Exploring the involvement of tax audit experts in the early stages of tax audits: Empirical evidence from South African Revenue Service (SARS)

Kgabo Masehela (a) David Mhlanga (b) *

(a) Lecturer at the Department of Commercial Accounting, University of Johannesburg, Republic of South Africa
(b) Postdoctoral Researcher, University of Johannesburg, Republic of South Africa

ABSTRACT

Tax compliance and evasion pose significant challenges to tax authorities in South Africa and other countries. In recent times, corporate governance issues have increasingly involved tax compliance. This study focuses on unresolved audit issues with the South African Revenue Service (SARS), expensive litigation, and lengthy arbitration with the tax Ombudsman. These issues are complicated by legal elucidations, legislative components, and regulatory frameworks. The paper aims to clarify the purpose of a tax legal audit expert at SARS in the initial phases of an audit procedure. To answer this research question, a thorough mapping review using methodical, technique-based literature evaluation was conducted. The study found that the lack of skilled tax legal audit experts hampers the effectiveness and efficiency of tax audits. Therefore, tax authorities must invest in the skills of tax legal audit experts to improve audit outcomes.

Article history:
Received 29 March 2023
Received in rev. form 19 May 2023
Accepted 26 June 2023

Keywords:
Tax Legal Audit Expert, Audit Procedure, South African Revenue Service

JEL Classification:
H21; H26; L84; M40; M42

Introduction

Tax revenue is a crucial element in financing development initiatives such as public infrastructure, education, healthcare, and social welfare programs, as well as driving innovation, productivity, and competitiveness (Mhlanga & Dunga (2020); (Mhlanga, (2022); Mhlanga & Ndhlovu, (2021), Ebimobowei & Wosowei, (2016). Efficient revenue collection and compliance are essential for tax authorities to meet their obligations and finish their task (Olaoye & Ekundayo, (2019). However, conducting tax audits can be challenging, and seeking the advice of tax legal audit experts has been identified as a critical area of concern (Adendorff, (2019).

This research project aims to investigate the role of tax legal audit experts in strengthening expected compliance during the early stages of tax audits. Previous research has highlighted the challenges faced by tax authorities, resulting in costly litigation and unrecovered costs (Enofe & Obazee, (2019). However, there is a research gap concerning the extent to which tax legal audit experts can improve compliance during the initiation of tax audits. Therefore, this study seeks to provide empirical evidence on the significance of their inclusion in the tax audit process by examining the effectiveness and efficiency of tax audits with and without their involvement. The study will focus on the early stages of tax audits, specifically the importance of seeking the advice of tax legal audit experts as soon as possible. This research aims to contribute to the development of practical recommendations for tax authorities and policymakers to enhance compliance and improve tax audit outcomes. The lack of clear demarcation between conducting tax audits and conducting investigations within tax collection organizations has been noted as a challenge (Ebimobowei & Wosowei, 2016; OECD, 2006).

Hux, Andiola, and Noga (2023) cite a number of reasons for thoroughly comprehending the functions of tax specialists and how they work with auditors throughout audit engagements. First, previous studies have looked into the roles and interactions of other
specialists with auditors during the audit, such as valuation, IT, and forensic specialists (Jenkins et al., (2018); Bauer & Estep, (2019); Griffith et al., (2015). However, there isn't much information available regarding the role of tax specialists because the majority of behavioral and archival tax studies focus on non-audit services (e.g., tax compliance work, tax planning, and advisory services) opposed to audit services (Hux, (2017); Bobek et al., (2021). Although Boritz et al., (2020) do not aim to explore the intricacies of each subject, they do highlight significant similarities in the way that many types of specialists, including tax specialists, use their specialization. The choice to use tax specialists during audits may vary, according to the scant prior research, and major misstatements connected to taxes continue to happen even when they do (Boritz et al., (2020); Bauer et al., (2021). Therefore, it is critical to the academy and to practice conducting a more thorough analysis of the many functions and applications of tax specialists during audits, the process of collaboration between auditors and tax specialists, and how this collaboration—or lack thereof—affects audit quality.

Their findings provide more evidence that auditors rely on the specialized knowledge of tax specialists to assist in the audit of the tax provision (Boritz et al., (2020); Goldman et al., (2022). Furthermore, and this is new information to the literature, we discover that auditors are dependent on several tax specialists for a single audit engagement as a result of tax professionals becoming more and more specialized in particular tax areas. While there is recognition of the challenges faced by tax authorities, there is a lack of sufficient empirical evidence that quantifies the impact of involving tax legal audit experts during the early stages of tax audits (Grigoris et al., (2022). This gap hinders a comprehensive understanding of the effectiveness and efficiency of such involvement. The existing literature emphasizes the importance of involving experts but often lacks a rigorous examination of the methodologies employed and the measurable outcomes (Kurmus & Kocaoglu, (2022). By conducting empirical research and analyzing the effectiveness of involving tax legal audit experts in the early stages of tax audits, this study can fill these gaps ultimately providing practical recommendations to enhance compliance and improve tax audit outcomes, thus contributing significantly to the field (Blaufus et al., (2023). Therefore, this study will provide valuable insights into the potential benefits of involving tax legal audit experts during the early stages of tax audits.

Literature Review

**Tax auditor’s inability to interpret related statutes**

There are further court cases addressing the ruling that SARS cannot take collection action if it did not adhere to the proper procedures while providing an assessment that includes the following. Due to SARS's failure to comply with the requirements outlined in section 42 of the Tax Administration Act (TAA, No. 28 of 2011), the court recently reversed the whole assessment in the tax case IT13726 (SARS failed to send the taxpayer a letter describing the findings of the audit, give him a chance to react, or tell him that he was the subject of an audit before issuing the assessment). When it issued an assessment in the case of A Way to Explore v. C: SARS as part of a verification procedure, SARS did not do so following section 42 of the TA Act or provide the taxpayer with a chance to reply (Matthews, (2021). Then, SARS claimed that it had used set-off to satisfy the VAT due by the taxpayer under this assessment. The court ruled that it was illegal and unconstitutional for SARS to seek to collect the debt before the taxpayer's submitted objection had been considered and addressed (Aniyie, (2022). The court decided that SARS could not recover debts if the necessary assessments were not raised legally. SARS assessed the case of Nondabula v. SARS without providing any rationale (as required by section 96 of the TA Act) (Fritz, (2019). The court found that SARS's activities violated both the applicable tax legislation and the Constitution's guiding principles (Moosa, (2020). SARS is therefore not authorized by law to demand payment based on this incorrectly issued assessment (De Lange & Tax, (2022).

**Litigation**

In accordance with Section 40 of the TA Act, SARS has the authority to perform audits on individuals based on any criteria that are deemed crucial for the effective administration of a tax Act. It is crucial to note that the administration of a tax Act involves the collection of all relevant information that could impact an individual's tax liability for past, present, or future tax periods. The court has ruled that the criteria used for selecting taxpayers for an audit are not limited as the audit is intended to ensure the effective execution of tax legislation (Alem & Tewabe, (2022). SARS had informed the applicants of its intention to conduct an audit and had provided details of the audits and the necessary documentation required to comply with Section 40 of the TAA (Choate, (2022). The court found that SARS had no other justification for requesting the documents and that each of the records was capable of supporting or contradicting the accuracy of the applicants’ VAT and Income tax declarations. Consequently, the court determined that each SARS investigation was relevant to the enforcement of tax legislation (Van Zyl & Fritz, (2021).

**Non-recovered litigation costs**

In the Gauteng Tax Court case of ITC 1816, SARS was ordered to pay the taxpayer's legal costs due to its excessive pursuit of the case despite knowing it would lose and pursuing another taxpayer with the same facts despite dismissing their case. However, such cost decisions against SARS are rare (Kumar et al., (2023). The problem of expensive legal battles in tax cases is a recurring issue in several countries, including China, Malaysia, Nigeria, Germany, and the United Kingdom, as noted by various authors (Ibadi & Eiya, (2013); Kasim & Saad, (2019); Campbell & Helheloid, (2016); Wang et al., (2020). Despite efforts to address this issue, such as the use of tax court cases, they have little effect on reducing tax avoidance and evasion and instead lead to unnecessary and wasteful spending, as shown in the Africa Cash & Carry (Pty) Ltd v SARS Commissioner (2019) case & (Mohd et al., (2013). Several academics, including Swanepoel and Meiring (2017) and Storm and Coetzee (2018), have proposed various suggestions to
supplement SARS's current practices. One proposal is to utilize internal legal resources at the beginning of the audit process, which may be a feasible solution to the problem. Storm and Coetzee (2018) suggest that the issue should be addressed during the legislative drafting process, and Parliament should pass a resolution requiring the use of internal legal resources during tax audits. Various approaches have been proposed (Mebratu, (2016); Mwandambo, (2019) to integrate legal remedies into revenue-collecting agencies’ tax audit programs, such as SARS (2019). These experts agree that unresolved legal tax disputes and low tax compliance have negative effects. Low tax compliance is a significant issue in many industrialized and emerging countries, making it challenging for governments to secure funding for growth (Mohd, et al., (2013). This weakness results from various factors, such as corruption, a sizable informal sector, poor legal systems, complicated tax laws, high marginal tax rates, inadequate information and accounting systems, a culture of non-compliance, and inefficient tax administration (Mpofu, (2023). Tax officials conduct audits to ensure taxpayers comply with the law. Given these concerns, this study aims to provide solutions to the complexity and issues that arise from SARS's sequential dichotomized method of project management used to initiate tax audits (Adendorff, (2019). The study advocates for the involvement of tax legal audit experts from the outset of tax audits to address this issue. The research question that underpins the study is, "How are tax audit experts involved in the early stages of tax audits, and what role do they play in the exploration of these audits?"

**Methodology**

The conclusions of this study were derived from a mapping review, a systematic review technique, as described by Nowell et al., (2022). Mapping reviews are useful when researchers aim to comprehend the literature on a specific topic to provide a source for further research, as noted by Costa (2020). In this study, Benoot et al., (2016) critically evaluated articles and selected ten (10) “articles for examination, meeting specific inclusion/exclusion criteria. These articles were published between 2014 and 2020 and focused on tax evasion, tax avoidance, and existing methods to reduce these types of categorized fraud activities”. As there is no consensus on what constitutes a good appraisal tool among those who follow the qualitative evidence synthesis tradition, no formal appraisal tool was utilized in this study, as stated by Magid and Vanstone (2018). The study aimed to comprehensively examine the literature and identify theoretical, methodological, and practical gaps. To achieve this, the articles were arranged in a tabular format for clear visualization of gaps. The study employed the COSTA QDA approach, using webQDA software for data analysis, as outlined by Costa (2020); Machado and Vieira (2020), and supported by Costa, Breda, Pinho, Bakas, and Duro (2016). This content analysis technique enables thematic analysts to categorize data and identify themes, concepts, and meanings, facilitating early evaluation of conceptual frameworks (Braun & Clarke, (2022). The study assessed all the offered publications and identified commonalities between codes deductively derived from data, reflecting important comments regarding the variables in the research question, as suggested by Braun and Clarke (2022). Following the creation of codes, Onwuegbuzie, Frels, and Hwang's (2016) hypothesis regarding the axial coding stage was applied to organize the codes into groups and develop themes that served as the basis for conclusions.

**Findings**

A comprehensive analysis of ten studies using secondary data has revealed a significant gap in the methodology used to investigate tax compliance knowledge. Despite numerous studies on tax compliance (Ames et al., (2019), the studies included in the analysis lacked a rigorous and systematic approach to investigate the complex and multifaceted nature of tax compliance. The selected studies represented a range of geographic locations, tax systems, and cultural contexts to ensure a comprehensive analysis, yet most of them used simplistic and inadequate measures of tax compliance knowledge, such as self-reported measures, without consideration of other factors that influence tax compliance behavior. Figure 1 below displays the frequencies of the codes used to categorize the deficiencies in the methodology, highlighting the extent of the problem. The lack of a standardized and comprehensive methodology for investigating tax compliance knowledge has serious implications for policymakers and tax authorities, as it hinders their ability to design effective tax policies and interventions. Therefore, this research emphasizes the need for a more robust and systematic approach to investigate tax compliance knowledge, which considers the numerous factors that influence tax compliance behavior. By doing so, this research aims to contribute to the development of evidence-based strategies that promote tax compliance and enhance tax revenues for the benefit of society.
The frequencies of the codes used to categorize the deficiencies in the methodology were recorded by the researcher and are presented in Figure 1. The figure provides an overview of the number of times each code was used to categorize the methodological gaps identified in the analysis of ten selected studies on tax compliance knowledge. The figure highlights the common methodological shortcomings that were found across the studies, indicating the need for a more rigorous and systematic approach to investigating tax compliance behaviour.

According to Ntiamoah and Asare (2022), the analysis of tax compliance literature suggests that economic, social, and psychological factors can impact compliance. Understanding these factors is crucial for addressing tax evasion and promoting adherence to tax codes. Hernandez-Cruz (2021) proposed four thematic expressions that align with this literature.

Figure 1: The frequencies of the codes

Figure 2: Code Frequencies Chart – Created by Researcher

Figure 3: Themes/Concepts

Figure 3 above displays the four thematic expressions proposed by Hernandez-Cruz (2021). The first concept is economic issues, which encompass factors such as tax rates, perceptions of government spending, and tax audits. The second concept comprises institutional components, including “the role of the tax authority, simplicity of tax returns and administration, and probability of
Finally, this study draws attention to the flaws in the approaches used in the present research on tax compliance knowledge and stresses how critical it is to address these limitations (Gómez-Villegas & Larrinaga, 2023). The complexities of tax compliance behavior require a more thorough understanding, which can help create tax policies and interventions that are more successful (Owusu et al., 2023). In order to close the current gap and support the development of evidence-based policies that encourage tax compliance and increase tax collections for the benefit of society as a whole, this research attempts to close this one (Cao et al., 2023). Within the field of tax compliance and enforcement, the early engagement of tax audit specialists in tax audits is a matter of great significance (Chyz et al., 2023). The potential for this technique to improve the efficacy and efficiency of tax audits is drawing attention (Jamshidi et al., 2022). It makes possible the early identification and resolution of possible problems or abnormalities in tax returns, which in turn stops tax evasion and the development of increasingly complex and time-consuming cases (Ruzgas et al., 2023). Tax audit specialists contribute specific knowledge and experience that helps tax authorities more successfully detect noncompliance and tax evasion (Ferida, 2022). Furthermore, early expert engagement can save money for both tax authorities and taxpayers by accelerating issue resolution and lowering the financial burden of lengthy tax disputes on the legal and administrative fronts (Saraiva, 2023).

This strategy encourages equity and openness in the tax audit process, giving taxpayers peace of mind that their evaluations are carried out by experts adhering to protocols, therefore allaying worries about capricious or prejudiced acts (Chapman, 2019). To guarantee a fair and successful approach to early tax audit expert engagement, it is crucial to address issues and worries, such as the possible hardship on taxpayers and the necessity to strike a balance between effective tax collection and individual rights (Saraiva, 2023).

Considering that teamwork is essential for conducting successful and efficient audits and that knowledge and expertise directly affect audit quality (Knechel et al., 2013; Trotman et al., 2015), there are a number of issues and evolving practices that directly affect the audit. For instance, tax specialists’ knowledge of tax and audit appears to be changing. Our results imply that auditors have less technical tax knowledge and tax specialists have less experience in auditing skills due to their increased specialization (i.e., each lack knowledge inside the other’s sector).

Discussion of Economic Factors

According to SARS’ compliance program, there is a continued focus on transfer pricing due to its high-risk nature (SARS, 2016). In the 2015-16 tax year, eight transfer pricing audits were conducted, resulting in a 100% success rate and the generation of R790.6 million in tax revenue. In the 2017-18 tax year, SARS surpassed its audit coverage goal by 14.47%, which was attributed to higher tax compliance (SARS, 2018). SARS conducted 51 audits, 43 business inspections, and factory visits during this period, resulting in the collection of R228 263 218.45 in unpaid taxes and ten past-due returns. Although SARS was successful in expanding its HNW1 database from 4 417 to 5 951 in the 2015-16 tax year, there are still weaknesses in ensuring compliance (SARS, 2016). SARS has refined its technique for identifying HNWIs by comparing data from various third-party sources and disclosures made by them. However, despite the successes of SARS’ compliance program, weaknesses still exist in ensuring compliance, which could pose a challenge to SARS’ efforts to achieve its revenue collection targets. Therefore, it is crucial for SARS to continue to strengthen its compliance program, particularly in identifying and addressing the weaknesses in the system. This will help to ensure that all taxpayers, including high net-worth individuals and businesses engaged in transfer pricing, comply with tax laws and contribute to the country’s development.
To verify that revenue and deductions have been correctly recorded and reported, tax audits are conducted. Accurate and transparent financial reporting helps tax authorities detect fraudulent activity and reduce the time spent on routine verifications. In South Africa, tax audits play a crucial role in revenue collection, fraud detection, identifying high-risk tax refund claims, and ensuring taxpayer compliance. Even taxpayers who do not engage in complex transactions are subject to requests for information by the South African Revenue Service (SARS). The Supreme Court of Appeal case of SARS v. Pretoria East Motors (Pty) Ltd on June 12, 2014, discussed the foundation for audit results and the subsequent increase in SARS' assessment. Taxpayers must understand what to expect, demand, and accept as part of a Tax Administration Act (TAA) compliant request for information or audit. The TAA permits two types of audits: a desk audit controlled by Section 46 of the TAA, which focuses on requests for relevant data, and a field audit as used in Section 48 of the TAA. While the TAA does not specify the type of records or information taxpayers must keep, it is essential for taxpayers to comply with the TAA to provide the requested information or records, avoiding penalties and interest charges for non-compliance, while enabling tax authorities to more efficiently and effectively administer the tax system in South Africa.

Discussion of Institutional Factors

During the period between 2011/2012 and 2013/2014 tax years, there was a decline in compliance among High-Net-Worth Individuals (HNWI) filing their taxes in South Africa. The on-time submission rate decreased from 82% to 72%, and late filing increased from 8.9% to 13.3%. However, on-time payment compliance showed a steady improvement, increasing from 64% in 2011–12 to 75.4% in the 2015–16 tax period. Despite this, underreporting of sales and failure to disclose earnings or gains from the sale of assets, such as real estate, continue to be significant risk factors. The South African Revenue Service (SARS) completed a total of 81 HNWI audits during the 2015–16 tax year, with a total success rate of 75.3%, resulting in R224.5 million in increased revenue. Additionally, SARS completed 138 audits on HNWI trusts, achieving a likelihood of succeeding 51% and raising an additional R8.2 million in revenue. SARS also recovered R76.8 million in debt from HNWIs, and one trust case was referred to law enforcement for investigation. These audit results demonstrate the importance of complying with tax regulations and the significant impact of tax audits on revenue collection. HNWI taxpayers and their trusts are not exempt from taxation laws, and non-compliance can result in severe consequences, including interest charges, penalties, and even legal action. It is crucial for HNWIs and their representatives to remain vigilant in complying with tax regulations and to ensure that all earnings and gains are accurately reported to avoid audits and potential penalties. By doing so, they can help maintain a fair and efficient tax system in South Africa (SARS, 2016).

The quantity of cases referred to the Tax Court/Board, Tax Ombudsman, Objections, and Appeals and their Implications

SARS is known to make fair and reasonable decisions regarding appeals, which can be resolved through the Tax Board, legal system, or alternative dispute resolution (ADR) methods. Governance supports committees at regional and corporate levels. According to SARS (2019), in 2017-18, 7,042 appeals were resolved through ADR, and 205 issues were litigated and resolved. Unaudited late entire amounts of taxpayer “debt for objections and appeals were R21,596,422,316 (2017/18), R23,559,982,364 (2016/17), R17,898,818,225 (2017/18), and R26,286,831,315 (2016/17)”. In the 2017/18 and 2016/17 tax years, the total amount in dispute was R39,495,240,541 and R49,846,813,679, respectively, according to SARS (2016, 2018). Due to the involvement of legal tax audit experts at the beginning of the audits, SARS's objection and appeal committees, Tax Board, and Tax Ombudsman will receive fewer cases, leading to a significant decrease in the fee of collecting money and an improvement in revenue collection. In the 2018/2019 fiscal year, the Office of the Tax Ombudsman in South Africa received 11,952 inquiries and 4,822 complaints (South African Tax Ombudsman, 2019). The most common complaints included SARS changing assessments without providing a letter stating that the notification of appeal and request for the waiver of penalties or interest were invalid, and the penalties and interest were unfairly assessed. Taxpayers earning less than the threshold were also levied administrative penalties, which were deemed unfair. In the 2018-19 fiscal year, the Australian Tax Office (ATO) filed a total of 1,391 grievances with the Taxation Ombudsman and Inspector-General of Taxation (IGTO), while the Canadian Ombudsman received 1,920 complaints, which remained unchanged from the previous year (2018/2019). In the United Kingdom, taxpayers can file a grievance with the Adjudicator's Office (IAO) in the first stage, and in the second stage, complaints can be forwarded to the Parliamentary and Health Service Ombudsman (PHSO). In the previous year, the IAO received six percent more complaints related to HM Revenue and Customs (HMRC) than the previous year, and the PHSO evaluated 53 complaints in the most recent year for which figures are available (2017-18) and found none entirely upheld, with only two partially upheld (HMRC, 2019). It is essential for tax authorities to ensure that their processes are transparent and adhere to the rules and regulations set forth by tax laws to reduce complaints and enhance trust and confidence in the tax system.

Discussion of the Social Factors

To comply with tax regulations, taxpayers are required to follow the rules and keep in mind that they have the responsibility of proving their tax claims. This means that taxpayers need to provide sufficient evidence to demonstrate that any received income is not taxable, or that they are eligible for tax deductions or rebates, or that a particular amount should be taxed at a specific rate. However, due to the vast and complex nature of tax laws, it can be difficult for taxpayers to gather and maintain all the necessary information. Under section 46 of the Tax Administration Act (TAA), taxpayers are obligated to provide “relevant material” to the South African Revenue Service (SARS). Relevant material refers to any information, document, or thing that is deemed necessary for the administration of a Tax Act, as stated in section 3 of the TAA. Taxpayers must ensure they understand and provide all relevant material as it can significantly impact the outcome of their tax assessment.
The Perceptions, Knowledge, and Financial Skills of Taxpayers, and their Effects

It is important to keep in mind that enforcing a Tax Act requires more than just ensuring the accuracy of a tax return. Taxpayers need to comprehend the legislation that pertains to their business and be ready to provide SARS with the necessary information in accordance with the TAA. Working with a tax advisor may be necessary to determine the type of information required to demonstrate compliance with these standards before filing. The required information's specific details will vary depending on the taxpayer's business. Failure to satisfy the burden of proof could result in taxes being imposed if the required information is not found and kept up to date. A case in point is the Pretoria East Motors case, where a Toyota South Africa car dealership was audited for the years 2000 to 2004, and assessments were increased because of the taxpayer's inability to provide the necessary documentation. Therefore, it is essential to maintain the required documentation and be prepared to provide it when needed. In addition, as stated in section 46 of the TAA, "relevant material" must be provided to SARS. This includes "any information, document, or thing that is foreseeably relevant for the administration of a Tax Act as referred to in section 3." The burden of proof falls on the taxpayer to prove that a certain rate should be applied to a total, that the taxpayer qualifies for a deduction or rebate, or that a certain amount is taxable, by a preponderance of the evidence. Given the vast nature of the law, it can be challenging for a taxpayer to gather and maintain the necessary data.

The court's judgment passage cited earlier clarifies the two facets of the taxpayer's demand power. A taxpayer is entitled to believe that a SARS auditor will only raise an assessment where there are valid justifications for doing so. To avoid relying on the taxpayer to defend their treatment of a transaction in an objection to the assessment, raising an assessment should only be done if there are proper grounds for believing that there has been an under-declaration of supplies, undeclared income, or an unjustified deduction or allowance. The taxpayer has the right to request a document containing the audit's findings and the rationale for the indicated assessment, which is supported by section 42 of the TAA. To prevent situations similar to the one faced by Pretoria East Motors, taxpayers should help tax auditors understand their business and commercial reality by responding in writing to audit findings. This provides an additional opportunity to prevent any misinterpretation or error in the SARS auditor's report. It is important to note that taxpayers or their advisors may not always have control over whether an audit takes place. Therefore, consulting a legal tax audit expert earlier in the audit procedure phase is critical in avoiding potential issues. Tax audits are generally triggered by specific events such as applying for a tax refund, but SARS can initiate an inspection, verification, or audit based on any criterion deemed necessary to ensure the proper application of a Tax Act, including at random or after risk assessment. Thus, a taxpayer cannot argue against an audit based on the assumption that they have done nothing wrong. SARS's strategic plan has identified several deficiencies, including a lack of automation, staff, skills, and an inability to differentiate between disputed and uncontested debt (SARS, 2018).

Discussion of Individual Factors

The initial phase in conducting a successful audit is the case selection process. In order to ensure that the audit program conforms precisely to the administration's compliance policy and to establish the appropriate audit trails to demonstrate why cases were selected for auditing and why they were not, the use of risk management approaches for case selection is indispensable. The Service Manager is also a critical technological tool in this process. Further details on this topic, as well as extensive case studies of various case selection frameworks, can be found in two related articles. The pre-contact analysis is considered a vital step in the auditing process, as it can help alleviate the burden on taxpayers and reduce the resources required for compliance. This activity takes place before the audit begins, and is essential to the process of prioritizing concerns when a stringent ongoing risk management policy is in place. In some cases, the audit may occur as the audit strategy is being developed. One of the many case selection techniques employed by audit teams is the manual inspection or screening of tax returns, which has numerous important components (OECD, 2006). The methods and resources utilized to select the taxpayers who will be audited are among the most critical aspects of an audit strategy. Tax inspectors have a great deal of discretion in deciding whether to investigate a case due to the numerous constraints they face.

OECD and Case-by-Case Studies and the Implications

The OECD literature listed above claims that tax authorities have unbridled authority, which has led to rent-seeking conduct. People have claimed that tax officials demanded bribes to choose their cases for extensive examination, which has given rise to numerous accusations of corruption. The ways tax authorities most frequently use to locate taxpayers for audit are as follows: Manual and individual scanning: During the early stages of audit selection, when tax administrations had limited access to information technology, screening was one of the main techniques. Auditors must personally select audit cases according to the understanding of the taxpayers' environment and behaviour (OECD, 2004a, 2004b). In terms of methodology, scanning is the inverse of random selection. The audited taxpayers are chosen at random from the entire taxpayer population (OECD, 2004c). Risk-based selection which most taxation authorities have created auditing procedures that focus on potential issues with taxpayer noncompliance (Dellaportas et al., 2021). Due to this experience, a successful audit selection method must pinpoint the taxpayers who are most likely to be non-compliant (Santoro, 2021), i.e., those who will probably incur significant audit adjustments and fines. International organizations from developing and transitional nations have advocated it, and many tax administrations in wealthy nations prefer to use it when deciding which audits to do (Ermasova et al., 2021).
Conclusions

In conclusion, this study highlights the significance of tax audits as a crucial tool for tax authorities to combat tax fraud, evasion, and avoidance, while ensuring tax revenue for the government. The study emphasizes that both ex-ante audit threat and ex-post audit actualization are crucial factors that have an impact on deterrents. However, the study also notes a lack of understanding of the actual impact of tax audits on taxpayers, which can be addressed by engaging legal tax audit experts throughout the entire audit process. These experts can assist auditors in understanding tax policy, provide legal support in dispute settlement, and manage legal proceedings related to tax and customs, resulting in efficient completion of tax audit cases and reduced resources wasted on frivolous cases. Furthermore, the study suggests conducting a cost-benefit analysis to determine the value of the tax audit process versus the cost of conducting it, ensuring that tax authority resources are used efficiently and audits are conducted only when necessary. For future studies on tax compliance in South Africa, it is recommended to consider the role of tax lawyers and other tax professionals in the tax audit process, which can lead to improved effectiveness and efficiency of the tax audit process, increased tax compliance, and revenue for the government.

Acknowledgement

Every listed author has given their consent for the corresponding author to submit and publish the work in its entirety. That everyone named as an author has made an independent, substantial contribution to the manuscript and that everyone who is entitled to be recognized as an author has been added to the list of writers. The work submitted for publication in the manuscript is unique, hasn’t been published anywhere else, and isn’t currently being considered for publication in any other journal—only in oral, poster, or abstract form. The content in the article has been accepted by the legally relevant ethical committee and has been obtained by contemporary ethical norms. The manuscript has previously appeared online, such as in a preprint.

Author Contributions: Conceptualization, Methodology, Data Collection, Formal Analysis, Writing—Original Draft Preparation, Writing—Review And Editing by authors with equal participation. All authors have read and agreed to the published the final version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were obtained for this study.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

Conflicts of Interest: The authors declare no conflict of interest.

Referencing


306


Costa, K. (2020). Integrating the COSTA research framework in teaching of thematic analysis for postgraduate students. *Available at SSRN 3654214.*


Publisher’s Note: SSBFNET stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.

© 2023 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (http://creativecommons.org/licenses/by/4.0/). International Journal of Research in Business and Social Science (2147-4478) by SSBFNET is licensed under a Creative Commons Attribution 4.0 International License.