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A Risk–Based Approach –

Conducting Periodic Trade Compliance Audits

Last month we discussed trade compliance resolutions for 2014. This month we'd like to emphasize the importance of one of those resolutions, the trade compliance audit.

Yes, the dreaded audit. An audit always seems to be the one item that gets shuffled down the priority list as other tasks deemed more important cause you to focus your attention elsewhere. Management often relies on brokers, forwarders and logistics providers, erroneously believing their SOP's and quarterly KPI reports will ensure compliance, and identify compliance gaps. Unfortunately, although helpful, legal liability remains with you, as the importer/exporter of record, so there is nothing like conducting a formal internal assessment to identify if your internal controls program, including the part extended to service providers, is really working.

An internal controls program consists of many processes that connect and intersect, and you want to ensure your controls are both sufficient and correct. Even companies with seasoned and dedicated trade compliance professionals, at companies known for best practice compliance programs and behavior, are often surprised to find issues which are ultimately found to be systemic, that would not have been uncovered in absence of an audit.

BPE Global regularly conducts audits of firms ranging in size from small to major multinational. Often the catalyst for an audit will be an acquisition, merger, or plans to go public. Frequently we find ourselves in the position of conducting a first ever audit for firms who have been importing/exporting for many years, who may even have a compliance program, an internal controls manual, and policies and procedures already in place. When the results of the audit are published in our management report, we provide a risk-based analysis, including our findings and recommendations. The very common result is a long laundry list of compliance gaps.

The often puzzling part is how typical it is to find systemic compliance issues, which had even an annual audit been conducted by the compliance team, internal audit team, or independent external auditor, the issue would have been discovered. Instead most issues go back for years. Common issues we uncover are improper ECCN/HS classification, not obtaining an export license when one was required, improper AES/EEI filing, improper valuation, or country of origin. All of these errors are easily correctible, and potentially expensive if penalties were to be incurred.

As you establish your compliance related priorities for 2014 definitely include in your plan to conduct an audit. It may be simplest to start with a business unit or product line, often you will find an issue in one area carries to many other areas. Some firms pick one area per month or per quarter to tackle, making the audit process ongoing, with continuous improvement occurring.

The important part is to audit not just individual transactions, but also the overall trade compliance program. Understanding your compliance obligations is important, and an ongoing effort. Be aware that although some gaps will be closed as a result of audit findings, new risks will surface as business or regulatory changes occur. Consider the audit a continuous improvement tool contributing to your company's overall success.

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