LATEST UPDATE ON POST CLEARANCE AUDIT ORGANIZATION OF PAKISTAN CUSTOMS

1. POST CLEARANCE AUDIT (PCA) ORGANIZATION:

The Pakistan Customs through an indigenous reform agenda moved towards automated clearance procedures. In 2005, Pakistan Automated Customs Clearance System (PACCS) was launched as pilot program providing end to end automated solution. The main focus was to reduce the dwell time and expedite clearances. The idea of creating the Post Clearance Audit Organization also emerged with the emergence of automated system. The Directorate General of Post Clearance Audit of Pakistan Customs was thus, established in October, 2008.

2. AIMS AND OBJECTIVES OF PCA ORGANIZATION:-

The aims and objectives of the Post Clearance Audit Organization are:

(i) To develope a comprehensive monitoring mechanism to verify the correctness of trade related declarations;

(ii) To detect and investigate commercial and trade-related frauds and propose measures to prevent its occurrence;

(iii) To assist the Federal Board of Revenue to evolve, develop and update systems, procedures and organizational structure meant to scrutinize and ensure compliance of the trade with the national trade laws, procedures and controls; and

(iv) To recover the escaped revenues.

3. CHARTER OF FUNCTIONS OF PCA ORGANIZATION:

The functions of Post Clearance Audit Organization are:

(i) To establish, update and operate records, databases pertaining to goods exported from or imported into Pakistan and profiles of importers and exporters covering all aspects of their trade and business;

(ii) To evolve a pro-active monitoring mechanism to ensure compliance with national trade laws, rules, procedures, controls, restrictions, prohibitions etc;

(iii) To set up a mechanism to detect and investigate commercial and trade related frauds and propose measures and controls at the operational level to prevent its occurrence;

(iv) To set up mechanism and machinery along with ancillary and auxiliary sub systems for audit, intelligence, investigation, prosecution, dispute resolution and initiate contravention reports/recovery proceedings for adjudication in exercise of powers vested in the Officers of the Directorate

General of Post clearance Audit under relevant laws promulgated from time to time; and

(v) To analyze data, risk assessment and selection of sectors/cases for generating the work orders for field formations to conduct audit, and monitoring of the follow up action.

4. ADMINISTRATIVE SET UP OF PCA ORGANIZATION:-

CGO 3/2009 contains all details regarding administrative set up of PCA Organization.

5. BENEFITS OF POST CLEARANCE AUDIT SYSTEM:

(a) Introducing post clearance audit system reflects a different approach to customs controls as it has the effect of offering an immediate release of goods or reduce release times.

(b) Implementation of post clearance audit system is part of the risk management strategy.

(c) The time taken while goods are in customs custody will be reduced as compared to traditional customs controls and traders can dispose of their goods promptly upon their arrival in the country, by applying risk management techniques and audit-based controls.

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

(e) Post-clearance audit allows customs to change the approach from a purely transaction based control to a more comprehensive, company-oriented control. Customs audit can benefit from a broader picture of the transactions over a longer period of time.

6. LEGISLATIVE POWERS OF PCA ORGANIZATION:-

The Officers of PCA Organization have been empowered by the Federal Government through SRO 469(I)/2009 and SRO 500(I)/2009 to conduct post clearance audit of all customs clearances and deal with the audit related matters.

7. TERRITORIAL JURISDICTION OF PCA ORGANIZATION:-

All Model Customs Collectorates of Pakistan .

8. FUNCTIONAL JURISDICTION OF PCA ORGANIZATION:-

PCA Organization has been authorized to conduct scrutiny of;

(i) All imports and exports including temporary imports;
(ii) All customs clearances under concessionary regimes, DTRE,

transshipment, transit and warehousing etc;

(iii) Bulk oil imports;
(iv) Exports duty drawback;
(v) Baggage;
(vi) Ship stores;
(vii) Client accreditation program;
(viii) National historic database; and
(ix) Risk management system

9. OPERATIONAL JURISDICTION OF PCA ORGANIZATION:-

The Directorate General of Post Clearance Audit has the authority ;

(i) to determine Customs Value of goods;
(ii) to requisition record, conduct audit and access for the purpose of audit to the importers' premises and warehouses;
(iii) to raise demands for short paid revenue;
(iv) to initiate cases of fiscal fraud;
(v) to exercise powers to arrest and search with/without warrants and ;
(vi) to make seizure of goods.

10. PCA MANUAL:

The purpose of PCA Manual is to provide modern auditing standards, set of concepts of techniques, and quality assurance arrangements that are consistent with the international standards for auditing entities. In fact, the PCA Manual covers the entire audit cycle from planning to follow up.

11. AUDIT MANAGEMENT UNIT (AMU):-

(a) In the Directorate General of PCA (HQ)s, an Audit Management Unit (AMU) has been set up with the functions:

(i) to set and monitor audit policy;
(ii) to set overall annual audit programs;
(iii) to make risk analysis; and
(iv) to prepare annual audit report.

(b) The AMU selects cases for audit on the basis of :

(i) Historic database system;
(ii) Trader and Customs Agent risk profiling;
(iii) Sectors/commodity selection;
(iv) Random selection; and
(v) Risk parameters such as origin, classification, valuation and procedural codes.

12. **TYPES OF AUDIT :**

Directorate Gen of Post Clearance Audit is conducting three types of audits as follow:-

(i). Detailed Work Order Based Audit (Entity Based Audit):

These audits are assigned by the Audit Management Unit under a proper audit schedule. Selection for audit is based on Risk Management System.

(ii). Desk Audit or Transaction Based Audit:

These audits are based on information or duty payment trends or commodities.

(iii). Investigative Audit:

These audits are conducted in cases of fiscal frauds and may lead to prosecution of traders.

13. FLOW OF PCA OPERATIONS:

The flow of PCA operations is summarized as below:-

(i) Preparation of audit by the audit team;

(ii) Profiling the selected importer and his customs agent and his business;

(iii) Risk profiling of the trader as well as his customs agent and the imported goods regarding origin, valuation, classification and procedural requirements;

(iv) Visiting the trader/importer/exporter/customs agent premises:

(v) Selection of transactions for audit;

(vi) Identification of any discrepancies and preparation of an audit report;

(vii) Issuance of an audit observation;

(viii) The trader/importer/exporter/customs agent is given an opportunity to defend his case before the supervisory officer of the audit team;

(ix) Issuance of a contravention report and forwarding it to the adjudicating authority;

(x) Issuance of a show cause notice and adjudication of the case by the adjudicating authority; and

(xi) In case any recovery is accrued, the case is referred to the clearance collectorate for recovery of the arrears.

14. RIGHTS OF A TAX PAYER :

The PCA Manual grants the following rights to a taxpayer :

(i) It will be the right of a taxpayer to know identification of auditors

(ii) While visiting his premises, he can seek written authority from the auditor to intimate him about auditors' purpose of visit;

(iii) It will be taxpayer's right that his business commitments are recognized and therefore , flexible scheduling of follow up visits is agreed upon; and

(iv) A taxpayer shall be informed about his right to file internal review with the Additional Director PCA against the opinion on any adjustment sought by the audit team.

15. UPGRADING PCA MANUAL:

(a) The Review Committee constituted by DG PCA to review the Policy Recommendations for PCA Pakistan by the participants of the Study Tour to Manila, Philippines from 18th to 24th March, 2012, is of the view that PCA Manual should be upgraded and then incorporated in CGO 12/2002, as a separate Chapter.

(b) In view of the above , a Committee has been constituted by DG PCA to upgrade the PCA Manual on priority for its incorporation in CGO 12/2002; as a separate Chapter, by also obtaining input from PCA Hqrs and Directorates of PCA and other stake holders, and by keeping in view the WCO Guidelines for PCA and International Best Practices and thereafter, submit the upgraded copy of PCA Manual to PCA Hqrs for onward submission to the Board for its incorporation in CGO 12/ 2002, as a separate Chapter, by 30th June , 2012 .

16. FRAMING OF PCA RULES:

One of the Policy Recommendation for PCA Pakistan by the Participants of the Study Tour to Manila, Philippines, from 18th to 24th March, 2012 is to frame PCA Rules for Pakistan Customs PCA and get the same notified by 30th June, 2011. Thus, a Committee has been constituted by DG PCA to frame PCA Rules, by also obtaining input from PCA Hqrs, PCA Directorates and other stake holders and in the light of WCO Guidelines and the International Best Practices and for its subsequent approval and issuance of a notification by the Board.

17. PERFORMANCE OF PCA:

Although PCA Organization was established in October 2008, a relatively nascent organization, it has been successful in detecting billions of rupees of evaded taxes till to date. Astounding number of 1782 cases was detected. Rs.1766.29 millions were decided in favor of the department after due process of adjudication proceedings while Rs. 208.39 millions were decided against. Recovery of Rs. 40.89 millions has so far been effected by the Customs Clearance Collectorates, and concerted efforts are being put in by them to recover the balance arrears on priority.

18. ENHANCING PERFORMANCE OF PCA ORGANIZATION:

(a) Post clearance audit is still in evolutionary stages. Data Base Centers are being created to carry out audits and monitoring, however, irritants are being felt due to ongoing reforms in automation and currently the clearance is going on two parallel systems ie one in automated system and others through manual system. Once complete automation is done, then the system of PCA will be fully operational and effective in Pakistan.

(b) Pakistan Revenue Automated Ltd (PRAL) has developed a provisional software of Central Data Processing Centre (CDPC) for PCA Hqrs. SOP has also been issued by the PCA Hqrs in this behalf. In order to ensure that consolidated suggestions regarding amendments/alterations/deletions/additions, if any, are framed in meaningful and fruitful manner to make the CDPC fully operational and also to review the SOP so issued for further improvement, if any, a Committee has been constituted by DG PCA for finalization of the RSD and development of software for CDPC in coordination with PRAL and review of SOP for CDPC .

(c) Final RSD for CDC is to be developed in the light of WCO Guidelines and the International Best Practices including study of Japanese Model of Data Processing System , Post Clearance Assistant System, Management Information System and Historic Database System having direct connectivity with One Custom and WeBOC Systems and linkages with intelligence sources, MCCs, Inland Revenue, financial institutions etc. After incorporating necessary amendments /additions/deletions/alterations, if any, in the provisional software for CDPC, the same will be forwarded to the Board for formation of a Review Committee to examine all aspects of the finalized software and SOP for the purpose .

(d) As stated above, PRAL has succeeded in developing a provisional RSD pertaining to the PCA Module of WeBOC in consultation with Directorate of PCA Karachi and WeBOC Project Director. In order to ensure that consolidated suggestions or proposed amendments are framed in meaningful and fruitful manner, a Committee has been constituted by DG PCA for the purpose who held their meetings on 16th April and 14th May, 2012 accordingly at PCA Hqrs for finalization of RSD for PCA Module in coordination with Director (Operations), PRAL. After incorporating necessary amendments /additions/ deletions in the provisional RSD , the same will be forwarded to the Board for formation of a high powered Review and Overview Committees to examine all aspects of the proposed RSD for the purpose. After approval by the Board , the final RSD of PCA Module will be forwarded to the Project Director of WEBOC for development of the software for PCA Module of Weboc for operational purpose by PCA Officers/Officials .

19. CENTRAL DATA PROCESSING CENTER (CDPC):

(a) Objective:

The Central Data Processing Centre (CDPC) is a specialized unit to provide access to computerized data of all customs clearances for post clearance audit.

(b) Functions: The functions of the Central Data Processing Centre (CDPC) of the Directorate General of PCA (Hqrs), Islamabad are as follow;

(i) To provide single window access of all Customs Clearance Data (One-Customs, WeBOC etc) for post clearance audit purpose;

(ii). To provide assistance in selection of cases for audit by using Risk Management System;

(iii). To generate reports and run specific queries for scanning customs clearance data for identifying revenue leakages and tax fraud;

(iv). To maintain historic data base;

(v). To maintain traders, customs agents and shipping agents profile records;

(vi). To maintain centralized computerized record of all audit observations and contravention reports;

(vii) To assist in keeping track of adjudication status and position of recovery of Government dues against the cases made out by PCA; and

(viii). To provide electronic data interchange (EDI) linkages to other agencies,Customs, Inland Revenue, Banks, etc)

20. OPERATIONS OF CDPC:

(a). Types of Audit to be performed by CDPC; The Central Data Processing Centre (CDPC) PCA Head Quarters shall conduct the following types of audit:

(i) Detailed Work Order Based Audits (Entity Based); selection for audit to be based on Risk Management System and associated risk factors;

(ii) Desk Audits or Transaction Based Audits; these audits are to be based on information or duty payment trends of traders or commodities; and

(iii) Investigative Audits ; these audits are to be conducted in cases of fiscal frauds and may lead to prosecution of defaulters.

(b). Automated Selection of Cases by the CDPC:

(i) CDPC will be responsible for the selection of cases for audit to the Regional Directorates of the PCA. The case selection would be performed through the application of risk criteria in an automated environment.

(ii) However, the Regional Directorates of PCA may propose the audit of certain traders based on local intelligence or the information gathered during audit of other traders. In such cases, a written proposal incorporating the reasons for case selection would be forwarded to the Director General PCA who may issue a work order for audit to the relevant Directorate.

(iii) The CDPC after selection of the case would refer it to the Director General of PCA for the approval and allocation of the audit to the concerned Directorate of PCA.

(c). Selection of Audit Tools for the Central Data Processing Centre (CDPC):

Historic Data Base System so developed along with any other report generated and incorporated into the CDPC would be the audit tools for carrying out the planned audit.

(d). Functions of Historic Database System:

(i) The Historic Database System (HDS) will be available to the Central Data Processing Centre besides the Post Clearance Assistance System (PCAS) developed by PRAL and ancillary data-base developed by CDPC staff to select traders based on known risk factors.

(ii) The HDS reports facility will help in generating reports listing importers of specific commodities, from specific origins and subject to specific procedure codes. This facility will enable the CDPC to retrieve data of the targeted products, by commodity code, origin, period, and value.

(iii) The output will contain a list of GD CRN/Machine numbers and Single Unique Identification (SUI) Numbers.

(iv) Information in relation to the traders identified by the HDS will also be available from the Trader Profile Record (TPR) and Customs Agent Profile Record (CAPR) of PCAS which are being fully developed by PRAL for PCA Module and also being fully incorporated into PCAS.

(v) The HDS will also allow the CDPC to call pre-structured reports on most aspects of import and export declarations over a given period for a specific trader. This information will be of great benefit while targeting and selecting traders for audit. It will serve as the main tool in creating traders and Customs Agents profiles.

(vi) In addition to the specific Trader and Customs Agent Reports, this System will contain a number of restricted management reports which will help in the development of parameters for automated selection for audit. These reports may include:

- Top statistical value by commodity code: It highlights the commodity codes with the highest statistical values;

- Top duty by importer's Unique Identification Number: It lists the traders by UIN who have paid the highest duty. This report will also highlight the duty type; and

- Top duty by commodity code: It highlights the commodity codes on which the highest amount of duty was paid.

(vii). Due to the heavy drain on computer resources involved in producing these reports, they will be run periodically and used by the CDPC as a basis for quarterly case selection and assigned to the Regional Directorates of PCA after approval by Director General PCA.

(e) Selection of Traders for Audit;

(i) Selection of persons/companies for audit would be based on risk profiles.

(ii) Selection criteria for auditees would be developed taking into account intelligence, trade trends, and high risk priority areas.

(iii) Selection criteria for auditees could include:

- Past history of the company;
- Type of commodity ;
- Volume and value of imports/exports;
- Customs Agent of the Company;
- Referral information from other Customs Units, e.g. investigators, physical control officers, commodity specialists and other revenue agencies;
- Origin of goods;
- Potential for duty/revenue recovery;
- Risk of revenue loss;
- Government program priorities, etc.

(iv) The selection of person/company for the audit will be made locally and it can be based on the risk rating, data from other authorities and local knowledge. For this purpose, a national database will be developed by CDPC and RDPC, which would contain risk rating parameters for each trader based on their compliance records, types of business, volume of imports and total duty payments. Information gained from the filed audit can be used to evaluate the accuracy of the risk rating.

(v) Depending on the profile of the auditee and its business (e.g. type of business, goods, revenue involved etc.) the audit will be conducted on a continuous, cyclical or occasional basis. The audit frequency will be basically set in accordance with the time limitation of recovering deficiency. Depending on the results of the risk assessed, the frequency can be increased or decreased, as considered appropriate.

(vi). Similarly, Directors of Regional Directorates of PCA have been directed to establish a Regional Data Processing Centre (RDPC) as well in each PCA Directorate on the pattern of. Central Data Processing Centre (CDPC) on priority basis. SOP in this behalf on the pattern of SOP for CDPC, already circulated , is also to be developed by them on priority basis.

(vii) Regional Directors of PCA have been directed to constitute a Committee at the Directorates' level to develop a software for RDPC in coordination with PRAL and formulation of SOP for RDPC on priority,

under intimation to PCA Hqrs .

21. POST CLEARANCE ASSISTANCE SYSTEM (PCAS) AND CDPC:

(a) PCAS developed by PRAL would provide the functional framework for the CDPC operations. Operations of CDPC would include but would not be limited to PCAS software functions.

(b) CDPC would develop its own Data Base and reports as required by the Directorate General.

(c) Functioning of PCAS is a streamlined process of information gathering and audit parameter selection.

(d) Functioning of PCAS would be based upon PRAL software.

22. IT EQUIPMENT AND SUPPORT:

(a) VPN networking of CDPC with the RDPCs and PCA Module.

(b) Broad Band Connectivity, associated linkage and networking of CDPC, RDPC & PCA Module.

(c) Proper IT equipment and associated equipment including Desktop computers, Printers, Scanners, etc for PCAS, CDPCs, RDPC, PCA Module etc.

(d) Back up electricity supply for the PCAS, CDPC, RDPCs & PCA Module.

(e) Training of staff on PCA Module, PCAS, WeBoC, One Customs, CDPC, RDPC to prepare them for taking such responsibilities.

23. OUT PUT OF DATA PROCESSING CENTRES (CDPC/RDPCs):

(a) Ready access to WeBoC, One Customs etc.
b) Trader Profile Record (TPR).
(c) Customs Agent/Shipping Agent Profile Record (CA/SAPR).
(d) Risk Management System Feedback:
(e) Generating monthly reports pertaining to the adjudication and recovery of arrears.
(f) Generating and maintaining data of Audit Observations and Contravention Reports.
(g) Allied Functions.

24. POST CLEARANCE AUDIT OF DTRE USERS:

(a) Board vide its letter C.No.4(18)DRD/2011/52862 dated 12th April, 2012 has clarified that in terms of Rule 307E of the DTRE Rules , audit is a mandatory requirement and in order to have further transparency, a separate audit by DG PCA may also be got conducted in respect of at least 20 % DTRE units selected by PCA on the basis of risk assessment through 100 % desk audit of such units.

(b) Board has further clarified that it is crystal clear from the Board's letter of even number dated 25th August, 2011 that the audit of DTRE units is a mandatory requirement under Rule 307E of the DTRE Rules and therefore , the Regulatory Collector should conduct audit as per law in order to release the financial instrument , while PCA may conduct overall audit of particular cases of at least 20 % Units.

25. POST CLEARANCE AUDIT OF WEBOC CLEARED GOODS:

(a) The latest update of the meeting held by the Chief Collector of Customs (South) on 16th March 2012 in Karachi regarding issues related to Post Clearance Audit of WeBOC cleared goods is as follow:

(i). Until the completion of complete PCA module , which will take some time , real time online clearance data Of WeBOC shall be provided to PCA Department along with user IDs and Passwords so that post clearance audit is initiated without further delay.

(ii). During the meeting, PRAL team has assured that following shall be provided to PCA in a week's time;

WeBoc Clearance data on real time basis;

- **Bifurcation of Clearance Data of Green, Red and Yellow Channels; and**
- **Issuance of User IDs and Passwords to PCA Officers to have an access to WeBOC System.**

(iii). It is reminded to ensure timely compliance of above decisions, keeping in view the urgency of the matter, so that the Directorate General of PCA can start audit on the basis of above provided real time clearance data using their Selectivity Criteria.

(iv). Implementation Status of the above Decisions; In view of above, the PCA Directorate Karachi has prepared a list of Officers/Officials to whom the user IDs and passwords are required to be issued by PRAL's WeBOC Team.

(v). PCA will be able to get access of WeBOC data on real time basis after issuance of aforesaid User IDs and Passwords.

(vi). Issue of development of PCA Module for WeBOC System: As for as the issue of development of PCA Module for WeBOC System is concerned, the Project Director WeBOC has requested PCA Directorate Karachi to

approve the required specifications documents of PCA Module. After approval of PCA Module specifications documents, the PRAL's WeBOC Project Team will take around three months to develop the said Module.

(vii). Current status of WeBOC audit by PCA: Currently, the PCA Karachi is receiving WeBOC data manually in form of CDs. PCA Karachi has informed that a special team has been constituted to scan the data and carry out post clearance audit.

(viii). PCA Karachi has been directed to provide a progress update regarding the audit of WeBOC clearance by PCA for onward submission to the Board.

26. GUIDELINES FOR FURTHER ENHANCING PERFORMANCE OF PCPA ORGANIZATION:

The following guidelines have been sent to PCA Directorates for consideration at their end :

(i). PCA is a technical field which needs expertise to detect tax evasion by some unscrupulous traders. Therefore, it has been suggested that PCA Directorates should develop a comprehensive and joint Training Module for the newly joined officers to be conducted at DGTR, Customs, Karachi, Lahore and Islamabad simultaneously where the present Senior Officers and those who have already served in PCA may be invited to deliver lectures and share their experiences on the important areas of PCA. This will save the newly joined officers from an effort of hit and trial for making detections.

(ii). Availability of proper offices and logistics for newly joined officers be ensured by PCA Directorates so that they feel comfortable and contribute in making detections.

(iii). There should be specific time line for calling of record from the auditee. Let it be one month at the stage of AD/DD . In case no record is received from the auditee during this period, the record calling letter /notice should be issued by ADD requiring the auditee to submit the record within a week time . In case of non compliance by the auditee, reference for blocking of NTN/ STN may be made to IR authorities and MCCs along with second notice to the auditee by ADD for immediate production of record .In case of continuous non compliance by the auditee after this stage, a contravention report may be framed against the auditee after

approval of DG. This procedure also needs to be incorporated in PCA Manual/Rules.

(iv). Similarly ,time lines may be fixed for concluding 2 to 3 hearing proceedings in case of production of record, disposal of audit observations i.e. either to withdraw the Audit Observations or frame Contravention Reports . DG PCA may be approached to extend time lines in such cases.

25. UPGRADING PCA WEB PAGE!

The DG PCA's Message has been prepared by PCA Hqrs and forwarded to the PRAL Web Master to be uploaded on the Web Page of FBR . Other documents, for instance PCA Manual, PCA functions, Organizational Chart of PCA. Various PCA Notifications and CGOs would be sent to the Board, , to be formally forwarded to PRAL to be uploaded on the PCA Web Page . All officers of PCA have also been asked to contribute ideas to make PCA Web Page more attractive for the viewers.

28. HUMAN RESOURCE DEVELOPMENT OF PCA:

(a) A properly trained and motivated workforce is the most essential component of Post Clearance Audit.

(b) The Directorate General is striving hard to get its officers and staffs trained in the field of post clearance audit, and provide them the right tools to conduct the audit.

(c) Inhouse-training sessions on data mining and PCA softwares are being frequently conducted.

(d) Workshops and seminars are being arranged both for staff as well as Business Community to apprise them of the benefits of PCA and get their cooperation as well.

(e) JICA has been of great help in arranging several international training programs, thus broadening the horizon of officers and staff and development of audit techniques.

29. CASE STUDIES BY PCA PAKISTAN :

These selected case studies have already been circulated to all PCA Officers for their knowledge so as to gain from it .

(i). CASE STUDY :

- Misclassification of Hajmola Tablets/ Candy (Digestive Aid, Tablet)

(ii). CASE STUDY :

- Evasion of Duty and Taxes by Duty Free Shops

(iii). CASE STUDY :

- Inadmissible extension / grant of zero rating of Sales Tax on import of chemicals

(iv). CASE STUDY :

- Misclassification of Air Conditioners Imported in SKD Form

(v). CASE STUDY :

- Misclassification of Food Preparations

(vi). CASE STUDY :

- Non-payment of Value Addition Sales Tax by Oil Marketing Companies on Import of POL Products

(vii). CASE STUDY :

- Evasion of Federal Excise Duty on Import of Cigarettes by M/S Philip Morris (formerly Lakson Tobacco Company) Ltd Pakistan.

(viii). CASE STUDY :

- Non-payment of Federal Excise Duty on Import of Concentrates /Flavors by M/S Pepsi Cola and Coca Cola.

30. CASE STUDIES BY PCA PHILIPPINES:

These selected case studies have also been circulated to all PCA Officers for their information and in order to gain from it:-

(i). CASE STUDY :

- Adjustment to PAP – Royalty Payments.

(ii). CASE STUDY :

- Adjustment to PAP – Cost of Transport.

(iii). CASE STUDY :

- Adjustment to PAP – Royalty Payments.

(iv). CASE STUDY :

- Importation from Common Bonded Warehouse to Export Processing Zone

31. POLICY RECOMMENDATIONS FOR PCA PAKISTAN:

(a) A Review Committee headed by Director PCA Lahore was constituted by DG PCA to study Policy Recommendations for PCA Pakistan framed by the participants of the Training Course at Manila, Philippines, held from 19th to 24th March, 2012.

(b) The said Committee held its meeting on 23-04-2012 at Lahore and framed their views on each recommendation, as follow :

(i). Infrastructure Development and Up-gradation:

- The Review Committee supports this recommendation , keeping in view the urgent requirement to establish regional PCA Directorates for effective handling of post clearance audit in the respective MCCs. Accordingly, upgradation of existing infrastructure of PCA Directorates is also required for the desired output.

- Thus, a Committee has been constituted by DG PCA, to obtain input from Directors of PCA, PCA HQrs, Admn Wing of FBR and other stake holders and frame their recommendations in the light of WCO Guidelines for PCA and International Best Practices and thereafter, submit its report to PCA Hqrs by 31st May 2012 positively, for onward submission to the Board for consideration .

(ii). HR Issues and Capacity Building in Audit Techniques for Effective Audits:

- There can be no second opinion on this. However, the Review Committee is of the view that this recommendation needs further elaboration by clearly spelling out the HR issues.

- A Committee has been constituted by DG PCA in this regard to obtain input from Directors of PCA, PCA HQRS, DGTR Customs and frame their recommendations in the light of WCO Guidelines for PCA and International Best Practices and thereafter, submit its report to PCA Hqrs by 31st May, 2012, positively for onward submission to the Board for consideration .

(iii) Linkage of Post Clearance Assistant System (PCAS) with the WeBOC and One Customs Systems:

The Review Committee considers this recommendation to be very relevant owing to its operational importance.

- PCA Hqrs fully supports the valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board .

- Meanwhile , the Committees constituted by DG PCA to develop RSDs for PCA Module of WeBOC and review of software for PCAS should also take into consideration the above views.

(iv) Selection of Auditees and Initiation of Audits Using Automated Risk Parameters:

- The Review Committee is of the view that selection of auditees through automated Risk Management System should be one of the tools for identifying cases for audit. However, other tools, like intelligence tips and ongoing clearance trends at various Customs Stations in the country also need to be applied for selecting cases for audit. So the recommendation may be as "Selection of Auditees and Initiation of Audits Using Automated Risk Parameters as well".

- PCA Hqrs fully supports the above valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board.

(v) Gradual Shift from Transaction Based Audit to Entity Based Audit:

- The Review Committee feels that this recommendation gives the impression that PCA, Pakistan will eliminate/ discard Transaction Based Audit as one of the available techniques after acquiring requisite skills in Entity Based Audit. The committee is of the view that the Transaction Based Audit should always remain as a distinct/type with PCA, Pakistan, for effective control, and Entity Based Audit should be in addition to it. So the recommendation has been redrafted as "Enhanced Focus on Entity Based Audit".

- PCA Hqrs fully supports the above valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board.

(vi) Broadening the Scope of Audits such as Classification Disputes / Issues to include other Risk Factors such as Valuation Issues, Exemptions, Concessions, Origin, etc:

- The Review Committee is of the view that PCA, Pakistan is already conducting audits on the parameters given in this recommendation. Therefore, it is viewed that there is no need to include it as a part of recommendations.

- PCA Hqrs agrees with the above recommendation of the Review Committee and this recommendation for PCA Pakistan stands dropped.

(vii) Enhancing Awareness of Trade Community and other Stake holders about PCA through Publications, Seminars, Conferences, Workshops and Meetings:

- The Review Committee is of the view that this recommendation needs to be re-phrased as the Trade Community needs to be educated in Customs laws and Procedures concerning record keeping and other allied matters for effective control, instead of PCA itself. Therefore, the recommendation may be "Educating Trade Community and Other Stakeholders about Customs Laws and Procedures through Publications, Seminars, Conferences, Workshops and Meetings".

- PCA Hqrs agrees with the above views of the Review Committee.

(viii) Upgrading and Providing Legal Cover through a Notification to PCA Manual by 30th June, 2012:

- The Review Committee is of the view that PCA Manual should be incorporated in CGO 12/2002, as a separate Chapter. So the recommendation may be as follows: "Upgrading PCA Manual and providing legal cover thereto by incorporating it as a separate chapter in CGO 12 of 2002".

- In view of the above , a Committee has been constituted by DG PCA to upgrade the PCA Manual on priority for its incorporation in CGO 12/2002; as a Separate Chapter, by also obtaining input from PCA Hqrs and Directorates of PCA and other stake holders, and by keeping in view the WCO Guidelines for PCA and International Best Practices and thereafter submit the upgraded copy of PCA Manual to PCA Hqrs for onward submission to the Board for its incorporation in CGO 12/ 2002 as a separate Chapter, by 30th June , 2012 .

(ix). Preparation of PCA Primer in line with the Primer published by the Philippines Customs for facilitation of the stake holders:

- The Review Committee is of the view that there should be no need for PCA Primer once the PCA Manual is upgraded and made a part of CGO-12/2002 as a separate Chapter.

- PCA Hqrs agrees with the above view of the Review Committee and drops this recommendation .

(x). Continuous cooperation with JICA/WCO for providing technical assistance in specified areas:

- The Review Committee agrees to this recommendation. PCA Hqrs fully supports the valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board .

- It may be added here that a meeting of PCA Hqrs with JICA Pakistan was held on 04-05-2012 at the JICA Office, Serena Business Complex, Islamabad. Mr Ono and Dr Haroon participated from the JICA side. JICA was presented with the Philippines Study Tour Report. The policy recommendations were explained to the JICA side. It was decided that JICA will arrange for an international expert to visit Pakistan tentatively in July, 2012 to provide technical assistance in the areas of RMS, PCA Module, Post Clearance Assistance System (PCAS), and Central Data Processing Center (CDPC).

- Furthermore, it was also agreed that PCA Hqrs will submit a demand for renewal of JICA project for PCA, Pakistan to EAD in the prescribed format. The PCA (HQ) will also confirm the tentative date for arrival of international expert i.e., first week of July, 2012. JICA also agreed to participate in the upcoming meeting to be held in FBR regarding the presentation of the Philippines Study Tour Report to the Member (Customs), FBR.

(xi). Access to the data of Inland Revenue and other financial institutions / intelligence set ups for verification of status of the auditee:

- The Review Committee agrees to this recommendation owing to its operational importance.

- PCA Hqrs fully supports the valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board

(xii). Introduction of Performance based Reward System for PCA Officers / Officials:

- The Review Committee is of the view that PCA officers and officials are already receiving Performance Allowance. However, there is a need to introduce Detection Based Reward System in PCA as an incentive for auditors.

- PCA Hqrs fully supports the valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board.

(xiii). Services of Technical Staff / Accountants for Entity Based Audits:

- The Review Committee is of the view that only services of Sector Specialists should be acquired as there is no need to acquire the services of accountants for Entity Based Audit in the presence of Auditors/ Senior Auditors already available with the PCA Org. Accordingly, the recommendation has been redrafted as "Hiring of Services of Sector Specialists e.g. Chemical Analyst etc for Entity Based Audits".

- PCA Hqrs fully supports the valuable views of the Review Committee and the matter has been referred for consideration by the Overview Committee being constituted by the Board

(xiv). Introduction of Voluntary Disclosure Program (VDP) in PCA Pakistan by taking into account the Philippines BOC VDP System:

- The Review Committee is of the view that introduction of VDP may be deliberated upon in consultation with major stake holders i.e. local Chambers of Commerce and Industry and the FPCCI.

- In view of the above recommendation by the Review Committee , a Committee has been constituted for the purpose who would obtain input from Directors PCA , PCA HQrs , MCCs and other major stake holders and frame their recommendations in the light of WCO Guidelines for PCA and International Best Practices and thereafter submit its report to PCA Hqrs by 31st May, 2012, positively for onward submission to the Board for consideration .

32. After detailed deliberations on the above issues, the Review Committee has proposed the following additional recommendations for consideration:-

(a). Maintenance of National Intelligence Database by PCA (Headquarters), Islamabad for production and circulation of information reports / alerts to regional Directorates for initiation of audits and inspections accordingly.

(b). Strengthening Customs-to-Customs Pillar between Pakistan Customs and other Countries through Mutual Assistance Agreement under Johannesburg Convention.

(c). Utilization of actual import/export data by PCA, Pakistan through Mutual Arrangement as done by employing Dongle's Key under an agreement with Goodwill China Business Ltd. China.

(d). Suggesting Collectorates to ensure effective implementation of Customs Controls for importers having incomplete registered addresses and undertake occasional trade activity. PCA to focus only upon importers who undertake tangible trade activity.

(e). Critical evaluation of Customs Procedures in vogue keeping in view the past fraudulent activities to check revenue leakages.

(f). Designing well-defined criteria to evaluate PCA success at the end of each financial year. The criteria may be devised by keeping in sight the available HR and other resources with PCA. It should be focused on the success rate of observations / contraventions rather than the number of cases or the amount pointed out therein.

(g). The audit staff may be made available to the Post Clearance Audit as per its requirement which should be reviewed periodically. Present requirement of staff in the regional Directorates of PCA may be intimated to the Board.

(h). The posting of audit staff may be made on tenure basis. Officers from BS-16 and below may be posted in the Directorate General of PCA for a minimum period of one year.

(i) Officers/Officials may be awarded two additional basic salaries as an incentive to work in PCA, at the end of a Financial Year.

(j). Orientation visits may be arranged for PCA officers in coordination with JICA and other international coordinating agencies working in Pakistan to observe the latest automated risk based audit techniques applied by countries like Japan, Australia, Turkey etc.

(k). Introduction of Detection Based Reward System i.e. one month salary against the detection of duty and taxes involving more than Rs. 5 millions, either on recovery of the pointed out duties & taxes or a decision in favor of the department at the 2nd appellate forum whichever is earlier. This amount of reward may be allotted from a separate head of account and not out of the recovered/ recoverable amount.

33. Though the PCA Hqrs agrees in principle with the above additional recommendations, however , it has requested the Board that the Overview Committee being constituted may also consider these recommendations of the Review Committee with a view to further enhance the development and effectiveness of PCA Organization on scientific lines in the light of WCO Guidelines for PCA and keeping abreast with the international best practices and thus, become an important Organ and 'Watch Dog' of FBR in plugging leakages of revenues.

34. **WAY FORWARD:**

(a). Post Clearance Audit, Pakistan Customs is still in evolutionary stages. Study Tours to Developing and Developed Countries will help PCA officers and officials to gain from experiences of such countries. Such Study Tours may be

regularly organized in future through foreign donors and international cooperation agencies for mutual benefits.

(b). Pakistan Customs has switched over from PaCCS to WeBOC. Creation of PCA Module of WeBOC may be given preference. Moreover, PCA may develop its own Central Data Processing Center and Risk Management System in the light of above guidelines for PCA and on the lines of international best practices having direct connectivity with WeBOC for effective post clearance auditing and monitoring.

(c). A properly trained and motivated workforce with the right tools to conduct post clearance audit is the most essential component of PCA Department of Pakistan Customs. However, resource development of PCA Department needs to be given high priority to create professional and efficient audit teams for PCA.

(d**).** Performance based incentive and reward system needs to be introduced in PCA for achieving more tangible results in detecting escaped revenues and plugging revenue leakages. PCA Department needs to be developed as "Watch Dog" of FBR in due course of time.

(e). The final policy recommendations by the participants of the Training Course in Manila to further enhance the effectiveness and efficiency of PCA Department of Pakistan Customs which were duly reviewed by the Review Committee may be implemented after approval by the Overview Committee being constituted by the Board.

(f). The detection of tax evasion cases by the Directorate General of PCA has improved during the months of March, April and May 2012. PCA Org needs to detect some very good cases in the 4th Quarter of the Current Year for comparative analysis of detections made in the corresponding Quarters of the last Financial Year.

(g). PCA Officers have been directed to focus their attention on making some significant detections during the remaining period of the current Quarter of the Financial Year. PCA Hqrs has pinned down all its hopes on the dedication, devotion and professionalism of PCA Audit Teams and is awaiting cross-fingered for silver lining in the shape of outstanding performance from them.

(h). The issue of application of Valuation Rulings is one of the top priority areas of the Directorate General of PCA, and audit findings in respect of different items in this regard are under process .The audit findings thereon were required to be communicated to the Board , upon receipt from the PCA Directorates. The audit findings of special audit teams in this behalf are to be expedited.

(i). All members of PCA Team who have now spent a reasonable time in PCA , should give input individually or collectively on the following issues at the earliest :

(i). What effective measures could be undertaken to further enhance the development and effectiveness of the PCA Organization in the given circumstances?

(ii). How the newly joined members of PCA teams at Karachi , Lahore and Islamabad be motivated and geared up to make inroads by detecting some good cases individually and collectively?

(iii). Do you feel the formation of Various Committees by PCA Hqrs reg various audit related issues could bring effective and positive change in the working of PCA?

(iv). What further measures could be undertaken to bring effective and positive improvements in enhancing further the overall performance of PCA?

(j). Its a great honor to be nominated for a Training Course abroad .What the senior management of PCA would demand from all those PCA Officers who get an opportunity to avail such Training Courses abroad is to share

those techniques of capacity building with their colleagues in PCA as well so that they could also benefit from the same while adopting it in day to day working so as to enhance the effectiveness of PCA Org .Hence forth , all those PCA Officers who proceed abroad to participate in the training courses would be invariably required on return from abroad to submit a Course Report along with Recommendations to PCA Hqrs for circulation amongst PCA Officers, so as to gain from it.

(k). The Finance Division has uncapped the Special Allowance admissible to the employees of FBR with immediate effect on the Basic Pay Scales 2011 and has renamed it as " Performance Allowance " to be granted only to those employees of FBR who meet the laid down criteria/guidelines issued by the FBR.. Quarterly performance of each officer/official of PCA will now be closely monitored by PCA HQrs and in case the performance of any officer/official is not up to the mark , his/her Performance Allowance will be withheld till positive improvement is noticed in his/her performance.

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RESTRICTED

GOVERNMENT OF PAKISTAN
DIRECTORATE GENERAL OF POST CLEARANCE AUDIT
FEDERAL BOARD OF REVENUE
******

F.No.1(3)/DG(PCA)/2012. Islamabad the 29th May, 2012

To :

The Director,
Post Clearance Audit,
Lahore.

The Director,
Post Clearance Audit,
Karachi

SUBJECT:- LATEST UPDATE ON POST CLEARANCE AUDIT ORGANIZATION OF PAKISTAN CUSTOMS

Please find enclosed a copy of the latest update on PCA for information and record.

Encl: As above

(Humayun Khan Sikandari)
Director General

Copy along with enclosure to:-

1. S.A. to the Chairman, FBR, Islamabad
2. Member (Customs), FBR, Islamabad
3. Chief Collector of Customs (North/South)
4. Director General Customs Training & Research, Old Custom House, Karachi.

(Humayun Khan Sikandari)
Director General