Post Clearance Audit System in China Customs

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Part 1
The basic concept of post clearance audit

- Post clearance audit means the checking and auditing made by the Customs via the account books, account vouchers, financial report and other relevant data and related import and export goods within 3 years from the date of the release of import and export goods or within the period of Customs supervision and control over bonded goods and goods imported with duty reduction or duty exemption, to verify the authenticity and legality of the import and export activities of the person being audited.

Part 2
The purpose of post clearance audit

- **I. The direct purpose**
- To verify the authenticity and legality of the import and export activities of the person being audited.
- **II. The basic purpose**
- To strengthen Customs supervision and control, normalize the enterprise' import and export behavior, maintain the legal rights and interests of the persons concerned, safeguard the state revenue and promote foreign trade.

Part 3
Laws and regulations supporting audit function

- I. Customs Laws of China;
- II. Regulations for Imposing Administrative Penalties under the Customs Law;
- III. Rules of the Customs of China for External Audit;
- IV. Import and Export Tariff Regulations of China;
- V. Accounting Laws of China.

Part 4: The main rights of post clearance audit

- to enter the Auditee's manufactory, business premises and storage area so as to inspect the manufacturing and business operations as well as goods related to import and export activities;
- to examine and make copies of contracts, accounts and other related material. Such as invoices, book accounts, bills, records, documents, business letters and cables, audio and video products and other materials related to the inward and outward goods and articles;
- to inquire the Auditee's representatives, mayor executives and relative employees about business operation or other questions related to import and export activities;

- Where any possibility is detected of transferring, concealing, falsifying or destroying relevant account books, documents or other relevant data, the Customs shall, with the approval of the Customs commissioner, temporarily seal off the above-mentioned evidence (without affecting any normal manufacturing and business activities of the auditee);

- to gain access, with the approval of the customs commissoner,to the Auditee’s banking account at commercial banks or other financial institution for necessary inquiry or survey.

Part 5
The main obligations of post clearance audit

- Fairly enforcement, protect the sound rights of the auditee;
- Abide by the legal procedures in handling post clearance audit :

Generally, the Customs shall form audit teams, serve the paper advices of audit on the enterprises and units directly relating to the imports and exports 3 days prior to the performance of audit. Under special circumstances, upon the approval of Customs commioner, the Customs may be entitled to effect such audit without informing the auditees in advance, but shall serve the paper advices on the spot.

The audit team shall not less than 2 auditors

Auditors shall produce their auditor's certificates while making auditing the enterprises and units concerned.

- Occupation avoidance

- Inform the audited with the result of auditing in time

Upon conclusion of an audit, the Customs auditing team shall send the Customs an audit report after solicit the auditee's opinion.

A written letter of opinion of the auditee shall reach the Customs within 7 days effective from the receipt of the audit report. The Customs shall, within 30 days from the receipt of the audit report, arrive at an audit conclusion, a copy of which is to be delivered to the auditee.

Part 6
Basic operation of post clearance audit

- **I. The scope of post clearance audit**
- The Customs carries out post clearance audit on the following enterprises and units that directly related to import and export activities:
  - Enterprises and units engaged in foreign trade;
  - Enterprises engaged in foreign processing trade;
  - Enterprises engaged in Customs bonded business;
  - Enterprises and units using or dealing with goods entitled to the treatment of duty reduction or exemption;
  - Enterprises engaged in the business of Customs brokerage;
  - Other enterprises and units engaged in business directly related to import and export as defined by the Customs General Administration.

- **II. The content of post clearance audit**
  - Import and export license;
  - Payment of duty and fees;
  - Bonded goods including import, disposal, warehouse, transportation, process, sales, exhibition and re-export);
  - Usage and management of reduction and exemption goods;
  - Customs broker's operational situation;
  - Usage and management of goods in transit and temporary import as well export;
  - Other activities regarding to import and export activities.

- **III. Basic procedure of post clearance audit**
- As a customs performance system, post-clearance audit is composed with 4 stages, which including preparation, implementation, disposition and appraisal.
- **Preparation.**
- **Implementation.**
- **Disposition.**
- **Appraisal.**

- **IV. The period of post clearance audit**
- Customs conduct the post clearance audit within 3 years from the date of the release of import and export goods or within the period of Customs supervision and control over bonded goods and goods imported with duty reduction or duty exemption.

Part 7
Main working methods

- **I. Combination of risk analysis and post clearance audit.**
- Based on risk-analysis, Customs audit agencies completely apply ideology of “risk-oriented post clearance audit”. Customs select high risk enterprises and commodities for specific audit through collection and analysis of risk data with regard to import and export enterprises operation conditions as well. In a way, Customs can improve the accuracy and effectiveness of audit.

- **II. Combination of regular audit and specific audit.**
- Regular audit means that customs perform audit according to plans, concentrate on the routine management of enterprises. Specific audit is focus on finding and dealing with problems by conducting oriented audit to certain enterprise after risk-analysis. With combination of above mentioned measures, we can enhance the overall control of enterprises.

- **III. Combination of audit and enterprise regularization.**
- Customs audit is the effective measures to norm the enterprises behavior regarding to import and export .The final objective of audit is to improve the enterprises compliance. Customs can help enterprises to comply with laws and regulations with reliance through finding and solving problems, teaching lessons and adjusting compliance level.

Part 8
Methods and measures to norm enterprises

- I. Compulsory book-keeping obligation is established;
- II. Obligation is made regarding keep accounting materials and import and export documentation properly;
- III. Auditees shall submit accounting system and materials regarding import and export goods to Customs periodically;
- IV. By introduction of risk control regime, Customs can norm the enterprises import and export activities through enterprises compliance level;
- V. The enterprises with breaches are subject to the Customs control. Customs reserve the right to penalize the enterprises which fail to rectify the breaches within the limit period.

Part 9
The vision of China Customs post clearance audit

- The system of China Customs post clearance audit hasn't a long history, but such an advanced mode of Customs control has exerted great impact and showed enormous potential. It has made great achievements in regulating the import and export behavior of enterprises, preventing and striking the illegal smuggling activities, also protecting the national taxation.

- The system of Customs post clearance audit is keeping evolving and progressing. In order to gradually establish the so called "three in one, consisting of risk analysis, enterprises auditing, enterprises management" new mode of Customs post clearance audit, we need to comply with the modern Customs system, to coordinate with the other Customs affairs, to integrate with the general international practices. The Chinese characterized Customs post clearance audit system should take the risk analysis as guidance, take enterprises auditing and management as means, and take the regulating import and export behavior of enterprises as target.

- **Thank You Very Much!**