

EXECUTIVE SUMMARY

Post-Clearance Audits (PCAs) act as a crucial trade facilitation measure globally which serves as a tool to expedite trade processes and promote compliance with national regulations, resulting in reduced trade costs, minimized delays, and enhanced competitiveness for businesses. With a shift towards facilitation-centric Customs worldwide, PCA plays a pivotal role in streamlining customs procedures, enabling immediate goods release after import and diminishing the need for port charges. This not only bolsters supply chain efficiency but also alleviates customs authorities' workload, allowing focus on other essential trade facilitation aspects. Acknowledged by both the World Customs Organization (WCO) and the World Trade Organization (WTO), PCAs are mandated by the WTO's Trade Facilitation Agreement (TFA) and endorsed in the WCO's Revised Kyoto Convention (RKC). The significance of PCAs extends beyond trade facilitation, as they contribute to risk mitigation, transparency, and the implementation of key initiatives such as the Authorized Economic Operator (AEO) program. Failing to meet PCA targets could lead to trade disruptions, heightened costs, and diminished business confidence, underscoring the critical role PCAs play in sustaining efficient and secure international trade operations.

The Post Clearance Audit Division of Sri Lanka Customs has been engaged in post-audit activities for over two decades, primarily aimed at revenue recovery. However, the division faced a notable shift in approach with the adoption of the World Trade Organization's TFA guidelines in 2019. Despite efforts to transition to compliance-focused PCAs, designed to enhance traders' voluntary adherence to regulations and facilitate trade, the division has encountered challenges in meeting the TFA's requirement of conducting a minimum of 16 PCAs annually. This gap between targeted and actual PCA completion rates reflects an implementation issue that requires attention and resolution in order to fully align with the TFA's goals of transparency, predictability, and customs process improvement.

The research project has employed a mixed-methods approach to address the identified problem. A qualitative analysis was undertaken through structured interviews with key stakeholders to explore the division's current PCA process, identifying strengths, weaknesses, opportunities, and threats. Thematic analysis of interview data revealed underlying factors contributing to the low number of conducted PCAs. A quantitative analysis followed, assessing historical PCA data to

quantify the extent of the issue and the impact of proposed solutions. The integration of qualitative and quantitative findings have paved the way to understand the root causes of the main issue within three major components; process, technology and people.

A comprehensive literature review was conducted to gain insights into the practices of the PCA division and the requirements of the trade facilitation agreement. This established a solid foundation for understanding the research context and potential solutions. The solution development process commenced with a clear identification of the project objectives. The primary objective of the project was to significantly enhance the PCA completion rate within the PCA unit, aiming for a remarkable 220% annual increase from an average of 5 PCAs to 16 PCAs. To facilitate this primary objective, specific objectives were defined for each component: process, technology, and personnel. A comprehensive analysis of the existing state of each project component that contributed to the central issue was conducted and tailored solutions were formulated to address these identified challenges. Adequate allocation of physical and human resources was strategized to ensure the successful execution of the proposed solutions and, the roles and responsibilities of the project team were precisely defined in relation to the development and implementation of each solution.

A complete cost-benefit analysis was used to examine the project's economic viability. This assessment included a careful review of both tangible and intangible advantages, which were rigorously balanced against the related implementation costs. While quantifying the actual advantages of PCAs proved difficult owing to their intrinsic nature, one evident benefit was the possibility for increased revenue collection through the detection of traders' non-compliance with Customs laws. Intangible advantages were also acknowledged. Despite these obstacles, a careful examination of the reported advantages and estimated costs demonstrated the project's feasibility. Furthermore, the project's expected outputs and outcomes provide further evidence of this.

The compatibility of solutions derived from the literature review and practical insights was extensively investigated. The research then gave the author's comprehensive recommendations for the project's effective execution within a one-year period. Overall, this study highlighted the critical importance of PCAs in trade facilitation, identified a significant implementation gap, and provided a thorough path for addressing this gap within Sri Lanka Customs' PCA division.