

## 3.5 EXECUTION PHASE

### EXHIBIT K – Duties Relief/Drawbacks

<b>Document Name</b>	Duties Relief/Drawbacks
<b>Document Number</b>	3.5K
<b>When/How Used</b>	Used to assist the CVO in verifying duties relief or drawbacks during a compliance verification when it has been determined that the client utilizes relief programs.
<b>Created on</b>	December 19, 2002
<b>Last Updated On</b>	February 28, 2007
<b>Document Owner</b>	
<b>Division</b>	Compliance Management HQ
<b>Contact</b>	Contact your local compliance verification office at: <a href="http://cbsa.gc.ca/contact/listing/indexpages/index-e.html">http://cbsa.gc.ca/contact/listing/indexpages/index-e.html</a>

### Other Stakeholders

# Verification Program – Duties Relief/Drawbacks

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COMPANY

FILE NO.

PERIOD

TO

## Verification Objectives

For the selected sample:

- Ensure that companies using a Duties Relief certificate/licence are entitled to do so and that all conditions of duties relief are met (same as drawbacks except relief is authorized by placing the duties relief certificate in the special authority field of the B3 to obtain duties relief at time of importation). Exporter of Processing Services (EOPS) includes GST deferral.
- Ensure that claims for drawback are correct. (i.e., determine that claims are substantiated with documentation, as required by the regulations, and that the goods imported relate to the goods claimed.)
- Unless otherwise excluded by Section 97 of the *Customs Tariff* or by regulation, anti-dumping, provisional and countervailing duties may be subject to relief/drawback under any authority, which provides for a return of “duties” defined in section 80 of the *Customs Tariff*.
- Check BARKS for previous compliance history
- Verify if an on-site visit has occurred (companies premises for review of client’s records) within the last 3 years. Take a sample of 25% of all the relief and or claims filed in the last 3 years. Take a sample of 25% of each claim and verify against client’s records. Review Interim payments and include in verification activity.
- Ensure relief, remission claims or drawback claims are not subject to time limits imposed by regulations.
- Ensure that goods affected by the NAFTA restriction to drawback and duties relief are in accordance with guidelines and legislation. (Sections 94, 95, 96, 97, 98 of the *Customs Tariff*).

- Ensure that imported goods subsequently exported to the United States and Mexico are entered into the NAFTA Duty Deferral/Drawback System (NDDDS) (verification with United States and Mexico Customs)
- Review systems being utilized by the company to prepare CBSA information and drawback claims to ensure they are sufficient to support eligibility and accuracy of relief or claims.
- Ensure that goods qualify for any remission orders currently being utilized by the company.
- Ensure that there is no duplication of duty being alleviated with respect to refunds, drawbacks, remissions, tariff treatment, valuations, etc. in relation to the same goods.
- Ensure that K32A or K32B or other certificates/waivers/permits are audited with the claim and maintained on file with the claim.
- Ensure that transfers between certificate or claimants meet the conditions – transferred goods must be documented (K32 or other commercial documents including invoices, or purchase orders); - import transaction details must be noted by the transferring participant (i.e. duty remitted, transaction number, date of release, certification signature); - goods must be accepted by the receiving participant (i.e. indicate acceptance by quoting their certificate number and signing the transfer document).
- Where necessary another program participant may be required to supply or confirm records.
  - Ensure that the company has reported and accounted for any diverted goods or goods no longer in compliance with conditions of relief and are within the appropriate time limit.
  - Review specific program information in the Duties Relief Administration Manual and the On the Job Training Course developed by the Duty Deferral Program.
- Establish, where necessary, an amount of relief or drawback to which the company is entitled.
- Initiate action to recover duties relieved or drawback claims overpaid where companies have not complied with the program.
- Explain results of verification to company.

- Review the status of the client in accordance with the provisions of section 116 of the *Customs Tariff*. If there are any identified debts, then further negotiation with the client will be required to review the implications of section 97.26 of the *Customs Act*. To perform this *revenue review*, consult with the designated collections responsibility centre.
- Determine if any AMPS penalties are applicable.

<b>DUTIES RELIEF/DRAWBACKS VERIFICATION PROCEDURES</b>	<b>DONE BY</b>	<b>REF.</b>
For the selected sample:		
1. Validate the amount recorded in the client's records from which all source documents were obtained such as:  - Financial Statements; - Detailed Adjusted Trial Balance; - Cost sheet of the related product; - Company organization chart showing structure, ownership, affiliates, divisions and key personnel.		
2. Verify the quantities exported or used. Procedures would include the verification of export sales records, sales analysis and account receivable records for accuracy, returns and adjustments.		
3. Verify the amounts claimed through review of bills of material, specification sheets, formula, costing records, production records, waste, etc.		
4. Verify what impact NAFTA has on their drawback and duties relief activity.		
5. Verify the "lesser of" and examine foreign entry documentation, affidavits etc, for NAFTA affected claims.		
6. Verify the entry application by checking inventory records, raw material turn over, purchase orders and accounts payable records.		
7. Verify that any claims for goods destroyed were destroyed under CBSA supervision, that they were not damaged prior to their destruction and that any resultant scrap is properly taken care of.		
8. Determine whether or not equivalents are a consideration; if yes, ensure that they are properly applied. (Of particular note are textiles)		
9. Determine if consumable/expendable materials (if claimed) are imported and used in a qualifying manner.		

<b>DUTIES RELIEF/DRAWBACKS VERIFICATION PROCEDURES</b>	<b>DONE BY</b>	<b>REF.</b>
10. Determine if the manufacturing process results in merchantable by-products that may require an adjustment to the amount claimed, reclassification or the creation of a value out turn statement.		
11. Verify permits and waivers are properly used and that conditions of permits or waivers are met. These are normally OGD and import for re-export permits and waivers. If goods intended for export remain in Canada a tariff classification review should be done i.e. depending on the permit or waiver the tariff classification may be amended to an over access tariff classification.		
12. Determine if the manufacturing process results in scrap or waste, which may require an adjustment in the amount claimed or the creation of a scrap statement.		
13. Determine if any K32A waivers are required and the accuracy of any K32As submitted. Verify certificates, waivers, documentation and entitlement to claim relief/drawback from one eligible claimant to another eligible claimant.		
14. Write off entries, ensuring quantities are sufficient and all extensions are verified.		
15. Determine if any K32B waivers are required and the accuracy of any K32B waivers. Verify certificates, waivers and documentation that entitlement to claim relief/drawback from one eligible claimant to another eligible claimant.		
16. Ensure the verification findings are properly documented, types of records examined are clearly specified and the audit report details are complete. Ensure a report of all audits/reviews are entered into BARKS.		

DUTIES RELIEF/DRAWBACKS VERIFICATION PROCEDURES	DONE BY	REF.
<b>Conditional Duties Relief Programs/ remission orders subject to Post Release Verification</b>		
17. Determine if the company needs to be authorized for the relief or remission order and if so that they meet the requirements to use the order.		
18. Determine that the conditions of duties relief are complied with.		
19. Ensure that the opening inventories for this verification period match the closing inventories of the last verification period as shown on the previous verification file.		
20. Determine whether adequate controls and mechanisms are in place to identify and pay duty on any diversions.		
21. Determine receipts (importation) for the period to be verified by:		
<p>A. Ensuring that all import accounting documents are reported on the company's reports by comparing the reports with a FIRM report as well as the client's copies (or CBSAs) of the accounting documents.</p> <ul style="list-style-type: none"> <li>Any accounting documents refunded into the program or Refunds by way of Drawback should be verified to ensure that they are included as receipts.</li> </ul>		
<p>B. Textile Remission Orders – should be monitored on a yearly basis. Consult D memos. Authorizations are importer specific as set out in the remission order. While it may be permitted, in certain remission orders, for and authorized importer to sell remission entitlements to another party only the authorized person may obtain benefits of remission at time of importation. Verify that the goods comply with the remission order. Review for possible AMPS contraventions.</p>		

<b>DUTIES RELIEF/DRAWBACKS VERIFICATION PROCEDURES</b>	<b>DONE BY</b>	<b>REF.</b>
<p>21. (continued)</p> <p>C. verifying that the importer has properly accounted for parts and materials enumerated on the import accounting documents in the inventory systems and company reports.</p> <ul style="list-style-type: none"> <li>• Ensure that all transaction numbers, amounts of duties remitted for each transaction and dates of duty payment are correctly recorded on the company reports.</li> <li>• Any missing information should be recorded.</li> </ul>		
<p>22. Determine whether any unaccounted for receipts (importation) are due to domestic purchases (verify for K32As) or duty paid importation refunded into the program (Verify for B2Rs and K32s).</p>		
<p>23. Determine the total inventory of parts and materials for the period by adding opening inventory and total receipts.</p>		
<p>24. Determine if there are any disbursements from the inventory through examination of the inventory control file.</p>		
<p>25. Determine if the disbursements have been used in accordance with the requirements.</p>		
<p>26. Determine the closing inventory for the verification period by subtracting the total of all disbursements of parts and materials for the period from the total quantity of parts and materials available for the period.</p>		
<p>27. Review any voluntary duty payments to determine their accuracy. This includes payments as a result of NAFTA affected exports. Review satisfactory evidence.</p>		
<p>28. The company must reconcile any discrepancies found in the verified closing balance and the amount that they have reported for the verification period. Any differences, which cannot be substantiated, may result in a demand for payment.</p>		

<b>DUTIES RELIEF/DRAWBACKS VERIFICATION PROCEDURES</b>	<b>DONE BY</b>	<b>REF.</b>
29. If the company is required to post security for the program being verified, verify that the security is an amount acceptable under the terms of the program. Many goods are CBSA duty free; however, GST, Excise, SIMA, etc. may be payable. All importations must comply with CBSA legislation, regulations and policy.		
30. Record the findings including the reporting of goods diverted to other eligible relief programs.		
31. Conclude as to whether or not all goods have been accounted for in accordance with the duties relief provisions and that diversions are reported to the CBSA and duty paid where necessary.		
32. Prepare requirements and recommendations to be incorporated into the Final Verification Report.		
33. Determine status of the client with respect to debts to the Crown. Include set off request for collections, if required to satisfy unpaid arrears per s 97.27 of the C.A.		
34. Prepare summary of AMPS penalties.		
35. Ensure the verification findings are properly documented, types of records examined are clearly specified, and the audit report details are complete. Ensure a report of all verifications is entered into BARKS. Duty Deferral Programs is responsible for reporting to Public Accounts (Parliament) all relief on imported goods. Complete and accurate reporting into BARKS will facilitate this requirement.		
36. Record results in the Compliance Management Workbook. The information from the CM Workbook will be included in the Final Verification Report to the client.		