ISO Audit Data Collection Standard
Customs Subset of ADCS + Extension

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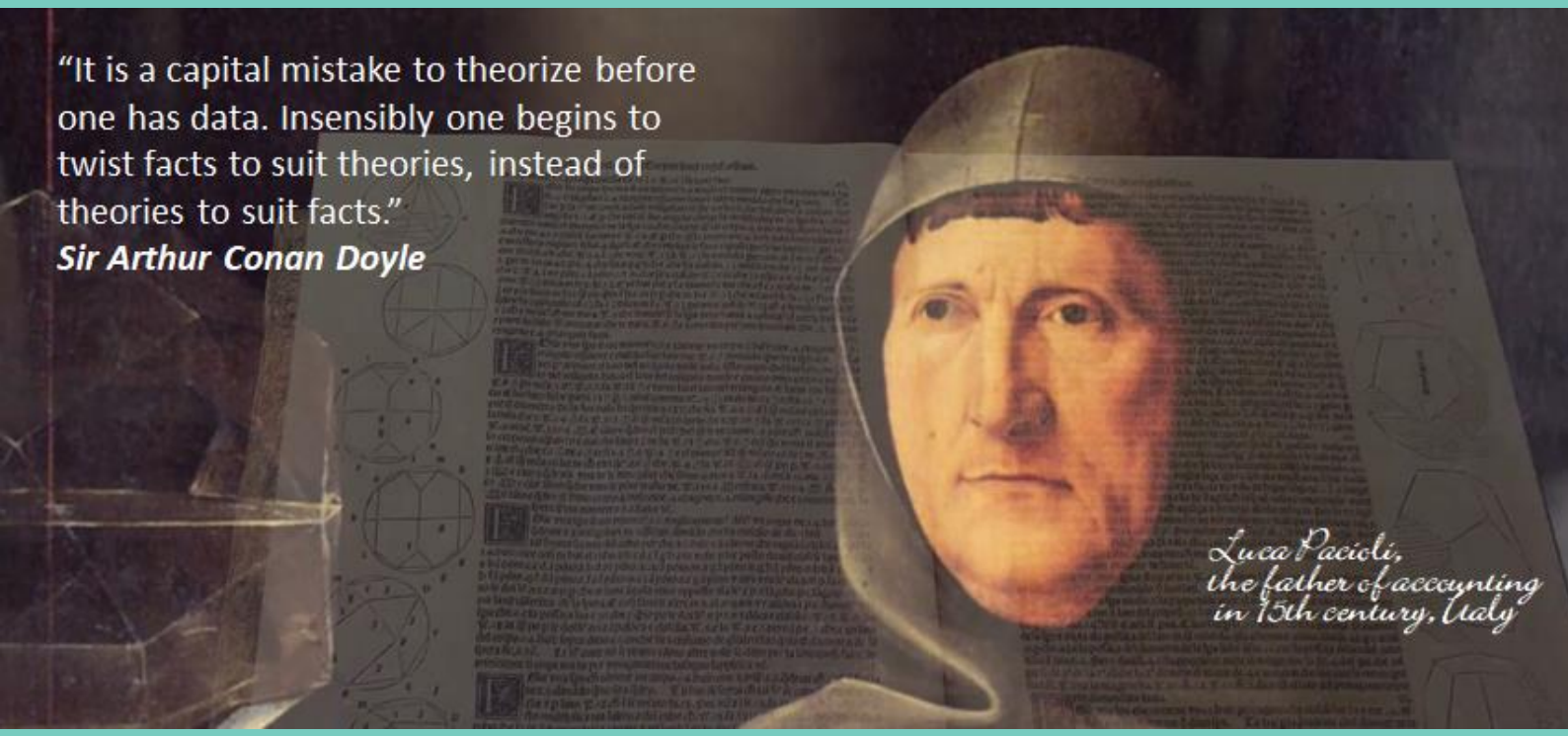
EXPLANATION SUBSET AUDIT DATA COLLECTION CUSTOMS EXTENSION

WORKING DRAFT DOCUMENT
FOR DISCUSSION PURPOSES ONLY

CURRENTLY THE EXPLANATION IS RESTRICTED TO PRINCIPLES, SOME EXAMPLES AND DISCUSSION POINTS.



INHOUD

INTRODUCTION

Accounting and Enterprise Resource Planning (ERP) software packages are widely used in businesses and by various government organizations to manage and track business processes, post transactions and produce financial reports. Because of the nature of the information contained within the ERP systems, the data are also leveraged by internal and external auditors to assess the business controls, processes and financial reporting. There are numerous ERP packages that are used by businesses and government organizations, which can vary greatly in design (e.g. interfaces, data content, data formats, operational reports, management reports, financial reports). These and other design differences present challenges in the collection of data for auditing supervision management purposes.

A first and important step to resolve the common problems that auditors face when requesting data to perform their audit procedures has been taken by developing and publishing the international standard ISO 21378:2019 (ADCS). The information contained within the ADCS will help to improve the accessibility and transparency of audit data, standardize the process of collecting audit data, avoid duplicate efforts and save resources. This step, a worldwide standardization of audit data contents and formats, will enhance the effectiveness and efficiency of government, internal and external audits, and provide benefits to related stakeholders.

The ADCS focuses on major business modules of accounting and ERP systems that are typically used in various organizations. These modules relate to major business processes, including the areas of purchase, sales, inventory, fixed assets and financial reporting, with the aim to identify and specify the data elements and file formats needed for financial auditing. That international standard facilitates the use of analytics and enables regulatory bodies to better fulfil their supervision responsibilities, external auditors to better perform their tasks of assurance, and internal auditors to assist management in making more informed decisions.

One of the strengths of ADCS is that it describes data elements that also apply to audits other than financial audits. For example this also applies to a customs audit. This extension makes use of that strength (piggybacking).

Strength of ADCS is also that it does not determine which tables and data elements are required. Data elements cannot be present in a business administration, it is not necessary for the audit objective or some other reason. The ADCS is, as it were, attuned to the accounting administration of an organization. This strength is also expressed in the customs extension. Which tables and data elements are required for a specific audit objective, is determined by (the task of) the auditor.

This document focuses on customs auditing and reuses what is defined in the ADCS. The extension includes data elements that are missing in the ADCS. Those data elements are organized in tables in line with the structure of ADCS. Which tables (data elements) from the ADCS are required for a customs audit, is determined by the auditor and partly depends on the country (or union, region), legislation and other aspects.

SCOPE

This document provides a common structure for specific customs data elements, as an extension on ADCS, and provides the information necessary to extract relevant audit data.

NOTE For the purpose of this document, "audit" refers to an examination of an entity's customs related records in order to check that the customs declarations are fairly presented.

This document is applicable to the bridging of understanding among auditors (more specific internal and customs auditors), auditees, software developers and IT professionals, and creating a mechanism for expressing the information, common to customs auditing, in a manner independent of accounting and ERP systems. This document serves as a foundation for local data extraction efforts in the areas mentioned in the ADCS and the extension on the inventory as explained in this document.

THE MISSING DATA ELEMENTS FOR A CUSTOMS AUDIT

This section describes a number of general points that influence the determination of the missing data and the development of this standard (extension). One of the points concerns the impact on the required data by the different customs regimes in the world. This immediately indicates another problem: the potentially large amount of data elements needed for a customs audit and the dependence of the different combinations of customs procedures that may apply to organizations. Another point concerns the data that is already known to customs (the submitted customs declarations). Based on this knowledge a proposal is made: label data elements as characteristics and include a characteristic as a row in a table (instead of columns). Finally it is worked out in three tables as proposed in document "20210712_ISO_AuditData CollectionStandard_CustomsExtensionsAnd Subset.pdf".

A second point that is discussed in this section concerns the selection criteria of the data for the purpose of a customs audit. With regard to this, it is proposed to extend the Base module with one table as part of the customs extension.

Difficulties in determining data elements for a customs audit

The customs world is very diverse. In general, two different regimes can be distinguished. This difference is one of the main reasons why a customs system that is applied has taken its shape and form. First, the draw-back system, the refund of certain duties, taxes and fees collected upon the importation that are matched with subsequently exported or destroyed goods. Second, the suspension system, the levy of customs duty upon clearance of goods for free circulation in the country is (in principle) definitive. That means that once the duty is paid, there is no refund possible (except for a few limited exceptions). As described, this principle forms the primary reason for the way customs legislation has been set up. So, the regime explains and determines the existence of the customs procedures. For example to make it possible to prevent payment of import duties until the final destination is definitive (in case of the suspenion system) certain customs procedures (for example bonded warehouse, inward processing) are present. Important is, that the customs regime and customs procedures (can be different between countries) influence the required data for a customs audit. And because organizations can form many combinations of the existing customs procedures, the data required for a customs audit will also differ. To name and describe all data elements is an immense challenge. When the structure of ADCS is followed, it also leads to tables with many, many, data elements (width of tables). This also leads to a lot of maintenance, partly as a result of frequently changing legislation.

Another point that affects the required data elements concerns the submitted customs declarations. This applies in both regimes. So, customs (as well as the organization) already has a lot of data, data that is standardized in most countries based on the WCO (World Customs

Organization) data model. Because this data is already available at customs (and in standardized form), it is not recommended to request this data again. However, customs must still be able to establish the relationship between the company administration and the submitted declarations. Therefore, the required data must at least include that data that the relationship can be established between the extract from the business administration (the collection of data requested by the auditor) and the data in the customs administration.

In summary, the data elements that are specifically important for the customs audit are highly dependent on the customs procedures applied by an organization, it is impossible (not maintainable), to describe all data elements in tables in columns. In addition, there are data that always apply, the data that establish a relationship between the business administration and the customs administration (declarations)

A possible solution, and suggested / presented to the ISO TC 295 members, is to adhere to the ADCS standard, but instead of thinking horizontally (columns), thinking vertically, for the extension tables only. Each required data element (characteristic) has its own row. It is the auditor (for example for a customs audit) who determines which characteristics are important. There are two additional major advantages. Organizations can also follow this structure for other data elements that are important for their control of internal business operations and, for example, demonstrating compliance. Furthermore, this structure gives other supervisors (regulators) an opportunity to step in.

The advantage of this approach is that all characteristics can be distinguished in characteristics with regard to the product, the transaction and the customs declaration. An example is elaborated in a next section.

Difficulties concerning the selection criteria for a customs audit

ADCS contais table BAS Accounting Period that is sufficient for the financial audit to fill in an audit period. For customs audit the audit period may differ from the accounting period. Customs, as you know, focuses on goods and goods transactions and therefore on transactions aimed at goods in a specific audit period. To include the selection criteria for this, it is suggested / proposed to include a table in module Base in the extension for customs. This table, BAS_Selection_Period has only three columns. Two columns, the start and end date, of course indicate the period for which the data is requested. The third column, first in column in the table, refers to an identifier. This is intended to standardize the queries. This makes it possible to request the total data set up to a specific data set for a specific audit objective. This gives the software suppliers the opportunity to standardize the data retrieval.

MODULES, TABLES AND FIELDS

General

The ADCS covers the main business modules of accounting and ERP systems and the main business processes in the enterprise production supply chain. The ADCS has eight modules: Base (BAS), General Ledger (GL), Accounts Receivable (AR), Sales (SAL), Purchase (PUR), Accounts Payable (AP), Inventory (INV) and Property, Plant and Equipment (PPE). According to the information system condition, the ADCS supports collecting information from either partial modules or all of them.

This document, this extension, builds on the ADCS. The extension consists of one table as part of module Base and three tables as part of module Inventory (figure 1). All four tables are level 1.

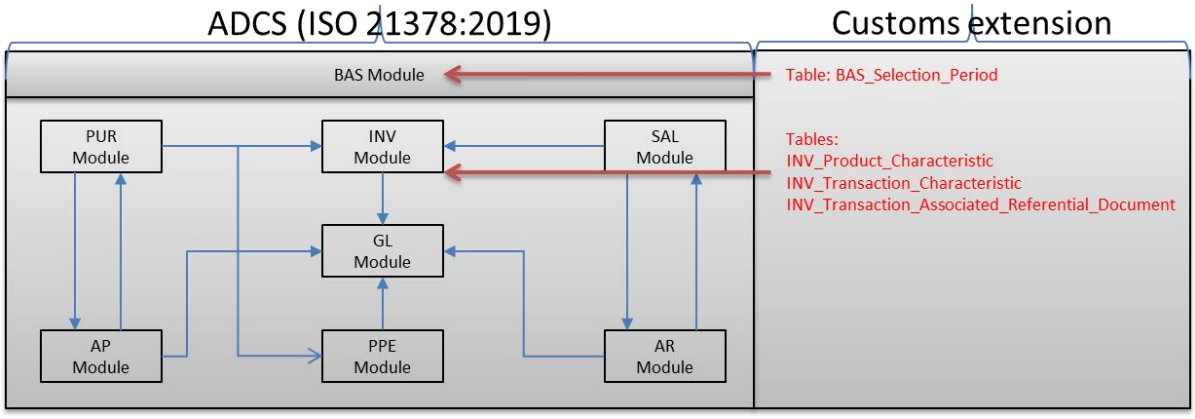


Figure 1: **Relation ADCS and Customs extension**

There is a total of 3 tables specifying data elements (characteristics) with structures in this document. One new table has been added to module Base to indicate the selection criteria for the data request. All four tables are level 1.

For the technical tables design (structure) and the semantics of the data elements of those four tables I refer to the document "20210712_ISO_AuditDataCollectionStandard_CustomsExtension AndSubset".

EXAMPLE

This example only covers the extension as it is now stands. Which tables from ADCS apply, as indicated earlier, depends on the auditor. (It is not surprising that this consists of at least the tables of module Inventory.) The example consists of two parts. The first part consists of the receipt of customs goods in a bonded warehouse. The second part deals with the importation of part of that lot.

Company "XYZ" is located in country "ABC". In country "ABC" customs legislation is based on a suspension system. Company "XYZ" uses a number of customs procedures and the stock can be distinguished from customs into:

- *free goods*: goods that are free of customs duties in country "ABC";
- *excise goods* goods that are free of customs duties in country "ABC" with the exception that excise duty (in some countries this may be called consumption tax) has not yet been paid (i.e. suspended);
- *customs goods*: goods under customs supervision, all applicable duties have not yet been paid (i.e. suspended);

Excise duty can seem strange. Not just that countries might call this a consumption tax. There are countries also where this may not be a task for customs. In the latter case, this part of the example shows that other auditors (consumption tax) can easily match the proposed structure of the tables.

Part 1: Inbound

INBOUND Company "XYZ" receives a consignment of product "AB4567B" (lot number ENT001). These are customs goods and company "XYZ" stores these goods in its bonded warehouse. In order to store the goods in the bonded warehouse, company "XYZ" must submit a customs declaration. For the storage of customs goods, company "XYZ" must fill all three tables from the customs extension (module Inventory) with the corresponding characteristics. As stated earlier, it is assumed that the tables INV_Product and INV_Transaction are filled in accordance ADCS. Figure 2 shows a number of fields that are required for the completion of this example.

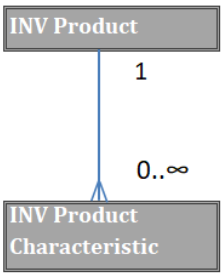
INV Product

Inventory Product ID	Inventory Product Code	Lot Number
PRENT001	AB4567B	ENT001

INV Transaction

Transaction Document ID	Transaction Document Line ID	Transaction Type	Transaction Quantity	Inventory Product ID	Lot Number
VM98765	0001	Receipt	40	PRENT001	ENT001

Figure 2: Summary tables INV Product and INV Transaction



The first table INV_Product_Characteristic lists the characteristics that apply to the product and are important for the customs. Multiple characteristics can apply to a product from table INV_Product. A characteristic at the level of a product, and missing in ADCS, is the customs status of – in this case – of product "AB4567B". In this example the customs status is "bonded warehouse".

This results in:

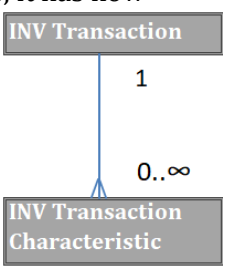
INV Product

Inventory Product ID	Inventory Product Code	Lot Number
PRENT001	AB4567B	ENT001

INV Product Characteristic

Inventory Product ID	Charactertistic Type	Characteristics UOM Code	.....	Characteristic Value
PRENT001	NL CUST STATUS			Bonded Warehouse

This is just an example of one characteristic. Which characteristics (can) apply depends on, for example, the applied customs procedure. For example, it is possible that in a certain situation the country of origin is a characteristic. It's about those characteristics that matter. In this example the characteristic is preceded by the letters NL. This addition stands for the Netherlands. This makes the use of characteristics flexible, and dependent on a country (or other area). Another country (or union or region) can include its own characteristics. This requires good management. Furthermore, the naming of the characteristic is very important for the development of analysis tools. In anticipation of the continuation of the example, it has now become apparent that this structure / principle can also be applied to indirect taxes and payroll.



In addition to the characteristics at the level of the product, there are also characteristics applicable at the level of the transaction. The second table INV_Transaction_Characteristic lists the characteristics that apply to the transaction and are important for customs. Multiple characteristics can apply to a transaction from table INV_Transaction. A characteristic at the level of a

transaction, and missing in ADCS, is the customs commodity code – in this case – of product "AB4567B". This result in:

INV Transaction

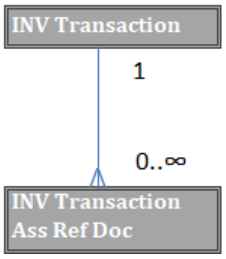
Transaction Document ID	Transaction Document Line ID	....
VM98765	0001	...

INV Transaction Characteristic

Transaction Document ID	Transaction Document Line ID	Charactertistic Type	Characteristics UOM Code	Standard Characteristic Value	System Characteristic Value
VM98765	0001	EU COMM CODE		2204568090	2204568090

In this example, one characteristics is added. The same applies for INV Transaction Characteristic to what has been written above about the application of characteristics in INV Product Characteristic. In table INV Transaction Characteristic a distinction is made between two values, a standard and a system value. The following example (Part 2: Import) focuses on this distinction.

The third table INV Transaction Ass Ref Doc list the data needed to establish a relationship between the transaction and the customs administration. This includes only three data elements. First, the system (customs declaration system) in which the customs declaration has been submitted. Next the declaration number and finally the declaration line number. In this way the relationship can be established. This results in:



INV Transaction

Transaction Document ID	Transaction Document Line ID	....
VM98765	0001	...

INV Transaction Characteristic

Transaction Document ID	Transaction Document Line ID	Transaction Ass Ref Document Code	Transaction Ass Ref Document ID	Transaction Ass Ref Document Line ID
VM98765	0001	EU DMS OPSLAG	NL275ABD98AB62	0002

Again, it is a simplified example, the inbound of the goods. The customs know that the goods are customs goods, the important characteristics and customs has the data to be able to establish a relationship with the data (the customs declaration) customs authorities have in their own systems.

Part 2: Import

IMPORT Company "XYZ" sells half of product "AB4567B" lot number ENT001. This part is imported before the outbound takes place. Company "XYZ" submits a customs declaration in accordance to the legislation. Excise duty (or consumption tax) also applies to these goods, as well as VAT (or GST).

The product is already known in the administration. As a result, there is no new registration in tables INV Product and INV Product Characteristic. Company "XYZ" obviously records the transaction in the INV Transaction table (Transacton Document ID = TR123456 and Transaction Document Line ID = 0001). Because the product is under customs supervision (the goods are customs goods), the tables INV Transaction Characteristic and INV Transaction Ass Ref Doc apply. This results in:

INV Transaction

Transaction Document ID	Transaction Document Line ID	....
TR123456	0001	...

INV Transaction Characteristic

Transaction Document ID	Transaction Document Line ID	Charactertistic Type	Characteristics UOM Code	Standard Characteristic Value	System Characteristic Value
TR123456	0001	EU COMM CODE		2204568090	2204568090
TR123456	0001	GEN ALC PERC	PERC	0.125	12.5
TR123456	0001	NL ACC CAT		23	W3
TR123456	0001	NL VAT STATUS		S	1

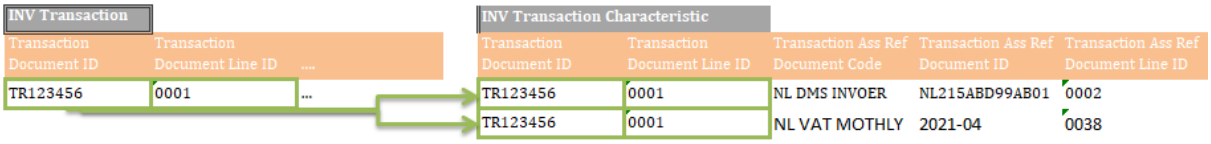
With these four characteristics the flexibility can be shown in the table. The most important flexibility is, of course, that only the characteristics that matter in a transaction are added. Further, the unit of measurement is also only filled if applicable (alcohol percentage). And the syntax depends on the characteristic.

A final flexibility worth mentioning concerns the choice of whether a characteristic is part of table INV Product Characteristic or INV Transaction Characteristic (not all characteristics have that choice). The commodity code is a good example where the choice exists. In principle, the commodity code is a fixed item of information, which is linked to the product. However, commodity codes can change (and do). When the commodity code is recorded as part of table INV Product Characteristic (at the moment of receipt or at an earlier time), this characteristic and value no longer needs to be included in table INV Transaction Characteristic. If then the commodity code changes, then it is possible to make a change in table INV Product Characteristic with a new record and a new start date. If the commodity code changes regularly, it is easier to include this characteristic in table INV transaction Characteristic (every transaction).

This choice also offers another option. The alcohol percentage is a good example. It is possible that a percentage of 12.5% is written on all underlying documents (invoice, bill of lading, etc.). Company “XYZ” includes this data as a characteristic in table INV Product Characteristic. One month later and again two months later, parts of this lot are released. Company XYZ conducts a lab test before the goods are released to determine the actual alcohol percentage. The first result shows a percentage of 12.3% and the second a percentage of 12.6%.

It is possible to change the value for the characteristic (alcohol percentage) in table INV Product Characteristics, every time after a lab test. In that situation the question is still if it is correct. With the knowledge that the alcohol percentage is recorded in table INV Product Characteristic, it is also possible to record the alcohol percentage in table INV Transaction Chararcteristic, if it deviates from the value for that characteristic in table INV Product Characteristic. The characteristic in table INV Transaction Characteristic overrule the value of that characteristic in table INV Product Characteristic, just for that specific transaction.

The result of the tabel INV Transaction is as follows:



INV Transaction			INV Transaction Characteristic				
Transaction Document ID	Transaction Document Line ID	....	Transaction Document ID	Transaction Document Line ID	Transaction Ass Ref Document Code	Transaction Ass Ref Document ID	Transaction Ass Ref Document Line ID
TR123456	0001	...	TR123456	0001	NL DMS INVOER	NL215ABD99AB01	0002
			TR123456	0001	NL VAT MOTHLY	2021-04	0038

It is the same as explained earlier in part 1 Inbound. A reference is included to the system in which the declaration is included, the identification number and line number of the declaration. This also applies to sales tax (VAT).

DISCUSSION

1. The first reactions, especially what are the negative points or what problems are recognized

2. Discuss the solution to add table BAS Selection Period, to address a deficiency in ADCS concerning audit periods other than accounting periods.
   (Because the focus for a customs audit - or an audit for indirect taxes - may differ from the accounting period, table BAS Accounting Period is not sufficient for the data retrieval for these type of audits. For example a customs audit is focused on goods transactions in a certain period, so the stock transaction date is decisive. One possibility, and proposed solution, is to include in the extension new table BAS Selection Period. This table contains the criteria for the audit period for which data is requested. The table is set up in such a way that other data requesters (that do not follow an accounting period) can also easily use it.)

3. Discuss the solution to include data elements as characteristics

4. Discuss whether and if so, how to determine the characteristics (data elements) broader than the European Union (known)
   (*Which customs data elements (characteristics) are important differs per audit and per company. This may depend on the customs regime, licenses granted, type of goods, legislation (frequently changing), audit objective and many other factors. It is possible to determine the characteristics nationally (or union or region, for example application profiles prepared by national standardization institutes. The standard is then limited to the basic characteristics and possibly point 5.)*

5. Discuss whether and if so, to standardize content of certain characteristics
   (By including a system value and a default value, it is possible to standardize the content for specific characteristics – as standard value - for example customs status, country of origin etc and therefore keep these characteristics outside the previous point.)

6. Other