

# **STUDYING THE LEADING METHODOLOGY OF CUSTOMS AUDIT BASED ON THE EXPERIENCE OF DEVELOPED WESTERN COUNTRIES AND ALSO, POSSIBILITIES OF THEIR IMPLEMENTATION IN UZBEKISTAN**

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## **Abstract**

*In recent years, a number of economic reforms have been carried out to further liberalize the foreign trade activities, increase the volume and types of exports of high-quality products in the foreign markets, drastically reduce the volume of imported goods in the country's domestic market, and to improve the competitiveness and financial stability of entrepreneurs as well as regulatory and legal acts are amended and new ones are adopted. The article reveals the methodology of the organization and conducting of the customs audit, which is effectively used in the practice of developed Western countries, as well as the possibility of introducing their experience in Uzbekistan. Furthermore, this paper studies the customs audit experience of the USA and some European countries, and it gives some proposals to improve the customs audit in Uzbekistan using the methods of European countries and the USA.*

*Keywords: Foreign trade, exports, imports, gross domestic product, foreign trade, customs clearance, Uzbekistan*

## **INTRODUCTION**

At present exporting and importing of goods are being simplified in Uzbekistan. Therefore a great attention is paid to improve the customs audit, too. All legal entities and individuals, especially TIF participants, have the opportunity to buy and sell freely foreign currency from commercial banks, which are necessary for export and import operations. As a result, the

volume of purchase and sale transactions of foreign currency increased 1,5 times in comparison with the liberalization period, on average an average of \$ 1.3 billion, and gold and currency reserves of our country increased by \$ 1.4 billion during the year (Table 1).

Table 1. Gold and currency reserves of the Republic of Uzbekistan

Indicators	01.01.2017	01.01.2018	01.02.2018	01.03.2018
<b>I. Gross gold and currency reserves</b>	26 428.83	28 076.91	28 774.55	28 336.71
<b>1. Assets denominated in foreign currency</b>	14 172.25	14 042.81	14 775.90	14 715.44
<b>2. Monetary gold</b>	12 256.58	14 034.10	13 998.65	13 621.27
<b>II. Net gold and currency reserves</b>	25 188.30	26 567.50	27 250.05	26 935.09

Source: The information of the Central Bank of the Republic of Uzbekistan "Information on gold and currency reserves of the Republic of Uzbekistan (as of March 1, 2018)"

As a result of the measures taken by the President of the Republic of Uzbekistan Sh.Mirziyoev on the further liberalization of foreign trade, "... as a result of the measures taken, by 2017, sustainable economic growth was 5.5%, the volume of exports increased by almost 15%. The positive balance of foreign trade turnover reached \$ 854 million.

The majority are well aware: the complexity of customs procedures is one of the main obstacles to entrepreneurship. According to the World Bank report, it is a pity that Uzbekistan ranks 175th out of 190 in terms of export-import documentation. Let's suppose, for example, that for one hour in Belgium for customs clearance, we will have to spend one month for it, "said the exemplary example of this. It should be noted that, since the first years of independence in Uzbekistan, the share of export-import transactions made to the gross domestic product has not yet been fully reflected in the official statistical journal or websites; we consider it should be analyzed relying on real numbers (Table 2).

Table 2. Analysis of the share of export-import operations in Uzbekistan in relation to GDP from 1990 to 2017 (for goods and services)

No	Years	Share of export volumes in GDP, in %	Dynamics of changes in exports compared to previous year, in %	Share of imports in GDP, in %	Dynamics of change in imports compared to previous year, in %
1.	1990	28.836	-	47.799	-
2.	1991	35.28	-	39.143	-
3.	1992	27.034	-	43.184	-
4.	1993	33.72	-	30.534	-

Table 2...

5.	1994	16.776	-	20.552	-
6.	1995	36.683	-	36.821	-
7.	1996	27.687	3.513	34.175	27.292
8.	1997	27.04	3.235	30.004	-7.197
9.	1998	22.497	-15.425	22.797	-22.762
10.	1999	18.146	-8.096	18.409	-7.989
11.	2000	24.588	9.177	21.525	-5.792
12.	2001	28.076	-5.391	27.646	6.418
13.	2002	30.811	-6.748	29.346	-9.803
14.	2003	37.272	26.466	30.578	8.934
15.	2004	40.208	28.132	32.652	26.832
16.	2005	37.854	11.97	28.661	4.397
17.	2006	36.501	16.802	30.948	30.795
18.	2007	39.67	39.915	36.528	51.953
19.	2008	41.145	37.363	38.556	39.791
20.	2009	34.241	-5.116	37.772	2.677
21.	2010	31.66	7.945	28.513	-4.129
22.	2011	32.656	20.457	30.842	26.322
23.	2012	27.335	-5.564	32.484	18.825
24.	2013	26.6	8.334	30.888	5.857
25.	2014	23.081	-5.145	27.086	-4.139
26.	2015	19.518	-10.29	21.347	-16.393
27.	2016	18.841	-3.012	20.644	-2.837

Source: Author's compilation based on the World Bank's annual report

According to the table data, the largest share of exports in terms of GDP in 2004 was 40.2% in 2004 and 41.1% in 2008. It is clear from the recent 6-year observation that the decline in the share of exports in GDP in 2011 was 32.6%, and by 2016 this figure was 18.8%. Also, it can be concluded that the share of imports to GDP in the last 10 years has the highest value in 2008 - 38.5% in 2008 and 37.7% in 2009, and is expected to decline by 2016, to 20.6%. However, the share of imports in GDP in terms of exports has remained high in the past five years. So, it is possible to conclude that the products that are not available in the country are imported from abroad by FEA participants. This, in turn, will cause a certain amount of currency reserves in the country.

As it is known, operations in foreign trade are of great importance in the development of economic relations among countries. Therefore, the acceleration of their legitimate

implementation, the process of foreign economic relations and the introduction of radical reforms in the customs system, requires the use of advanced and effective techniques in the practice of developed western countries. Instead of simplifying the customs procedures, controlling the customs auditing over the control of the costs of both parties, the new form of customs control is a simple necessity to introduce to customs auditing in Uzbekistan. Thus, based on the above, it can be said that the purpose of the customs audit is to investigate (inquiry) the legality and validity of the seller's import and export activities.

The main goal is to strengthen and control customs auditing, to streamline export and import procedures, protect the rights and legitimate interests of proprietors, to increase revenues in the state budget and to stimulate foreign trade.

### **Canadian experience of customs audit methodology**

Exporters and importers are responsible for compliance with the laws and the procedures set forth by the Canada Border Services Agency (hereinafter referred to as the CBSA). Specified commodities for the audit are clarified on a two-year basis and published and published by the CBSA. Some products are designed to reconsider the classification, while others are based on the validity, origin, and free trade certificates of their value. If an organization receives a warning from the CBSA it is recommended that it be contacted immediately with its customs broker. Because they cannot act on behalf of the organization until they sign a letter of credit during the process of the audit, which the CBSA will sign in the initial registers.

Never before in Canada was the preparation for the customs audit as it is today. Due to economic unrest, Canada's customs audit procedures have become more stringent, with smaller threats being avoided by customs inspectors. If the organization has not been prepared for the customs audit and has not properly organized the case, it may be a challenge to the organization.

Customs inspection ensures that Canadian importers comply with all trade requirements. It should be noted that knowledge of bilateral customs legislation with a customs broker on the product is the key to preparation. Also, as they do not pay enough attention to their customs broker here, they (FEA participants, importers) will understand their mistake. There is a list of products that have been published in the CBSA, which is considered to be checked by auditing, or which is auditable, in which each case has been identified. Here, when preparing for the audit, the first thing to do is to ensure that the product is not on the list, and if so, request that the customs broker executes customs procedures in accordance with the law.

The CBSA may require general audits prior to full-scale (comprehensive) checks. This form of audit can be completed quickly by submitting the documents requested by the CBSA.

The general audit may begin with a simple filing application. This V3 Canada border agency may include the relevant customs code (customs freight declaration), information that is easily accessible to invoices and transactions (operations). However, sending these documents would be a great mistake, because here the job must be started by customs broker through auditing of the process. It is desirable that FEA participant be involved as an importer into an inspection.

The CBSA has made the following modifications to its audit process:

- 1) To increase the amount of inspections;
- 2) Raising fines for non-compliance with the legislation;
- 3) Carrying out a small program auditing to provide fast audit in a business;
- 4) Comprehensive development of the audit process.

After completion of the preliminary investigation, the secondary audit is conducted within the period from 12 to 18 months. Secondary Audit ensures that all proposed changes are made. There may be additional penalties when the conduct of an audit is revealed and if it had been committed earlier. The fines and penalties used in the past years will be available on the CBSA website. The degree of repudiation of the law will result in higher fines.

During the preparation of the audit, the following audit procedures will help:

- 1) Preparation and regular updating of customs procedures;
- 2) Revision of the procedure from beginning to end to confirm that there are no circumstances beyond control;
- 3) Documentation of tariffs classification;
- 4) Revision of the standard transaction (transaction, deal), related documents easily;
- 5) Improving the proposed changes using the prior customs audit and finding solutions to the unresolved issues;
- 6) Confidence in financial sectors;
- 7) Use of an external audit to find out whether there are any errors (or circumstances beyond consideration) made by the customs auditor.

### **US experience of customs audit methodology**

A risk-based approach is used to assess import compliance with trade law and regulations. It provides a systematic approach to collecting and analyzing data, including risk assessment, by observing compliance with commercial norms and reviewing institutional controls to find the likelihood of non-compliance with auditing.

Regarding the main importers and other subjects participating in the compliance with international trade laws and regulations governing the import and export of goods, the Regulatory Compliance Audit Office is responsible.

The evaluation program is an example of an audit based approach to risk assessment. Rapid Response Audit (RRA) is an audit engagement that addresses a narrow range of issues and is intended to address short-term issues that have limited objectives and are aimed at deficient and targeted assessments of the company's activities in the field of Customs and Border Protection (CBP in subsequent texts), within the framework of the program, which covers various forms, and methods.

The overall purpose of the audit is to significantly differ from the objectives of the RRA. Therefore, the overall Audit Program is not intended for use in the RRA.

Examples of RRAs are exemplary audits of imported CBP operations. For example, the TMA determines whether the company has committed a wrongful transfer of intellectual property rights. As a rule, they are used by the RRA recommendations, the CBPs and other units of the State Security Service. At the same time, a suspicious company, which participates in a particular transaction (operation), is identified using the risk management principles.

In close co-operation with other units of the CBP and other government agencies, the risk segmentation is identified by the RRA surveillance software. RRA requests information about import activities and processes in advance, through questionnaires. RRA sends informational and certified presentations to the importers to provide information on their obligations. In order to fully understand the import process, interviews will be conducted on selected records and sequentially inspections will be performed according to the instruction.

The questionnaire-based approach allows the CBP authorities to obtain prompt and effective information regarding the exact area of trade, including import and export controls, requiring substantial time and resources for complete and necessary inspections, without prompt response.

Procedures for evaluating the RRA are similar to other procedures for assessing audit, however, the supervision procedures are not an audit in accordance with public auditing standards. In doing so, the RRA will help companies that are only in the risk segment to explore resource utilization, improve the efficiency of CBP bodies, and promote legal trade in the community.

However, RRA does not provide a degree of conformity or an acceptable / non-acceptable risk. Also, they do not report to the importers, but they may receive closed mail.

One of the main advantages of the Independent Assessment of Importer (hereinafter referred to as the IAI) program is the focus of independent assessment of closed-type companies, independent audit, and membership in the IAI. This means that the company will not be considered as a nominee for a simple, narrow-minded objective assessment of the outcome (result) of the company's preparedness and conformity assessment with the CBP.

The CBP cannot completely eliminate a single CBP request, if it is sufficient to identify a particular, accurate risk that will always ensure that access to the IAI, tracking transactions that deal with a particular problem with the CBP.

In such cases, the CBP authorities and the importer work together whenever possible to determine the optimal rate of activity. However, an approved internal audit firm approved by the IAI will be an audit-oriented, recommended entity. If a company that has applied for an IAI or an application for participation in the program is notified that the company that is considering the application is selected for the RRA means that some elements of import transactions are identified as risk. On the other hand, the risk problem should be solved by the CSOs themselves, either through the planned RRA or by the IAI review process. Any high-risk, potential problems should be solved by the time the company approves it for the IAI.

In some cases, work with clearly defined risks would be more practical and effective if the auditor of the RRAs had been trained and submitted to the IAI monitoring team the results of their review. In other cases, the IAI audit team may complete the audit work if it is within the IAI surveillance process. The identity of the audit team and the timing of the case shall be resolved individually, depending on the circumstances of the case. In most cases, the investigation is conducted solely to resolve the problem, based on the interests of the company that applied to the IAI, to the factual monitoring of the IAI.

The solution of the problem that has not been solved will accelerate the final decision of the RRA on the company's right to IAI.

### **The experience of customs audit methodology in European countries**

The EU countries have examined the theoretical methodology and practical experience of organizing customs audit in the UK and Germany, where the economy is rapidly developing.

In the UK customs authority, this methodology is based on the methods of valuation of customs value. They are identified in six different ways, namely, the following custom procedures for the customs value of imported goods are used:

Method 1 (Transaction value). The customs value is based on the European Union (hereinafter referred to as EU), with a number of adjustments to be made in the GACV02150 document, which must be actually paid for an exported product. This method is most commonly focused on the optimal (actual) and actuality of the transaction value of transactions involving a particular trader in relation to other traders and trading terms.

Method 2 (value of transactions on similar goods). Customs value is based on the value of similar commodity transactions sold to the European Union at the same time, in the price of exported goods, at a price determined by the method used earlier.



Method 3 (value of transactions on the same goods). Customs value is based on the value of transactions related to the same goods, which were sold for export to the EU but at the same time exported and evaluated goods were determined in accordance with the method previously.

Method 4 (deductive method). When imported goods or similar i.e. imported goods are sold to non-EU customers, the customs value is based on the unit sales price of most of the commodities.

Method 4(a). It is based on the price of the same amount of imported goods or similar or substantially the same goods at the time of sale.

Method 5 (Calculation method). The customs value is based on the cost of the product and the total costs.

Method 6 (method of calculation of deductions). The customs value is based on the combined application of the methods from 1 to 5.

Also, when studying German experience in methodology for customs audit, they also found that customs control was operating using audit methods. The customs audit in Germany is carried out in the same way as the participant of the FEA and the customs authority's interests. As a result, if there are cases where FEA participants have paid low or non-payment of customs fees, additional customs fees will be charged. Not only in Germany, but also in all other EU member states, the customs audit focus is on studying the state statistics using risk management systems. After the audit route is selected, inspections are carried out, for example, to check the timeliness and completeness of customs payments, audit of goods origin, audits of economic entities using simplified customs clearance procedures, audits of tariff classification of goods and participants in foreign economic activity.

Thus, in developed western countries, customs clearance can be organized and implemented in the following sequence after the release of goods (Figure 1).

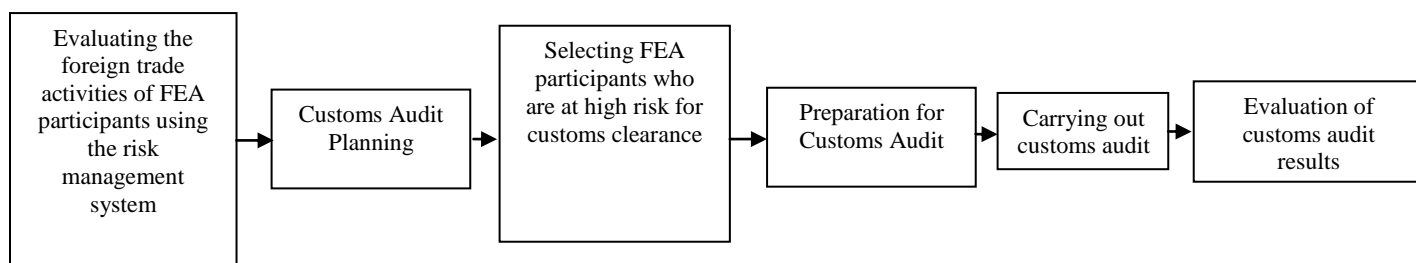


Figure 1. Consistency of organization and conduction of customs audit

Source: Section 6 of the General Kyoto Convention is based on the recommendation of the World Customs Organization on Customs Audits



It is worth noting that the practical work on the development and creation of a methodology for the organization and conduct of customs control in the customs system of Uzbekistan is under way. In particular, the Strategy for the development of the Republic of Uzbekistan for 2017-2021 sets out priority tasks for the further development of export-import operations. In addition, the following points adopted by our President Sh.Mirziyoyev“... Imported goods are subject to separate inspection in each customs procedure. We have only one such customs regime. Why should one load be checked several times in the territory of our country? Who else is interested? Each check is expensive! What is our financial capacity? Moreover, it is forbidden to exclude the goods from the customs warehouse, without the conformity, hygienic or veterinary certificate, depending on the type of goods. Is not each of our customs warehouses equipped with express laboratories? How transparent are these processes, and why do not the authorities bother with it?

In all developed countries, customs inspection is carried out through a hazard warning system. It also saves time and resources for both government and business. However, this system has not been implemented yet. Starting next year, we introduce a system of customs clearance for business entities on the basis of a "green" and "red" corridor, depending on the degree of fairness of entrepreneurs”

## CONCLUSION

In our view, indeed, the above-mentioned critical points are one of the most important issues that need to be solved in the right and timely manner. Therefore, we think that addressing the following issues will enable us to quickly introduce customs clearance in Uzbekistan:

1. The Regulation "On the Organization and Conduct of Customs Audits" (within the competence of the Cabinet of Ministers of the Republic of Uzbekistan) or "On the Organization and Conduct of Customs Audit" (within the competence of the Methodological Department under the Customs authorities of the Republic of Uzbekistan) National standard of auditing activity" (within the competence of the Ministry of Finance of the Republic of Uzbekistan). It also requires the creation and adoption of these documents, in turn, the necessity to make changes in tariffs and rates in domestic tax and customs legislation, and accelerate the process of accession to the World Trade Organization. This process is being carried out in a certain sense.
2. It is well known that the customs authorities in the country cooperate closely with other state controlling and law enforcement agencies, in particular with the tax authorities. However, in an environment of rapidly developing integration, it is desirable to set up an interactive and intergovernmental information exchange system based on the latest

information technology in the process to further enhance its effectiveness, and to form a constantly updated database. This, in turn, will accelerate the process of customs clearance in the export-import operations, simplify customs procedures and increase the quality of customs services being rendered.

3. It is necessary to review and analyze the work of the State Customs Authorities on the activities of FEA occupied in all foreign trade, and, as a result, import to the country and form a list of possible products. In our opinion, they will effectively use the country's foreign exchange reserves. Also, if FEA participants import goods into this list and confirm that they are implemented within the framework of their customs legislation, it is necessary to introduce a green passage system at all FEA customs posts and carry out an experiment, when customs clearance of goods is carried out, with the use of risk management system. Except for the above list, all FEA participants importing goods are required to carry out fraudulent customs control on the basis of the red corridor system. To do so, a very high level, a list of high risk goods and countries should also be formulated. This is a rule that ensures the rule of law and teaches FEA participants to respect laws.
4. It should be noted that the issue determines the objective necessity of developing methodology for the customs audit of the State Customs. In this regard, the effective use of the experience of the above mentioned western countries would be the first step in organizing it in Uzbekistan

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