3.5 EXECUTION PHASE

EXHIBIT C – Instructions for Systems Walk-Through

Document Name	Instructions for Systems Walk-Through
Document Number	3.5C
When/How Used	The purpose of the systems walk-through is to assist the CVO in acquiring a comprehensive understanding of the client's automated or manual systems and processes, in order to determine the strengths and weaknesses of client systems in relation to reporting and accounting imported goods to the CBSA. The review will also assist in determining the most efficient source of transactions for testing compliance. It should be performed after the opening meeting but, prior to sampling.
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Instructions for Systems Walk-Through

The purpose of this step is to assist the CVO in acquiring an overall understanding of the client's automated or manual systems and processes in order to determine the strengths and weaknesses of their systems in relation to reporting and accounting imported goods to the CBSA. The review will also assist in determining the most efficient source of transactions for testing compliance (drawing the sample from FIRM vs. the client's records).

The systems walk-through has two main functions:

First, it provides the verification team with an understanding of the systems and processes the client uses, as they relate to the reporting and accounting of imported goods to the CBSA. The areas covered include, but are not limited to, purchasing, receiving, accounts payable, CBSA accounting and CBSA release/reporting. The aim is to determine if the client has adequate systems in place, with adequate links between the various systems, to ensure that all goods imported into Canada are reported to the CBSA and properly accounted for. If deficiencies are found, they are brought to the attention of the client and corrective measures will be recommended; and

Second, it allows the verification team to determine the most efficient population source of transactions for testing compliance. Obtaining a sample of transactions for testing compliance (the next step) can be performed using either FIRM or the client's records (CRs). In general the CRs will always be the most complete, in so far as containing all of the import transactions. However, an effective and efficient sample can also be obtained through FIRM with the expectation that compensating procedures will be performed to test the client's systems for completeness of accounting to the CBSA, an example of a compensating procedure to test for non-account is to take a random sample of 20 invoices from foreign vendors from the clients invoice file and have the client provide you with the corresponding B3.

General Overview of the Systems Walk-Through

The CVO's task in obtaining an understanding of the import process is to find out: which systems and processes have been developed by the client; see that they have been implemented and are understandable; determine where errors can occur; assess the adequacy of the client's systems and processes to prevent the errors; and document the information obtained in a useful manner.

In order to accomplish this, the CVO performs a **walk-through,** which is a trace of one or a few relevant transactions (related to importing) through all of the business systems to final accounting (including adjustments) to the CBSA. This requires the CVO to use the information gathering techniques of **inquiry, inspection, observation, and review** (explained in more detail below) and perform the following steps:

1) review the completed Systems Questionnaire to gain an understanding of the client's systems and processes (note that this step will have already been performed during the opening meeting);
2) by inquiry and observation, determine the relevant transactions related to the import process and how they are initiated;
3) by inquiry and inspection, determine which documents exist and their nature;
4) by inquiry, observation and inspection, determine how transactions are processed from initiation to completion, including the extent and nature of computer use and identification of all personnel required to complete the process;
5) by inquiry, observation and inspection, determine the nature and details of how this information is stored and for later retrieval and reporting; and
6) by inquiry, inspection, observation and review, identify the points in the flow of transactions **where errors could occur**, that is, the points where data are initiated, transferred, or otherwise changed (it is generally at these points where systems and procedures need to be present to prevent of detect errors) and then **assess the adequacy of the client's systems and procedures.** In other words, determine whether any policies and procedures appear to have been established to prevent or detect the types of potential errors that have been identified.

The methods that can be used to document the walk-through are the **Systems Questionnaire, narrative descriptions** and **flow-charting**.

More will be provided here on the **information gathering techniques** followed by **methods of documenting** and finally **determining where errors can occur and assessing the adequacy of the Client's systems and procedures.**

Information Gathering Techniques

Inquiries of Client Personnel: A logical starting place for obtaining information initially is with client personnel. This includes inquiries at the management, supervisory and staff level. Care must be taken to document any information collected.

Inspection of Documents and Records: Confirmation of the client's processes and the details of the business systems will all involve the creation of many documents and records. These will be presented to some degree in the policy and systems manuals (see Review Client's Policies and Systems Manuals below). By inspecting actual completed documents and records, the CVO can bring the content of the manuals to life and better understand them. Inspection also provides substantiation that the systems and processes have been placed in operation.

Observation of Entity Activities and Operations: In addition to inspecting completed documents and records, the CVO can observe client personnel in the process of preparing them and carrying out their normal activities. This further enhances understanding and knowledge that control policies and procedures have been placed in operation.

Review Client's Policies and Systems Manuals: To design, implement, and maintain its effective systems and procedures, an entity must have extensive documentation of its own. This includes policy manuals and documents (such as a corporate code of conduct) and business systems manuals and documents (such as an accounting manual, customs manuals and guides and organization chart). This information can be reviewed by the CVO and discussed with personnel to assure that they are properly interpreted and understood.

Methods of Documenting

Systems Questionnaire: The Systems Questionnaire asks a series of questions pertaining to the systems and procedures used by the company to account for imports to the CBSA. It will assist the CVO in gathering and organizing information in order to:

- document the client's systems, e.g. purchasing, receiving, payables and disbursements, accounting to the CBSA, release and reporting and any separate systems for CBSA/importation purposes;

- determine strengths and weaknesses of client systems and processes as they relate to accounting to the CBSA and importations; and

- provide information for future verifications.

Note that the systems questionnaire is generally sent out with the notification letter and later obtained from the client and reviewed for understanding once the CVO is on-site for the opening meeting.

Narrative Descriptions: A narrative description is a written description of a client's procedures and processes and can be written by the CVO, by the client, or a copy can be taken directly from the client's policies and systems manuals. A good narrative includes four characteristics:

- The origin of every document and record in the system, for example, the description should state where purchase orders come from (who orders, who records the information and who authorizes), and how goods are received into inventory (where they physically come into the building, who receives them and checks that they were ordered and whether there are overages or shortages);

- All processing that takes place. For example, it would be necessary to describe if the recorded cost of purchases into inventory is determined by a computer program that multiplies quantities received by standard costs, which in turn determines the value for duty declared to the CBSA;

- The disposition of every document in the system. For example, the filing of documents, sending them to customers, or destroying them should be described; and

- An indication of any internal control procedures relevant to ensuring the accuracy of accounting to the CBSA. This would include a description of how the client determines values for declaration to the CBSA, how goods are classified and tariff rates are applied.

Flow Charting: A flowchart is a symbolic, diagrammatic representation of the client's documents and their sequential flow in the organization. An adequate flowchart includes the same four characteristics identified above. A flowchart is advantageous because it can provide a concise overview of the client's systems and give a clear understanding of how the system operates. For most uses, it is superior to narrative descriptions as a method of documenting the flow of information.

For many clients, the results of the Systems Questionnaire, and a combination of flowcharts and narrative descriptions may be useful. The decision to use one or the other, or a combination of the two, is dependent on two factors: relative ease of understanding by the CVO, and the amount of time required to prepare the information.

Determining Where Errors Can Occur and Assessing the Adequacy of the Client's Systems and Procedures

At a minimum, there are seven objectives that client's systems and processes must meet to prevent misstatements in the processing of transactions. The client's systems and processes must be sufficient to provide reasonable assurance that:

1. Transactions are valid (validity). The client's systems and processes should not permit the inclusion of fictitious or non-existent transactions to the CBSA;

2. Transactions are properly authorized (authorization). The client's systems and processes should include steps to authorize all imported transactions. If a transaction that is not authorized takes place, it could result in the transaction not being reported to the CBSA;

3. Existing transactions are reported to the CBSA (completeness). The client's systems and procedures should prevent transactions from being omitted from the customs declaration;

4. Transactions are recorded at the proper time (timing). Systems and processes must ensure that imported goods are accounted to the CBSA on time;

5. Transactions are properly valued (valuation). The client's systems and procedures should include steps to avoid errors in applying the correct value according to the CBSA valuation legislation;

6. Transactions are properly classified (classification). The client's systems and procedures must include steps to ensure that the proper Tariff Classification is applied, as per the *Customs Tariff*; and

7. Transactions have the appropriate Tariff Treatment (origin). The client's systems and procedures must include steps to ensure that the proper Tariff Treatment is applied, as per the *Customs Tariff*, and that a Certificate of Origin has been completed for all goods receiving preferential tariff treatment.

If, in the judgment of the CVO, there are inadequate systems and procedures in place to satisfy any of the above objectives, the expectation that errors will occur, increases. For any type of transaction in a client's systems, several types of recording errors (misstatements) can occur.

Further to gaining an understanding of the flow of transactions, it is important for the CVO to determine where errors can occur in the client's systems and processes, insofar as accounting to CBSA. The aim is to determine if the client has adequate systems in place, with adequate links, to ensure that all goods imported into Canada are reported to the CBSA and properly accounted for. If deficiencies are found, they are brought to the attention of the client and corrective measures will be recommended.

Example of How to Identify Points where Errors Can Occur in Systems and Processes

For each step within the importing systems, as identified during the walkthrough, the CVO should identify the points where there could be a failure to achieve any of the seven objectives listed above. These are the points were errors could occur and therefore effective procedures and processes to prevent errors are necessary.

The CVO can then formulate a series of questions related to whether each of the seven objectives is being achieved. These questions are formulated by reference to the flow of data depicted in the flowchart or contained in the narrative or responses to the systems questionnaire. By formulating these questions and determining what systems and processes are available, the CVO will then be in a position to assess the adequacy of the client's systems and procedures.

Example of a Typical Foreign Purchase

The processing flow in a purchase of imported goods could be composed of, but is not limited to, the following steps:

- A purchase requisition is completed, followed by **initiating a purchase order** (PO);

- Shipments arrive at the border and **goods are reported to and released from the CBSA** based on release option available to the client (Release on Minimum Documentation (RMD);

- **Goods are received** by the client with the packing slip and invoice. Goods are inspected and accepted by completing a receiving report and the client records the purchase transaction into the company's financial accounting systems (for example, recording the goods into inventory and the amount owing to the vendor as an account payable);

- Copy of PO, packing slip, receiving report and Invoice is forwarded to the company's customs department or service provider and the **accounting to the CBSA** is made within five business days of the goods being released (assuming the goods were released on RMD).
- **A cheque is prepared and sent to the vendor** and final entry is made into financial accounting systems to record the payment against the amount owing.

Typical Accounts Affected:

- Inventory (raw materials);
- Prepaid Expenses;
- Property, Plant and Equipment;
- Accounts Payable to Vendor, Broker, CRA, CBSA, Carrier;
- Expenses;
- Cash;
- Purchase Discounts;
- Commissions;
- Assists; and
- Royalties.

Here is an example of how the seven objectives can be applied to the above steps that take place in a purchase transaction and illustrative controls and procedures in place to ensure the objectives are fulfilled. By breaking the transaction down into the various steps and applying the objectives at each step the CVO may then be able to determine points where errors can occur in the systems.

Initiating a Purchase Order

Initiating a purchase order (PO) will require procedures designed to achieve the following objectives:

- Objective 1 – Each recorded purchase transaction is valid;
- Objective 2 – Purchase orders are properly authorized;
- Objective 3 – All purchase order transactions that should be recorded are recorded;
- Objective 4 – All purchase order transactions are recorded at the proper time;
- Objective 5 - All recorded purchase orders are properly valued for CBSA purposes; and
- Objective 6 & 7 – All purchase transactions are properly classified and have the appropriate tariff treatment.

Objective 1 – Each recorded purchase transaction is valid. This can occur only where there are procedures to ensure that fictitious or duplicate purchases, fictitious or duplicate returned purchases, or purchases that do not have a proper business purpose are not included in the records. For example, possible processes used by a company.

Appropriate individuals are assigned the authority and responsibility for requisitioning goods and services to be ordered.

A person independent of receiving, accounts payable and cash disbursements can only initiate a PO.

If POs can be initiated via on-line terminals, the ability to initiate POs by authorized persons is enforced through passwords. Access capabilities associated with passwords are compatible with employee's job functions.

Purchases are made from only approved vendors.

Objective 2 – Purchase orders are properly authorized. This can occur where there are procedures in place to ensure that only appropriate individuals are assigned the authority and responsibility of requisitioning goods and services to be ordered and other separate individuals are assigned authority of completing POs and selecting vendors. In a computerized environment there are controls in place to ensure that additions/deletions and changes to the vendor master file are complete, accurate, and authorized.

A numbered output report is produced for all vendor master file changes and the persons authorized to make changes review this report.

Purchase order/work order forms are pre-numbered and their numeric continuity is followed up by a second person. Unused PO/work order forms are controlled.

Goods and services are accepted for delivery only with evidence that a purchase has been authorized.

Objective 3 – All purchase order transactions that should be recorded are recorded (completeness).

This can occur where there are procedures to prevent or detect the omission from the records of amounts, either due to vendors for the receipt of goods, or due from vendors for rejected goods or services. For example:

- Purchase orders are pre-numbered and dated and are prepared for every import shipment, and the numerical continuity is regularly followed up by an independent person; and

- Copies of purchase orders are sent directly to receiving (to notify receiving to accept deliveries) and to accounts payable (to notify of an outstanding invoice) and they are matched with receiving reports/supplier invoices.

Objective 4 – All purchase order transactions are recorded at the proper time.

At the PO stage, this requires procedures to ensure that necessary information will be gathered and sent to the persons responsible for reporting and accounting to customs (in-house customs services or external service providers).

Objective 5 - All recorded purchase orders are properly valued for CBSA purposes.

Since an import transaction is initiated by the purchase order, procedures are necessary at this stage to ensure that correct quantities and prices are assigned to purchases and purchase returns. An example would be:

Appropriate individuals, with knowledge of CBSA valuation regulations, are assigned the authority and responsibility for obtaining competitive bids and arranging payment terms.

Although these may not be reflected on the PO itself, procedures need to be in place to ensure that any agreements or activity that effect values for CBSA purposes such as royalties, assists, buying commissions, etc. will be forwarded to the appropriate individuals responsible for accounting to the CBSA.

Price quotes are noted on each authorized purchase order.

Objective 6 & 7 – All purchase transactions are properly classified and have the appropriate tariff treatment.

Items on the P.O. are clearly identified and described in adequate detail along with accurate model number or part number so as to allow for proper classification and application of correct tariff treatment by the CBSA department or broker.

Reporting Goods and Releasing Goods

Reporting goods and releasing goods accurately will require procedures designed to achieve the following objectives:

- Objective 1 – Each transaction reported to the CBSA is valid;
- Objective 2 – Each transaction reported to the CBSA is authorized;
- Objective 3 – All purchase transactions that should be reported are reported; and
- Objective 4 – All purchase transactions are reported to the CBSA on time.

Reporting and releasing goods does not typically require procedures designed to ensure accurate values, classification and tariff treatment of goods and therefore, does not require objectives 5, 6, 7 (valuation, classification and tariff treatment) be obtained.

Objective 1 – Each transaction reported to the CBSA is valid.

Procedures are in place to ensure that the client's Carrier and Customs representatives (whether in-house or external service provider) prepare accurate and appropriate reporting and release documents for all goods contained in the shipment. This implies that an individual is assigned a responsibility for ensuring that all goods reported to the CBSA, in their appropriate units of measurement and in accurate quantities, were actually contained in the import shipment.

Follow-up is performed to ensure no duplicate entries made to the CBSA.

A person is assigned the responsibility for reconciling all PO's to transaction numbers issued by the CBSA.

Follow-up procedures are in place to ensure that the descriptions, quantities, destination etc. of the goods reported to the CBSA are true. If overages, or shortages are found once goods are received into Canada, procedures are in place to report adjustments in a timely fashion.

Objective 2 – Each transaction reported to the CBSA is authorized.

Authority to report transactions to the CBSA is assigned to only specific individuals – whether it is an in-house customs representative or the qualified customs broker.

If a broker is used, all statements received are scrutinized to ensure that the company has not been incorrectly listed as the Importer of record for goods that were never ordered or received.

Objective 3 – All purchase transactions that should be reported are reported.

Procedures are in place to ensure that the vendor is instructed to provide the correct information to the carrier and that the carrier provides all pertinent information (bills of lading, packing information, cargo control document) to the CBSA and to the client's customs representatives (in-house or external broker).

A specified individual to ensure that all goods listed on the bill of lading and packing slips have been reported to the CBSA performs a follow-up procedure.

A person is assigned the responsibility for reconciling all POs to transaction numbers issued by the CBSA.

Objective 4 – All purchase transactions are reported to the CBSA on time.

Automated systems have triggers to ensure reporting and release information arrives at the CBSA on time.

Pre-numbered and date ordered reports are prepared for every shipment arriving at the border.

The company has employed a responsible individual with knowledge of CBSA reporting requirements to ensure that all goods are reported on time.

Goods are Received

When goods are received into a company, typically individuals who are independent of the financial accounting or payment-processing stream are assigned responsibilities to count goods and record them as received into the receiving systems. Later, this information will be matched up with the PO and the vendor invoice and if everything is accepted, a payment will be made to the vendor. At this stage, the receiving reports generally do not include classification or tariff related information.

The act of receiving goods is an important step in the financial accounting-processing stream because it is when the purchase is entered into the client's financial accounting systems as inventory / asset and as a payable / liability. Note, however, that in some companies the recording of the liability for acquisitions is made on the basis of receipt of goods and services, and in other companies, it is deferred until the vendor's invoice is received. In either case, the accounts payable department typically has responsibility for verifying the propriety of acquisitions.

There are a few things here that the CVO needs to be aware of. First, the accounting to the CBSA is made within 5 days of the shipment being released by the CBSA but recording the purchase and payable into the general ledger may not happen until days or weeks later. This means that controls and procedures implemented by a company to record purchase transactions into the financial systems may not affect the accuracy of the initial accounting to the CBSA. However, these controls and procedures may result in the company detecting differences between actual quantities received / values recorded vs. what was accounted to the CBSA which may signal the need for initiating adjusting entries (B2's) to be made to the CBSA.

The CVO should also be aware that companies may record the value of imported goods for financial accounting purposes differently than what is required for CBSA purposes. This is because the rules for valuation do not necessarily reflect Generally Accepted Accounting Principles (GAAP) – for example the components of a purchase may be reflected in several general ledger accounts (inventory, shipping, insurance, royalties, assists etc.) and may not be allocated to the cost of the individual imported good.

The important thing to consider is whether the client's controls and procedures are effective with respect to accounting to the CBSA.

To receive goods accurately the client will require procedures designed to achieve the following objectives:

Objective 1 – All goods reported into receiving are valid;
Objective 2 – All goods reported into receiving are authorized;
Objective 3 – All goods that should be recorded into receiving are recorded; and
Objective 4 – All goods are reported into receiving in a timely fashion.

Objective 1 – All goods reported into receiving are valid.

Receiving documentation is prepared independent of purchasing, accounts payable, cash disbursements and inventory records.

A person is assigned the responsibility for inspecting, counting, weighing or measuring goods received and documenting rejects, breakages, shortages etc. on the receiving reports.

The person in charge of accounts payable/inventory records accepts only documents approved by the receiver.

The receiver is independent of the person who initiated/authorized the order.

Any processing that occurs online has limited access to only authorized persons and passwords are used to prevent unauthorized persons from entering information onto the systems.

Objective 2 – All goods reported into receiving are authorized.

A person is assigned the responsibility for inspecting, counting, weighing or measuring goods received and documenting rejects, breakages, shortages etc. on the receiving reports.

The person in charge of accounts payable/inventory records accepts only documents approved by the receiver.

The receiver is independent of the person who initiated/authorized the order.

If preparation is via on-line terminals, the ability to enter and modify receipt details is limited to person(s) independent of purchasing, accounts payable and inventory and this independence is enforced through passwords.

Objective 3 – All goods that should be recorded into receiving are recorded.

Pre-numbered and dated receiving reports are prepared for every receipt of goods and an independent person follows up the numerical continuity.

The preparation of receiving reports is independent of purchasing, accounts payable and inventory records.

Quantities are checked via counting, weighing, measuring, etc., and the receiver approves receiving reports.

Receiving documents for goods are forwarded directly to accounts payable/purchasing and inventory/accounting on a regular basis.

In a computerized environment, the computer systems matches purchase orders to receiving reports and a report of unmatched items is produced regularly and the report is followed up. For manual systems, purchase orders are reviewed regularly for outstanding receipts.

In a manual system a register of purchase/work orders is reviewed regularly for outstanding receipts.

Objective 4 – All goods are reported into receiving in a timely fashion.

Pre-numbered and dated receiving reports are prepared forwarded to the company's Customs department (or Broker) and an independent person within this area follows up the numerical continuity.

Persons responsible for preparing accounting to the CBSA regularly review the numerical continuity and dates of PO's to flag any shipments that may have been received but not recorded as such.

Automated systems trigger the need to prepare Customs accounting documents with the receipt of import shipments.

Accounting to the CBSA

At this point in the process of import goods, the company is required to complete the required CBSA accounting documents. This will require, for example, the declaration of all correct values, classifications and origin of goods, as well as the required trade statistics so that the correct duties, GST and any relevant excise taxes are paid. Further to this, there may be requirements to account for the needs of other government departments such as Environment Canada, the Canadian Food Inspection Agency, Foreign Affairs and International Trade Canada.

Accuracy in accounting to the CBSA is very dependant on the controls and procedures that the company has in place at each step in the data processing stream, as seen in initiating a purchase order, reporting goods at the border and receiving goods. However, there will still be specific controls and procedures necessary at this step to ensure that this step actually takes place and it is done correctly. The CVO should be aware that many financial accounting systems record product descriptions with no resemblance to the CBSA Harmonized System of Classification and furthermore, product information may reflect the country of the vendor, rather than the true origin of the good for CBSA purposes. If this is the case and if the company is relying on this information to assist it in reporting and accounting to the CBSA, the officer will need to determine how the company ensures that the CBSA receives correct information.

Accuracy in accounting to the CBSA will require the company to design procedures to achieve the following objectives:

Objective 1- All goods accounted to the CBSA are valid;
Objective 2- All goods accounted to the CBSA are authorized;
Objective 3- All goods that should be accounted to the CBSA are accounted to the CBSA;
Objective 4- All goods are accounted to the CBSA on time;
Objective 5- All goods accounted to the CBSA are properly valued;
Objective 6- All goods accounted to the CBSA are properly classified; and
Objective 7- All goods accounted to the CBSA have the proper tariff treatment applied.

Objective 1- All goods accounted to the CBSA are valid.

Customs accounting documents are prepared using receiving reports matched with purchase orders and packing slips to ensure vendor names and country of origin, product descriptions, quantities and prices.

A designated individual in the company compares the accounting documents submitted to the CBSA to vendor invoices, PO's, receiving reports to ensure that all shipments and goods accounted to the CBSA were real.

If a computerized environment is used, exception reports showing the difference is produced and a report is followed up.

Receiving reports are regularly compared to customs accounting documents to ensure that no duplicate entries have been accounted to the CBSA.

Objective 2- All goods accounted to the CBSA are authorized.

A specific individual with Customs knowledge is authorized to prepare and submit the accounting documents (in-house or an external service provider).

The authorized individual is familiar with relevant Customs Memoranda and any previous National Customs Rulings etc. that related to the models/products that the company imports.

Objective 3- All goods that should be accounted to the CBSA are accounted to the CBSA.

A numerical control log of receiving reports is maintained indicating whether customs accounting has been prepared and submitted. This log is reviewed regularly to ensure accounting has occurred.

Receiving reports are compared to customs accounting documents to ensure all import shipments have been accounted to the CBSA.

A specified individual with customs knowledge is familiar with all foreign contracts that entail assists, commissions, buying agents etc. which effect the value for duty for goods imported by specific vendors.

Objective 4- All goods are accounted to the CBSA on time.

A specific individual with customs knowledge, of the time limits for accounting, is authorized to prepare and submit the accounting documents (in-house or an external service provider).

In a computerized environment the system will automatically flag all transactions that require customs accounting before they are due.

Objective 5- All goods accounted to the CBSA are properly valued.

A person is assigned to ensure that the total value for duty declared to the CBSA reconciles with the total values on the vendors invoices. It there are reconciling differences such as freight, insurance, exchange rates etc. these are recorded on a worksheet to provide supporting backup to the CBSA along with copies of any supporting documentation.

The values of all supporting documents have been added and the taxes recalculated to ensure they are accurate.

A specified individual with customs knowledge is familiar with all foreign contracts that entail assists, commissions, buying agents etc., which affect the value for duty for goods imported by specific vendors.

Objective 6- All goods accounted to the CBSA are properly classified.

A specified individual with customs knowledge is familiar with the *Customs Tariff* and the Harmonized System of Classification.

The company maintains a classification guide to assist them in properly classifying goods to the CBSA.

A separate individual from the person who made the customs accounting reviews the classifications made to the CBSA.

Objective 7- All goods accounted to the CBSA have the proper tariff treatment applied.

A specified individual with customs knowledge is familiar with the *Customs Tariff* and how to determine applicable tariff treatments.

The company's classification guide includes information on applying the correct tariff treatment

A separate individual from the person who made the accounting reviews the tariff treatments made to the CBSA.

A Cheque is Prepared and Sent to the Vendor

Issuing a payment will require procedures designed to achieve the following:

Objective 1- All payments are valid;
Objective 2- All payments are authorized;
Objective 3- All payments that should be recorded are recorded;
Objective 4- All payments are accounted into the financial system on time; and
Objective 5- All payments are for the proper value.

Note that controls to ensure tariff classification and tariff treatment are not reflected here because they are not part of a company's financial reporting requirements.

The initiation of a payment to a vendor is often weeks or even months after accounting to the CBSA take place. Controls and procedures put in place to ensure that payments to vendors are valid, authorized, complete, timely and properly valued will not affect the accuracy of initial accounting to the CBSA, but they are effective checks and balances for ensuring that purchases don't fall through the cracks without accounting to the CBSA. Effective controls and procedures may result in the company detecting differences between actual quantities received / values recorded vs. what was accounted to the CBSA, which may signal the need for initiating adjusting entries (B2s) to be made to the CBSA.

Objective 1- All payments are valid.

Existence of a purchase requisition, purchase order, receiving report, vendor's invoice and B3 are attached to the voucher.

The purchase was approved at the appropriate level.

The company performs an internal verification of vendor's invoices, receiving reports, purchase orders, and purchase requisitions.

Supporting documents are examined before cheques are signed by an appropriate person.

The company segregates duties by having the person who records the entry not being responsible for approving the entry or making the payment.

Objective 2- All purchases recorded are authorized.

The purchase was approved at the appropriate level.

Objective 3- All purchases that should be recorded are recorded.

Purchase orders are pre-numbered and accounted for.

Receiving reports are pre-numbered and accounted for.

Payment vouchers are pre-number and accounted for.

Cheques are pre-numbered and accounted for.

A bank reconciliation is prepared monthly by an employee independent of recording cash disbursements or handling of assets.

Objective 4- All purchases are accounted into the financial system on time.

Procedures require recording of transactions as soon as possible after the cheque has been signed.

The company performs their own internal verification.

Objective 5- All purchases are properly valued.

There is internal verification of calculations and amounts.

Batch totals are compared with computer summary totals.

Monthly preparation of a bank reconciliation by an employee independent of recording cash disbursements or handling of assets.