# 3.5 EXECUTION PHASE

## EXHIBIT J – Accounting (Compensating Procedures)

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| **Document Name** | Accounting (Compensating Procedures) |
| **Document Number** | 3.5J |
| **When/How Used** | Used to obtain a reasonable measurement of the client's level of compliance with CBSA accounting requirements, when sample is drawn from FIRM. |
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| **Document Owner** | |
| **Division** | Compliance Management<br>HQ |
| **Contact** | Contact your local compliance verification office at:<br>http://cbsa.gc.ca/contact/listing/indexpages/index-e.html |

**Other Stakeholders**

# Verification Program – Accounting (Compensating Procedures)

**COMPANY** **FILE NO.**

**PERIOD** **TO**

## Verification Objectives

For the selected sample:

- Determine whether all imported goods are completely and accurately accounted for to the CBSA (including reporting of any overages).

- Determine whether the client has on file a copy of the Canada Customs declaration (B3 or CADEX transmission).

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| **Note**<br>*If the CVO is verifying compliance using a test sample drawn from FIRM then compensating procedures will need to be performed to test for non-account. This requires analytical procedures and a supplemental sample be drawn from the client's records to test for non-account. See the explanation of compensating procedures on page 4 and 5 of this appendix.* |

| ACCOUNTING (COMPENSATING) VERIFICATION PROCEDURES | DONE BY | REF. |
|---|---|---|
| Using a sample of transactions selected from the clients records: | | |
| 1. Validate the amount recorded in the client's records from which all source documents were obtained such as:<br>-Financial Statements;<br>-Detailed Adjusted Trial Balance;<br>-List of suppliers;<br>-Purchasing, inventory, receiving, or payables records from the client's records. | | |
| 2. Obtain all source documents (e.g. commercial invoice, receiving documents, cancelled cheques) necessary to verify the completeness and accuracy of the client's declaration (or adjusted declaration where applicable) | | |

| ACCOUNTING (COMPENSATING) VERIFICATION PROCEDURES | DONE BY | REF. |
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| 3. Identify information necessary to match the selected item from the client's records to the customs declaration:<br><br>- source document number<br>- date of receipt<br>- part number and/or description of goods<br>- quantity<br>- value<br>- currency | | |
| 4. Match each of the selected items (imported goods) to the corresponding customs declaration. | | |
| 5. Compare the quantity and value recorded in the client's records to the declaration (or adjusted declaration where applicable), and note any discrepancies (shortages and overages). | | |
| 6. Determine if the discrepancies have been reported to CBSA. | | |
| 7. Record results in the Compliance Management Workbook (Multi-program verifications only). The CM Workbook calculates the percentage of errors, which will be included in the Final Verification Report to the client. | | |
| 8. Document in the Final Verification report whether or not all goods have been completely and accurately accounted for and whether or not the client has on file a copy of the Canada Customs declaration. | | |
| 9. Prepare requirements and recommendations, on the accounting for goods, to be incorporated into the Final Verification Report. | | |

## ACCOUNTING - Compensating Procedures to Test for Non-account when FIRM is used as the Sampling Source

During a multi-program verification it is acceptable, during the execution phase, to select a sample from the client's records or from FIRM. When a sample is selected from the client's records, it is a requirement for the CVO to trace each sample to a B3, in order to ensure that it was properly accounted to the CBSA. If, however, the sample is drawn from FIRM a compensating procedure needs to be performed to test the completeness of accounting by the client.

There are two specific tests that must be performed to test for non-account when sample selection is from FIRM. The first test is an analytical procedure used to determine the potential risk of non-account for specific significant vendors and the second is a test sample from the client's records used to substantiate / validate the assessed risk. These tests can be made on any import transaction to test whether the client is compliant with customs accounting requirements.

### Objective

The objective of compensating procedures is to obtain a reasonable measurement of the client's level of compliance with CBSA accounting requirements, so that the CBSA and the client can take the appropriate action to ensure that compliance is improved and sustained in the future.

### Analytical Procedures

Analytical procedures can be used as a means to identify whether non-account is a serious risk. To do this, the CVO compares the value of imports in the client's records for specific vendors (for example - a few large vendors) over a specified time frame, to the same client, vendor and time frame in the CBSA FIRM database.

If after analysis of the client's records, and considering additions to price paid or payable and any other adjustments, it is determined that the difference between what is in the company's records and what is in the FIRM database is within a tolerable level of acceptance, for example 5%, then the CVO can establish that the potential risk of non-account is low for this client. This means that the CVO can select a smaller sample from the client's records to substantiate / validate the assessed risk. If differences exceed the threshold then the CVO must inquire with company officials to determine the cause and whether the cause is justified. If not justified then the CVO would conclude that there is a higher risk of non-account and this would require a larger sample be drawn from the client's records (see below) to test non-account.

Possible client sources to use for these comparatives may include a client vendor history report or using monthly accounts payable sub-ledger records. The information from the client's records could be obtained by one of two methods. It could be obtained by downloading specific files from the client's records or by taking the information straight from reports available from the client. Knowing which method to use would be determined when performing the systems walkthrough. To ensure that the client is not withholding entire vendors from the CBSA, a comparison of the names of international vendors from the client's records should be compared to FIRM.

Note that this analytical procedure should only be performed on significant suppliers that were identified as part of the profiling exercise during planning.

**Sampling from Client's Records**

The next procedure that must be performed is to draw a test sample of imported transactions from the client's records and trace them to a B3. If there is a low risk of non-account, as per the first procedure above then the officer may select a low number of transactions to obtain a measure of whether the client was complete in their accounting to CBSA. Usually around 10 sample items should be sufficient in this case. Errors may still be found with this small sample size. If more than 3 non-accounting errors are found then extend the sample size to a maximum of 25 sample items.

If there is a high risk of non-account, then the officer should select a higher number of transactions. Usually 20 to 25 sample items would be sufficient. It would be reasonable to randomly select transaction items from the vendors that gave the CVO the indication there is a high risk of non-accounting. There is no need to extend the sample size beyond 25 transactions if a significant number of errors are found. A maximum of 25 sample items will be selected.

The source for this sample will likely be either the client's vendor invoice records, receiving reports, or could even begin with a cancelled cheque. Either specific item sampling or random samplings are viable sampling methods. The ability to use specific item sampling will depend on the availability of client data downloads or reports from the client, which are required for the CVO to identify specific items. It is recommended to use random sampling from import vendor files (e.g. from hard copies of invoices) when data downloads, or vendor history reports are not available. Alternatively use specific item sampling.

The officer must document the number of errors, inform the client of the results, and include the results in the interim / final report to the client. The objective with this procedure is to obtain a measure as to the client's level of compliance with the accounting requirements. CBSA and the client can then take the appropriate action to ensure that compliance is improved and sustained in the future. As long as sampling has been performed based on the identified risk, there is no need to extend the sample size beyond 25 transactions.