

GST AUDITS: COOPERATION IS KEY

# Invest in Technology

*Embracing technology can empower GST processes and reduce your GST risks.*

While GST is a means for the government to diversify revenue streams, it is also an opportunity for businesses to streamline their processes, particularly their documentation, and improve transparency of operations and profits. GST technology will also enable GST audits, which will become more prevalent as government seeks to ensure that businesses are paying their fair share of tax.

“The information obtained by the RMCD using the GST system technology helps to keep tabs on businesses,” stated Bernard Yap, Indirect Tax Partner, Ernst & Young Tax Consultants Sdn Bhd. “The amount claimed by the business will determine whether you will be subject to the RMCD audit or not. Evasion of GST is viewed very seriously.”

However, the trend of losses can only be seen over time, hence the application of digital documentation. With this, trends can be mapped earlier, and projections can be more easily made. Confirming this, Yap said that with the implementation of GST, many areas that were previously not so obvious, have come into focus. But businesses should not be fearful and

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**Bernard Yap**  
Indirect Tax Partner  
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instead increase their communications. “The RMCD is very open, and willing to talk. So businesses should manage their technical issues together with the RMCD.”

### Lessons Abroad

Given that Malaysia’s GST history is still nascent, it pays to draw lessons from other jurisdictions, Explaining the global picture, Yap said GST/VAT audits were reported to be on the rise in at least 48 countries worldwide, mainly due to

governments needing funds.

Globally, research has found that issues which tended to trigger risk-based audits included trading with other companies that have been known to have engaged in fraudulent trading; trading at a loss for an extended period; a large number of refund requests or a shift from payable to claimable tax position; unusual trading patterns; and errors in documentation. Some of the major challenges Yap identified included the large volume of transactions; the varying treatment of supplies and input tax entitlement under GST; the lack of GST specialists to review or prepare the GST-03 document; and possible inadequate internal controls that made it difficult to verify the data processed.

With the application of technology, the process of investigating, which previously took months or even years,



can be done in a matter of days or hours; so auditors can now do more in less time. The biggest challenge in many cases, he said, was how receptive people were to the processes of GST, including being able to present the proper documentation and supporting evidence when required. "Businesses always want to maximise cash flow – and this is acceptable – but make sure your documents are in order," Yap cautioned. "There shouldn't be anymore handwritten documents. All are required to be in digital format to expedite analysis."

Just having the documents, however, is not enough. The information contained therein should have integrity, to provide a clear picture of the business. Electronic data submission is helping the RMCD develop and apply various analytic tools that will enable the extraction and utilisation of large amounts of taxpayer information. Besides expediting the auditing of individual companies, benchmarks can also be created to help identify differences and trends. Good documents produce reliable data; businesses should

share the kind of procedures and processes they use, with the RMCD, he said. "Hopefully, all this will get easier and improve as we progress," he remarked. "Make voluntary disclosures. GST Audit Files (GAF) are not compulsory, but they are good to have."

### Data Analytics for the Win

He advised businesses to expedite implementation of data analytics, even with the least sophisticated spreadsheets so numbers should make sense from one month to the next. "The numbers you file can predict the impact of GST on the business in the long-term," he pointed out. "This will prepare the business to face challenges in the future." But external audits alone will not produce better systems management. Internal auditing also needs to be done; again, businesses should work with the RMCD to show what they are doing to make their systems more transparent. "It will also improve your understanding of your business and how to apply your existing systems to better your knowledge."

Trends identified through data

analytics can be validated by information provided by the system, and re-applied to streamline or determine the direction of the business. One example of this is utilising the invoicing system to generate reports on the effectiveness of GST. Yap urged the delegates to identify their business issues and "be upfront before the RMCD comes in. Share your information and findings with your Board and with the RMCD for feedback and improvement of the systems. This will also help decrease duplication of documentation, and ultimately decrease taxation compliance issues," he said.

On the downside, information technology was not cheap. Plus, technology alone is not enough and businesses should focus more on putting the human resource component in place. "People should always come first," he stressed. "Staff should be trained and their skills should be upgraded to help the GST process move smoothly. Be prepared to rationalise what you have done; be prepared to explain or justify – with the correct documentation – what you have done, and why you are making a certain kind of claim." ■

