

## **MINISTRY OF FINANCE INLAND REVENUE BOARD OF MALAYSIA MANAGEMENT OF COMPANY TAX AUDIT ACTIVITY**

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### **Main Points**

#### **What we examined?**

- This audit was conducted in the Inland Revenue Board of Malaysia (IRBM), a primary agency under the Ministry of Finance (MoF). The IRBM is responsible for collecting direct taxes such as corporate and non-corporate income taxes, real property gains taxes, petroleum income tax and stamp duties.
- Tax audit is the main activity of the IRBM under the responsibility of the Tax Compliance Department (TCD). It is aimed at enhancing voluntary compliance with tax laws and regulations and to ensure a higher tax compliance rate is achieved under the Self-Assessment System (STS). The acts used are Income Tax Act 1967, Real Property Gains Tax Act 1976, Petroleum (Income Tax) Act 1967 and Stamp Act 1949.
- This audit covered two main areas, namely the performance activities and the management of company tax audit activities based on Self-Assessment System for Companies (STSC), Risk Assessment System and Case Management System (CMS) for the period of 2017 to 2019.
- The performance of activities were evaluated based on two main audit areas, namely output and outcome. The output was evaluated based on the efficiency of the IRBM in conducting company tax audits. The evaluation includes the achievement of their Key Performance Indicators (KPIs), number of completed cases and outstanding cases. The outcome was evaluated based on the effectiveness of IRBM in carrying out the company tax audit inclusive of additional taxes, penalties and cases without audit findings for the period of 2017 to 2019.
- The evaluation of the management of the company tax audit activities consists of the selection of the tax audit cases and the tax audit system.

#### **Why it is important?**

- The company tax audit is an important internal control to examine taxpayers' business records and the financial affairs of

taxpayers. It is to ensure that income and taxes are being reported, calculated and paid in accordance with tax laws and regulations.

- The objective of the tax audit is to enhance voluntary compliance with tax laws and regulations to ensure that compliance rate is achieved under the STS.
- For the period of 2017 to 2019, from the total Federal Government revenue of RM717.704 billion, RM380.781 billion (53.1%) was contributed through direct taxes.
- For the same period, 570,116 company tax audit cases were completed, involving RM16.353 billion in additional taxes and penalties, while the number of cases without audit findings were 356,382 cases.

#### **What we found?**

- Overall, it can be concluded that the management of the company tax audit activities is satisfactory in terms of the achievement of corporate and branches Key Performance Indicators (KPIs). In addition, the company's tax audit activities also succeeded in generating additional taxes and penalties that can be collected. Weaknesses that need to be given attention were as follows:
  - KPIs analysed by the National Audit Department showed both External Audit and Desk Audit achievement were reduced by 57 cases and 68 cases respectively.
  - There were 8,406 non-commencement cases and 54,076 in-progress cases for External Audit and Desk Audit for the period of 2017 to 2019.
  - External Audit cases were completed between four to 85 months which involved additional taxes and penalties amounting to RM2.693 billion and RM1.095 billion respectively.
  - A total of 111,649 Desk Audit cases were resolved beyond the stipulated period between 105 to 3,804 days which involved additional taxes and penalties amounting to RM3.232 billion and RM1.343 billion respectively.
  - For the period of 2017 to 2019, the backlog of External Audit were 5,643 cases (8.3%) from 68,048 samples. At the same

time the backlog of Desk Audit were 56,079 cases (9.9%) from 563,790 samples.

- A total of 86,975 Form C were not sent through the Risk Assessment System for risk assessment before transmitting to the Case Management System (CMS).
- A total of 1,495 high risk companies based on Risk Assessment System's rankings and scores were not delivered to the CMS for auditing.
- There were non-compliance in user ID management in which the password setting against what have been decided in the ICT Security Policy (DKICT).
- Network and system security assessment were not conducted on those three systems namely STSC, Risk Assessment System and CMS.

**What do we recommend?**

- To overcome the weaknesses highlighted and to ensure that no recurrence in the future, the National Audit Department recommends the following actions:
  - The IRBM must take immediate action to resolve the backlog cases found in IRBM branches and constantly monitor such cases that have been channeled to the branches so that there is no prolonged backlog cases;
  - The IRBM also needs to review the Working Procedures/Audit Quality Standards as well as to set up a mechanism in order to resolve backlog cases so that each case can be resolved within a reasonable period;
  - The MoF needs to review the policies and legal regulations related to sharing taxpayer information between IRBM and third parties in order to help expedite the resolution of company tax audit cases; and
  - Based on DKICT, the IRBM must ensure that the internal controls for user password management and network management are imposed to all applications in TH initiatives under HITS Project.

