

Streamlining Import Operations

A Guide to Internal Audit
Procedures



Import Procedure

Pre import Phase

Obtain E-IEC and Import License Quota

Place an Order: Directly with supplier or via indent house (agent).

Dispatch Letter of Credit (LC): Guarantees payment upon document presentation. Steps:

- Agreement: Importer and exporter agree on LC terms.
- Application: Importer applies for LC specifying amount, expiry, and required documents.
- Issuance: Bank issues LC, listing required documents (invoice, bill of lading).
- Shipment: Exporter ships goods as per LC.
- Payment: Bank pays exporter, and documents (like bill of lading) are released for clearance.

Appoint Clearing & Forwarding (C&F) Agents: To manage customs clearance. Bank collects documents like Bill of Exchange, Bill of Lading, Commercial Invoice, etc.

Shipment Phase

Submitting of Bill of entry and payment of relevant Duty

- Basic Customs Duty (BCD): A percentage of the goods' value.
- Countervailing Duty (CVD): Counteracts subsidies from exporting country.
- Special Additional Duty (SAD): Ensures fairness with domestic goods.
- Education Cess: Typically 3% of BCD and CVD.
- IGST : Levied on import.

Post-Shipment Phase

Clearing Agents & Customs Clearance: Clearing agents obtain a delivery order from the shipping company after paying freight charges, then pay dock/port dues and present the Port Trust Receipt and Bill of Entry to customs. Goods are cleared upon payment of customs duty; unpaid duty results in storage in bonded warehouses.

C&F Agent Payment: Timely payment to the C&F agent is crucial for efficient customs clearance and delivery. C&F agents handle customs clearance, documentation, duties, processing fees, and logistical support.

Bill of Exchange is a written order from the exporter to the importer, directing payment for goods at a specified future date or on demand. It facilitates trade credit and outlines payment terms agreed upon by both parties.

Bill of Lading is receipt issued by a **carrier**, acknowledging the receipt of goods for shipment. It also acts as a contract for the transport of goods.

Consular Invoice is issued by the consul of the importing country, verifying the shipment's details.

Packing List is the contents of each shipment package, including item descriptions, quantities, weights, and packaging types, facilitating customs clearance and shipment handling.

Certificate of Origin

certifies the country where goods were manufactured. It's crucial for customs clearance and applying tariff rates.

Commercial Invoice

Issued by the seller to the buyer, it details goods sold, including prices, quantities, shipping terms, and payment terms, and is essential for customs clearance and payment processing.

Phase	Document Name	Description	Checklist
Pre Shipment Phase	Performa Invoice	Specifies the quality, grade, design, size, weight, and price of the export product, as well as the terms and conditions of the export.	<ul style="list-style-type: none"> • Confirm that all details match the trade enquiry and internal requirements. • Verify the terms and conditions of sale, including delivery terms, payment terms & Warranties and guarantees. • Ensure the Performa invoice is signed and dated by the exporter
	Import Order or Indent	A document where the buyer (importer) requests the supplier to provide the necessary goods.	<ul style="list-style-type: none"> • Match the quantity and quality of goods with the performa invoice and trade enquiry. • Verify the pricing, packaging, forwarding instructions, and payment methods. • Ensure the import order is approved by the relevant internal departments.
	Letter of Credit	Contains a guarantee from the bank of the importer to the bank of the exporter.	<ul style="list-style-type: none"> • Confirm the authenticity and validity of the letter of credit. • Ensure the terms and conditions match those agreed upon in the import order. • Verify the amount and expiration date of the letter of credit.
Shipment Phase	Shipment Advice	A document informing the importer that the shipment of goods has been made	<ul style="list-style-type: none"> • Ensure that the shipment advice includes all necessary information (invoice number, bill of lading/airway bill number, vessel details, export port, description and quantity of goods, date of departure). • Check for timely receipt of the shipment advice.
	Bill of Lading/ Airway Bill	Prepared and signed by the ship's master, acknowledging the arrival of goods on board.	<ul style="list-style-type: none"> • Verify that the bill of lading includes all relevant shipment details. • Ensure that the terms and conditions of transportation are as per the agreement. • Check for the ship master's signature and official stamp.
Post Shipment Phase	Bill of Entry	A form provided by the customs office to the importer, detailing the imported goods.	<ul style="list-style-type: none"> • Verify that the bill of entry is completed accurately and submitted in triplicate. • Check the details against the import order, shipment advice, and other relevant documents. • Ensure payment of customs duties and proper recording of all entries
	Bill of Exchange / Sight Draft	A written instrument where the exporter directs the importer to pay a specified amount.	<ul style="list-style-type: none"> • Ensure that the bill of exchange specifies the correct amount and payee. • Verify the acceptance of the bill by the importer. • Check for proper documentation transferring title to the goods upon acceptance.
	Import General Manifest	Contains information about the imported product, upon which cargo is unloaded.	<ul style="list-style-type: none"> • Verify the details of the manifest against other shipping documents. • Ensure accurate recording of the imported goods. • Check for any discrepancies and resolve them promptly.
	Dock Challan	Form specifying the amount of dock dues to be paid.	<ul style="list-style-type: none"> • Ensure that the dock challan is completed accurately with the correct charges. • Verify payment of dock dues and proper recording. • Check for any outstanding payments and address them promptly.

Key Components of an Import Audit

An effective import audit encompasses a comprehensive review of various aspects of your import operations. While the specific scope may vary depending on the nature of your business and the countries you import from, the following components are typically included:

I. Classification and Valuation

Accurate classification under the Harmonized System (HS) and correct valuation are essential for proper duty calculation and compliance. Misclassification or undervaluation can result in substantial penalties, shipment delays, or financial repercussions.

Example: For electronic components, ensure the goods are classified under the correct HS code and their value is properly declared to avoid customs penalties.

II. Country of Origin Determination

The country of origin impacts tariff rates and eligibility for preferential treatment under free trade agreements (FTAs). Incorrect origin declarations can lead to overpayment of duties and missed cost-saving opportunities.

Example: Importing textiles from an FTA partner country requires accurate country of origin declarations to avoid paying unnecessary duties.

III. Import Documentation

Complete and accurate import documentation is essential for smooth customs clearance and compliance. This includes commercial invoices, packing lists, certificates of origin, and bills of lading. Incorrect or missing documents can lead to penalties and delays.

Example: Ensure all invoices include the correct HS codes, country of origin, and values to avoid customs issues.

IV. Duty and Tax Payments

Reviewing the accuracy of duty and tax payments ensures compliance with applicable tariff rates. Overpayments or underpayments of duties can lead to financial penalties, disputes, and customs challenges.

Example: Cross-check the duties paid with the current tariff schedules to ensure that you're not paying more or less than required.

V. Technology Integration and Automation

Leveraging technology plays a key role in improving the audit process. Tools like import compliance software, data analytics platforms, and cloud-based document management systems help reduce errors and ensure compliance with up-to-date regulations.

Example: Use import compliance software to classify goods, calculate duties, and generate documentation automatically, ensuring accuracy and efficiency.

VI. On-Site Reviews and Physical Inspections

Physical inspections help verify that the inventory matches the documented information. Ensuring that goods are classified, valued, and recorded correctly is critical for compliance and smooth operations.

Example: Conduct on-site visits to your warehouses to ensure that inventory is aligned with your customs declarations and that record-keeping processes are being followed.

VII. External Audits and Third-Party Consultations

Engaging external auditors or consultants adds objectivity and expertise to the process. External audits help uncover hidden risks and discrepancies that might be missed internally, and external experts can offer valuable insights on improving compliance strategies.

Example: An external audit can uncover incorrect tariff classifications or offer advice on how to streamline internal compliance processes.

VIII. Training, Awareness, and Continuous Improvement

Ongoing training for your import team is crucial to stay informed about changing regulations and best practices. A culture of compliance is fostered through continuous education, process improvements, and adherence to internal controls.

Example: Provide periodic refresher courses for staff on regulatory updates, HS code changes, and internal audit procedures to reduce errors and ensure compliance.

IX. Monitoring and Corrective Actions

Identifying issues during the audit is only the first step; taking corrective actions and monitoring their implementation is critical. Ensuring that the improvements are sustainable helps maintain compliance over time.

Example: After identifying discrepancies, implement corrective actions such as updating documentation procedures or adjusting internal controls, and schedule follow-up audits to verify improvements.

X. Findings, Recommendations, and Follow-Up

Once the audit is complete, document findings, suggest recommendations for improvement, and communicate these results to relevant stakeholders. Follow-up audits ensure that corrective actions are successfully implemented.

Example: After reviewing the audit findings, recommend process improvements such as revising internal workflows for record-keeping or enhancing classification protocols.

Internal Control Measures for Identifying Red Flags

Red Flags	Internal Controls
I. Inaccurate Customs Declarations	<ul style="list-style-type: none"> • Implement regular audits of customs declarations • Provide training to employees on customs regulations • Establish procedures for reviewing and verifying customs documentation before submission
II. High Rate of Customs Duties and Taxes	<ul style="list-style-type: none"> • Conduct regular reviews of tariff classifications • Monitor changes in customs regulations and adjust procedures accordingly • Maintain documentation to support duty exemptions or reductions
III. Irregularities in Inventory Records	<ul style="list-style-type: none"> • Implement regular inventory audits and cycle counts • Segregate duties to prevent unauthorized access to inventory • Utilize barcoding or RFID technology for accurate tracking
IV. Unexpected Delays or Seizures at Customs	<ul style="list-style-type: none"> • Establish procedures for pre-clearance of shipments • Monitor customs clearance process and address any delays promptly • Maintain open communication channels with customs authorities
V. Fluctuations in Supplier Performance	<ul style="list-style-type: none"> • Conduct regular evaluations of supplier performance • Diversify supplier base to mitigate risks of reliance on a single supplier • Establish contingency plans for sourcing alternative suppliers
VI. Unexplained Increases in Shipping Costs	<ul style="list-style-type: none"> • Monitor shipping rates and negotiate contracts with carriers • Review freight invoices for accuracy and discrepancies • Implement controls to prevent unauthorized changes to shipping arrangements
VII. Instances of Non-Compliance with Trade Agreements	<ul style="list-style-type: none"> • Develop a system for monitoring changes in trade agreements • Conduct regular reviews to ensure compliance with rules of origin • Provide training on trade agreement requirements to relevant staff
VIII. Unusual Patterns in Payment Transactions	<ul style="list-style-type: none"> • Implement segregation of duties between payment authorization and processing • Conduct periodic reviews of payment records for anomalies or discrepancies • Utilize automated controls such as payment approval workflows
IX. Lack of Documentation for Import Transactions	<ul style="list-style-type: none"> • Establish procedures for maintaining complete and accurate import documentation • Conduct regular audits to ensure documentation is properly filed and archived • Provide training to employees on the importance of documentation compliance

1 Duty-Free Import Authorization (DFIA) Import inputs required for export production without paying basic customs duty (BCD) and other levies. May cover fuel, oil, and catalysts used in production.

Key Requirements:

- Export product must be listed under Standard Input-Output Norms (SION) with a minimum value addition (usually 20%).
- Complete export within a specified timeframe (typically 12 months).

2 Advance License (AA) Similar to DFIA but allows import of inputs not covered by SION (with specific approvals). Can be used for physical exports, deemed exports (supplying to other exporters), or intermediate supplies.

3 Export Promotion Capital Goods (EPCG) Duty-free import of capital goods required for export production. May include machinery, equipment, and instruments.

Key Requirements:

- Minimum export obligation needs to be fulfilled within a specific time frame (varies depending on the value of capital goods).
- Imported capital goods cannot be sold domestically without paying applicable duty.

4 Duty Drawback :Allows exporters to claim a refund of customs duty, central excise duty, and Integrated Goods and Service Tax (IGST) paid on inputs used in exported goods.

