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**GUIDELINES ON PRUDENTIAL AUDIT**

The Government's response to the Review of the Australian Customs Service required that a working party be established to fully investigate the concept of prudential audit. The Working Partyreported on 27 July 1995.

The Working Party defined a prudential audit to be:

**"an audit arranged and funded by a company to assure itself about its level of compliance with statutory or other requirements".** The Working Party's conclusion and recommendations as advisedin ACN 95/57 were:

*Having regard to the various issues raised in the course of this exercise, the Working Party is of the view that the most viable option for the ACS is a* ***voluntary*** *arrangement under which:*

*a company may choose (as it may do now) to commission a prudential audit to assure itself about its level of compliance with Customs legislation,*

*Customs would provide guidelines aimed at assisting industry to ensure that such audits represent value for money (these should be tailored to take account of the commercial realities of particular industry sectors), and*

*the results of such audits would be taken into account when Customs assesses the risk associated with that company.*

*In this context it is important for industry to recognise that, while a prudential audit can be a worthwhile tool in ensuring compliance with Customs requirements, it cannot be regarded as a mechanism for avoiding a Customs audit.*

The primary objective of Customs audits is to assess a company's level of compliance with legal requirements. In doing this particular emphasis is placed on the evaluation of a company's internal systems, controls and procedures which produce the information communicated to Customs. In this regard, Customs has developed a company audit methodology based on Australian Auditing Standards (AUS 1). The philosophy and methodology have been published in Volumes 23 and 24 of the ACS Manuals which are now available for purchase by the public refers.

As the adopted methodology has general application, the need to tailor the guidelines for particular industry sectors will be further considered in the light of operational experience.

Companies choosing to commission a prudential audit to gain assurance about levels of compliance with Customs legislation may use the Customs Company Audit Methodology as a guide.

The results of any prudential audits provided to Customs will influence decisions on risk assessments and judgements on the extent to which Customs audits need to be pursued. In assessing the results of a prudential audit, Customs will take into account the extent to which the audit meets professional standards in accordance with the published Customs guidelines.

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