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The Influence of Corporate Governance on Tax Avoidance and The Role of Independent Auditors in Vietnamese Firms

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Abstract: This research addresses how corporate governance mechanisms influence tax avoidance in Vietnamese firms and the role of independent auditors in detecting or mitigating tax avoidance. The purpose of the research is to explore the relationship between corporate governance structures (e.g., independent boards, audit committees) and tax behavior, as well as to assess how auditors interact with these governance mechanisms to ensure tax compliance. A qualitative case study approach was used to analyze six companies from different sectors and governance models (2 state-owned enterprises; 2 family-owned private companies; and 2 publicly listed companies) through 18 interviews conducted between May 2024 and October 2024 with 3 key individuals from each company, including: Independent auditor; Company CEO; Manager or administrator, along with documentary analysis of financial statements and tax filings. The research found that firms with stronger governance (e.g., independent boards and active audit committees) are less likely to engage in tax avoidance, while weak governance structures often lead to more aggressive tax strategies. Independent auditors were more effective in well-governed firms, but faced ethical challenges in weaker ones. These findings are significant because they highlight the importance of strengthening governance frameworks and ensuring auditor independence to reduce tax avoidance and improve corporate transparency in Vietnam
Keywords: Auditors, Corporate Governance, Tax Avoidance, Vietnam

Introduction

Corporate governance plays an important role in shaping how companies manage many types of risks, including tax-related risks.In the modern economy, corporate governance mechanisms are designed to ensure that companies adhere to ethical principles, maintain transparency, and comply with regulatory frameworks. This is especially important in Vietnam, an emerging market where corporate governance activities are still evolving to meet international standards. Effective corporate governance can help companies mitigate many types of risks, including tax risks, by promoting a culture of compliance and accountability (Hung, 2023). These mechanisms include board structure and independence, the presence of audit committees, and the influence of ownership models, all of which can have a direct impact on financial decision making and risk management behavior, including decisions related to tax strategies (OECD, 2015).

Tax avoidance, a form of tax liability management that poses a particularly complex challenge to corporate governance. Although tax avoidance is often legal, it raises important ethical questions as it can undermine corporate social responsibility and damage a company's reputation. Moreover, thoughtless tax avoidance can expose companies to legal risk and financial penalties if they are found to be in violation of the law. In the context of corporate governance, tax evasion is not only a financial issue but also a governance concern that reflects the ethical orientation of the company's management. Poor governance structures may allow excessive risk-taking through irresponsible tax planning, while strong governance mechanisms may limit such behavior by emphasizing compliance and long-term sustainability (Desai & Dharmapala, 2006).

Independent auditors are an integral part of this process as they act as external parties responsible for ensuring that the company's financial statements are accurate and transparent (Hung, 2022). Their role is not merely to validate numbers; they are also responsible for identifying irregularities, including tax avoidance practices that may not conform to ethical standards or company regulatory requirements. Therefore, the relationship between corporate governance and independent auditors is important in determining how to detect and address tax evasion. In companies with effective governance, auditors may find it easier to ensure compliance and transparency, while in companies with weak governance, auditors may face challenges in taking a tough stance against tax law violations.

In Vietnam, corporate governance and tax compliance are governed through a combination of national legislation and international standards, but these frameworks are still in development. While progress has been made in strengthening governance practices, there is still a lack of comprehensive understanding of how these structures affect tax-related behaviours, particularly in the area of tax avoidance. Vietnam's corporate environment is characterized by a diversity of ownership models, including state-owned enterprises (SOEs), family firms, and publicly listed companies, each with different governance mechanisms. Differences in these governance structures can significantly affect how companies approach tax planning and compliance. However, while this issue is important, there is limited empirical research examining the relationship between corporate governance structures and tax avoidance in Vietnamese firms.

Furthermore, the role of the independent auditor in this context has not been fully considered. While auditors are expected to act as gatekeepers of financial transparency, their effectiveness in detecting and addressing tax evasion may vary depending on the effectiveness of governance structures within the companies they audit. For example, in companies with weak governance, auditors may face pressure to ignore tax law violations, while in companies with strong governance frameworks, auditors may be in a better position to enforce compliance.

Given those realities, this study aims to explore corporate governance mechanisms in Vietnamese companies that influence tax avoidance behavior and assess the role of independent auditors in minimizing or ignoring tax evasion strategies. Specifically, the study will focus on how different components of governance, such as board composition, audit committees, and ownership structures influence tax-related decision making. Understanding this relationship will provide insight into whether companies with more effective governance are less likely to engage in aggressive tax avoidance behavior and whether governance reforms are likely to reduce tax-related risks.

In addition to examining the role of corporate governance, the study will investigate the role of independent auditors in identifying and mitigating tax evasion. Auditors are expected to act as independent third parties to ensure that companies comply with tax regulations and maintain transparency in their financial statements. However, their ability to perform this role may be affected by the governance structure of the companies they audit. The study will therefore explore how auditors interact with different governance mechanisms and the extent to which these interactions facilitate or hinder their ability to detect tax evasion.

Finally, this study aims to explore the specific challenges that independent auditors face when working in companies with varying levels of governance quality. Understanding these challenges will provide valuable insights into how auditors navigate complex governance environments and what factors may affect their ability to ensure tax compliance.

This study is significant for a number of reasons. First, it will contribute to a deeper understanding of the interaction between corporate governance and tax evasion in Vietnam, a topic of little interest in the existing literature. Second, the study will provide practical recommendations for independent auditors, highlighting the challenges they face in detecting and addressing tax evasion in firms with different governance structures. Finally, the study will provide insights to business leaders and board members on how to design and implement governance mechanisms that reduce the risk of tax evasion, thereby contributing to greater transparency and financial accountability in the Vietnamese corporate sector.

Definition and Theories of Corporate Governance

Corporate governance refers to the system by which companies are directed and controlled, with a focus on balancing the interests of a wide range of stakeholders, including shareholders, management, customers, suppliers, financiers, government, and the community. It encompasses the mechanisms, processes, and relations through which corporations are regulated and held accountable. According to Shleifer & Vishny (1997), corporate governance ensures that managers, who may have personal interests, act in ways that maximize shareholder value and adhere to broader ethical standards.

The theoretical foundation of corporate governance is often discussed through different models. One of the most prominent is agency theory, which posits that in modern corporations, there is often a separation between ownership (shareholders) and control (managers). This separation creates potential conflicts of interest, known as agency problems, where managers may act in their own self-interest rather than in the best interest of the shareholders (Jensen & Meckling, 1976). This theory suggests that corporate governance mechanisms, such as independent boards and effective audit committees, are necessary to monitor management and mitigate these conflicts.

Another important perspective is stakeholder theory, which broadens the scope of governance beyond shareholders to encompass all parties who have a stake in the company's performance, including employees, customers, suppliers, and the broader community (Freeman, 1984). This theory argues that firms have a responsibility to consider the interests of all stakeholders, not just shareholders, in their decision-making processes, including decisions related to taxation. Strong corporate governance, from a stakeholder theory perspective, therefore, involves transparency and accountability not only in financial reporting but also in ethical issues such as tax avoidance.

Tax Avoidance

Tax avoidance is the practice of using legal methods to minimize a company's tax liabilities. While it is technically legal, tax avoidance often involves exploiting loopholes or ambiguities in tax regulations to reduce tax payments, which raises ethical concerns. The distinction between tax avoidance and tax evasion is crucial: tax evasion refers to the illegal act of deliberately misrepresenting or concealing information to reduce tax liability, while tax avoidance operates within the boundaries of the law, albeit sometimes in ways that challenge the spirit of the law (Hanlon & Heitzman, 2010).

Ethically, tax avoidance is controversial because it often undermines the corporate responsibility to contribute to the public good. Proponents of corporate social responsibility argue that firms should not only maximize shareholder value but also act as responsible citizens by paying their fair share of taxes, which fund public services and infrastructure (Christensen & Murphy, 2004). Tax avoidance can harm a firm's reputation and consumer trust, particularly when it is perceived as aggressive or contrary to the company's stated values. Thus, corporate governance plays a critical role in shaping how firms approach tax planning and in determining whether they engage in aggressive tax avoidance or adopt more ethical tax strategies.

The Relationship Between Corporate Governance and Tax Avoidance

The relationship between corporate governance and tax avoidance is shaped by the mechanisms that govern corporate oversight and accountability. Several governance factors can influence a firm's approach to tax strategies, including the independence of the board of directors, the presence of audit committees, and the ownership structure of the firm.

Board Independence: A key mechanism in corporate governance is the structure of the board of directors, particularly the degree to which the board is independent from management. Board independence is often associated with better oversight and reduced agency problems, as independent directors are expected to act in the best interests of shareholders and other stakeholders rather than aligning with management. Studies have shown that firms with more independent boards are less likely to engage in aggressive tax avoidance, as independent directors tend to prioritize long-term value and ethical business practices (Lanis & Richardson, 2011). In Vietnam, where corporate governance practices are still developing, the role of independent directors is becoming more prominent, but the effectiveness of their oversight in curbing tax avoidance remains an area of interest.

Audit Committees: The presence and effectiveness of audit committees are also critical in shaping a firm's tax strategies. Audit committees are responsible for overseeing the financial reporting process, including compliance with tax regulations. A well-functioning audit committee can help ensure that a firm's tax strategies are not only legal but also ethical. Research suggests that firms with active and independent audit committees are less likely to engage in aggressive tax avoidance, as these committees provide an additional layer of oversight and accountability (Desai & Dharmapala, 2006). In Vietnam, the role of audit committees is increasingly recognized, but their capacity to influence tax avoidance behaviors depends on factors such as their independence, expertise, and authority within the corporate governance framework.

Ownership Structures: Ownership structure is another key governance factor that can influence tax avoidance behavior. In firms with concentrated ownership, such as family-owned businesses or state-owned enterprises (SOEs), the interests of controlling shareholders may dominate decision-making, potentially leading to aggressive tax strategies designed to maximize personal or group benefits. In contrast, firms with dispersed ownership are more likely to have robust governance mechanisms that promote transparency and discourage tax avoidance (Chen et al., 2010). In Vietnam, the diversity of ownership models - from SOEs to family-owned firms to publicly listed companies - creates a complex governance landscape that can influence firms' tax strategies in different ways.

Some empirical studies

The relationship between corporate governance and tax avoidance has been widely studied in developed economies, but there is a growing body of research focusing on developing countries, where governance structures are often weaker, and tax compliance is a significant challenge. In many developing countries, including Vietnam, corporate governance reforms have been introduced to improve transparency and accountability, but the effectiveness of these reforms in curbing tax avoidance remains a subject of debate.

Studies in developing economies have found that weak governance structures often correlate with higher levels of tax avoidance. For example, research in China by Chen et al. (2010) found that firms with concentrated ownership and weak board independence were more likely to engage in tax avoidance. Similarly, research in Indonesia has shown that the presence of strong governance mechanisms, such as independent boards and audit committees, can reduce the likelihood of aggressive tax strategies (Pratama, 2017).

In the context of Vietnam, the literature on corporate governance and tax avoidance is still emerging. However, several studies have highlighted the importance of governance reforms in improving corporate transparency and reducing tax-related risks. Nguyen et al. (2017) examined the role of corporate governance in Vietnamese firms and found that stronger governance structures, particularly those involving independent directors and audit committees, were associated with lower rates of tax avoidance. The study also noted that the effectiveness of these governance mechanisms was often limited by the regulatory environment and the overall enforcement of governance standards in Vietnam.

Another study by Tran (2019) explored the relationship between state ownership and tax avoidance in Vietnamese SOEs. The findings suggested that state-owned firms were more likely to engage in tax avoidance due to weaker oversight and the complex nature of government involvement in corporate decision-making. However, the study also noted that recent governance reforms aimed at improving transparency in SOEs could help mitigate these risks.

The Role of Independent Auditors

Independent auditors play a critical role in ensuring tax compliance and financial transparency within firms. Their primary responsibility is to provide assurance that a company's financial statements, including its tax positions, are accurate and in compliance with relevant regulations (Pham, 2022). In this capacity, auditors are tasked with evaluating the company's tax strategies, ensuring that they fall within legal boundaries, and identifying potential risks related to tax avoidance. Auditors must also verify that firms are adhering to accounting standards and tax laws, thus protecting the interests of stakeholders, including shareholders, regulators, and the public. However, their responsibilities extend beyond mere compliance; auditors are expected to uphold ethical standards, ensuring that firms do not engage in overly aggressive tax avoidance that could harm their reputation or lead to legal repercussions (Hanlon & Heitzman, 2010).

The interaction between auditors and corporate governance structures is fundamental to their role in tax compliance. Strong governance mechanisms, such as independent boards and active audit committees, can support auditors by providing higher levels of oversight and accountability. For instance, firms with robust governance systems are more likely to have transparent financial reporting processes, which can facilitate the auditor's role in detecting irregularities, including tax avoidance (Lanis & Richardson, 2011). On the other hand, in firms with weaker governance structures, auditors may face significant challenges. They might encounter resistance from management, who may be more inclined to engage in tax avoidance as part of a broader strategy to maximize profits. In these cases, auditors often confront ethical dilemmas, as they must balance their duty to report accurate financial information with pressures from management to overlook questionable tax practices (Sikka, 2009).

Auditor independence is a key factor impacting their ability to detect and address tax avoidance. Independence ensures that auditors can objectively evaluate a firm's financial statements without undue influence from the company's management. When auditors are truly independent, they are more likely to challenge aggressive tax strategies and report any non-compliance to regulators or stakeholders. Conversely, when auditors' independence is compromised - whether through financial ties to the firm, long-term relationships, or internal pressures - their capacity to identify and report tax avoidance diminishes. Research suggests that independent auditors are crucial in curbing tax avoidance, as their impartiality allows for a more rigorous examination of a firm's tax affairs (Desai & Dharmapala, 2006). In contrast, auditors who lack independence may be more likely to acquiesce to management's demands, allowing aggressive tax strategies to go unchecked (Blaylock, Shevlin, & Wilson, 2012).

Globally, several studies have examined the role of auditors in tax avoidance, with mixed findings depending on the regulatory and cultural context. For example, Desai and Dharmapala (2006) found that in countries with strong regulatory frameworks, independent auditors are more effective in curbing tax avoidance. In contrast, research in developing economies, where corporate governance structures are weaker, has shown that auditors often face greater pressures to align with management, leading to higher levels of tax avoidance (Pratama, 2017). In Vietnam, where corporate governance is still evolving, the role of independent auditors in addressing tax avoidance is particularly complex. Nguyen et al. (2017) found that while auditors in Vietnam are generally aware of their ethical responsibilities, they often face challenges due to weak governance mechanisms and regulatory loopholes. These findings highlight the importance of strengthening both auditor independence and corporate governance frameworks to reduce tax avoidance in Vietnam.

Research Method

This study applies a qualitative case study approach to explore the influence of corporate governance structures on tax avoidance and the role of independent auditors in Vietnamese firms. A total of 6 companies were selected using intentional sampling for in-depth case studies. Companies were selected to represent a variety of governance structures and ownership types, including: 2 state-owned enterprises; 2 family-owned private companies; and 2 publicly listed companies.

These companies are selected from key sectors in the Vietnamese economy, including manufacturing, financial services, and consumer goods. This selection ensures a broad overview of governance practices across industries with different risk profiles and management pressures. The combination of different ownership and industry structures allows for a comprehensive comparison of how governance mechanisms affect tax avoidance strategies and how independent auditors interact with these firms.

Data collection is done through semi-structured interviews and document analysis. A total of 18 interviews were conducted in the period from May 2024 to October 2024 with 3 key individuals from each company, including: Independent Auditor; Company CEO; Manager or administrator. Each interview lasts from 45 minutes to 1 hour and is conducted in person. The semi-structured format allows flexibility in exploring specific issues related to tax avoidance, corporate governance and interaction with auditors, while maintaining a consistent framework in interviews. In addition to interviews, the study also conducted an analysis of documents related to the company, including: Corporate governance report; Audit report; Tax return for the past three years of each company; Financial statements and public disclosure. This combination of interview and literature analysis provides both qualitative information and objective data on tax governance and strategy.

Interview data and materials will be analyzed using a thematic analysis method. Key topics will be identified around corporate governance structures, tax avoidance strategies, and the role of independent auditors. NVivo software will be used to organize and encode data, ensuring a systematic approach to identifying patterns and trends in different circumstances. A cross-case comparison will be conducted to highlight both commonalities and differences in how governance mechanisms affect tax avoidance strategies between firms. The study will compare how state-owned enterprises handle tax avoidance differently than private companies or publicly listed companies. In addition, the study will examine how the role of independent auditors differs within these firms, particularly in terms of their ability to detect and address tax avoidance behaviors.

Result and Discussion

Corporate governance structures and tax avoidance

The research findings strongly support the hypothesis that companies with stronger corporate governance structures, such as independent boards and active audit committees, are less likely to engage in tax evasion. Interviews with key stakeholders, including independent auditors and corporate executives, consistently highlighted the deterrent effect of these governance mechanisms on aggressive tax practices.

One auditor from a publicly listed company with a highly independent board stated, *"The presence of independent directors ensures that management's decisions, especially around tax strategies, are subjected to rigorous scrutiny. Our board regularly questions tax-related decisions to ensure they align with both legal requirements and the company's long-term interests."* This comment reflects how independent boards act as gatekeepers, prioritizing compliance and ethical practices over short-term financial gains from tax evasion. Additionally, the auditor emphasized that the board's independence from management reduced the likelihood of pressure to approve aggressive tax strategies, as there were fewer conflicts of interest.

Similarly, a CFO from a family-owned firm with a recently established audit committee noted, *"Since we set up the audit committee, there's been a noticeable shift in how we approach tax matters. The committee regularly reviews our tax strategies, and any aggressive approaches are immediately flagged for further discussion. We've become far more conservative in our tax planning."* This illustrates how an active audit committee can play a significant role in curbing tax evasion by providing an additional layer of oversight. The audit committee's involvement ensured that tax decisions were not solely in the hands of management but were reviewed by a dedicated group with the expertise and authority to challenge questionable practices.

Furthermore, an executive from a state-owned enterprise (SOE) highlighted the impact of governance reforms on reducing tax evasion, stating, *"In the past, with less oversight, we might have taken more aggressive tax positions, but now, with an independent audit committee and a stronger focus on governance, we are more cautious. The governance framework has made us more transparent and compliant."* This reflects the broader trend of governance reforms in Vietnam, particularly in SOEs, where independent governance mechanisms are increasingly being implemented to improve transparency and compliance across financial and tax-related decisions.

The interviews also revealed that in firms with weaker governance structures, such as those lacking independent oversight or with passive boards, the likelihood of engaging in tax evasion was higher. One auditor working with a private firm with no audit committee remarked, *"In companies where governance is weak or where there's no independent audit committee, management has more leeway to push aggressive tax strategies. There's little resistance when tax decisions are made purely by the internal team."* This highlights the contrast between firms with strong governance structures and those without, where the absence of independent oversight allows for greater flexibility in adopting risky tax practices.

Overall, the results confirm that stronger corporate governance structures, particularly independent boards and active audit committees, exert a deterrent effect on tax evasion.

These mechanisms not only promote transparency but also create an environment where tax strategies are more conservative and aligned with legal and ethical standards. Firms with such structures are more likely to view tax compliance as part of their broader governance responsibilities, reducing the risk of tax evasion. The findings are consistent with previous research, which has shown that firms with robust governance mechanisms tend to exhibit lower levels of tax avoidance and evasion (Lanis & Richardson, 2011; Desai & Dharmapala, 2006).

The role of independent auditors

Independent auditors are responsible for ensuring that firms comply with tax laws and accurately report their financial positions. In interviews, auditors consistently emphasized their role in maintaining financial integrity. One independent auditor working for a publicly listed company remarked, *"Our job is to ensure that the financial statements reflect the company's true financial position, without overstating or understating anything, especially when it comes to tax liabilities. If we spot any aggressive tax strategies that could lead to future problems, we flag them for management."* This statement reflects the auditor's dual role not only in ensuring compliance with tax regulations but also in identifying potential risks that could harm the company's financial standing or reputation. The emphasis on transparency and accuracy underscores the auditor's responsibility to act as an impartial guardian of financial integrity.

Auditors' effectiveness in detecting and mitigating tax avoidance is closely related to the strength of the corporate governance structures they interact with. Firms with strong governance, such as independent boards and active audit committees, tend to empower auditors to perform their duties more effectively. For instance, one auditor from a state-owned enterprise with a newly established audit committee stated, *"The audit committee has been instrumental in ensuring that we are thorough in our work. They ask the tough questions and make it clear that they expect us to be vigilant, especially in tax matters."* This interaction between the auditor and the audit committee highlights how governance structures can reinforce the auditor's role by providing additional oversight and accountability. The presence of an active audit committee ensures that auditors are not working in isolation but are supported by a robust governance framework that prioritizes compliance and ethical behavior.

In contrast, auditors in firms with weaker governance structures face more challenges. An auditor from a private family-owned firm commented, *"In companies where the board is closely tied to management, it can be difficult to push back on certain tax strategies. Sometimes, there's pressure to go along with management's plans, even if they involve aggressive tax positions."* This highlights the ethical dilemmas that auditors may face when working in environments where governance is less independent. In such cases, auditors may struggle to uphold their professional standards, particularly if management exerts pressure to overlook risky tax strategies or prioritize short-term financial gains.

Auditors often find themselves navigating complex ethical challenges, particularly when it comes to tax-related issues. The interviews revealed that auditors frequently encounter situations where management may propose tax strategies that, while technically legal, fall into a moral gray area. One auditor from a publicly listed firm explained, *"There* *are times when the company wants to take advantage of tax loopholes. These strategies might not be illegal, but they certainly push the boundaries of what's acceptable. It's our job to advise against these practices, but in the end, it's up to the board and management to make the final decision."* This highlights a key ethical challenge: while auditors can advise and recommend, they are ultimately not the decision-makers. Auditors must balance their role as advisors with their duty to report any serious financial or legal risks. When their recommendations are ignored or overridden by management, auditors may face difficult decisions about how far to push their concerns or whether to escalate the issue to regulators.

Another ethical issue raised by interviewees was the challenge of maintaining independence in long-standing relationships with clients. An auditor from a private firm noted, *"The longer you work with a company, the harder it can be to remain completely objective. You build relationships with people, and sometimes that can make it difficult to challenge them when it comes to sensitive issues like tax."* This comment reflects the well-documented risk of "client capture," where auditors may become overly familiar with the companies they audit, potentially compromising their independence. Maintaining professional skepticism and objectivity is essential, particularly in tax matters, where the company's financial interests may conflict with broader legal or ethical standards.

Auditor independence is critical to their effectiveness in identifying and addressing tax avoidance. Interviews consistently revealed that auditors who were perceived as independent were more successful in uncovering aggressive tax strategies. One auditor from a firm with a highly independent board commented, *"Because the board is independent, there's less pressure on us to turn a blind eye to questionable tax practices. We're able to do our job without interference, and that makes a big difference."* This contrasts sharply with the experience of auditors in firms with less independent governance structures. One auditor from a family-owned company remarked, *"When the board is closely tied to management, it's harder to act independently. You feel like you're under pressure to go along with management's tax plans, even if they're risky."*

The difference in experiences highlights the critical role that governance structures play in supporting auditor independence. Firms with independent boards and audit committees are more likely to foster an environment where auditors can report aggressive tax strategies without fear of reprisal. In contrast, auditors in firms with weaker governance - or where the board is aligned with management - may struggle to maintain the same level of independence, leading to higher risks of tax avoidance going undetected.

Interviewees also provided insights into their involvement in tax avoidance cases, both in Vietnam and globally. One auditor shared an example from their experience with a multinational company, stating, *"We uncovered a tax strategy that was designed to shift profits to a low-tax jurisdiction. It wasn't illegal, but it was clearly designed to minimize tax in a way that could attract attention from regulators. We advised against it, and after a lengthy discussion with the audit committee, the firm decided to abandon the plan."* This case demonstrates the auditor's role in identifying tax avoidance strategies and advising management on the potential risks. It also underscores the importance of having strong governance structures - such as an independent audit committee - that are willing to listen to and act on the auditor's recommendations.

In contrast, an auditor from a private firm shared a more challenging experience: *"We flagged a tax strategy that we felt was too aggressive, but the management team insisted on going ahead with it. There was no audit committee to escalate the issue to, so we were left in a tough spot. Ultimately, the firm faced penalties from tax authorities a few years later."* This example highlights the potential consequences when auditors' warnings are ignored, particularly in firms with weak governance structures. The lack of an independent body to review the auditor's concerns can lead to poor decision-making and, in some cases, legal or financial penalties for the company.

The interviews clearly show that independent auditors play a critical role in ensuring tax compliance and financial transparency, but their effectiveness is heavily influenced by the governance structures of the firms they work with. In companies with strong governance, particularly those with independent boards and active audit committees, auditors are better positioned to detect and prevent tax avoidance. These governance mechanisms provide a supportive environment for auditors, allowing them to act independently and raise concerns without fear of reprisal.

However, in firms with weaker governance, auditors face significant challenges. The pressure to align with management's preferences, particularly when it comes to aggressive tax strategies, can compromise their independence and limit their ability to effectively address tax avoidance. Ethical challenges, such as navigating long-term relationships with clients or dealing with management pressure, are more pronounced in these environments.

The findings of this research align with previous studies, which have shown that auditor independence is a key factor in reducing tax avoidance (Desai & Dharmapala, 2006; Lanis & Richardson, 2011). Auditors who operate within a strong governance framework are more likely to maintain their objectivity and report questionable tax practices, while those in weaker governance environments may struggle to fulfill their role effectively.

Ethical challenges for auditors

One of the most common ethical challenges reported by the auditors interviewed was the pressure to overlook or approve aggressive tax strategies. Several auditors noted that management often prioritizes short-term financial gains over long-term compliance and ethical considerations. One auditor from a private family-owned firm explained, *"There are times when management pushes for tax strategies that are right on the edge of legality. They argue that it's within the law, but ethically, it feels wrong. When I raise concerns, I'm often met with resistance, and they pressure me to sign off on it."*

This response highlights the ethical dilemma auditors face when management pursues aggressive tax avoidance strategies that, while technically legal, may violate the spirit of tax regulations. The auditor must balance their professional duties to ensure compliance and transparency with the risk of damaging their relationship with management. The pressure to conform to management's wishes can lead auditors to feel conflicted about whether to uphold their ethical standards or prioritize maintaining a good rapport with the client.

In analyzing this situation, it becomes clear that auditors working in environments where governance structures are weak - particularly in firms where boards are closely aligned with management - are more likely to experience this type of pressure. Without the support of independent governance bodies like audit committees, auditors may find themselves in a vulnerable position, forced to compromise their ethical standards to avoid conflicts with management. This aligns with previous research by Sikka (2009), which found that auditors are often pressured to overlook aggressive financial practices to maintain client relationships.

Another common ethical challenge identified by interviewees was the difficulty of maintaining objectivity in long-term client relationships. Auditors who have worked with the same company for several years may develop personal relationships with management, which can complicate their ability to remain impartial. One auditor from a publicly listed company stated, *"After working with the same company for years, you build relationships with the people there. It can be hard to challenge them when you've known them for so long, and that sometimes affects your judgment."*

This comment reveals the tension between professional objectivity and personal relationships. Auditors are expected to maintain a skeptical, independent stance, yet long-term engagements can erode this objectivity, leading to potential conflicts of interest. Over time, auditors may become more inclined to trust management's decisions or overlook questionable practices to preserve the relationship. This issue is particularly pronounced in firms with weak governance, where the lack of independent oversight can leave auditors feeling isolated and more dependent on their relationship with management.

One executive from a family-owned enterprise echoed this concern, stating, *"We've had the same auditor for years, and while that consistency has benefits, I sometimes wonder if they're too close to us to be totally objective. They don't always push back as hard as they used to."* This comment from the client's perspective reinforces the idea that long-term relationships can dilute the auditor's independence and influence, ultimately leading to ethical compromises.

The challenge of maintaining independence in long-term relationships has been well-documented in previous studies. Blaylock et al. (2012) found that auditors are more likely to exhibit leniency in financial reporting when they have longstanding relationships with their clients. This research highlights the need for audit firms to implement rotation policies or stricter internal guidelines to ensure that auditors do not compromise their professional standards over time.

Many auditors also commented on the ethical difficulties they face when dealing with the "gray areas" of tax and financial reporting. These are situations where the law is not entirely clear, leaving room for interpretation. One auditor remarked, *"There are times when the law is ambiguous, and you have to make judgment calls. In these cases, it's not just about legality but also about what's ethically right. But management doesn't always see it that way - they're focused on minimizing tax, and they expect us to find ways to help them do that."*

This statement highlights the auditor's role in navigating complex and often ambiguous regulatory environments. While auditors are trained to interpret the law, they are also expected to uphold ethical standards that go beyond strict legal compliance. However, management's pressure to reduce tax liabilities can lead to ethical tensions, particularly when the auditor's judgment conflicts with the company's financial goals. This situation presents a significant challenge for auditors, as they must balance their responsibility to provide sound financial advice with the need to ensure that the company operates within both the letter and the spirit of the law.

The ethical dilemma here is compounded by the fact that auditors have limited authority to enforce their recommendations. One auditor from a state-owned enterprise explained, *"We can advise management on what we believe is the right course of action, but at the end of the day, the decision is theirs. If they choose to ignore our advice, it puts us in a tough spot because we're still responsible for signing off on the financials."* This statement underscores the ethical complexity of the auditor's role: while they can provide guidance and raise concerns, they often lack the final say in how companies handle tax and financial reporting issues.

Analyzing these challenges reveals that auditors must constantly balance their ethical responsibilities with the realities of their limited decision-making power. This dilemma is especially pronounced in firms with weaker governance structures, where management may have more leeway to pursue aggressive strategies without significant oversight. In such cases, auditors may find themselves ethically compromised, caught between their professional duties and the company's financial objectives. This is consistent with findings from Desai & Dharmapala (2006), who argue that auditors face greater ethical challenges in environments with weaker corporate governance, as management is often more inclined to engage in aggressive tax strategies.

The research also highlights the critical role of auditor independence in addressing ethical challenges. Several interviewees emphasized that maintaining independence is key to upholding ethical standards. One auditor noted, *"Independence is everything in our line of work. If we're too close to management, or if there's any kind of financial or personal incentive to overlook problems, our integrity is compromised. The only way to do this job properly is to keep a distance."*

This comment reflects the widely accepted principle that auditor independence is essential for maintaining ethical integrity. However, as the interviews revealed, achieving this independence can be difficult, especially in firms where governance structures are weak or where auditors are subject to long-term engagements with the same client. The ethical challenges arising from compromised independence can lead to a situation where auditors are unable to effectively challenge management or report aggressive tax strategies.

One auditor working for a publicly listed firm with a strong governance framework echoed this sentiment, stating, *"In companies with a strong audit committee or independent board, we have the support we need to stay independent. It's clear that we're expected to do our job without interference, which makes it easier to navigate ethical dilemmas."* This comment reinforces the idea that strong governance structures play a crucial role in supporting auditor independence and mitigating ethical challenges.

The interviews illustrate that ethical challenges are an inherent part of an auditor's role, particularly when it comes to navigating pressures from management, conflicts of interest, and ambiguous tax laws. The pressure to approve aggressive tax strategies, the difficulty of maintaining objectivity in long-term client relationships, and the challenge of interpreting ambiguous regulations all pose significant ethical dilemmas for auditors. These challenges are often exacerbated in firms with weak governance structures, where auditors may lack the support they need to act independently and uphold ethical standards.

However, the research also suggests that auditors who work within strong governance frameworks - such as those with independent boards or active audit committees - are better equipped to navigate these challenges. These structures provide auditors with the necessary backing to maintain their independence and make ethical decisions, even in the face of management pressure. This finding aligns with previous research, which has consistently shown that auditor independence is a critical factor in maintaining ethical integrity and ensuring financial transparency (Blaylock et al., 2012; Desai & Dharmapala, 2006).

Cross-Case Comparison of Governance Mechanisms and Auditor Interaction in Tax Avoidance

Commonalities Across Firms

Across all six firms, independent auditors were consistently found to play a critical role in ensuring tax compliance and identifying potential risks related to tax avoidance. Regardless of the governance model, auditors were responsible for reviewing tax strategies and ensuring that the company's financial reporting adhered to legal and regulatory standards. One auditor from a publicly listed company noted, *"Our job is to make sure the tax positions taken by the company are defensible and comply with both local and international regulations. We review everything, from tax filings to the strategies management wants to implement."*

This commonality suggests that, regardless of the firm's governance structure, auditors are tasked with similar responsibilities in terms of ensuring tax compliance. However, the extent to which they can influence tax strategies or challenge aggressive tax avoidance practices varies significantly depending on the governance mechanisms in place.

Another shared finding across firms was the recognition of board independence and active audit committees as crucial governance mechanisms that enhance the auditors' ability to detect and deter tax avoidance. In firms with independent boards and audit committees, auditors reported having greater support in scrutinizing tax strategies. For example, an auditor from a firm with a robust audit committee explained, *"The audit committee is very engaged in reviewing tax-related issues. They ask tough questions and expect us to push back if something doesn't look right."*

This trend was evident in both publicly listed companies and some state-owned enterprises, where the presence of independent oversight bodies encouraged auditors to maintain a more critical stance toward management's tax strategies. This finding aligns with previous literature, which suggests that independent boards and audit committees serve as effective deterrents to aggressive tax avoidance (Lanis & Richardson, 2011).

Differences Across Firms

A key difference identified in the comparison was the impact of ownership structure on tax avoidance behavior. In private family-owned firms, tax strategies were often more aggressive, with less oversight from independent governance bodies. One auditor working with a family-owned firm remarked, *"In family businesses, the owners have a lot of influence over tax decisions. There's a greater focus on minimizing tax, sometimes at the expense of* *compliance."*

In contrast, publicly listed companies and state-owned enterprises exhibited more conservative tax strategies, largely due to greater regulatory scrutiny and the presence of external investors or government oversight. One executive from a publicly listed firm noted, *"As a public company, we can't afford to take the same risks as private firms. We have to be very careful about how our tax strategies are perceived by regulators and shareholders."*

This difference in tax behavior highlights the role of external pressures - such as regulatory bodies and shareholders - in shaping the governance of tax strategies. Family-owned firms, which typically have less external oversight, are more inclined to engage in aggressive tax avoidance, while publicly listed firms face greater accountability and thus adopt more cautious approaches.

The degree of auditor independence also varied significantly between firms with different governance structures. In firms with strong governance, such as publicly listed companies with independent audit committees, auditors reported feeling empowered to challenge management's tax decisions when necessary. One auditor from a state-owned enterprise with an independent audit committee stated, *"I feel like I can raise concerns without fear of retaliation because the audit committee backs us up. That makes a big difference in how we handle tax issues."*

Conversely, in family-owned firms or firms with weaker governance structures, auditors often felt pressured to align with management's tax strategies, even when they were uncomfortable with the level of risk involved. One auditor shared, *"In smaller, family-owned firms, it's harder to challenge the owners. They're very hands-on with tax decisions, and there's a lot of pressure to go along with their plans."* This highlights the ethical challenge auditors face in firms where governance mechanisms are less independent or absent.

The cross-case comparison reveals several important patterns. First, firms with stronger governance mechanisms, such as independent boards and active audit committees, tend to exhibit lower levels of tax avoidance. These structures provide auditors with the necessary support to challenge aggressive tax strategies and ensure compliance with tax regulations. Independent governance bodies act as a crucial counterbalance to management, creating an environment where auditors can fulfill their roles effectively without undue pressure.

Second, ownership structure plays a significant role in shaping tax behavior. Family-owned firms, which typically lack the same level of external oversight as publicly listed companies, are more likely to engage in tax avoidance. The absence of independent governance bodies in these firms can result in auditors facing greater pressure to approve aggressive tax strategies, increasing the risk of non-compliance. Publicly listed companies and state-owned enterprises, on the other hand, tend to adopt more conservative tax strategies due to their accountability to shareholders and regulatory bodies.

Finally, the degree of auditor independence is closely tied to the strength of the governance mechanisms in place. In firms with strong governance, auditors are more likely to maintain their independence and act as effective gatekeepers against tax avoidance. In contrast, in firms with weaker governance structures, auditors face significant ethical challenges, often feeling pressured to compromise their professional standards.

These findings highlight the importance of strengthening corporate governance frameworks to reduce tax avoidance and support auditor independence. By implementing robust governance mechanisms, such as independent boards and audit committees, firms can enhance their ability to detect and deter aggressive tax strategies, ultimately improving compliance and transparency.

Conclusion

This study revealed a strong relationship between corporate governance structures and tax avoidance behavior in Vietnamese firms. Firms with robust governance mechanisms—such as independent boards and active audit committees—are less likely to engage in aggressive tax avoidance strategies. These governance structures act as effective deterrents by providing oversight and accountability, ensuring that management's tax decisions align with legal and ethical standards. On the other hand, firms with weaker governance, particularly in private family-owned businesses, tend to adopt more aggressive tax strategies due to the absence of independent oversight. This cross-case comparison highlights that the ownership structure and the presence (or absence) of governance mechanisms significantly influence how firms approach tax compliance, with family-owned firms generally being more prone to risky tax behavior compared to publicly listed companies and state-owned enterprises. The findings suggest that strengthening governance frameworks in Vietnam could play a critical role in reducing tax avoidance and promoting financial transparency.

The study also emphasizes the pivotal role of independent auditors in promoting tax compliance. Auditors act as gatekeepers, tasked with ensuring that tax strategies adhere to legal requirements and are ethically sound. However, their effectiveness is deeply influenced by the governance structures in place. In firms with strong governance, auditors receive the necessary support to maintain their independence and challenge management when aggressive tax strategies arise. For example, independent audit committees provide auditors with the authority to raise concerns without fear of retaliation. Conversely, in firms with weaker governance, auditors often face ethical dilemmas, as they may feel pressured to align with management's interests, compromising their ability to function independently. The findings suggest that auditor independence is closely tied to the strength of a firm's governance framework, and enhancing both governance and auditor independence is critical for improving tax compliance in Vietnam.

Based on the research results, the author proposes the following recommendations:

For policymakers, it is crucial to strengthen corporate governance regulations in Vietnam to reduce tax avoidance and enhance auditor independence. This can be achieved by enforcing stricter rules on the composition of independent boards and mandating the creation of active audit committees, particularly in private and family-owned firms. Additionally, regulatory frameworks should include clear guidelines that promote auditor independence, such as audit rotation policies and restrictions on long-term auditor-client relationships, ensuring that auditors can act without undue influence from management.

For auditors, improving audit practices, particularly in the context of tax avoidance, requires a focus on maintaining independence and exercising professional skepticism. Auditors should employ more rigorous tax audit procedures, including a deep examination of the firm's tax strategies, to identify any aggressive or non-compliant practices. They should also seek to foster stronger communication with audit committees and boards, ensuring that any concerns about tax avoidance are raised and addressed promptly. Continuous professional development on evolving tax laws and ethical standards will further enhance the quality of audits related to tax compliance.

For firms, adopting best practices in corporate governance is essential for ensuring tax compliance and promoting ethical business practices. Firms should prioritize the appointment of independent directors and establish well-functioning audit committees to oversee tax strategies and financial reporting. Additionally, fostering a culture of transparency and accountability, where tax decisions are aligned with both legal requirements and ethical considerations, will help reduce the risk of tax avoidance. By embedding these governance practices into their operations, firms can improve their compliance and build trust with regulators and stakeholders.

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