisable goods and therefore, the units are clearing imported goods 'as such' on payment of excise duty, education cess and Higher education cess. Thus the credit of S.A.D is not reversed. The Audit Team shall verify the total credit taken on imported goods and ensure that the credit reversed is equal to total credit including S.A.D if imported goods are cleared 'as such'.</p> <p>(iii) If imported goods are sold 'as such' at prices much higher than the landed cost, it gives an indication of undervaluation at the time of import. Efforts shall be made to prove the undervaluation during the verification phase by other documents.</p>
10.	Price circulars of imported goods		<p>(i) If the imported goods are covered under MRP based assessment as per Section 4A of the Central Excise Act, 1944 the CVD is to be paid as per MRP printed on the imported goods. The Audit Team shall verify the price circulars or packings of such imported goods to ensure that CVD was paid by declaring correct MRP at the time of import.</p> <p>(ii) If price circulars or packings of imported goods are not produced by the importer, the sale invoices may be verified to ensure that the price charged was less than the MRP declared minus [VAT (Value Added Tax) + at least 15% of sale price on account of freight, margin of profit of dealers etc.]</p>

## 2. Revenue Risks Relating to Valuation:

With reference to the Customs Valuation Rules, 2007, the areas indicated below are considered to be revenue risk areas under the WTO Valuation Agreement.

### I Status of Buyer and Seller

**(a) Branch office importing from head office:** In order to use the transaction value method, there must be a sale for export. In circumstances where the ownership of the goods does not change, e.g. the exporter is shipping goods to his own employee or a branch office which has no authority to contract on its own behalf, depending on the national legislation, a sale cannot be said to have occurred.

**(b) Selling or buying agent:** When a third party participates in a sale, it is necessary to examine his role in the transaction. Two situations may arise:

- the third party, paid by the buyer or the seller, participates in the sales contract concluded between buyer and seller. Such an agent acts as an intermediary in the contract, and has the role of representing the buyer or the seller in the conclusion of a contract of sale. A selling agent's commission is to be included in the Customs value;

- the third party buys the goods from the seller and resells them to the buyer. Thus two transactions take place. The buyer-reseller's margin is reflected in the resale value of the goods.

### II Selling Commissions

Selling Commissions or brokerage charges are sometimes not invoiced. However, when the name of a third person appears on an invoice, this may indicate the involvement of a selling agent. During the visit to the importer's premises to conduct verifications of declared values, it should be noted that Selling Commissions may be recorded under the item 'Commission on Sales' in the 'Marketing' or 'Selling and Distribution' account in the importer's financial/accounting records.

### IV Buying Commissions

The treatment of Buying Commissions for Customs valuation purposes depends upon the exact nature of the services rendered by intermediaries. Therefore, the simple appearance of "Buying Commission" on the agent's invoice would not be sufficient justification for its exclusion from the Customs value. Customs should conduct checks if the services provided by the agent are more than simply representing the buyer in the purchase of the goods, or if the amount of the commission appears to be inconsistent with the services performed.

### V Deposits / Part Payment

Deposits or earlier payments by instalment, cash, cheques, etc., may not be reflected in the invoices produced. Invoice notations such as the following may indicate the existence of such situations:

- first or part payment only;
- deposit only;
- as per contract terms;
- final payment.



These practices are common with capital goods and/or importations for large-scale projects, etc. Examples of such payments could be:

- 1/3 paid on commencement of production of the goods to be imported;
- 1/3 paid on completion of overseas production;
- 1/3 paid on arrival of the imported goods in the country of importation.

Exchange rates may also be contracted in phased, part or split payment situations. The contract of sale may show the details. Check the financial records of the importer if necessary.

## **VI Deferred Payments**

These payments are sometimes not invoiced but may be identified by reference to the financial records of the importer. Deferred payments may be involved with large cost items (e.g. capital equipment for large-scale projects, etc.), which are often covered by written contract.

## **VII Price Escalation Charges**

Price escalation charges are a provision for price adjustments over the life of a contract or agreement. A price escalation clause is a normal part of a contract involving the importation of capital equipment or large project goods with long lead times during which the cost of production might be changed. When dealing with importation involving capital equipment for large-scale projects (e.g. factories, assembly plants, power stations), a copy of the relevant contract should be requested to examine how the price escalation charges are to be paid.

## **VIII Discounts**

Cash discounts or quantity discounts are allowed under the Agreement. Such discounts may be due to the following reasons and may not be deductible:

- the buyer undertakes certain activities for or on behalf of the seller as part of the payment under the contract of sale;
- the buyer provides other goods/services to a third party for or on behalf of the seller as a condition of sale of the imported goods;
- a party's relationship affects the price;
- the price of the imported goods has received credits made in respect of earlier transactions.

## **IX Invoices for "Customs Purpose Only"**

Invoices marked "for Customs purposes only (or some similar notation) may indicate:

- no sale of the goods being valued;
- an actual commercial invoice for the goods concerned is not available.

## **X Package Deals**

The total price for the goods may be split among two or more invoices so that high duty goods are allocated low prices and goods attracting low duty rates are allocated high unit values. Noting the fact that a case of price manipulation of the kind described above is a matter for the Customs enforcement authorities, this offsetting arrangements can, for Customs valuation purposes, be considered to represent a condition or consideration for which a value cannot be determined with respect to the goods being valued. Therefore, the provisions of Article 1.1 (b) of the GATT Valuation Agreement apply and valuation cannot be based on the transaction value of the imported goods.

## **XI Price Averaging**

In this type of situation, the total invoice price of the imported goods has been averaged across a range of different goods included in the same consignment. Suitable price breakdowns must be applied.

## **XII Price dependent on resale price**

The price has been only provisionally fixed and will be adjusted either up or down, depending on the profit margin realized on the resale of the goods. In this case, according to Commentary 4.1 in the Compendium, the transaction value of the imported goods must be the total final price actually paid or payable.

## **XIII Transfer Pricing**

Transfer pricing is the practice adopted by multinational corporations in fixing the prices of goods and services traded between the corporation and its affiliates located in different countries. The multinational corporations may adjust the price of goods to enhance the profitability of the whole enterprise or to achieve other goals. In some cases, the final price is dependent on the 'amount realized in the resale in the country of importation, with the transfer price being adjusted up or down in consequence. In these circumstances, the following areas would require further examination:

- a) whether the transaction in question can be regarded as a sale;
- b) whether or not there is an influence on the price caused, by the relationship between the seller and the buyer;
- c) the existence of conditions or considerations to which the sale may be subject.

## **XIV Management Fees or Contributions to Research and Development**

Sometimes in trade between a multinational corporation and its affiliates, a certain percentage of turnover or other amount is paid by the buyer to the seller as so-called management fees or contributions to Research and Development. In such cases, the issue of whether these payments are a condition of sale and whether they are related to the goods imported must be considered.

## **XV Cost of Transport, Insurance and Related Charges**

- a) Inland freight in the country of exportation: Where the terms of delivery do not cover inland transport costs in the country of exportation, the freight should be included in the Customs value.
- b) Freight where the country is on a f.o.b. base for valuation: The cost of transport and related charges quoted in a c.i.f. invoice may be overvalued where a country bases its valuation law on the f.o.b. system.
- c) Cost of packing: The cost of packing for goods is normally included in the selling price. However, the cost of export packing is sometimes, not included in the selling price. Export packing is used specifically to protect goods during long-distance transportation and is specifically provided for under Article 8 as an addition on the Customs value.
- d) Container cleaning costs: There are cases in which containers cleaning costs are paid to the shipping company. For example, where the imported goods are chemical goods, the tank for liquid chemicals must be cleaned after transportation. Such charges would be part of the charges related to transport and should be included in the Customs value.
- e) Cost of insurance: The seller and the buyer sometimes conclude insurance package deals covering all their transactions. In that event, the insurance costs related to the transport of the imported goods should be included in the Customs value where the country bases its valuation law on the c.i.f. system.

## **XVI Royalties and licence fees**

In many cases, the contract of sale for the goods does not explicitly mention that a payment for royalties or licence fees has been made for the goods. Rather a separate agreement is made for patents, licence or technology supply, etc. Goods often involving royalties or licence fees are musical recordings, trademark goods, patented machines or processes.

## **XVII Tooling Costs (Assists)**

Tooling costs are often supplied by the buyer in transactions involving electrical appliances and others where the supplier's products have to be specially modified to suit the standards or design specifications of the country of importation.

## **XVIII Profit sharing**

If the buyer is to share with the seller the profit on resale of the imported goods, the seller's share must be added to the price actually paid or, payable.

## **XIX Computer Software**

The value of data or instructions (software) recorded on carrier media, according to Decision 4.1 of the Committee on Customs Valuation, is to be excluded, subject to acceptance by the signatory, if the value of the software is distinguished from the value of the carrier medium.

It should be noted that "carrier media" do not include magnetic tapes, disks (including disks for reading by a laser optical reading system) and diskettes, but do not include integrated circuits, semi-conductors and similar devices or articles incorporating such circuits or devices.

The expression, "data or instructions" shall not be taken to include sound, cinematic or video recordings.

## XX Quota Charges

Under a quota arrangement between countries of exportation and importation, the authorities of the exporting country allocate the quota to domestic manufacturers. Without a quota, they cannot obtain an export licence. Manufacturers sometimes use up their quota allocation and buy unused quota from other manufacturers. The valuation treatment of quota charges depends on a Member's interpretation of the GATT Valuation Agreement, and national legislation or jurisprudence.

### 3. Documents Required and Verifications for Classification, Exemption and Import License:

S. No.	Document	Verifications Required to be Done
1.	(i) Bills of Entry (ii) Exemption Notifications claimed (iii) Customs Tariff Act, 1975 (iv) ITC-HS Classification	(i) Examine some of the major imported goods and ensure that the classification/ Import license checking has been correctly done. (ii) The Bills of entry cleared after appraisalment by Customs and those cleared without appraisalment through RMS shall be segregated. The classification of identical goods made by Appraiser shall be compared with the classification of identical goods on Bills of Entry cleared through RMS. If Customs has changed classification in Bills of Entry, same shall be applied for RMS cleared Bills of Entry. (iii) If classification is found to be mis-declared, the other aspects like free importability of goods or otherwise, availability of exemption notification, leviability of Anti-Dumping Duty, duty on imports from Preferential Areas/Countries etc. needs to be examined. (iv) If importer has availed exemption under a particular notification, Auditor shall verify that the conditions thereof have been fulfilled. Special attention shall be paid to the goods imported at 'Nil' rates of Customs and Anti-Dumping Duty.

### 4. Documents Required and Verifications for Anti-Dumping Duty:

S. No.	Document	Verifications Required to be Done
1.	(i) Bills of Entry (ii) List of goods on which Anti-Dumping duty is leviable (iii) Relevant	(i) Make a list of all the goods imported during the period of Audit. Check whether Anti-Dumping Duty is leviable on such goods and whether same is paid or not. (ii) If on some of the goods on which Anti-Dumping Duty is leviable but not paid because such goods were imported from a non-Anti-Dumping Duty country, check the country of origin from which such goods were

	<p>Notifications</p> <p>(iv) Certificates of Country of Origin</p> <p>(v) Transport documents for imported goods</p> <p>(vi) Debtors' ledger of foreign suppliers</p> <p>(vii) Customs Tariff Act, 1975</p> <p>(viii) ITC-HS Classification</p>	<p>imported. Verify the same aspects as in imports from Preferential Areas / Countries to ensure that such goods were not imported from Anti-Dumping Duty countries but were actually imported as per declarations made in Bill of Entry.</p> <p>(iii) Ascertain the date of imposition of anti-dumping duty on imported goods. Ascertain the name of supplier and his Country prior to imposition of Anti-Dumping Duty. If such goods have been imported from the same country in later period also, there is no need of other verifications. However, if the same supplier supplied same goods from a different country, the correctness of such suppliers may be ascertained from website of supplier, if any, transport documents, payment to supplier etc.</p> <p>(iv) Check whether after imposition of Anti-Dumping Duty, the importer has changed the nomenclature and classification of the goods to avoid anti-dumping duty. This aspect needs verification in respect of Bills of Entry prior to imposition of Anti-Dumping Duty and after.</p>
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**5. Documents Required and Verifications for Imports from Preferential Areas / Countries:**

<b>S. No.</b>	<b>Document</b>	<b>Verifications Required to be Done</b>
1.	(i) Bills of Entry/ Previous imports	<p>(i) Ascertain the names of suppliers and their country of origin for supply of one or two major imported goods. Check whether similar goods are being imported from the preferential countries as well as other countries. If so, try to ascertain that the goods cleared at concessional rate were actually imported from preferential country on the basis of other documents viz., transport documents, payments etc.</p> <p>(ii) Verify the names of suppliers from whom such goods were imported prior to issue of these notifications. If the country of supplier remained the same, no further verification is necessary. However, if the country of origin changed, efforts may be made to ensure that the goods were imported from Preferential Countries only. This may be done by verifying other documents. The website of the supplier may also be checked to ensure that the supplier is producing the goods in the Preferential Country.</p>
2.	Certificates of Country of Origin (COO)	(i) As per Trade Agreements, the exemption in respect of Imports from Preferential Area/Country is admissible if the goods originate from such Area/Country. The designated officers of that Country issue Certificate of Origin on the basis of Determination of Origin Rules as per the relevant Agreement. The importer is required to furnish Certificate of

		<p>Origin at the time of import to claim exemption. This can be used for verification of (a) actual description of goods (b) classification (c) country of origin (d) country of export (e) quantity of goods imported.</p> <p>(ii) In respect of COO ascertain the Notification No. from Bill of Entry and ascertain the Country for which notification pertains; verify that the COO is of the same Country as in notification, invoice and Bill of Entry; and check that nature and quantity of imported goods in COO match with these details in invoice and Bill of Entry.</p>
3.	<p>(i) Bills of Lading / Airway Bills</p> <p>(ii) Transport Documents for imported goods</p>	<p>Verify the transport documents viz. Bill of Lading or Airway Bill and check whether the goods were transported from the same Country of not. If transported from a third Country, evidence regarding transportation from Country of Origin to such third Country shall be obtained.</p>
4.	<p>(i) Samples / packings of imported goods</p>	<p>If samples or packings of the Imported goods are available in the factory, the country of origin may be ascertained from the Bar Code or the markings in the packings.</p>

**Note :** If some documents are not available, their samples shall be obtained during preparatory interview or verified in verification phase in the premises of the unit.

**6. Documents Required and Verifications for Imports at Concessional Rate of Duty for Manufacture of Specified Goods:**

S. No.	Document	Verifications Required to be Done
1.	Bills of Entry / Store Ledgers	<p>(i) This contains the details about receipt of inputs or consumables, its issue for production and closing balance. It also contains details of physical verification, obsolete items, slow moving items and its write off etc. Hence, verify whether goods imported at concessional rate of duty for manufacture of specified goods have been received and issued for production of specified goods.</p> <p>(ii) Verify whether any imported goods have been written off.</p> <p>(iii) Verify whether any imported goods have been sold as such. If so, the unit is required to pay differential duty.</p>
2.	Goods Receipt Notes (GRN) / Material Receipt Notes (MRN) and Inspection cum Receipt	<p>(i) GRNs /MRNs contain the details of goods as per invoices, goods actually received and short receipt of goods whereas ICRRs contain the quantity of goods accepted, rejected and reasons for rejection. If such documents are maintained in computer, a copy of print out may be obtained by Audit Party.</p> <p>(ii) Check whether the Imported Goods were short received or rejected.</p>

	Report(ICRR)	If so, the unit is required to pay differential duties of customs.
3.	Production Records	(i) The importer is having sufficient plant and machinery to manufacture the specified goods from the imported goods.  (ii) Efforts should made to ascertain from the manufacturing process, final products manufactured, input-output ratio, quality of goods imported and quantity of final products manufactured that all the imported goods at concessional rate of duty were used in the manufacture of specified goods and such imported goods were not diverted.
4.	Sale invoices of specified goods	(i) The landed cost of goods imported at concessional rate of duty and sale price of specified final goods shall be ascertained from the sale invoices of such specified goods. The sale price of specified manufactured goods should be more than the landed cost of imported goods.  (ii) The quantity of goods imported at concessional rate of duty and quantity of specified manufactured goods shall be ascertained to verify the latter is more than the former.

**7. Documents Required and Verifications for Imports under Export Promotion of Capital Goods (EPCG) Scheme:**

S. No.	Document	Verifications Required to be Done
1.	EPCG License issued during last 8 years and current financial year	(i) This contains details of capital goods permitted for import, CIF value for import, Customs Notification No., rate of duty to be paid etc. It also contains the details of goods to be exported, amount of Export obligation to be fulfilled, period of export obligation etc.  (ii) Make a list of all EPCG licenses which have not been redeemed by DGFT.
2.	Bills of Entry	Check from Bills of Entry that the goods imported were as per the details given in table to relevant notification (Notifications allow import of capital goods in assembled or CKD condition and spares of such capital goods). The Notifications also allow import of spares for maintenance of installed capital goods till the period of fulfillment of Export Obligation i.e. 8 / 12 years. The Notification do not allow import of fuels etc.
3.	Installation Certificate	(i) Verify that certificate from Assistant Commissioner / Deputy Commissioner of Central Excise for installation of capital goods was produced within 6 months from the date of completion of

		import. (ii) Verify that certificate for installation of Spares imported for maintenance of installed capital goods has been submitted within 3 years from date of import of such spares.
4.	Physical Verification of Capital Goods	Physically verify the capital goods as well as spares imported under EPCG, if Export Obligation Discharge Certificate from DGFT has not been obtained. Such goods cannot be sold or even transferred before completion of export obligation.
5.	Shipping Bills	(i) Check the Shipping Bills for export of goods under EPCG Scheme. Only those Shipping Bills on which EPCG License No. is mentioned are counted towards completion of Export Obligation. (ii) Check whether the goods exported are as per the EPCG Licenses and such goods were manufactured by using imported capital goods. (iii) If duty foregone is less than Rs. 100 crores and license was issued more than 6 years back, verify as to whether 50% of the Export Obligation has been fulfilled or not. If not whether extension has been obtained from the Regional Licensing Authority. In case of failure of completion of 50% export obligation in first 6 years, the importer is required to pay proportionate differential duty on the imported Capital goods. If differential duty works out to D and Y% of required export obligation could not be fulfilled, unit is required to pay duty of Rs. (D into Y)/100 plus 15 % interest. (iv) If license was issued more than 8 years back and duty foregone was less than Rs. 100 crores, verify whether 50% Export Obligation is fulfilled in first 6 years and remaining 50% in the 7th and 8th year or extension obtained or not. In case of failure to complete export obligation and extension of period by Licensing Authority, importer is required to pay proportionate differential duty along with interest @15% per annum. Verify the provisions of Notification under which License was issued, fulfillment of Export Obligation in each block subject to extension of period as well as condonation by Licensing Authority.
6.	Store Ledgers,	(i) Verify as to whether the spares imported for maintenance of



	Goods Receipt Notes (GRN) / Material Receipt Notes (MRN) and Inspection cum Receipt Report (ICRR)	capital goods were received in the factory and were issued for their maintenance.  (ii) Verify whether any spares were short received or rejected or sold as such without using the same in the maintenance of capital goods. In such cases, the importer is required to pay the differential duties of Customs.
7.	Cenvat Credit Account	(i) The importer can pay CVD on imported capital goods in cash and avail Cenvat credit. However, if CVD has not been paid in cash, the Cenvat credit of duty is not admissible. Verify whether Cenvat credit has been availed or not. If availed, ensure that CVD was paid in cash.  (ii) If Cenvat credit has been availed, same has been availed as per provisions of Cenvat Credit Rules viz., 50% in first year and 50% in subsequent years and depreciation under Income Tax Act not availed Also, verify as to whether at the time of sale of capital goods or spares, the duty as per provisions of Cenvat Credit Rules was paid or not.

**8. Documents Required and Verifications for Imports under Duty Free Import Authorization (DFIA) Scheme:**

S. No.	Document	Verifications Required to be Done
1.	DFIAs issued during past 3 years and current year	(i) DFIA allows duty free import of specified inputs for manufacture of export goods and it mentions description of import goods, quantity and value. In respect of sensitive items, the specification, technical characteristics and quality of the import goods is also mentioned. Hence confirm these elements.  (ii) There have been several cases of imports against forged Licenses. DGFT places a list of licenses issued by them during a month on its website. Hence, verify the genuineness of the DFIAs especially transferred DFIAs from the website.
2.	Bills of Entry	(i) Verify that the description of imported goods as per Bills of Entry matches with the DFIA.  (ii) Verify that the specifications, technical characteristics and

		<p>quality of sensitive items declared in Bills of Entry exactly matches with that given in the DFIA.</p> <p>(iii) Verify that the specifications, technical characteristics and quality of sensitive items exactly match with that contained in export goods.</p> <p>(iv) Verify whether the imports have been made by the DFIA holder before completion of export obligation i.e. pre-imports or after completion of export obligation i.e. post imports.</p> <p>(v) Verify whether the DFIA holder imported the goods or the DFIA was transferred and imports were made by the transferee.</p>
3.	Store Ledgers, Goods Receipt Notes (GRN) / Material Receipt Notes (MRN) and Inspection cum Receipt Report (ICRR)	<p>(i) If the goods were imported by the DFIA holder before exports or if DFIA holder manufactured export goods from indigenous inputs, availed Cenvat credit or rebate of duty paid on such indigenous inputs and imported goods against DFIA after completion of exports. However, if he has not availed Cenvat credit or rebate in respect of duty paid on indigenous inputs used in the manufacture of export goods, these verifications are not required to be done.</p> <p>(ii) Whether the imported goods were received in the unit of DFIA holder.</p> <p>(iii) Whether full quantity as per Bills of Entry was received or short quantity was received or some quantity was rejected.</p> <p>(iv) Whether the imported goods were used in his factory, in the manufacture of export goods (in case of pre-imports) or for manufacture of excisable goods (in case of post exports).</p> <p>(v) Whether any quantity was sold as such without use in the manufacture of export goods (in case of pre-imports) or other excisable goods (in case of port imports).</p>
4.	Cenvat Credit Account	<p>(i) If pre-imports were made and imported goods were used in the manufacture of export goods, the verification of Cenvat credit or rebate availment need not to be done.</p> <p>(ii) If export goods were manufactured out of indigenous goods, verify whether Cenvat credit or rebate of duty paid on such indigenous goods is availed. If Cenvat credit or rebate on indigenous inputs used in the manufacture of export goods was</p>

		<p>availed, verify as to whether imported goods were actually received in the factory and used in the manufacture of export goods or excisable goods in the factory of DFIA holder. If not, the conditions of notification have not been fulfilled and unit is liable to either debit the Cenvat credit / refund the rebate amount or pay duty on imported goods alongwith interest.</p> <p>(iii) Efforts shall be made during the audit that the DFIA holder has not availed double benefit i.e. manufactured export goods out of indigenous inputs, availed Cenvat credit or rebate and also imported duty free goods against DFIA and sold the same in the domestic tariff area.</p> <p>(iv) If Cenvat credit or rebate on indigenous inputs used in the manufacture of export goods has not been availed, the DFIA holder can sell the goods and there is no condition of use of the same in manufacture of export goods or excisable goods in his factory. However, if duty free goods imported against DFIA were not used but transferred or sold, verify as to whether CVD has been paid on such goods.</p>
5.	Shipping Bills	<p>(i) Check that Shipping Bills for export of goods indicate export is under DFIA.</p> <p>(ii) Check whether the goods exported are as per DFIA scheme.</p>
6.	Transfer of DFIA	<p>(i) RLA can transfer the DFIA after completion of Export Obligation. Therefore, verify whether DFIA holder has paid CVD on the inputs already imported, not used in his factory and transferred to the transferee.</p> <p>(ii) If importer has availed Cenvat credit or rebate on indigenous inputs used in manufacture of export goods, verify conditions imposed by RLA for transfer of DFIA (transferee is required to pay CVD at time of import of goods). If license is transferred without imposing condition of payment of CVD in spite that the DFIA holder availed Cenvat credit or rebate of duty paid on the indigenous inputs used in the manufacture of export goods, matter shall be brought to the notice of concerned Licensing Authority as well as Commissioner of Customs where DFIA is registered.</p>

## **9. Inspection of Business Related Books and Records:**

9.1 The primary objective of inspection of trade-related records is to identify whether the importer's import transactions affect the elements of Customs value. To attain this objective, the reality of each transaction with a specific seller is examined through the inspection of individual records and the comparison with relevant records, tracing each process of a transaction, such as correspondence, cost calculation, negotiation, and contract, delivery of goods, payment, and resale. The following general guidelines are recommended for the inspection of business-related books and records:

- (i) 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;
- (ii) Pay attention to peculiar matters in qualities of paper, styles, and signature. Documents relating to intentional misconduct often use a special sort of paper, form and signature to distinguish from normal documents;
- (iii) 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;
- (iv) 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;
- (v) Pay attention to peculiar appearances on a page, such as an abnormally broad blank, an unusual crease, and unnecessary punch holes;
- (vi) Examine the original document. Copies and duplicates have high risk of falsification; and
- (vii) Start the examination from documents which are for daily use, in case the importer denies existence of records, or refuses them to present

## **10. Inspection of accounts-related books and records**

10.1 In inspection of accounts-related books and documents, the following points should be observed in addition to those for inspection of business-related books and records:

- (i) Account books and records are not necessarily recording the complete business activities and financial positions. Despite the Generally Accepted Accounting Principles (GAAP) and business-related laws and regulations, transactions might be omitted due to wrong accounting practice and/or intention.
- (ii) Attention should be paid to contradictions between figures and descriptions in account books and records. It is necessary to intensively examine records that have been treated in contradiction to common
- (iii) Accounting practice. For instance, credit entries of purchase account, which usually has a lot of debit entries, indicate the possibility that a transaction price was discounted or offset after the price was fixed.
- (iv) Missing pages and disorder of dates often indicate fraud and/or errors.

- (v) Special attention should be paid to additional description in prescribed columns and to hand-written comments or additions.
- (vi) Related account titles should be examined. Under the double-entry-booking system, the information of one transaction is entered into at least two account titles. A debit entry of an account appears as a credit entry of another account. Therefore, it is important to trace the information from one account to the others to find out fraud and errors.

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**ANNEXURE - 6****WORKING PAPERS***(To be filled up / completed at different stages of audit)***Instructions for filling up Working Papers**

1. Each part of Working Papers should be filled up on completion of the relevant audit step. The date on which such part is completed and Working Paper filled should be mentioned.
2. The completed Working Papers must be submitted by the Audit Team alongwith with the Draft Audit Report.
3. Copies of supporting documents/records/evidences referred to in the Working Papers must be annexed. Each copy should be cross-referenced to the relevant entry in the Working Paper.
4. Working Papers form the basis of an audit objection. They also show the detailed steps undertaken by the Auditor for the preparation for and conduct of the audit. Therefore they should be filled carefully, giving observations and conclusions of the Auditor duly supported by evidences/documents, wherever required.
5. Working Papers should be filled in by the Auditors themselves and in no case should be handed over to the importer/ exporter for filling them up.
6. Some of the entries appearing in the others Annexure may appear to overlap with the entries of Working Papers. It must be kept in mind Annexures are only for reference and guidance of the Auditors.
7. Before the conduct of audit Verification, Audit Plan should be approved and signed by senior officer not below the rank of Additional/Joint Commissioner i/c Audit. During the Verification if any issue arises or is noticed the same may be verified after obtaining prior approval of the said senior officer.

Date of Preparation.....

W/P No.....

**A. Details of Audit:**

1. Date of Audit:
2. Date of Submission of Audit Report:
3. Draft Audit Report No.:
4. Details of Audit Team:
- 5.

<b>S. No.</b>	<b>Name of the Officer</b>	<b>Designation</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>

**B. Nature of Business Operation of Importer:**

1. Brief description of the main products imported in the proforma given below:

S. No.	Description of Goods Imported	Customs Tariff Heading	Exemption Notification Availed on Imported Goods	Rate of duty
(1)	(2)	(3)	(4)	(5)

2. Details of principal inputs in case of capital goods used by the importer:

Details of Principal Inputs/Capital Goods				
S. No.	Input Materials/ Capital Goods	Whether imported /produced locally	Exemption Notification Claimed at Time of Import	Duty Rate
(1)	(2)	(3)	(4)	(5)

3. Brief details of revenue paid for the last three years:

Year	Duty Payment (Rs. In lakhs)				
	Basic Customs Duty	Countervailing Duty (CVD)	Special Additional Duty (SAD)	Anti Dumping Duty(ADD)	Total
(1)	(2)	(3)	(4)	(5)	(6)

**C. Desk Review:**

- Date of Preparation.....
- The Auditor should check whether the Master File is available in Audit Cell and whether it is complete. If not, the Auditor should complete the same as far as possible from the information available

in the office. Thereafter, the Auditor should examine the information available in Master File and identify and mention (with justification), the areas or issues that merit inclusion in Audit Plan.

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 .....

3. Obtain and study other documents and conduct examinations. List out the documents studied.

S. No.	Name of the Document/ Report	From	To	Remarks
(1)	(2)	(3)	(4)	(5)

.....  
 .....

4. Work out some of the important financial ratios. Mention the important indicators, which are required to be included in Audit Plan.

S. No.	Issue Description	Remarks
(1)	(2)	(3)

5. Mention changes in the law and rates of duty pertaining to the products imported since previous audit.

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6. Mention details of duty evasion cases booked in recent past or which are in progress and past audit objections, which have not been settled so far because of lack of importer's acceptance, adjudication, appeals etc.

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7. Give details of important areas (pertaining to goods imported, rate of duty, exemption notification) to be included in Audit Plan with reasons thereof.

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 .....



8. Revenue Risk Analysis (This should cover a period of at least two years. Compare total Customs duty based on import figures in the Profit & Loss account with total Custom duty paid in the previous years. Mention results indicating possible problems areas and mention issues to be included in Audit Plan.)

Date of Preparation.....

.....  
 .....

9. Trend Analysis (Undertake analysis of trends as deemed relevant. Mention issues to be included in Audit Plan.)

Date of Preparation.....

<b>S. No.</b>	<b>Analysis Description</b>	<b>Results of Analysis Performed</b>	<b>Auditor's Remarks</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>

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 .....

10. Gathering information about Importer / Exporter and the system followed by him. (To be done during course of preparatory interview).

Date of Preparation.....

(1) Person(s) Interviewed, their designation and dates of interview.

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 .....

(2) Give the gist of interviews especially in respect of

- a. Overseas purchases are direct from the overseas supplier or through indenting agent/sole distributor or otherwise?
- b. The sanctioning authorities for purchase, placing an order for purchase and signatory of the purchase order?
- c. Mode of negotiation
- d. Supplier related or otherwise; and the manner thereof.
- e. Whether goods are imported under Line of Credit (L/C) or Direct Payment (DP) or otherwise?

- f. Details of Custom House Agents, Transporter, Logistics, Warehouses. Any change of CHA in past and reason thereof
- g. Arrangement in store, inventory management vis-à-vis local procurements and imports
- h. Details of the payments records, mode of overseas/outward remittance
- i. Pending bonds with Customs, their type and reasons
- j. Marketing pattern – through agents, direct, through depot

Mention issues to be included in Audit Plan

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(3) Whether the importer has submitted list of all documents maintained in respect of items mentioned for the purpose of maintaining master file and importer profile?

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.....

**11. Financial and Tax Accounting Information:**

Date of Preparation.....

(1) Obtain audited Balance Sheet and Profit and Loss Account and Trial Balance. Review any notes in the Balance Sheet / Profit and Loss Account. If importer / exporter is a division of a company, check if internal financial statements are prepared for it before consolidation with other related units. Work out ratio of value of imports to sales value of goods. Obtain a copy of last two reports. Mention issues to be included in the Audit Plan.

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(2) Identify all business activities like importation, sale of manufactured goods, sale of trading goods, non-manufacturing activity like repair, service activities and major sources of 'Other Income'. Mention issues to be included in the Audit Plan.

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.....

**A. Sales Information** (in case of imported goods sold and not consumed by importer for further processing / manufacturing):

Date of Preparation.....

(1) Indicate marketing pattern:

S. No.	Nature of Sale / Transfer etc.	Yes	No	If Yes, Description of Product (s)	Remarks
1.	Sale through the depot / distributors / consignment agents / marketing intermediaries.				
2.	Sale in retail				
3.	Retail Sale Price (Maximum) – Section 4A of Central Excise Act, 1944				
4.	Inter unit transfer				
5.	Captive consumption				

(2) Whether provisions of Valuation Rules, 2007 has been applied by the importer during the self-assessment at the time of import? The Valuation section or specific Valuation Rule invoked may be indicated. Mention issues to be included in Audit Plan.

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 .....

(3) Identify any special situations such as sales to related units; trading activities, commissions, volume discounts exchanges or trade-ins and imposition of MRP based value for duty. Mention issues to be included in Audit Plan.

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**B. Purchase Information:**

Date of Preparation.....

(1) List major suppliers, goods purchased and indicate annual volume in quantity and value (Rupees). Whether there are purchases from related supplier? Mention issues to be included in Audit Plan.

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(2) Whether the importer avails any end use based Customs duty exemptions on imported purchases. Mention issues to be included in Audit Plan.

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(3) Study the purchase details of major capital goods acquired and put to use since last audit. Mention issues to be included in Audit Plan.

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 .....

**C. Other Information:**

Date of Preparation.....

(1) Study whether any imported goods are cleared for inter unit transfer, intermediates sent for job work or received for job work. Study the cases with respect to policy provisions i.e. diversion of imported goods etc. In such cases Mention issues to be included in Audit Plan.

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 .....

(2) Any other relevant information gathered by the auditor during the course of gathering information about importer, and systems followed by him and study of financial documents. Mention issues to be included in Audit Plan.

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(3) Observations of the Auditor on any other issue emerging during Desk Review, which are to be included in Audit Plan, with reasons thereof.

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 .....

12. Audit Plan (Must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific in the following format):

Date of Preparation.....

S. No.	Subject	Specific Issue	Records / Document Code	Coverage Period	Selection Criteria
(1)	(2)	(3)	(4)	(5)	(6)

Audit Plan approved by.....

**13. Tour of the Premises:**

Date of Preparation.....

Tour the plant, accompanied by the appropriate officer of the importer / exporter. Include receipt, storage and other relevant areas of the unit in your tour. Observe operations to confirm information received to date and to note areas that may be vulnerable to non-compliance.

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(1) Mention if there are new facts not disclosed earlier, noticed during the tour, which may have relevance to revenue or to the level of tax compliance.

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(2) Gather information about the Internal Control System by interviewing the section in-charges. Mention issues to be verified during conduct of audit.

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(3) Any other relevant information gathered by the auditor during the course of Tour of the premises. Mention issues to be included in Audit Plan and verified during conduct of audit.

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**14. Evaluation of Internal Controls:**

Date of Preparation.....

(1) Perform a walkthrough for the Records maintained for Customs. Trace a sample of all transactions including those on Credit from source documents through Custom Duty account to final destination of the imported goods. Mention any new area need to be included in Audit Plan or whether the extent of verification of the issue already identified in Audit Plan needs to be modified.

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.....

(2) Perform a walkthrough of the purchase system including capital assets. Trace a sample of transactions, of all types, including Credits, from source documents through the Custom duty account to the final destination of imported goods. Examine specifically system for purchase, etc. Mention any new area needed to be included in Audit Plan or whether the extent of verification of the issue already identified in Audit Plan needs to be modified

.....

.....

(3) Perform a walkthrough of any other system (e.g. Stores Journal Entries, etc.) Trace a sample of transactions of all types from source documents through to the Customs Duty Account to final destiny of the imported goods. Mention any new area need to be included in Audit Plan or whether the extent of verification of the issue already identified in Audit Plan needs to be modified.

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.....

(4) Conduct ABC analysis in the following areas and evaluate the soundness of level of Internal Control of each such area and grade them as good, acceptable or poor in the following format:

S.No.	Area	Grade			Problems Areas, If Any
		Good	Acceptable	Poor	
(1)	(2)	(3)	(4)	(5)	(6)
1.	Purchase				
2.	Tax Accounting				
3.	Posting to General Ledger and Journals (specially of high value transactions)				
4.	Credit/debit and their documentation				
5.	Other expenditures				
6.	Account adjustments				
7.	Others				

(5) Any other relevant information gathered by the Auditor during the course of Evaluation of Internal Control. Mention any new area need to be included in Audit Plan or whether the extent of verification of the issue already identified in Audit Plan needs to be modified.

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.....

15. **Verification:**

Date of Preparation.....

(1) Carry out verification as per Audit Plan. The result of verification of each of the issues should be mentioned, whether or not there is any detection of discrepancy/audit point. The issues verified which was not part of original Audit Plan but verified later should be mentioned at the end.

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**Proforma of Verification Paper**

- 1. Date of verification:
- 2. Name of the Auditor verifying the issue:
- 3. Issue involved in brief:
- 4. Ref. No. of Audit Plan:
- 5. Documents verified:
- 6. Brief account of the process and extent of verification:
- 7. Auditor’s observation and conclusion in brief:
- 8. Quantification of revenue involved, if any (also give the calculation sheet):
- 9. Documents relied upon to support the conclusion:

.....  
**(Name and Signature of the Auditor)**  
.....  
**Date:**

**Supervisor’s remarks:**

.....  
.....

**Supervisor’s name, signature**

.....  
**Date:**

16. **Post Verification:**

Date of Preparation.....

(1) Once the verification, as per Audit Plan, is complete, all the findings with importer’s /exporter’s agreement / disagreement must be consolidated in the Draft Audit Report format and these Working Papers for presentation to and discussions with the superiors and the importer / exporter. The details of

spot recovery made during the conduct of audit should also be mentioned in the relevant column of these Working Papers.

(2) All important findings specially those pertaining to non/short payment of duty should be discussed with the importer / exporter and explanation / clarification with supporting material, if any, should be duly taken into consideration before taking a definitive view. The details in this behalf should be recorded here.

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(3) Indicate information provided and specific actions suggested to the importer / exporter to improve future compliance. Where the importer / exporter is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the importer / exporter is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

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**17. Summary of Audit Results:**

(1) Provide an outline in the format blow of all objections involving short/non levy of duty, amounts and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue / credit / interests/amounts should also be mentioned. Indicate whether the importer / exporter has agreed to the objections and if so, has made spot payment (if so details thereof).

(Rs. in '000)

S. No.	Description of Commodity	CTH No.	Code - Audit Points	Code - Records / Document	Importer / Exporter Acceptance (Y/N/P)	Amount of Detection	Amount of Recovery
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

(2) Provide details for each S. No. in respect of columns (4) to (6) above alongwith S. No. of Working Paper and particulars of source document and back-up document.

Column (4)

.....

.....

Column (5)

.....

.....



Column (6)

.....  
.....

.....

**(Auditor)**  
**Name/Designation**

**Place:** .....

**Date:** .....

\*\*\*\*

## ANNEXURE – 7

## AUDIT REPORT FORMAT

## Part-I

1.	Name of the Importer / Exporter:	
2.	IEC No:	
3.	Commissionerate / Division / Range in which it is located:	
4.	Customs Houses concerned:	
5.	Products imported / exported:	
6.	CTH:	
7.	Exemption Notifications availed:	
8.	Date of last audit:	
9.	Period for which current audit undertaken:	
10.	Dates on which audit undertaken:	

## Part-II

1. Summary of major audit objections from the Working Paper:

S. No.	Gist of Objection	Revenue Implication, If Any (Rs. in lakhs)	Assessee Agreement Yes/No			Department's Conclusions With Reasons
			Yes	No	If No, Reasons for Disagree ment	
(1)	(2)	(3)	(4)	(5)	(6)	(7)

2. Suggestions for better compliance including systemic improvements and modifications in the accounts and internal controls:

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 .....

.....  
**Name & Signature of Assistant /Deputy Commissioner (Audit)**  
**Date.....**

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**ANNEXURE – 8****SCORING SYSTEM FOR OSPCA****PART A**

1.	Name of the Importer / Exporter:	
2.	Jurisdictional OSPCA Commissionerate:	
3.	Constitution of the Audit Party (with Names and Designation of Officers):	
4.	Audit Report Number:	
5.	Total Score:	

**PART B**

<b>S.No.</b>	<b>Areas</b>	<b>Maximum Points</b>	<b>Points given</b>
1.	Quality of Desk Review and Audit Plan	25	
2.	Systematic conduct of Audit	20	
3.	Revenue Points flowing from finalization of Audit	10	
4.	Spot Recovery by the Audit Team	25	
5.	Suggestions for better compliance including systematic improvements	10	
6.	Timely completion of Audit	10	
Total:		100	

\*\*\*\*

**ANNEXURE – 9****MONTHLY REPORT ON OSPCA PERFORMANCE**

*(To be prepared by 10<sup>th</sup> of each month by the Audit Cell of the jurisdictional Commissionerate conducting OSPCA)*

Report for the month of .....

Dated:.....

<b>Name of Supervisor/ No. of the Audit Team</b>	<b>Opening Balance of Audit Objections Confirmed in Audit Reports</b>	<b>No. of Importers / Exporters Audited During the Month</b>	<b>No. of Audit Objections accepted in Audit Cell During the Month</b>	<b>No. of Audit Objections Closed During the Month (Audit Reports)</b>	<b>Total Duty Involved in the Objections During the Month</b>	<b>Amount Recovered (prior to issue of SCN) During the Month</b>	<b>Closing Balance of Audit Objections of Audit Reports</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>	<b>(7)</b>	<b>(8)</b>

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## ANNEXURE – 10

## MONTHLY STATUS REPORT

(To be prepared by the concerned jurisdictional Customs Commissionerate)

Report for the month of .....

Dated:.....

Opening Balance of Audit Reports	No. of Audit Reports Received During the Month	No. of SCNs Issued During the Month	No. of Audit Reports Complied with During the Month (other than SCNs)	Total of Columns 3 & 4	Closing Balance of Audit Reports (1+2-5)			
					Total	Less than 3 Months	3 to 6 Months	More than 6 months
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

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**ANNEXURE – 11**

**DRAFT LETTER UNDER SECTION 28(2) OF THE CUSTOMS ACT, 1962**

*(To be written by the importer / exporter for waiver of Penalty / Show Cause Notice)*

To,  
The Commissioner of Customs  
.....

Dated:.....

Sir,

Subject: Letter given under Section 28 (2) of the Customs Act, 1962 for avoiding penalty and non-issuance of show cause notice – reg.

I/We M/s ..... falling under the jurisdiction of ..... (Commissionerate) state that during the course of verification / scrutiny of our records / returns, by the Audit Team from the office of Central Excise Commissionerate ....., it is observed that there is non-levy/ short levy/ erroneous refund of Customs duty and/or non payment of interest payable on account of issue / issues mentioned as per the Annexure hereto. We have agreed to the points raised during verification / scrutiny and have paid the said amounts of duty / interest vide TR 6 Challan No. .... dated.....

2. As per Section 28(2) of the Customs Act, 1962, where any duty has not been levied or has been short-levied or erroneously refunded, or any interest payable has not been paid, part paid or erroneously refunded, for any reason other than the reasons of collusion or any willful mis-statement or suppression of facts, is paid under Section 28(1)(b) of the Customs Act, 1962, along with the interest payable thereon, before service of notice under Section 28(1)(a) of the Customs Act, 1962, by the person chargeable with such duty and/ or interest who informs the proper officer of such payment in writing, then such proper officer shall not serve any notice under Section 28(1)(a) of the Customs Act, 1962 in respect of the duty or interest so paid or any penalty leviable under the provisions of the Customs Act, 1962 or the rules made thereunder in respect of such duty or interest.

3. In the instant case the due duty / interest has been paid by us. Thus, in terms of the aforementioned provisions of Section 28(2) of the Customs Act, 1962, we request that a show cause notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non payment was unintentional and not by reasons of collusion or any willful mis-statement or suppression of facts on our part. We also request that the above issues may be treated as closed / settled.

Yours faithfully,

(Authorised Signatory)  
M/s .....

Place:.....

**Copy To:**

The Jurisdictional Commissioner of Central Excise i/c Audit

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