



**USAID** | **CAUCASUS**  
FROM THE AMERICAN PEOPLE



Governing for  
Growth  
in Georgia

# CUSTOMS POST-CLEARANCE AUDIT NEEDS ASSESSMENT

USAID GOVERNING FOR GROWTH (G4G) IN GEORGIA

30 September 2015

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# **CUSTOMS POST-CLEARANCE AUDIT NEEDS ASSESSMENT**

USAID GOVERNING FOR GROWTH (G4G) IN  
GEORGIA

CONTRACT NUMBER: AID-114-C-14-00007

DELOITTE CONSULTING LLP

USAID | GEORGIA

USAID CONTRACTING OFFICER'S

REPRESENTATIVE: REVAZ ORMOTSADZE

AUTHOR(S): KARL SPORNY; RAINER NEPPL

WORK PLANNING: 6300

LANGUAGE: ENGLISH

12 OCTOBER 2014

DISCLAIMER:

This publication was produced for review by the United States Agency for International Development. It was prepared by Deloitte Consulting LLP. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# DATA

**Reviewed by: Bondo Bolkvadze, Customs Adviser; Natalia Beruashvili, Deputy Chief of Party; Milo Stevanovich, Chief of Party.**

**Project Component: GoG Capacity strengthening**

**Practice Area: Customs**

**Key Words: post clearance control; audit; customs**

## ABSTRACT

To facilitate and improve international trade, it is necessary to reduce and shorten time-consuming controls at the border.

Post-Clearance Audit (PCA) is therefore not only a basic instrument of customs control, moreover it is an indispensable component of every customs system.

The present Post-Clearance Audit assistance and development project Georgia is performed as a cooperation of the Federal Republic of Germany and USAID G4G project in Georgia.

The Post-Clearance Audit needs assessment was composed by two audit experts from the German Customs Administration.

At the moment PCA in Georgia is part of the customs risk management system. The purpose and potential of PCA cover wider scale as used right now. The efficiency of the existing and mainly used desk audit systems is very limited.

An implementation of a company/field audit division based on international standards is essential for the Georgian Customs Administration.

This report contains the recommendations for the implementation of a PCA-system including a milestones and timetable for 2 year plan.

This report was created on the impressions and information gained during the Initial 5 days visit to Georgian customs on July 6-10, 2015.

## ACRONYMS

EU	European Union
G4G	Governing for Growth in Georgia
IT	Information Technology
PCA	Post-Clearance Audit
USAID	United States Agency for International Development
WCO	World Customs Organization
WTO	World Trade Organization

# CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>7</b>
<b>FINDINGS AND RECOMMENDATIONS .....</b>	<b>8</b>
<b>TIMETABLE/ MILESTONE PLAN.....</b>	<b>8</b>
<b>INITIAL VISIT.....</b>	<b>9</b>
<b>PCA SCOPE AND COVERAGE, INTERNATIONAL STANDARDS AND OBLIGATIONS .....</b>	<b>9</b>
<b>ESSENTIAL POWERS / LEGAL FRAMEWORK FOR PCA .....</b>	<b>10</b>
<b>ORGANIZATIONAL STRUCTURE .....</b>	<b>11</b>
<b>ELABORATION ANNUAL AUDIT PLAN 2016.....</b>	<b>11</b>
<b>CAPACITY BUILDING – AUDITOR RECRUITING AND BASIC TRAINING, HUMAN RESOURCES MANAGEMENT .....</b>	<b>12</b>
<b>COMPLIANCE .....</b>	<b>13</b>
<b>OBLIGATIONS AND RIGHTS OF AUDITEES .....</b>	<b>13</b>
<b>CODE OF CONDUCT FOR AUDIT / INTEGRITY.....</b>	<b>14</b>
<b>ADMINISTRATIVE GUIDELINES FOR PCA .....</b>	<b>14</b>
<b>INTERAGENCY COOPERATION .....</b>	<b>15</b>
<b>TECHNICAL EQUIPMENT .....</b>	<b>15</b>
<b>EXCHANGE OF EXPERIENCES .....</b>	<b>15</b>
<b>SPECIAL IN-DEPTH KNOWLEDGE AND TECHNICAL EXPERTISE (E.G. CUSTOMS DUTIES, FOREIGN TRADE LAW/ EMBARGOES, DUAL-USE ITEMS) .....</b>	<b>16</b>
<b>FURTHER ASSISTANCE IN THE PROJECT.....</b>	<b>16</b>
<b>APPENDICES .....</b>	<b>17</b>

## EXECUTIVE SUMMARY

The Georgian Customs Administration has already started the process of transition from border-focused controls to Post-Clearance Audit (PCA) controls.

At the moment PCA in Georgia is part of the Georgian risk management system of customs clearance. This function is established in its basic idea and plays an important role in customs clearance procedures.

The general procedure in Georgian`s PCA is the desk audit, which is very limited. To comply with international standards a further development is essential.

To benefit from trade facilitation measures and maintain adequate control on cross border trade flows, it is absolutely necessary to carry on the implementation of risk-based PCA by taking the step forward to company/field audits.

The WCO Guidelines for Post-Clearance Audit (PCA) are a helpful instrument to implement a professional audit unit in Georgia.

Primarily the understanding and justification of PCA in Georgia shall be reviewed. The current general understanding, the self-image and the implementation in the customs system do not reflect international standards and obligations. Therefore the scope and the imperative have to be realized and the existing structures adjusted. The legal framework and the essential powers for PCA have to be reassessed and modifications of the existing regulations developed. The rights and obligations of auditees have to be strictly defined. Compliance enhancement is also an important issue.

This requires an organized, well-trained, equipped and specialized company/field audit unit. The PCA unit in Georgia has to be enhanced, strengthened and supported more.

With the elaboration of a profound annual audit plan and a modernization of the existing system of issuing audit notices/orders, the fundamental preconditions of a functioning system can be installed.

Further steps in the project, as a code of conduct for auditors and the establishment of professional, special and precise training will have to be elaborated. A visit to Germany to get the chance to observe the working process directly and to gain practical experience would also be a great benefit.

The timetable (as annexed) contains the essential steps and contents to be worked out in detail and to be installed during the project. The suggested next steps include the monitoring of the progress, the evaluation of the project steps and the exchange of experience to win best practice will accompany the project.

The elaboration of the necessary tailor-made solutions and recommendations can only be done in close cooperation with Georgian Customs.

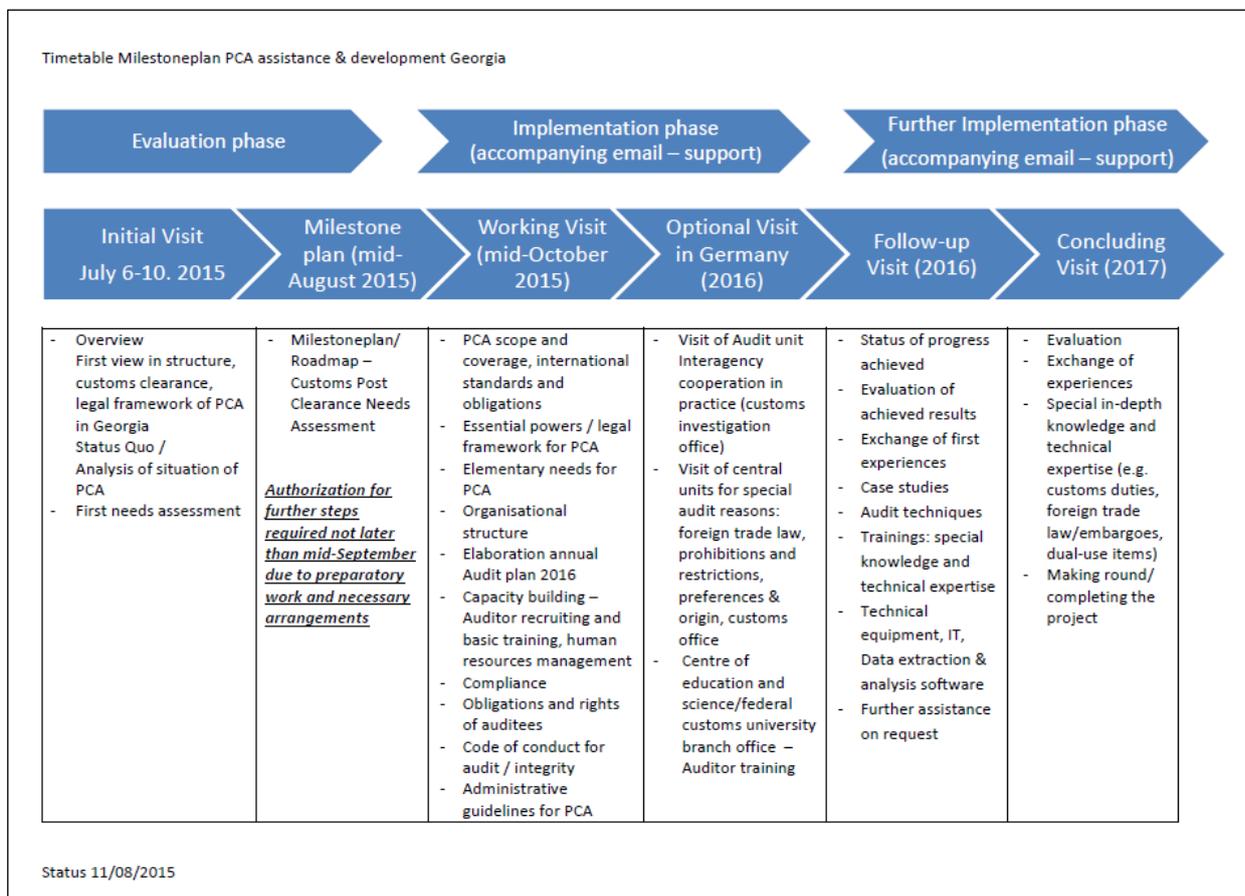
# FINDINGS AND RECOMMENDATIONS

## TIMETABLE/ MILESTONE PLAN

The WCO Guidelines for Post-Clearance Audit (PCA) contain detailed instructions for implementation of PCA function. So the idea of this report was not to create a repetition of these common known volumes. Rather the report comprises more specific findings and recommendations with a customized timetable included.

The experiences of the German Customs Administration with its long tradition in audit as well as the best-practice on EU-level may help to implement a tailor-made, acknowledged and sustainable solution for Georgia.

The following timetable gives an overview of the suggested milestones and time flow of the project (as annexed). Further details can be found in the following episodes of the report.



## INITIAL VISIT

The evaluation phase covered an Initial Visit at the customs PCA Unit in Georgia for 5 days to analyze the current situation. The outcome and the recommendations of the visit are documented in this report.

The timetable/milestone plan is a suggestion for Georgian Revenue Service and might be discussed and modulated on demand.

It poses a road map for the installation and implementation of a Company/Field audit function in accordance with international standards.

## PCA SCOPE AND COVERAGE, INTERNATIONAL STANDARDS AND OBLIGATIONS

At first, the existing general understanding of Post-Clearance Audit (PCA) has to be questioned. At the moment the scope of PCA is mainly limited to blue-channel-clearances.

The requirements of a modern customs administration contain a much wider scale. The role of PCA includes:

- ✓ Trade facilitation, reduction of border controls
- ✓ Part of the customs clearance risk system (blue channel)
- ✓ Part of the customs clearance risk system (all other channels)
- ✓ Improved information and understanding of clients businesses for customs
- ✓ Effective deployment of human resources at customs
- ✓ Anti-corruption function
- ✓ Compliance function
- ✓ Enabling an effective system of customs authorizations
- ✓ Enhancing trustful cooperation with business/economy (partners of economy)
- ✓ Enhancing risk analysis
- ✓ Permanent system supervision function
- ✓ Revenue collection
- ✓ Part of safety and security chain
- ✓ Last instance in customs control
- ✓ Professional and recognized expertise of/for the government
- ✓ Independent and integrity-bound unit
- ✓ Fulfillment of international obligations
- ✓ Irreplaceable prevention function

At the moment the PCA unit performs based on the customs clearance risk management system (blue-channel-system). In this connection the role of PCA in Georgia is limited to desk audits. This task itself is important and seems to be carried out effective - but it is limited as it is only performed via desk audit.

The limitations of desk audit are various:

e.g.:

- Information given by client can be preselected
- Information given by client can easily be faked (“paper doesn't blush”)
- Information given by client cannot be verified on the required level
- Contact to stakeholders is on a very low level
- Monitoring of activities of the stakeholders is limited compared to on-site inspections
- Desk Audit does only have very limited access to companies data and processes

Therefore a company/field audit section has to be installed.

Also the whole mode of operation has to be defined and changed to the demands of the roles of PCA mentioned above.

The Georgian audit unit has to catch up with international standards, especially in the area of field/company audits.

The Georgian revenue service has to act as a reliable partner to other countries as well as to the European Union. The association agreement with the EU contains in addition to the requirements of mutual assistance also the expectation of a modern, functional audit unit in accordance with international standards. The WCO Guidelines for Post-Clearance Audit also describe the relevant principles to be set up.

## ESSENTIAL POWERS / LEGAL FRAMEWORK FOR PCA

The existing legal framework has to be reassessed. Specific recommendations and amendments have to be drafted to ensure a lawful audit procedure.

Also the circle of auditees (companies/stakeholders to be audited) has to be determined. All stakeholders involved in relevant procedures (e.g. import/export) or business (e.g. manufacturing, sale contracts, movement of goods, storage) may be subject to audits.

According to the WCO Guidelines for Post-Clearance Audit item 2.1 customs laws and regulations should provide the following:

- Definition of PCA coverage (persons/company subject to PCA)
- Authority and powers of Customs officials/auditors conducting PCA
- Obligations and rights of auditees
- Penalty scheme
- Right of appeal

In Georgia audits are already permitted by the existing legal framework. The further details and maybe necessary or reasonable modifications have to be elaborated.

## ORGANIZATIONAL STRUCTURE

It is recommended to install 2 divisions in the audit unit: desk audits and field/company audits. There has to be a distinct separation between company auditors and desk auditors. Also it is recommended to distinguish between inspection checks and company audits. Therefore it is valid to implement a profound human resource management which ensures an efficient and cost-effective deployment of staff.

So the further details as size, manpower and the concrete obligations and duties will have to be discussed and elaborated.

As a fact the number of auditors will have to be increased.

Also the facilities and different department locations have to be discussed, as e.g. a branch office in Batumi would make sense.

As the job of the auditors requires special skills, there have to be certain instruments installed to get qualified staff. It is inevitable to honor the extraordinary skills, position and responsibility by extra salary. There are different options for that, different grades, levels of experiences and allowances will have to be discussed.

## ELABORATION ANNUAL AUDIT PLAN 2016

The necessity of profound targeting and selection for audit is inter alia explained in the WCO PCA Standards.

The elaboration of an annual audit plan is one of the first steps in the project. Therefore the existing data of stakeholders have to be evaluated and interpreted. The plan has to contain both risk-orientated factors (high-risk traders and particular high risk transactions) as also random factors to receive a close-meshed net of post clearance control. This means also that green-channel-clearances are subject of post-clearance audits.

The audit plan has to optimize the management of the limited audit resources.

Depending on the quality of data collected a profound system has to be installed to create the annual audit plan/schedule.

This audit plan 2016 will only contain a certain percentage of the audits to be conducted in 2016. These so called "plan audits" will cover e.g. only 50 % of the audits 2016.

The rest is reserved for audits for special reason, which can't be planned one year in advance and have to be conducted promptly.

The annual audit plan will have to be set up by the audit unit, which collects the relevant data and if necessary gets in touch with other departments of the customs administration to receive required information. The procedure of approval of the audit plan by the head of customs also has to be elaborated.

It is recommended to prepare all of the audit notices/orders for the annual audit plan already at the start of the year. So the final issue of the audit notices/orders themselves does not need further or extra vindications later.

Also a system has to be developed to ease and accelerate the procedure of requesting audit notices/orders and issuing them in principle. This implies a comprehensible system of request.

## CAPACITY BUILDING – AUDITOR RECRUITING AND BASIC TRAINING, HUMAN RESOURCES MANAGEMENT

Auditors, especially field-auditors will represent the customs administration and thereby the government. Working in the companies they are in an outstanding position and have to discuss and argue in legal matters on a high level. They have to audit and evaluate the companies' documents, organization and systems. It is necessary for them to be able to talk to the auditees at eye level.

The recruiting-procedure of field-auditors should consider this and focus on people with corresponding knowledge.

Field-auditors are the last authority to check the legality of import or export processes. For this they need a broad expertise concerning their audit field for example in:

- accounting techniques and principles
- computer-based accounting and supply chain systems
- Customs laws and regulations, e.g. Customs Valuation or Import/Export restrictions

Settled soft skills are needed to get an acceptance and deep cooperation with the auditees.

The expertise of the auditors has to be improved frequently. Trade facilitation, globalization and international business pose a challenge that can only be borne with professional trained staff.

According to the current situation the needs and necessary knowledge have to be worked out and evaluated in close cooperation with all the involved authorities.

In the beginning the system of multipliers is strongly recommended. With a team of 2-5 motivated and willing auditor candidates a solid basis can be installed during the project.

The visit of the training facilities and the presentation of practical auditor training in Germany might help to get an impression of the audit training there.

## COMPLIANCE

The idea of compliance is a substantial component in every modern customs administration and government.

The current situation draws a picture of a very service orientated and business-friendly Georgian Customs Administration. Especially the absence of customs-brokers causes a tight cooperation between administration and companies.

PCA gives a good chance to intensify and extend this cooperation in implementing field/company audits. Carrying out audits in the companies, auditors are not only fixed to certain cases of import, but have also the possibility to verify complex procedures, organizational processes, record-systems and much more. Based on this knowledge the companies can be provided with information to avoid further mistakes by establishing, maintaining and improving their internal controls and systems.

So they will have benefits as e.g.:

- Achievement of a privileged status for stakeholders, lower risk classification
- Facilitation for authorizations for well-known stakeholders
- Direct contact and advice
- Miscalculations of costs caused by incorrect declarations can be avoided
- Border clearance delays caused by wrong or missing documents can be avoided

An auditor working in the company has the chance to explain the benefits of compliance through self-assessment and has to encourage and support the companies to improve their systems as a partner at eye level.

The possibilities of compliance in Georgian companies have to be discussed, worked out and documented. In a later step the field auditors have to be informed and trained about the focus and promotion of compliance.

## OBLIGATIONS AND RIGHTS OF AUDITEES

Concerning international standards, the existing customs laws and regulations should include and clearly define the rights and obligations of persons and companies in audit procedures. They have to be transparent to all stakeholders.

In essence these rules should regulate:

- Requirement to retain documents and records and duration of retaining
- Requirement to make the documents and records available
- Toleration to enter premises
- Right to appeal
- Right of confidential treatment of information

The listed items have to be discussed and recommendations in accordance to the Georgian legal possibilities have to be worked out.

## CODE OF CONDUCT FOR AUDIT / INTEGRITY

As already mentioned in item “Capacity building”, auditors working at the companies’ premises are directly standing in the focus of the companies. They receive very confidential information and therefore have the liability to ensure that the data are not misused. They are the last authority to check the legality of customs clearances and procedures done. Auditors have to make their decisions and determinations in an equal, objective way in conformity to the law. They interact independently to the advantage as well as to the disadvantage of the companies. There must be no misuse of the power of audit or discrimination of audited stakeholders.

Therefore the actions and decisions of an auditor have to be transparent and traceable. This requires a certain sense of responsibility and an explicit status of a corruption-resistant official.

The creation of a “Code of conduct” is recommended to ensure that this understanding is known to all stakeholders and really lived by the auditors.

An understanding for the high degree of reliance of an auditors work has to be developed and enhanced.

## ADMINISTRATIVE GUIDELINES FOR PCA

To ease the procedures and to enhance legal certainty as well as transparency it is recommended to institute administrative guidelines for PCA. They include different topics, as workflow and regulations based on the anti-corruption strategy. These guidelines show substantial procedures and rules and have to be authorized by the head of Revenue Service. Certain workflow descriptions, as e.g. in case of detecting irregularities which might lead to a criminal procedure, have to be determined. As the project is now at its beginning, the creation of administrative guidelines will come along with the process of PCA implementation.

## INTERAGENCY COOPERATION

The cooperation of a professional audit unit with other stakeholders is valid for the public administration. Regarding the mode of operation of companies and economy there are no other divisions which have such an in deep knowledge. Auditors are experts in company business and therefore the cooperation with other public authorities is essential. Regarding the field of tax fraud and customs crime, investigations without the assistance of experts in the area of business procedures may lead to insufficient results. On the one hand criminal operations might be completely uncovered; on the other hand innocent stakeholders might be criminalized unsubstantiated.

Also a strong cooperation has to be installed with the tax administration and the tax audit unit to share information.

## TECHNICAL EQUIPMENT

The special tasks and working-circumstances of field auditors require special equipment. Field-auditors will spend most of their working time in companies` premises.

Depending on the expected number of field-auditors and the locations of potential auditees, the extent and version of the equipment has to be planned, e.g.:

- Means of transport
- Data access
- Laptops
- Software (special software for auditors, e.g. Idea)
- Portable printers
- Mobile phones

The further planning of the equipment will have to be discussed, based on the experiences made and the practical handling of the equipment. An efficient use of the technical resources has to be self-evident.

## EXCHANGE OF EXPERIENCES

An important issue of the project will be the exchange of experiences. The installation of a functioning audit unit will need time. The most effective way of learning is the collection of own experiences. This requires an early start of initial company audits in Georgia to collect practical knowledge. The exchange of experiences to find adequate solutions for the specific situations will accompany the whole project.

## SPECIAL IN-DEPTH KNOWLEDGE AND TECHNICAL EXPERTISE (E.G. CUSTOMS DUTIES, FOREIGN TRADE LAW/ EMBARGOES, DUAL-USE ITEMS)

Basic techniques and starting points for the different audit contents will have to be shared and developed. It is recommended to take part when the basic installation of the audit unit has been finished. It makes sense to assign multipliers for certain topics to share their knowledge with the whole unit afterwards.

The audit unit has to develop specialists for certain topics, as classification for certain goods and experts for certain industrial and economic branches. Also the field of rules of origin and international restriction as dual-use regulations and embargoes can be covered by specialists.

## FURTHER ASSISTANCE IN THE PROJECT

The project steps and the progress will have to be evaluated frequently. The further assistance in the project will take place particularly on request, so self-initiative in the project will play an important role.

Basic techniques and starting points for the different audit contents will have to be shared and developed. Highly recommended to develop and use certain case studies to enhance the elaboration of the needed specific, tailor-made solutions in the project. It makes sense to assign certain auditors as multipliers for the project. Also recommended to identify and strengthen the further specific needs when the basic installation of the audit unit is finished. Specific follow-up projects can also be an option.

The details of the project plan and the estimated time schedule for the completion of the project might differ due to practical reasons and demands.

# APPENDICES

Timetable Milestoneplan PCA assistance & development Georgia



<ul style="list-style-type: none"> <li>- Overview</li> <li>- First view in structure, customs clearance, legal framework of PCA in Georgia</li> <li>- Status Quo / Analysis of situation of PCA</li> <li>- First needs assessment</li> </ul>	<ul style="list-style-type: none"> <li>- Milestoneplan/ Roadmap – Customs Post Clearance Needs Assessment</li> </ul> <p><b><u>Authorization for further steps required not later than mid-September due to preparatory work and necessary arrangements</u></b></p>	<ul style="list-style-type: none"> <li>- PCA scope and coverage, international standards and obligations</li> <li>- Essential powers / legal framework for PCA</li> <li>- Elementary needs for PCA</li> <li>- Organisational structure</li> <li>- Elaboration annual Audit plan 2016</li> <li>- Capacity building – Auditor recruiting and basic training, human resources management</li> <li>- Compliance</li> <li>- Obligations and rights of auditees</li> <li>- Code of conduct for audit / integrity</li> <li>- Administrative guidelines for PCA</li> </ul>	<ul style="list-style-type: none"> <li>- Visit of Audit unit Interagency cooperation in practice (customs investigation office)</li> <li>- Visit of central units for special audit reasons: foreign trade law, prohibitions and restrictions, preferences &amp; origin, customs office</li> <li>- Centre of education and science/federal customs university branch office – Auditor training</li> </ul>	<ul style="list-style-type: none"> <li>- Status of progress achieved</li> <li>- Evaluation of achieved results</li> <li>- Exchange of first experiences</li> <li>- Case studies</li> <li>- Audit techniques</li> <li>- Trainings: special knowledge and technical expertise</li> <li>- Technical equipment, IT, Data extraction &amp; analysis software</li> <li>- Further assistance on request</li> </ul>	<ul style="list-style-type: none"> <li>- Evaluation</li> <li>- Exchange of experiences</li> <li>- Special in-depth knowledge and technical expertise (e.g. customs duties, foreign trade law/embargoes, dual-use items)</li> <li>- Making round/ completing the project</li> </ul>
--	--	--	---	---	--

Status 11/08/2015

**USAID Governing for Growth (G4G) in Georgia**

**Deloitte Consulting Overseas Projects LLP**

**Address: 85 Z. Paliashvili Street, Tbilisi**

**Phone: +995 322 240115 / 16**

**E-mail: [info@g4g.ge](mailto:info@g4g.ge)**