



WORLD CUSTOMS ORGANIZATION

# DIAGNOSTIC TOOL ON POST CLEARANCE AUDIT (PCA) AND INFRASTRUCTURE

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## 1. INTRODUCTION

In June 2012 the WCO Council adopted a completely updated version of the “WCO Guidelines on Post-Clearance Audit (PCA)”, which reflects the Members’ growing need to secure revenue while facilitating legitimate trade, and also the emerging migration of Customs activity away from border controls to the post-clearance environment in the context of trade facilitation.

PCA is the most effective tool for many aspects of Customs controls, including application of the WTO Valuation Agreement, and for enabling an effective Customs risk management cycle by measuring traders’ overall compliance and reflecting the results for future controls.

In the aforementioned Guidelines, the WCO has defined the PCA process as a “structured examination of a business’ relevant commercial systems, sales contracts, financial and non-financial records, physical stock and other assets as a means to measure and improve compliance.” It has been noted that Customs administrations have introduced audit control systems which differ in scope, authority and methodology. Also, the commercial environment differs between countries and it is recognized that compliance-based audit systems are difficult to introduce where there is a high incidence of informal trade. Nevertheless, Members are encouraged to work towards aligning their practices with the Guidelines, in order to ensure that they are using an approach which was developed from Members’ experiences and is consistent with modern Customs techniques.

In order to achieve this goal, this Diagnostic Tool has been designed to assist managers and senior officials in Customs administrations, as well as external diagnosticians, in respect of the identification, design, implementation and evaluation of appropriate capacity building projects.

This Tool has been developed under the WCO’s Revenue Package programme, and forms part of the WCO Customs Capacity Building Diagnostic Framework. The Tool should be used together with the PCA Guidelines and other relevant guidance material, particularly in the field of Customs risk management.



## 2. ACCURATE DIAGNOSIS OF NEEDS

One of the critical success factors associated with the conduct of effective capacity building initiatives is the accurate diagnosis of developmental needs, depending upon the individual circumstances, operating environment, administrative competencies, resource availability and modernization ambitions of the Customs administration concerned. Appropriate account should be taken of these factors during the analysis, design, development and implementation of individual capacity building interventions.

### What to do and how to do it

- Attention should be paid not only to the specific needs of the administration, but also to its commitments, competences and capabilities in respect of the management of capacity building projects;
- This Diagnostic Tool can provide a sound model or framework for a comprehensive assessment of capacity building needs;
- A diagnostic assessment should be undertaken by adequately experienced and qualified Customs specialists and consultants (e.g., national officials who have attended recent WCO seminars or workshops on PCA, or experts from international or regional organizations).

### Identification of the project

Customs capacity building projects can be initiated in a number of ways.

Firstly, as the entity with principal responsibility for the delivery of economic and social objectives, the government may decide to reform and modernize its Customs administration. Frequently, governments will act due to some form of external commitment, such as those required under WTO accession, or as a result of expectations from the trade community, or criticism.

Secondly, Customs administrations themselves may decide to initiate a capacity building project in order to improve their performance and adopt best practice approaches. However, Customs managers may not have sufficient knowledge of international best practices and may require external assistance to identify needs and design effective capacity building strategies.

Thirdly, capacity building projects may be initiated by bilateral or multilateral donor engagement that identifies the potential for Customs to make a more effective contribution to trade facilitation and revenue collection.

The need to conduct such projects may be tested by using this Diagnostic Tool.

### Use of the Diagnostic Tool

In this Diagnostic Tool, the components of PCA have been analysed and broken down into a series of issues and questions that will assist diagnosticians to review and evaluate the current situation and performance of the administration in the areas indicated.



The questions are not intended to be exhaustive. Furthermore, the nature of the issues identified and the weight to be accorded to them will, necessarily, differ from administration to administration. The Tool is structured as follows:

Diagnostic Questions	Common Weaknesses	Potential Solutions and Improvement Options	Useful Resources*
Designed to collect information on the current situation and identify priority areas for attention.	Describes the situation that may typically be found in many administrations. Assists diagnosticians to go beyond the diagnostic question.	Suggests options and solutions based on international best practices.	Describes any useful reference materials that might be available.

*\*In cases where certain reference materials are relevant throughout a particular Chapter, they are referenced just once.*

A simple “yes” or “no” answer is rarely useful, as the diagnostic questions are intended to stimulate discussion and identify appropriate solutions. Rather, the questions and other elements of the tools are provided to ensure that diagnosticians are comprehensive in their coverage of the issues in question. Similarly, making judgments based on the answers provided to the questions will require the exercise of experience and judgment and an understanding of the individual needs, circumstances, priorities and concerns of the Customs administration concerned.

The tool has been developed in such a way that it can be used as both a self-assessment tool for Customs administrations to evaluate their own needs, and a tool for external Customs specialists or consultants.

It is important to explain carefully the purpose of the needs assessment, and to test, with the officials concerned, any initial conclusions that are reached on the adequacy of systems and procedures.



### 3. PREREQUISITES

The WCO, with assistance from its Member administrations, has identified six key building blocks which are considered essential prerequisites for effective and comprehensive capacity building. They are:

- sufficient political will, leadership and stakeholder support to ensure sustainability of capacity building initiatives;
- adequate long-term resourcing and access to sustainable funding;
- a fully-functioning civil service which provides the basic infrastructure necessary to administer national laws and international commitments;
- a sound legal framework and a functioning judicial system;
- adequate remuneration and employment conditions for Customs officials; and
- a broad climate supportive of change and improvement.

While it is acknowledged that some of the above-described issues are out of the direct control of Customs personnel, it is emphasized that without these building blocks in place, it would be difficult to achieve meaningful and sustainable improvement.



## 4. ROLES AND RESPONSIBILITIES OF POTENTIAL STAKEHOLDERS

In order to achieve meaningful and sustainable improvement in efficiency and effectiveness, many Customs administrations will require the concerted and cooperative effort of all stakeholders. Thus:

- governments must establish the sound administrative infrastructure necessary for effective Customs administration, and must ensure that the human and financial resources allocated to Customs are commensurate with its potential contribution to the achievement of national development objectives;
- Customs administrations should take a strategic approach to identifying their capacity building needs and should take responsibility for setting the direction and content of their improvement programmes. They should also allocate appropriate resources to support productive capacity building initiatives and be more active in promoting their developmental needs to government and other stakeholders;
- the private sector, which in many cases is the prime beneficiary of any improvements achieved in Customs, should use its influence with governments to urge them to direct the necessary resources to Customs capacity building initiatives. Where possible it should also participate in such activities, through the provision of training and technical assistance or via direct funding support, and by adopting modern and ethical business standards;
- international organizations such as the WTO, OECD, UNCTAD, UNDP and the World Economic Forum, are all active in formulating and delivering a range of Customs-related capacity building initiatives. International financial institutions such as the World Bank and the International Monetary Fund play a vitally important role in the formulation and provision of capacity building assistance;
- regional development banks provide guidance and funding to assist Customs administrations to undertake capacity building activities, through bilateral partners, international organizations or private sector consultants;
- bilateral donors also represent a valuable source of funding and technical assistance for capacity building in Customs, particularly in cases where the recipient country enjoys close historical ties with the donor country, and/or is of strategic importance to it;
- the WCO pursues three main capacity building strategies. Firstly, through its conventions, other instruments and best-practice approaches, it provides an internationally agreed series of models for effective Customs administration; secondly, it provides a forum for international cooperation and exchange of information and experiences between its Members, other international organizations and the private sector; and thirdly, through its training and technical assistance programmes it provides a range of high-quality capacity building opportunities in areas of organizational competence.



## 5. UNDERTAKING EFFECTIVE CAPACITY BUILDING

All donor organizations and most private sector consultants have developed their own unique approaches to undertaking capacity building initiatives. The WCO has distilled the critical elements of the different approaches that are currently employed around the world into a generic, seven-step capacity building 'Project Lifecycle.'

The seven stages in the WCO Project Lifecycle are as follows:

1. Project identification
2. Initial assessment
3. Needs assessment diagnostic
4. Project preparation
5. Implementation
6. Monitoring
7. Evaluation

All seven steps are interdependent, and each step is critical to successful project design and implementation. It is important that all seven steps proceed sequentially, and that short-cuts are not taken in an attempt to speed up project identification, assessment and preparation.

Details of, and technical assistance regarding the WCO Project Lifecycle can be obtained from the WCO's Capacity Building Directorate.



## DIAGNOSTIC TOOL

### Part 1 - Before the implementation of PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
1	<p><b>Discussion for understanding</b></p> <p>Does your administration understand the merits of introducing PCA as part of your Customs process?</p>	<p>The reason for the introduction of PCA is that, due to the requirements of the WTO TFA, the WCO has guidelines for its introduction; alternatively, it may be based on a misunderstanding of the short-term revenue implications.</p>	<p>Discuss, within your administration, the advantages and disadvantages of implementing PCA, taking account of the recent growth in trade and the number of experienced Customs officers available.</p> <p>Consider implementing PCA, as this is one of the best practices of many administrations which are already faced with an influx of import cargos with limited resources for controls.</p> <p>Take into account the disadvantages of PCA, which:</p> <ul style="list-style-type: none"> <li>- has limitations in terms of informal trade<sup>1</sup>;</li> <li>- needs patience with traders for them to become more compliant; and,</li> <li>- requires patience from policy-makers and Customs executives, because it does not promise increased revenue in the short term.</li> </ul>	<p><i>The following resources apply to one or more of the Diagnostic Questions in column one, and one or more of the Potential Solutions and Improvement Options in column three:</i></p> <p>Revised Kyoto Convention</p> <p>Risk Management Compendium</p> <p>WCO Global Information and Intelligence Strategy</p> <p>WCO Guidelines for PCA Volume I</p>

<sup>1</sup> There's no definition of "informal trade," but for Customs purposes it is characterized by poor or non-existent accounting systems, cash-based trading and lack of permanent premises



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
2	<p><b>Prerequisites</b></p> <p>Is a risk-based compliance management approach possible under the national legislation and/or regulations?</p>	<p>By law, all cargos are supposed to be examined by Customs.</p> <p>No risk management plan.</p>	<p>Revise the national legislation and relevant regulations so that examination by Customs is performed only when necessary.</p> <p>Introduce a risk-based management approach and gradually reduce the percentage of checks at the border.</p> <p>Please refer to Q.30 onwards for more details.</p>	<p>Revised Kyoto Convention General Annex (Chapter 6)</p>
3	<p>Does the national legislation stipulate a self-assessment system of declaration?</p> <p>- If yes, how often do your officers question the declared value, and how do they give instructions to importers/brokers in those circumstances?</p>	<p>All cargos are assessed and valued by Customs.</p> <p>Officers at the border often instruct importers/brokers to correct the declared value, with/without legal grounds.</p>	<p>Shift from an official assessment system to a self-assessment system in order to address the current/future increase in trade volumes.</p> <p>Review the procedure if Customs officers at the border often instruct importers/brokers to modify the declared value, taking into consideration:</p> <ul style="list-style-type: none"> <li>- that the Customs value under the WTO Valuation Agreement can be assured using audits; and</li> <li>- it allows importers to insist that PCA be sued as a double-check mechanism.</li> </ul>	
4	<p>Does the administration securely collect and store import/export data for the purpose of future risk assessment of importers/ exporters?</p>	<p>Clearance system not automated, or only partially automated; non-existent or limited connectivity.</p>	<p>Collect and store import/export data for future processing.</p> <p>Develop a comprehensive risk management strategy that supports the intelligence and risk assessment approach to the declaration stage.</p> <p>Please refer to Q.30 onwards for more details.</p>	



## Part 2 - Legislative basis for Post Clearance Audit

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
5	<p><b>Definition and Scope</b></p> <p>Is the definition and/or scope of PCA addressed by national legislation or regulations?</p> <p>- If yes, does it allow to audit a business other than the importer / exporter?</p>	<p>Insufficient knowledge, or misunderstanding of PCA.</p> <p>No definition of PCA, or a description of its purpose, in national legislation or regulations.</p>	<p>Develop a definition and/or description of the scope of PCA in line with international standards for the purpose of developing legislation, which may concern, for example:</p> <ul style="list-style-type: none"> <li>• importers/exporters,</li> <li>• declarants;</li> <li>• consignees of the imported goods;</li> <li>• owners of the imported goods;</li> <li>• subsequent acquirers of the imported goods;</li> <li>• Customs clearing agents for the imported goods;</li> <li>• storage agents for the imported goods;</li> <li>• transporters of the imported goods;</li> <li>• related banks which transferred the money for the imported goods; and</li> <li>• other persons/companies directly or indirectly involved in the transactions related to the imported goods.</li> </ul>	<p>WCO Guidelines for PCA Volume I</p> <p>Revised Kyoto Convention General Annex (Chapter 6, Standard 6.6)</p> <p>WCO Guidelines for PCA Volume I</p>



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
5.2		PCA-related legislation is being drafted, but the law has been pending for a long time.	<p>In cases where the revision of a PCA-related bill is taking time, or a draft law is not having an easy passage through the legislative body, Customs may carry out preparatory work to get ready for PCA activities, such as:</p> <ul style="list-style-type: none"> <li>- consultations with the industries named in the Case Study on Brazil in the WCO "Practical Guidelines on Valuation Control"; in most cases, such consultations do not require legal authority.</li> </ul>	<p>Practical Guidelines for Valuation Control</p> <p>Valuation Control Programme</p> <ul style="list-style-type: none"> <li>- Case Studies</li> </ul>
6	<p><b>Authority, rights and obligations</b></p> <p>Does national legislation provide Customs officials/auditors with the authority and powers to conduct PCA?</p>	<p>Insufficient authority and powers conferred by legislation.</p> <p>The national legislation only provides for the necessary authority and powers in the cases of fraud.</p>	<p>Develop legislation that empowers administrations to allow Customs officials to carry out the audits that are deemed necessary in order to grasp the whole picture of the transaction and the Customs value, and to ensure compliance with the laws and regulations. Such authority may include:</p> <ul style="list-style-type: none"> <li>- the right to access auditees' premises;</li> <li>- the right to examine business records, business systems and commercial data relevant to Customs declarations;</li> <li>- the right to inspect auditees' premises;</li> <li>- the right to uplift and retain documents and business records; and</li> <li>- the right to inspect and take samples of the imported goods.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<p>Legislation may be required to provide authority for Customs auditors to access and use electronic information, including the auditee's system(s), in order to verify information, as well as the admissibility of such information when used as evidence.</p> <p>These powers should not be taken as an investigation tool (e.g., enforcement based on probable suspicion of fraud); rather, they should be used where necessary to verify that the declarations submitted were accurate.</p>	
7	<p>Does national legislation set out the obligations of persons/companies involved in international trade?</p> <p>- If yes, how long does it oblige the persons / companies to keep records of financial statements and import related documents?</p>	<p>The rights and obligations of auditees may not be defined or specified.</p> <p>Possible lack of transparency.</p>	<p>Draft/propose legislation on the obligations of auditees, to ensure that auditors can carry out their duties, but also on the rights of auditees, to ensure that the powers of the auditors are not misused and the auditees' legitimate business is not disrupted.</p> <p>The obligations of the auditee may include:</p> <ul style="list-style-type: none"> <li>• a requirement to establish and maintain trade-related documents, accounting books and related information. The period during which records must be retained should be no shorter than the maximum period after importation when Customs may legally demand underpaid duty and make refunds for overpaid duty; and</li> <li>• a requirement to make such documentation, information and records available in a timely manner.</li> </ul>	<p>Revised Kyoto Convention General Annex (Chapter 3 and Chapter 8)</p>



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			The legislation should provide that traders who keep the documents mentioned above in digital format must maintain them for the same period as indicated.	
8	Does national legislation prohibit auditors from disclosing company secrets?	<p>Poor recognition of business confidentiality, lack of regulations about confidential documents.</p> <p>Potential integrity issues.</p> <p>Customs process may not meet reasonable business needs.</p> <p>Lack of risk management and information management processes.</p>	Implement legislation that would ensure a right to expect confidential treatment of business documentation.	
9	<p><b>Penalties</b></p> <p>Is there an administrative penalty regime in place?</p> <p>If yes, please describe.</p> <p>If no, what penalty or fine system is in place to act as a deterrent against future errors by importers/exporters?</p>	<p>Heavy penalties/criminal charges are imposed for minor irregularities, which does not encourage compliance.</p> <p>Customs does not distinguish between irregularities which may be due to ignorance or carelessness and deliberate fraud.</p>	National legislation should provide for administrative penalties for inaccurate declarations caused by negligence, in order for Customs to impose such penalties in a prompt manner, but at the same time treat the importer/exporter concerned not as a potential criminal but as a future compliant partner.	Revised Kyoto Convention General Annex (Chapter 3) and Specific Annex H1
10	<p>Does the administration impose administrative penalties for inaccurate declarations caused by negligence?</p> <p>This includes cases such as:</p> <ul style="list-style-type: none"> <li>inaccuracy which was probably intentional but cannot be proven to be so, or</li> </ul>		<p>Introduce scaled administrative penalties, i.e., small fines for minor/first time irregularities, larger fines for more serious or repeated irregularities.</p> <p>Offer assistance and advice to traders who make minor (non-fraudulent) errors, in order to improve compliance levels.</p>	Revised Kyoto Convention General Annex (Chapter 3) and Specific Annex H1



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
	<ul style="list-style-type: none"> <li>audit unit has referred the case to the investigation section, but the latter does not take up the case.</li> </ul>			
11	Is the declarant permitted to amend/correct genuine mistakes without penalty?	<p>No legislation/regulations on amending/correcting declarations.</p> <p>If traders want to amend declarations, they are charged penalties.</p>	Consider the introduction of a voluntary disclosure programme, which gives traders a chance to correct declarations (e.g., inaccurate information) or disclose information that has not been reported, without penalties in the appropriate circumstances.	<p><i>PC0387, dated 16 September 2014, (PTC document regarding "Voluntary Disclosure Programme")</i></p> <p>Revised Kyoto Convention General Annex (Chapter 3 Standards 3.27, 3.28 and 3.39)</p>
12	How does the administration determine the administrative penalty for irregularities?	Heavy penalties are imposed for minor irregularities, which does not encourage compliance.	<p>National legislation should specify a range of maximum (and minimum) penalties that can be applied, in order to allow Customs some degree of discretion when considering the circumstances of each irregularity.</p> <p>The amount of such penalties should not be too high, considering the need for future cooperation and voluntary compliance from the business side.</p>	Revised Kyoto Convention Specific Annex H1



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
13	<p><b>Use of external service contractors, e.g., Pre-shipment inspection (PSI)</b></p> <p>Is there a contract between the administration and an external provider, under which import declaration verification functions have been delegated (e.g., pre-shipment/ destination inspection regimes)?</p>	<p>Customs administrations do not develop the capacity to conduct core Customs functions, which is essential for performing audits.</p> <p>Customs is not involved in the setting up of contracts.</p>	<p>Plan a strategy to terminate existing contracts. External support should be necessary only in limited cases (e.g., post-conflict reconstruction).</p> <p>Reduce reliance on inspection services and strengthen Customs capacity to conduct core controls for audit.</p>	<p>WCO Niamey Declaration</p> <p>WCO press release March 2014</p> <p>Revenue Package Guidelines</p>
14	<p><b>Organizational Structure</b></p> <p>Describe the structure of the Customs administration with respect to PCA.</p>	<p>Irrational organizational structure making it difficult to carry out the duties effectively and efficiently.</p>	<p>Provided the administration is in the early stage of implementation of PCA, consider centralizing PCA sections at Headquarters (HQ), for the following reasons:</p> <ul style="list-style-type: none"> <li>• consistent application of national strategy and targeting;</li> <li>• accumulate experiences and knowledge of auditing (local units can be deployed in a later stage);</li> <li>• better communication among auditors to facilitate the exchange of best practices; and</li> <li>• maintain the integrity of the auditors.</li> </ul>	
15	<p>Does the reporting line of regional PCA offices lead to the PCA section at HQ?</p>	<p>Reporting line of regional PCA offices does not lead to the PCA section at HQ.</p> <p>No direct consultation mechanism between regional PCA sections and the PCA section at HQ.</p>	<p>In designing/redesigning the organization, consider having a reporting line for regional PCA sections that leads to the PCA section at HQ, so that the latter can accumulate best practices and be consulted in the event of problems.</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			Please refer to Q.23 for the consultation process and Q.29 for report writing.	
16	Does your administration design its organizational structure with a view to facilitating cooperation among closely relating sections?	PCA section and other closely related sections are under different Directors, which hinder close communication.	<p>Consider designing the organization with reference to which section the PCA auditors need to work with most closely and most frequently.</p> <p>PCA section usually works closely with the risk management section, intelligence section for targeting and specific intelligence, HS / valuation / origin experts for accurate application of laws and regulations, investigation section for referral of fraud cases.</p>	
17	Does your administration have a special intelligence unit for PCA?	The intelligence section outside of PCA section has no experience / understanding of PCA	Consider establishing a unit specializing in PCA within the intelligence section, or create an intelligence unit within the PCA section, as the targeting technique is unique and more active exchange of information with internal/external organizations is recommended.	



**Part 3 - Procedures**

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
18	<b>Clearance procedure</b> Are risk selection criteria used to determine which Customs declarations will be examined at the clearance stage?	Lack of risk-based selection can hinder importers'/exporters' acceptance of audits, which they may view as merely a double check by different units within Customs.	Develop a comprehensive risk management strategy that supports the intelligence and risk assessment approach at the declaration stage.	WCO Guidelines for PCA Volume I  Revised Kyoto Convention and its Guidelines  General Annex (Chapters 3 and 6)
19	Does the Customs administration require a declaration of value in addition to the Customs declaration?	Lack of available commercial documentation to facilitate thorough verification of Customs values, proof of payment, etc.  Customs is not able to identify additional elements of the Customs value which are not itemized on the invoice (e.g., selling commissions and royalties).	If this is not in place, consider establishing a procedure for requiring declarations of value; this helps to ensure importers are aware of, and include, all relevant elements of the Customs value. Whether the importer has lodged a declaration of value can be one of the risk indicators to scale the level of knowledge on Customs valuation.	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
20	<p><b>Audit stage</b></p> <p>Do PCA officers almost always go to the importer's premises when they conduct an audit?</p>	<p>Auditors seldom visit importers' premises, because of a lack of understanding of the benefits of field audits at an importer's premises.</p> <p>Unavoidable obstacles to conducting an audit at the importer's premises, such as concerns for the auditor's safety.</p>	<p>The best results can be accomplished by an on-site field audit. For other benefits of on-site audit, please refer to Q24 onwards.</p> <p>Desk audits could be an option to address this problem. Ask auditees to bring all necessary documents. Specify in advance the documents that must be brought, so that auditees do not need to visit Customs repeatedly.</p>	
21	<p>Are there sufficient funds for conducting on-site field audits?</p>	<p>Budgetary constraints on the conduct of field audits.</p>	<p>Conduct desk audits for the time being, and keep explaining to the budget section why field audits are necessary and beneficial.</p> <p>On-site audits usually save time and resources, because the auditors can ask for additional documents on site, check their computer/business emails, or ask for explanations from the persons in charge; this enables more audits to be carried out, thus increasing the opportunities to recover more revenue.</p> <p>For other benefits of on-site audits, please refer to Q24 and onwards.</p>	
22	<p>Is there a possibility of visiting the same auditee several times per year, for regular auditing?</p>	<p>An auditee has to accept PCA several times per year for declarations covering the same period, because the Customs PCA section is divided into several units with particular knowledge and expertise (HS/Valuation/Origin/Trade Security, etc.), and each unit visits the same auditee for a regular audit.</p>	<p>Audits should be conducted on necessary bases, upon agreement with the auditee. However, consider minimising the burden of the auditee, taking account of the partnership concept and requesting for high compliance level from the business side. Minimizing the audits also contributes to the efficiency of Customs.</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
		Different regional Customs PCA units visit the same auditee, because import clearance took place at different regional Customs offices.	<p>Consider staffing each unit either with staff who have general knowledge or with staff who have a variety of specializations, so that the audit causes minimum interference to the auditee, occurring once a year or less, for example.</p> <p>Consider authorizing PCA auditors to check all declarations, no matter which Customs region granted the import permit; in this eventuality, modifications should be reported to the original Customs region concerned.</p>	
23	Does consultation take place between the regional office and HQ during/after the audit if any difficult issue has arisen?	Regional PCA sections are independent/out of the reporting line, and do not consult with the PCA section at HQ.	<p>Regardless of the reporting line, consider establishing a practical consultation mechanism between these sections, so that HQ can play its centralized function.</p> <p>Please refer to Q.29 for report writing.</p> <p>For the relationship of PCA sections with other sections/agencies and the sharing of information on international best practices, please refer to "Part 5 - Liaison."</p>	
24	<p><b>Importance of on-site visits to the importer's premises</b></p> <p>How does the administration find out that the importer (buyer) paid expenses in addition to the invoice price, which may be dutiable under the Valuation Agreement?</p>	<p>Lack of knowledge about what is dutiable under the WTO Valuation Agreement.</p> <p>Duty assessment method is focused on checking the authenticity of documents submitted at the border.</p>	<p>The WTO Valuation Agreement can be fully applied as a result of post-clearance audits, because the following, frequently-encountered cases are very difficult to detect at the border:</p> <ul style="list-style-type: none"> <li>- separate payments</li> <li>- assists</li> <li>- relationship between buyer and seller</li> <li>- Origin irregularities.</li> </ul>	<p>Customs Valuation Compendium</p> <p>Origin Irregularity Typology Study</p>



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
		Origin irregularities rarely detected, because of a lack of knowledge of the manufacturing processes or materials used to obtain products.		
25	How does your administration check that the importer/exporter actually exists?	Importer/exporter could be a shell company.	As one of the risk indicators for the front line, the existence of business establishments or infrastructure (building/room, etc.) can be checked by audit. Further assessment can be performed by the intelligence section.	
26	How does your administration measure the compliance level of importers/exporters?	Unless there is a record of irregularity at the clearance stage, there is no means of measuring the compliance level of importers/exporters.	<p>The compliance level of an importer or exporter is quite easily scaled by audit, e.g. :</p> <ul style="list-style-type: none"> <li>- level of cooperation: observing how the importer/exporter accepts auditors or other visitors may give a clue as to the company philosophy. Also, some high-risk importers/exporters appear to be cooperative, but are unwilling to disclose information in practice.</li> <li>- management check: ask for certain documents and see whether they can be submitted easily. If the company is well managed, the response will come quickly.</li> <li>- ask questions to operational managers, if accountants' explanations were not satisfactory. Operational managers may reveal hidden truths, or sometimes may demonstrate that the business is not as compliant as the accountants have claimed.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<ul style="list-style-type: none"> <li>- thorough verification of classification and origin: auditors can physically and documentarily check products in terms of HS classification and origin, including manufacturing processes and materials, provided that the auditee admits that these are the products actually imported, and they exactly match the description in the import documents.</li> </ul>	
27	<p>Are irregularities frequently found in relation to the misclassification of cleared goods?</p> <ul style="list-style-type: none"> <li>- If yes, does your administration carefully collect evidence to prove that the sample/information obtained during the audit accurately represents the goods cleared at the border?</li> </ul>	<p>No consideration of the fact that imported goods have already been cleared, and samples obtained during audit do not necessarily represent the goods imported under the declaration concerned.</p>	<p>Consider the risk of finding irregularities related to misclassification, and take the necessary measures to ensure the accuracy of evidence.</p> <p>Auditors can physically check the products/samples/documents to discover misclassifications of imported goods, having in mind that the samples obtained during audit do not necessarily represent the imported goods covered by the declaration concerned.</p>	
28	<p><b>Report writing</b></p> <p>What elements does your administration require the auditors to report to the line manager?</p>	<p>No fixed elements in audit reports.</p> <p>Reports are not considered as an important source of information for targeting.</p>	<p>Consider including the following elements in the report and accumulating them for future targeting, in addition to the “suggested checklist” indicated in the Guidelines:</p> <ul style="list-style-type: none"> <li>- Audit ID (unique number for the audit conducted)</li> <li>- Date of audit</li> <li>- Man-days required for audit</li> <li>- Amount / value of irregularities found</li> <li>- Assessment of the auditee’s risk rating by the auditor.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<p>ID and the date of audit identify a particular audit.</p> <p>Man-days and the amount/value of irregularities evaluate the auditee as well as audit / auditor.</p> <p>Assessment of auditee's risk rating informs any future audit.</p> <p>Please refer to Q.40 for the evaluation of auditee, Q.53 for evaluation (performance measurement) of audit / auditors.</p>	
29	<p>Are the audit reports forwarded to/shared with the PCA section at HQ?</p> <p>If yes, does HQ share good techniques or case details with auditors nationwide?</p>	Regional PCA sections are outside the reporting line and reports are seldom shared with the PCA section at HQ.	<p>Regardless of the reporting line, reports must be shared with the PCA section at HQ, so that HQ can accumulate good techniques to share with other regional PCA sections.</p> <p>Please refer to Q.15 for organizational structure, and Q.23 for consultation.</p> <p>For more information on the relationship of PCA sections with other sections/agencies and sharing information on international best practices, please refer to "Part 5 - Liaison."</p>	



# DIAGNOSTIC TOOL - PCA

## Part 4 – Risk management for PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
30	<p><b>General</b></p> <p>Has the administration developed a national strategic risk management programme that includes PCA?</p>	<p>All importers/exporters are treated alike from a risk perspective, leading to poor use of resources and a lack of trade facilitation for compliant importers/exporters.</p>	<p>Conduct discussions to identify high / low risk importers/exporters, and make decisions that low risk importers/exporters' are subject to less frequent controls/audits.</p>	<p>WCO Guidelines for PCA Volume I</p> <p>WCO Risk Management Compendium</p> <p>WCO Guidance on mirror analysis technique</p>
31	<p>Is relevant data collected and analysed in order to identify revenue risks?</p> <ul style="list-style-type: none"> <li>Are import/export trade statistics collated and analysed?</li> <li>Are importer/exporter profiles maintained that contain data on past compliance records? Are importers/exporters given a risk rating?</li> </ul>	<p>Lack of reliable data (e.g., trade statistics, importer/exporter compliance levels, etc.)</p> <p>Failure to share risk and intelligence data within Customs, e.g., between valuation, enforcement, PCA and intelligence and risk analysis sections.</p> <p>Staff not adequately trained in risk management/risk analysis techniques.</p>	<p>Collect and process raw import/export data for future analysis and targeting.</p> <p>Please refer to Q.33 for risk indicators, and Q.35 for importer/exporter profiles.</p>	
31.2		<p>Government encourages Customs to implement PCA without having a risk management mechanism in place.</p>	<p>Possible solutions for Customs administrations to implement PCA without a strong risk management mechanism or infrastructure could include:</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<ol style="list-style-type: none"> <li>1. Implementation of a so-called “trusted trader programme.”<sup>2</sup> The programme referred to here involves traders who meet compliance criteria set by Customs receiving facilitated treatment at the border, with Customs checking the declaration at a later stage. This enables a greater volume of imports to be facilitated, while the trader promises to accept PCA with a cooperative attitude;</li> <li>2. If the administration has difficulty with the implementation of a trusted trader programme, it should at least try to conduct transaction-based audit. Begin by scrutinizing declarations that have already been accepted to look for possible irregularities, and visit the declarant or the importer/ exporter to check whether a particular declaration is correct; or,</li> <li>3. As a start, as far as the legislation permits, simply visit importers/exporters and collect information without conducting an audit activity, so that common transactions patterns are learned and possible irregularities are identified for the future.</li> </ol>	

<sup>2</sup> There is no established definition of the “trusted trader programme”, because the programme varies. It may be a programme that is based on national legislation, or it could be based on an agreement between Customs and traders. It should be distinguished from the AEO programme, because the “trusted trader programme” does not necessarily include strict security measures as does the AEO in SAFE, or “authorized persons” in the Revised Kyoto Convention. If your administration establishes a “trusted trader programme,” it should design the exit strategy to be employed when PCA becomes the norm in your administration and needs to be rolled out to all importers.



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
32	<p><b>Targeting</b></p> <p>Where do the greatest revenue risks lie when targeting importers for audit?</p>	<p>Focus on the transactions (declarations), and decide which ones to audit based on the fact that the declarations were cleared through the green channel. In this case, declarations which passed through the yellow or red channel are not audited.</p>	<p>Provided the administration is in the early stage of implementation of PCA, consider auditing importers with a large value of imports.</p> <p>Bear in mind that the following cases are often encountered, but are very difficult to detect at the border:</p> <ul style="list-style-type: none"> <li>- separate payment</li> <li>- assists</li> <li>- buyer and seller are related.</li> </ul> <p>Therefore, the sole fact that a declaration was cleared through the yellow or red channel does not mean it is low risk for audit.</p> <p>Be sure to audit as many industrial sectors as possible, in order to:</p> <ul style="list-style-type: none"> <li>• identify common transaction patterns, e.g., money flow and distribution flow, in each industrial sector;</li> <li>• analyse and identify possible irregularities related to that pattern.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
33	Has your administration identified any high risk industries?	No risk indicators to target specific industries to audit.	<p>Identify the overall risk posed by an industry sector. By doing this, a Customs administration will be able to target all or selected companies within that industry sector as high risk.</p> <p>An industry sector may be classified as high risk for various reasons, such as:</p> <ul style="list-style-type: none"> <li>- the strategic importance of the industry to the national interest;</li> <li>- the international trade agreements which govern the industry;</li> <li>- public health and safety considerations;</li> <li>- intellectual property rights; and</li> <li>- the economic impact of the imports.</li> </ul>	
34	Has your administration identified revenue risks for each industrial sector?	Auditors undertake audits without knowing any background information about the industry.	<p>Start a dialogue with high risk industries. It is beneficial to do so for the following reasons:</p> <ul style="list-style-type: none"> <li>- Customs can identify a common business pattern, which is crucial for understand transactions;</li> <li>- Customs obtains commodity information regarding materials, production methods and other technical issues, to help identify possible irregularities;</li> <li>- This provides a great opportunity to explain the benefits, procedures and legal background of PCA and request their cooperation.</li> </ul>	Revenue Package Case Study: Brazil Valuation Control Programme



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
35	Does your organization set risk indicators for the field auditors to use so that they can choose auditees tactically?	<p>Auditees are usually selected randomly by auditors or by the system.</p> <p>Auditees are selected based solely on irregularities found at the clearance stage - in other words, the focus is on already known risks.</p>	<p>In order to identify particular importers to audit, consider establishing risk indicators, e.g.:</p> <ul style="list-style-type: none"> <li>- importer's volume of imports</li> <li>- total value of imported goods</li> <li>- types of goods imported</li> <li>- records of irregularities at border/ compliance problems</li> <li>- new importer/exporter.</li> </ul> <p>Please refer to Q.28 for elements of past audit records in targeting.</p>	
36	In addition to dealing with targeted auditees, does your administration conduct random audits?		<p>The benefit of random auditing is that it makes importers/exporters aware that they are always liable to an audit. However, for this purpose, considering the limited number of auditors it is more beneficial to conduct targeted audits on importers/ exporters who are considered relatively lower risk, rather than conducting certain audits literally at random.</p> <p>The outcome of the audit should be utilized to assess the current risk criteria.</p>	
37	<p><b>Importer Profiles</b></p> <p>Has your administration established a profile database of importers?</p>	<p>The only available data is raw import data, and the administration does not know each importer's characteristics.</p> <p>Customs only knows importers by their name.</p> <p>No profile has been filed.</p>	<p>Consider extracting import/export data and developing an importer database for further analysis.</p> <p>Import/export data should be accessible to all officials who are in charge of developing importer profiles.</p> <p>Selection criteria for audit should be developed, taking account of intelligence, trade trends and high-risk priority areas.</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<p>It is highly recommended that a database be maintained for this purpose.</p> <p>Please refer to Q.33 for risk indicators.</p> <p>Once you have an import/export database on each importer, the next step is to establish a database of importer profiles using the indicators below, for risk assessment and targeting of auditees.</p> <p>Some of these elements will be disclosed on the importer's website, while others can be obtained by a visit by the intelligence section, or by an email/post/phone enquiry.</p> <p>Useful information includes, for example:</p> <p>Profile of importers</p> <ul style="list-style-type: none"> <li>- Capital</li> <li>- Business partners (suppliers, agents, customers, etc.)</li> <li>- Method of payment for imported goods.</li> </ul> <p>Trade data</p> <ul style="list-style-type: none"> <li>- Volume of imports</li> <li>- Amount of duties paid</li> <li>- Main goods imported (HS code)</li> <li>- Declarations of value</li> <li>- Country of origin of imported goods.</li> </ul> <p>Auditee's past record</p> <ul style="list-style-type: none"> <li>- Audit records</li> <li>- Customs declaration errors</li> <li>- Offence records</li> <li>- Tax/VAT compliance information, if available.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
38	Does your administration categorize the risk represented by importers/exporters?	No categories introduced, and it takes time to select auditees.	Define risk level of importers/exporters, taking into account trade data, auditee's past record, related information/ intelligence, etc.	
39	How many audits are realistically possible, considering the number of auditors and units available?  -Is there any flexibility in the plan?	Annual/monthly plan sets an unrealistic target number of audits.  Annual plan is too rigid and is difficult to amend, which results in insufficient audits with unsuccessful recovery.  PCA manager has to report any amendments to the annual plan to executives.	Analyse how many audits are possible per year/month, taking account of: - number of declarations - complexity of transactions - cooperation level of the auditees.  The annual plan should be flexible, considering that the audit schedule is subject to negotiation with importers/ exporters. Therefore there should be more focus on the results, rather than the plan.	
40	<b>Recording for future risk analysis</b>  How do you evaluate/categorize importers/exporters after the audit, for the purposes of future risk analysis?		Record the case and categorize the auditee by (1) the size or significance of the irregularities revealed by the audit, (2) auditee's record keeping practices such as whether it is ISO certified, and (3) attitude toward Customs and the level of corporate governance, so that the auditee's compliance level can be easily seen and measured.	



## DIAGNOSTIC TOOL - PCA

### Part 5 – Liaison

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
	<b>Liaison within government</b>			
41	Does your PCA section frequently communicate and exchange information with other sections or units within Customs?	No, or rare communication with other sections within Customs.	Establish a suitable scheme or standard operational procedure (SOP) for exchange of information, as PCA cannot be carried out without cooperation with other sections (e.g., with legal section, frontline (clearance section), intelligence section, valuation section, classification section and origin section).	WCO Guidelines for PCA Volume I
42	Has your administration envisaged the possibility of exchanging information with the tax/VAT authorities?  - If yes, what kind of scheme is being considered, or has been established?		If not, start considering the introduction of information exchange with the tax/VAT authorities, for the benefit of the revenue as a whole.  To the extent that national legislation allows, a suitable scheme might involve:  - exchanging knowledge and information relating to targeting auditees/specific record for detecting irregularities - exchanging audit techniques - sending officers to each other's training institutions - exchanges of personnel.	WCO Research Paper No.5 "Cooperation between Customs and Tax administrations: Lesson learned from Revenue Authorities"
43	Does your administration engage in international activities regarding PCA?		Consider joining the discussions in WCO Committees and Working Groups concerning PCA, Valuation, HS and Origin, or attending other relevant meetings to keep up-to-date with international trends,	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<p>so that your administration can encounter new auditing skills and techniques to counter the emerging new transaction schemes in international trade practices.</p> <p>Either with CMAA or other arrangements between administrations, promote a climate of information exchange regarding audit techniques.</p> <p>Please refer to Q.52 for information on the international learning platform.</p>	
44	<p><b>Liaison with Business</b></p> <p>Are there any programmes or policies designed to promote Customs compliance?</p> <p>- If yes, describe them.</p> <p>Are there any mechanisms in place for stakeholders to contribute to the implementation, planning and maintenance of Customs compliance?</p> <p>- If yes, what is the role of the stakeholders in this process?</p>	<p>No improvements in compliance, same problems will continue to exist.</p> <p>No incentives for importers/exporters to comply with regulations and improve the accuracy of their declarations.</p> <p>Lack of communication with trade community prevents Customs from responding to current problematic issues.</p>	<p>Develop and publish programmes and policies.</p> <p>Develop strategies for particular sectors.</p> <p>Communicate with the trade community in order to provide comprehensive information on PCA, to ensure overall compliance of declarations.</p>	<p><i>PC0382, dated 15 September 2014 (PTC document concerning "CUSTOMS-BUSINESS PARTNERSHIP")</i></p>
45	<p><b>Dispute settlement</b></p> <p>Describe the process for dealing with disputes between Customs and the business community. e.g., does it include:</p> <ul style="list-style-type: none"> <li>- a consultative body to facilitate discussions with business on specific concerns</li> <li>- an initial right of appeal without penalty to an authority within the Customs administration or to an independent body</li> </ul>	<p>The absence of an administrative dispute settlement mechanism means that there is no protection for business against Customs decisions or omissions that may not be in compliance with laws and regulations.</p> <p>Potential problems include:</p> <ul style="list-style-type: none"> <li>- erosion of confidence in the Customs administration</li> </ul>	<p>If not available, it is recommended that administrations provide:</p> <ul style="list-style-type: none"> <li>- for the initial right to appeal to the Customs administration against Customs decisions, without penalty</li> <li>- for the right of appeal, without penalty, to a judicial authority</li> <li>- clear information on the rights and obligations of Customs and business in this regard</li> </ul>	<p>Revised Kyoto Convention General Annex (Chapter 1, Standard 1.3 and Chapter 10)</p>



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
	<ul style="list-style-type: none"> <li>- right of appeal without penalty to a judicial authority?</li> </ul> <p>Regarding appeals made to Customs, does the administration:</p> <ul style="list-style-type: none"> <li>- give written notice of its decision on an appeal</li> <li>- give the reasons when an appeal is dismissed</li> <li>- advise appellants of their right to appeal to a higher authority</li> <li>- ensure that disputes are handled by officials who were not involved in the original decision?</li> </ul>	<ul style="list-style-type: none"> <li>- lack of confidence in a transparent process, leading to a potential increase in integrity-related problems</li> <li>- reluctance to lodge appeals where the process is perceived to be costly, time consuming or biased against business.</li> </ul>	<ul style="list-style-type: none"> <li>- a consultative body for resolving disputes with traders prior to an appeal.</li> </ul>	
46	<p><b>Publishing information</b></p> <p>Is there a legal provision which requires the Customs administration to publish all laws, rules and regulations relating to PCA?</p> <p>How are stakeholders advised or informed of changes to PCA policies and practices?</p> <p>Is general guidance on PCA made available to business?</p> <p>Are proposed regulatory and policy changes relevant to PCA made available to business and other stakeholders before implementation?</p> <p>In what formats is information made available (e.g., official journal, bulletins, notices)?</p> <p>How is information made available (via Internet, leaflets, etc.)?</p>	<p>No transparency.</p> <p>Lack of understanding of Customs requirements on the part of the business community.</p> <p>Lack of cooperation with and support from the public, in particular the business community.</p> <p>Lack of voluntary compliance by the business community.</p>	<p>Establish a procedure for making regulations available to regional/local offices as well as the business community. Note that business-confidential information should be withheld.</p> <p>Establish a public source of information and decisions on classification, valuation and origin, preferably through the Customs website, in order to convince auditees that the necessary information is readily available.</p>	<p>Revised Kyoto Convention General Annex (Chapter 9)</p>



## DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
	Is such information provided free of charge?	Charging for information may deter business from accessing it.		

### Part 6 – Human Resource Management

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
47	<b>Recruitment</b>  Are there officials with a good knowledge of accounting or international logistics in the PCA section?	Lack of personnel in the specialized fields needed to conduct an audit, especially accounting knowledge for identifying irregularities in the area of Customs valuation.	Provided the administration is in the early stage of implementation of PCA, consider recruiting experts in accounting or international logistics to supplement the knowledge of existing audit officials; the experts can also lead internal training in these areas.	
48	<b>Rotation Policy</b>  What is the staff rotation policy for PCA auditors?	No policy on job rotation, resulting in a PCA section staffed by non-experienced officials with no more than a basic knowledge of duty assessment.	Allocate to the PCA section officers who have a background in verification/ clearance of declarations, HS and origin, because auditors usually encounter irregularities in all of these areas when they are in the field and therefore have limited access to Customs-house experts.  Retain auditors who have special knowledge in areas such as accounting, which other Customs officers do not necessarily need.  Consider allowing auditors who moved to other sections to return to PCA, so as to make the most of their specialist knowledge.	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
49	Does the administration clearly identify the respective responsibilities of managers, supervisors and auditors in PCA sections?	Inadequate placement of managers or supervisors, as well as auditors, because job descriptions do not contain the necessary specifications.	Clearly identify the knowledge, skills and responsibilities required of PCA personnel.	
50	<b>Training</b> Is there a training strategy in place?	Lack of training and expertise.  No opportunity to exchange experiences, raise questions, hold discussions or receive advice from well-trained officials.	Customs administrations should be committed to providing auditors with the levels of training necessary to perform their duties.  Consider formulating a Customs training strategy that includes how to develop auditors (at what level, on what subjects, and how).	
51	Has the administration identified the technical resources required for the implementation of PCA?	Lack of knowledge regarding what skills are necessary, leading to an ineffective training strategy.	Knowledge and skills in the following areas are very important, and will improve the effectiveness and efficiency of audits: <ul style="list-style-type: none"> <li>• Customs laws, regulations and procedures (valuation, HS, origin, etc.);</li> <li>• International trade/business practices, including banking procedures;</li> <li>• Accounting techniques and principles, including generally accepted accounting principles (GAAP), auditing standards and procedures;</li> <li>• Proficiency in English, at least to the level of being able to read and understand invoices and other related documents;</li> <li>• Knowledge of products, e.g., how a product is manufactured and what it consists of; and</li> <li>• Computer skills, including electronic record-keeping.</li> </ul>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
52	What non-national training opportunities are used, such as the WCO, regional seminars, etc.?	Lack of recognition of international tools for acquiring new auditing skills or techniques.	<p>Make use of the PCA e-learning programme on the CLiKC! Platform, or submit a request for technical assistance.</p> <p>Please refer to Q.43 for international activities regarding audit techniques.</p>	
53	<p><b>Performance Measurement/ Quality Management</b></p> <p>Does the administration have a policy on quality management / performance measurement of auditors?</p>	<p>No management policy on quality assurance.</p> <p>Performance is simply measured in terms of the amount of duty recovered, and auditors are considered non-eligible if the amount they recover does not meet the target.</p>	<p>Carefully introduce a performance measurement/quality management policy, taking the following into account:</p> <ul style="list-style-type: none"> <li>• Formality <ul style="list-style-type: none"> <li>○ whether the auditors/units follow the standard operating procedures set by the administration</li> <li>○ whether the auditors/units adhere to the auditing checklists.</li> </ul> </li> <li>• possible performance indicators are: <ul style="list-style-type: none"> <li>○ the amount of duty recovered by the auditors/units</li> <li>○ the number of audits conducted per month/year</li> <li>○ the percentage of irregularities found, out of all audits conducted</li> <li>○ contribution to the human resource development of the PCA section.</li> </ul> </li> </ul> <p>In formulating the performance measurement/quality management policy, the administration must taking account of the following factors:</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
			<ul style="list-style-type: none"> <li>a “bad” result by an auditor (low amount of duty recovered) may be because the traders audited were compliant;</li> <li>auditors/units are not skilled because the administration does not provide sufficient training; or</li> <li>a “good” result by an auditor (high amount of duty recovered) may be the result of misguided application of the law.</li> </ul> <p>Therefore, the administration should keep in mind that the performance indicators mentioned above must not be the only elements used to evaluate the performance of auditors/units.</p>	
54	Does your administration positively evaluate auditors who share good practices/past audit results, technical skills, or their knowledge with other internal or external auditors?		Establish an evaluation policy that positively evaluates auditors who share good practices/past audit results, technical skills, or their knowledge with other auditors; this will foster information sharing, leading to better results for the administration in the long run.	
55	<b>Reward system</b> Does your administration have a reward system (e.g., auditors receive a cash reward for a certain percentage of revenue recovered, or penalties imposed)?	<p>Auditors impose excessive amounts of duties, with misguided application of the law, because they receive cash rewards based on the amount of irregularities detected.</p> <p>Even if auditors remain faithful to justice and to the correct application of the laws, negative rumours or reputational slurs may be widespread, with claims that auditors are motivated by cash rewards.</p>	<p>Minimize/abolish reward systems to avoid excessive/repressive audits, as a means of pursuing the long-term aim of obtaining traders’ trust and compliance, and upholding the reputation of the service.</p> <p>Create an alternative method of rewarding good service; this should be a non-monetary award, such as a certificate of merit presented by senior management.</p>	



# DIAGNOSTIC TOOL - PCA

	Diagnostic Questions	Common Problems	Potential Solutions and Improvement Options	Useful Resources
		Uncooperative practice among auditors: no sharing of techniques or skills, no knowledge passed on, because an auditor's personal expertise directly affects his/her income or bonuses.		





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