

## MEMORANDUM D3-1-6

Ottawa, March 20, 1995

### SUBJECT

#### CUSTOMS POST AUDIT SYSTEM

This Memorandum outlines and explains the Customs Post Audit System under which qualifying companies may transport goods in bond under limited physical control subject to the availability of records proving that the cargo was disposed of according to Sections 18 and 20 of the Customs Act.

#### GUIDELINES AND GENERAL INFORMATION

##### Privileges of the Customs Post Audit System

1. The following are the privileges extended to post audit carriers by mode:

(a) Highway

(1) In the case of post audit highway carriers, loads are not sealed on entry into Canada, resulting in faster release times at the border. Furthermore, the carrier's terminal may be used for breakbulk, with goods reported to the highway sufferance warehouse at destination for customs purposes.

(2) In situations where customs officers select a load for an enforcement check, which cannot be done at the border facility, this load will be sealed. The carrier will be advised to report to the highway sufferance warehouse nearest to the carrier's terminal or to the sufferance warehouse nearest to the first point of delivery. During an enforcement check, customs inspectors will examine the load to verify compliance with customs regulations and procedures as well as compliance with 60 other acts and/or regulations that relate to other government agencies (e.g., agricultural regulations, health and welfare, sales tax on vehicle).

(3) Memorandum D3-4-2, Highway Cargo Import Movements, contains reporting requirements for post audit highway carriers.

(b) Air

(1) In the case of post audit air carriers, shipments may be reported to customs at their destination airport, rather than at the airport of first report.

(2) Post audit air carriers who have more than two flights a day into the destination airport may present their air waybills or cargo control documents by flight or once in the morning and once in the afternoon.

(3) Memorandum D3-2-2, Air Cargo Import Movements, contains reporting requirements for post audit air carriers.

(c) Rail

(1) Post audit rail carriers must report at first point of arrival in Canada. Rail cars and containers, not moving under shipper's load and count, are permitted to move inland without being sealed.

(2) Memorandum D3-6-6, Rail Cargo Import Movements, contains reporting requirements for post audit rail carriers.

(d) Containers

(1) Containers, in Canada under the control of post audit container operators and pool car operators, may remain in the country for up to six months. Also, subject to certain conditions, containers under the post audit system may be used for limited movement of domestic goods.

(2) Memorandum D3-7-1, Cargo Containers Used in International Service, contains reporting requirements for containers under the post audit system.

2. In addition to the above Memoranda which are specific to a mode of traffic, carriers should also refer to Memorandum D3-1-1, Regulations Respecting the Importation, Transportation and Exportation of Goods, and Memorandum D8-4-2, Summary Reporting of Vehicle Repairs by Highway Carriers.

### Criteria for Admittance to the Customs Post Audit System

3. In order to qualify for admittance to the Customs Post Audit System, the applicant must:

(a) have a third party relationship or, in other words, not be related to either the shipper or the consignee;

(b) be licensed by appropriate regulatory authorities to engage in the international carriage of goods;

(c) have approved customs bonded carrier status and have been a bonded carrier for one year;

(d) be responsible for making the initial report to customs of all import shipments made by that company into Canada;

(e) permit departmental auditors access to all company records for the purpose of determining eligibility for the system and compliance with customs reporting requirements;

(f) have available, for the purpose of the opening audit (the facilitation audit), the customs cargo reporting documents covering at least the last calendar year;

(g) must be able to isolate cargo moving into Canada from all other cargo being carried by the company;

(h) maintain an audit trail which allows an auditor to correlate a shipment, identified in the revenue accounting records as having entered Canada, with the cargo control document and to verify its report to customs;

(i) maintain systems for the reporting of overage and shortage, COMAT (imports made for the use and consumption of the company), and for the reporting of repairs made outside Canada;

(j) with the exception of rail carriers, limit shipments under "shipper's load and count" procedures to no more than 20% of their annual volume;

(k) import a sufficient volume of goods to warrant the cost to the Department of maintaining the company on the post audit system. This volume figure must be determined on a case by case basis.

#### Audit Trail Requirements

4. During both the initial facilitation audit to determine eligibility and subsequent verification audits, departmental auditors will be reviewing company records relating to the reporting of import shipments and, where non-duty paid equipment is used, the use of that equipment in Canada.

5. Consequently, auditors will require access to such records as:

- bills of lading
- waybills
- invoices
- Customs Cargo Control Document(s), Form A 8A
- equipment lists
- equipment usage logs
- dispatch records
- accounts receivable
- accounts payable

Note: This is not an all inclusive list and additional information may be required, depending on the nature of the carrier's operation.

6. All of the documentation required for an audit must be available within the applicant's records.

Audits will not be conducted at more than one company to track down any shipment.

7. A post audit carrier is permitted to contract with another carrier to transport goods into Canada on behalf of the post audit carrier. However, the goods must be reported to customs under the post audit carrier's cargo control documents and carrier code. Furthermore, the audit trail for these goods must be maintained in the post audit carrier's books and records.

8. Applicants must maintain an internal system of control over the use of non-duty paid equipment entering Canada in the course of international service, as well as over non-duty paid equipment pick-up on interlines. The system must be able to provide the following information:

- equipment identifiers. i.e. serial numbers
- dates of import shipments to Canada
- probill numbers
- origins of shipments
- destinations of shipments

9. For additional information on the use of non-duty paid equipment engaged in the international commercial transportation of goods and persons, refer to Memoranda D3-1-5, International Commercial Transportation, and D3-5-8, Temporary Entry of Conveyances and Containers Based in a NAFTA Country.

#### General

10. Post audit privileges are not transferable. Where a post audit carrier's operation changes through amalgamation or change in ownership, a new application for the post audit system will be required.

11. Application for entry into the post audit control system should be directed to:

- Revenue Canada
- Transportation Division
- 555 MacKenzie
- Ottawa ON K1A 0L5

12. The Carrier Control Section of the Transportation Division will conduct an initial screening of the application. Those passing the initial screening will be referred to the Transport and End-use Audit Section, Enforcement Directorate, for an on-site evaluation of company books and records for audit purposes. An audit report will then be submitted to the Transportation Division with a recommendation as to whether or not the company should be placed on the post audit system. The Transportation Division will decide if the company is accepted and advise that company of its decision by letter.

13. Acceptance of a company into the post audit system in no way relieves that company from compliance with customs requirements in general. Failure to comply with these requirements may result in the company's exclusion from the system.

## REFERENCES

### ISSUING OFFICE

Transportation Division

### LEGISLATIVE REFERENCES

Customs Act

### HEADQUARTERS FILE

7690-0

### SUPERSEDED MEMORANDUM "D"

D3-1-6, December 3, 1982

### OTHER REFERENCES

D3-2-2, D3-4-2, D3-6-6, D3-7-1