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COMMUNICATION FROM KOREA

The following communication, dated 21 July 2005, from the Delegation of Korea, is being circulated in advance of the Negotiating Group meeting of 25-26 July.

POST-CLEARANCE AUDIT IN KOREA

I. INTRODUCTION

1. In July 1996, the Korea Customs Service (KCS) introduced the Post-Clearance Audit¹ to deal with the rapid increase in the volume of imports and exports, and to expedite customs clearance procedures. Under this new audit system, imported goods are immediately cleared after Customs Officials check basic import declaration documents (e.g., invoice and B/L) in conjunction with payment of duties and taxes by the importers. The accuracy of the amount of duties and taxes paid is checked after the clearance.

2. To effectively utilize this new system, KCS established the Audit Bureau, whose main responsibility is to prevent customs duty and tax evasions as well as to detect false declarations by traders. This brief introduction of Korea's Post-Clearance Audit system will hopefully assist other Members in expediting their own customs clearance system.

II. OVERVIEW OF THE POST-CLEARANCE AUDIT SYSTEM IN KOREA

3. The assessment of customs duties and taxes can be divided into "Pre-Clearance Audit" and "Post-Clearance Audit" depending at which stage the audit is being carried out. The Pre-Clearance Audit is performed by Customs Officials prior to the clearance of import goods, whereas latter is conducted by Customs Officials after the clearance of import goods.

4. The Post-Clearance Audit is categorized into three groups: Case-by-Case Audit, Planned Audit, and Comprehensive Audit.

- **Case-by-Case Audit** : Within 90 days after acceptance of import declaration, KCS examines, on case-by-case basis, correctness of payment of duties and taxes on selected import cases, which are electronically selected by KCS' risk management method. This is mainly a paper-based audit.
- **Planned Audit**: KCS examines companies' import transaction patterns and items with a high risk of tax evasion. This is either a paper-based or on-the-location audit.

¹ See Revised Kyoto Convention General Annex Guidelines 7.2.1 for relevant information.

- **Comprehensive Audit:** This is a self-assessment audit system conducted by the selected companies. Import cases that Customs Officials have selected as “audit subjects” are self-examined by those selected companies.

5. Under the Korean Customs law, in principle, KCS utilizes Post-Clearance Audit. However Pre-Clearance Audit is also exercised, among others, under the following exceptional cases:

- Goods entitled to tariff reduction and instalment payment;
- Goods with large price fluctuations, making them inappropriate to audit after clearance;
- Other goods imported by traders deemed untrustworthy declarants by KCS.

III. THE PLANNED AUDIT SYSTEM AND THE COMPREHENSIVE AUDIT SYSTEM

6. Below is a detailed description of the Planned Audit System and the Comprehensive Audit System, which are the major components of the Post-Clearance Audit.

7. The Planned Audit System was introduced in 2000 as a complementary scheme to counter systematic weakness existing within the Case-by-Case Audit that can be abused by untrustworthy companies dealing with tax-evasion-prone goods. Under this audit system, Customs Officials would perform audit on import cases that are selected employing strategically planned investigation with latest information on specific areas or items having a high risk of tax evasion.

Planned Audit procedure is outlined below:



8. The Comprehensive Audit System, which was introduced in 2001, is an Importer's Self-Assessment (ISA) based system. Here, Self-Assessment means an audit system where importers themselves check the appropriateness and correctness of their customs duties and taxes paid, and the legitimacy of customs clearance in compliance with procedures by Customs regulations.

9. Under the system, the selected company reports the outcome of the self-assessment to KCS. If an incorrect or unfaithful self-assessment report is made to KCS, KCS has authority to conduct a paper-based or on-the-location audit and can cancel the self-assessment status of the selected company.

Comprehensive Audit procedure is outlined below:



10. The introduction of ISA helps companies focus more on their own business and relieves them from the pressure over future unforeseeable audits by KCS. The ISA also helps to improve the accuracy of duty payment declarations by companies since companies with a higher level of compliance receive preferential treatment under the name of Comprehensive Audit System while the main resources of KCS' Audit Teams focus on high-risk companies.

IV. BENEFITS OF POST-CLEARANCE AUDIT

11. 88% of approximately 4 million import declarations submitted each year underwent Post-Clearance Audit. As a consequence, there was a sharp decline in the time taken for customs clearance, which has also contributed to cost savings for businesses as well as for the government.

12. In addition, KCS' Post Audit Teams detected violations such as tax evasions or false declarations, bringing in about US\$100 million in additional revenues in 2001, and approximately US\$480 million in 2004, which in return motivated importers to more carefully and accurately declare their goods.

13. Furthermore, based on KCS' experience, it is noted that the Post-Clearance Audit system is one of the effective means to facilitate clearance procedure that does not require significant investment in IT infrastructure or additional manpower.

V. CONCLUSION

14. The most important purpose for introducing Post-Clearance Audit in Korea is to accelerate customs clearance. Combined with improvement in risk management and capacity of customs officials, the Post-Clearance Audit can not only reduce the time and burdens associated with customs clearance, and provide friendlier environment for companies that faithfully pay their duties and taxes, but can also contribute to reductions in tariff and tax evasions. In this context, KCS has been devoting a substantial amount of time and resources to training programmes for building capacity in developing countries, and Korea continues to commit itself to technical assistance in this field.
