Malaysia Updates: Launch of GST audits - a Pandora's box of customs risks?

The first phase of Operations Customs Blue Ocean Strategy (Ops CBOS) was launched by the Royal Malaysian Customs Department (RMCD) on 1st September to audit companies which have registered for GST. The first phase of Ops CBOS is expected to be conducted until the end of this year. The second phase is expected to take off on 1st March 2017.

Approximately 50,000 out of a total 420,000 GST registered companies have been selected randomly in the first phase of Ops CBOS. Each State Customs has been given a different target to be achieved such as the number of companies to be audited and the estimated revenue collection.

Approximately 1,500 customs officers have been assigned to take charge during the first phase of Ops CBOS.

The primary purpose of Ops CBOS is said to ensure that companies are well aware and fully compliant with the GST laws and regulations. RMCD has also generally taken the stance that this audit will be "advisory" in nature to help businesses understand their compliance requirements. Nonetheless, this verbal concession is not codified in law. Therefore, from a legal perspective, RMCD would still have the right to collect any indirect tax shortfall as well as to impose penalties on companies for any non-compliance discovered in the course of the audits.

In addition, by looking at the GST Audit Framework issued by the RMCD Compliance Division, we observed that apart from the statement of GST (GST-03/04) and the GST audit file, there is a large number of documents required for GST audits which are similar to those required for Customs post clearance audits. These documents include invoices, debit/credit notes, purchase orders, delivery notes, accounting ledgers, audited financial statements, customs declaration documents (for example K1, K2, K9), bills of lading or airway bills, import permits, sales and purchase agreements, leasing contracts and payment records.

In this regard, it is important for all the GST registered companies to not lose sight of customs import and export compliance. During the GST audits, it is possible for RMCD to discover non-compliance in relation to import and export transactions and other customs related matters.

The intensification of audits by RMCD should be a wake-up call to all GST registered businesses to take the necessary steps to assess their existing customs, trade and indirect tax compliance levels - perhaps by conducting a mock customs audit - in order to identify compliance gaps and develop plans or implement actions to enhance existing compliance and risk management levels. After all, complying with customs, trade and indirect tax legislation and requirements is never optional. Failure to comply with customs requirements can result in significant fines, invite greater scrutiny from Customs in future, and cause disruptions in the supply chain.

Contact us

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