

UNIVERSITI TEKNOLOGI MARA

**FACTORS THAT INFLUENCE INDIRECT TAX
COLLECTION FRAUD AMONG ROYAL
MALAYSIAN CUSTOMS DEPARTMENT'S
(RMCD) OFFICERS: FRAUD DIAMOND THEORY
PERSPECTIVE**

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ABSTRACT

Certain fraud cases have been reported to happen among Royal Malaysian Customs Department's officers. Due to these cases, it has tarnished the image and public trust towards Royal Malaysia Customs Department (RMCD). There are very limited resources of past studies on indirect tax collection fraud among Royal Malaysia Customs Department's officers. This study investigated the factors that influence indirect tax collection fraud among customs officers in RMCD, focusing on Customs Division (*Malay: Bahagian Perkastaman*) in RMCD Pulau Pinang. The study utilized primary data gathered from 110 customs officers of Customs Division in RMCD Pulau Pinang by using questionnaire-based survey. The data were analysed using descriptive analysis, correlation analysis and multiple regression. The result found that the elements mentioned in fraud diamond theory, which are rationalisation and capability, have significant positive relationship with indirect tax collection fraud. In contrast, this study found that the other two elements, which are pressure and opportunity, had no significant relationship with indirect tax collection fraud. The result shows different perspective of fraud diamond elements and indirect tax collection fraud towards RMCD, which allow future researchers to conduct more research on RMCD. The limitations of this study include the sufficiency data collected, the use Fraud Diamond Theory focus elements, the response rate and also the limited sources from past studies. Hence, the result of this study shall assist the government, policymaker and customs officers to enhance and strengthen the integrity policies to minimize the case of indirect tax collection fraud among officers in RMCD by considering other factors and moderator as well.

Keywords: Fraud Diamond, Indirect Tax Collection, Pressure, Opportunity, Rationalisation, Capability, Customs.

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CHAPTER ONE

INTRODUCTION

1.1 Research Background

Since the world has currently developed very vastly, the progress of each government roles has also keep changing every day. In Malaysia, one of the things that is very crucial for the government function is its ability to collect revenue from various types of sources of income, mainly from tax collection. How is this very important? This is because through good practices of government role in collecting the revenue through taxation, it will keep balance to the development of the country itself.

In Malaysia, there are mainly two agencies that are responsible for tax collection in the country which are the Inland Revenue Board Malaysia (IRBM) and Royal Malaysia Customs Department (RMCD). This study focuses on the RMCD which is involved in the indirect tax collection such as the excise duty, Sales and Service Tax (SST) / Goods and Service Tax (GST) and several types of levies. As for a brief introduction on this agency, it consists of six (6) main branches of functions, which are the Customs Division (*Perkastaman*), Enforcement Division (*Penguatkuasaan*), Compliance Division (*Pematuhan*), Domestic Tax Division (*Cukai Dalam Negeri*), Technical Services Division (*Perkhidmatan Teknik*), and Human Resource Management Division (*Khidmat Pengurusan Sumber Manusia*) that actually drive this agency towards its excellent performance (Jabatan Kastam DiRaja Malaysia, 2019).

As mentioned in Pelan Antirasuah Organisasi 2020-2024 of RMCD in 2019, there are three main functions and roles of RMCD. The first one is to collect the nation revenues in the form of taxes and customs duties; secondly is to provide facilitation and consultation to the trade sectors and industries; and thirdly is to ensure the compliance of laws and regulation of RMCD under the stipulated Acts. In the year 2021, RMCD achieved a very good performance in its task of collecting the tax for the country. Referring to the RMCD Revenue Monitoring System in 2022, it showed the total collection of about RM43.11 billion as compared to the expected projection of RM42.5 billion.

However, even though this agency shows an excellent performance, some problems can arise. When stated on uniform bodies and agencies, it can be said that the

issue of integrity might exist. In this study, it focuses on the integrity issue which is the fraud itself. On discussion about fraud, the involvement of the internal parties should not be seen as a trivial issue. This surely could impact the working culture and practices of RMCD if no proper steps are taken to mitigate it or even better, to get rid of these cancerous practices in the agency as whole.

When discuss the fraud issue, there is a theory that actually could be seen as a benchmark or guideline in proposing the idea in fighting the fraud and corruption in an organisation, namely the Fraud Diamond Theory (Sujana, Yasa, & Wahyuni, 2018). This theory was introduced by Wolfe and Hermanson in 2004. According to this theory, there are four elements that can actually influence the person in committing fraud, namely pressure, opportunity, rationalisation and capability (Syed Abdul, Yusoff, & Mohamed, 2019). Basically, by relating this theory to this study, the focus is on the individual traits and action by associating the four elements of Fraud Diamond Theory in the context of RMCD's officers.

As for information, the problem of integrity should not be seen as a small problem especially in terms of committing the fraud. Obviously, it can be seen that the officers in RMCD are exposed to fraud activities when it comes to the related fieldwork, mainly in corruption and bribery in terms of performing the daily tasks that involve receiving money or payments from the clients. There is a case reported on December 2021 whereby four (4) customs officers were sentenced to jail for two (2) years because of the bribery case amounting RM22,000 (Abdul Rahman, 2021). This case is one of the reported cases and fortunately conviction has been made. What about the case that has still not been revealed or stay in secrecy?

According to Pricewaterhouse Coopers (2020), in its Global Economic Crime Fraud Survey 2020, as compared to its last survey in 2018, the incidents of fraud in Malaysia is still at a worrying level when the rate of bribery and corruption in Malaysia increased from 14% in the year 2018 to 18% in the year 2020. Obviously, the result of this survey should not be taken lightly. In the same survey made in 2020, it also identified four (4) types of fraud occurrence in Malaysia, mainly asset misappropriation, bribery and corruption, customer fraud and cybercrime.

It was also discussed by Pricewaterhouse Coopers (2022) in its Global Economic Crime and Fraud Survey in 2022 which stated that nearly 70% of the