THE IMPACT OF INTERNAL CONTROL ON TAX LAW COMPLIANCE OF ENTERPRISES IN VIETNAM

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Abstract

Tax law compliance (TLC) remains a critical challenge for emerging economies, where weaknesses in internal control (IC) systems may increase non-compliance risks. This study examines the impact of IC and its five components, as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013), on TLC among enterprises in Vietnam. Using a mixed-methods approach, the study combines qualitative analysis with quantitative survey data collected from managers of large-scale enterprises. A total of 298 valid questionnaires were analyzed using Cronbach's alpha, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM). The empirical results indicate that IC has a significant and positive effect on TLC. Moreover, all five components of IC-control environment, risk assessment, control activities, information and communication, and monitoring exert positive influences on compliance behavior. These findings highlight the crucial role of effective IC systems in promoting tax compliance. The study contributes to the literature by providing empirical evidence from an emerging economy and offers practical implications for policymakers and business managers in strengthening IC systems to enhance TLC.

Keywords: Internal Control, Tax Law Compliance, Vietnam

Authors' individual contribution: Conceptualization — T.M.H.L. and L.A.D.; Methodology — T.M.H.L. and L.A.D.; Formal Analysis — T.M.H.L. and L.A.D.; Investigation — L.A.D.; Writing — Original Draft — T.M.H.L. and L.A.D.; Writing — Review & Editing — L.A.D.

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1. INTRODUCTION

Internal control (IC) plays an important role in the management and operation of an organization. IC helps protect business assets from loss and risk, ensuring the reliability of financial reports, complying with laws, supporting managers in decision-making, thereby improving business efficiency (Alabdullah & Maryanti, 2021). The legal environment in Vietnam is increasingly improving, aiming to promote reliable financial reporting and the use of international IC frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013; Hoai et al., 2022). The fierce competition in Vietnam requires businesses to find ways to optimize operating processes and improve operational efficiency, which requires support from an effective IC system (Tuan, 2020). Businesses today have begun to have a certain understanding of IC and are interested in investing in building and perfecting IC. However, businesses are implementing it at a simple level, mainly using manual IC and not applying modern methods. Especially small and medium-sized enterprises (SMEs), they do not have enough resources to invest in a comprehensive IC system (Do et al., 2024; Nguyen, 2021). Therefore, raising awareness of the importance of IC and finding out its impact on operational efficiency is essential.

Tax law compliance (TLC) is a concept that represents the full and correct implementation of tax obligations by individuals and organizations according to national and international laws (James & Alley, 2002; Webley, 2014). In Vietnam, businesses are increasingly aware of their legal responsibilities and appreciate the importance of complying with the law, in which tax law is the most concerning issue (Nguyen et al., 2020). However, the tax legal system in Vietnam is quite complex and constantly changing, making it difficult to fully understand and comply. Small businesses often have difficulty accessing information and legal advice on taxes (Do et al.., 2022). The level of TLC of an enterprise also depends on the capacity of corporate governance, IC, and information technology (Russo, 2019; Chang et al., 2019; Indriyarti et al., 2020).

This study aims to answer the following research questions:

RQ1: Do IC and its components, according to the COSO (2013) framework, have a significant impact on the level of TLC in Vietnamese enterprises?

RQ2: If there is an impact, is the impact level high or low?

To answer these questions, the author used qualitative research methods to build hypotheses, research models, factor scales, and survey questionnaires. Then, the author conducted a survey of managers at large-scale enterprises in Vietnam. Quantitative research methods are used to examine the relationship and level of impact of IC on the TLC level of these businesses. The results show that IC has a positive impact on the level of TLC in business in Vietnam. At the same time, each component of the IC system also has the same impact on the level of TLC, but the level of impact is different. The author proposes a number of recommendations for the Vietnamese government and businesses to perfect IC, thereby contributing to improving the TLC level of these businesses.

The rest of the study is structured as follows. Section 2 presents a review of relevant literature and provides the theoretical basis of the study. Section 3 outlines the research models and hypotheses used in this study. Section 4 provides the results from the research. Section 5 discusses the findings. Section 6 concludes the paper, addressing the limitations of the study and suggesting future research directions.

2. LITERATURE REVIEW AND RESEARCH MODEL

2.1. Literature review

2.1.1. Literature review of internal control

Technological advances and changes in the business environment are pushing businesses to constantly improve their IC systems to meet new requirements. Research on IC is growing strongly, with many diverse aspects and fields. The literature review on IC can be divided into main areas such as: concepts and theoretical framework of IC, research on the effectiveness of IC, factors affecting the effectiveness of IC, research on IC in different fields, challenges, and new trends of IC in the current era.

Regarding the concept and theoretical framework of IC, studies often focus on classifying IC into types, such as accounting control, management control, content control, and risk control (Trenerry, 1999; Lakis & Giriūnas, 2012; Vaassen, 2009). These studies also focus on understanding the nature of IC, including the roles of departments in the enterprise, the process of establishing and implementing control, and the business and legal environment for IC (Leitch, 2016; Chang et al., 2014; Maijoor, 2000). Some studies on popular IC frameworks are applied, such as CobiT (Tuttle & Vandervelde, 2007) and COSO (Moeller, 2013; Rae et al., 2017). Among them, the COSO (2013) framework is the most popular and is being researched and applied in practice in the world as well as in Vietnam.

Research on the effectiveness of IC focuses on building an IC assessment scale and researching the current status of IC in specific fields. Research often focuses on analyzing the effectiveness of IC measures, including assessing the effectiveness of processes, policies, and regulations, as well as their contribution to goals and outcomes of the organization (Länsiluoto et al., 2016; Chang et al., 2019). Some studies on the effectiveness of IC in the manufacturing sector (Anh et al., 2020; Ditkaew, 2018; Goljaryan & Aghaei, 2014), at banks (Ayagre et al., 2014), and in small and medium enterprises (Adi & Melati, 2023). Research focuses on developing and applying methods and tools to evaluate the effectiveness of IC. Methods include quantitative methods such as indices and regression models, and qualitative methods such as interviews and surveys. The research suggests strategies and measures to improve IC in organizations, including increasing leadership awareness and commitment, improving processes and technology, and investing in training and employee development (Badara, 2013).

Studies on factors affecting IC have emphasized the importance of understanding and managing factors to ensure accuracy, transparency, and compliance of businesses. The research is quite diverse in different business fields such as commercial banking (Hung & Tuan, 2019; Vu, 2016); high-tech companies (Chen et al., 2017); in the context of enterprise resource planning (ERP) application by businesses in Taiwan (Hsiung & Wang, 2014); in government agencies (Murdayanti et al., 2016; Kiswanto et al., 2020; Tanbour & Nour, 2022); in businesses in specific localities (Mahadeen et al., 2016); and in Vietnamese businesses (Long et al., 2022). Studies have generalized groups of factors affecting IC including: Organizational factors (organizational structure, organizational culture), personal factors (leaders, employees), environmental factors (business environment, legal environment), technological factors (information system, technology level); risk management factors (how risk assessment activities affect the IC and how the business deals with risks related to legal compliance). The methods used mainly include quantitative research combined with qualitative methods such as interviews and surveys.

2.1.2. Literature review of tax law compliance

Research on TLC includes aspects such as factors influencing compliance levels, measures to limit violations of tax law, as well as theoretical models and frameworks used to study this area. Many

authors have focused on analyzing economic, social, and legal factors that influence the intention to implement TLC of individuals and organizations in the economy. These factors include the complexity of the tax system, tax structure, transparency of the tax process, level of supervision and handling of violations, cultural and ethical factors (Palil & Mustapha, 2011; Helhel & Ahmed, 2014; Le et al., 2020; Hoa et al., 2019). Psychological factors also impact TLC (Jayawardane, 2015). Research on factors affecting TLC is conducted in different economic fields and business sizes, such as real estate (Nzioki & Peter, 2014); SMEs (Inasius, 2019; Nguyen, 2022), and private enterprises (Razak & Bidin, 2019). Another study used behavioral theory to study the factors that affect the intention of TLC of people residing in Phnom Penh, Cambodia. The research results showed that there are three components that constitute behavior: attitudes, subjective norms, and perceived behavioral control; factors that determine TLC intention include: morale, tax fairness, trust in government, perception of government power, tax complexity, tax information, and tax awareness (Taing & Chang, 2021). The attitude of tax accountants towards the electronic tax system also has a great impact on the TLC of Vietnamese businesses (Do et al., 2022). Therefore, we can see differences in factors affecting the TLC of organizations and individuals. Most studies have used a combination of quantitative and qualitative methods to measure TLC. For quantitative methods, statistical indicators or models are used to measure the ratio of tax revenue to regulations (Musimenta et al., 2017; Twum et al., 2020; Yunus et al., 2017). Qualitative methods often rely on surveys or interviews to assess taxpayer opinions and behavior (Nguyen, 2022).

Some studies also focus on evaluating the effectiveness of control measures and policies that promote TLC. The results of research in this area can provide useful information for governments and tax administrations to develop policies and enforcement measures to enhance TLC levels. Popular theoretical models and frameworks used in research on the level of TLC include:

1) Game theory models are used to analyze the behavior of taxpayers and tax authorities in the context of current legal regulations.

2) Behavioral economic models are used to analyze psychological and social factors that influence taxpayers' compliance decisions;

3) The tax administration theoretical framework considers organizational and administrative factors that affect the level of tax compliance.

These studies have provided a theoretical and practical basis to help improve tax systems and enhance tax compliance in different economies (Marandu et al., 2015).

2.1.3. Literature review of the relationship between internal control and tax law compliance

The goal of these studies is to better understand how organizations, businesses, or individuals can use IC to enhance TLC. Research in this area often focuses on aspects such as the control activities that organizations and businesses use to manage risks and ensure legal compliance, and the influence of IC on tax compliance. Some studies focus on the impact of IC on tax compliance; however, most studies only choose one component or one aspect of IC to test its impact on tax compliance. A typical example is research on the relationship between risk management, IC, and TLC level (Russo, 2019). Another study with a sample of 100 tax accountants at companies, the research results showed that knowledge and ethics have a significant impact on TLC, while working capacity has an insignificant impact. At the same time, tax uncertainty weakens the impact of knowledge and ethics on TLC (Tarmidi, 2019). Control also has a strong and positive impact on the TLC of businesses (Marandu et al., 2015). The impact of female leaders' management capacity on tax compliance behavior is also of research interest. Data for analysis in the study were taken from the World Bank's enterprise survey of 23,178 private companies in 98 countries. The results show that businesses with female senior officers have higher levels of TLC because they have better compliance controls than male managers (Damayanti et al., 2019). The impact of information and communication systems also has an impact on TLC, while this is one of the main components of IC; for example, the electronic tax system has a positive impact on taxpayers' compliance in Tanzania (Masunga et al., 2020). Research methods mainly include statistical analysis, case studies, interviews, and surveys to collect data and evaluate the relationship between IC and TLC. The results of studies on the impact of IC on TLC can provide useful information for managers, governments, and tax administration agencies to improve tax policy and enforcement.

2.2. Research model and hypothesis

Studies on the impact of IC on TLC levels have yielded relatively similar results, most showing a positive relationship. A business's IC can influence its level of TLC in many ways. An effective and rigorous IC system can help businesses ensure that tax information is reported correctly and accurately, thereby increasing compliance. IC activities can also help detect and prevent tax violations, thereby minimizing the risk of fines and reputational damage. A positive relationship between IC and TLC level has been demonstrated in previous studies, whether for the overall IC system or for individual IC components. This has been verified by research on the relationship between risk management, IC and TLC level (Russo, 2019); the impact of professional ethics on tax compliance (Tarmidi, 2019); control also has a strong and positive impact on tax compliance of businesses (Marandu et al., 2015); manager characteristics have a positive impact on TLC (Damayanti et al., 2019); information and communication systems also have an impact on tax compliance (Masunga et al., 2020). On that basis, the author builds the first hypothesis.

H1: IC has a positive impact on TLC of enterprises in Vietnam.

The control environment can affect the level of TLC in many ways. An effective, transparent, and fair control environment can increase taxpayers' confidence in the tax system and increase their likelihood of compliance. On the contrary, a non-transparent, complex, and unfair control

environment can reduce taxpayer confidence and motivation, reducing compliance with the law. From there, the author raises the question of whether the control environment has a positive impact on the TLC of businesses in Vietnam. On that basis, the author builds the second hypothesis.

H2: Control environment has a positive impact on the TLC of enterprises in Vietnam.

Risk assessment is the process of identifying, measuring, and evaluating risk factors that may affect the objectives or outcomes of an organization or activity. In the context of tax, risk assessment often focuses on identifying the risk factors associated with TLC and the consequences that may arise from non-compliance. Risk assessment can influence the level of TLC in many ways. An effective risk assessment system can help organizations identify and manage tax compliance risks more effectively, thereby enhancing compliance. At the same time, risk assessment measures can also create awareness and incentives for taxpayers to TLC more rigorously. From that basis, the author sets out the third hypothesis.

H3: Risk assessment has a positive impact on TLC of enterprises in Vietnam.

Control activities within a business can affect the level of TLC. An effective and rigorous IC system can help businesses identify and minimize risks related to tax compliance, thereby increasing compliance levels. Control activities can also help ensure that tax information is reported correctly and accurately, minimizing the risk of being fined for violating tax laws. On that basis, the author develops the fourth hypothesis.

H4: Control activities have a positive impact on TLC of enterprises in Vietnam.

The information and communication system in an enterprise can affect the level of TLC. An effective accounting and tax management information system can help businesses organize and track tax information accurately and promptly, thereby increasing compliance. Furthermore, internal communication channels can be used to communicate tax compliance regulations and guidance to employees, increasing their awareness and commitment to legal compliance. Based on this analysis, the author proposes the fifth hypothesis.

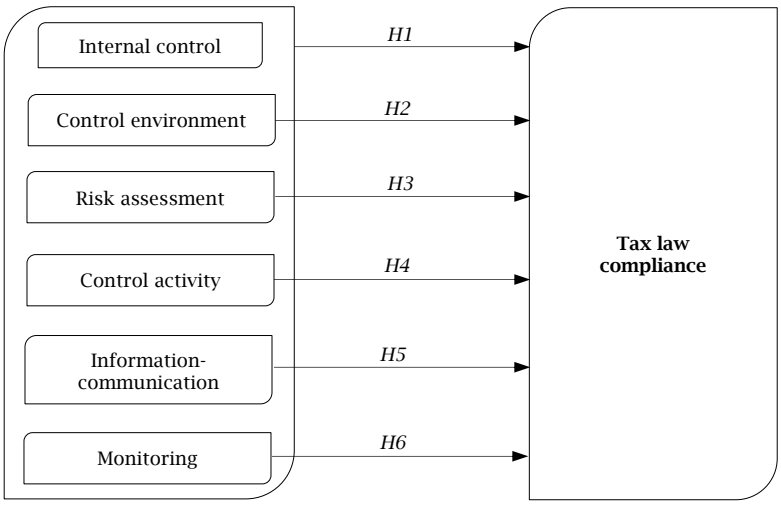
H5: Information and communication have a positive impact on TLC of enterprises in Vietnam.

An effective and strict monitoring system for IC activities can help businesses detect and prevent violations of tax laws, thereby increasing the compliance level. Furthermore, having internal monitoring measures can also create transparency and trust on the part of tax authorities, increasing support and flexibility in the relationship between businesses and tax authorities. From that analysis, the author proposes the sixth hypothesis.

H6: Monitoring activities have a positive impact on TLC of enterprises in Vietnam.

The research model is summarized by the author in Figure 1.

Figure 1. Research model



Source: Author's analysis based on Russo (2019), Tarmidi (2019), Marandu et al. (2015), Damayanti et al. (2019), Masunga et al. (2020), and COSO (2013).

2.3. Theoretical basis

2.3.1. Internal control

IC is a system of processes, policies, and measures established by management and members of the organization to ensure that the organization's operations are effective, efficient, and in compliance with legal regulations (Lakis & Giriūnas, 2012). IC appeared before the 20th century with the main purpose of protecting public assets and preventing fraud. Control measures at that time were quite simple and had not yet formed a clear system. Control was mainly based on the trust of employees and managers. In the early 20th century, due to the growth of commercial and industrial companies, the demand for official IC systems increased. Large companies began to be interested in building IC to manage assets and ensure the accuracy of financial information (Hevesi, 1999; Jensen, 1993). In the 1930s, the global economic crisis and financial scandals spurred

the development of IC. The creation of the US Securities and Exchange Commission (SEC) aims to strengthen supervision and control in the financial sector. This is also the time when IC becomes an important part of organizations. In 1977, the US Foreign Corrupt Practices Act required companies listed on stock exchanges to maintain effective IC to prevent and detect corruption. In 1992, the COSO report was released, marking an important turning point in the development of IC in the world (Maijoor, 2000). The COSO framework was updated in 2013, introducing five components of IC, including: Control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). This is the foundation for modern IC later. IC has become an indispensable part of corporate governance. IC today not only focuses on asset protection and legal compliance but also supports organizations in achieving strategic goals, managing risks, and improving operational efficiency. New technologies such as artificial intelligence, data analytics, and blockchain are also being integrated into IC systems to increase efficiency and fraud detection (Stein, 2020). To evaluate the effectiveness of IC, in this study, the author uses five components of IC according to the COSO framework, including: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013).

Control environment

The control environment is an important component of an organization's IC system. It includes the factors and conditions through which control is achieved and maintained. The control environment reflects an organization's values, philosophy, and management style. It includes the policies, ethical principles, and behaviors that an organization expects from its employees (Rubino et al., 2017). The control environment also tells us how the organization divides responsibility and authority among departments and individuals (COSO, 2013; Lakis & Giriūnas, 2012). The control environment also includes the way the organization recruits, trains, evaluates, rewards, and disciplines employees. Employee capacity and commitment to comply with correct control procedures are also criteria for evaluating IC systems (COSO, 2013; Ahmad & Norhashim, 2008). The control environment is also expressed in the participation of managers in supervising and organizing IC. The involvement of management and the board of directors in monitoring and maintaining IC operations is an important measurement in assessing the control environment (COSO, 2013; Balfe et al., 2015). An indispensable element in the control environment is the policies, regulations, and procedures established to guide and control the activities of the organization. They help ensure that operations are carried out according to certain regulations and standards. The control environment is also measured by employees' attitudes and awareness about the importance of IC and their responsibilities in IC. The control environment is the foundation of an effective IC system. It affects the entire control system and is the factor that determines the effectiveness of other control activities in the organization (Vo, 2007).

Table 1. Control environment measurement scales

Control environment measurement scales	*Source*
CE1. Ethical values are identified and maintained	COSO (2013), Rubino et al. (2017), Lakis and Giriūnas (2012), Ahmad and Norhashim (2008), Balfe et al. (2015), Vo (2007), Long et al. (2022)
CE2. Ethical policies and procedures are clear	
CE3. Effective human resources policies in recruiting, training, evaluating and developing employees	
CE4. Employees have the necessary competencies and skills	
CE5. Continuous employee training and development	
CE6. Independent board of directors and effective supervision	
CE7. The audit committee operates effectively	
CE8. Clear and reasonable organizational structure	
CE9. Appropriate division of responsibilities and authorities	

Source: Author's compilation.

Risk assessment

Risk assessment is the second component that plays an important role in IC. Risk assessment helps management have an overview of risks that can affect the organization and make the right management decisions (Jensen, 1993; Morrill et al., 2013). Risk assessment also helps protect business assets and minimize risks of asset loss through identifying and controlling risks. Through risk assessment, managers detect weaknesses in processes and systems, thereby improving operational efficiency. Risk assessment also allows businesses to ensure compliance with state laws, standards, and internal policies through legal risk assessment (Vîrtosu, 2021).

The main steps in risk assessment include:

1) Identify the strategic goals, operational goals, reporting goals, and compliance goals that the business wants to achieve.

2) Identify risks that may affect the achievement of those goals. Risks can come from many different sources, such as economic, financial, legal, technological, human resources, environmental, and market sources.

3) Analyze and evaluate risks based on the likelihood of occurrence and their level of impact. This helps the organization understand the severity of each risk and prioritize management of the most important risks (COSO, 2013). After assessing risks, businesses have a basis to take IC measures to minimize, transfer, avoid, or accept risks. These measures include policies, procedures, operations, and technology. Recent studies have also confirmed the importance of continuously monitoring the effectiveness of control measures and making adjustments as necessary. Risks and the business environment are always changing, so the risk assessment process needs to be performed periodically and continuously (Vîrtosu, 2021).

Table 2. Risk assessment measurement scales

Risk assessment measurement scales	*Source*
RA1. Specific goals that align with the organizational strategy are determined	COSO (2013), Jensen (1993), Morrill et al. (2013), Vîrtosu (2021), Long et al. (2022)
RA2. Potential risks are identified	
RA3. The impact of risks is analyzed and evaluated	
RA4. Business environment risks are assessed	

Source: Author's compilation.

Control activities

Control activities are the policies, procedures, and measures that an organization establishes to minimize risks and ensure the achievement of organizational objectives. When designing control activities, businesses need to clearly define the powers and responsibilities of each department and individual in the organization (Agbejule & Jokipii, 2009; COSO, 2013). Control activities can include assessing control, managing access to information systems, and the assets of the enterprise to protect them from unauthorized access. Inspection, supervision, and approval of transactions at departments and levels within the organization are also considered control activities (Ejoh & Ejom, 2014; COSO, 2013). In addition, control activities can also be physical protection measures such as door locks, surveillance systems, and security guards to protect important assets and documents (Bilgi et al., 2017).

Table 3. Control activities measurement scales

Control activities measurement scales	*Source*
CA1. Clear control policies and procedures are established	COSO (2013), Agbejule and Jokipii (2009), Ejoh and Ejom (2014), Bilgi et al. (2017), Long et al. (2022)
CA2. Controls in daily operational processes are implemented	
CA3. Tasks to minimize the risk of fraud and errors are divided	
CA4. Access to critical systems and information is manageable	
CA5. Physical controls aim to protect physical assets and intellectual property are conducted	

Source: Author's compilation.

Information-communication

Information and communication ensure that all employees understand and comply with IC processes, policies, and measures, thereby improving operational efficiency (COSO, 2013; Hoai et al., 2022). All requirements and instructions in the legal system and internal corporate regulations are effectively communicated. This system identifies and collects necessary information from internal and external sources to support IC activities; analyze, synthesize and processes information to create reports and data useful for management and decision making. The communication of information takes place not only within the enterprise but also to external stakeholders, including investors, customers, suppliers, and state management agencies (COSO, 2013). Information systems and communication channels are the basis for successfully implementing IC activities and achieving organizational goals.

Table 4. Information-communication measurement scales

Information-communication measurement scales	*Source*
IC1. Collect information promptly and accurately	COSO (2013), Hoai et al. (2022), Long et al. (2022)
IC2. Process and analyze information effectively	
IC3. Communicate necessary information to stakeholders promptly and clearly	
IC4. Use effective information systems to support management and control	

Source: Author's compilation.

Monitoring

Monitoring is an indispensable component of IC, helping to ensure that control measures are implemented effectively and continuously, as well as to detect and promptly correct arising problems. Monitoring helps organizations early detect errors, fraud, or arising risks, thereby implementing timely corrective measures. Monitoring helps improve the effectiveness of the control system through continuous evaluation and improvement of the IC, ensuring that controls are always good and consistent with the organization's goals (Dhaliwal et al., 2011). There are three main components of monitoring: 1) periodic monitoring is performed daily by monitoring activities, processes and control systems through methods such as reporting, reconciliation and fact check; 2) separate supervision through performing internal audits of the enterprise or using audit services of independent audit firms; 3) provide periodic reports on IC status to leaders and the board of directors so that they have complete and timely information about the effectiveness of the control system. At the same time, the system also receives feedback from employees on control measures and work processes to detect potential problems early (COSO, 2013). Monitoring activities help improve transparency, accountability, and management efficiency in the organization (Dhaliwal et al., 2011; Hedley & Ben-Chorin, 2011).

Table 5. Monitoring measurement scales

Monitoring measurement scales	*Source*
M1. Continuous monitoring during daily operations is performed	COSO (2013), Dhaliwal et al. (2011), Hedley and Ben-Chorin (2011)
M2. Internal audits and periodic separate assessments are conducted	
M3. Periodic reports on control effectiveness are provided	
M4. Employees and related parties' comments are considered	

Source: Author's compilation.

2.3.2. Tax law compliance

TLC is a concept that represents the full and proper implementation of their tax obligations by individuals, businesses, and organizations according to the law (Wadesango et al., 2018). Complying with the law helps minimize the risk of fines, tax arrears, or lawsuits for violating tax laws, avoid legal disputes, and maintain business reputation. Compliance with the law also helps increase trust from partners, customers, and stakeholders (Mukhlis & Simanjuntak, 2016). TLC includes declaring and paying taxes on time, in the right amount, and carrying out tax-related procedures according to each country's regulations. TLC is demonstrated through individuals and businesses declaring income and expenses accurately and completely; correctly declaring tax code, industry code, and other information. Businesses must pay taxes (personal income tax, corporate income tax, value-added tax, special consumption tax, etc.) on time to avoid late tax payment or underpayment of taxes. Businesses must comply with regulations on documents and invoices: use and store documents and invoices according to regulations; ensure the validity and legality of documents and invoices used in transactions. In addition, businesses must carry out tax registration procedures, tax declaration, tax finalization, and other tax-related procedures correctly and completely. At the same time, businesses must meet reporting and information provision requirements as requested by tax authorities (Supriyono et al., 2021; Musimenta et al., 2017; Hanh & Thuy, 2022).

Table 6. Tax law compliance measurement scales

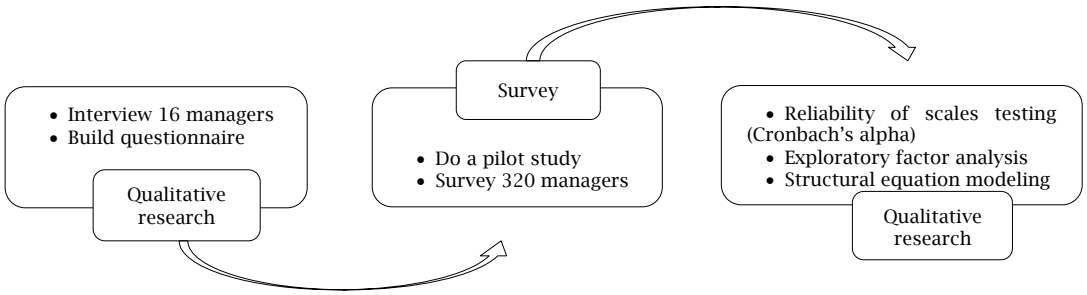
Tax law compliance measurement scales	*Source*
TLC1. Make accurate tax returns	Wadesango et al. (2018), Mukhlis and Simanjuntak (2016), Supriyono et al. (2021), Musimenta et al. (2017), Hanh and Thuy (2022)
TLC2. Pay taxes on time	
TLC3. Pay the correct amount of tax	
TLC4. Comply with regulations on documents and invoices	
TLC5. Carry out tax procedures properly	

Source: Author's compilation.

3. RESEARCH METHODOLOGY

The research method is carried out in two steps: qualitative research and quantitative research, described in Figure 2, and then the data was imported to the statistical product and service solutions (SPSS) and the automated meteorological observation station (AMOS) software to proceed.

Figure 2. Research process



Source: Author's compilation.

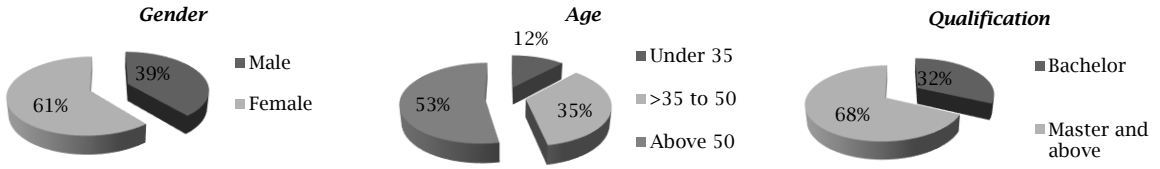
Based on the commonly used rule of thumb in multivariate analysis, the minimum required sample size was determined as $n = 5 \times 31 = 155$, where 31 represents the number of observed variables and the multiplier of five ensures an adequate ratio of observations to estimated parameters. This value was considered the minimum target sample size for the study. In practice, the survey was administered to managers from 55 large-scale enterprises in Vietnam, and a total of 298 valid questionnaires were collected and used for analysis, exceeding the minimum requirement and thereby improving the robustness of the empirical results. The respondents primarily included finance managers, internal audit managers, and general managers, who are directly involved in or responsible for IC implementation. All items were measured using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire served as the main instrument for data collection. Alternative research approaches, such as qualitative case studies, in-depth interviews, or longitudinal panel data analysis, could also provide valuable insights into IC and tax compliance. However, the survey-based quantitative approach combined with structural equation modeling (SEM) was selected as it allows for the simultaneous examination of multiple latent constructs and their relationships, and is well-suited for testing the proposed theoretical model based on the COSO framework.

4. RESEARCH RESULTS

4.1. Research sample statistics

The sample size is representative of large enterprises and three main industry groups, including agriculture, forestry and fisheries; industry and construction; and service. Below are the data compiled and analyzed to describe the demographic characteristics of the survey sample (Figure 3).

Figure 3. Statistics on demographic characteristics of the survey sample



Source: Author's analysis.

Of the 55 large enterprises selected to conduct the survey, 6% are 100% state-owned enterprises, 10% are foreign-invested enterprises, and 84% are mostly non-state-owned enterprises. Regarding economic sectors, among the selected enterprises, enterprises in the agriculture, forestry, and fisheries sector account for 42%, and enterprises in the industry and construction sector account for 49%. Enterprises belonging to the service industry group are 9%.

4.2. Testing the reliability of the scales using Cronbach's alpha results

All variables have Corrected Item-Total Correlations greater than 0,3, and Cronbach's alpha coefficients are all 0,6 or higher. Thus, the scales are reliable, and 31 variables are retained to be included in exploratory factor analysis (EFA) to test the scale (Table 7).

Table 7. Results of testing the scale using Cronbach's alpha

Factors	*Number of observed variables*	*Cronbach's alpha*	*Number of variables retained*	*Number of variables removed from the model*
CE	9	0.932	9	0
RA	4	0.935	4	0
CA	5	0.945	5	0
IC	4	0.929	4	0
M	4	0.914	4	0
TLC	5	0.952	5	0
Total	31		31	0

Source: SPSS data.

4.3. Results of exploratory factor analysis

All scales used for assessment are highly reliable, and the values of those measurements, Kaiser-Meyer-Olkin (KMO), and Barlett's test results are in Table 8.

Table 8. Kaiser-Meyer-Olkin and Bartlett's test

KMO measure of sampling adequacy		0.930
Bartlett's test of sphericity	Approx. Ch^2	9436.698
	Df.	465
	Sig.	0.000

Source: SPSS data.

EFA using the principal axis factoring method with Promax rotation, the results obtained the coefficient KMO = 0.930 > 0.5, Bartlett's test statistic is 9436.698 with significance level 0.000 < 0.05 this proves that the data is completely suitable. All factor loading coefficients are greater than 0.5, the explained variance is greater than 75.034% > 50%, and the observed variables are grouped exactly like the original scale (Table 9, Table 10).

Table 9. Total variance explained (Part 1)

Factor	*Initial eigenvalues*			*Extraction sums of squared loadings*			*Rotation sums of squared loadings*
	Total	*% of variance*	*Cumulative %*	*Total*	*% of variance*	*Cumulative %*	*Total*
1	12.655	40.824	40.824	12.409	40.029	40.029	9.044
2	3.200	10.321	51.145	2.996	9.664	49.692	7.507
3	3.085	9.950	61.095	2.875	9.273	58.965	6.881
4	2.521	8.131	69.226	2.267	7.312	66.277	5.865
5	1.665	5.370	74.596	1.450	4.678	70.955	7.757
6	1.491	4.810	79.406	1.264	4.079	75.034	8.126
7	0.675	2.178	81.584				
8	0.525	1.692	83.277				
9	0.499	1.611	84.887				
10	0.407	1.313	86.200				
11	0.385	1.241	87.441				
12	0.351	1.133	88.574				
13	0.345	1.113	89.687				

Table 9. Total variance explained (Part 2)

Factor	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total
14	0.334	1.077	90.764				
15	0.287	0.927	91.691				
16	0.271	0.874	92.566				
17	0.259	0.837	93.402				
18	0.252	0.812	94.214				
19	0.222	0.717	94.931				
20	0.205	0.662	95.593				
21	0.193	0.621	96.215				
22	0.180	0.580	96.795				
23	0.173	0.559	97.354				
24	0.164	0.529	97.883				
25	0.147	0.475	98.358				
26	0.137	0.443	98.801				
27	0.133	0.429	99.230				
28	0.106	0.341	99.570				
29	0.056	0.181	99.752				
30	0.045	0.145	99.897				
31	0.032	0.103	100.000				

Source: SPSS data.

Table 10. Pattern matrix

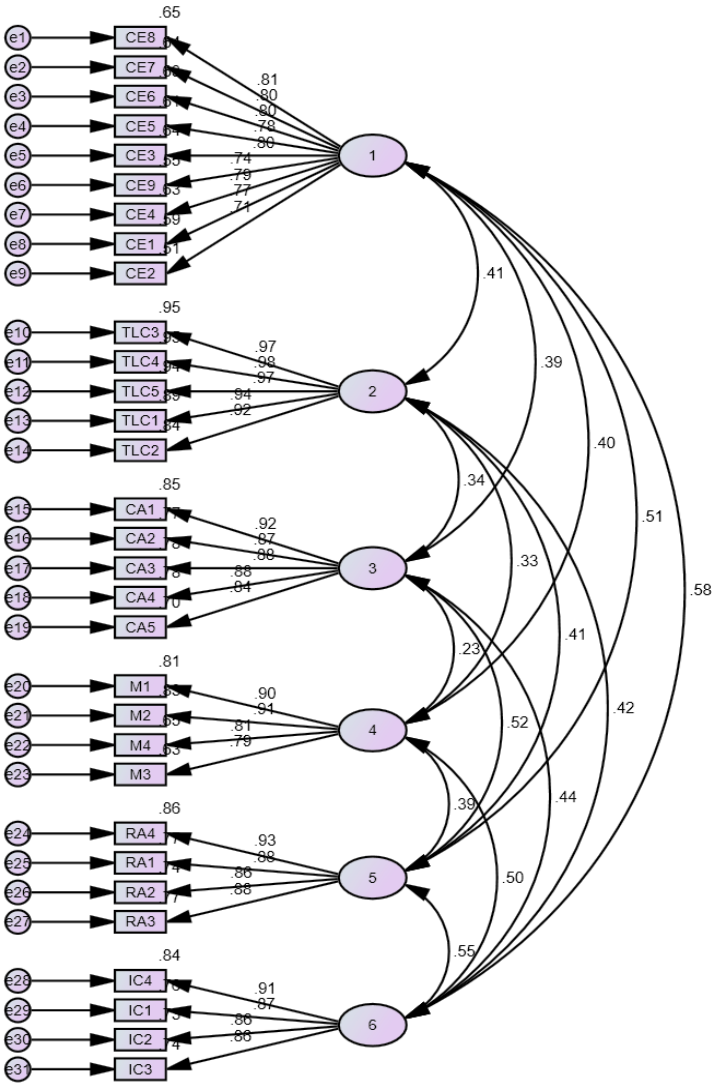
Variables	Factor					
	1	2	3	4	5	6
CE8	0.859					
CE7	0.842					
CE6	0.816					
CE5	0.798					
CE3	0.781					
CE9	0.756					
CE4	0.736					
CE1	0.678					
CE2	0.660					
TLC3		0.984				
TLC4		0.973				
TLC5		0.967				
TLC1		0.940				
TLC2		0.909				
CA1			0.930			
CA2			0.902			
CA3			0.879			
CA4			0.861			
CA5			0.817			
M1				0.948		
M2				0.927		
M4				0.786		
M3				0.729		
RA4					0.957	
RA1					0.876	
RA2					0.847	
RA3					0.819	
IC4						0.907
IC1						0.902
IC2						0.825
IC3						0.806

Source: SPSS data.

4.4. Confirmatory factor analysis

From the results of EFA, we see that there are six main concepts in the research model. To measure the model fit, we use the chi^2 command (CMIN), chi^2 adjusted by degrees of freedom (CMIN/df), GFI, TLI, CFI, and RMSEA indexes. The model is considered appropriate for market data when the model receives values of GFI = 0.849, TLI = 0.950, CFI = 0.955 ≥ 0.9, CMIN/df ≤ 3, RMSEA = 0.058 ≤ 0.08 (Steiger, 1990; Phi Ho et al., 2018). The results of confirmatory factor analysis (CFA) of the research model show that the research model is appropriate (Figure 4). The p-value results of the observed variables representing the factors all have the value sig. = 0.000, so the observed variables are confirmed to have the ability to represent the CFA model factors well. The correlation coefficient of each pair of concepts is different from 1 at a confidence level of over 95% (p-value = 0.000), so the concepts achieve discriminant value.

Figure 4. Confirmatory factor analysis of the research model



Note: Chi² = 838.380; df = 419; p = 0.000; chi²/df = 2.001; GFI = 0.849; TLI = 0.950; CFI = 0.955; RMSEA = 0.058.
Source: AMOS data.

The (standardized) weights are all > 0.5, and the (unstandardized) weights are all statistically significant (sig. < 0.000), so the concepts achieve convergent validity. This measurement model fits the research data and has no correlation between measurement errors, so it achieves unidimensionality.

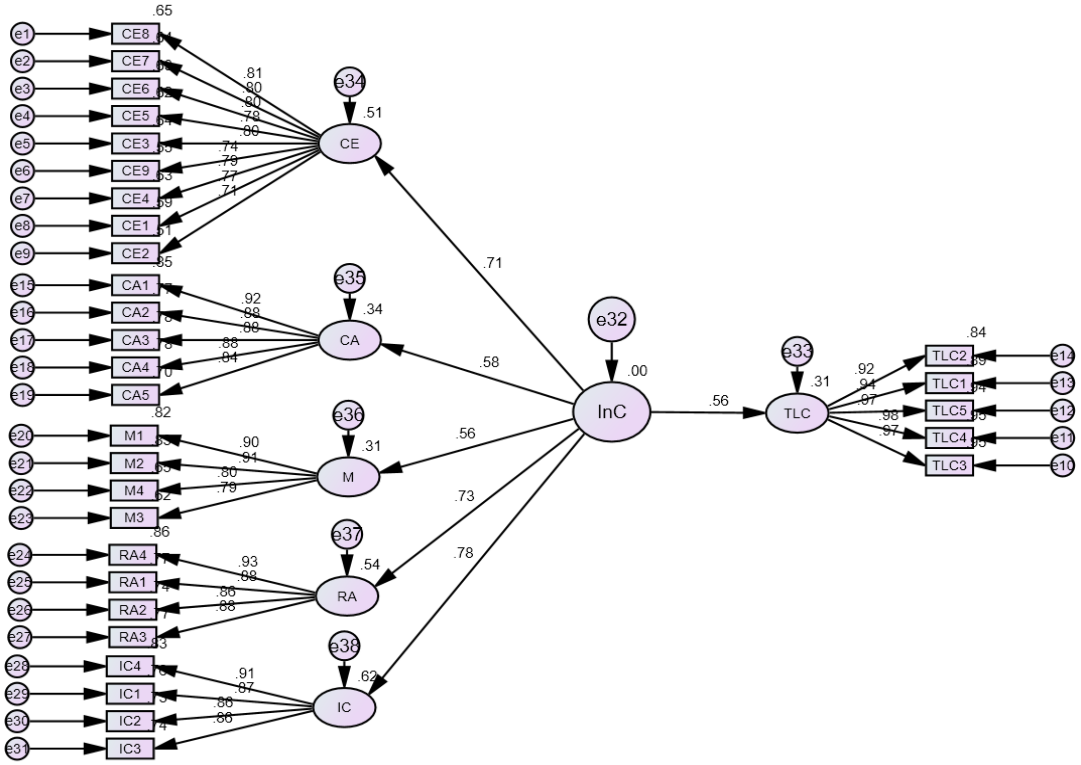
4.5. Structural equation modeling

4.5.1. Structural equation modeling 1 for H1

The study utilized SEM to evaluate the fit of the research model and test the relationships within the initial model (Hoyle, 1995). The SEM analysis result of the model with df = 428, chi^2 = 856.363, with a p-value = 0.000 < 0.05, chi^2/df = 2.001 < 3, GFI = 0.846 > 0.8, TLI = 0.950, and CFI = 0.954 > 0.9; RMSEA = 0.058 < 0.08 confirms that the model is suitable for market data (Figure 5).

The model's regression coefficient outcomes indicate the p-value < 0,05, therefore *H1* is accepted.

Figure 5. Linear structural model 1 (SEM 1)



Note: Chi² = 856.363; df = 428; p = 0.000; chi²/df = 2.001; GFI = 0.846; TLI = 0.950; CFI = 0.954; RMSEA = 0.058.
Source: AMOS data.

Table 11. Coefficients of the SEM 1 regression model and results of testing the model's hypotheses

Relations	*Estimate*	*SE*	*CR*	*P*	*Conclusion*
TLC <--- IC	0.561	0.150	7.793	***	*H1* accepted

Source: AMOS data.

The results of SEM 1 demonstrate that *H1* is accepted, meaning that IC has a positive impact on *TLC* at businesses in Vietnam.

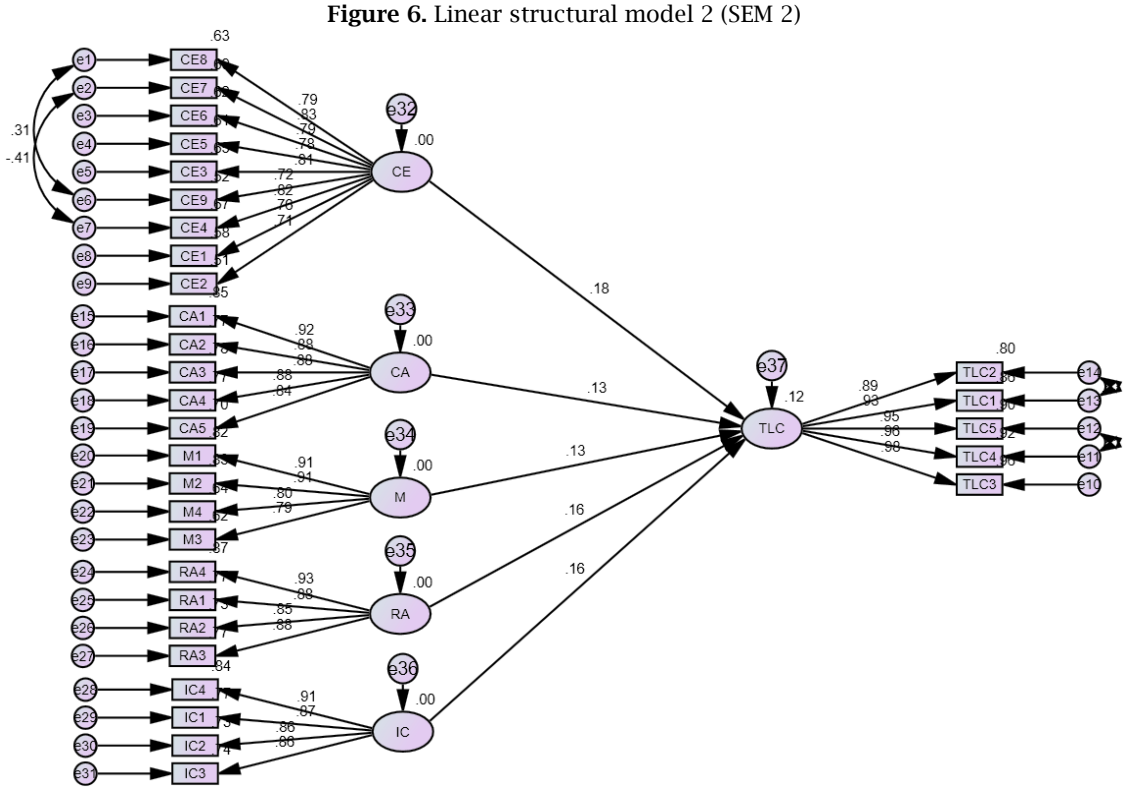
4.5.2. Structural equation modeling 2 for H2, H3, H4, H5, and H6

The study utilized SEM to evaluate the fit of the research model and test the relationships within the initial model. The SEM analysis result of the model with df = 425, chi² = 994.512, with a p-value = 0.000 < 0.05, chi²/df = 2.340 < 3, GFI = 0.807 > 0.8, TLI = 0,933 and CFI = 0.939 > 0.8, RMSEA = 0.067 < 0.08 confirms that the model is suitable for market data (Figure 6).

The model's regression coefficient outcomes indicate the p-values are less than 0,05, therefore all hypotheses are accepted (Table 12).

The results of SEM 2 demonstrate that *H2, H3, H4, H5, and H6* are accepted, meaning that the components *CE, RA, CA, IC*, and *M* all have a positive impact on *TLC* of businesses in Vietnam.

Figure 6. Linear structural model 2 (SEM 2)



Note: Chi² = 994.512; df = 425; p = 0.000; chi²/df = 2.340; GFI = 0.807; TLI = 0.933; CFI = 0.939; RMSEA = 0.067.
Source: AMOS data.

Table 12. Coefficients of the SEM 2 regression model and results of testing the model's hypotheses

Relations	*Estimate*	*SE*	*CR*	*P*	*Conclusion*
TLC <--- CE	0.177	0.081	3.070	0.002	*H2* accepted
TLC <--- RA	0.165	0.062	2.882	0.004	*H3* accepted
TLC <--- CA	0.131	0.060	2.299	0.021	*H4* accepted
TLC <--- IC	0.159	0.068	2.772	0.006	*H5* accepted
TLC <--- M	0.126	0.064	2.195	0.028	*H6* accepted

Source: AMOS data.

5. DISCUSSION

5.1. Findings

This study has provided empirical analysis on the impact of IC on TLC of businesses in Vietnam. Compared with previous studies, the contribution of this study is to clarify the level and direction of the impact of the IC system on TLC in the surveyed businesses. The new finding of the study is to analyze and evaluate the impact of each component in COSO's IC framework (2013) on tax compliance, while most studies only focus on the impact of one or a few components. This is the first study on businesses in Vietnam to carry out these analyses. Even so, the findings of this investigation are still supported by previous empirical studies.

The research results show a positive relationship between IC and TLC of companies; this is confirmed by the fact that *H1* is accepted in SEM 1. Therefore, IC is more efficient, the higher the level of TLC and vice versa, and this impact is quite large (with an estimate of 0.561). This result does not contradict previous research results and is completely consistent with the actual situation in businesses in Vietnam (Russo, 2019; Marandu et al., 2015).

SEM 2 shows that each component of IC has a positive impact on the TLC level of businesses in Vietnam. Specifically, the control environment factor has the strongest impact on TLC with an estimate of 0.177. It is explained that the control environment creates a clear, transparent, deterrent legal and administrative framework, while providing the necessary support for businesses and in the TLC process. If the business environment promotes ethics and compliance with the law, businesses will tend to comply better. In addition, good human resources policies not only help improve employee capacity and ethics but also create a positive and transparent working environment. This makes an important contribution to improving the TLC level of the business, ensuring legal and sustainable operations in the long term. Next is the risk assessment factor. Risk assessment also has an impact on the TLC of businesses in Vietnam; however, the level of impact is lower, with an estimate of 0.165. Risk assessment helps businesses identify areas or activities that have a high risk of violating tax regulations. When these risks are clearly known, businesses can focus resources on controlling them. Continuous risk assessment helps detect violations or trends early, so businesses can make timely adjustments and remedies. The IC factor also has the same impact on

TLC of businesses in Vietnam, with the 3rd level of impact among the factors, with an estimate of 0.159. Information and communication in businesses play an important role in raising awareness, providing knowledge, and practical guidance for employees about tax laws. This not only helps increase accountability and commitment to compliance but also encourages transparency, honesty, and collaboration within the business. Thanks to that, businesses can minimize the risk of violations and ensure TLC is effectively and sustainably. The fourth factor that affects tax compliance is the control activities factor, with an estimate of 0.131. This is explained by the fact that, even though businesses have such a good system of control activities, they are always under tax compliance pressure from the government. No business wants to be responsible for large amounts of tax. From the perspective of businesses, they both want not to violate tax laws, but also hope that they have to pay the least amount of tax possible. Therefore, the control activity factor still has a lighter impact on tax compliance than the control environment factor and risk assessment factor. The monitoring factor in the IC system has the lowest impact on the level of TLC, with an estimate of 0.126. Thus, monitoring is one of the five components of IC. Effective monitoring can increase the TLC level of businesses, but the level of change is very low. TLC is most impacted by the control environment, followed by risk assessment, information and communication, control activities, and finally monitoring. This result is completely consistent with the results of previous studies (Russo, 2019; Tarmidi, 2019; Marandu et al., 2015; Damayanti et al., 2019; Masunga et al., 2020). This study adds to the understanding of the impact of all five components of the COSO framework on the legal compliance of businesses in Vietnam.

5.2. Policy implications

The research results have confirmed the significant influence of IC factors on the TLC level of businesses in Vietnam. This finding highlights a number of recommendations for the government and businesses in Vietnam.

On the government side, the government needs to create conditions for businesses to perfect IC. The Vietnamese government should focus on building national standards for IC based on good international practices; issue detailed instructions to help businesses understand and apply these standards effectively. Also, the government should develop specialized training programs on IC and tax law for employees and business managers, and provide financial and technical support to SMEs so that they can participate in these training courses. The government also needs to introduce regulations requiring businesses to submit periodic reports on the IC system and TLC situation, and encourage businesses to publicly disclose information related to the IC system and TLC measures. In addition, the state needs to review and improve legal regulations to create favorable conditions for businesses to establish and operate IC systems effectively.

As for businesses in Vietnam, based on the results of this research, they need to focus on improving the efficiency of IC components, contributing to raising the level of TLC. To do that, some recommendations that the author would like to propose some recommendations to improve IC. The companies should use modern technologies such as IC management software, ERP systems, and data analysis tools to support and improve the effectiveness of IC. Moreover, the enterprises must ensure that data is well managed and protected. Data needs to be accurate, complete, and timely to support management decisions. The companies should continuously organize training programs on IC and legal compliance for employees at all levels; invest in developing professional skills for employees, especially those in charge of IC and risk management; and establish incentive policies to motivate employees to comply with IC procedures. This may include bonuses, recognition, and other incentives. They also need to establish strict sanctions for violations of IC procedures and the law. This helps maintain strictness and deterrence. Last but not least, the companies should cooperate with reputable auditing and consulting organizations to receive support and advice on improving the IC system, and participate in associations, seminars, and forums to learn from other businesses' experiences on IC practices.

6. CONCLUSION

This study explores the positive impact of IC on TLC of businesses in Vietnam. Another finding of the research is that it has determined the direction and level of impact of each IC component according to COSO (2013) on the TLC level of businesses in Vietnam. This is considered the newest point compared to previous studies. In addition, the study also points out recommendations for the government and businesses to promote the effectiveness of IC, thereby contributing to improving the TLC level of businesses. Despite its significant theoretical and applied contributions, this research still has limitations. This study has some limitations. First, the sample includes only managers from large-scale enterprises across different industries; therefore, no significant differences were identified across firm sizes or business sectors. Future research could expand the sample to include SMEs to provide more comprehensive insights. Second, the use of self-reported perceptual survey data may be subject to social desirability bias. Finally, the cross-sectional design limits causal inference, suggesting that longitudinal studies would be valuable for future research.

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