

Main directions of work to develop and apply risk management system in customs service of the Republic of Kazakhstan

Given the goals of risks application the implementation of a risk management system envisages not only the new philosophy of customs control organization, but a transition to new level of customs administration with application of modern information technologies, and processing and analysis of significant information flows.

In launching the development of a national risk management system, customs service of Kazakhstan established a work group from a number of main functional subdivisions of customs authorities and developed a phased Plan of actions to implement this system.

Having studied the work of customs services of other countries, where such systems successfully operate (Korea, Singapore, Canada, Turkey), and having evaluated currently available technological and information resources, the development of this system was started in two directions:

First direction is to segregate so called “bona fide” participants of foreign economic activity (FEA), and application of a simplified customs clearance procedure for them (slide 1). As of today the registry includes 329 participants of FEA included in minimal risk category. As we see from the slide, an application by FEA participant serves as grounds to include him/her in a minimal risk category. At this an application can be filed both to customs authority at place of registration, and to an authorized body of customs (i.e. directly to Customs Control Committee). Further the compliance is verified in accordance with the inclusion criteria. Not only a formed electronic unified republican information base on CRVs (*customs rules violations*), which allows to track existing violations by FEA participants who declared at various territorial customs authorities of KAZ, is used as sources, but also the information from tax authorities and other law enforcement authorities. Exchange of CRVs bases between our customs services is undoubtedly of interest for us. Further, in case a FEA participant is included in the registry, application of a simplified procedure applies to all customs authorities for clearance.

Second direction is the development of system for detecting, analyzing and evaluating risks in customs area itself.

First of all methodological work to develop risk indicators and criteria to determine them was carried out, and main sources of information were determined. Not only all risk categories were covered, but potential risks also evaluated. However in this systematization there was a quite serious issue of application of risks, since not all sources of information were automated to a required degree, and constant control and updating of all risk

indicators, and keeping them in an actualized form required not only significant technical, but also human resources.

That's why, while understanding that application of risks is primarily a tool for customs administration and control for the purposes to reduce procedures and expedite customs clearance, we think that application of risks should be divided depending on types and processes of customs control and clearance.

Thus, risk management system is divided into five main functional blocks:

- control over delivery of goods under customs control;
- customs control in case of privileged and simplified clearance procedure;
- customs clearance in case of export of goods outside the Republic of Kazakhstan;
- customs clearance in case of release of goods in free circulation on the territory of the Republic of Kazakhstan;
- in case of post-entry audit.

Application of risks in controlled delivery of goods

According to Customs Code of the Republic of Kazakhstan a FEA participant is entitled to choose a place of main customs clearance, i.e. directly at the point of access to customs territory of the Republic of Kazakhstan, or inside the territory.

Risk of non-delivery of goods to destination customs authorities becomes especially actual in case of remoteness of border customs posts from places of customs clearance. International practice analysis shows that significant share of violations in customs falls on preliminary violations.

Thus it is necessary to create such a system that would allow to minimize risks. The slide shows the sequence of customs operations when goods are brought in on customs territory and document on the control of delivery of goods is drawn. These operations include the following: crossing of customs border by goods and means of transport, carrier's notification to customs authority on crossing the customs border of the Republic of Kazakhstan, preliminary clearance of goods which includes acceptance of documents by customs authorities and their verification.

One of the main purposes of this preliminary clearance is to ensure identification and not allow import of prohibited goods.

Besides that, for the purpose to minimize risks, customs service of Kazakhstan introduces modern information technologies. Main crossing posts at borders with China, Uzbekistan and Kyrgyzstan have operational automated system for controlling the delivery of goods with application of electronic seals. Container scanning systems are applied.

Application of risks in customs clearance in privileged and simplified mode.

Main normative-legal act that determines compliance with customs legislation of the Republic of Kazakhstan in movement of physical persons in privileged and simplified manner

is the Resolution of the Government of the Republic of Kazakhstan as of 31.05.2001 #741. This Government Resolution defines clear framework for application of privileged or simplified procedure.

Based on data provided in passenger declaration and personal identification documents the risk is analyzed and evaluated with subsequent selection of green or red corridor of customs control.

First of all risk analysis and evaluation is made for a FEA participant who is the most important risk category in the filtration of passenger flow, given that simplified and privileged procedure is applied at specified places of crossing of customs border of the Republic of Kazakhstan. In this case these are first of all large check points (airports, automobile crossings, railroad stations).

Based on data on customs violations and information from other law enforcement authorities, and also other methods determining the motivation to cross customs border, a degree of risk for FEA participant, as for a risk object, is determined (risk category). Based on data in PD (*preliminary declaration*) or CRO (*customs receipt order*) (data on transported goods) each risk category is checked with total evaluation of risks, taking into account differentiation of data for evaluation of FEA participant's risk.

Additionally we would like to note that currently, with small volumes of information flow, it is not always possible to review in different parameters the behavior or motivation for actions of a person crossing the border. That is why a big role is attached exactly to expert assessment by inspectors doing customs clearing.

Currently under cooperation with Eurocustoms a project for application of risks in airports is planned, in which a guideline on risk management in airports will be developed on the basis of practical trainings.

Application of risks in customs clearance of export of goods

Customs clearance in EX10 regime envisages risk indicators that in general are not concentrated on evasion from customs payments. Here an important role is given to compliance with non-tariff regulation and currency control, and also to control over actual export of goods from the Republic of Kazakhstan and justified return of VAT to an exporter.

Main measures to minimize risks are as following:

- customs expertise to evaluate the correctness of assigning the code of goods;
- survey and sealing to control actual export of goods from the Republic of Kazakhstan.

Application of risks in customs clearance of import of goods

This direction is the main and largest one that contains all risk categories: type of goods, customs value, country of origin, country of shipment, FEA participant, type of transport, transportation route, documents submitted for customs clearance.

Among the large volume of information on risk indicators in this group an important risk (objective pursued by potential infringer of foreign economic activity), in light of the state customs-tariff policy for imports of goods to the Republic of Kazakhstan, is the evasion or partial evasion from customs payments or taxes.

For instance, evasion or partial evasion from CP&T (*customs payments and taxes*) envisages several risk indicators: declaration of understated value, understated volumes, concealment of goods, change of the country of origin to use tariff preferences, change of code of goods to evade from high rates of import duties and etc.

In evaluation of customs cargo declaration it is assumed to not only apply republican and regional risk profiles, but also a summary assessment of all risk indicators detected on this CCD (*cargo customs declaration*).

Here a combined approach is possible with development of risk criteria that allow to focus on important sectors in this direction.

Main measures to minimize risks envisaged for these risk indicators include customs expertise, documental control, inquiry of additional data from FEA participant or receipt of confirmation for declared data from other information sources, and customs inspection differentiated depending on risk evaluation (full inspection, partial, random and visual inspection).

Application of risks in post-entry audit

Changing the principles in approach to customs control in customs clearance envisages changes in the principle of operation of subdivisions carrying out post-entry audit. The slide shows that post-entry audit officers should carefully prepare before checking foreign economic activity of a FEA participant. This approach allows for spot checking instead of complete checking. Here the time and human resources are saved, and efficiency of inspections is increased. To achieve this, potential objectives of an audit are determined, FEA participant is selected and preparation for inspection starts. In preparation CCD data bases and additional sources are used. Upon completion of preparation a material to start inspection is developed. In the result the following activities can be implemented:

- complete inspection with possible involvement of specialists from other fields;
- inspection on a certain direction;
- notification on debt accrued.
- resolution on elimination of some violation.

In conclusion it is worth noting that we would like to link prospects of developing the risk analysis and management system to first of all further automation of all customs clearance processes, integration with information resources of public authorities, business community, customs authorities of other countries, and introduction of web-based electronic

declaration, or creation of e-customs. As of today Government Resolution approved the PROGRAM for Establishment of E-customs in the Republic of Kazakhstan for a Period of 2005-2007, as a component of electronic Government of the Republic of Kazakhstan.