

**Government of Pakistan
Revenue Division
Federal Board of Revenue

Post Clearance Audit & Internal Audit Policy (2025)

Directorate General of Post Clearance and Internal Audit, Karachi
October, 2025

Post Clearance & Internal Audit Policy

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Post Clearance & Internal Audit Policy

1. Introduction

Post Clearance & Internal Audit Policy provides a set of guiding principles to achieve the objectives of the Directorate General of Post Clearance & Internal Audit (Customs) stipulating the major components such as scope and types of audit, audit process, planning and standard procedure for conduct of audit through an audit strategy or plan of action.

2. Objectives of Post Clearance Audit (PCA)

The overall objective of PCA is to promote compliance and trade facilitation. It assures that the clearance of goods, utilization of duty free raw materials and Customs declarations have been completed in compliance with Customs laws and other regulatory requirements applicable in respect of import, export or transit of goods. The audit covers the examination of import, export and transit trade declarations, documents, traders' systems, accounting and other business records and premises for the purpose to verify:

- a) the value, origin, description, quantity, importability / exportability and classification of goods is declared/ assessed correctly;
- b) the admissibility of the exemption(s) claimed;
- c) the amount of revenue legally due has been identified and collected;
- d) the regulatory requirements under Customs law and other statutes are fulfilled;
- e) trade facilitation for early clearance of goods and post clearance checks

3. Objectives of Internal Audit (IA)

The overall objectives of Internal Audit are to improve the performance of Customs to achieve organization's strategic objectives. Internal Audit conducts performance audit of the existing rules, schemes and procedures for following objectives;

- a) to identify the gaps and shortcomings in customs processes and procedures;
- b) to identify the gaps in various schemes of exemptions and concession from duty and taxes;
- c) to check compliance of laws in licensing regimes; and
- d) to recommend improvements in systems and procedures promoting compliance and legitimate revenue collection.

4. Audit Based Controls at Post Clearance level

In line with the international best practices, Audit based controls at post clearance stage shall be adopted by Customs. The Revised Kyoto Convention under General Annex - Chapter 6 (Customs Control) provides that to provide traders with greater facilitation, Customs increasingly rely on audit-based controls, using traders' commercial systems. These controls may vary from a simple post-clearance audit to trader self-assessment.

Standard 6.6 of the General Annex to the Revised Kyoto Convention states that the "Audit-based control" means measures by which the Customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned.

The Trade Facilitation Agreement article 5.1 contains that with a view to expediting the release of goods, each Member shall adopt or maintain post clearance audit to ensure compliance with customs and other related laws and regulations.

The articles 5.2 states that each Member shall select a person or a consignment for post-clearance **audit in a risk-based manner**, which may include appropriate selectivity criteria. Each Member shall conduct post clearance audits **in a transparent manner**. Member shall, without delay, notify the person whose record is audited of the results, the **person's rights and obligations**, and the reasons for the results.

5. Benefits derived from PCA

In light of the World Customs Organization (WCO) guidelines¹, the Post Clearance Audit policy envisages the following benefits of the post clearance controls;

- (i) Compliant trade is facilitated at the point of Customs clearance and border controls can be reduced;
- (ii) Prevents revenue leakage by ensuring accurate post-clearance duty and tax verification;
- (iii) Promotes compliance with regulatory requirements through verifications of clearances at post-clearance stage;
- (iv) Enables Customs to gain better information on and understanding of traders' business;

¹Guidelines for Post-Clearance Audit (PCA), Volume-1, the World Customs Organization, June 2012, (updated In June 2018)

- (v) Risk levels can be more easily assessed and reviewed: a premises visit provides the opportunity to identify risks and weaknesses in traders' systems;
- (vi) Facilitates client education, long-term and comprehensive compliance management focus;
- (vii) Customs administrations' resources are more effectively deployed;
- (viii) Customs can promote the concept of voluntary compliance and self-assessment;
- (ix) Suspected fraudulent activities including cases of illicit financial flows (IFF), trade-based money laundering (TBML) may be identified and referred to competent authorities and / or enforcement unit for appropriate action;
- (x) Provides a platform for evaluating continued entitlement to Authorized Economic Operator status, where applicable.

6. PCA scope and coverage

The Post Clearance Audit shall cover potentially, all businesses involved in the import, export and /or transit of goods or in the receipt, storage, manufacture and delivery of goods which are under customs regulations. This may include:

- a) importers/exporters;
- b) declarants;
- c) consignees of the imported goods;
- d) owners or beneficial owner of the imported goods;
- e) subsequent acquirers of the imported goods;
- f) Customs clearing agents of the imported/exported goods;
- g) storage agents of the imported/exported goods;
- h) transporters of the imported/exported goods; and
- i) other persons/companies directly or indirectly involved in the transaction of the import, export or transit of goods.

7. Authority, powers and obligations of Customs officers

Customs officers conducting PCA shall be having authority to conduct an audit at the premises of the auditee and at the office of PCA.

The officers conducting the audit shall exercise the powers as stipulated under the relevant provisions of the Customs Act, 1969 and the rules made there under read with the SRO-1655(I)/2025 dated 30-08-2025, which may include the following:

- a) the right to access auditee's premises;
- b) the right to examine business records, business/trading systems and commercial data relevant to Customs declarations;
- c) the right to uplift and retain documents and business records;
- d) the right to inspect and take samples of goods;
- e) the right to call documents;
- f) the right to summon any individual to give information and/or answer any questions pertaining to Customs declarations.

Customs staff shall have the following obligation with respect to conduct of post clearance audit;

- a) to maintain confidentiality of the records of the auditee;
- b) the records should be used for customs' legal obligations; and
- c) to keep a good conduct with the traders to accomplish the audit smoothly.

8. Obligations and rights of auditees

For smooth audit process and for redressal of grievances of the auditee, the following rights and obligations of persons/companies involved in international trade shall be maintained:

- a) Sufficient time shall be provided to auditee for provision of the records for conduct of post clearance audit;
- b) The limitation of calling old records for audit shall be regulated as per the provisions of Customs Act, 1969 and Rules made there under;
- c) The auditee is obliged to provide requisite information and documentation correctly and in timely manner to complete the audit process within a reasonable and appropriate timeframe, without unnecessary delay;
- d) The importer / exporter shall have the right to reply and appeal and defend the audit observations made by the PCA auditors;
- e) The traders shall have the right to seek details from Customs concerning the basis for determination of Customs value and liability of duty and taxes;
- f) The traders shall have a right to expect confidential treatment of business documentation;
- g) The auditee shall ensure timely cooperation during audit proceedings, including access to systems, records, and premises where necessary;

- h) The auditee shall not obstruct or delay the audit process intentionally or through non-compliance;
- i) The auditee shall take corrective actions, where required, based on audit findings or agreed outcomes.

9. Types of Audits

There shall be following types of Post Clearance Audits of imports, exports and transit goods cleared by Customs, which are as under:

- (i). Transaction based Audit
- (ii). Entity based audit
- (iii). Sector based audit
- (iv). Export Schemes Audit
- (v). Special Audit

Provided the types of audit can be enhanced based on future needs and results of audit conducted.

i. **Transaction based audit (TBA)**

Post-importation/exportation Transaction-based audit (TBA) shall scrutinize individual transactions. These transactions shall be selected through a risk based criteria based upon the possibility of inaccuracy of declaration i.e. valuation, classification, country of origin, regulatory compliance etc. Initially, these declarations are selected on the basis of risk factors and desk audit of these transactions are conducted. In case of detection of any discrepancy, an appropriate action shall be taken after providing an opportunity of hearing/defense to the importer/exporter. If it is deemed that significant duty may be at stake, an enquiry is then referred to the appropriate Customs officer to further examine the declaration.

ii. **Sector based audit (SBA)**

A sectoral audit examines the import or export declarations related to a specific sector or commodity. Sectors are selected based on defined risk parameters, particularly where there is a likelihood of revenue leakage, inadmissible exemption claims, or other compliance concerns. This type of audit focuses on one or more specific areas of customs administration, such as valuation, classification, country of origin, revenue accuracy, or regulatory compliance. All declarations falling

within the selected sector are reviewed to ensure compliance with applicable laws and procedures.

iii. Entity Base Audit (EBA)

This type of audit looks at the entire declarations of a particular importer or exporter or a business concern which may deal with imports, exports or transit of goods. A comprehensive audit of transactions occurred in a defined period is audited. The selection of entities shall be made on the basis of identified risk factors. Once selected, all transactions related to imports, exports or transit of goods are examined. Where necessary, the physical premises of the unit may also be visited - after due intimation to the entity - for verification of business premises, manufacturing facility, warehouses, stock taking, documents scrutiny & internal controls can be verified.

iv. Export Schemes Audit

This type of audit focuses on business units availing benefits under export facilitation schemes. The primary objective is to verify the utilization of duty-free imported raw materials, ensure the accuracy of balance stocks, and ascertain whether any misuse, diversion, or unauthorized sale of duty-free goods has occurred. The audit examines all relevant records, including import, production, and export documentation, to confirm that the duty-free inputs have been used solely for the intended export purposes. Where required, physical verification of stock, production processes, and premises may also be conducted to ensure compliance with the rules.

v. Special Audit

A Special Audit may be conducted by the Post Clearance Audit (PCA) on a case-by-case basis, where there is a specific need to examine particular transactions, issue(s), or sectors in which a major violation of customs laws or regulations is suspected. Such audits may be initiated in response to specific intelligence, identified irregularities, or the urgency of a situation that warrants immediate verification. A Special Audit may focus on a single transaction, a particular business entity, or an entire sector, depending on the nature and seriousness of the identified risk.

10. Planning and Selection of Audit

10.1 Selection process / criteria

The purpose of the audit selection procedure is to ensure that audit resources are strategically allocated to areas presenting the highest potential risk to revenue, trade compliance, and

regulatory integrity. Audit selection shall be conducted in accordance with risk management principles, integrating both data-driven analytics and intelligence-based assessments. The process shall be jointly overseen by the Data Analytics Center (DAC) and the Audit Management Cell (AMC).

The selection of audit subjects shall be grounded in a comprehensive assessment of quantitative and qualitative risk factors, including:

- i. Quantitative data analysis utilizing Customs and trader databases such as WeBOC, Pakistan Single Window (PSW), and past audit findings;
- ii. Qualitative intelligence inputs from field formations, other government agencies, and trade associations; and
- iii. Historical compliance behavior and risk indicators associated with importers, exporters, and intermediaries.

Risk identification shall be a continuous process informed by multiple inputs, including:

- i. Outcomes and findings from previous and on-going audits and investigations;
- ii. Feedback and field observations from PCA auditors and front-line Customs officers;
- iii. Analytical outputs from DAC's statistical and artificial intelligence (AI) models;
- iv. Reports or intelligence shared by other regulatory authorities or external stakeholders; and
- v. Market intelligence, trade data discrepancies, and verified tip-offs indicating potential non-compliance.

Based on these factors, entities or declarations exhibiting the highest risk of revenue loss, evasion, or procedural non-compliance shall be prioritized for audit, while ensuring adherence to legal time limits for duty and tax recovery.

To preserve objectivity, transparency, and independence, PCA shall maintain a clear separation between audit targeting and audit execution. Audit Targeting shall be performed centrally by the DAC/AMC along with input / proposals from the Regional Directorates, utilizing analytical insights and established risk criteria to identify high-risk cases. Audit Execution shall be undertaken by the respective PCA Directorates, focusing on the entities, transactions, or sectors selected for review. This segregation of roles ensures a transparent, unbiased, and credible audit process, reinforcing the integrity of PCA operations and enhancing confidence in audit outcomes.

In addition, the Regional Directors may initiate scrutiny audit based on their own information, intelligence, selectivity criteria provided that all such audits shall be intimated to DAC /AMC within a week of initiation.

10.2 Annual & Quarterly Audit Plan

The Annual Audit Plan shall be developed by the Audit Management Cell (AMC), taking into account the availability of resources, the volume of ongoing work, and the overall audit capacity of the organization. Each audit type or area shall be assigned a standard timeframe for completion, enabling accurate estimation of the number of audits that can be realistically undertaken within a year. Similarly, the available working hours of each auditor or audit team shall be calculated to determine total annual audit capacity.

Audit planning shall also be conducted on a quarterly basis to ensure continuous monitoring, flexibility, and alignment with emerging priorities. Each stage of PCA implementation should be broken down into specific time blocks to measure productivity against time utilization. The planning process shall also determine the number of auditors or audit teams required for each audit assignment, ensuring efficient deployment of human and technical resources.

11. Risk Management Techniques

The PCA Audit Plan and selection of audits shall be prepared on the basis of Risk assessment and various selectivity factors taking into account of strategic and tactical factors. These include the strategic risk assessment to identify the overall risk posed by an entire sector or a group of non-compliant importers. By identifying such a group or sector, PCA will be able to target all or selected companies within an industry sector identified as high risk. An industry sector may be classified as high risk for various reasons, such as:

- the risk of revenue for government
- the strategic importance of the industry to the national interest;
- the international trade agreements which govern the industry;
- public health and safety considerations;
- intellectual property rights;
- and the economic and environmental impact of the imports/exports.

The data analysis and studies on specific commercial sectors or goods involved will help the PCA for selection of potential cases. For example, sector studies may be on specific program areas such as valuation, textile sector, classification of new products, Intellectual Property Rights, etc. Once the sector is chosen, information must be defined and collected on the various components, at both macroeconomic (sector size, production, consumption, etc.) and microeconomic levels (the number of firms involved, their technological capacity, structure, the type of fraud to which they are exposed, etc.). This information may be compiled and maintained with Audit Cases Repository ~~in a database or in some other electronic format~~. The sector would be targeted in advance through the Data Analytics Center (DAC) according to criteria such as:

- estimates of the value of the commodity;
- sensitivity of nationals or industry to illegal activity, etc.
- values and volumes of imports/exports
- types of goods imported/exported
- previous irregularities in respect of importer/exporter or commodities
- first time importer/exporter
- referral information from other Customs units / any other government agency including
- taxation authorities;
- risk of revenue loss;
- government program priorities or specific intelligence;
- risk to trade based money laundering.

12. Standardized PCA procedures/techniques

To ensure that audits are carried out effectively and consistently, a standard procedure or PCA Audit Manual shall be followed. This will include code for PCA officers, the audit procedure, and recommended collaboration between the PCA unit and other Customs units, tax authorities & stakeholders. The procedures are set out in written guidelines and made available to Customs audit staff and other stakeholders.

13. Training needs/professional skills

A combination of skills, knowledge and experience is required to carry out PCA effectively. With the increased use of electronic recordkeeping and the complexity and diversity of global trade, the need for higher standards of training shall be required. The PCA audit staff shall be provided with the levels of training necessary to equip them to perform their duties. All auditors shall require a range of general skills relevant to the task of auditing. These skills include:

- familiarity with Customs laws and regulations;
- knowledge of Customs procedures (valuation, classification, origin, etc.);
- knowledge of other taxation laws i.e. Sales tax, Income tax & Federal Excise Duty.
- knowledge of auditing standards and procedures;
- accounting techniques and principles, based on Generally Accepted Accounting Principles (GAAP);
- knowledge of computer-based accounting systems;

- a commercial awareness and knowledge of business strategies in international trade; and good communication skills.
- multinational corporation accounting, including transfer pricing;
- knowledge of specific trade sector/area including emerging issues such as E-commerce,
- new payment methods etc.; and
- risk management method including risk indicators relevant to Trade Based Money Laundering (TBML).

14. Ethical standards for auditors

PCA Auditors shall be required to maintain high professional and ethical standards when conducting PCA as mentioned below;

- (a) Integrity:** The WCO has developed a Model Code of Ethics and Conduct that sets out the minimum required attitude and behavior expected of all Customs officers. The Code of Conduct should be respected while conducting PCA.
- (b) Confidentiality:** Auditors must maintain adequate levels of confidentiality when accessing and examining auditees' records. Auditors should not disclose any business/Customs information they have acquired during the performance of their duties, unless national laws provide for disclosure of information in specific cases.
- (c) Professional competence, due care and diligence:** Auditors should act diligently and in accordance with applicable technical and professional standards. Further, they should take due care of the auditee's property including account books, systems etc., and respect company health and safety and security policies and requirements (e.g. wearing of safety helmets).
- (d) Equity / Impartiality:** Auditors are required to be objective, maintain fair and just judgment over similar cases and not to treat them arbitrarily or allow bias, conflicts of interest or undue influence of others to override professional or business judgments. They should not misuse their authority over the auditee.

In addition, to reinforce accountability and ethical compliance, a formal bond or undertaking may be signed by all PCA auditors, affirming their commitment to integrity, confidentiality, professionalism, and impartiality in the discharge of their audit responsibilities.

15. Limitations of PCA

It is recognized that PCA is the most effective means of ensuring compliance with Customs requirements. Particularly in such areas as Customs valuation, classification, application of SROs and exemptions etc. However, in presence of significant levels of informal trade, characterized by poor accounting systems, cash-based trading and lack of permanent premises of units, PCA can face limitation in achieving its objectives. In such cases, the Intelligence and Enforcement Directorates/Collectorates will play significant role for detecting the fiscal frauds and non-compliance. Notwithstanding this, Customs should continue to enhance compliance level and ensure that those operating in the informal sector are given opportunity and assistance to formalize their procedures in line with Customs requirements.

16. Liaison with Customs Formations and other Regulatory and Tax departments

The international trade of import and export has forward and back ward linkages. The trade of imported goods is knitted with chain of whole sellers and retailers which can be source of information for audit. Coordination with other customs formations or other regulatory agencies or tax departments for collection of information and verifications will be useful for PCA. Liaison with foreign Customs administrations may be sought for verification of suppliers / importers information and documents.

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**Post Clearance Audit and Internal Audit Strategy
(2025)**

Directorate General of Post Clearance and Internal Audit, Karachi

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POST CLEARNCE AUDIT AND INTERNAL AUDIT STRATGY

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POST CLEARANCE AUDIT AND INTERNAL AUDIT STRATEGY

1. Post Clearance Audit Strategy

The Post Clearance and Internal Audit Strategy is an actionable framework aimed at ensuring effective implementation of the Customs' Post Clearance and Internal Audit policy to achieve the objectives of Customs compliance and trade facilitation. The Post Clearance Audit Strategy shall define the scope of audits, objectives, audit methodology including criteria for the selection, planning and execution of Post Clearance and Internal Audits. The implementation of the audit cycle will be part of the Audit Strategy which will enable the Directorate General to implement audits in accordance with the provisions of the Customs Act, 1969, rules made there under and other allied laws for the time being enforced.

2. Scope and Objectives

The scope of Post Clearance Strategy encompasses a broad range of audit activities aimed at assessing and verifying the compliance of importers, exporters, and other stakeholders in accordance with the provisions of the Customs Act, 1969 and related regulations. The strategy shall include Transaction, Entity, Sectoral, Export Facilitation Scheme and Special Audits of importers and exporters. It also covers the audit of organizational processes and compliance audits of businesses operating under Customs licensing regimes.

The objectives of the Post Clearance Audit Strategy include the smooth implementation of audit selection, audit planning, audit execution, and audit monitoring, which will ensure achievement of the overall strategic objectives of voluntary compliance, effective customs controls, and trade facilitation.

3. Directorates of Post Clearance and Internal Audit

The Directorates of Post Clearance and Internal Audit carry out the functions of the audit within their respective jurisdictions. Each Directorate will plan audits for quarterly and annual audit plans in coordination with the Directorate of HQ. Based on the input received from regional PCA Directorates, the consolidated audit plan will be finalized at the headquarters level and disseminated to the concerned Directorates for execution.

The Directorates shall implement the audit plans and monitor the conduct of audits. Monthly and quarterly audit performance reports shall be shared with the Directorate of HQ for further dissemination to the Board. These reports will then be reviewed and forwarded to the Board for information, oversight, and policy direction.

4. Risk-Based Audit Management

The audits shall be selected on the basis of a Risk Management approach, ensuring that audit resources are focused on areas with the highest potential for non-compliance. A comprehensive set of risk factors shall be developed in consultation with the Directorates of PCA. These risk factors will be periodically reviewed and updated based on the outcomes and findings of completed audits to enhance their effectiveness and relevance.

In addition to data-driven risk analysis, human intelligence shall also be considered for selection of audits, as information from markets and traders provides valuable insights into patterns of duty and tax evasion, misuse of exemptions, and other forms of non-compliance that may not be immediately evident through automated systems.

5. Use of Technology and Data Analytics

By establishing the Data Analytics Center (DAC), the capacity for data analysis will be enhanced, and the objective of risk-based selection of audits will be achieved. The DAC shall consist of Data Analysts, Data Scientists, and IT Specialists who will collaborate with Post Clearance Audit Directorates to structure data analysis according to their requirements for selection of audit cases.

The DAC shall aggregate data from WeBOC, Pakistan Single Window, valuation databases, enforcement records, OGAs, commercial and third-party data sources, etc., for enhanced risk management. Data will be cleaned, standardized, and analyzed for audit planning. The DAC will develop Artificial Intelligence (AI) and Machine Learning (ML) models for the PCA Risk Management System and conduct sectoral analysis for developing selectivity criteria.

6. Audit Methodology

The audit policy contains the following types of audits for conduct of Post Clearance Audits of imports, exports and transit goods cleared by Customs, which are as under:

(i). Transaction based audit (TBA)

The action plan for conduct of transaction-based audit shall cover the risk-based selection of post-importation/exportation. Transaction-based audit (TBA) to checks on individual transactions. The audit team scrutinizes individual Customs declarations after clearance and selects those based on predefined risk indicators including concerns relating to valuation, classification, country of origin, regulatory compliance etc. Initially these declarations are selected on the basis of risk factors and desk audit of these transactions are conducted, where the audit team examines the declaration and supporting documentation to identify any anomalies or inconsistencies. If any discrepancies are detected during this preliminary review, the transaction is flagged for detailed audit and may be incorporated into the formal audit plan for further verification.

(ii). Sector based audit (SBA)

The Sector-Based Audit (SBA) focuses on evaluating compliance within specific sectors or industries that demonstrate a higher risk of non-compliance. The selection of sectors for audits guided by a comprehensive set of risk parameters, including indicators related to revenue leakage, misuse of exemptions or concessions, recurring classification issues, valuation discrepancies, and origin fraud. Under this method, multiple declarations within the selected sector are reviewed collectively to assess overall compliance trends, identify common risk areas, and evaluate whether importers/exporters in the sector are adhering to applicable laws and regulations

(iii). Entity Base Audit (EBA)

The selection of Entity Based Audit shall also be based on the data analytics, and findings of the desk audits. When discrepancies, anomalies, or risk indicators are identified in the entity's trade data or compliance history, the unit is prioritized and incorporated into the annual or quarterly audit plan for a full-scope audit. This audit covers the entire spectrum of the entity's import and export transactions over a defined period. It includes a thorough examination of all relevant commercial documents, customs declarations, financial records, supply chain documentation, and regulatory compliance obligations. Where warranted, the audit may extend to an on-site visit of the entity's business premises. In such cases, prior notification will be issued to the

entity, and the audit team may verify Business premises, manufacturing facility, warehouses, stock taking, documents scrutiny & internal controls.

(iv) Export Schemes Audit

Audits of export schemes, such as the Export Facilitation Scheme (EFS), shall form an integral part of the overall audit plan. These schemes typically involve significant duty and tax exemptions, which are granted to promote export-led growth and enhance the competitiveness of domestic industries. Timely audits of such schemes will improve the compliance and deter the misuse of the scheme. The revenue will be protected and export-oriented units will get the benefit from schema.

(v) Special Audit

The audit strategy shall focus on conducting the Special Audits, which are designed to address emerging risks, specific policy areas, or newly implemented schemes and procedures. The sectoral analysis will surface the risk areas where special audits can be conducted. At initial stage through data analysis and desk audits the selection of particular segment of audit can be selected. Special audits of new reform programs, new schemes and newly introduced procedures can be best suited for conduct of special audits. These audits will provide insight about the compliance levels and efficacy of the changes made or new programs introduced.

7. Selection of Audit Cases

The selection of audit cases — whether individual customs declarations (Transaction), sectors, or business entities — shall be guided by clearly defined risk parameters to ensure a focused and effective Post Clearance Audit (PCA) program. Further, Customs agents, transporters, recipients of imported goods or beneficial owners of imported or exported goods may be subjected to audit depending upon facts and circumstances of each case. Particular attention shall be given to emerging trade patterns such as cross-border E-commerce trade, where buyers may be unaware that goods are transported internationally. In such a case, the entities which are involved in the E-commerce trade would be one of the subjects of PCA. Audits may cover a range of Customs-related issues or focus on one particular area such as valuation, origin or tariff classification, etc.

The selection of potential subjects for audits shall be carried out using Risk Management methodology. The results of previous audits should be used for better Risk Management in the future. PCA may decide to separate targeting and execution of audits based on the specific risk criteria. The selection criteria for audit candidates should be developed taking into account intelligence, trade trends and priority areas for PCA. The use of a customs and trader database is recommended in order to enable an effective risks analysis.

Risk identification can be carried out through a combination of advanced data analysis, Artificial Intelligence (AI) models, and traditional intelligence sources. AI will support the identification of hidden patterns, anomalies, and risk indicators by analyzing large volumes of structured and unstructured trade data. In addition, inputs from auditors, front line officers, field sources, intelligence gathering, results from past audits, and feedback from other departments or authorities will be utilized. Tip-offs from external parties will also be considered. Selection should focus on those declarations which pose the highest risks in terms of revenue taking into consideration the legal time limit for claiming the amount.

The audit approach will be determined depending on the result of the risk assessment, size of the company, available resources, time frame to recover potential revenue at risks (amount of duty & taxes unpaid or underpaid) taking into consideration the audit objective.

Since the primary objective of PCA is to enhance voluntary compliance, it is recommended that importers/exporters should be mainly targeted and frequency of audits be determined, in relation to risk profile including results of the previous audit in order to ensure high level of compliance in the future.

This should not preclude the application of other targeting method. In addition to risk-based targeting, new importers may be audited to assess compliance behavior, while a limited number of cases may be randomly selected to validate risk indicators and identify new areas of concern for future controls.

8. Data Analytic Center (DAC)

The data analysis and studies on specific commercial sectors or goods involved will help the PCA for selection of potential cases. For example, sector studies may be on specific program areas such as valuation, textile sector, classification of new products, Intellectual Property Rights, etc.

Once the sector is chosen, information must be defined and collected on the various components, at both macroeconomic (sector size, production, consumption, etc.) and micro-economic levels (the number of firms involved, their technological capacity, structure, the type of fraud to which they are exposed, etc.). This information may be compiled and maintained with Audit Cases Repository. The sector would be targeted in advance through the Data Analytics Center (DAC) according to criteria such as:

- a) estimates of the value of the commodity;
- b) sensitivity of nationals or industry to illegal activity, etc.
- c) values and volumes of imports/exports
- d) types of goods imported/exported
- e) previous irregularities in respect of importer/exporter or commodities
- f) first time importer/exporter
- g) referral information from other Customs units / any other government agency including
- h) taxation authorities;
- i) risk of revenue loss;
- j) government program priorities or specific intelligence;
- k) risk to trade based money laundering.

9. Audit Coverage and Risk Factors

- (i) The core principle for Audit selection under PCA is Risk Based Selection methodology. The Risk Factors for selection shall be determined in a manner to provide maximum coverage to suspected cases of audit. These factors will be periodically updated and enhanced based on the feedback from completed audits and audit outcomes, intelligence gathered from operational sources and evolving trade and compliance trends. The indicative Risk factors are outlined as under:

- a) The RMS for selection of cases for PCA should take into account portions of cases selected from Green, Yellow and Red Channel in proportion to their percentage share in clearances.
 - b) The integration with IRS data base will be required to check the jurisdiction of units by NTN address for allocation to relevant PCA Directorate and for confirmation of status being commercial entity or manufacturer and being active or inactive, suspended or blacklisted unit.
 - c) The analysis of Sales tax Returns mainly Annex-B record of imports and Income tax returns and profile for selection of audit.
 - d) Historical detection of PCA and other formations to be given weight through profile of unit and as a factor for selection for audit.
- (ii) For better audit coverage of cases the following factors shall also be considered for selection of audit cases.
- a) Tariff classification;
 - b) Valuation;
 - c) Country of origin / export;
 - d) Claims for concessionary duty rates;
 - e) Application of exemptions; and
 - f) Any relevant regulatory requirement.
- (iii) Further data analysis will help in narrow down the potential audit cases. Broadly, the issues increasing the risk rating that culminates in selecting an auditee typically include:
- a) size/turnover of entity;
 - b) volume of trade (e.g. the percentage of the entire sector that the firm represents may be considered);
 - c) type of goods imported;
 - d) goods drawing high rates of duty/tax;
 - e) value of imports; and value of exports;
 - f) origin of goods; and rates of duties of the entity's imports;
 - g) compliance track records of the company;

- h) assessment of the risk to revenue of the company's import activities;
- i) volume and value of client's transactions;
- j) fluctuations in declared values;
- k) related party transactions;
- l) comparison with values of identical or similar goods;
- m) amount of customs revenue to be generated from the company (e.g. if goods are duty-free, it may not be effective use of PCA resources);
- n) whether duty deferral regimes are used;
- o) importers under duty remission schemes;
- p) reputation of clearing agents (e.g. complaints received, low- or poor-quality general declarations, frequent voluntary disclosures, history of non-compliance, etc.);
- q) compliance level of a trade sector;
- r) result of previous audits with adverse findings;
- s) industry type;
- t) range of tariff classification codes used and the rate of duty/tax applicable (e.g. whether goods have tariff classifications with end-use provisions);
- u) goods where tariff classification can be misinterpreted;
- v) trade trends;
- w) number of cargo inspections undertaken during a period;
- x) intelligence/referrals from other revenue agencies/neighboring customs services;
- y) known high risk exporters/suppliers;
- z) government program priorities;
- aa) for AEO audit, the non-renewal of accreditation;
- bb) illicit financial flows;
- cc) trade-based money Laundering;
- dd) source of funds to finance business / assets; and
- ee) auditees with a history of tax violations.

10. Audit Planning: Quarterly and Annual Plan

10.1 Audit Management Cell (AMC)

The Audit Management Cell (AMC) serves as the central coordination unit for the planning, monitoring, and oversight of Post Clearance Audits (PCA) across all PCA Directorates. Its primary role is to ensure that audit activities are aligned with the strategic objectives of Customs, including revenue protection, trade facilitation, and enhanced voluntary compliance.

Annual Audit plan shall be developed by Audit Management Cell (AMC), taking into account resource availability and the work in progress. Each audit area could be assigned standard time of completion and each available auditor or audit team time could be calculated in order to estimate how many audits could be conducted in a year.

Planning shall also take place on a Quarterly basis. It is recommended that each stage of PCA implementation is broken down into time blocks in order to measure productivity against time spent. It should include issues such as number of auditors required to conduct an audit. Coordinated by PCA Directorate HQ, each PCA Directorate issues an annual Audit Plan for Quarter and for fiscal year. The Audit plan shall consider the cases based on the risk factors and risk-based selection to provide maximum audit coverage.

10.2 Preparation of Audit Plan

The PCA Audit Plan and selection of audits shall be prepared on the basis of Risk assessment and various selectivity factors taking into account of strategic and tactical factors. These include the strategic risk assessment to identify the overall risk posed by an entire sector or a group of non-compliant importers. By identifying such a group or sector, PCA will be able to target all or selected companies within an industry sector identified as high risk. An industry sector may be classified as high risk for various reasons, such as:

- the risk of revenue for government
- the strategic importance of the industry to the national interest;
- the international trade agreements which govern the industry;
- public health and safety considerations;
- intellectual property rights;

- and the economic and environmental impact of the imports/exports.

10.3 Desk Audits

The first part of the Audit cycle is Desk Audit where data related to the auditee is analyzed. It provides the insight about the compliance by the unit. It will lead to transaction or entity-based audit of the unit. It can be initial document verification check of nominated transaction. Desk audits are generally conducted to monitor the activities of clients where a specific risk can be addressed by examining commercial documents and may involve a physical examination of the goods.

10.4 Record Management and Confidentiality

Audit Management Cell shall ensure robust record management protocols, maintaining a secure chain of custody for all documents and data. Measures shall be taken to protect the authenticity, integrity, and confidentiality of business records and taxpayer data. The AMC shall also act as Centralized Audit Case Repository for maintaining a centralized audit case repository for audit profiles, past findings and Risk re-assessment

11. Enhancing Use of Technology in PCA

a) Audit Planning

AI and advanced analytics can streamline audit planning by analyzing historical data and identifying trends. Machine learning algorithms can predict potential areas of non-compliance based on past audits, helping customs authorities to prioritize and allocate resources more effectively. This ensures that audits are planned based on data-driven insights rather than intuition.

b) Identification of Audit Targets

AI can enhance the identification of audit targets by analyzing large datasets from various sources, such as trade databases, shipping records, and financial transactions. Machine learning models can identify patterns and anomalies that may indicate potential fraud or non-compliance. This allows customs authorities to focus on high-risk shipments and entities, improving the efficiency and effectiveness of audits.

c) Preparing for the Audit

Natural Language Processing (NLP) and Optical Character Recognition (OCR) technologies can automate the extraction and analysis of information from supporting documents submitted during customs clearance. This reduces the time and effort required for manual reviews and ensures that auditors have accurate and comprehensive information at their disposal. AI can also help in creating detailed audit plans by identifying key areas of focus based on historical data and risk assessments.

d) Identifying Anomalies

During the audit, AI-powered tools can assist auditors by providing real-time insights and alerts. For example, anomaly detection algorithms can flag unusual transactions or discrepancies in real-time, allowing auditors to investigate further. Advanced analytics can also help in visualizing complex data relationships, making it easier for auditors to identify potential issues and gather evidence.

e) Evasion of duty taxes

AI and advanced analytics can play a crucial role in revenue recovery by identifying instances of revenue leakage and non-compliance. Predictive analytics can forecast potential revenue losses based on historical data and trends, enabling customs authorities to take proactive measures. Machine learning models can also identify patterns of under-reporting or misclassification of goods, helping to recover lost revenue.

f) Artificial Intelligence (AI) / Machine Learning (ML) applications

AI and ML can address revenue leakage by continuously monitoring transactions and providing real-time alerts for any unusual activities. This continuous surveillance ensures that potential issues are identified and addressed promptly, reducing the risk of revenue loss. Advanced analytics can also help in identifying systemic issues and recommending corrective actions to prevent future revenue leakage.

In summary, the integration of AI and advanced analytics in customs post-clearance audit processes can lead to more efficient, accurate, and proactive auditing. This not only

enhances compliance but also helps in safeguarding national revenue and facilitating smoother international trade.

12. Human Resource and Capacity building

The PCA Directorate General is highly specialized, it requires specific skills. A well-educated and trained workforce is required. PCA requires a specific set of technical skills and knowledge, which is not a usual requirement of customs officers, and is often challenging to develop within a customs administration.

Customs PCA controls must be carried out by professionally qualified and trained Customs personnel. With the increased use of electronic record-keeping and the sophistication of global trade, the need for higher standards of training becomes increasingly important. Customs auditors need to draw on the following knowledge/skills:

- Accounting techniques and principles, including GAAP, auditing standards and procedures;
- Understanding of international trade/business;
- Electronic record-keeping and computer systems;
- Significant technical knowledge and experience in all aspects of customs control;
- Comprehensive technical customs background in customs laws, sales tax laws, income tax laws, foreign exchange manual, banking laws, tariff classification, valuation and origin; and exercise their authorities to the highest level of ethical standards.

The technical staff shall be supporting risk management and data analysis for selection of audits. The specialists such as Data Analysts and Data scientist and Statistical expert shall be utilized for development of PCA module and Audit selection and monitoring programs. The units like Data Analytics Center and Audit Management Cell shall be staffed by the technical staff to perform functions of DAC and AMC.

13. Monitoring, Evaluation and Performance Measurement

The PCA Directorate General has authority over officers who deliver the PCA program. The overall PCA program is managed nationally with local supervision. The Audit Management Cell shall be central point for collection and consolidation of Audit Reports on monthly, Quarterly and Annual basis. The primary tracking of all audit cases rests with the respective Directorates, however, the central function will be performed by the AMC.

14. Conclusion

The Audit strategy will be reviewed from time to time to incorporate the changes and updates in light of the findings of the audits conducted during the year. The strategy shall adjust with evolving needs to achieve its objectives effective implementation of regular audit plans. To further enhance the effectiveness of this Strategy, emphasis shall be placed on continuous improvement through feedback from completed audits, stakeholder consultations, and adoption of emerging technologies. The overarching aim remains to strengthen voluntary compliance, safeguard government revenue, and facilitate legitimate trade through a transparent, risk-based, and technology-driven audit framework.