

BRIDGING COMPLIANCE AND SUSTAINABILITY:

Leveraging Tax Risk Management in the ESG Agenda

- *Puteri Nur Liana and Wan Muzlina*



Introduction

In an era of volatility, uncertainty, complexity, and ambiguity (VUCA), finance leaders can no longer afford to depend on legacy approaches to management and compliance. The rapid change, particularly in areas like the digital economy and global tax reform (e.g., Pillar 2), elevates Tax Compliance Risk significantly, demanding greater foresight. Today's business environment demands agile, data-informed decision-making anchored in a proactive **Enterprise Risk Management (ERM)** framework. One of the key components of this framework is **Tax Compliance Risk Management (TCRM)**, which offers a structured lens through which organisations can assess and address risks



associated with the core pillars of tax compliance: registration, filing, reporting, and payment. By embedding TCRM into the broader ERM ecosystem, chief financial officers (CFOs) and compliance

officers are better positioned to safeguard regulatory integrity, enhance strategic foresight, and drive operational resilience in a rapidly shifting global tax landscape.

What is the current Environmental, Social, and Governance (ESG) trend, and why does sustainability matter?

The rising prominence of ESG principles underscores a global shift toward greater sustainability, accountability, and long-term value creation. Today's investors, regulators, and stakeholders increasingly expect organisations to move beyond mere profit generation and demonstrate responsible practices across environmental stewardship, social contribution, and corporate governance. In Malaysia, this shift is gaining momentum with the introduction of the National Sustainability Reporting Framework (NSRF)¹, which will require Main Market and ACE Market listed companies, as well as large non-listed entities with annual revenues exceeding RM2 billion, to adopt phased ESG reporting beginning in 2025.

Recognising that the transition toward sustainability is a shared responsibility, key industry players, including the accounting profession, are stepping up to support this agenda. In 2024, the Malaysian Institute of Accountants (MIA) launched the MIA Sustainability Blueprint for the Accountancy Profession², outlining the role of accountants in driving ESG integration and ensuring transparent, credible sustainability reporting across sectors.

Another area focused under the ESG lens is **tax transparency**, which has become a critical benchmark for assessing a company's commitment to responsible governance. Poor tax governance is increasingly viewed by investors as a **"red flag"** for broader governance failures, creating significant reputational and financial risk. In line with global and domestic developments, initiatives such as Country-by-Country Reporting (CbCR), the International Compliance

Assurance Programme (ICAP), and enhanced transfer pricing documentation requirements underscore the demand for greater openness in how multinational corporations manage and report their tax affairs. These measures, supported by the Organisation for Economic Co-operation and Development (OECD) and adopted by tax authorities like the Inland Revenue Board of Malaysia (HAsiL), aim to prevent profit shifting and ensure that companies pay their **fair share of taxes** where economic activities occur. Embracing such initiatives reflects an organisation's alignment with ESG expectations, particularly under the **'G' for governance**, and signals a proactive approach to managing tax risks, complying with international standards, and contributing transparently to national revenues.

These developments are only part of a broader, ongoing shift towards sustainability across sectors and regulatory landscapes. Notably, sustainability matters now more than ever for business continuity and reputation. Companies that integrate ESG principles

¹ Securities Commission Malaysia. (2024, September 24). National Sustainability Reporting Framework to enhance sustainability disclosures.

² Malaysian Institute of Accountants. (2024). MIA Sustainability Blueprint for the Accountancy Profession.

Bridging Compliance and Sustainability: Leveraging Tax Risk Management in the ESG Agenda

are better positioned to mitigate these risks, attract investment, meet regulatory requirements, and build trust with stakeholders. As a result, ESG is no longer a voluntary initiative but a strategic necessity for organisations aiming to remain competitive and resilient in an evolving global landscape.

What is ERM and TCRM Framework?

ERM is a firm-wide strategy to identify and prepare for hazards in a company's finances, operations, and objectives. The 4 components of ERM are (1) risk identification, (2) risk assessment, (3) risk response, and (4) monitoring the controls.³ TCRM takes place within the broader scope of an organisation's total risk management activities. This narrower focus differentiates TCRM from the wider concept of ERM. TCRM, by design, directs its attention specifically to the intricate landscape of tax compliance risks.

According to OECD (2004)⁴, risk can only be seen in the operating context. Establishing the context sets boundaries within which compliance risk mitigation or monitoring can occur. The context needs to be continually monitored to detect changes that might consequently affect compliance risk. OECD also states that to establish the context, the organisation is required to (1) recognise the operating context, (2) focus on compliance risk, (3) monitor the external environment, and (4) shape internal capability. Similarly, Gjerdrum and Peter (2011)⁵ pointed out that establishing the context of the risk management process will vary according to the structure and

³ <https://www.investopedia.com/terms/e/enterprise-risk-management.asp>

⁴ OECD Guidance Note, Compliance Risk Management: Managing and Improving Tax Compliance, 2004

⁵ Gjerdrum D, and Peter M, (2011), *The New International Standard on the Practice of Risk Management – A Comparison of ISO 31000:2009 and the COSO ERM Framework*.

the needs of the organisation. It will include activities like setting goals and objectives for risk management and defining the responsibilities, scope, depth, and breadth of the process. This is a critically important step in the process because it will ensure that the risk management approach is appropriate to the organisation, its risks, and its objectives. It also includes a detailed analysis of the internal and external stakeholders, environment, and key drivers and trends that have an impact on the objectives of the organisation.

How can HASiL's Tax Corporate Governance Framework (TCGF) support effective tax compliance?

Tax Corporate Governance Framework (TCGF) helps establish a robust foundation for handling tax compliance within the organisation. It outlines responsibilities, procedures, and accountability measures to ensure that tax-related activities are conducted ethically, transparently, and in compliance with relevant laws. This framework sets out HASiL's expectations on the application of the principles of Tax Corporate Governance within an organisational setting. In HASiL's TCGF, the 6 principles in developing a good TCGF are (1) tax strategy established, (2) applied comprehensively, (3) responsibility

assigned, (4) governance documented, (5) testing performed, and (6) assurance provided. An important element in TCGF is the Tax Control Framework (TCF).

TCF is the structure that supports the organisation's tax risk management and underpins tax compliance. As stated in the Guidelines on Tax Corporate Governance Framework⁶, TCF is a system for identifying, overcoming, controlling, and reporting tax risks. TCF contains elements such as (1) strategic tax control/risk identification evaluation, (2) tax management control/control activities framework, (3) tax operation control, (4) reporting, and (5) continuous monitoring. The objective of this framework is to form tax functions within an effective, efficient, and transparent organisation. This explains why the effectiveness of TCF is crucial in assuring the organisation's compliance risk management.

Connecting ERM, TCRM, and TCGF in the ESG Agenda

When viewed together, **ERM**, **TCRM**, and **TCGF** form a continuum of risk governance that anchors corporate behaviour within the ESG agenda. **ERM** establishes the enterprise-wide discipline of anticipating and addressing risks

⁶ Guidelines on Tax Corporate Governance Framework, 2025



CURRENT ISSUES

across all domains. Within this structure, **TCRM** narrows the focus to tax-related exposures, ensuring that obligations in registration, filing, reporting, and payment are managed with rigor. **TCGF** then translates these principles into a structured governance model that not only embeds tax risk management into daily operations but also documents accountability and provides assurance through continuous testing and monitoring.

This layered approach matters because investors and regulators increasingly see tax as more than a compliance function; it is a marker of governance quality under the ESG lens. A company that integrates tax governance into its enterprise-wide risk culture demonstrates to stakeholders that it recognises tax as both a financial risk and a reputational one. In this sense, TCGF acts as the operational bridge, transforming broad ERM ambitions and focused TCRM practices into demonstrable governance outcomes.

By harmonising these 3 frameworks, organisations can move beyond reactive compliance. They cultivate a risk-aware culture where tax governance is transparent, sustainable, and aligned with international standards. This strengthens stakeholder trust, reinforces ESG credibility, and ensures that companies are not only managing risks but also contributing to broader societal expectations of accountability and fairness.

What is HASiL's Tax Corporate Governance (TCG) Programme?

The **Tax Corporate Governance (TCG) Programme** was officially launched on 1 March 2022. Following that, the TCG Pilot Programme commenced on 1 June 2022, and ran until the end of June 2024. Beginning 1 July 2024, the programme transitioned into full implementation phase. During this phase, the programme was opened to all organisations that met

the participation criteria. For the TCG application, HASiL is seeking companies that satisfy the following requirements:⁷

1. Large Companies/Public listed/Government Linked Companies/State Owned Enterprise (with turnover RM100mil and above),
2. Compliant taxpayers (return form submission and tax payment), and
3. Companies with an established Tax Control Framework.

The best strategy to enhance compliance risk management is to get started, as suggested by Chooi (2020)⁸. Since large businesses are faced with many different types of events, transactions, arrangements and activities, which all influence tax liability (Hasseldine and Morris, 2013)⁹, the tax return is more exposed to risk, such as human errors, and misinterpretation of the law. Therefore, the TCG Programme is an excellent starting point for an organisation's compliance risk management journey, particularly for big and international companies operating in Malaysia.

Those that accepted to join the TCG Programme will be eligible to receive advantages such as less scrutiny of compliance operations, faster tax refunds, the appointment of a dedicated tax officer, and the ability to receive priority consideration. The main advantage is no audits and investigations for 3 years (terms applied). To participate in the programme, the company shall follow the process illustrated in **Figure 1**.

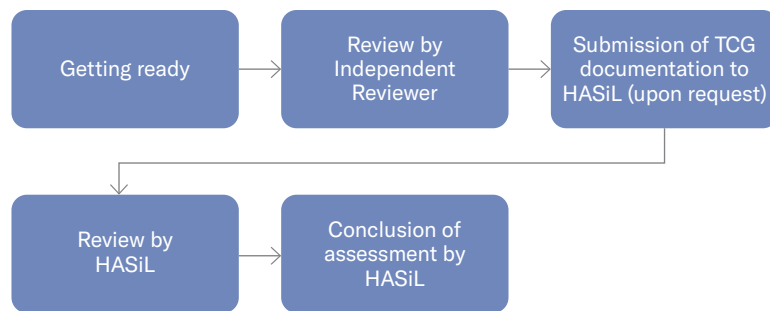


Figure 1: Tax Corporate Governance (TCG) Process

A thorough screening process is essential to determine whether a company qualifies to join the TCG programme. This step ensures that only companies with the appropriate level of commitment to tax governance and compliance are selected, promoting a more effective and reliable programme.

Why is TCG review important?

To qualify for participation in the TCG Programme, an organisation must undergo a comprehensive review process conducted not only by HASiL, but also through an internal self-review and an evaluation by an Independent Reviewer. The review will assure the stakeholders (including HASiL) that the organisation's control is effective and that taxes are reported correctly. A high-quality TCF might be used as proof that

⁷ Guidelines on Tax Corporate Governance Framework, 2025

⁸ Chooi A., 2020, Improving Tax Compliance, Establishing a Risk Management Framework, Tax Governance Brief, Issue 39, ADB.

⁹ Hasseldine J., Morris G. (eds) (2013) Corporate social responsibility and tax avoidance: a comment and reflection, vol 1. Taylor & Francis, London

the errors discovered were not caused by negligence and were not intentional (Blaufus, Reineke, and Trenn, 2023)¹⁰.

How did HASiL conduct the review?

The TCG review will focus on the adequacy and effectiveness of the organisation's TCGF. Adequate means the organisation has all 6 basic principles (as stated in the TCG framework) embedded in their settings. While the effectiveness review will delve deeper into the organisation's TCF, the review approach is not similar to the regular audit. In contrast to a tax audit, the TCG review will concentrate on the governance, internal control, and risk management of the organisation with the aim of establishing the degree of certainty regarding the effectiveness of the control and the accuracy of the tax returns.

Generally, in reviewing and evaluating the effectiveness of TCF, HASiL's review and evaluation will be classified into 3 important areas, namely:

1. review of the existence of the TCF,
2. review and evaluate the effectiveness of the TCF design; and
3. examine and assess whether TCF is functional and practical.

As stated in the Guidelines¹¹, the evaluation criteria will be based on how the following elements affect an organisation's tax compliance: (1) top-level management's involvement and direction; (2) accounting and audit departments' structure and operations; (3) internal oversight mechanisms and tax and accounting protocols; (4) information sharing and strategies to stop problems from happening again; and (5) initiatives

10 Blaufus K., Reineke J., and Trenn I., (2023), *Perceived tax audit aggressiveness, tax control frameworks and tax planning: an empirical analysis*, Journal of Business Economics, 93:509–557, <https://doi.org/10.1007/s11573-022-01116-6>

11 Guidelines on Tax Corporate Governance Framework, 2025

to stop inappropriate behaviour. The review will also focus on control testing by the organisation.

Insights from the TCG Pilot Programme about the Organisation's "TCG Level"

During the pilot programme, various organisations took part with differing levels of tax governance. This indicates that some organisations had established robust tax governance frameworks, while others may have had less comprehensive or structured approaches to managing their tax obligations. Another situation was that different organisations within the same group can have varying tax governance maturity levels. While some subsidiaries or divisions may have advanced tax governance frameworks in place, others may be at earlier stages of development or may face unique challenges that impact their tax management capabilities. Recognising and addressing these differences is crucial for the group to ensure consistency, compliance, and efficiency in its overall tax governance approach.

Why TCG Maturity Matters?

Maturity models are a relatively common tool, often used on a self assessment basis, to help organisations understand their current level of capability in a particular functional, strategic or organisational area¹². The tax governance maturity level is important in assessing the effectiveness of an organisation's tax control framework because it reflects the organisation's ability to identify and manage tax risks, ensure compliance with tax laws, streamline tax processes, promote transparency and accountability, adapt to changes in tax laws and regulations, and align tax strategies with strategic objectives. To be considered a qualified taxpayer and be included in the TCG Programme, an organisation must achieve at least the minimum required score based on the maturity level of each internal control component, as determined through the assessment process.

The OECD (2021) outlines 5 levels of maturity: (1) emerging, (2) progressing, (3) established, (4) leading, and (5) aspirational. In developing the maturity model, the "Established" level was used as a reference point to represent the typical stage most organisations are expected to reach. This approach is also adopted by HASiL and explained in its latest Guidelines on the Tax Corporate Governance Framework. The figure below illustrates the 5 maturity levels, providing a clear view of how organisations can assess and improve their current stage.

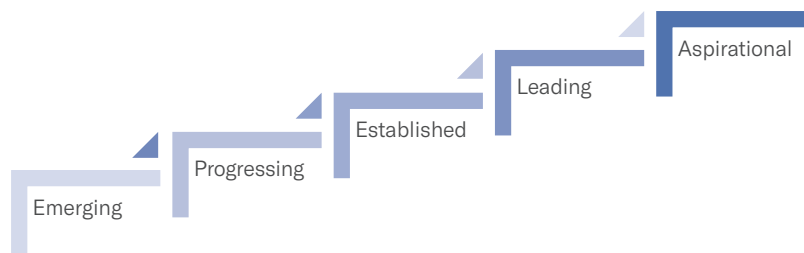


Figure 2: ERM Maturity Level

12 OECD (2021), Enterprise Risk Management Maturity Model, OECD Tax Administration Maturity Model Series, OECD, Paris

CURRENT ISSUES



Understanding these maturity levels is essential for organisations aiming to improve their tax governance in line with best practices, as it helps them see where they stand, what needs to be improved, and how to stay on the right track with tax rules.

Conclusion

In today's rapidly evolving business environment, organisations must prioritise effective risk management to maintain regulatory integrity and operational resilience. **ERM provides the enterprise-wide lens to anticipate risks, TCRM refines this focus to the tax domain, and TCGF institutionalises it through clear governance, controls, and assurance mechanisms.** Together, these frameworks form a coherent system that moves tax risk management from a compliance obligation into a governance asset.

As sustainability and ESG principles continue to gain prominence, integrating ERM, TCRM, and TCGF enables companies to demonstrate not only sound risk oversight but also their commitment to accountability and transparency. For CFOs, boards, and compliance officers, this integration is no longer optional. It is central to sustaining stakeholder trust, attracting investment, and reinforcing corporate reputation.

By aligning risk management and tax governance with ESG expectations, organisations contribute to fairer, more transparent economies. In this way, tax governance such as the TCG Programme becomes more than a defensive measure. It evolves into a strategic pillar of sustainable value creation.

References:

1. Blaufus, K., Reineke, S., & Trenn, T. (2023). Does tax control framework quality mitigate tax audit outcomes? *International Journal of Accounting*, 58(1), 1–22.
2. Chooi, T. H. (2020). Managing tax compliance risks in uncertain times. *Tax Guardian*, Chartered Tax Institute of Malaysia.
3. Gjerdrum, D., & Peter, M. (2011). The new international standard on risk management: Implications for public sector decision making. *Journal of Risk Management in Financial Institutions*, 4(4), 394–408.

4. Hasseldine, J., & Morris, G. (2013). Corporate social responsibility and tax avoidance: A comment and reflection. *Accounting Forum*, 37(1), 1–14.

5. Inland Revenue Board of Malaysia (IRBM). (2025). Tax Corporate Governance Framework (TCGF) Guidelines. <https://www.hasil.gov.my>

6. Malaysian Institute of Accountants (MIA). (2024). MIA Sustainability Blueprint for the Accountancy Profession. <https://www.mia.org.my/v2/sustainability/blueprint.aspx>

7. OECD. (2004). Compliance Risk Management: Managing and Improving Tax Compliance. Organisation for Economic Co-operation and Development.

8. OECD (2021), Enterprise Risk Management Maturity Model, OECD Tax Administration Maturity Model Series, OECD, Paris

Puteri Nur Liana is a Senior Tax Officer in the Tax Compliance Sector at the Inland Revenue Board of Malaysia (HASiL). She currently serves in the Tax Corporate Governance Section and is actively involved in policy development and implementation of the Tax Corporate Governance (TCG) initiative. She has 17 years of experience in tax administration, including corporate and individual tax audits, and tax policy work.

Wan Muzlina is a Senior Tax Officer in the Tax Compliance Sector at the Inland Revenue Board of Malaysia (HASiL). She serves as Head of the Operations Unit in the Tax Corporate Governance Section and is actively involved in the implementation of the Tax Corporate Governance (TCG) initiative. With over 20 years of experience in HASiL, she frequently delivers talks on TCG at seminars and professional forums.