THE ROLE OF SELECTIVITY CRITERIA FOR EFFECTIVE POST-CLEARANCE AUDIT (PCA): BANGLADESH PERSPECTIVES

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ABSTRACT:

The Post-clearance Audit (PCA) is being used by the Customs administrations across the world to facilitate trade as well as to reduce revenue evasion. As a limited number of declarations or entities need to be audited, the selectivity criteria for identifying the riskiest ones for conducting PCA is of utmost importance for the effectiveness of audit. A wrong selection for audit will be counterproductive. That is why, this paper examines how the selectivity criteria impact the PCA. The WCO and WTO have advised the administrations to focus on the systematic use of PCA rather than examining every imported consignment at the ports. Therefore, the PCA assists the authorities to expedite clearance of goods, while, at the same time, ensures plugging leakages and, finally, enhances collection of duties and taxes at the import stage. This study scrutinises the existing selection procedures for PCA with qualitative analysis; however, some major stakeholders and Customs officials have been interviewed to analyse the mechanism for identifying the loopholes and prospects of the PCA initiative. Furthermore, this paper will not only help the administrations set the selectivity criteria for PCA, but also assist to redesign existing PCA selectivity system.

Keywords: *Post-clearance Audit (PCA), Risk Management (RM), Customs, Trade Facilitation, Selectivity Criteria, Bangladesh Customs.*

1. INTRODUCTION

The smooth clearance of imported and exported goods largely depends on the effective implementation of Customs Post-clearance Audit (PCA). The smooth operation of PCA depends, on the other hand, on precise selectivity criteria that help identify the non-compliant traders or risky consignments. Considering the PCA as one of the robust trade facilitation tools, the WTO Trade Facilitation Agreement (TFA) has made the systematic use of PCA obligatory for quick clearance of cargos from Customs Stations. Prior to the WTO TFA, the WCO's Revised Kyoto Convention (RKC) also prescribed to its Members the use of PCA as Customs' physical control at the borders is fast getting minimal.

As flow of international trade has been increasing significantly, Customs administrations face the challenge of meeting the revenue targets through minimum physical interventions at borders while defeating the ever-increasing terror threats and other supply chain risks. The authorities, therefore, require implementing an effective PCA as part of their broader Risk Management (RM) system so as to facilitate compliant trade and give a stick to the non-compliant one. This initiative not only facilitates clearance of goods, but also assists the authorities to collect legitimate revenue, to chase flow of counterfeit goods, to tackle money laundering, etc.

2. LITERATURE REVIEW

In the age of information technology, Customs activities have largely been dependent on various data collected from different sources. As most of the Customs administrations are using some sort of software on the basis of WCO's data model, it is easier for the authorities to use those export-import data for effective and efficient Customs controls. Danilo Desiderio (2019) pointed out that Customs authorities can improve the effectiveness of controls and their overall performances not only by analysing the traders' historical activity and the number of past frauds detected, but also by using additional sources of information, both internal and external to the administration. The reality, however, is that today most Customs administrations use data analysis almost exclusively for conducting risk management and risk scoring activities. The best way of selection for audit is using RM. The OECD has analysed the importance of RM for effective selection.

The OECD (2004) illustrated that, faced with limited resources and relatively large numbers of taxpayers to administer (especially in the SME sector), revenue authorities require a systematic risk-based approach for identifying which traders to audit. The OECD showed that there are two key elements necessary for an effective audit case selection process— (a) the timely availability of accurate and comprehensive data; (b) the availability of relevant knowledge and skills to analyse and prioritise available data, and to facilitate feedback into updating audit case selection parameters and the compliance risk management process at the strategic level. The USAID (2011) emphasised that the efficiency and effectiveness of Customs PCAs depend to a large degree on the risk management processes operated at each stage of Customs controls—whether these controls operate on a pre-release or post-release basis. It will be necessary to improve the pre-release risk channeling of Customs declarations, including any risk channeling that sends import declarations to the Post-Clearance Audit Division. Similarly, it will be imperative to strengthen the risk management processes related to how high-risk sectors and traders within each sector are selected for post-clearance desk audits and field audits.

3. PROBLEM STATEMENT

Today's Customs administrations are faced with the difficult challenges of simplifying import declarations processing procedures and reducing unnecessary delays while, also, reducing the level of non-compliance in order to increase revenues, protect national interests, and ensure supply chain security (USAID: 2004). To address these challenges, the experts emphasised on the use of PCA. But, the outcome of PCA largely depends on the proper selection of entities to be audited. Again, proper selection depends on the selectivity criteria of the PCA itself. Besides, the PCA depends on the proper implementation of RM. If the RM system is not up to date, PCA will not be effective. Therefore, the authorities have to bear in mind the proper implementation of RM for effective PCA. Bangladesh has been using ASYCUDA world (AW) since 1994, but is yet to utilise the full potentials of AW. Similar to AW, the country has been practicing PCA since long, but is yet to get better results because of inefficient implementation of both RM and PCA. In particular, as selectivity criteria are not rightly used, the country is not getting the expected results. The country is far behind its

neighbours in ease of doing business index of the World Bank, especially in trading across the border areas. Despite undertaking a lot of modernisation measures, clearance time is not being reduced as expected. The experts and the trade communities emphasised on the proper use of PCA as a tool of trade facilitation. This requires a shift from the traditional resources-intensive approach of cargo processing to a selective approach, which makes clearance with little or no physical intervention, a long pending issue.

This article aims at assessing the current state of PCA, the role of selectivity for an effective PCA, factors that are currently considered in selecting declarations for PCA. The study also aims at offering steps for proper selectivity of declarations for facilitation and control through PCA.

4. METHOD OF DATA COLLECTION

This study adopted a qualitative research design. Data for the study have been collected from both primary and secondary sources. As the selection process of the entities to be audited, in a majority of the cases, is regulated by the internal secret mechanism and practices, it was difficult to get all the data as regards selectivity. However, the author has been able to collect a sizeable amount of information from the senior management, auditors, and the audited entities in person and through questionnaire, giving them a confidentiality assurance. The questionnaire mainly asked the stakeholders—how the selectivity criteria are set, whether the criteria are significantly robust to identify the risky traders, whether the ultimate objective, namely trade facilitation has been enhanced or not? Analysing the answers and observations, this qualitative study came up with some policy recommendations for further improvement.

Significance: After the WTO TFA has recently come into effect, the PCA mechanism has become a capstone for quick-clearance at ports. But the real challenge for the authorities is the proper selection of the right entities for audit. A wrong selection would definitely escalate time and costs both for the businesses and the administration hindering trade facilitation. But a comprehensive literature survey indicates that no systematic study has been conducted to support adoption of proper PCA regime through identification of hindrances and needed initiatives till date. Therefore, this study will be a significant milestone in

providing policy insights in this area not only for Bangladesh Customs but for other administrations as well.

5. PCA SCOPES AND STRATEGY

Establishing a PCA organizational structure with strong legal framework is vital for any Customs administration. As selection is mainly based on RM, establishment of RM environment is a must for PCA. The WCO rightly mentioned that by application of a post-clearance, risk-based approach, Customs are able to target their resources more effectively and work in partnership with the business community to improve compliance levels and facilitate trade. The PCA process can be defined as the 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 (WCO, 2012a). The WCO has recommended the following areas for PCAs to ensure an effective control:

- importers;
- declarants;
- consignees of the imported goods;
- owners of the imported goods;
- subsequent acquirers of the imported goods;
- Customs clearing agents of the imported goods;
- storage agents of the imported goods;
- transporters of the imported goods;
- other persons/companies directly or indirectly involved in the transaction of the imported goods.

In Bangladesh, Customs mainly goes for auditing importers and exporters though the legal framework, which has empowered the authorities to conduct audit of the above-mentioned organisations. For initiating any audit, the administration needs to have a thorough strategy for PCA that deals with the scope and risks, compliance framework and resources management activities. The WCO prescribed the PCA strategy as depicted in the following Figure 1.
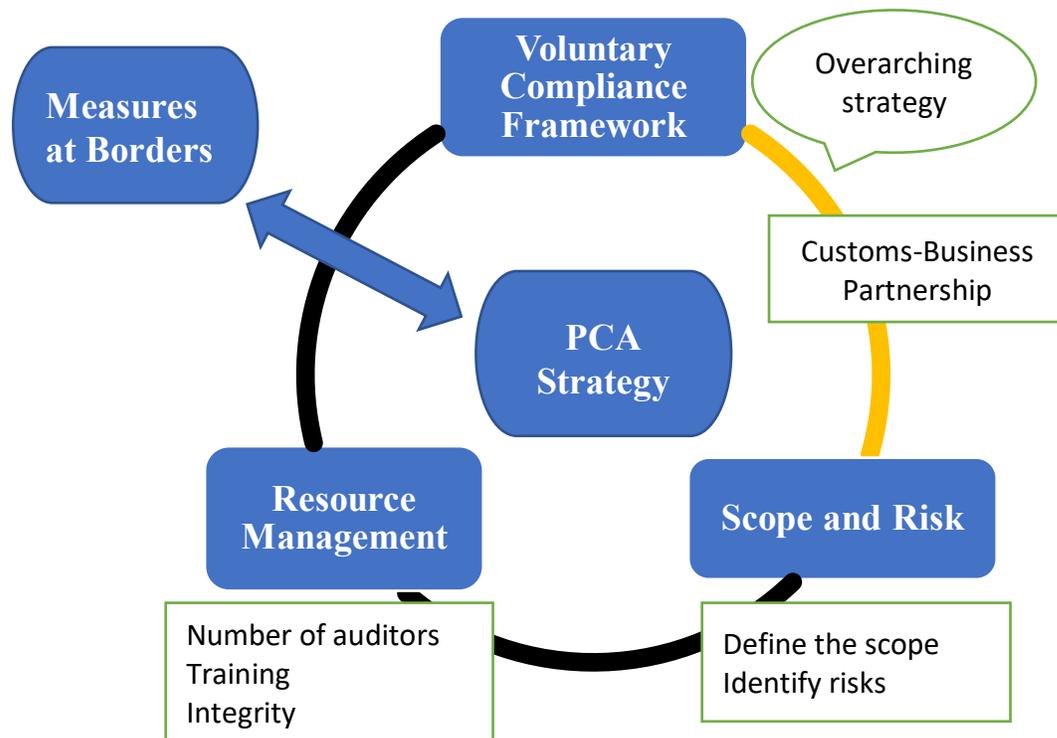
Figure 1. PCA Strategy

Source: WCO. (2012a). *WCO PCA Implementation Guidelines*. Brussels: WCO.

6. SELECTIVITY IN RM ENVIRONMENT

RM plays the most critical role in establishing a functional PCA regime. The experts suggested putting a comprehensive RM system in place before initiating PCA—whether it is transaction based, or system based PCA. The WCO has prescribed the following RM process in general (Figure 2). The administration needs to follow each step of RM process and required to act accordingly. This RM steps will tell the administration as to what type of strategy for PCA should be designed. More importantly, this process map should be included in the legal framework of the Customs administration for achieving productive results both in RM and PCA initiatives.

6.1 PCA in ASYCUDA environment

Set goals
Set parameters

Establish Context

Risk Assessment

Risk Identification

Risk Analysis

Risk Evaluation and Prioratisation

Monitor & Review

Risk Treatment

Keep records of every stage
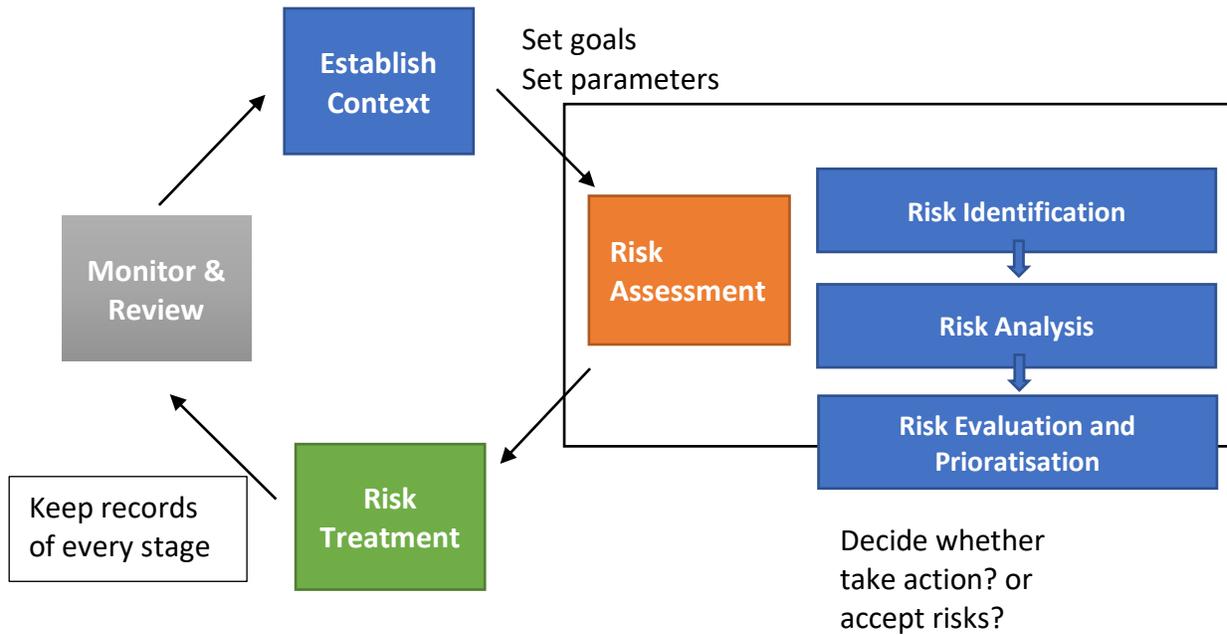
Decide whether take action? or accept risks?

Figure 2. Risk Management (RM) Process in General

Source: WCO. (2012a). *WCO PCA Implementation Guidelines*. Brussels: WCO

Bangladesh Customs has been using Automated System for Customs Data (ASYCUDA) software for managing cross-border clearance process since 1994. Over the years, the administration has updated the system, and at present is using web-based ASYCUDA World (AW). The system is regarded as a strong tool for RM and PCA. AW has four lanes, namely, RED, YELLOW, BLUE, and GREEN. The total number of declarations will be rerouted to these four lanes according to the selectivity criteria set by the administration. The activities of these selectivity lanes are discussed below, briefly:

RED lane: If a declaration goes to the RED lane, it requires documentation check and physical control. After physical examination, the officers will write a report and send the file to the assessment section. Moreover, the examining officer uploads the findings (report) in the Inspection Act of the AW so that the assessment section may see the report online. This online reporting eliminates the scope of forgery or alteration of reports by unscrupulous traders/agents. It may be mentioned that there must be a report of findings whether they find

any irregularity or not. Getting the file back, the assessment section will do the necessary actions on the basis of the findings of the examination report.

YELLOW lane: If any consignment is automatically sent to the YELLOW lane, it requires documentation check. The officers will check the main documents of the consignment. They verify if the data uploaded in the Single Administrative Document (SAD) is compatible with the data and description submitted with the hard copy Bill of Entry (B/E) or Bill of Export (B/Ex), including the supporting documents like Letter of Credit, Invoice, Packing list, Bill of lading, Certificate of Origin, etc. If any anomaly is found, the officers send the B/E to RED lane, if required. If the anomalies are addressable without physical examination, they fix the anomalies and go for final assessment.

BLUE lane: The declarations selected as BLUE will be released immediately without any physical or documentary check. Afterwards, these declarations will automatically be sent to PCA section for conducting PCA. The officers will conduct PCA to ensure whether any irregularity happened. Bangladesh Customs has not yet activated this lane. The PCA Unit of the Custom Houses/Stations are selecting the declarations manually from the AW for conducting transaction based PCA.

GREEN lane: The remaining declarations, that is, those not selected either as RED, YELLOW, or BLUE will automatically go to the GREEN lane. That means the goods declarations for green channel will not be selected using selectivity criteria. The green lane declarations are the residuals. The declaration selected as GREEN will be released automatically without any physical examination or documentary check on payment of the duties and taxes. To activate this facility, a comprehensive RM system needs to be in place and the compliance level of stakeholders should be at a reasonable level so the authorities may be satisfied that big fishes will not be able to go through this net. Bangladesh is not directly using this facility so far.

6.2 Segmentation of Traders

The nature of traders varies from country to country; even the nature of traders might be different within the same country depending on the mode of the traders considering the level of risks. The WCO has segmented the traders into four categories shown in the following Figure 3. The figure shows that "Type 1" traders are easy to handle. On the other hand, "Type 4" traders are difficult to handle. So, the authorities need to dedicate more resources for "Type 4" than for "Type 1". The segmentation should be supported by the legal framework so as to address the traders in terms of level of risks. This segmentation can effectively be done using the result of PCA. The compliant traders who will be in "Type 1" may be promoted by the Authorised Economic Operator (AEO) initiatives.
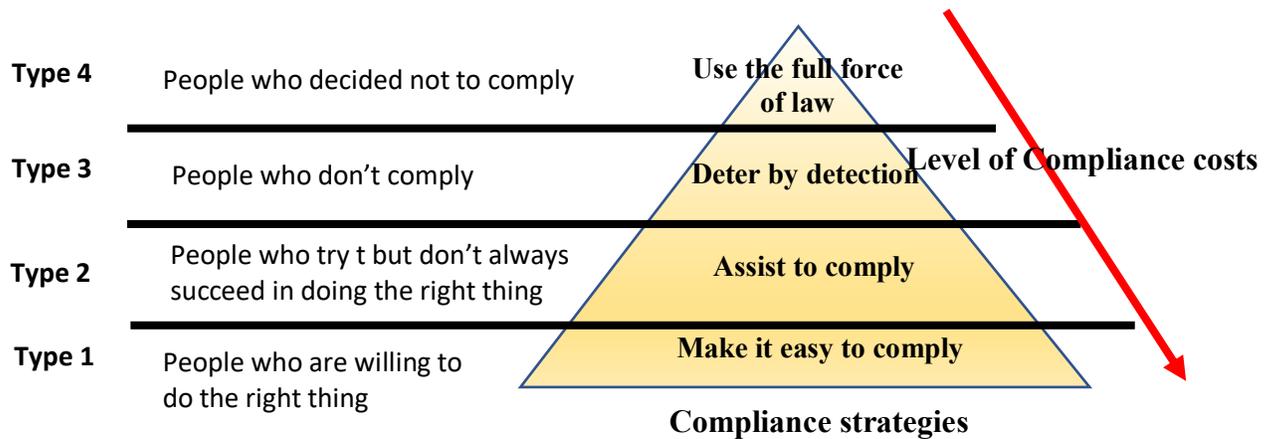
Type 4 — People who decided not to comply — **Use the full force of law**

Type 3 — People who don't comply — **Deter by detection** — Level of Compliance costs

Type 2 — People who try t but don't always succeed in doing the right thing — **Assist to comply**

Type 1 — People who are willing to do the right thing — **Make it easy to comply**

Compliance strategies

Figure 3. Risk based Compliance Management Pyramid

Source: WCO. (2012a). *WCO PCA Implementation Guidelines*. Brussels: WCO.

7. OVERVIEW OF THE ECONOMY AND PCA IN BANGLADESH

7.1 Overview of the Economy

Bangladesh is a country in South Asia, and shares land borders with India to the west, north, and east, with Myanmar to the east, and has the Bay of Bengal to the south. This is the 8th most populous country of the world with around 163 million people. The land area of the country is 147,570 square kilometres, one of the tiny countries of the world (92nd largest). Therefore, the country has to move with huge population with the tiniest land area. In terms of market exchange rate, Bangladesh has the world's 39th largest economy. Again, in terms

of purchasing power parity, it is the 29th largest economy, which ranks second in South Asia, after India. This is one of the fastest growing economies as well as one of the fastest growing middle-income countries with a rate of around 7.9 percent real GDP growth on average. According to the IMF, its per capita income was US$2068 in 2019, with a GDP of $317.465 billion; in terms of PPP, its per-capita income is $5,453 with a GDP $860.916 billion.

The volume of import and export has been increasing rapidly requiring unobstructed and fast Customs clearance. The following Table 1 shows the volume of import the country has been experiencing owing to a rapid increase in international trade. It may be noticed that in the Fiscal Year (FY) 2011-12 the volume of import was 43,461,446 Metric Tons (MT) and the value of the imported cargos was 2,991.56 billion Taka ($ 1=84.96 taka as of 20th April 2020).

Table 1

Import Statement from FY 2011-12 to 2018-19

Fiscal Year	Quantity (MT)	Import Value [Billion Taka]
2011-12	43,461,446	2,991.5622
2012-13	49,938,942	3,143.6008
2013-14	52,120,929	3,381.8918
2014-15	65,219,243	3,725.9628
2015-16	78,884,146	3,869.3494
2016-17	93,189,542	4,381.0208
2017-18	110,665,441	5,505.6817
2018-19	121,628,137	5,716.1774

Source: National Board of Revenue

Again, in the FY 2018-19, the quantity jumped to 121,628,137 MT and value of this quantity of products was 5716.17 billion Taka. If we look at Figure 4, it is very clear that the volume of import is increasing quite fast, calling for special attention to manage at ports.
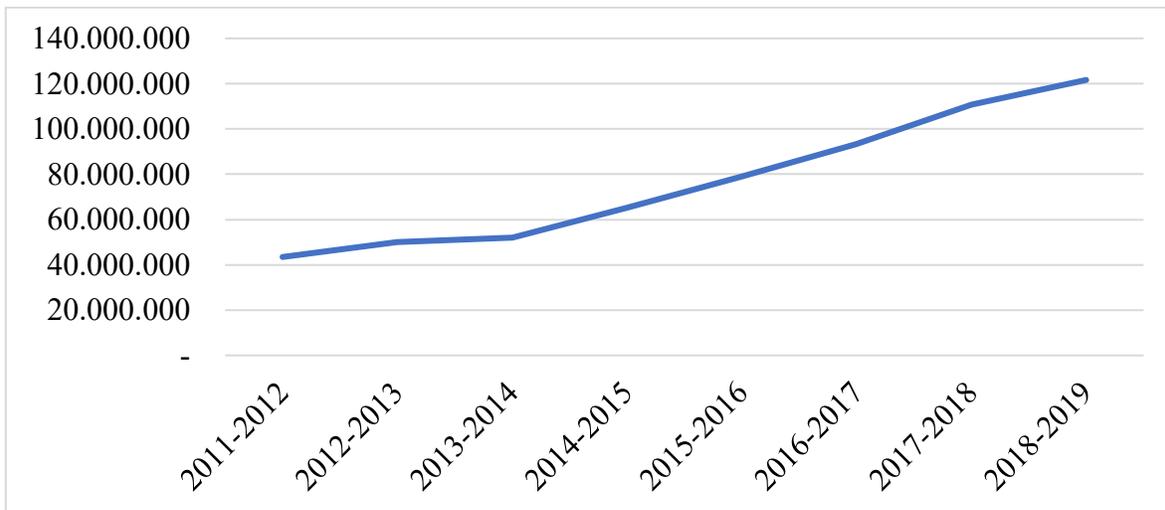
Figure 4. Trend of Import quantity (MT) from FY 2011-12 to 2018-19

In addition to import statistics, the export is very important as it is also putting pressure on the administration. The following Table 2 shows the volume of export made by the country since FY 2011-12. In 2011-12, total export of the country was 4,344,274 MT and value of the product was 1,923.50 billion Taka. In 2018-19, the volume of export has jumped to 6,977,802 MT and value is 3,481.62 billion Taka.

Table 2

Export statement from FY 2011-12 to 2018-19

FY	Quantity (MT)	Export Value [Billion Taka]
2011-12	4,344,274	1,923.5062
2012-13	5,184,468	2,268.6067
2013-14	4,931,793	2,346.0157
2014-15	4,358,742	2,408.8503
2015-16	5,139,054	2,665.8741
2016-17	5,510,248	2,751.5785
2017-18	5,808,647	3,087.9365
2018-19	6,977,802	3,481.6240

Source: National Board of Revenue

The scenario is shown in the Figure 5. The volume of export is increasing almost every year. That is why Customs administration needs to think prudently as to how to tackle this ongoing surge of cargos.
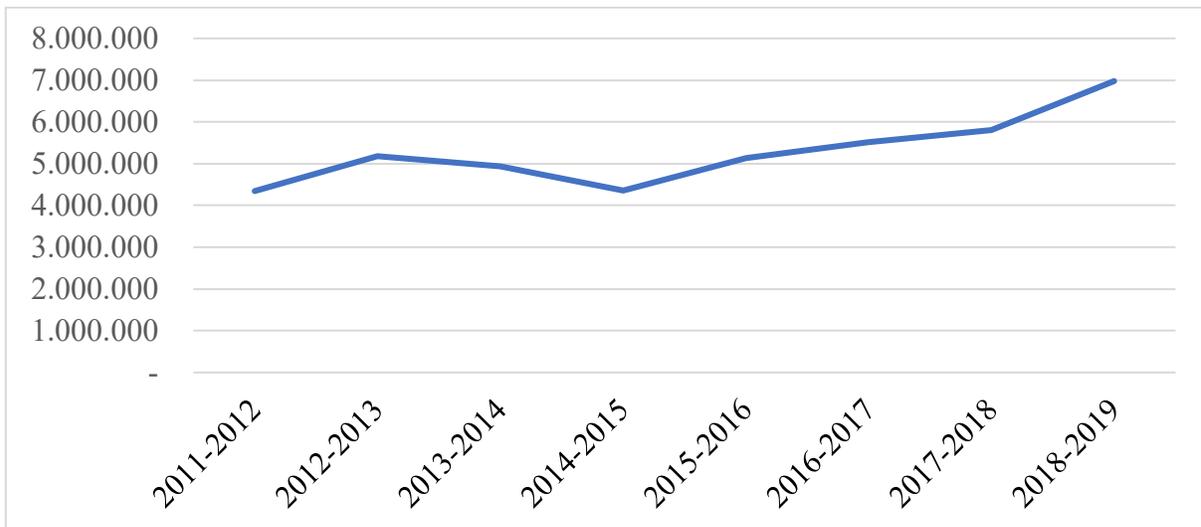
Figure 5. Trend of Export quantity (MT) from FY 2011-12 to 2018-19

The rapid increase in international trade value and, especially, volume, (as reflected in the above charts) on the one hand, and the limited resources of Customs administrations, on the other, are the main constraints hindering an effective control of every item upon its arrival. Controlling every item at Customs border has become a barrier to trade. The policy-makers, therefore, need to adopt modern Customs control mechanisms based on selectivity approach and risk management.

7.2 PCA in Bangladesh

7.2.1 Legal Framework

The Revised Kyoto Convention (RKC): The RKC clearly emphasised on audit-based control for faster clearance. Chapter 6 of the General Annex of the convention contains the standards for risk management and PCA, which reads as follows:

Standard 6.6   Customs control systems shall include audit-based controls

Standard 6.10   The Customs shall evaluate traders' commercial systems where those systems have an impact on Customs operations to ensure compliance with Customs requirements.

Bangladesh is a signatory of RKC and started implementing the requirements of the convention which empowered the country to include the guidelines of RKC into the national acts and rules.

WTO's Trade Facilitation Agreement (TFA): On the other hand, the country is a signatory of WTO TFA and ratified this agreement. The agreement also focused on RM and PCA for faster clearance. Article 5 of TFA reads as follows:

5.1   With a view to expediting the release of goods, each Member shall adopt or maintain post clearance audit to ensure compliance with Customs and other related laws and regulations.

5.2   Each Member shall select a person or a consignment for post-clearance audit in a risk-based manner, which may include appropriate selectivity criteria. Each Member shall conduct post clearance audits in a transparent manner. Where the person is involved in the audit process and conclusive results have been achieved the Member shall, without delay, notify the person whose record is audited of the results, the person's rights and obligations, and the reasons for the results.

5.3   The information obtained in post-clearance audit may be used in further administrative or judicial proceedings.

5.4   Members shall, wherever practicable, use the result of post-clearance audit in applying risk management.

The Customs Act 1969: Both RKC and TFA set an obligation for the country to institutionalize PCA through RM. As Customs operations in Bangladesh are governed by the Customs Act, 1969, this act has been updated in accordance with the provisions of the RKC and the TFA. There are adequate provisions for having an effective PCA. Fourteen Sections are devoted to providing legal backing for implementing an effective PCA regime; the Sections as regards PCA are as follows:

Section 4:   Powers of Customs officers
Section 7:   Right to demand assistance
Section-26:   Power to requisition to produce documents
Section-26A   Further powers in relation to documents.
Section-26B: Power to take possession of and retain documents and records.
Section-26C: Power to copy documents obtained during search.

Section-26D: Power to retain documents and goods obtained during search.

Section 32:   Right to correct information

Section-48:   Power to require production of documents and ask questions

Section-83C: Power to audit or examine records.

Section-83D: Power to appoint auditor, etc.

Section-196L: Power of the Government to call and examine records.

Section-199:   Power to take sample of goods.

Section-211:   Obligation to keep business records.

7.2.2 Performance of existing PCA regime

In Bangladesh, there are six main Custom Houses and around 30 active Land Customs Stations (LCS) bordering India and Myanmar. In each Custom House, there is a separate PCA branch/unit that regularly conducts transaction-based PCA. The main office that centrally carries out PCA in all customs offices across the country is the Customs Valuation and Internal Audit Commissionerate (CVIAC). This office was set up in 2002 as an exclusive office for valuation and audit matters. The office is headed by a commissioner with 100 staff. The headquarters of the CVIAC is located in Dhaka with a branch office in Chittagong. Although the title of the office refers to internal audits, the CVIAC particularly entrusted with the responsibility of conducting PCAs throughout the country (Hossain and Yusuf, 2019). Table 3 shows the performance of CVAIC for the last 5 Fiscal Years (FY).

Table 3

Status of PCA results conducted by the CVIAC for the last 5 FYs

Fiscal Year	No. of audits	Revenue leakage detected (million Taka)	Comments
2015–16	961	859.510	The irregularities are mainly under-invoicing, wrong HS classification, fake documents, and understatement of quantity, etc.
2016–17	573	296.219	
2017–18	872	292.100	
2018–19	1210	933.538	
2019–20 Up to 25 May 2020	1727	275.120	

Source: CVIAC, collected by the author on 25 May 2020.

The CVIAC is trying its level best with limited resources. Table 3 shows that the numbers of PCAs are increasing every year; in FY 2015-16, this office conducted 961 PCAs, but in FY 2019-20, the numbers of PCAs have almost been doubled. Despite the increase of PCAs, the clearance time has not been reduced yet. According to the World Bank's Ease of Doing Business (DB) ranking of 2020, Bangladesh has been placed at 168 among 190 economies. In the field of trading across borders, the ranking is 176. It requires 9 days for import clearance, and 7 days for export clearance at the borders, according to the DB index. This statistics also shows that the performance is even poorer than its neighbouring countries. It is widely known that, clearance will be faster and smooth if the consignments can be released without examination at the borders or Customs points; and, post-clearance based control is the most effective way to ensure that facility.

This study observed that due to the inadequate skills of PCA auditors, lack of human resources and logistics, lack of proper and adequate documentations, challenges in accessing trails of the physical movement of goods to see a sample of cleared goods, and the lack of application of systematic RM in conducting PCAs, the overall outcomes of PCAs are not satisfactory yet, which ultimately could not contribute significantly to expediting the clearance at the Customs points.

8. FROM TRADITIONAL TO RISK-BASED CONTROL

Traditionally, before clearance of any consignment, Customs used to feel an urge to examine so as to detect any anomaly, and catch the criminals who violate Customs rules and regulations as well as other allied Acts of the country. The traditional system is resource-intensive that requires quite a good number of officers and logistics to examine each and every cargo. Whereas, the notion of selectivity has brought about a paradigm shift in Customs administration that focuses on compliance, which clearly made a difference with the traditional system. In the traditional approach, the officers do not believe anyone which indicates that all are violators; the main motto of Customs is chasing the violators all the time. The selectivity rather made a mutual relationship between Customs and the trading communities. This approach recognises that only a portion of traders are related with non-

compliance and the remaining ones are not, or if they get the opportunity and environment, they will give up wrongdoing.

However, traditional cent percent physical examination made the officers only find out the discrepancies without considering the notion of compliance; this approach, on the contrary, alluded to personal gain of the officers, which is a serious concern for the Customs administrations across the world.

The selectivity model has paved the avenue for the administration to give up traditional approach of cent percent physical examination of goods, and thus use limited Customs resources on more risky consignments to protect revenue and ensure national interest.

9. FINDINGS OF THE STUDY

9.1 Targeting declarations for PCA

This study interviewed senior and mid-level Customs officials from the Customs Valuation and Internal Audit Commissionerate (CVIAC) and Custom House, Chittagong, to know how they select the import declarations for conducting PCA. The author summarised the statements of the officials. The findings of the study indicate that the following considerations/parameters are mostly used by the auditors for successfully selecting the risky consignment.

(i) Using HS Codes

As rates of duties, duty concessions, and import-export restrictions directly depend on the classification of goods or HS Codes, it is the effective way of selecting the risky declarations or goods identifying the correct HS Codes. The officials, either manually or using the AW System, select the HS Codes, and identify the declarations related to those particular HS Codes. Very frequently, the evaders use the wrong HS Codes to evade taxes. However, as a significant number of declarations are being assessed and released without any physical examination or thorough documentation checks, the traders often try to take the risk of putting wrong HS Codes in the declarations. The unscrupulous traders take risks. Thus, the auditors have to focus on the HS Codes, especially the codes that attract higher duties.

Moreover, import restrictions are imposed mentioning the HS Codes. So, to avoid the import restrictions, including bans, some of the importers may use wrong HS Codes for importing restricted items or conditional imports. Thus, the auditors also need to select the HS Codes related to conditional imports. However, as a lot of consignments are involved with a single HS Code, the auditors have to be very careful while using HS Codes as selectivity criteria so that the number of declarations can be narrowed down, and only the riskiest ones will indeed be selected.

(ii) Using database value

Valuation is one of the most important areas for the auditors where to chase the unscrupulous traders. Recently, Customs valuation has attracted huge attention of the auditors as it has been used for cross-border money laundering in disguise, particularly through under- and over-invoicing. In Customs computer system, particularly in the AW, there is a database for valuation that shows the recent values of the commodities. In the case of under-invoicing, the declarations assessed lowest value, especially those showing lower value than the ones recorded in the database, will be selected for the PCA. Sometimes, the auditors notice that the value is unusually low without any valid reason behind it. That is why, those import declarations are selected for audit. On the contrary, in the case of over-invoicing, they go for higher database value. If the declared value is found abnormally high without any valid ground, they go for identifying those declarations.

(iii) Using import-export volume

The volume of import and export is another important criterion for identifying the risky declarations. In this way, the auditors analyse the total volume of imports or exports at a certain period. The sudden ups and downs of the volume give some indications to the auditors about the traders. If the volume is increased suddenly without any valid reason, the auditors may suspect some irregularities regarding value, quantity, restrictions or commodity classifications, etc. On the other hand, if volume decreases abruptly, the auditors may suspect that something might be wrong with that trader, or in a particular sector.

(iv) Revenue analysis report

Revenue analysis reports send a very clear message to the auditors about the overall scenario of a Customs office. It gives insights about the importers, exporters, clearing agents, imported items, exported items, etc. So, using the reports, the auditors target the stakeholders or declarations on the basis of abnormal or asymmetric behaviour of data. Using the data, the concerned declarations or target group could be separated.

(v) Previous examination reports

The physical examination reports of previous consignments might be used for selecting the declarations for PCA. In AW system, the examining officers write the examination report on the Inspection Act page. The auditor analyses the previous reports of the consignments held for mis-declaration. Sometimes, using the information of an examination report, the auditor checks if the consignments had been released according to the findings of the reports. However, the reports assist the auditors to identify the consignments of similar nature imported or exported by other traders.

(vi) Previous audit reports

The previous audit reports are used as a clue to select the declarations for PCA. The previous reports create a database of who are law abiders and who are not. Using the findings as regards HS Codes, valuation, quantity untrue declaration, etc., the auditors segregate the prospective declarations or entities for PCA. Additionally, previous reports help the auditors exempt the compliant traders from unnecessary PCA.

(vii) Using fine and penalty data

The system has the information of unscrupulous traders, who had paid penalty for wrongdoing; from these information, the auditors can easily separate the risky ones. As it is already proved that the trader was risky, so the auditors identify all declarations of the same nature previously released and select a sizeable number of declarations from the identified ones for PCA.

(viii) Analysing nature of business

Analysing the nature of business of the operators is regarded as a useful tool for selecting the risky ones for PCA. Sometimes, it may so happen that the trader has changed the nature of

business. If it so happens, those traders will be considered risky ones. Moreover, at times, it is noticed that some traders import certain item that was fully new on his import list. These declarations or consignments could be selected for PCA.

(ix) Analysing the profiles of traders

While selecting the declarations for PCA, the auditors directly go for analysing the profiles of the traders. If the declarations belong to the risky importers according to the profiles, those are selected for PCA.

(x) Customs Procedure Codes (CPC)

Sometimes, the auditors use the CPC as a tool for selecting the declarations. The CPC is a code used in the AW system to exempt the duties and taxes if the government gives any special tax benefits to any imported item. It was noticed that the importers at times evade taxes using false CPC in the AW system. Hence, the auditors target the CPC to select the risky declarations for conducting PCA.

(xi) Using secret information

The officers collect information from various sources to ascertain as to whether or not there is any misdeclaration, duty evasion or violation of laws. After receiving information from reliable sources, they verify the data, and if any valid ground is found from primary inspection, they go for PCA.

(xii) Country of Origin

Country of origin is another important indicator to select the risky declaration. At times, it has been noticed that the traders declared the incorrect country of origin of the imported goods to get tax benefits, or to hide information regarding value, or to avoid some other import restrictions. So, sometimes, the authorities use the origin of goods as an indicator to identify the risky consignment for conducting PCA.

9.2 Robustness of selectivity criteria to identify the non-compliant traders

It is very difficult to determine if the system is adequately competent to select the declarations to catch the unscrupulous traders. The senior management involved with the

process replied that the system was working well, but still there are scopes to further develop the selection process. However, as the unscrupulous traders always change mechanism to dodge the Customs officers, it is quite challenging for the officers. There is always a hide-and-seek game between the officers, on the one hand, and traders, on the other. Despite regular update and interventions, a robust system could not be established to stop the risky consignments. Anyway, the observations suggest that the existing selectivity parameters/factors are largely intuitively appealing; however, the selectivity system for PCA suffers from systemic weaknesses/infrastructural limitations that hinder the effective selectivity process:

(i) Lack of IT Infrastructure

Information Technology (IT) is very important for ensuring trade facilitation as well as for ensuring transparency in Customs administration. IT facilities include National Single Window (NSW), RM Software, automated PCA system and updated AW software. The country is yet to start the NSW facilities; there is no separate RM software to analyse the import-export data and traders' profiles. Even the respondents were not happy with the AW, as the authorities are yet to reap the full benefits of AW by activating all the modules with necessary customisation.

(ii) Exclusive RM Software

For proper selectivity, analysis of data is very critical. Though the country is using AW, the respondents highlighted that the system cannot analyse data automatically that may help the authorities set the appropriate criteria. A separate central office named Customs Central Risk Management Unit (CRMU) has been initiated and, hopefully, it soon starts working formally. This office is going to procure a RM Software to centrally control selectivity criteria.

(iii) Lack of human resources in PCA units

All Custom Houses and LCSs have each established a separate PCA unit that closely works with RM committee of the respective offices. But, it has been observed that the units do not have sufficient staff to conduct PCA. If a significant number of effective PCA can be conducted, the results of those PCA immensely assist the RM team as well as authorities to set the appropriate criteria for RM and prospective PCAs.

(iv) Lack of Training

The respondents emphasised on the regular arrangement of training events on PCA and RM system. There is no full-fledged training module in Customs Training Academy on PCA and RM. However, the private sector representatives also focused on training and outreach programme on PCA and RM. The traders are not well aware of the benefits of RM and PCA. In addition, they are not familiar with the whole process of PCA and RM. The traders wanted to be involved with the process, and highlighted on the functional partnership between business and Customs.

(v) Activation of BLUE Channel

The study noticed that despite having AW software, the authorities are yet to activate BLUE channel. As the declarations route automatically to the BLUE lane, if it is activated, it will also be destined to PCA; this will ensure unbiased selection and transparency in Customs administration to facilitate trade in real sense.

(vi) Authorised Economic Operator (AEO)

The study also found that there is no effective trusted traders programme or AEO initiative. The country initiated AEO programme with necessary rules and legal amendments. But only 3 companies have been awarded AEO certificates so far. However, the private sector is not happy with the service given to the AEO certified organisations. If the authorities increase the number of AEOs, the congestions at ports will be reduced, and the extra workload of PCA units will be lessened also.

10. POLICY RECOMMENDATIONS

This study suggests the following recommendations for quality selectivity criteria that may select the risky declarations, importers or exporters for PCA.

(i) Complete automation of Customs activities

To have a better result, there is no alternative to complete automation; partial automation may expedite the activities on a limited scale, but does not ensure transparency and trade facilitation. For ensuring complete automation, all stakeholders have to be connected online

through the NSW facility. Thus, the NSW has to be made operational as soon as possible so as to get information easily to chase the risky elements.

(ii) Central RM Directorate

RM is very important for proper selectivity criteria. Sometimes, it is difficult for the local RM unit to make decisions. So, if a central body takes the responsibility to set selectivity criteria considering the indicators available, it will be implementable in a more objective manner. Government has already taken initiatives to set up the CRMU; this office has to be established as soon as possible.

(iii) Introduction of a functional AEO programme

AEO programme can bring a positive change in PCA as well as in the RM regime. This programme helps isolate the compliant traders, ultimately reducing workload of the officers. The government has started the AEO programme, but only on a limited scale. It requires extending the AEO programme certifying significant numbers of traders as AEO. Moreover, the benefits have to be well-defined making necessary amendments in the Customs Act, 1969.

(iv)Training for the officers

Training is essential to expedite the journey of PCA. Most of the officers dealing with PCA and RM do not have adequate training on PCA and RM. Some of them have classroom trainings with no hands-on experience on how to conduct effective PCA. In addition, the authorities are not considering the educational backgrounds while posting the officers in PCA units. Officers dedicatedly assigned for PCA may bring positive changes.

(v) Activating BLUE Channel in AW

The whole PCA process is still manual, in spite of having AW facility available in all Customs offices. As RM is functioning, Bangladesh Customs easily can initiate the BLUE Channel facilities for PCA. The declarations travel through BLUE Channel will automatically be selected for PCA. Additionally, the speed and activities of AW software can be made faster with necessary customisation.

(vi) Revisiting legal framework

It takes a long time to settle a case of delinquency in Bangladesh. It demoralises the auditors. They conduct the PCAs with interest, but in many cases, courts take a long time to settle the cases as the traders have the opportunity to exhaust many stages such as – first the traders go to the respective Commissioner of Customs, then Customs, Excise and VAT Appellate Tribunal, then the High Court Division, and finally, can make appeal in the Appellate Division of the Supreme Court against the verdict of the High Court Division. Again, besides the financial penalty, there must be sufficient provision in the Customs Act for criminal prosecution against the unscrupulous traders. In addition, there must be strong legal support and SOPs for streamlining selectivity criteria. Consequently, the legal framework has to be revisited to accommodate these issues.

11. CONCLUSION

The goal of Customs administrations across the world is trade facilitation, and, at the same time, elimination of risks as the current world scenarios have been swarmed with a lot of unwanted threats such as social, cultural, chemical, terrorist, etc. However, we need to open our borders as part of a global village. The world is so interconnected that an invisible coronavirus has spread across the world and stopped human life, almost literally. As Admiral James Loy of the U.S. Coast Guard asserted that security barriers can easily become trade barriers. To sustain prosperity, we open the gates. To ensure security, we close the gates. We clearly need to get beyond the metaphor of an opened or closed gate.[1] Finally, it may be concluded that we cannot stop cross-border trade because of risks; therefore, to address these ever-increasing risks, we need to set up the tools and ensure proper and effective selectivity criteria to select the risky ones in order to ensure a sustainable environment for trade.

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[1] Disrupted Cities: when Infrastructure fails

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