

# ***Audit of High Sea Sales***

## **Introduction**

High sea sale means a sale where goods will be sold when they are in High sea i.e., Sale transaction will be done when the goods are in transit, before the goods are entered in to customs clearance. The major benefits from High sea sale will be original importer can buy them at cheaper cost and can sell at profit, for original buyer he can buy goods in a short time, where importing from origin country will take more time, further he is not required to buy entire shipment, he can buy part shipment based on his requirement.

In this article, I am going to discuss about the Audit considerations of High sea sales.

Let us understand the meaning of High sea sale and other related definitions first, to gain comfort on those terms.

## **Meaning:**

High sea sale refers to “**Sale of Imported Goods on High seas**” based on “**High Sea Sale Agreement**”

'High Sea Sales'(HSS) is a common trade practice where the original importer sells the goods to a third person before the goods are entered into customs clearance i.e., before filing the first bill of entry, either for home consumption or for warehousing, as the case may be.

Therefore, after the transaction of High sea sale of goods has taken place, the Customs declarations i.e. Bill of Entry etc. is filed by the person who buys the goods from the original importer during the said sale.

## **Definitions**

### **❖ High sea sales agreement:**

- The documentation in primary is a formal **agreement on a bond paper** as an **agreement of sale** in writing after the date of Bill of Lading (BOL) but before the date of arrival of goods to the port of destination.

### **❖ Bill of Entry**

- Bill of Entry is a document filed by importers or customs clearance agents with the Customs Department.

- On arrival of good or before arrival of goods, bill of entry can be filed along with the requisite documents to initiate the customs clearance formalities.
- Once a bill of entry is filed, the goods are examined and assessed by proper officer of Customs.
- If bill of entry is not filed within 30 days of arrival of goods at a customs station, then the cargo can be auctioned by the authorities.
- A request for extension for filing of bill of entry can also be filed by importers within 30 days of the goods arriving in India, under special cases.

#### ❖ **Customs waters**

- Section 2 (28) of the Customs Act, 1962 as defined “Indian customs waters” means the waters extending into the sea up to the limit of contiguous zone of India under section 5 of the Territorial Waters, Continental Shelf, Exclusive Economic Zone and other Maritime Zones Act, 1976 (80 of 1976).

#### ❖ **Original importer**

- The person who imports the goods from outside the origin country and makes the high sea sales on the ship before the ship entering the custom’s frontier of the import country.

#### ❖ **Original Buyer**

- The person who purchases the goods on the ship before the ship reaches the custom’s frontier of the import country.

## **Audit Considerations of High Sea Sales:**

While conducting Audit of High sea sales the following aspects has to be considered

- ❖ **Completeness and accuracy:** To ensure that the sales are accurate and complete in all respects.
  - The numerical sequence of the invoices raised are to be verified to confirm that no invoice has been missed from being reflected in the Sales Register/ledger. If missed obtain the reasons for the same
  - Check whether any of the sales invoices are recorded duplicate

- Check if there are any unrecorded sales
- Check if there are any under or over recorded sales. If exists obtain the reasons for the same

❖ **Classification:** To ensure that all transactions have been recorded within the correct accounts in the general ledger.

❖ **Cut Off:** To ensure that amounts are correctly recorded in the proper period.

- For a sample of sales invoices around the year-end, inspect the dates and compare with the dates of dispatch and the dates recorded in the ledger for application of correct cut-off.
- Review material after-date invoices, credit notes and adjustments and ensure that they are recorded correctly in the line relevant financial period.

❖ **Presentation and Disclosure:** To ensure proper presentation and disclosure of Sales in accordance with relevant legislation.

❖ **Internal Control System:** To ensure adequate and effective internal control system with regard to sales.

✓ **Customer Order**

✓ **Sale Invoice**

- Examine the mode of preparing sale invoices either electronic or manual
- Are prenumbered sale invoices used?
- Are sale invoices duplicated?
- Verify the terms of each sale. In case of any revision of the terms, check the same is authorized or not
- Whether the sale invoices are authorized
- Ensure that the sale invoice has prepared as per the agreed rates with the customer. If it is a Auto or System generated Sales order then reconcile the master data with the Agreements
- Ensure that there is no pending or open sale invoices for the inactive customers
- Are sale invoices raised in line with the sale orders received
- Whether any sale invoice is cancelled, if yes obtain reasons for such cancellation
- Check whether all the requisite fields in the sale invoices have been filled
- Examine the relevance and adequacy of requisite fields in the sale invoices
- Review the client's current policies regarding sales discounts and allowances

❖ **Statutory Requirements:** Ensure whether the relevant statutory requirements are compiled with:

- GST is not chargeable in the hands of original importer; hence the ultimate buyer is responsible for the payment of GST;
- Ensure that GST is not charged in invoices of the Original Importer;
- Reconcile high sea sales recorded in books of accounts with that of GST Returns;
- As Bill of Entry has to be filed by the original buyer, ensure whether the documents such as Bill of Lading, Commercial Invoice, Insurance Copies etc are provided to the ultimate buyer by the original importer.

**Following is the sample high sea sale agreement for ready reference:**

## **Sample High sale agreement**

### HIGH SEA SALES AGREEMENT

Know all men by these present that we, ABC Ltd., Nehru Place, New Delhi, made this High Sea Sale Agreement on \_\_\_\_\_ with XYZ Ltd., Nehru Market, Delhi as per the following terms and conditions:

1. Name of Seller : ABC Ltd., Nehru Place, New Delhi.
2. Name of Buyer : XYZ Ltd., Nehru Market, Delhi.
3. Description of Goods : As mentioned in Schedule Attached.
4. Name of Foreign Supplier : Supplier Address and Country of origin.
5. Invoice No. & Date of Foreign Supplier with details of Import Value (CIF) : Invoice No. \_\_\_\_\_ Dt. \_\_\_\_\_  
FOB Value USD 00000.00 Equivalent to  
Rs. 000000.00  
Freight Charges Rs. 000000.00  
Insurance Charges Rs. 000000.00  
CIF Value Rs. 000000.00
6. Master Airway bill :
7. HAWB No. & Date :
8. Flight No. & Date :
9. Invoice No. & Date of ABC Ltd., Nehru Place, New Delhi. :
10. Value of Invoice No. in Indian Rupees : (This value should be minimum 3% more than the foreign supplier)
11. Port of Discharge : New Delhi Airport
12. Delivery : All the rights and title of ownership to the above goods will be transferred by Seller to Buyer by endorsing the above Mentioned House Airway Bill in favour of said buyer.
13. Import Duty, Demurrage Charges etc. : In view of the sales of the goods on high sea, the buyer shall arrange clearing of goods from the Customs at its sole risk and responsibility. The entire expenses e.g. Import Duty, Clearing Charges, Demurrage etc. if any, will be borne by the Buyer and paid directly to the respective authorities.