

# ASEAN CUSTOMS PCA BULLETIN

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# CONTENTS

From  
The Country  
Coordinator's Desk

*i*

Foreword by the Chair of  
ASEAN Directors  
– General of Customs

*ii*

From  
The Chairman's  
Desk

*iii*

## ***PCA Cases***

*Brunei Darussalam* **01**

*Cambodia* **03**

*Indonesia* **06**

*Malaysia* **08**

*Singapore* **10**

*Thailand* **11**

PCA and Businesses'  
Inventory System

**13**



# FROM THE COUNTRY COORDINATOR'S DESK

I am pleased to welcome you in the publication of the seventh edition of PCA Bulletin. This bulletin would never be a success without the contribution of all ASEAN Member States through our cooperation in Customs Directors-General, Coordinating Committee on Customs (CCC), and also Customs Enforcement and Compliance Working Group (CECWG).

It is not surprising to find many companies nowadays trying to seek a loophole to evade taxes and customs duties by declaring false customs value. Under uncertain economic condition, enterprises tend to maximize their profits by all means. The cases concerning tax and customs duty evasion found in some ASEAN Member States which are captured through various modus operandi are provided in this bulletin to allow every Customs Administration to get new insights from the findings. It is also believed that innovative techniques, regulations, and strategies to fight valuation frauds and other types of false declaration can be developed from the lessons learnt.

Undoubtedly, Post Clearance Audit has become one of the most useful tools to improve Customs control in facing bigger challenges. In order to be more effective, the audit implementation shall utilize the latest technology. This edition provides us the information concerning the benefits of the utilization of comprehensive and reliable IT Inventory in audit, especially in the bonded zone. Not only does IT inventory allow Customs to control the movement of goods, it is also beneficial in audit object targeting.

Finally, I truly hope that this bulletin will remain useful for the readers. I also encourage all ASEAN Member States to be more active in contributing articles and also ideas for the improvement of the bulletin.

Thank you.

*Regards,*

**Heru Pambudi**

Director-General of Customs and Excise  
Ministry of Finance of the Republic of Indonesia



# FOREWORD BY THE CHAIR OF ASEAN DIRECTORS – GENERAL OF CUSTOMS



Customs administrations around the world including ourselves in ASEAN face challenging demands for efficiency and effectiveness of customs control; protecting revenue collection; transparently and consistently applying rules and regulations and reducing the threat of terrorism by making international supply chains secure. Post Clearance Audit (PCA) continues to be an important measure in balancing these needs and challenges. It could also lead to faster customs clearance and a friendlier environment for compliant traders that faithfully pay their duties and taxes.

I am glad to see that we as ASEAN Customs Administrations, in implementing the PCA, have shared and documented valuable experiences, case studies and best practices. In this regard, I am pleased to note the publication of 7th volume of the PCA Bulletin.

I would like to thank the Customs Enforcement and Compliance Working Group and the Country Coordinator, Indonesia, for the excellent work as well as support and contribution by ASEAN Member States for the successful publishing the 7th volume of the PCA Bulletin.

Thank you.

*Regards,*

**Mohammad Nizam bin Haji Ismi**

Acting Controller

Royal Customs and Excise Department

Brunei Darussalam



# FROM THE CHAIRMAN'S DESK

**INDIVIDUALLY WE ARE ONE DROP, TOGETHER WE  
ARE AN OCEAN.**

The ASEAN Customs Community continues to work relentlessly towards enhancing the capacity of law-enforcement and with increasing level of technology assimilation. The staff have to balance the requirements to comply with legislation with the desire to provide an efficient and effective service.

Fostering and sustaining relationships with our ASEAN members is a pivotal priority and improves partnerships activities which will enhance our understanding related to our enforcement operations.

In today's environment, hoarding knowledge ultimately erodes your power. If you know something very important, the way to get power is by actually sharing it. Sharing will enrich everyone with more knowledge.

It is the dedications and professional attitude of ASEAN members that enables me to report on yet another successful and productive year. I would like to thank them for their work and commitment. With continuing support, we can confidently face the challenges.

*"Coming together is a beginning  
Keeping together is progress  
Working together is success."*

## **Mr. Syed Mohri**

Chairman, ASEAN Customs Enforcement and Compliance Working Group





# BRUNEI DARUSSALAM



## ROYAL CUSTOMS AND EXCISE DEPARTMENT NEGARA BRUNEI DARUSSALAM

### Facts of the Case

The importation of Kangen Water Filter Machines through courier services made by individuals was highlighted by a Customs officer from International Airport Cargo, Berakas Branch upon discovering significant differences between the value declared and the market price. It was also realised that there were only three

addresses used for delivery of these machines for over 300 individuals.

Therefore, a task force was set up, comprising of Enforcement Division and PCA Unit, to further investigate these cases. The addresses used by the individuals at the time of importation was found to be the addresses of the distributor agents. Officers from Enforcement Division and PCA Unit were further divided into three groups and assigned to three different locations to raid the distributor agent's office led by RCED Senior Officers.

### Findings

The distributor agents has appointed a courier service for the importation of Kangen Water Filter machines to Brunei under De-Minimis system using pre-signed order forms from the individuals. Once delivered to the agents' shops, they gave the machines to those individual buyers.

Upon documentations investigation, it shows that:-

- The price range of Kangen Water Filter Machines according to five different models were from HKD16,800.00 - HKD42,800.00 and the shipping cost were from HKD720.00 - HKD1,620.00;

MODELS	PRICE	SHIPPING COST RANGE	PRICES IN BND DUE TO CURRENCY RATE					
			PRICE RANGE		DUTIES PAYABLE RANGE			
SUPER-501	HKD 42,800.00	HKD 1,450.00 HKD 1,620.00	BND 2,921.00	BND 3,011.00	BND 147.00	BND 151.00		
SD-501	HKD 29,800.00	HKD 850.00 HKD 950.00	BND 3,950.00	BND 4,019.00	BND 198.00	BND 201.00		
DXII	HKD 22,800.00	HKD 850.00 HKD 950.00	BND 5,080.00	BND 5,285.80	BND 254.00	BND 265.00		
JRII	HKD 16,800.00	HKD 850.00 HKD 950.00	BND 7,341.00	BND 7,671.00	BND 368.00	BND 384.00		
ANESPA	HKD 16,800.00	HKD 720.00 HKD 800.00	BND 2,921.10	BND 3,013.00	BND 147.00	BND 151.00		

- The individual buyers were not aware that their names were being used as importers as they had pre-signed these documentations for importation at the request of the distributor agents;
- The addresses used for delivery by courier service was found to be the

distributor agents' addresses; and

- Incorrect value declared under De-Minimis System at the time of importation. Any dutiable goods declared under De-Minimis System where the threshold value was less than BND400.00, duty payable is exempted.

## **Modus Operandi (MO)**

The distributor agents used the individual names of the buyers as an importer for each importation and wrongly declared the value using De-Minimis System which meant the machines were entitled for exemption of duties payable. Once it was found that the items were not eligible for De-Minimis exemption, the demand for the collection of duties will be made to the individuals instead of the distributor agents.

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## **Decision**

Duties shortage claimed to those individual buyers totalled to a sum of BND101,068. Letters of Demand were issued to 390 individuals by batches and a total of BND 84,630 of duties has been collected as of September 2015.

RCED has set a Test value for all types of Kangen Water Filter Machines since November 2014 and has instructed that future importations of these Kangen Water Filters must be declared through e-Customs system.





# CAMBODIA



## **Case 1. Documentary Audit - Case of Company A**

### **Facts of the Case**

Some imported goods are subject to either relatively high tariff duty or high excise duty. However some specific goods are subject to both relatively high import duty and excise duties. This situation caused some importers to declare their imported goods below the quantity actually imported or to misclassify their imported goods. The objectives of the importers are to evade duties and taxes then they earn extra profit which treated as illegal.

This company A imported batteries from many foreign country to supply the local market and she declared the imported batteries in a category that fallen into the tariff line with lower duty and tax rates while actually these batteries should fall into tariff line with heading of higher duty and tax rates.

### **Finding**

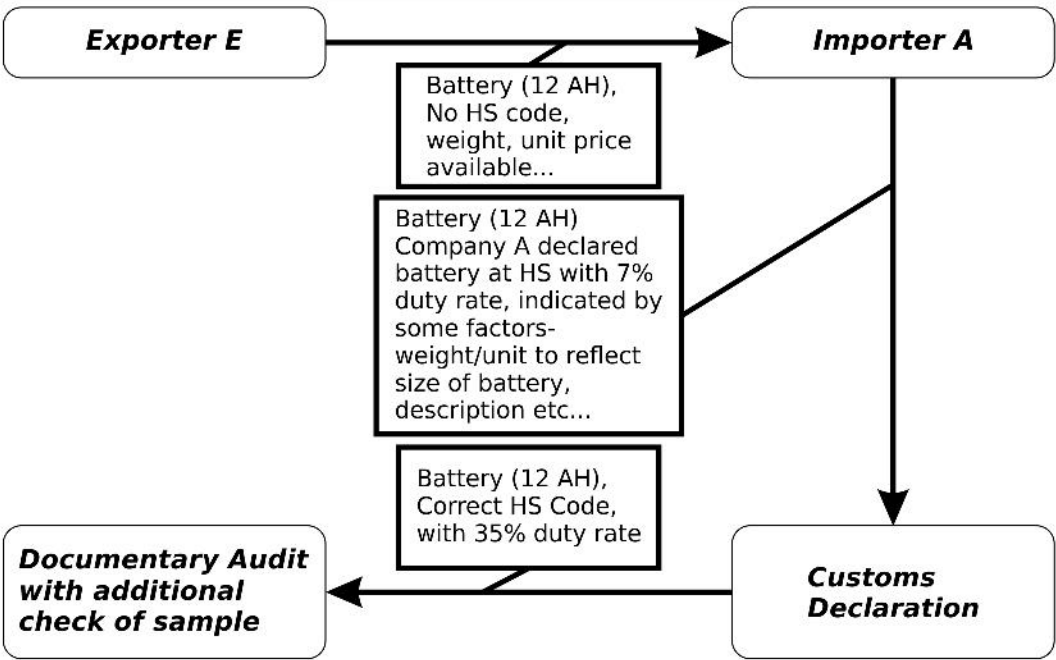
Based on risk assessment and analysis, routing of the ASYCUDA automation system, market price, and the irregularity of weight specified on import documents, the documentary audit of company A was conducted. The customs audit team took some steps as following:

- Selecting a number of Single Administrative Document [known as declarations] that lodged in a particular period by company A, and by other importers of the same business as good reference. From declaration, commercial invoices, packing lists, bill of lading, and scanned files of container were used for analysis and verification. Beside this, criteria used to analyse and verify the import of batteries by Company A were H.S Classification / Goods Description, Country of Origin, Gross/net Weight, Unit Price etc.
- Referring the documents related to the imports of the same type of batteries by other companies, from the same source and country of origin, then checking the previous declarations, other accounting records, market price, and sample of batteries imported by Company A plus the outcomes of the analysis by using above criteria including unit weight, the audit produced the result that company A declared wrongly of her commodity code of HS classification. The HS code company A declared was fallen in tariff line of 7% duty [for battery for automobile of 12AH with code 8507.20.92] while correctly the battery was fallen in tariff line with HS Code of 35% [8507.10.93].

## Modus operandi

The case was classified as commercial fraud of misclassification. The company was well aware about the various HS code assigned for imported batteries and she

understood that batteries were not a sensitive items therefore she expected that battery imports were not on target by Customs at frontline. It was easily to misclassify while import.



## Decision

As batteries are not strategic or sensitive or restricted or prohibited goods, Customs decided to implement the

provisions of customs law requiring company A to pay additional amount of duty and taxes by calculating differences between the actual and declared amounts, plus penalty.

## Case 2. Audit of a Garment Factory

### Facts of the Case

Garment factories in Cambodia are provided some incentives including duty and tax exemption when they are export oriented enterprises – by law 80% of the production is exported is treated as export oriented enterprise. Scrutiny of duty and tax exempted imports of materials, equipment and accessories is one of priority of Customs operations to prevent any diversion of customs regime and violation of customs permit, and to fight against illegal exploitation of profit from duty and tax exemption scheme.

Company XYZ Co., Ltd received Qualify Investment Project status from Cambodian

Government to run a business in garment industry. The company received incentive package to import raw materials which exempted from duty and tax payment. It was clear, the duty and tax exempted imports of raw materials used for inward processing for re-export was not required by law to pay duty and taxes but the residual of duty and tax exempted raw materials used for inward processing for local market supply shall be dutiable and taxable.

The Customs Audit Office selected this company for auditing were based on some risk profile and the situation of the company's finished products on local market and the similar raw materials available on the local market.

Factors Customs needed to scrutinize the duty and tax exempted import of raw materials and accessories of company XYZ Co., Ltd were

- Importation data of fabric and accessories (materials) in net weight term (Kgs)
- Fashion of product
- Wastage or residual materials
- Current inventory management (Monthly inventory - beginning and ending records)
- Production volume and line
- Exportation data of Finished Products
- Market share of the company (company product availability on the local market)

## Finding

Customs audit officers visited the company premise to check the accounting records – cost accounting, inventory of raw material records, production line and capacity, the usage of fabric as main raw material, export records, and checked warehouse for consideration of fabric stored.

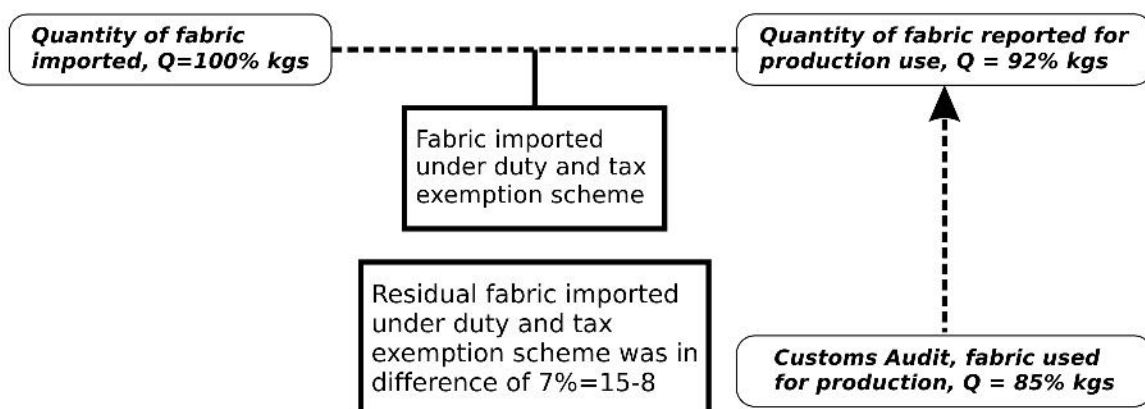
Customs used import data of fabrics and export data of finished products (mini

marker brand), and average quantity of fabric need for a piece of clothes calculated from the cost accounting records, to verify the correct and actual average quantity of fabrics needed by the company per year.

The results shown that the company XYZ Co., Ltd reported wrongly that she used 92% of duty and tax exempted import of fabrics to produce clothes of Mini Marker brand for export – meaning that residual materials was only 8%. However Customs Audit Office found that the residual of material was 15% - use of fabric material for production was 85% instead of 92% as reported by company, regardless some small percentage of products was supplied to the local market.

## Modus operandi

Fabric imported in Cambodia was recorded in quantity (kgs). This was the factor the company report low weight of inventory (low quantity of inventory) but high weight (high quantity of materials) for finished products for export. The company kept low inventory during the visit. That was a suspicious for diversion also.



## Decision

Customs Audit office decided to require Company XYZ Co., Ltd to pay duty and tax for the different quantity of materials plus some fines regardless the different quantity of material was used to produce clothes for local market or that different quantity was diverted to sell at the local market.





# INDONESIA



## Case 1. Indirect Payment of Royalti Fees

### Facts of the Case

Company A of country X used a specific cartoon characters, which the right to use belonged to company C of country Z, for their product packaging. According to the contract between both companies, Company C received royalty fee from Company A as a consideration for the use of such character and Company A could only sell the sublicensed material in a limited scope.

Company A generated their packaging by importing them, which was already printed with the cartoon characters, from company B of country Y. The royalty fees, however, were not included in the customs value because Company A believed that royalty fees were not supposed to be paid directly to company

B who made the packaging.

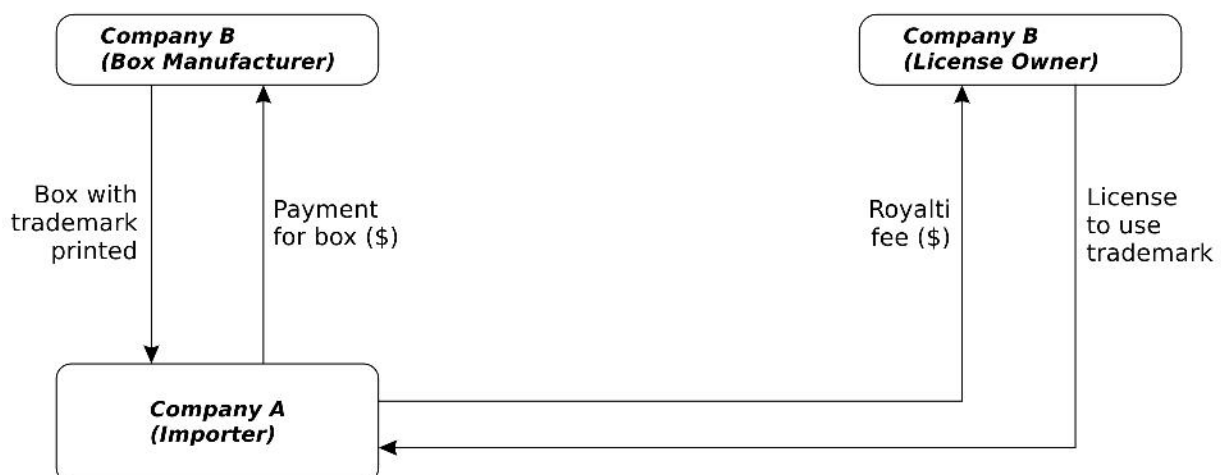
### Finding

According to the contract between company A and company C, royalty payments in the amount of 2.5% of the Net Invoiced Billings of the related products are subject to be added to custom value.

Furthermore, the royalty payments are also required for company C to authorize the commercial use of the characters by company A. It all shows that the royalty fees were an integral prerequisite for the sale of those particular imported goods.

### Modus Operandi

Royalty fees were not paid directly to the goods exporter, rather to another party that held the royalty contracts.



### Results

Imported goods were subject to royalty fees; regardless the payments were made

directly to the goods exporter or to other parties and should be added to customs value.

## Case 2. False Purchasing Agent Fee

### Facts of the Case

Company X was a sole distributor for home appliances of brand A, such as washing machine, air conditioner, gas stove, refrigerator and vacuum cleaner. The goods were imported from Company Y.

Other than the brand A, Company Y also supplied the Company X with other brand. For the latter transaction, however, Company Y charged Company X for additional cost, which was separated from the price of the goods.

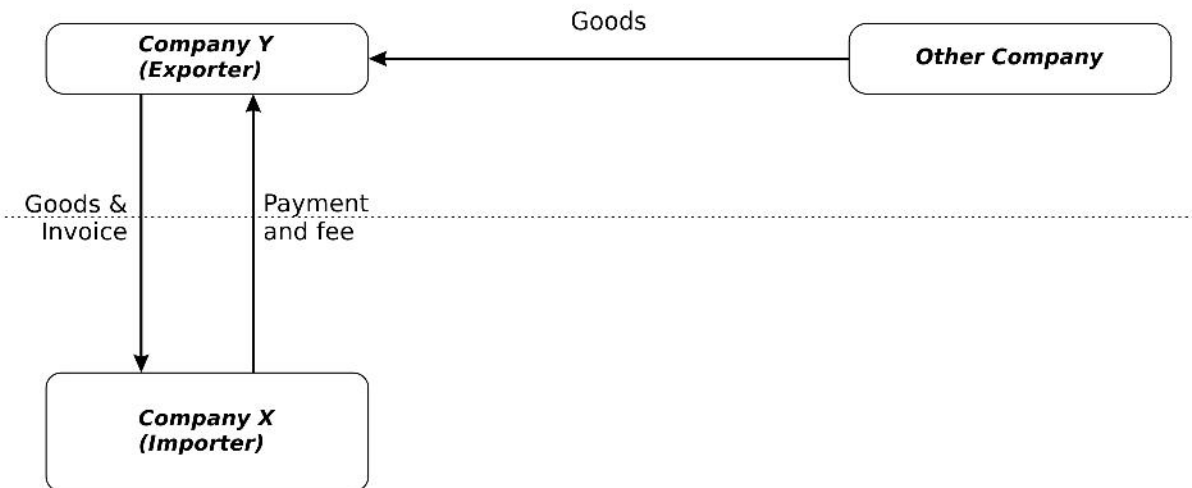
According to Company X, the additional costs accounted as “purchasing agent fee”, thus it should not be included in calculating customs value.

On the contrary, Auditor argued that the additional cost should not have been considered as “purchasing agent fee” since there was no clear evidence that Company X had assigned Company Y to act as a purchasing agent and all the payment was directed to the latter. The transaction should have been considered as a regular transaction between company X as a buyer and company Y as a seller. Therefore, “purchasing agent fee” should have been considered as additional cost of goods.

### Finding

The Auditor found there was another cost paid by Company X related to transactions between both companies.

### Modus Operandi

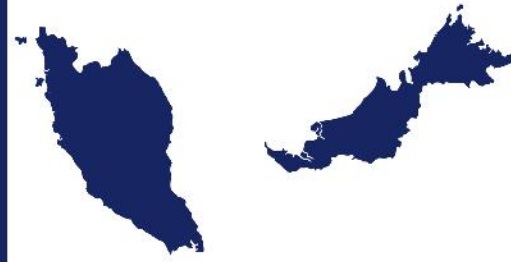


### Result

The “purchasing agent fee” should be added to determine customs value as additional cost of goods.



# MALAYSIA



## Case 1. ABC Company

### Facts of the Case

ABC Company conducts trading activities in tyres and tubes. ABC Company received its supplies from Light Distributor in Hong Kong. ABC Company is the sole distributor in Malaysia and has been appointed to market tyres under the brand name "LIGHT".

ABC Company also imports the tyres under brand name "FIRE" from Super Trading in Japan.

ABC Company paid proceeds to Light Corporation (Suppliers) upon selling the tyres. These payments were not included in the declarations to the Customs. This will require adjustments to be made as provided under Regulation 5 (1) (a) (v), Customs (Rules of Valuation) 1999.

Further inspection of documents also found non declaration on the cost of freight and insurance for importation of branded tyres "FIRE" from the supplier Super Trading of Japan. These elements have to be adjusted in accordance with Regulation 5 (1) (a) (vii), Customs (Rules of Valuation) 1999.

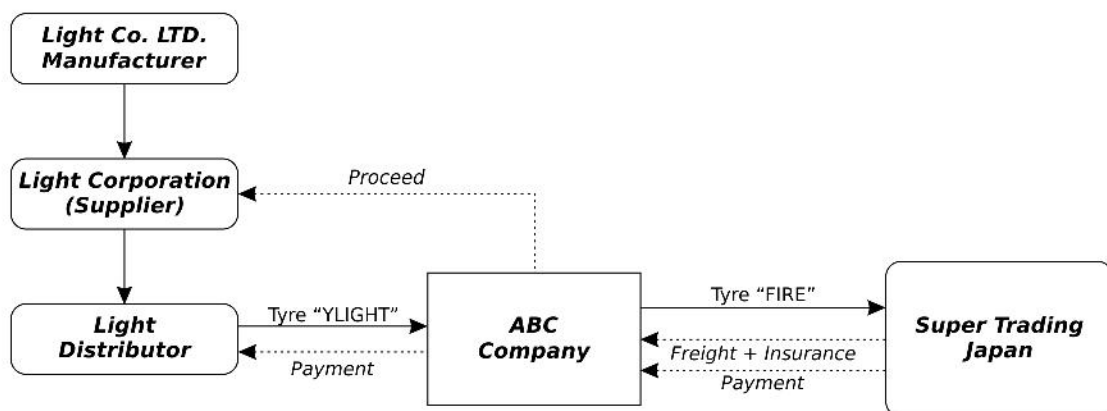
### Finding

Upon Inspection it is noted that ABC Company have an agreement that is Distributorship Agreement with Light Co. Ltd. (Manufacturer), Light Corporation (Supplier) and Light Distributors in Hong Kong.

### Modus Operandi

The Company did not declare payments of proceeds / sales and marketing commission

The Company also did not declare the real cost of freight and insurance.



### Decision

Payments of proceeds and cost of freight and insurance to be added to value declared.

A claim for short payment of duty/sales tax was issued and ABC Company was also compounded for the offence committed.

ABC Company paid the compound and amount claimed.



## Case 2. PJ Trading Company

### Facts of the Case

PJ Trading Company operates the marketing and distribution of engineering equipment. The Company purchased stainless steel tubing from suppliers in Singapore and do not have any relationship with the supplier.

### Finding

Audits were carried out and the documents revealed that the price declared is lesser than the actual price paid.

The company makes a purchase order and payments to the supplier in Singapore. However, the goods were

delivered directly from the manufacturer in Sweden to the importer in Malaysia.

PJ Trading Company declared using invoices from Sweden where value was lower. PJ Trading Company should use invoices from Singapore where the actual value was paid.

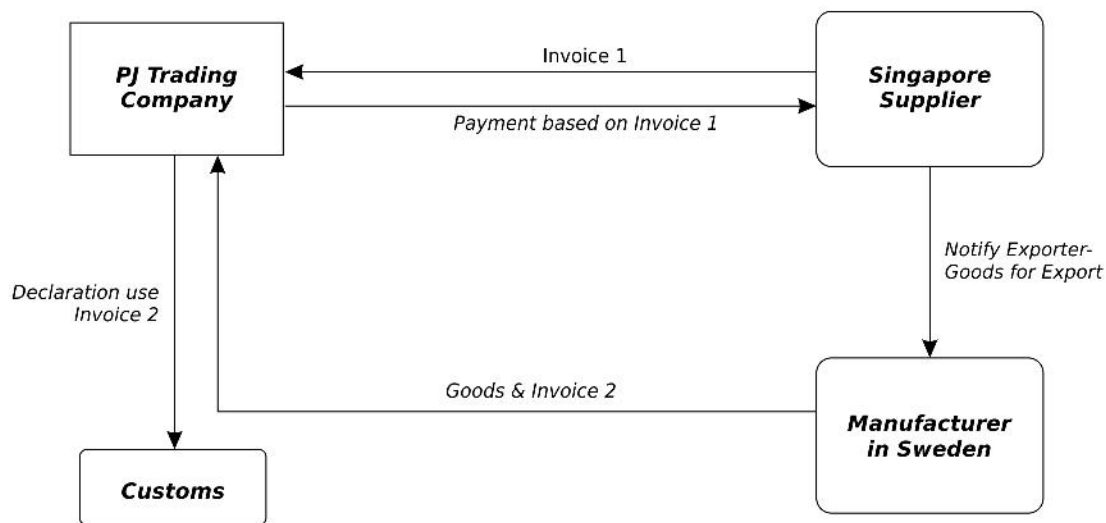
### Modus Operandi

PJ Trading Company makes a purchase order to company in Singapore.

The supplier in Singapore then request the manufacturer in Sweden to send trades directly to PJ Trading Company.

PJ Trading Company made declaration using invoices from manufacturers in Sweden where the value was lesser.

PJ Trading Company makes payments to supplier in Singapore after receiving invoice.



### Decision

PJ Trading Company did not declare the actual value paid for the goods.

The declared value cannot be accepted as the customs value because it is not the actual value paid to the supplier.

Audit revealed short payments and offence committed by PJ Trading Company.

A claim was made and PJ Trading Company was compounded. PJ Trading Company paid the compound and the claim.



# SINGAPORE



## **Case : Two Handbag Retailers Fined for Fraudulent Evasion of GST**

### **Facts and Findings**

Two handbag retailers were sentenced by the State Courts on 15 April 2015 for the fraudulent evasion of Goods and Services Tax (GST). They had under-declared the value of their imported goods in fake invoices submitted to Singapore Customs.

Between January 2013 and June 2014, Accused 1 had imported 3,390 branded handbags – from the United States (US), Italy and Malaysia – on 80 occasions. The under-declaration of the import values of the goods resulted in a shortfall of about \$55,606 in GST payment. Accused 1 pleaded guilty to 10 charges. Another 70 charges were taken into consideration in the sentencing.

In the other case, Accused 2 was caught for submitting fake invoices with the import declarations to Singapore Customs. Investigations revealed that between May 2013 and November 2014, he had imported 2,024 branded handbags and 1,505 pieces of accessories – such as wristlets, phone cases, children toys and travel adapters – on 13 occasions. The total amount of GST evaded exceeded \$7,360. He pleaded guilty to four charges. Another nine charges were taken into consideration in the sentencing.

### **Modus Operandi**

The values of the goods were under-declared in fake invoices submitted.

### **Decision**

Accused 1 and 2 were fined \$95,000 and \$42,000 respectively



Branded handbags imported by Accused 1 for which GST had been under-declared.



Branded handbags and accessories seized from Accused 2's company premises





# THAILAND

## Case 1. ATIGA Form D

### Fact of Transactions/ Findings

Company L products mainly beddings and mosquito nets.

In this case, the company imported 100% Polyester Filament Yarn from country P which is one of ASEAN member states. Therefore, goods are granted import duty exemption with ATIGA Form D in the time of customs clearance.

Company L was audited by Post Clearance Audit (PCA) Bureau of Thai Customs Department in year 2013 and found some suspected points including invalid ATIGA Form D found with import declarations, declared tariff code 5402.47.00.

### Modus Operandi

In the suspected ATIGA Form D, the

Origin Criteria shows that goods have undergone a change in tariff classification at 4-digit level or Tariff Heading (referred as “CTH”) of the Harmonized System.

### Decision/ Opinion

According to Customs Notification No.78/2554 Section 2(10)(10.3) and Appendix 3 on Products Specific Rules, tariff code 5402.47.00 should have RVC not less than 40% or a change in tariff classification at 2-digit level or Chapter (referred as “CC”). As a result, the mentioned Forms D are invalid to granted import duty exemption.

Finally, The company had to pay unpaid import duty in full rate on the nature and values of the goods and at the rates of duty at the time of import and was fined double times the amount of price of goods including import duty and VAT.

## Case 2. Undervalue

To enhance competitiveness and investment facilitation for foreign investors who would like to run businesses in Thailand, the Office of the Board of Investment (BOI) is an authorized principal government agency by the Prime Minister's Office of Thailand for encouraging investment in Thailand. BOI is able to officially offer tax incentives, including exemption of import duty on raw or essential materials imported for use in production for export only, according to Section 36 of INVESTMENT PROMOTION ACT B.E. 2520.

### Fact of Transactions

Company M is an overseas vehicle manufacture and is promoted by BOI for exemption of import duty on materials imported from parent company in country A for use in vehicle production for export.

Some parts of vehicle are imported with BOI privilege, which were declared their privilege during customs clearance.

The royalty fee for license and technical assistance is paid to parent company annually.



## Findings

PCA found Agreement on Royalty fee and the import declarations of vehicle parts, revealed that this company never referred or included the Royalty fee as a part of customs value. The company attempted to define the fee is for technical assistance, even assistance on parts procurement is referred in the agreement.

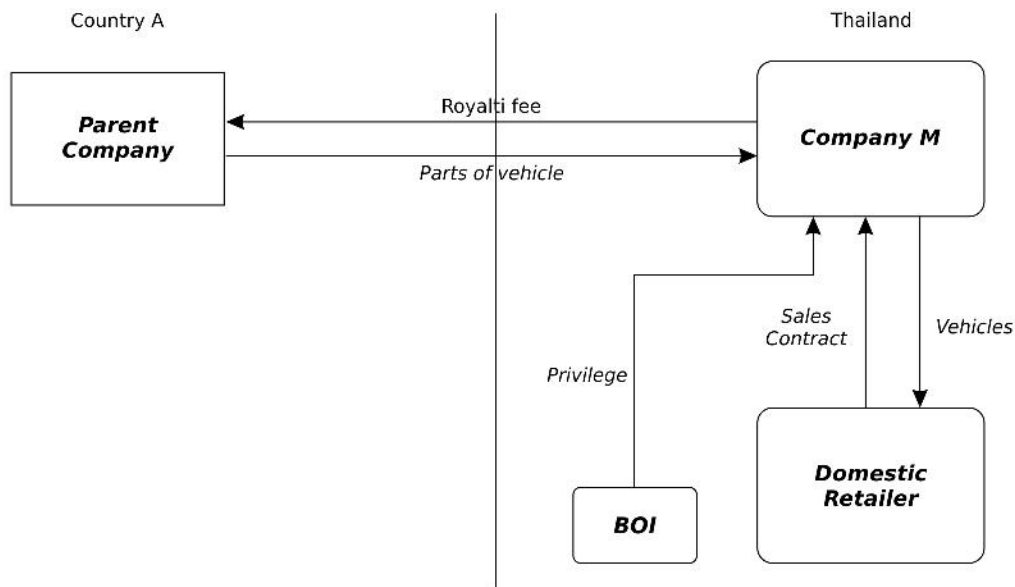
Moreover, documents from BOI revealed that those parts of vehicles are exempted import duty at the time of importation on account of their being

imported for production for export. However, no export declarations of completed vehicles contained those parts were found to support their excuse.

Among the seized documents by PCA, we found sale contact between the company and a domestic retailer. The contact shows the vehicles were sold.

## Modus Operandi

As interview with import/export officer related this case, the modus operandi Company M can be summerized by reference to the diagram.



## Decision/ Opinion

The value declared on declarations for imported parts of vehicle is not included the royalty fee. According to the Article 2 of the Customs Acts BE 2469 and Customs notification no.15/2523 on Royalty Fee or Commission Fee, the royalty fee should be a part of the price actually paid or payable. It would be partly calculated

from paid royalty fee.

Since the vehicles contained the parts with privilege were sold to domestic retailer, the payment of duty should assessed on the nature and values of the goods and at the rates of duty at the time when the transfer as the privilege was creased once the goods were transferred to to persons not be granted for duty exemption by BOI.

# PCA AND BUSINESSES' INVENTORY SYSTEM

Author :  
Indri Riesfandiari & Fairus  
Auditor at Directorate of Audit  
DGCE of Indonesia

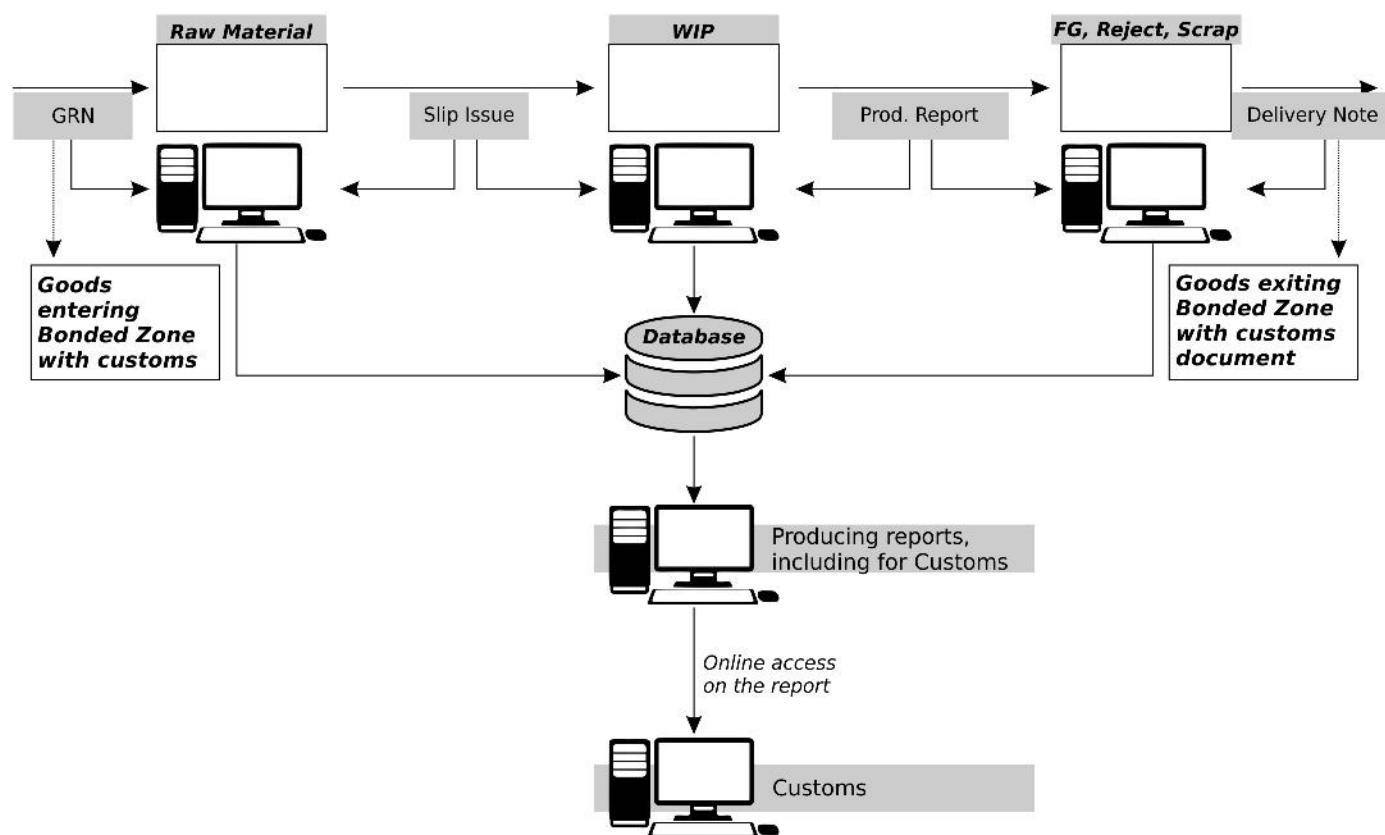
## Bonded Zone and IT Inventory

Bonded Zone is a kind of Bonded Storage which function to store and/or process imported and/or local goods prior to export or to import of goods for home use. Its purpose is to give facilities in terms of fiscal incentive to the operator in the form of deferment of the payment of Import Duty, and the exemption of value added tax (VAT), luxury sales tax, and excise.

Indonesia, since 2011, by the Ministerial

Regulation, has obliged Bonded Zone to use and implement information technology in managing its entering and issuance of goods. The information, namely Information Technology (IT) Inventory, therefore should be accessible by Customs for inspection and for audit purpose. In general, IT Inventory is an integrated system of logistics information among different divisions in the company, especially Raw Material Warehouse, WIP and Finished Goods Warehouse, as described in the figure.

Figure 1: Mechanisms of IT Inventory



Source: Adopted from Regulation of Director General Number 9 Year 2014 on IT Inventory for Company with Customs Facilities

Based on the IT Inventory, the company must produce and submit several reports namely goods entrance report per Customs document, goods issuance report per Customs document, RM and supporting materials mutation report, Finished Goods mutation report, reject and scrap report, machine and office supplies report, and WIP stock report to Customs. Therefore, companies are encouraged to have a real-time control on their inventory and assets and to provide assurance that its system are able to avoid or detect internal malpractices such as fraud, lapping, kitting, and external loss such as theft or damage.

In order to provide such database, companies inevitably have to dedicate its human resource as data entry operator to record the goods entrance, goods issuance, and WIP, or companies can use barcode scan system for every goods entering and leaving its Bonded Zone including the production process, which is considered to be more costly than the first method. However, regardless of the cost, the long term benefits of implementing IT Inventory is more promising. Based on to the regulation of the Director General Number 9 Year 2014, the goals and moreover, the benefit, conducting IT Inventory are as follows:

Table 1: Benefit of IT Inventory

<b><i>Benefit for Importers</i></b>	<b><i>Benefit for Customs</i></b>
Easiness in managing its inventory	Improve data reconciliation between Customs record and inventory movement in Importers' IT Inventory
Easiness in providing the inventory information to its stakeholder, including Customs	Tools for importer profiling and risk management in conducting surveillance
Reconcile its inventory record with Customs documents	
Improve its profile in Customs profiling record and gain more facilities based on its good profile	

*Source: The Regulation of Director General Number 9 Year 2014 on IT Inventory on Company with Customs Facilities and Author's compilation.*

## **Can PCA benefit from IT Inventory too?**

According to the Regulation of Director General, PCA has a full access on Bonded

Zone's IT Inventory and accounting records. Based on the reports and information that a Bonded Zone must have produced by its IT Inventory, audit can benefit from the information as follows:



Table 2: Utilization of IT Inventory Data and Report for PCA

<b><i>Suggested Audit Program for Bonded Zone (The Regulation of Director General Number 9 Year 2012)</i></b>	<b><i>Information provided by IT Inventory</i></b>
Raw materials and supporting materials	
■ Beginning balance	Yes, from RM mutation report
■ RM entrance and its reconciliation with Customs document	Yes, from goods entrance report
■ RM issuance to production	Yes, from RM mutation report
■ Ending balance	Yes, from RM mutation report
Finished goods	
■ Beginning balance	Yes, finished goods mutation report
■ Finished goods completed	Yes, finished goods mutation report
■ Finished goods exiting Bonded Zone (for exports, import for home use)	Yes, goods issuance report per Customs document
■ Ending balance	Yes, finished goods mutation report
Reject and scrap	Yes from reject and scrap report
Not stated in the audit program ■ The fair quantity of reject and scrap PCA should be able to detect the fairness value of scrap and reject produced according to the conversion data	No information of the conversion of material issuance to produce finished goods and scrap and/or reject goods
Not stated in the audit program ■ Maximum value of local sales In order to have a reasonable assurance that all materials with import duty and tax facilities are at least 50% exported in accordance with the regulation, PCA should assure that the adequacy of local sales are not over the 50% quota of last year's realization value (export + sales to other Bonded Zone + sales to FTZ + sales to economic area based on government regulation)	No information of the conversion of material issuance to produce finished goods

Source: Regulation of Director General Number 9 Year 2012 and Author's elaboration

Despite its comprehensive reports, IT Inventory has not yet incorporated conversion data of materials to finished goods on its information system. WIP section records the numbers of raw and supporting materials goes to production process in terms of the unit quantity of finished goods, and numbers of finished goods transferred to finished goods warehouse. The fairness of the conversions data on raw materials to finished goods are hence, rarely examined, and seems to be lacking on the information systems.

Therefore, we suggest that WIP section should also record conversion data based on material consumption or bill of material. Moreover, the information system should be able to calculate the planned finished goods quantity produced based on the conversion, which later can be compared with the actual quantity of finished goods based on the production report. The difference between planned

and actual quantity of finished goods should be able to be traced and clearly explained by the systems, for example, due to the rejection of finished goods, rejection of material, miss-practice in production process, etc. The conversion data should also be able to show quantity of scraps produced for every production job.

In sum, IT Inventory should be improved not only to assure the safety of company's inventory and assets, but also to fulfill company's obligation to government due to facilities in import duty and taxes. Comprehensive and reliable provided IT Inventory would create a better company profile in Customs database. The importer profile will also be used by Audit Directorate for risk management process in audit object targeting. Companies with good profiles shouldn't be prioritized for PCA since it was assumed that they would comply with Customs and tax regulation.\*\*\*

#### *References:*

- Regulation of Director General Number 9 Year 2014 on IT Inventory for Company with Customs Facilities*
  - Regulation of Director General Number 9 Year 2012 on Practice of Customs and Excise Audit*
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