

## Proposed Study Model Effects Of Internal Controls On Tax Compliance Of Enterprises

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### Abstract:

*The objective of this paper is to review research related to the effects of internal control on corporate tax compliance. From there, based on the Vietnamese context, we propose a research model that intends to assess the impact of internal control on corporate tax compliance.*

**Keywords:** Internal control, tax compliance

### 1. Introduction

Internal control leading to many serious business operations such as commercial bribery, fraud, pricing and corruption. It is common to receive commissions. The phenomenon of "sending prices" in business negotiations also exists relatively commonly. Therefore, it is necessary to have strict internal control policies and mechanisms to promote corporate compliance, minimize fraud and corruption in order to create a healthy business environment and sustainable economic development.

In the current globalization integration context, the number of businesses has increased rapidly and the competitive environment is harsh, in order to survive, it is imperative that enterprises have to control costs well to promote their competitive advantage. Sustainable development in the market. Vietnamese businesses in general are operating for profit purposes, with good business results, and high profitability. Especially for listed companies, this is very important because it is a necessary condition for businesses to attract capital from investors. Especially for listed companies, a control system is mandatory in the organizational structure of businesses. According to the corporate law (2014), public companies must establish a supervisory board (3-11 people). However, the phenomenon of corruption, fraud, and failure to comply with the policies and regulations of enterprises as well as of the State are not good.

Corporate fraud, corruption, and non-compliance are a core topic of research in the ethics literature as this misconduct can have serious negative consequences for stakeholders (Davidson and Worrell 1988), employee (Zahra et al. 2005) and society (Szwajkowski 1985). For a long time, scholars have focused on macro variables to seek explanations for corruption, fraud, non-compliance with regulations and policies. They focus on national wealth, democratic institutions, colonial heritage and cultural influence (Treisman 2000, 2007; Fisman and Miguel 2006; Sun 2009; Mohammad 2013). Some corruption is related to the quality of political institutions (Lederman et al. 2005; Schatz 2013) and others attribute it to a weak civil society and a lack of free press (Themudo 2013). These macro-level analyzes accurately define the context in which corruption can arise, its institutional origins and possible solutions to the problem of corruption. However, such structural analysis focusing on macro variables would not be sufficient without a clear understanding of public and corporate perceptions and attitudes towards corruption and anti-corruption reforms. In recent years, an increasing volume of research began to emphasize the importance of subjective indicators, given that they can give a more complete picture, giving an overall rating from the corporate level, corruption and fraud in the enterprise are also very interesting. Along this line, scholars and practitioners have noticed the importance of micro-level variables in understanding and controlling corruption, such as firm perceptions and attitudes, and in particular systems. internal controls for corrupt practices (Margit 2010).

Researches on internal control in Vietnam are still quite new, previous studies are mainly conducted in the form of research to assess the current status of the internal control system of a corporation or corporation. (Dinh Hoai Nam, 2016), or research on the effects of internal control on performance (ROE) in a particular industry (Dang Thuy Anh, 2017) has almost no studies to evaluate the effects. of the internal control system to compliance and

anti-corruption in Vietnam. Furthermore, the specificity of the internal control system is assessed in terms of effectiveness and compliance, so it is very important to study the relationship between internal control and compliance as well as anti-corruption in Vietnam. . The research on the internal control system is mainly the study of evaluating the internal control system separately or assessing corruption, accepting bribes, the compliance of enterprises separately using secondary data (Zhang, 2018) or studying an in-depth aspect of internal control is a culture of promoting integrity in terms of compliance and reducing inflation (Bussmann and Niemeczek, 2019).

## 2. Literature review

### 2.1. Previous studies in the world related to internal control system:

Angella Amudo & Eno L. Inanga (2009), Evaluation of Internal Control Systems: A Case Study from Uganda, conducted a study on evaluating internal control systems (internal control systems) in assessing internal control systems in regional projects. public sector funded by the African Development Bank, which includes independent variables that are components of KSNB (adding information technology (IT) variables under COBIT): (1) control environment, (2) risk assessment, (3) information and communication systems, (4) control activities, (5) monitoring, (6) IT. Dependent variable: The effectiveness of the internal control system. Moderator variable: authorization, partnership relationship. The results of the study showed that the lack of some components of internal control, leading to the ineffective operation of the internal control system.

Babatunde S.A & Dandago K.I. (2014) on “Internal Control System Deficiency and Capital Project Mis - management in the Nigerian Public Sector”. This study aims to analyze the impact of the lack of internal control systems on the capital project management in the public sector of Nigeria. The author tested the study sample of 228 capital projects in the public sector and showed that the lack of internal control systems had a negative impact on the efficiency of project management capital in the Nigerian public sector. The author recommends and strictly adhere to the internal control systems to ensure the community's interests.

Adebiyi Ifeoluwa Mary (2017), with “Impact of Effective Internal Control in the Management of Mother and Child Hospital Akure, Ondo State”. The purpose of this study is to examine the impact of effective internal control on management at the mother and child hospital, Oke-Aro, Akure, Ondo state. The results showed that an internal control system was established in the mother and child hospital, OkeAro, Akure, and Ondo State and had a significant impact on the management, growth and survival of the hospital.

### 2.2. The impact of Internal Audit on the performance of financial management:

Some previous typical studies of Fadzil (2005), Brown (2008), Kakucha (2009) ... said that there is a positive relationship between the internal control system for the income of the business (profit after tax).

In the most recent years, some of the following case studies can be mentioned:

Ahiabor & Collins Christian Yaw Mensah (2013) with the title "Effectiveness of Internal Control on the Finances of Churches in Greater Accra, Ghana". The research results show that the existence of internal control activities in the church and this affects the efficient management and use of church funds.

Babatunde's research, Shakirat Adepeju (2013), on “Stakeholders perception on the effectiveness of internal control system on financial accountability in the Nigerian public sector”. Results from the study show that the internal control system in the public sector of Nigeria positively affects financial responsibility. And recommended, the Government should apply strict penalties to increase the effectiveness of the internal control system in the public sector of Nigeria.

Zipporah (2015), entitled “The effect of internal controls on the financial performance of manufacturing firms in Kenya” to measure the impact of KSNB on the financial performance of firms in Nairobi, Kenya. The research results show that the controlling environment components, risk assessment, control activities, and

communication information of the internal control system have a positive impact on ROA, while monitoring has opposite effects. with ROA.

Christanti Widyaningsih (2015) on “The Influence of Internal Control System on the Financial Accountability of Elementary Schools in Bandung, Indonesia” through multivariate regression analysis, with the independent variable being the five components of the internal control system (control environment, risk assessment, control activities, communication, monitoring) and the dependent variable are financial accountability at primary schools in Bandung, Indonesia. The results show that, the control environment, operational control and oversight significantly affect financial accountability. While the risk assessments, information and communications did not have a significant effect. The results show that an effective internal control system of schools can increase quality and financial accountability.

Cornelius Kipkemboi Lagat (2016) on “Effect of internal controls systems on financial management in Baringo County Government, Kenya”. This study, aimed to determine the effectiveness of the internal control systems on financial management at the Baringo District government in Kenya. The study concludes that, among the 5 components of the internal control system, the control and monitoring activities have a significant influence on the financial management. While the control and information and communication environment does not foresee significant changes in financial management.

Daniel Kiplangat Sigilai (2016), with the topic “Assessment of internal control systems effects on revenue collection at nakuru level five hospital”. This study seeks to determine the effect of KSNB, on revenue generation at level 5 Nakuru Hospital. This study establishes, if the absence of the above components contributes to the association with fraud, loss of business. income and embezzlement. Research has shown that, the control environment, risk assessment, communication, control and surveillance activities significantly affect revenues at Nakuru 5th Hospital in Kenya.

Mahmoud Ibrahim (2017), subject "Internal Control and Public Sector Revenue Generation in Nigeria: an Empirical Analysis". The results have shown that the components of the control environment, risk assessment, control activities, information and communication have a positive effect on the increase in public sector revenue generation. Leaders should establish a KSBB department in organizations. Internal control measures should be designed to ensure the effectiveness, efficiency and reliability of financial statements as well as compliance with regulations and laws. This will improve revenue generation, which will ensure sustained Nigerian economic growth and development.

In summary, the above scientific researches are published in prestigious scientific journals in the world and all show that, there is a close relationship between the Internal Audit and the performance of the business or the business. units in the public sector. In which, business performance is measured by profit, revenue, liquidity, ROI, ROA [Beeler et al. (1999), Jensen (2003), Ittner (2003), Fadzil and others. partner. (2005), Kenyon and Tilton (2006), Brown et al. (2008), Mawanda (2008), Ndungu (2013), Nyakundi et al. (2014) Zipporah (2015)]. The weakness or shortcomings of the internal control system, all negatively affect the performance of the enterprise or unit.

Current corporate fraud literature focuses on explaining the potential for fraud with factors such as CEO compensation and board characteristics. Beasley (1996) examines the relationship between board composition and financial reporting fraud. He found that lower cheating was related to smaller table size or higher table independence. Documents of Bergstresser and Philippon (2006) suggest that firms are more likely to manipulate income when the total amount of compensation for the CEO consists of multiple stocks and holds options. Likewise, Burns and Kedia (2006) show that the trend of wrong entry increases with the sensitivity of the CEO option portfolio value to the share price. Efendi et al. (2007) found that financial mismatches were more pronounced in firms where CEOs hold more cryptocurrency stock options. Crutchley et al. (2007) argued that fast-growing firms with fewer outsiders on audit committees and larger numbers of busy outside directors were more likely to commit accounting fraud. Researchers have recently started linking the roles of Social Relations

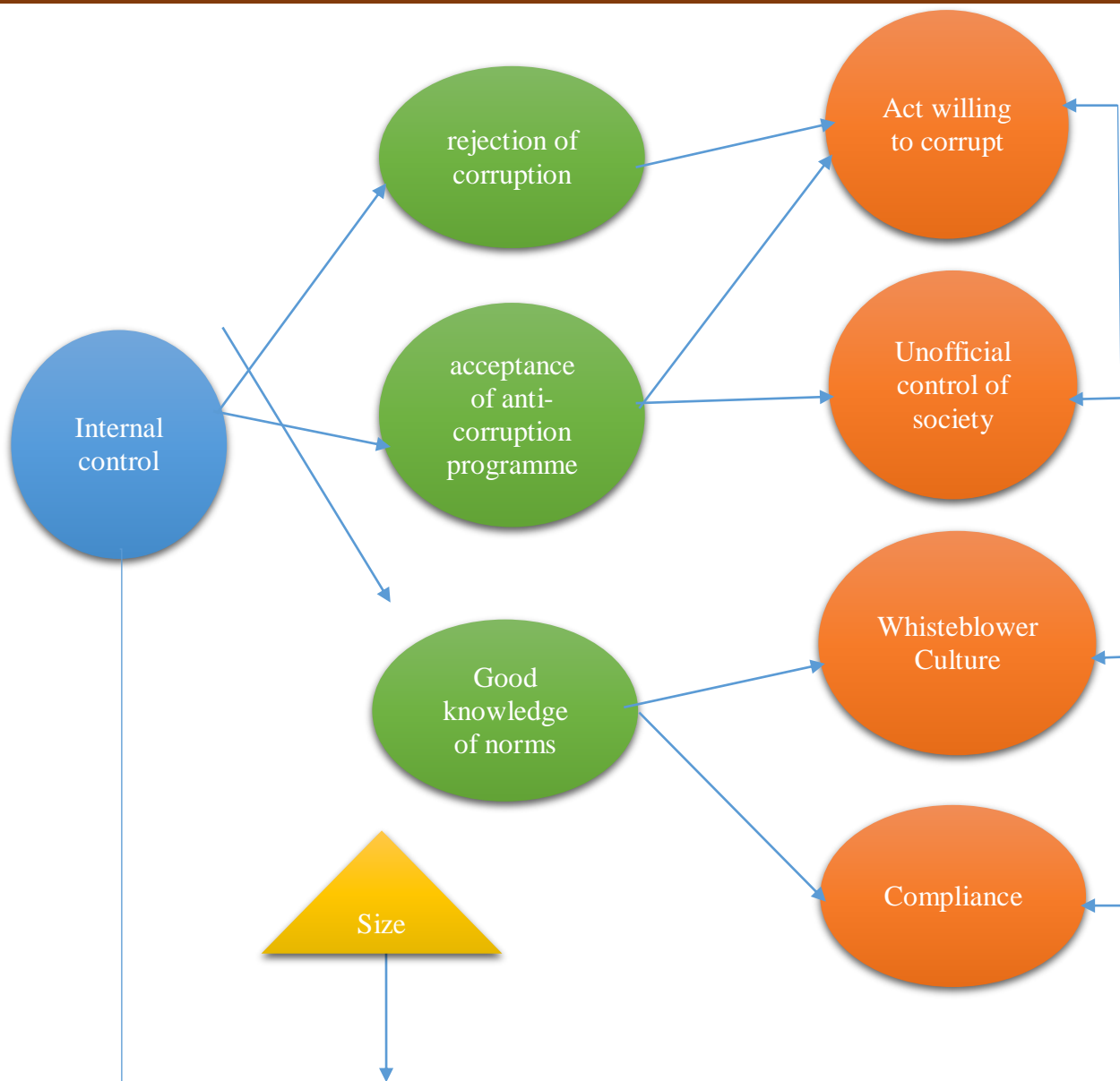
executives to corporate fraud. Johnson et al. (2009) suggested that managerial unrestricted stock holdings provide the most powerful incentive for firms to commit fraud. Dechow et al. (2011) found a red flag for income inequality by developing proportional probabilities (F-scores), based on accrual quality, financial performance, nonfinancial measures, external activity exchange, and stock market incentives and debt. Chidambaran et al. (2011) showed that professional connection was negatively associated with financial fraud, while unprofessional connection was positively associated with fraud. Similarly, Khanna et al. (2015) found that a certain CEO social connection with subordinate executives increases fraud incentives because connected executives help prevent fraud detection. Connected CEOs reduce the probability of CEO firing after fraud detection and reduce coordination costs in implementing fraud. Chen et al. (2006) found that the probability of rest was lower in firms with an independent board of directors or audit committees with financial expertise and higher in firms where the family CEO founded China

Another stream of research focuses on external factors influencing a company's ability to fraud. Wang et al. (2010) shows that the business conditions are associated with fraudulent incentives. Fraud incentives increase with investor confidence about the industry's outlook, but still decrease if confidence is extremely high when a company goes public. Wang and Winton (2014) find that the average fraud incentives are higher in competitive industries because competing industries lack market sensitivity to firm-level information, they lack information production. trust at company level and they use relatively more performance ratings. Kedia and Rajgopal (2011) find that the SEC is more likely to investigate companies that are geographically closer to offices as well as companies located in the region with past SEC enforcement due to financial constraints. original. Parsons et al. (2014) argued that a corporate fraud incentive increased with the wrong rate of firms nearby. This phenomenon is caused by peer effects instead of exogenous shock such as regional changes in enforcement. Li et al. (2014) found that the province's financial development and property prevention reduce fraud possibilities and increase detection in China. Wu et al. (2014) emphasized the role of institutional investors in reducing the proportion of corporate fraud enforcement actions in China.

In addition, a number of authors have studied fraud findings. Karpoff et al. (1999) found that firms experienced unusually negative returns when fraud was discovered. Karpoff and Lou (2010) show that short sellers find companies misrepresent their financial statements monthly before misinformation is made public. Dyck et al. (2010) found that fraud detection is a function of standard corporate governance entities such as investors, SEC or auditors, but rather environmental factors, such as employees, information and industry regulators.

### ***2.3. The proposed research model is as follows:***

The research variables are developed from the research of Bussmann and Niemeczek (2019); Nalukenge et al (2018); Collins et al (2008).



**Figure 1: Proposed research model**

### 3. Conclusion

Currently, the objectives of tax reform and modernization include: Building an advanced, modern and professional Vietnamese tax industry to ensure good tax law enforcement; ensuring fair, transparent, effective and efficient tax administration according to international standards; good service to taxpayers, increase self-awareness in compliance with tax laws of taxpayers; ensure revenue for the state budget to serve the industrialization and modernization of the country. The goal of "increasing taxpayers' self-awareness to comply with the tax law" is mentioned as a basic point of view in the process of tax reform and modernization of the tax industry and tax administration in Vietnam.

The system of tax policies and laws is the basis for enterprises to fulfill their tax obligations, and is also the basis for state management agencies to determine whether enterprises comply with regulations or not.

The tax administration system needs to be updated to suit the reality and be consistent with changes in international practices and standards in order to simplify tax administrative procedures to ensure consistency, publicity and transparency. transparency creates favorable conditions for taxpayers to grasp the law and participate in the process of supervising tax officials and tax law enforcement; tax administration process is standardized in accordance with international practices and Vietnamese conditions on the basis of information

technology application to ensure uniformity and high linkage. However, the legal system of taxation should also keep stability in basic policies so that taxpayers can be proactive in investment, production and business.

Tax administrative procedure reform should be constantly implemented in order to reduce tax compliance costs towards a simple, clear, easy-to-implement direction, helping taxpayers see that the State is willing to share difficulties with businesses. in performing tax obligations.

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