Evaluating the Effectiveness of Goods and Service Tax (GST) Computerised System in Malaysia: A Compliance Audit Perspective

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Abstract: *Goods and Services Tax (GST) has been implemented in Malaysia since April 2015. One of its implementation is to become a better tax collection system that can drive economic growth and enhance competitiveness in global markets. Thus, authorities such as the Royal Malaysian Customs Department (RMCD) have encouraged business companies to implement and use GST computerized systems to improve tax collection systems and increase government incomes. However, the output of the system has some specific issues such as errors in tax invoices, incomplete invoices and business companies are unaware of GST treatment updates. Hence, this study aims to evaluate the effectiveness of the GST computerized system used by business companies in Malaysia, particularly from the perspective of compliance audit by RMCD. This compliance audit is to ensure auditing tasks can be performed systematically, transparently and fairly to registered companies. The findings of the proposed study are expected to provide guidance to local authorities to produce audit procedures on the GST computerized system. It will also assist Malaysian companies to use the system in an effective manner and will expedite tax collection system.*

Keywords: GST, Accounting System,Taxation, Audit, Compliance

1. BACKGROUND OF THE STUDY

The Malaysian government has replaced its former tax system, i.e., Sales and Service Tax (SST) with the new Good and Service Tax (GST) system to enhance the capability, effectiveness and transparency of tax administration and management. This new tax regime is effective 1 April 2015 to modernise the country's taxation systems and improve business efficiency. In other words, the existing issues related to submission of documentation, record keeping information to the authorities could be improved and better explained by the implementation of GST.

The importance of accurate, comprehensive and timely information contributes a dynamic of information technology (IT) (Hafizah, Mansor, Salwani, Ming, & Kasim, 2016) . IT is undeniably helpful in handling information and this has prompted Krishnan (2010) to state that

IT aspects are needed for GST implementation in Malaysia. Hence, the Royal Malaysian Customs Department (RMCD) has taken initiative to develop a computerized system known as MyGST in 2013. This system is integrated with several important agencies, i.e., the National Registration Department, and the Companies Commission of Malaysia (CCM) to facilitate GST registration, auditing and refund purposes.

In addition, the RMCD also encourages taxpayers to embed GST system into their accounting software to assist them in providing accurate documentation and record keeping that complies with GST rules. This system comprises the GST tax code along with their tax rate to ensure GST computerized systems can calculate the correct value for transactions, capable of dealing with tax exempt transactions and zero rated transactions. To achieve this goal, a guidance

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to enhance accounting system/software has been released by RMCD in September 2014 to provide a set of principles for businesses to adopt in developing or enhancing their accounting software/system to be GST compliant. This system has the potential to standardize accounting information, reduce errors, and provide essential financial information, which clearly facilitates GST operation and, the ability to generate a GST audit file that tracks all the transactions made by the company and generates a report for audit purposes (RMCD, 2014).

While efforts have been made by the authorities for effective GST implementation including issuing guidelines for the GST system, however, about one-third of the 50,000 businesses are still struggling with the compliance of the new GST regime (Baker McKenzie, 2016). This is due to most businesses are failure to provide accurate information in GST returns due to unclear guidance. The statement is supported by Dato' Indera Subromaniam Tholasy, Director General of the RMCD, stated that several businesses do still not fully understands the GST system and therefore it leads them to not paying GST correctly (Bernama, 2016). For example, submission to the authorities that trigger non-compliance with GST containing low-quality data, i.e., tax invoice errors, handwriting invoices documents with false declaration and incomplete records, as well as clients are unaware of the latest GST treatment.Besides, some taxpayers or businesses have the tendency to reduce costs or maximize cash flows but unable to ensure the proper documentation and evidence sufficient to accelerate the analysis by the authorities.

It is interesting to note that since the implementation of GST, a total of 4,000 investigation papers have been opened with 400 companies prosecuted for various GST-related offences (Bernama, 2016). In relation to this issue, a GST Audit Framework has been issued by RMCD in September 2016 and therefore GST audit process has been commenced on GST-registered companies (RMCD, 2016). This audit process is conducted by RMCD on GST system to ensure that companies make the correct tax declarations and tax returns are being prepared correctly.

Although the GST Audit Framework has been issued and audit GST have been implemented

by the RMCD on the GST systems, there are still companies/businesses that do not declare and pay the GST amount less than they should be. In addition, documents and information submitted to the authorities are still incomplete and inaccurate which may affect the tax declaration and tax returns processes (Bernama, 2017). This has triggered researchers to look into this issue by answering the research question; Do inefficiency of the GST system being used by Malaysian companies/businesses has led to GST non-compliance? Hence, this study aims to evaluate the effectiveness of GST computerized system in Malaysia and its impact towards audit compliance.

As Malaysian small and medium enterprises (SMEs) now represent about 90% of the total economic establishments and also considered as the backbone of industrial development in the country (Khan & Khalique, 2014; Saleh & Ndubisi, 2006), this study will focus on SMEs. According to Kanna (2015), GST system creates complexity for SMEs due to difficulties in identifying operations with GST and non-GST implications, GST codes applicable to various industries and transactions, GST-related documentation appropriate to all transactions, and monthly GST Returns. In fact, SMEs in Malaysia currently face integration issues and may find it difficult to comprehend the full benefits of the system to their businesses (Habib, 2015; Khoo, 2015).

This paper is structured as follows; section one discuss SMEs in Malaysia; GST system in Malaysian SMES and applying DeLone and McLean success model in examine the effectiveness of GST implementation and finally concludes this paper and proposes future work.

2. SMALL AND MEDIUM ENTERPRISES

Small and Medium Industries Development Corporation (SMIDEC) is an agency that monitoring the development of SMEs in Malaysia. According to SMIDEC, SMEs was defined as Malaysian owned companies/ institutions with net assets or shareholders' funds of RM10 million whilst prior to that the shareholders' funds or net asset was limited to RM2.5 million. In addition there is other criteria that been used to define small-scale company that have less than 50 full-time employees and with an annual turnover of not

more than RM10 million, whereas, a medium-scale enterprise is a company with 51 to 150 employees and with an annual turnover of between RM10 million and RM25 million.(Chelliah, Sulaiman, & Yusoff, 2010).

The introduction of GST in 2015 requires SMEs to comply with the GST requirements. Tofulfills the requirements, most of the SMEs embarks by using accounting systems to ensure the process of recording businessoperations and financial transactionscomply with GST. Government on the other hand, provides RM1000 rebate that called GST e-voucherfor SMEs in buying an accounting system that endorsed by RMCD. It is believed that the use of software will decrease the duplication of documentation and decrease of tax compliance issues. However, the effectiveness of GST computerized system still uncertainty. This is proven when SMEs lack of adequate competency in record voluminous transactions per month in charging GST to customers, submit it to RMCD and process the refunds from RMCD (Azmi, Sapiei, Mustapha, & Abdullah, 2016).The complexity of GST system features such SMEs need to classify the product based on three rates (zero rated, standard rated and exempt supplies) according to specific industry, able to generate the audit trail file for RMCD and at the same time submit for GST return seems difficult for SMEs to adopt at the beginning and some having it continuously(Kannaa, 2015). As an impact, SMEs don't get the full benefits of the GST systems into their business (Habib, 2015; Khoo, 2015).

Statement from Raja Kumaran, Executive Director of Indirect Tax Advisory Group, PricewaterhouseCooper (PwC) statesthat the overall observations on the quality of returns filed showed the common errors made, the likely reasons were tax invoices with errors, handwritten invoices, incomplete invoices and clients unaware of recent GST treatment updates is the most incidences of non-compliance of GST (Gomes, 2017). Therefore, the best method to detect the error or level of compliance of taxpayers is through the investigation of data economics or financial information of business that is generated from computerized accounting system. In order to get the data, it's not only derived from a good computerised system but other components should be considered too. For example, usability of the Deloneand Mclean Success

Model can work to provide a comprehensive understanding of the success of the system. Hence, the next section will discuss theDeloneand Mclean Success Model and how this model will examine the effectiveness of GST accounting system in SMEs.

3. DELONE AND MCLEAN SUCCESS MODEL

Delone and Mclean's model was developed in 1992 and widely adopted in Information System (IS) area. The model consists of six interdependent processes of system quality, information quality, IS use, user satisfaction, individual impact and organizational impact. The extended model of Delone and Mclean added two variables that are service quality and intention to use as at Figure 1.

The concept of Delone's model assumes information quality and system quality affect user satisfaction and next benefit to the organization. At the beginning the model focuses on system quality and information quality as the factors of user satisfaction and intention of use. The model defined systemquality as the IS desirable characteristic and includes the technical aspects. The measurement includes the system functionality, reliability, ease of use, flexibility, data quality, response time and sophistication and integration with other systems (Delone & Mclean, 2003).The measurement of information quality is about the output produced by the system. It includes understandability of the information, accuracy, conciseness, relevancy, timeliness, completeness and usability (Delone & Mclean, 2003; Petter et al., 2013). The inclusion of service quality in the updated Delone and Mclean (2003) is more reflects on IS functions rather than IS application(Iivari, 2005). This variable measures on technical competency, responsiveness, accuracy, reliability and the empathy of the personnel staff (Delone & Mclean, 2003).

User satisfaction in Delone and Mclean (1992) refers to the overall user satisfaction towards IS. Meanwhile system use is interpret as the amount of use, that considered as one measure of IS success (Iivari, 2005).The dependant variable of the model impact the organization or individual net benefit. It shows IS contribution towards the success of IS implementation through the increased of productivity and income, cost reduction,

market efficiency, facilitation of decision making, job creation, economic growth and development and any other benefits (Delone & Mclean, 2003; Petter et al., 2013).

Therefore, this study will use Delone's model to examine the success of GST accounting

system implementation in Malaysia that explain overall components which include system, information and users to fulfil audit requirement of RCMD.
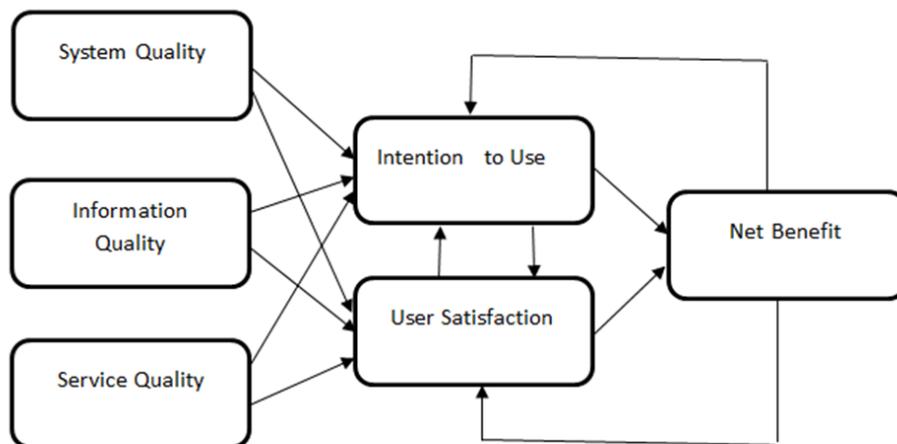

Figure 1: The extended model of Delone and Mclean

4. CONCLUSION

To achieve full GST compliance by businesses/companies is criticalespecially to produce a better tax collection system that can increase government revenues, drive economic growth and enhance national competitiveness in global markets.While the GST framework and audit have been issued and implemented by the authorities on the GST computerised system,total GST declared and received less than they should. Therefore, some efforts need to be made to facilitate GST collections and also to guide business/companies in GST compliance. In addition, there is a need for research in identifying uniformity GST system for business.This study aims to assess the effectiveness of GST computerized system and its impact towards audit compliance. It is expected that the findings of this study is to provide a guidance to SMEs to produce better quality of GST records that comply with audit procedures on the GST computerised system.

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