

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)
AUDIT (VERIFICATION) MANUAL
CHAPTER 3 AUDITING STANDARDS

There is a need for harmonization of the approach for the rules of origin verifications conducted by all parties to a free trade agreement. Harmonization will provide for consistency in verification methodology and procedures. All Parties (Mexico, U.S. and Canada), while conducting audits, will follow Generally Accepted Auditing Standards with specific modifications to make the standards applicable to North American Free Trade Agreement(NAFTA)legislation/requirements. Section 3.1 sets out how each Party's Customs Administration complies with these standards in completing verifications for the NAFTA. Section 3.2 outlines each Party's working paper requirements. (Refer to Chapter 6 for a more detailed description of the verification process.)

3.1 Details of Auditing Standards

For the auditing standards of the other Parties, refer to the respective Annex 3, Section 3.1 at the end of this Chapter.

All exporter/producer verification visits performed by the Regulatory Audit Division will be conducted in conformance with Generally Accepted Government Auditing Standards (GAGAS). These standards are embodied in the publication entitled "Government Auditing Standards" issued by the Comptroller General of the United States, General Accounting Office (GAO). The Government Auditing Standards implement the GAO standards for audit of governmental organizations, programs, activities, and functions. It is based on Generally Accepted Accounting Principles and Generally Accepted Audit Standards, requiring adherence to auditing standards covering the auditor's professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports. The Government Auditing Standards incorporate audit standards and procedures adopted by the American Institute of Certified Public Accountants (AICPA).

The Government Auditing Standards set forth the following basic standards for the Generally Accepted Government Auditing Standards (GAGAS):

- General standards
- Field Work standards
- Reporting standards

These standards will be applied to all exporter and producer verification visits.

3.1.1 General Standards:

- (1) The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
- (2) In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
- (3) Due professional care should be used in conducting the audit and in preparing related reports.

(4) Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

3.1.2 Fieldwork Standards

(1) Work is to be adequately planned.

(2) Staff are to be properly supervised.

(3) When laws, regulations, and other compliance requirements are significant to audit objectives, auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.

(4) Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgement about those controls.

(5) Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgements.

3.1.3 Reporting Standards

(1) Auditors should prepare written audit reports communicating the results of each audit.

(2) Auditors should appropriately issue the reports to make the information available for timely use by management, legislative officials, and other interested parties.

(3) Auditors should report: audit objectives and the audit scope and methodology; significant audit findings, and where applicable, auditors' conclusions; recommendations for action to correct problem areas to improve operations; all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit; illegal acts should be reported directly to parties external to the audited entity; scope of work management controls and any significant weaknesses found; the view of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations, as well as corrections planned; noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere; and, significant issues needing further audit work to the auditors responsible for planning future audit work.

(4) The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.

(5) Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the report should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

3.2 Audit Working Papers

For the working paper requirements of the other Parties, refer to the respective Annex 3, Section 3.2 at the end of this Chapter.

Working papers are the connecting link between the Regulatory Auditor's verification visit of the exporter and/or producer and the final report. They provide detailed information in support of the findings and conclusions set out in the report. In establishing the relationship of working papers to the audit report, considerable judgement must be exercised, keeping in mind that the objective is to explain in a clear and concise manner, what was done, what was found, conclusions arrived at, and recommendations made.

The following **SOP RAD1-006-97** dated April 30, 1997, provides a complete outline of working paper requirements of all audits and verifications performed by the Regulatory Audit Division.

ANNEX 3 CANADA

3.1 Details of Auditing Standards

All exporter verifications performed by the Origin Audits Unit are conducted in conformity with framework for Generally Accepted Auditing Standards (GAAS), modified where applicable in order to comply with NAFTA requirements.

In Canada, the Canadian Institute of Chartered Accountants (CICA) has set forth the following basic framework for GAAS:

- General standard (3.1.1)
- Examination standards (3.1.2)
- Reporting standards (3.1.3)

This framework is applied in the following way to on-site exporter or producer origin verifications:

3.1.1 General Standard:

"The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind." ⁽¹⁾

The Revenue Canada verification team is usually comprised of the following people:

- Accountants possessing a professional accounting designation or working towards a professional accounting designation. In Canada, the following accounting designations are recognized: Chartered Accountant (CA); Certified General Accountant (CGA); and, Certified Management Accountant (CMA).
- Employees with an appropriate combination of university education and work experience.
- A specialist in the tariff classification of goods.

3.1.2 Examination Standards:

a.) "The work should be adequately planned and properly executed. If assistants are employed they should be properly supervised."

i) The planning and preparation phase of an exporter/producer verification conducted by the Origin Audits Unit consists of the following steps:

Identification and Selection of Goods for Verification: A preliminary analysis of the company's response to a preference criteria B type questionnaire is performed by the Origin Audits Unit to determine whether the good should be the subject of an on-site origin verification.

Notification (Refer to Article 506 of NAFTA): Once it has been determined that an on-site origin verification will be conducted, all relevant parties will be notified that an origin verification will be conducted with respect to the specific goods under review. The relevant parties and reasons for notification are as follows:

- The exporter or producer will be sent a notice of the Department's intention to conduct a verification, by certified mail. Written consent must be given by the exporter or producer within 30 days of receipt of the notification. If the written consent is not received by Revenue Canada officials, a written determination with a notice of intent to deny preferential tariff treatment to the Canadian importers will be sent to the exporter or producer, allowing them another 30 days in which to consent before denying preferential tariff treatment.

- All known Canadian importers identified by the Origin Audits Unit as importing these products are notified in writing that the products are under review. For non-automotive goods, should it be determined that the goods under review do not qualify for a NAFTA Tariff Treatment, the assessment period generally commences with the date the importers are notified. The assessment period for automotive goods, where there is an election to average, will be based on the averaging period. Once the verification is completed, all known importers, including those who have begun to import from the exporter or producer during the course of the verification, will also be notified of the verification results.

- The Customs regions across Canada are notified of the origin verification in order to avoid further questionnaires from being sent during the course of the review. Should importations of the goods under review occur during the course of the verification, the Customs regions will usually set the entries aside in anticipation of the verification results.

- Representatives from the U.S. or Mexican Customs Services are notified of the verification visit to the exporter's or producer's premises.

Initial Planning: The initial planning of the verification involves: (1) reviewing the Certificate of Origin; (2) analyzing the response(s) to the Questionnaire; (3) the request to the exporter/producer for further information including a chart of accounts, product literature, bills of materials, information re: representative models (if applicable), organizational charts and a complete list of models manufactured and exported to Canada; (4) the collection of other Customs information from departmental resources, such as the volume and value of importations affected by the verification; and (5) the gathering of information on the industry sector to identify the significance of the verification.

Assignment Planning Memorandum: An Assignment Planning Memorandum is developed for each exporter/producer verification. The purpose of this memorandum is to ensure that the time spent at the exporter's premises is well coordinated and managed. This planning memorandum includes topics such as the reasons for verification selection, verification objectives, verification scope (and use of representative models, if applicable), an overview of the company, verification concerns, assignment of responsibilities, milestones, conduct of the verification, analysis of the potential assessment, and a listing of specific references for the verification.

Contained in the appendices to the Assignment Planning Memorandum are the verification programs which document the specific procedures to be undertaken in order to reflect the verification concerns, the complexity of issues and the reliability of the company's record keeping system. (Refer to Chapter 4, Section 4.2 for Verification Program Objectives; and Chapter 5, Section 5.5 for the Recommended Verification Procedures.) Depending on the specific circumstances involved, origin auditors should be prepared to modify the verification procedures set out in the Assignment Planning Memorandum in accordance with any additional facts that come to the attention of the auditor during the course of the verification. Amendments to the verification procedures may be required throughout the verification process. An agenda of topics to be discussed at the opening interview may also be attached as an appendix.

ii) The execution of the verification refers to the on-site visit to the premises of the exporter/producer. The on-site visit includes an opening interview with company officials to explain the objectives of the verification, the execution of the verification procedures, the preparation of the working papers in accordance with standards set out in section 3.2 of this chapter and an exit interview with company officials to discuss the findings and their impact on the NAFTA eligibility of the product(s) shipped to Canada. Depending on the complexity of the verification and the degree of verification necessary for suppliers, an on-site visit can require two to ten calendar weeks at the premises of the exporter/producer.

iii) With respect to the supervision of assistants, the team leader is responsible for the supervision of the remainder of the team. The team leader then reports to the audit manager for guidance and advice.

b.) " A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment."

The purpose of the exporter/producer verifications conducted by the Origin Audits Unit are to ensure that the goods under review qualify as originating in accordance with the NAFTA, and therefore are primarily transaction-based as opposed to a detailed system-based verification. Therefore, the verification procedures require a brief evaluation of internal controls documented on a checklist called Review of Policies, Procedures, and Internal Controls Relative to Accounting and Management Systems. This evaluation also includes a review of manuals/procedures and internal/external audit reports, interviews with company officials , reconciliations of the cost submission made by the exporter/producer to the books and records and a walkthrough of the accounting system.

c.) "Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation and analysis, to afford a reasonable basis to support the content of the report."

Most evidence is accumulated over the course of the on-site visit during which tests and procedures are performed, such as interviews with company personnel and external auditors; walkthroughs of accounting, purchasing and other systems; evaluation of internal controls; system testing; reconciliation of the cost submissions provided in the response made by the exporter/producer to our Questionnaire to the General Ledger and other source documents; and confirmations with suppliers. Examples of documents reviewed during the verification process include policy and procedures manuals, bill of materials, vendor listings, supplier correspondence, purchasing reports/records, receiving reports/records, inventory reports/records, payable reports/records, journal entries, general ledgers and loan agreements.

Sufficient and appropriate evidence is gathered using the concepts of materiality and risk. This means that the auditors design the verification procedures so as not to waste time searching for immaterial errors that would not affect the final outcome of the verification.

3.1.3 Reporting Standards:

"When engaged to express an opinion on compliance with criteria established by provisions of an agreement, statute or regulation, the auditor should:

(a) in the introductory paragraph of his or her report:

(i) state that compliance with criteria established by provisions of the agreement, statute or regulation identified in the report has been audited;

(ii) identify the provisions of the agreement, statute, or regulation;

(iii) describe or refer to disclosure of any significant interpretation of the provisions made by the management of the entity;

(iv) when a report on compliance with criteria established by provisions of the agreement, statute or regulation has been issued in the same circumstances for the preceding period, describe or refer to disclosure of a change in any significant interpretation of the provisions made by the management of the entity;

(v) indicate any other information having particular relevance to the party to whom the report is addressed including the subject of any reservation of opinion on the most recent audited financial statements;

(vi) state that such compliance is the responsibility of the management of the entity; and

(vii) state that it is the auditor's responsibility to express an opinion on this compliance based on the audit;

(b) in the scope paragraph of his or her report state that:

(i) the audit was conducted in accordance with generally accepted auditing standards;

(ii) those standards require that the audit be planned and performed to obtain reasonable assurance whether the entity complied with criteria established by provisions of the agreement, statute or regulation; and

(iii) such an audit includes:

- examining, on a test basis, evidence supporting compliance;
- evaluating the overall compliance; and
- assessing, where applicable, the accounting principles used and significant estimates made by the management of the entity;

(c) in the opinion paragraph of his or her report express an opinion whether the entity has complied, in all material respects, with criteria established by provisions of the agreement, statute or regulation; and

(d) disclose the addressee, the name of the auditor (or firm), the date of the report and the place of issue."

The reporting phase of the exporter/producer verification conducted by the Origin Audits Unit involves the organization of the file, the writing of the initial and final written determinations for presentation to the exporter/producer, and the formal notification to the Canadian importers and Canada Customs regional offices as to the verification result. Assessments to importers are currently issued by the Canada Customs regional offices.

The flow and timing of the notifications issued as a result of the verifications are as follows:

After every verification, an initial written determination is issued to the exporter/producer. In general, the initial written determination is only issued after the file (working papers) and the written determination have been reviewed for quality control purposes and approved by the Audit Manager and/or Senior Management.

The initial written determination's purpose is to identify the verification objectives, the scope of the verification (the period under review is typically a combination of the period for which the response to the Questionnaire was prepared, and if a significant amount of time has elapsed, the current fiscal period; the products under review; and the areas focused on during the course of the review); to formally explain the verification findings to the exporter or producer; and to conclude our verification as to the eligibility of the product. Article 506(9) of the NAFTA states that "The Party conducting a verification shall provide the exporter or producer whose good is the subject of the verification with a written determination of whether the good qualifies as an originating good, including findings of fact and the legal basis for the determination". If the goods do not qualify, the written determination will serve as the notice of the intent to deny preferential tariff treatment to the importers. This notice allows 30 days to the exporter or producer to provide, in writing, comments or additional information regarding the eligibility of the product.

After 30 days, when all of the further information has been examined (if received), a final written determination is sent to the exporter/producer.

At the time the final written determination is issued, Revenue Canada will send notifications to Canadian importers and to Canadian Customs regional offices of whether the goods were found to be originating or non-originating.

A re-determination of origin made as a result of a verification would be made under section 61(c) of the Customs Act (section 61(d) of the Customs Act for re-determination of origin where there is an election to average for an automobile manufacturer). This section of the Act enables Revenue Canada to re-assess additional duties on specific importations made by the Canadian importers of the goods that have been found to be non-originating. Therefore, as a result of the goods not qualifying for preferential tariff treatment, the Canada Customs regional offices will send out re-assessments identified in Detailed Adjustment Statements (DAS) invoicing the importers for duties and taxes owing on the affected entries. As well, for each re-assessment made to an importer, the exporter will receive a corresponding notice of denial.

3.2 Working Papers

3.2.1 Introduction

Working papers provide, where necessary, detailed information in support of the findings and conclusions set out in the written determination. In establishing the relationship of working papers to the written determination, considerable judgment must be exercised, keeping in mind that the objective is to explain as simply and clearly as possible what was done, what was found,

conclusions arrived at, and recommendations made. Note that working papers or schedules will mostly be standardized and generated through laptop computers.

The working papers are the property of the Origin Audits Unit. Procedures have been established which ensure that the custody and confidentiality of the information obtained during the course of a verification. This information may be disclosed to those authorities responsible for the administration and enforcement of determinations of origin, and of customs and revenue matters, within the Administration that conducted the verification.

3.2.2 Purpose

The purpose of working papers are:

- a) To provide an explanation of the nature and extent of the verification work performed.
- b) To facilitate subsequent discussions with the exporter/producer.
- c) To support any adjustments made, and aid in the preparation of the assessment.
- d) To support significant items not requiring change, as set out in the written determination.
- e) To cover any special situation that the auditor wishes to put on record such as:
 - An explanation of a complex calculation;
 - Any difficulty encountered in public relations;
 - A problem with facilities provided, etc..
- f) To provide evidence in support of fraud or evasion charges.
- g) To identify items to be followed up in subsequent verifications.

3.2.3 Use

It is imperative to prepare the working papers in such a manner that they may be understood and utilized by appropriate parties, namely:

- a) Senior officers in resolving problems (i.e. disputed assessment).
- b) Officers conducting subsequent verifications.
- c) Officers conducting special projects, such as industry surveys, etc.
- d) Audit Unit Managers to assist in staff evaluation and identification of training needs.
- e) Audit Unit Managers, Internal Audit and Auditor- General's Staff to monitor the quality of verification work and adherence to departmental standards.
- f) Policy and investigations officers to review pertinent information about the exporter/producer.
- g) Other departmental officers and the Department of Justice.

3.2.4 Format

The format for working papers is as follows:

- a) Each set of working papers requires an index. A master index along with a detailed volume index should be placed in front of each working paper file.
- b) Working papers shall be arranged, coded and numbered in the sequence provided in the index.
- c) Working papers shall be prepared using 8 1/2" x 14" size paper or any prescribed form, as applicable, in order to facilitate the verification, review and report preparation.

3.2.5 Preparation and Disclosure Requirement

The following requirements apply to computer generated and manually prepared working papers:

- a) Each working paper requires the following:
 - the name of the company and the file number;
 - the initials of the auditor who prepared the working paper along with the date should be indicated in the upper right hand corner;
 - the page number (in accordance with the index) in the bottom right hand corner;
 - the diskette filename in the bottom left hand corner; and
 - the objective of the work, a reference to the procedure performed, a description of the content, the source of information, the methodology and the conclusions reached.
- b) Photocopies of existing relevant documentation should be obtained, thus avoiding unnecessary hand copying. All documents obtained by the auditor should identify the following information:
 - the name of the company and the file number;
 - the initials of the auditor along with the date should be indicated in the upper right hand corner;
 - the page number (in accordance with the index) in the bottom right hand corner; and
 - an indication of the source of the information i.e. prepared by client (PBC) and document name, along with the company representative's name who provided the document and the date when the document was received.
- c) The information must be presented in an orderly, concise, legible and logical manner, be clear and understandable and free of clerical errors.
- d) Working papers are to be indexed and cross-referenced, as they are prepared using a red pen or pencil. Using the grandfather, father, son model, cross referencing should take place from behind the "grandfather" amount or statement, to in front of the "father"; from behind the "father" to in front of the "son".
- e) The file is to be properly organized, with old, irrelevant material stripped from the file.
- f) Auditors should confine their use of colored marks to red, as other colors are reserved for the reviewers. A legend of the audit tick marks should appear in the beginning of the file, section of the file or at the bottom of each working paper.

- g) The audit tick marks used by the auditor should be discrete neat and legible. They should never be done on the original documents.
- h) All verification procedures used by the auditor must be fully disclosed in the working paper.
- i) The verification techniques employed by the auditor must be indicated in the working papers.
- j) The content of the working papers must clearly disclose applicable legislation and compliance therewith.
- k) Auditors are to confirm verbal advice, in writing, in order to avoid future misunderstanding, and note in the working papers information provided to the producer/exporter with respect to the NAFTA.
- l) Working papers often contain confidential information and should be treated accordingly.
- m) A disk copy of all working papers should be given to the auditor-in-charge when the verification is complete.

3.2.6 Verification Scope and Coverage

The scope of the verification should be indicated on the working papers. The areas covered, the areas examined in depth and the areas excluded should be supported with reasons and in accordance with the assignment planning memorandum and the policies.

3.2.7 Standard Forms

The following are standardized forms, which should be completed and used in every verification file for control purposes:

- a) A completed and signed Planning- Revenue Risk Analysis and Importer Notification Procedures form should be included in the file and is to be done prior to going out on an verification. The objective of these procedures is to calculate the revenue risk if the goods exported into Canada are determined to be non-originating under NAFTA and to identify all of the Canadian importers to be notified about the origin verification.
- b) A profile sheet should be completed and placed in front of the file (this document contains the actual and projected completion dates, costs and time; the re-assessment amount; and the importers affected by the re-assessment). Where it is not self-evident, the auditor will explain the reasons for any unusual delay in commencing, completing and submitting the assignment.
- c) A verification completion checklist should be placed in front of the file and completed in order to ensure that a complete file is submitted for review.
- d) A completed and signed verification program should be placed in front of the applicable section of the file.

ANNEX 3 MEXICO

3.1 Generally Accepted Auditing Standards

In Mexico, the *Instituto Mexicano de Contadores P?os, A.C. (IMPC)* has set forth the following basic framework for Mexican GAAS:

Auditing Standards

Auditing Standards are the minimum quality requirements related to the auditors work with respect to the general, examination and reporting standards.

General Standards

General Standards refer to the attributes the auditor must possess in order to conduct an audit. Within these standards, an auditor should have the adequate technical training, skills and professional proficiency before conducting any audit, and should maintain these standards as long as the auditor performs his/her professional audit activities.

The auditor is obliged to conduct an audit, and the preparation of the related reports thereof, with due professional care and professional diligence. In addition, the auditor should be free from any external impairment to independence in all matters related to the audit work.

Examination Standards

General Standards mention that due professional care should be used in conducting an audit and for the preparation of related reports. In spite the complexity of determining the extent of due professional care and diligence in every audit, there are certain important elements that must be followed. These basic elements represent the minimum procedures in order to achieve the audit objectives.

The examination standards are the basic elements to be observed while conducting audits in order to comply with the "due care" and "professional diligence" requirements referred to in the General Standards. The examination standards are the following:

- a) An audit must be adequately planned. If assistants are used to conduct the work, they must be appropriately supervised.
- b) An entity's internal control structure must be evaluated to provide the auditor a reasonable assurance of its effectiveness reliability and to determine the nature, timing, and extent of tests audit procedures to be performed applied.
- c) In conducting audits, by the application of audit procedures, the auditors employ auditing procedures to must obtain sufficient, competent, and relevant evidence that enables them to count on will provide a reasonable and objective basis for supporting their opinions.

Reporting Standards

The final result of the auditor's work is the standard report or opinion. By means of this report, all interested parties may be informed of the audit findings and the auditor's opinion. The report provides reliability on assurance to the entity's financial position and results of operations that are stated in the financial statements. Moreover, clients and third parties are informed of the results of the auditor's work through this report or opinion, and in most cases, the report is the only part of the audit work that is at their reach.

Every time a public accountant associates his/her name in connection with financial information or financial statements, the public accountant should clearly determine his relationship with the such information, his opinion of the latter and if applicable, limitations in the conduction of his examination, reservations that derive from these limitations and any other audit evidence that

precludes constrain the auditor from reporting a professional opinion, even though his examination was conducted in accordance with GASS.

When issuing an opinion related to the financial statements, the auditor must observe the following:

- a) That financial statements were prepared in accordance with generally accepted accounting principles (GAAP);
- b) That GAAP was applied on a consistent basis;
- c) That information stated in financial statements and related notes, is adequate and sufficient for a reasonable interpretation.

Consequently, in the event of any exception to (a),(b) or (c), the auditor must disclose such deviations and their quantified effect on the financial statements.

The reporting phase of the exporter/producer verification conducted by the Customs Administration involves the organization of the file, the writing of the initial and final written determinations for presentation to the exporter/producer, and the formal notification to the Mexican known importers and depending on each case to the Customs regional offices as to the verification result. Assessments and/or liquidation to importers are currently issued at the Ministry of Finance and Public Credit Headquarters.

The flow and timing of the notifications issued as a result of the verifications are as follows:

After every verification, an initial written determination is issued to the exporter/producer. In general, the initial written determination is only issued after the file (working papers) and the written determination have been reviewed for quality control purposes and approved by the Director of International Audit and the Director of the International Legal Department.

The initial written determination's purpose is to identify the verification objectives, the scope of the verification to formally explain the verification findings to the exporter or producer; and to conclude our verification as to the eligibility of the product. Article 506(9) of the NAFTA states that "The Party conducting a verification shall provide the exporter or producer whose good is the subject of the verification with a written determination of whether the good qualifies as an originating good, including findings of fact and the legal basis for the determination". If the goods do not qualify, the written determination will serve as the notice of the intent to deny preferential tariff treatment to the importers. This notice allows 30 days to the exporter or producer to provide, in writing, comments or additional information regarding the eligibility of the product. (Refer to Appendix N)

After 30 days, when all of the further information has been examined (if received), a final written determination is sent to the exporter/producer. (Refer to Appendix N)

After the final written determination is notified to the exporter or producer, the Direction of International Audit will send, pursuant to article 48 of the Fiscal Federal Code, notifications (oficio de observaciones) to the Mexican importers of the goods subject to verification, of whether the goods were found to be originating or non-originating. (Refer to Appendix O). This notice allows 15 labor days to the importer to provide, in writing, comments or additional information regarding the content of the notification.

After the 15 labor day period, and depending upon the result of the analysis of the further information (if received), a liquidation for duties and taxes owing on the affected entries for the goods that have been found to be non-originating may be notified to the importer of such goods.

3.2. Working Papers

Introduction

Working papers provide, where necessary, detailed information in support of the findings and conclusions set out in the written determination. In establishing the relationship of working papers to the written determination, considerable judgment must be exercised, keeping in mind that the objective is to explain as simply and clearly as possible what was done, what was found, conclusions arrived at, and recommendations made. Note that working papers or schedules will mostly be standardized and generated through laptop computers.

The working papers are the property of the Customs Administration. Procedures have been established which ensure that the custody and confidentiality of the information obtained during the course of a verification. This information may be disclosed to those authorities responsible for the administration and enforcement of determinations of origin, and of customs and revenue matters, within the Customs Administration that conducted the verification.

Purpose

The purposes of working papers are:

- a) To provide an explanation of the nature and extent of the verification work performed.
- b) To facilitate subsequent discussions with the exporter/producer.
- c) To support any adjustments made, and aid in the preparation of the assessment.
- d) To support significant items not requiring change, as set out in the written determination.
- e) To cover any special situation that the auditor wishes to put on record such as:
 - An explanation of a complex calculation;
 - Any difficulty encountered in public relations;
 - A problem with facilities provided, etc.
- f) To provide evidence in support of customs fraud or customs evasion charges.
- g) To identify items to be followed up in subsequent verifications.

Use

It is imperative to prepare the working papers in such a manner that these may be understood and utilized by appropriate parties, namely:

- a) Senior officers in resolving problems (i.e. disputed assessment).
- b) Officers conducting subsequent verifications.

- c) Officers conducting special projects, such as industry surveys, etc.
- d) Audit Unit Managers to assist in staff evaluation and identification of training needs.
- e) Audit Unit Managers, Internal Audit and Auditor-General's Staff to monitor the quality of verification work and adherence to departmental standards.
- f) Policy, collections and investigations officers to review pertinent information about the exporter/producer.
- g) Other departmental officers within the Customs Administration.

Preparation and Disclosure Requirement

The following requirements apply to computer generated and manually prepared working papers:

- a) Each working paper requires the following information:
 - the name of the company and the file number;
 - the initials of the auditor who prepared the working paper along with the date should be indicated
 - the page number (in accordance with the index) in the bottom right hand corner;
 - the diskette filename
 - the objective of the work, a reference to the procedure performed, a description of the content, the source of information, the methodology and the conclusions reached (sometimes this may apply to a clearly identifiable group of working papers).
- b) Photocopies of existing documentation should be obtained, thus avoiding unnecessary hand copying. All documents photocopied by the auditor should have an indication of the source of the information i.e. prepared by client (PBC) or document name. Only relevant photocopies should be included in the working papers.
- c) The information must be presented in an orderly, concise, legible and logical manner, be clear and understandable and free of clerical errors.
- d) Working papers are to be indexed and cross-referenced as they are prepared using a red pencil.
- e) The file is to be properly organized, with old, irrelevant material stripped from the file.
- f) The audit tick marks used by the auditor should be discrete neat and legible. They should never be done on the original documents.
- g) All verification procedures used by the auditor must be fully disclosed in the working paper.
- h) The verification techniques employed by the auditor must be indicated in the working papers.
- i) The content of the working papers must clearly disclose applicable legislation and compliance therewith.
- j) Auditors are to confirm verbal advice, in writing, in order to avoid future misunderstanding.

k) Working papers often contain confidential information and should be treated accordingly.

Verification Scope and Coverage

The scope of the verification will be indicated in the notice of intention to conduct an on-site verification or will be attached to in the letter related to an origin verification questionnaire.

The working papers should include the areas covered, the areas examined in depth and the areas excluded supported with reasons and in accordance with the assignment planning memorandum and the policies.

Standard Forms

The following are standardized forms, which should be completed and used in every audit file for control purposes:

a) A completed and signed Planning-Memorandum analysis and importer notification procedures form should be included in the file and is to be done prior to going out on a verification. The objective of these procedures is to calculate the revenue risk if the goods exported into territory are determined to be non-originating under NAFTA and to identify all of the known importers to be notified about the exporter/producer origin verification.

b) A profile sheet should be completed and placed in front of the file (this document contains the actual and projected completion dates, costs and time; the re-assessment amount; and the importers affected by the re-assessment). Where it is not self-evident, the auditor will explain the reasons for any unusual delay in commencing, completing and submitting the assignment. (See Appendix R).

c) A verification completion checklist should be placed in front of the file and completed in order to ensure that a complete file is submitted for review.

d) A completed and signed verification program should be placed in front of the applicable section of the file. (Standard verification programs are found in section 5.5 "Recommended Verification Procedures". It should be noted that these programs may be modified to better reflect the concerns of the verification.)