

# **Impact of Dematerialization of Transferable Records on Audit Data Collection Standards**

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# Agenda

Preamble

Single Window System

Dematerialization of Transferable Records

Impact of Electronic Transferable Records

Q & A

## Customs Audit – Documents seen by auditor



- Sales and purchase order, invoices and delivery notes
- Sales and purchase ledger
- Journals
- Stock records
- Import and export licenses
- Import and export approvals

## An audit generally involves...



- The auditor asks questions about book keeping and how the business operates?
- The auditor examines books and records to validate entity's records against customs declarations.
- The auditor examines documents relating to custom declarations made by the auditee.
- If adjustments are required they are discussed with the auditee and he is also notified in writing.
- If discrepancies are identified in the control system of auditee the auditor outlines the issues and discuss proposal to correct them.

# Common Customs Frauds

## Undervaluation of goods

- Most common form of customs fraud
- False customs import declarations
- Reduces duty to be paid to customs

## False country of origin

- Inaccurate marking of the country of origin to avoid higher custom duty

## Misclassification of goods

- Involves declaring a good under a lower duty category than it's real category

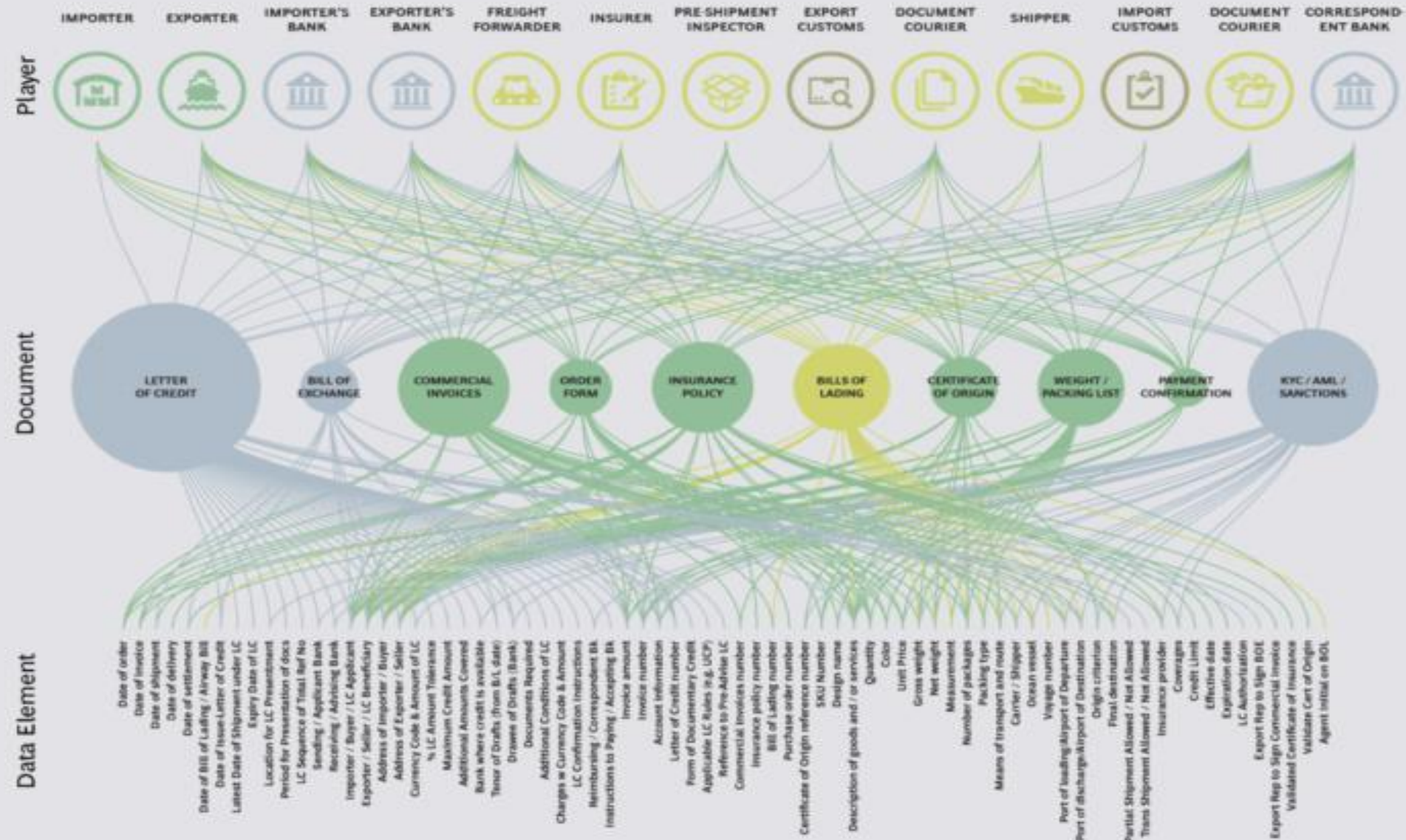
## Failure to pay custom duty

- Risk of non-payment of full or part custom duty is more with irregular importers

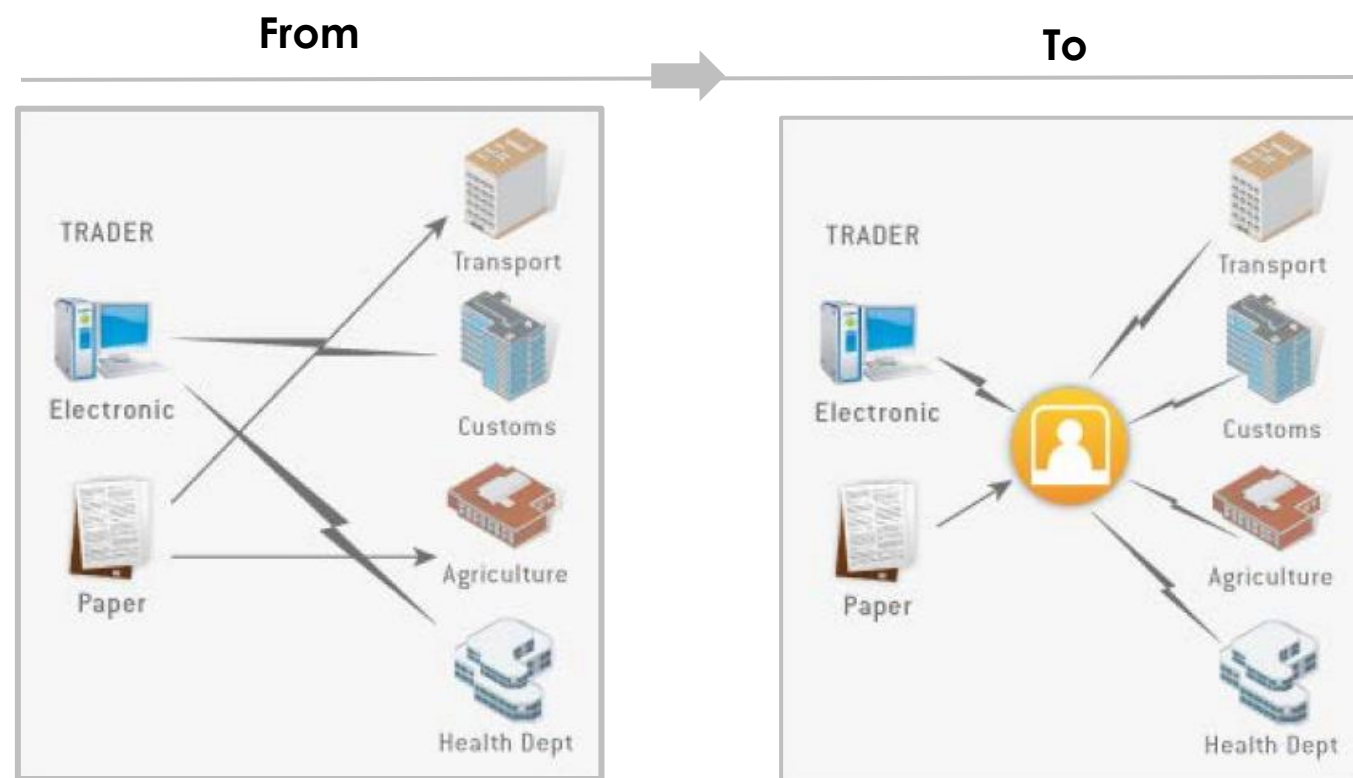
## **An average customs transaction...**

Involves an estimated 30 parties, 40 documents and 200 data elements that form a 'data supply chain' along the value chain of any product.

# EXHIBIT 1 | The 20+ Players interact with the data fields captured in the 10-20 Documents to create ~5,000 data field 'interactions'



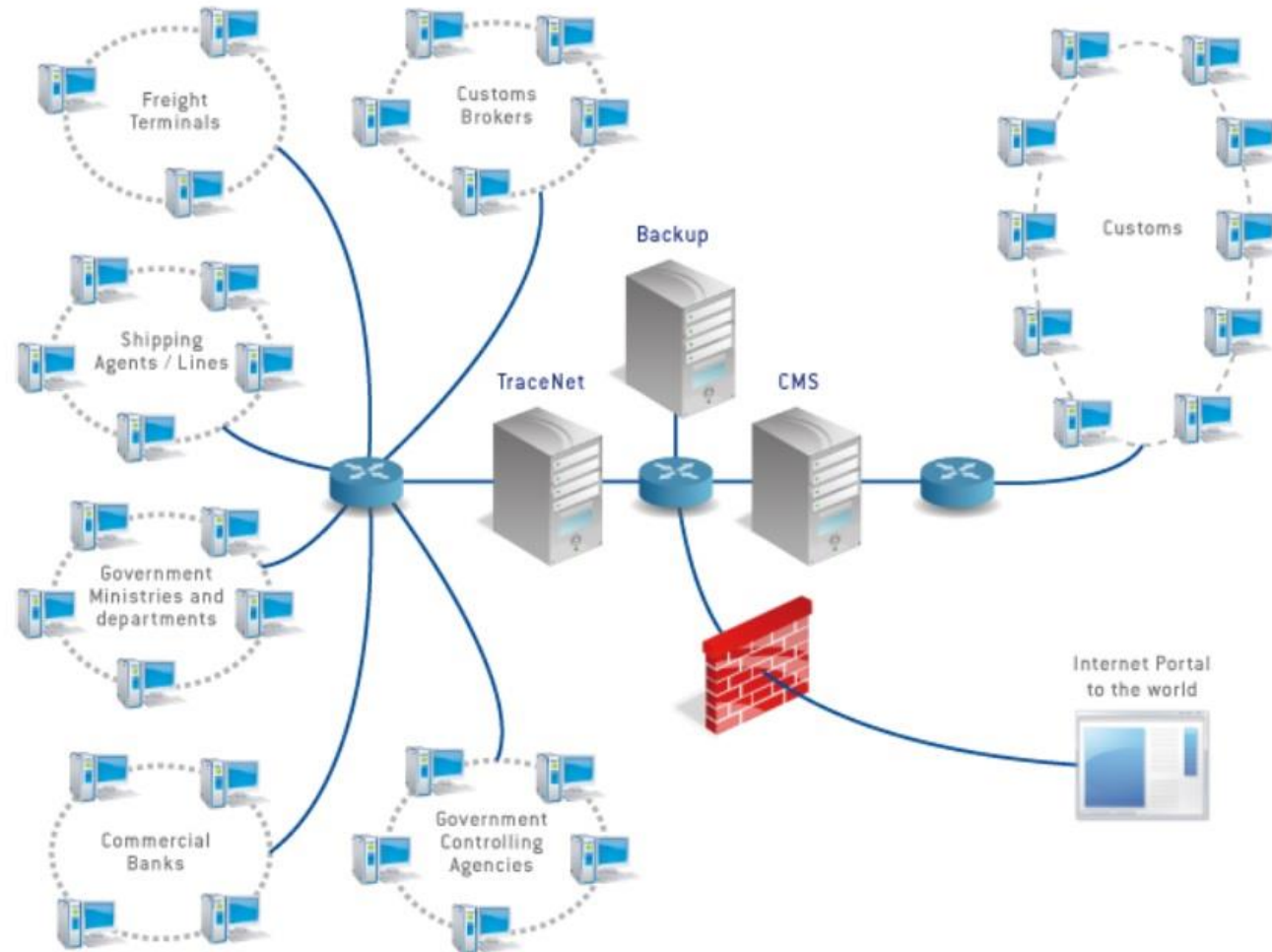
# Single Window System



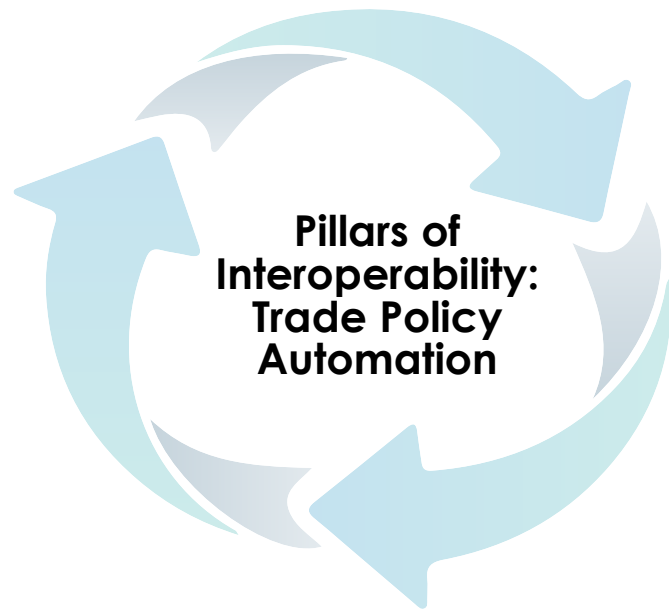
Source : UNECE 2018 Trade Facilitation Guide



## Example of a single window system with a network of both public and private actors

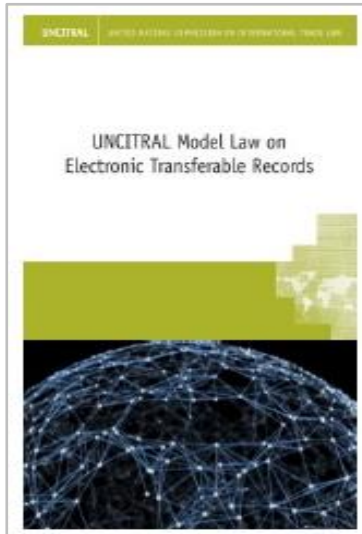


## Example of a single window system with a network of both public and private actors



- Legal (e.g. UNICITRAL model laws)
- Organizational (Digital identity)
- Semantic (e.g. data standards – WCO, UN/CEFACT, Oasis, UBL)  
Format and meaning : What is sent is understood
- Technical (e.g. systems able to exchange data, application interface)
- Discovery/accessibility (find and receive rules – The internet)

# UN/CEFACT Project: Transfer of MLETR Compliant Titles



- UN/CEFACT guidance as a White Paper is under preparation
- How Distributed Ledger Technologies can be used to facilitate title transfer of MLETR compliant titles (Other feasible technologies may be considered)
- Will consider issues relating to creation, administration and use of technology

<https://uncefact.unece.org/display/uncefactpublic/Transfer+of+MLETR-compliant+titles>

# MLETR-Compliant Title Transfer

UN/CEFACT recommendation 12 in 2011 – Simplify, rationalize and harmonize the procedures and documents used to evidence the contact of carriage in maritime transport by encouraging the usage of Sea Way Bills

## Present



The image shows a 'Bill of Lading Short Form' document. It includes fields for 'Consignee', 'Shipper', 'Carrier', and 'Shipper's Reference'. There is a table for 'Description of Goods' with columns for 'Quantity', 'Weight', and 'Volume'. At the bottom, there are sections for 'Received in Apparent Good Order' and 'Signature'.



Negotiable Bills of Lading still mostly paper based

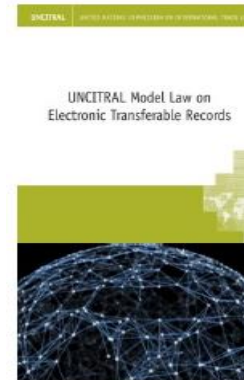


Manual processing and delivery with high cost



Risk of fraud e.g. forgeries

## Future



Interoperable with global trade network



Lower cost of processing



Enable innovative services

# What is a transferable document ?

Any transferable document or instrument that entitles holder to claim delivery of goods or payment a sum of money



Entitled to claim



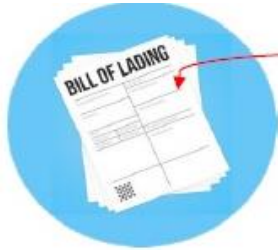
Preference of obligation – Delivery of goods  
e.g. Bill of Lading, Warehouse receipts, dock warrants

Payment of money  
e.g. Bills of Exchange, Promissory Notes

Source : UN/CEFACT

# Requirements for an Electronic Transferable Record

## Any Electronic Transferable Record

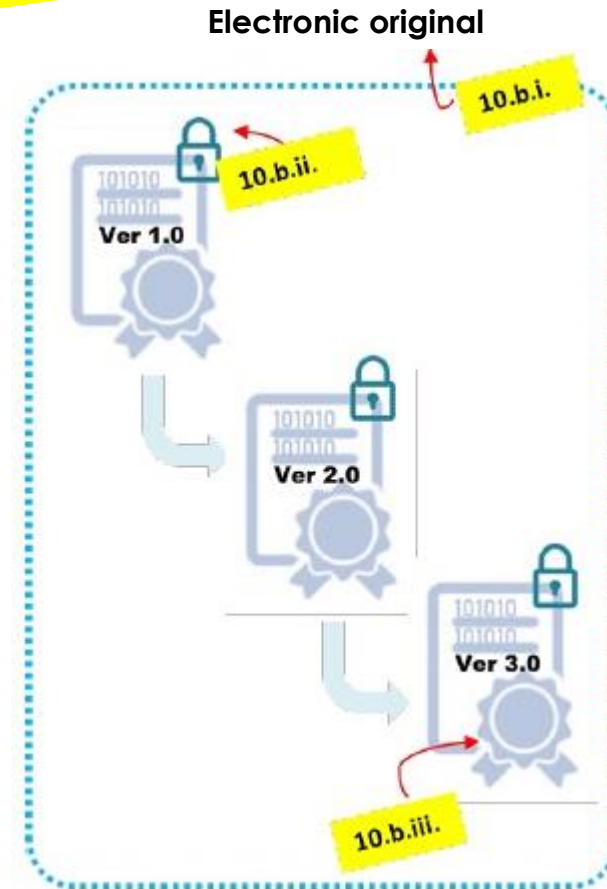


Article 10 a. Contain all required information / data as per the original counter part

Article 10 b. is a reliable method used to:

- I. identify an electronic record as the electronic transferable record (Singularity)
- II. subject the electronic record to control from its creation to expiry (exclusive control)
- III. Retain the integrity of the electronic record (Integrity)

Complies with the requirements of article 10



Electronic copies



Source : UN/CEFACT

## Impact of Electronic Transferable Records

- Use of Blockchain / DLT system for dematerialization of transferable records means that lot of information/data that government auditors need for their audit would now be available at Blockchain –based system e.g. Importer & Exporter details, description of goods and HSN code, country of origin, country of shipment, carrier, Import-Export License, Import-Export Approvals etc.
- Information/data stored at Blockchain-based system will have greater transparency and improved traceability.
- Implementation of single window system would mean information/data will not require cross checking with different departments.
- Since companies are reluctant to share data, due to perceived fear of it's misuse by business rivals, government auditors have an option to collect audit data from Blockchain/DLT system .

## Impact of Electronic Transferable Records Cont....

- The data collection for government audit will not be restricted to the auditee. The auditor may use information/data that is available on blockchain-based system for his audit purpose.
- TC—295 may consider compiling a detailed list of information / data that will be available at Blockchain /DLT system
- Will this have any impact on the utility of Audit Data Collection Standards that are under development ?
- Does it mean the scope of TC-295 would extend to standardization of data at Blockchain / DLT system also ?
- Any other relevant question which TC-295 may consider relevant may be discussed.





THANK  
YOU



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