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| RESEARCH ARTICLE

Comparative Analysis of Ethical Measures and Auditing Standards in Managing Tax Evasion: Effectiveness and Impact

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| ABSTRACT

This article presents a comparative analysis of the effectiveness and impact of ethical measures versus auditing standards in managing tax evasion. Tax evasion poses significant challenges for both businesses and governments, leading to economic losses and reputational damage. This study investigates two primary strategies for combating tax evasion: the implementation of ethical policies within organizations and the enforcement of auditing standards by regulatory bodies. By evaluating existing literature and empirical data, the article assesses how each approach influences tax compliance and their relative effectiveness. The research design is validated for its reliability in testing the hypotheses and provides consistent results supported by a literature review of existing scholarly work. The research reveals that while both ethical measures and auditing standards are crucial in addressing tax evasion, ethical practices tend to offer more substantial benefits in fostering long-term tax compliance. Enhanced by technological advancements, the auditing process has become more efficient, yet it often encounters resistance and limitations. The findings suggest that integrating strong ethical frameworks within businesses, alongside rigorous auditing practices, is the most effective strategy for managing tax evasion. The study provides valuable insights for policymakers and organizations seeking to improve tax compliance and reduce evasion.

| KEYWORDS

Tax evasion, ethical measures, auditing standards, tax compliance.

1. Introduction

The ethical behavior adopted by businesses and the accounting standards introduced by relevant regulatory bodies tend to affect the tax evasion issue. A financial audit is a procedure that involves an examination of an organization's books of accounts to ensure they are presenting an accurate record of a firm's performance levels. Internal employees in an entity can handle the examination process, or a business can work with external personnel to help raise the independence of operations. The process can lead to the provision of either unqualified opinion, meaning an auditor has not found any misstatement in the accounting records. A qualified opinion is a message stating that the accounting records have issues that should be addressed. Technology has played a significant role in improving the quality of the auditing process, lowering the chances of companies engaging in tax evasion issues. Examiners can collect and analyze a wide level of data sets that they could not access without the help of a digitalization program. Informational outliers are now noticeable, which is a significant step toward raising auditing operations. Firms should focus on tax evasion effects and sustainable development measures in an economy. In this analysis, there will be a review of auditing process efforts and the application of ethical behaviors toward handling tax evasion issues.

The auditing process and determination of accounting standards on tax evasion issues is crucial for it enables auditors to find better ways of tackling the problem. In the modern world, some institutions engage in undesirable behaviors, such as trying to find ways of not paying taxes. They plan to raise generated revenue and declared expenses.

The research process is crucial, for it will allow auditors to learn about the effects of tax evasion and how it affects institutional sustainability. Companies will learn about tax evasion issues, emphasizing the need to stop the vice (Mintchik and Riley 2019). Sustainable development cannot be realized when firms do not follow the rule of law. Regulatory bodies offer a set of working standards and policies that the relevant parties should follow. The inability to adhere to them causes inconveniences in a market for a business that may face litigations or fines imposed by the regulatory bodies. Additionally, firms utilize internal measures to run their operations effectively, and such tools can be relied on to handle tax evasion issues.

The approach used in this analysis is to review the statistical data available and derive conclusions that will help to highlight the adverse issues arising from tax evasion. The study will mainly work with the literature review documents with details on managing tax evasion issues (Chen et al. 2019). Therefore, the data that will be analyzed will be from these sources. The quantitative research process is a data collection procedure that can be quantified into numerical values (Uyar et al. 2021). Therefore, a study completed by relying on such information tends to have a high level of accuracy, and decision-makers can rely on such results, for they are backed by verifiable evidence. Sustainable development works towards meeting human development goals and ensuring natural systems maintain their ability to offer desired resources. These concepts cannot be realized when businesses are involved in tax evasion, and implementing digital tools will help unearth this behavior among firms. There is a belief that failure to pay taxes will be managed effectively when auditors rely on technologically advanced tools to examine institutions' accounting books (Barta 2018).

2. Literature Review

Authors worldwide are working towards managing tax evasion, considering it causes a significant amount of harm to society. Governments are derived from getting adequate taxes, meaning they cannot offer quality services to citizens. Tax evasion issues can be managed by focusing on two factors: a firm's ethical attitudes and the strengthening of the various auditing standards in a company (Nchor 2020). According to "Ethical behavior, auditing strength, and tax evasion: A worldwide perspective," both factors are essential in managing failure to make the right tax payment. However, the ethical behaviors adopted by entities tend to have the best effect when handling evasion issues. Firms work on operations that enable them to lower the tax payments made to a government, enabling them to raise their revenue levels (Khlif and Guidara 2018). The legal frameworks support tax avoidance measures that help entities reduce their tax obligations. For example, some institutions create offshore companies in tax heaven states, enabling them to minimize tax levels. Establishing firms in countries charging low tax levels helps businesses pay these charges as required by law and still achieve increased profitability levels.

Accountants play a role in violating accounting laws leading to underpayment or failure to settle their tax obligation to authorities. They clearly understand the rules and regulations they are supposed to follow when undertaking their operations (Emad 2021). However, some of them are negligent and others work with the intent to deceive the government for their financial gain. Their behavior tends to cause significant issues to an economy that should be managed to ensure the realization of sustainable development. The government relies on taxes collected to offer services, and the inability to have adequate income will lead to the provision of substandard services (Ozili 2020). Authorities work towards realizing the triggering factors to control them and ensure that the overstating of expenses is stopped. Institutions are finding ways of having the upper hand over the authorities in managing this issue, and technology is playing a role in their move to engage in fraud (Okoye and Ndah 2019). Therefore, applying advanced technological systems is expected to play a role in combating the vice and ensuring all parties in an economy are undertaking their duties as desired (Faccia et al. 2020). Learning the factors providing an enabling environment for tax evasion will enable a government to institute the right measures to handle it (Blaufus et al. 2019).

According to Benkraiem et al. (2021), the institutional theory is one of the major concepts helping to understand the reasons behind the differences in tax evasion in various states. The ethical behaviors adopted by institutions significantly impact tax evasion compared to the implementation of accounting standards. These ideologies are realized with the endogeneity issue examination. The war against tax evasion cannot be won by the government alone, but various parties need to work as a unit (Fernando and Antoine, 2022). A multilateral agency team should pass a resolution to end the vice and devise ways of handling the problem. They will get to fix all the loopholes and ensure auditors are getting the right amount of taxation with the firm compelled to declare the correct figures on their income and expenses incurred. Companies must be willing and ready to fight against this unethical behavior, for they are the major parties affected by it (Safeei 2021). They must work towards maximizing shareholders' wealth by protecting their resources and acting ethically. They must meet potential clients' interests for such institutions to remain a going concern (Nazarova et al. 2020). Engaging in tax evasion is not the best way to realize their duties towards their investors. The desire for a better working environment shows institutions have reasons to prevent evasion.

The best tool to fight tax evasion is determining the ethical considerations that various parties in an economy hold. Values and virtues should drive people and institutions, enabling them to act correctly (Masri). It is crucial to rely on non-coercive mechanisms and encourage everyone to follow the rule of law without getting pushed or coerced to undertake such a measure. Applying fines

and working on auditing rates will only raise the operational costs incurred when collecting taxes. The desired goal of raising revenue levels from taxation amount will not be realized. Additionally, some accountants need to rebel against state laws, which means they are likely to indulge in tax evasion activities for their ideological beliefs and not necessarily for financial gain (Brasel et al. 2019). Morals and behaviors are the major components that enable a society to thrive and grow, creating an enabling environment for everyone to benefit.

A state can adopt an identity that calls on taxpayers to act for the common good and engage in activities that will help grow and develop society (Montenegro 2021). When citizens are ready to be compliant, a country will have an easier time collecting levies, and cases of tax evasion will be non-existence. Companies and individuals should motivate each other to act ethically. If individuals realize that some companies are over-declaring their expenses and understating their income, their motivation will reduce, adversely affecting their ability to make tax payments (Benkraiem et al. 2021). Tax morale should be high for the evasion menace to be managed effectively, which happens when working with persons with a high level of ethical reasoning.

3. Methodology
3.1 Research Objectives
The objectives that will be realized in this study process include:

i. To assess how ethical measures applied in a firm affect the tax evasion management process.
ii. To determine the effectiveness of the auditing standards in managing tax evasion issue.
iii. To assess which of the two procedures, the ethical behaviors and auditing standards, has high effectiveness in its working process towards tax evasion control.

3.2 Research Questions
Some of the research questions likely to arise when undertaking this research are given below.

i. What effect do the ethical behaviors and attitudes depicted by employees in a firm have on the tax evasion process?
ii. What effects do the auditing standards introduced by regulatory bodies have on the management of tax evasion issue?
iii. Which of these two programs realizes the best outcome when curbing tax evasion?

3.3 Hypothesis
Hypotheses are statements that lack facts, and research is supposed to be undertaken to determine whether such assertions should be rejected or whether there is a need to fail to reject them. The major components reviewed to determine their effect on tax evasion are auditing standards, strengths applied in a community, and the ethical behaviors practiced in a company. Therefore, these two ideologies will play a major role in the two hypotheses raised below.

Hypothesis 1: Ethical behavior and values running in a community are negatively correlated with tax evasion.

Hypothesis 2: The strengths of the audit standards implemented by regulatory bodies negatively correlate to the tax evasion issue.

The research methodology is a system that offers a structured format for undertaking research. The reason why the study has been undertaken is to determine ways in which tax evasion can be managed. Overall, two main strategies, which are ethical ideologies applied by business and auditing standards, are used (Abutabenjeh and Jaradat 2018). It is claimed that the application of ethical guidelines tends to offer the desired outcome, considering that the government alone cannot manage to control the evasion problem (Ariyanto et al., 2020). Therefore, the authorities should create an enabling environment that makes the public tax compliant without getting punished is the best move to help realize the desired outcome (Osgood and Johnston 2022).

The research problem definition revolves around the tax evasion problem, which involves the failure to pay the right amount of taxes to a government by underquoting earnings or overstating expenses. It is an unethical issue with a wide range of issues, such as triggering a wave of underdevelopment (Hashim et al. 2020). When the public realizes that some of the firms are evading taxes, there is a chance the public will follow suit, which will cause a reduction in the amount of funds available to the government for development (James et al. 2019).

There are two hypotheses raised at the start of the study process stating there is a negative correlation between the auditing standards and ethical behaviors in a firm with the tax evasion concept. The data collection and analysis process will help derive a conclusion and determine if these hypotheses will be rejected or will not be rejected. The data collected relates to various states with a focus on their IFRS and, i.e., score. The study is quantitative for the inclusion of figures computed to analyze the data.

The research design applied is valid, for it is possible to test the two hypotheses raised at the start of the study process. It is reliable, for it offers consistent results, making it possible for readers to rely on the outcomes to make quality decisions. The design incorporates engaging in a literature review of details and information provided by other scholars in the same field. It is one of the best designs because it takes less time and minimal resources.

Benkraiem et al. (2021) introduced an empirical model in the analysis process to determine institutional elements' influence on tax evasion. An equation was created to determine whether auditing standards strengths, ethical values, and ideologies running in an institution are helping to reduce tax evasion.

$$TE_{j,t} = \alpha + \beta \times EB_{j,t} + \gamma \times AS_{j,t} + \theta X_{j,t} + \psi Z_j + \varepsilon_{j,t} \tag{1}$$

$$TE_{j,t} = \alpha + [\beta \times EB_{j,t} + \gamma \times AS_{j,t} + \theta X_{j,t}] * I(I_{j,t} \in 1^{st}, 2^{nd} \text{ or } 3^{rd} \text{ Moderator variable Tercile}) + \psi Z_j + \varepsilon_{j,t} \tag{2}$$

In this model, EB represents ethical behavior, while TE is the tax evasion component, and the auditing standard strengths are represented by the AS figure. The control variables are represented by X, while Z represents dummy variables. The regression analysis figure shows that the auditing standards and ethical measures adopted by a company affect tax evasion issues. The figures below were obtained after this study process.

Pooled regressions of tax evasion on ethical behavior, strength of auditing, and control variables.

Variables	Model 1			Model 2			Model 3		
	Coef.	Std. Err.	P>|t|	Coef.	Std. Err.	P>|t|	Coef.	Std. Err.	P>|t|
Population	−0.143***	(0.186)	0.000	−0.104***	(0.197)	0.000	−0.141***	(0.186)	0.000
Trade	0.129***	(0.010)	0.000	0.118***	(0.010)	0.000	0.127***	(0.010)	0.000
Urban population	−0.276***	(0.014)	0.000	−0.338***	(0.015)	0.000	−0.272***	(0.014)	0.000
Imports of goods and services	−0.092***	(0.016)	0.000	−0.076***	(0.017)	0.004	−0.091***	(0.016)	0.000
Ethical behavior of firms	−0.502***	(0.316)	0.000				−0.481***	(0.466)	0.000
Strength of auditing				−0.380***	(0.368)	0.000	−0.029	(0.510)	0.429
Adj. R2	0.474			0.402			0.476		

Notes: ***significance at 1%; **significance at 5%; *significance at 10%. See Table 1 for variable definitions.

Figure 1: Pooled Regression Figures on Tax Evasion issues (Benkraiem et al., 2021)

The ethical behavior analysis posted a figure of β = -0.502, p < 0.01, while the policies and principles in a firm gave b = -0.380, p < 0.01. It shows that both concepts' effects are negatively correlated, as highlighted in models one and two. When these figures were inserted into model three, the strength of the auditing standard lacked relevance, with the ethical behaviors depicted by an organization remaining significant (Sandford 2019). These descriptive statistics show laws and ethical ideologies adopted by a firm affect the management of tax evasion issue. However, ethical behavior and attitudes have a strong effect and are the best system to adopt to raise tax compliance levels (Budiarto et al., 2018). Convincing people to adopt the right morals will ensure all stakeholders remain tax compliant without getting pushed by authorities. Therefore, a favorable corporate environment maximizing the amount of tax collected is realized through ethical ideologies prevailing in society (Gaughan and Javalgi 2018). A government should create an enabling environment that ensures all parties agree and are willing to pay levies for the common good. When everyone is undertaking their responsibility, a government will have the capital to finance infrastructural development, and these structures will benefit everyone in a community.

According to "The effects of International Financial Reporting Standards, auditing and legal enforcement on Tax Evasion: Evidence from 37 African Countries," there is a negative correlation between the auditing standards implementation process and the tax evasion issue. The author states that adopting International Financial Reporting Standards (IFRS) improves the financial analysis process, meaning there is a reduction in tax evasion cases. Countries must ensure they have tight laws that are effectively implemented to achieve the desired tax compliance rates (Saragih and Putra 2021). The IFRS ensures a common ground for accounting and enabling auditing processes in businesses globally. The standards determine the taxation processes that entities should adopt. The policies are supposed to be followed strictly to ensure harmonization and equality in managing companies (Ungureanu and Pițu 2019). As highlighted below, data from 37 African states were collected and recorded when undertaking this study process.

37 African states were utilized in this study process, which led to 370 observations. In Panel A above, the states in the first cluster posted high figures of IFRS scores and were depicted as early IFRS adopters. The second cluster consists of states with low IFRS scores, and it was noted they adopted the IFRS late. The calculations shown in Panel B table enhance the desire to determine the influence of ethical standards and Auditing principles on tax evasion. In this figure, cluster 3 compared the states with a high level of legal enforcement and seemed to post a significant I.E score. However, the weak legal enforcers given in cluster 4 had low levels of I.E score. The details show that jurisdictions with low legal enforcement scores are not involved in heightened levels of

implementing the auditing standards. They are likely to experience more tax evasion cases, showing an interaction between the tax compliance ideology and the implementation of auditing principles. However, the desire to pay tax increased with the implementation of tough laws, which indicates that the relaxation of these rules will trigger a rise in tax evasion cases. Therefore, businesses need to revert to the ethical measures they apply to run their operations and ensure they achieve the desired compliance level.

Panel A.

| | Cluster 1 (early IFRS adopters) | | Cluster 2 (late IFRS adopters) | |
Year	Country name	IFRS score	Country name	IFRS score
2017	Mauritius	7	Guinea	2
2017	Botswana	7	Gambia	3
2017	Rwanda	7	Egypt, Arab Rep.	1
2017	Namibia	7	Burkina Faso	4
2017	South Africa	7	Tunisia	2
2017	Ghana	7	Cote d'Ivoire	2
2017	Lesotho	7	Gabon	2
2017	Uganda	6	Senegal	3
2017	Swaziland	7	Cabo Verde	2
2017	Zambia	7	Ethiopia	3
2017	Tanzania	7	Cameroon	2
2017	Kenya	7	Burundi	2
2017	Malawi	7	Sierra Leone	3
2017	Nigeria	7	Algeria	2
2017	Zimbabwe	7	Mozambique	3
2017			Mali	3
2017			Angola	2
2017			Libya	3
2017			Mauritania	1
2017			Morocco	4
2017			Liberia	4
2017			Madagascar	4

Countries were grouped according to the adoption and implementation of IFRS between 2008 and 2017.

Figure 2: Grouping of Countries based on Adoption and Usage of IFRS (2008-2017) (Kurauone et al., 2020)

Panel B.

| Year | Cluster 3 (strong legal enforcers) | | Cluster 4 (weak legal enforcers) | |
	Country	LE score	Country	LE score
2017	Botswana	6.18	Libya	1.27
2017	Cabo Verde	5.70	Zimbabwe	2.19
2017	Ghana	4.84	Angola	2.63
2017	Mauritius	6.25	Burundi	2.66
2017	Namibia	5.25	Guinea	2.95
2017	Rwanda	5.61	Cameroon	2.98
2017	South Africa	5.14	Nigeria	3.12
2017	Tanzania	4.0	Algeria	3.22
2017	Zambia	4.11	Madagascar	3.27
2017	Swaziland	4.23	Liberia	3.27
2017	Burkina Faso	4.36	Mozambique	3.27
2017	Uganda	4.55	Sierra Leone	3.47
2017	Lesotho	4.59	Gabon	3.49
2017	Morocco	4.64	Mauritania	3.58
2017	Tunisia	4.70	Ethiopia	3.66
2017	Senegal	4.75	Mali	3.68
2017			Egypt, Arab Rep.	3.71
2017			Malawi	3.82
2017			Kenya	3.93
2017			Gambia	3.96
2017			Cote d'Ivoire	3.99

Figure 3: Legal Enforcement Measures (Kurauone et al., 2020)

According to "Differences in Family-Owned SMEs' Ethical Behavior: A Mixed Gamble Perspective of Family Firm Tax Evasion," relying on ethical ideologies is one of the best moves businesses can adopt to ensure they achieve their tax compliance objective. Companies tend to weigh benefits and costs likely to arise when they engage in tax evasion. Many businesses realize that the cost of tax evasion outweighs the benefits. Therefore, they rely on ethical ideologies running their operations to achieve tax compliance objective. Organizations promote ethical behavior by creating an identity that ensures all stakeholders follow the desired rule of law (Knežević 2020). Organizational culture depicts the measures and policies that help create a harmonious working environment (Al-Rahamneh and Bidin, 2022). These values create a community and drive employees to have ample time to work towards realizing a common good. Managing tax evasion is an important activity that every business should institute measures to help achieve the desired outcome.

According to "Anticorruption reforms, tax evasion, and the role of harassment," the implementation of anticorruption reforms is a tool that helps to reduce tax evasion. Banerjee and Vaidya (2019) state some of the issues that may drive firms to comply with their tax obligation are the worry and fear caused by a government. Therefore, the auditing standards implemented by authorities may have the desired outcomes in reducing overstatement of expenses and understanding of revenue generated by a firm. However, the effectiveness of this measure is limited compared to ethical policies running in a business (Kassa 2021). Some firms are not affected by the threats posed by rules and laws instituted by a government, meaning the anticorruption measures may have the opposite effect, leading to a rise in tax evasion cases. When institutions are not facing any harassment from a government after-tax payment evasion, there is a possibility they will not feel compelled to comply with the tax payment process.

Banerjee and Vaidya (2019) state that only tough measures can help improve the working process and implementation of tax laws. Therefore, there is a significant need to undertake a cautious approach that involves creating an environment where institutions and people pay taxes out of their own will and not due to fear that they will be punished when they fail to make a payment (Drogalas et al. 2018). This indicates that applying the auditing standards does not always lead to realizing the desired goals. Therefore, the ethical guidelines and policies working in a firm offer the best strategy to help achieve the tax evasion control process. Organization culture highlights the value instilled in workers, enabling them to learn about the ideologies they are supposed to observe when they serve a business (Chohan 2020). When undertaking such training, they should be informed of the need to remain ethical and always follow the rule of law created by a government. The move will ensure that accountants are relying on their skill set and are competent employees working towards making a business tax compliant.

According to "Tax enforcement, tax compliance, and tax morale in transition economies: A theoretical model," the tax morale and compliance process are interrelated. Political changes in a society can profoundly affect a community and create a wave of opportunities for various players to engage in tax evasion. The application of auditing standards, the rule of law, and deterrence measures are some of the procedures used to enhance tax compliance (Kemme et al., 2020). However, the concept tends to have a wide range of issues, considering that forcing people to undertake an activity makes them resistant. Therefore, even though laws are used, and people and companies are paying their taxes, there is a feeling they are only undertaking the activity because they are being forced. If they are allowed to make their choices, there is a chance that they may fail to meet their tax obligation goals (Alm et al., 2019). In this analysis, the author focuses on data on the shadow economy, showing how the transition to a market economy changed and triggered a wave of tax evasion.

Country	Shadow Economy(a), as % of GDP				Institutional Context(b)		
	1991-2003	2004-2015	1991-2015	Group	CPI TI	Polity Dem.-Aut.	Nat. Res. (% of GDP)
Albania	37.58	27.45	32.72	n.a.	36	9	1.8
Armenia	46.43	38.44	42.59	FSU	35	5	4.6
Azerbaijan	58.55	45.30	52.19	FSU	29	-7	**13.3**
Belarus	50.03	38.56	44.52	FSU	32	-7	1
Bosnia & Herzegovina	35.96	32.32	34.21	SFRY	38	-	1
Bulgaria	35.44	25.71	30.77	EU	41	9	1.5
Croatia	34.32	25.85	30.25	EU	51	9	0.7
Czech Republic	19.38	14.70	17.13	EU	56	9	*0.1*
Estonia	32.28	25.02	28.8	EU	70	9	1
Georgia	**67.39**	**62.15**	**64.87**	FSU	52	7	1
Hungary	28.41	21.71	25.19	EU	51	10	0.3
Kazakhstan	43.86	33.47	38.88	FSU	28	-6	10.3
Kyrgyzstan	41.44	34.10	37.92	FSU	28	-7	7.2
Latvia	29.45	22.32	26.03	EU	56	8	0.9
Lithuania	31.34	23.85	27.75	EU	59	10	0.4
Moldova	45.26	41.46	43.43	FSU	33	9	0.4
Poland	30.06	22.65	26.5	EU	63	10	0.8
Romania	33.54	26.42	30.13	EU	46	9	1
Russian Federation	46.68	38.12	42.57	FSU	29	4	10
Slovak Republic	*19.11*	*13.94*	*16.63*	EU	51	10	0.3
Slovenia	28.47	23.32	25.99	EU	60	10	0.2
Tajikistan	44.67	41.17	42.99	FSU	*26*	-3	2.1
Ukraine	48.65	40.64	44.8	FSU	27	4	4
Transition countries	38.62	31.24	35.08	-	43.35	5.05	2.78
United States	9.83	8.98	9.42	G7	76	10	0.3

Table 1: Institutional Context and Shadow Economy (Bruno, 2019)

At the beginning of the transitional process, there was a minimal application of the rule of law. At the time, the political institutions were changing slowly, which meant the rule of law was not sufficiently applied during the change process. Therefore, the stakeholders that were supposed to be making tax payments were not feeling compelled to undertake the compliance measures, which caused a rise in the level of tax evasion. In the table above, the shadow economy prevailing in the developing countries was recorded at 35% of the gross domestic product, while the United States, one of the best-performing nations globally, had a rate of 9% for the period 1991-2015. A significant number of the states in the European Union section performed better compared to former Soviet Union nations. Slovak Republic recorded a rate of 16% compared to Georgia, with 65%, which was part of the Soviet Union at the time. These figures show that applying the rule of law that pushes entities to pay taxes yields the desired effect, but the move is not long-lasting. Many institutions make payments because they are pushed but not because they are willing and ready to comply. Therefore, the best move to ensure that tax evasion cases are managed is to establish a conducive environment that will make people become ethical (Abdul-Jabbar et al., 2020). Firms should have a set of policies and values that guide their working ideologies that support the desire to work for the common good of humankind.

4. Results and Discussion

Governments and other relevant players worldwide are always seeking ways to manage tax evasion and raise compliance levels. They seek strategies that will help them realize the desired outcomes. Some of the systems proposed are the ethical attitudes and ideologies adopted by a firm and the implementation of the auditing standards introduced by regulatory bodies. Both procedures achieve their desired goals, but the ethical guidelines tend to perform better than financial reporting principles. The study outcome shows that some accountants are aware of the rules they are supposed to follow when running operations in a firm (Rashid et al., 2019). However, some engage in malpractices, such as tax evasion for financial gains, and others resist the rules and regulations introduced by governing bodies (Dobos and Takács-György 2018). Therefore, implementing the auditing guidelines may fail to achieve the desired outcome, as it will face resistance. Therefore, the best move is for the government to encourage companies and individuals to act ethically and comply as required. The ethical values instilled in people will lead to a reduction in levels of tax evasion and help governments raise adequate income for the development process (McGee and Shopovski 2018).

When focusing on the hypothesis testing, it was realized that countries with IFRS figures are most likely to rely on the tool for tax evasion control. The interaction between the legal principles and tax evasion is significant and negatively skewed when focusing on the information related to early and late IFRS adopters (Androniceanu et al. 2019). The study was undertaken at a 1% level of significance, and the high coefficient levels recorded by early IFRS adopters compared to late IFRS adopters support the hypothesis. Therefore, it is clear that the states with better laws supported by effective implementation tend to post low levels of tax evasion. Therefore, hypotheses one and two cannot be rejected. They are relevant since applying the desired ethical measures in a company will help reduce tax evasion cases. Jurisdictions with quality laws have high tax compliance levels globally. Such regions experience a rise in cases of sustainable development that helps to create a harmonious environment for all parties. Companies aligning their working process with country laws stand a better chance of influencing clients and potential investors to act accordingly (Hufff, 2022).
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5. Conclusion

This comparative analysis of ethical measures and auditing standards in managing tax evasion underscores the critical importance of both approaches in addressing this pervasive issue. Tax evasion, a significant illegal activity, poses substantial challenges to businesses and governments, resulting in economic losses and reputational damage. Governments worldwide have instituted measures to curb this vice, with technological advancements aiding auditors in detecting misstatements in accounting books, such as overstated expenses or understated income.

The study highlights that while auditing standards and regulatory enforcement are essential in combating tax evasion, their effectiveness can be compromised when compliance is driven by compulsion rather than genuine commitment. Entities that comply with tax regulations out of fear of penalties often seek loopholes to reduce their tax obligations, undermining the overall effectiveness of auditing standards.

In contrast, ethical guidelines within firms play a pivotal role in fostering a culture of integrity and accountability. These guidelines encourage stakeholders to adhere to ethical values and company regulations, creating a conducive working environment. Employees driven by a sense of common good and ethical duty are more likely to comply voluntarily with tax laws and fulfill their tax obligations accurately and on time.

In conclusion, while both auditing standards and ethical measures are vital in addressing tax evasion, ethical practices tend to yield more substantial and sustainable benefits. By integrating strong ethical frameworks within organizations alongside rigorous auditing practices, businesses can more effectively manage and reduce tax evasion. This dual approach not only ensures compliance but also promotes a long-term culture of ethical behavior and accountability. The findings provide valuable insights

for policymakers and organizations aiming to enhance tax compliance and mitigate evasion, emphasizing the importance of incorporating ethical principles into the core operational strategies of businesses.

6. Study Limitations and Future Research

While this study provides valuable insights into the comparative effectiveness of ethical measures and auditing standards in managing tax evasion, several limitations should be acknowledged. First, the research heavily relies on secondary data sources and literature reviews, which may introduce biases based on the scope and quality of the existing studies. The reliance on quantitative data also limits the depth of understanding regarding the contextual and qualitative factors that might influence tax evasion, such as cultural or socio-political dynamics within different regions. Additionally, the study primarily focuses on the implementation of ethical measures and auditing standards within a specific timeframe and across selected regions, which may not fully capture the evolving nature of tax evasion practices in a globalized economy.

Moreover, the study does not account for the potential impact of new and emerging technologies, such as blockchain and artificial intelligence, which are increasingly being integrated into financial auditing and compliance processes. These technologies could significantly alter the effectiveness of both ethical practices and auditing standards in the future. Finally, the scope of the research is limited to the interaction between ethical behavior and auditing standards, potentially overlooking other crucial factors such as economic incentives, regulatory environments, and the role of government transparency, which could also play significant roles in influencing tax compliance.

Given the limitations identified, there are several avenues for future research that could build upon the findings of this study. First, future research could explore the impact of emerging technologies on the effectiveness of ethical measures and auditing standards in reducing tax evasion. Understanding how digital tools and artificial intelligence can be leveraged to enhance compliance and detect fraud could provide valuable insights for policymakers and businesses.

Additionally, longitudinal studies that examine the long-term effects of ethical frameworks and auditing standards on tax compliance across different cultural and regulatory environments would be beneficial. Such studies could help to identify whether the positive impacts of ethical behavior on tax compliance are sustainable over time and across various contexts. Furthermore, qualitative research exploring the motivations behind tax evasion and the ethical decision-making processes within organizations could provide a deeper understanding of how ethical values are internalized and acted upon in practice.
Future studies might also investigate the role of government transparency and accountability in fostering a culture of compliance. Exploring how public trust in government institutions influences tax morale and the willingness of businesses and individuals to comply with tax regulations could offer new insights into effective strategies for managing tax evasion.

Finally, there is a need for comparative research that examines the effectiveness of different combinations of strategies—such as the integration of ethical measures with advanced technological auditing tools—across various industries and regions. Such research could help to identify best practices and provide a more nuanced understanding of how different approaches can be tailored to specific contexts to maximize their effectiveness in reducing tax evasion.

By addressing these areas, future research can contribute to a more comprehensive and dynamic understanding of the factors that influence tax compliance and provide practical solutions for mitigating tax evasion on a global scale.

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