The perceived relevance of tax risk-management in South Africa

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Structured abstract

***Purpose of this paper*:** Tax risk-management (TRM) is a little studied area of corporate governance, despite the proliferation of ever more complex tax legislation that can have a material impact on the sustainability of organisations. The purpose of this study is to identify whether South African companies have tax risk-management practices in place and whether or not these practices have evolved or changed over the last 5 years. The study also aims to identify the link, if any, between tax risk-management practices being carried out and the discussion and disclosure of these practices in the integrated report.

***Design/methodology/approach*:** Detailed interviews with some of South Africa's leading tax and corporate governance experts are used to highlight the tax risk-management practices currently in place, as well as the evolution of these practices. These interviews identify the connection between the practices and the integrated reporting disclosures.

Findings: The experts interviewed have identified a sound understanding of TRM practices in place and certainly some evolution of these practices over the past 5 years. What has been identified though is the need for further enhancement and incorporation of TRM practices into the corporate governance control structures within organisations. Integrated reporting disclosure of TRM still appears to be an area where there is need for improvement, specifically a better understanding by companies of how to use their integrated reports as a strategic asset of the company as opposed to merely a compliance exercise.

Research limitations/implications: The research relies on a relatively small sample of subject experts and does not provide a complete account of tax risk-management developments.

Value: The study adds value by contributing to research conducted on tax risk-management. Although there has been research on ERM from a corporate governance perspective, few studies have examined this from a tax perspective and there is virtually no formal academic research on the relationship between tax risk-management and corporate governance from a South African perspective.

1. INTRODUCTION

In most South African organisations tax remains a ‘resultant’ determined ‘simply’ by applying the ‘applicable tax rate’ to the taxable incomes determined in accordance with the respective jurisdiction’s tax rules (International Accounting Standards Board [IASB] 2012). Considering the growing complexities of tax laws (Weinberger *et al.* 2012) which translates into potentially material impacts on a company’s profits and ability to demonstrate compliance with a jurisdictions regulations (Weinberger *et al.* 2012) this research explores whether or not the South African corporate has shown the need for a comprehensive system of risk identification and management that proactively addresses tax-related risks (consider Institute Of Directors [IOD] 2009; IRC. Framework for Integrated Reporting and the Integrated Report [IRC] 2011; Loots 2012).

The primary objective of the study is to extend our understanding of the South African corporate enterprise risk-management profile (ERM) (Demidenko *et al.* 2010), highlighting how this incorporates tax risk-management (TRM) as part of an overall commitment to sound corporate governance (Demidenko *et al.* 2010). This will be done using an exploration of tax-based risks and assessing companies’ responses to those risks, as well as examining how South African corporates are incorporating legislative tax risk-management requirements into their comprehensive corporate governance ethos.

The secondary objective of the study is to understand fully how South African organisations identify, rank and manage tax risks in terms of importance and relevance to their corporation as well as to understand whether South African companies adequately and appropriately incorporate tax risks into their integrated reporting requirements. These objectives will be achieved using detailed interviews with a sample of tax professionals.

These objectives will be analysed through the highlighting of the dynamic nature of risk-management, extending into the little studied area of tax-specific risk management. The past decade has seen considerable change in corporate governance reforms (Demidenko *et al.* 2010) and specifically integrated reporting (see King 2012). Sound corporate governance mechanisms are considered the foundation for maintaining controls and structures which ensure the maintenance of companies’ reputations and economic and operating stability

(Demidenko *et al*. 2010). A crucial component of corporate governance is an entity's enterprises risk-management profile (ERM) (Demidenko *et al.* 2010). Although there has been research on ERM from a corporate governance perspective, few studies have examined this from a tax perspective and virtually no formal academic research on the relationship between tax risk-management and corporate governance from a South African perspective exists. This is despite the country being the continent's largest and most sophisticated economy.

The remainder of this paper is structured as follows: Section 2 focuses on the classification of the different tax risks which impact on organisations in South Africa, Section 3 provides an outline of South African companies' legislative duties to disclose and report on the different tax risks which impact organisations. Section 2 and Section 3 are aimed at extending our understanding of the South African ERM with a specific focus on TRM as part of the overall commitment to sound corporate governance. Section 4 discusses the research method. Section 5 provides the analysis of the detailed interviews. Section 6 concludes, identifies limitations of the research and recommends areas for future research.

2. CLASSIFICATION OF TAX RISKS

In order to understand how the South African corporate ERM, including the incorporation of TRM, extends its commitment to sound enterprise corporate governance principles, it is necessary to understand the various risks companies face, as well as their response to and understanding of these risks.

Specific and generic tax risks are the two main categories that tax risks are divided into (Elgood 2004). The former are further classified into transactional, operational, compliance and financial accounting risks, while generic risks include portfolio, management and reputational risks (Segal & Maroun 2014). These tax risks can also be considered to be 'internal tax risks' which entities are required to manage (Erasmus 2014). External tax risk occurs through continual legislative and regulatory changes and new case law which often results in difficulty for South African companies in managing these changes (Erasmus 2014).

Routine transactions, such as the purchase and sale of inventory, will result in lower transaction risks whereas non-routine transactions such as complex transfer pricing or business acquisition will increase the transaction risks (consider Elgood 2004; Bakker & Kloosterhof 2010; Weinberger *et al.* 2012). The increasingly complex tax laws, as well as the requirement by SARS that tax returns are completed timeously, and accurately have also increased the compliance risk for many South African corporates (Segal & Maroun 2014). The literature examined has revealed that most taxpayers incur large additional taxes due to the fact that their tax compliance advisors only compile their required tax returns through the information provided from the accounting records of the business (Erasmus 2014). This illustrates that companies 'operational risk' which is in essence a product of the entity's organisational tax control system is also increased through a decreased focus of South African corporates on their tax system of internal control management (Erasmus 2014, Segal & Maroun 2014). Complex financial accounting standards have also resulted in an increased financial accounting risk for South African companies (IASB 2012). The effective management of this financial accounting risk requires a holistic management approach of both the accounting and tax implications of particular transactions (Bakker & Kloosterhof 2010).

In considering the tax generic risks, 'portfolio risk' is the aggregation of transactional, operational and compliance risk discussed above (Segal & Maroun 2014). The portfolio risk forms a critical component of an entity's management risk (Weinberger *et al.* 2012). Management risk could be effectively managed by ensuring that organisations employ highly qualified staff who are senior within the organisations and are dedicated to ensuring an efficient and effective tax-control environment (consider Erle 2006; Weinberger *et al.* 2012). In a South African survey conducted by taxriskmanagement.com, 54% of the participants did not have dedicated tax managers; 83% did not think they were fully tax compliant, of which 55% either did not know what their tax compliance rating was, or were less than 75% tax compliant and 80% did not have a tax strategy (Erasmus 2014). This illustrates that South African corporates are not adequately assessing their management risk.

Companies which adhere to strong management practices will have reduced operational, compliance, transactional and portfolio risk levels (Segal & Maroun 2014). In addition to this is an improved reputation. Corporations that aim to pay as little tax as possible and whose practices are aimed at tax reduction without adequate consideration of all stakeholders will have an increased tax reputational risk (Weinberger *et al*. 2012). The increase of social media and online publications have increased this risk for many South African (and international) corporations (Chessel 2014). The reputational risk is particularly prevalent in South Africa where challenges relating to the fiscal gap are more significant than they are globally (Duffield 2015). The infrastructure spending requirement which is so necessary for sustained economic growth as well as the fact that the tax burden is carried by a small percentage of the population also increases the reputational risk for South African corporates that follow the 'tax minimizing' ideology (Duffield 2015).

3. LEGISLATIVE TAX-RISK MANAGEMENT REQUIREMENTS FOR COMPANIES IN SOUTH AFRICA

Good corporate governance is crucial to the success of any company (Erasmus 2014). King-I and King-II introduced at the start of the 1994 and 2002 emphasised specifically the necessity for the introduction of risk-management design, implementation and monitoring processes and policies (IOD 2002). The premise of these codes was that the board should take additional responsibility for managing and monitoring tax risks and tax risk exposure to an entity (IOD 2002).

King-III which has been effective from March 2010 has elaborated on the King-I and King-II requirements. Specifically through its calling for the formation of risk-management plans and committees, it has increased the responsibilities of CEO's, CFO's and the boards from a tax perspective (Erasmus 2014).

Other legislative implementations have all served to increase the responsibility level of corporations and their executives from a tax perspective (Segal & Maroun 2014). The introduction of an electronic registration and compliance system (e-filing system) as well as the formation of the Large Business centre (LBC) at SARS to facilitate the collection of tax revenues from large businesses in South Africa (Erasmus 2014; Segal & Maroun 2014). An increased level of control by SARS of the tax roll allowing SARS unilateral power over tax cases appearing speedily in tax court (Erasmus 2014). A special criminal tax court has been established in certain jurisdictions to facilitate this process (Erasmus 2014). These implementations have provided the impetus for corporations to improve their compliance and operational tax risk management (Segal & Maroun 2014).

The implementation of the Tax Administration Act No.28 of 2011 (TAA) also aimed to improve the tax governance mechanisms of corporations (Deoitte 2013). Through this SARS has introduced permanent voluntary tax disclosure programs aimed to give non-compliant taxpayers the opportunity of full disclosure without the risk of incurring heavy penalties and criminal prosecution (Erasmus 2014). The program allows for disclosure even after a tax audit has commenced but this is with slightly higher penalties (Erasmus 2014; Segal & Maroun 2014). These implementations are intended to be an incentive for organisations to (better) manage their operational, compliance, management and reputational risks (Deoitte 2013; Segal & Maroun 2014). The SARS strategic plan which was recently released provides insight into SARS's strategy to move from a gatekeeper to a risk management approach (Segal & Maroun 2014; SARS Strategic Plan 2015). Part of the strategic plan is the ideology that appropriately implemented TRM practices will reduce the risk profile of an organisation and result in a lighter audit approach for these companies (Segal & Maroun 2014; Van der Walt 2015).

4. METHOD

A qualitative method for this relatively understudied aspect of tax risk-management is considered the most suitable approach (Brennan and Solomon 2008; O'Dwyer et al 2011). Using detailed interviews, this research focuses on those practitioners who are directly involved with tax and tax risk- management practices and integrated reporting disclosures in the South African corporate context. Table A provides diagrammatical illustration of the methodology used. Potential interviewees were contacted either by telephone or by e-mail and invited to participate in the research. They were informed of the nature and purpose of the research and guaranteed complete anonymity. A time was scheduled to meet with each interviewee and an outline of the research project, including a list of open-ended questions, was made available for review prior to each interview (Table A).

At the start of each interview, the respondent was reminded of the objective of the research and of guaranteed anonymity, as well as of the fact that the study was for academic purposes only. Respondents were encouraged to speak openly and reminded that there were no correct or incorrect responses. Time was also spent establishing rapport with the respondents at the start of each interview.

A total of 15 respondents were interviewed in semi-structured interviews: each interview lasting between 30 minutes and 1,5 hours was conducted in Johannesburg between August 2013 and January 2015. On occasion, respondents were asked to explain a particular concept or statement in different words or from different perspectives to address or resolve ambiguities (Alvesson 2003). Although the sequence of points and the detailed provided varied per respondent, the same themes were covered in the interviews (O'Dwyer *et al.* 2011).

Recordings were transcribed as soon as possible after the interviews were completed. Initial notes were contrasted and general themes, categories and interconnections were identified using a type of "data mind map" (adapted from Oakes *et al.* 1998; Holland,1998a,b; Leedy & Ormrod 2001). Content was organised initially under headings and sub-headings (codes) consistent with questions posed. Closer scrutiny of field notes and the prior literature led to reclassification of interview content as necessary and to the refinement or use of additional codes, with the result that the data analysis process was iterative. All notes were numbered and cross-referenced to a code register or legend to allow for easy data analysis. Codes with few or no allocations were aggregated. The product was a summary table for each transcript which effectively assigned the transcript content to different content pools, each of which is aggregated under a finalised set of codes (Table A).

Table A

Using detailed interviews, this research focuses on those practitioners who are directly involved with tax and tax risk- management practices and integrated reporting disclosures in the South African corporate context. Respondents included audit partners from the Big 4 audit firms who specialise in the auditing of integrated reports of companies (E 1-5); integrated reporting specialists from the Big 4 audit firms (E6-7); tax directors, tax senior managers and tax consultants specialising in tax risk-management from the Big 4 audit firms (E8-12) and senior managers and consultants from the Large Business Centre (LBC) of SARS (regulators) (R 1-3).

Questions asked	**Analysis of the data provide from the questions into the relevant themes/principles (Table B)**
1. What do you understand by the term 'tax risk management'?	***(A)***
2. How important is the need for effective tax risk management?	***(A)***
3. Can you give us some examples of key tax-associated risks and how your organisation/client manages its tax risks?	***(A)***
4. Have tax risk management practices changed over the last 5 years and, if so, what were the reasons for these changes?	***(B)***
5. What do you understand about the requirement to prepare an integrated report?	***(B) & (c)***
6. To what extent does non-financial information play a role in integrated reporting?	***(B) & (c)***
7. To what extent are tax-related issues discussed in the integrated reports?	***(c)***
8. Do you think that your organisation/client adequately discloses tax risk issues in the integrated reports? Should there be more emphasis on tax-related disclosures in the integrated reports?	***(c)***

5. ANALYSIS AND FINDINGS

Table B

Themes identified and link to the principles theme and paper objective:

Theme 1:	**Principle of the theme**	**Paper Objective (Table C)**
(A)	Link to principles of corporates understanding the importance of tax risk and tax risk-management (5.1)	***(D)***
(B)	Link to the changes of tax risk-management practices in South Africa over the last five years (5.2).	***(D)***
(C)	Link to the adequacy of the disclosure of tax risks and tax risk-management issues in companies' integrated reports (5.3).	***(E)***

Table C

Coded objective of the paper

Paper's objective	
(D)	Understanding how South African organisations identify, rank and manage tax risks in terms of importance and relevance to their organisations.
(E)	Understanding whether South African companies adequately and appropriately incorporate tax risks into their integrated reporting requirements.

5.1 On principles of corporates understanding the importance of tax risk and tax risk-management.

A clear trend from the respondents in analyzing their understanding and importance of tax risk and tax risk-management is ‘‘what are organisations structures/mechanisms or processes [in place] to consider the [tax] risk that exists for particular transactions’’ (E8). The pervading perception is that companies' understanding of their tax risks stems from transactional and compliance risk (section 2). Respondents also indicated that while there is an awareness of the importance of tax-risk within a company, there exists a type of “filtering process’’(E7) and an indication that experts are not seeing tax-risk appearing regularly as a ‘’key risk item’’ (E7). The transaction risk focus is reinforced by respondents who identified areas where clients were analyzing their tax-risks based on specific transactional risks:

> *So a lot of companies were moving around assets and doing it on a tax-free basis and a neutral basis but there was no accountability so there was no documentation, there were no resolutions. There was no accountability by the shareholders, by the implementers, by the tax department, by the finance departments. As we started seeing SARS picking up on these gaps and basically coming back and assessing tax-payers and saying “show me what you've done” suddenly there's a whole new change in management. Now you grappling at straws saying “ok, we know we did it but we can't remember exactly how we did it. We can't find the resolutions*” (E10).

This “reactive” (E12) type of approach to tax risk-management falls short of the intention of the South African legislative requirements (Section 3). Although some respondents identified the fact that tax risk and tax risk-management should not be a separate consideration but should rather be “integrated and part of the same enterprise risk-management framework and methodology that they [the company] already have” (E12), they have identified in practice that:

> *From my experience and perspective although clients know about these concepts and at a much higher audit committee level people [companies] strive to kind of comply,[to] take it seriously , on a ground level I'm not entirely convinced that what's purported to happen actually happens (E11).*

Perhaps the intention "at the top" (E8) is to implement sound tax risk-management policies and understanding in their businesses but the "natural reaction" (E8) is that "people [companies] focus too much on the direct [transactional] tax risks and not [sufficiently] on the strategic consideration of taxes in a company (E9)." Respondents have indicated that the questions companies should be asking are, "Are there incentives and are there tax benefits which give us the opportunity? Plus if you've got these tax incentives how long do they last? And is it going to have a long-term impact on the viability of the business or of an operation you've created?" (E9). In other words, corporate ethos and strategy should be incorporating tax risk-strategy as part of that structure (Demidenko *et al.* 2010).

Unfortunately, "most businesses fall into a largely compliance driven" (E7) approach to tax risk and tax risk-management policies. While respondents identified incorporating tax risk-management into the 'culture' of the company as being important (Elgood 2004). They identified that

> *I don't see it being considered too much. I think it [tax] is a key risk out there which people take for granted. They going to deal with SARS and off they go but where it comes in is where SARS is challenging them (E7).*

Respondents have also indicated that what has further reinforced this approach is the implementation of the TAA (Section 3).

> *I think the new tax administration act (TAA) which came into being on 1 October (2012) is the game-changer. There are some changes in this act which are trying to come through. At the moment it almost feels like the taxpayers have no rights, it is very punitive on the tax payer. The whole thing about tax-compliance has always been there. But now its non-negotiable and we are finding that clients are more open to this discussion around processes and controls and things like that (E4).*

This 'punitive' approach to tax risk and tax risk-management (R1) has certainly been identified by the regulator respondents. Companies' understanding of tax risk-management is largely centred on "the big stick of the TAA" (E9). As a result of the threat of tax audits, companies are making sure that "their house is in order" (E9). The view by the regulator respondents is that companies are focused on "minimizing tax liability" (R1) as a business priority and many companies find themselves having to face large retrenchments of staff in order to finance significant tax debts which have arisen (R1). The regulators have identified that companies "shop around" at "different tax advisors" in order to find a tax opinion that will help minimise the tax liability (R1). The result is that companies are not following a 'moral tax approach' (E9) in incorporating tax risk-management as part of their organisation but are rather aiming to manage their compliance and transactional tax specific risks only (Section 2). The regulator respondents have identified that companies which focus their tax risk-management in a holistic and structured risk-management approach are viewed in a more 'favourable light' (R2) by SARS and are less likely to be "flagged" as a potential tax audit client (R2). This is consistent with the approach of the SARS strategic plan (Section 3).

"If corporates moved away from paying the minimal [least] tax possible approach and moved towards paying-more-than-I-have-to approach then SARS would be more open to interpretation of certain tax structures and approaches (R1)". This idea of 'moral tax approach' (E9) could also improve foreign investment and thus improvement in the economy which is a win/win situation for both the regulators and companies (E9).

Although there does appear to be some understanding of the importance of tax risk and tax risk-management by corporates, the analysis has indicated that the understanding is centred around the minimization of tax-risk liability and not sufficiently around the incorporation of tax risk-management on the risk-management ethos and corporate governance of businesses as a whole. The next analysis will focus on the changes of tax risk-management practices in South Africa over the last five years.

5.2 The changes of tax risk-management practices in South Africa over the last five years.

In analyzing whether or not there has been a change of tax risk-management practices over the last five years, respondents linked the movement in the tax risk-management philosophy in companies to the movement in the tax values of a company (consider Bakker & Kloosterhof 2010). Respondents identified that those corporates which included tax managers in the planning stage of the transaction as part of the corporate ethos identified notably better tax risk-management practices than those corporates which only consulted with the tax departments after completion of the transaction (R2). Tax compliance and tax consideration as part of transactions has largely been a “back office” consideration (R1) “done [performed] after the thing [event]” (R3), however, the changing legislation, most notably the King III and introduction of the TAA has shifted that approach significantly and has resulted in a situation where companies cannot afford to be in that phase of “considering after the fact” (E11) and has resulted in an improved TRM space.

The perception is that 5 to 10 years ago companies had a good understanding of tax risks but “shied away” from discussing and disclosing the risks (E5) whereas now with a general increase and improvement around tax awareness globally and locally there has been an improvement in companies' management and policies of TRM (E5). Improvement in management involvement has also been identified:

> *If I think about some of my clients, I see a lot more tax dedicated people being employed by organisations. So the tax department has very specific focus around what they do, how they manage the tax-risks and I suppose more important than just people [is] the reporting in the organisation. Where do they report into? Maybe [5 to] 10 years ago it was just part of a finance team and [in that team] there were just some people doing tax. Today I find that senior executives are involved in the tax. Tax steering committees and tax meetings etc. Where [in] [tax]decisions are made at a very high level (E9).*

Respondents also identified that cross-border activities and the increased complexities of transfer pricing and thin capitalization rules have increased the need for companies to have “a specific deep specialist who understands not just income tax but a broader range of tax issues and [tax] risks and actively manages it” (E8). Reverting 5 or 6 years, TRM seemed to be something which “was almost a passive” “it happens, it happened” (E8). So by the general nature of ever-evolving and increasing complexities around tax legislation globally and locally, there has been a ‘natural progression’ towards an improvement in the TRM practices in companies.

Another consideration which was raised is that a shift has notably occurred in clients due to the generally unstable and fluctuating world economy over the last five years (consider Deoitte 2013). As companies are facing bigger profit declines and entering into a recessionary economy, there has been a definite approach to try and “save profits” by “saving taxes" (E6) so while this may result in lower tax revenues for authorities, it has also resulted in better TRM policies within companies as companies are no longer leaving tax as the "once a year" "after the transaction" traditional exercise (E6) and so the recent trend "has been and I think [will] continue to be that organisations are looking at building better processes and systems for tax compliance" (E6).

Companies are also wary about being fined with high penalties in the event of non-compliance (consider Van der Walt 2015) resulting in larger losses to the company and, as a result, companies are more inclined to consider and incorporate TRM into their planning stages and are also more "pro-active" in consulting SARS to obtain advanced rulings on a transaction (E9). This is further reinforced by tax professionals who previously rendered opinions when uncertain on tax issues but now refer clients to advanced SARS rulings so as to ensure that neither the client nor the tax advisor is penalized in the event of an incorrect or unfavourable tax opinion (E10).

For several respondents, the increased awareness of TRM policies and practices in South Africa goes hand-in-hand with a sense of increased tax reputational risk (Section 2) both locally and abroad:

> *Having spent a bit of time in the U.K for the last 2 months, the one thing that has come through very strongly , a new change, is this [concept/idea] that even if you are operating in a tax [specifc] regime : are you paying your way in the environment in which you operate? So [for example] the kind-of Starbucks, Google, Apple made huge headlines in the U.K to the point where consumers were starting to boycott Starbucks , saying " well you've earned all this revenue from us but you're not plowing it back into the U.K so why should we support you?[reputational tax-risk]" […]There almost needs to be a 'sanity check' that says [example] Starbucks " we earned X million we paid zero million." Does that make sense? (E11).*

This moral sentiment of paying tax is increasing among customers and filtering through to companies and is certainly improving the moral awareness in South African corporates. Respondents particularly noted that there has been a movement away from extreme capitalism (in the sense of decreasing company's effective tax rates) towards a more moral and social approach (E12). A sense that "qualitative" factors are starting to emerge and that "quantum" tax savings are less significant (E9).

From the above findings it is evident that there has been an increased and improved change to tax risk-management policies in South Africa over the last five years, notably resulting from improved legislation, increasing liability and penalties for non-compliance, improved corporate ethos around TRM and an increased awareness of and sensitivity towards tax reputational risk (section 2). The final analysis will focus on the adequacy of the disclosure of tax risks and tax risk-management issues in companies' integrated reports.

5.3 Adequacy of the disclosure of tax risks and tax risk-management issues in companies integrated reports

In considering whether or not adequate disclosure of tax risks and tax risk-management exists in integrated reports, some experts shared these views:

> *Not enough but increasing. And very, very varied in terms of clients either willing to embrace it in as a tool as opposed to just clients [disclosing the bare minimum]… We see all spectrums (E6).*

> *I think organisations are probably still a little slow when it comes to providing that type of information. I think people are still reluctant to 'put it all out there' (E7).*

> *For me, it's more based on the concept [of] to interact [ing] with your stakeholders more comprehensively and more broadly than just the old set of financial statements that you would find in a set of glossies (E7).*

Just as the preceding section argued that TRM understanding has improved but needs to improve further, this section further highlights that disclosure in the integrated reports needs to be enhanced and increased and specifically notes that clients need to be aware that the integrated report is an "interaction" with their clients, a mechanism companies can use to be transparent and open in their relationship with their stakeholders and users (E8).

A number or respondents indicated that although clients are aware that the integrated report is a way in which companies can show their company strategy to the users of the report there are still a large number of clients who don't fully appreciate that TRM strategy is a significant strategy of the business and are thus ‘shying away’ from full and transparent TRM disclosure (E7).

Another respondent highlighted that TRM disclosure in the integrated report is certainly a “buzz” word but few clients are fully appreciating that the adequate disclosure is about “transparency” and “communication” (E3) which could be used to the company’s advantage in showing “how the company is adhering to tax morality [disclosure]” (E3): this idea of “tax morality” ties into the analysis identified in the preceding section (Section 5.2).

From the regulators perspective it is felt that it would be beneficial for companies to have improved and enhanced TRM disclosures specifically around possible disclosures of disputes with SARS and possible tax penalties which may be pending for the entity (R2), while many companies would be reluctant to include this in their disclosures as it certainly does not cast the company in a positive light (R2) it would reinforce the concept raised above of improved and enhanced transparency with all users of the integrated report.

One respondent appropriately noted that while tax transparency is the goal of TRM disclosure in the integrated report there is also a “line between how a business runs and putting too much out there versus being transparent and accountable” (E7). A user should be comfortable with the disclosures in the integrated report and that disclosure is moral and transparent (E6). A contradictory but interesting response from a number of respondents is the fact that some clients' integrated reports are “over-disclosed” and this leads to confusion and excessive, unnecessary information (E4).

> *Over-disclosure of often irrelevant information and the challenge is always to say “so what is material?” and I need to only disclose the issues [in the integrated report] that are material or the information that is material. So to cut down the size of those integrated reports so that they’re pretty focused on what the key issues are. In that context, if you think of the integrated report like that then I think it comes down to “is tax or is tax risk-management or tax risk-assessment an important part of what the company and what the board of directors think about on a regular basis?” If it is then I think it has got be in the integrated report (E 4).*

Complimenting this consideration is the concern that companies may have about losing their ‘competitive edge’ and ‘competitive advantage’ (E5). As one expert notably identified that there is “always a tension” between disclosing what should be disclosed and taking transparency a "step too far" in terms of possibly alerting SARS to potential tax non-compliance issues and thus raising unnecessary alarm bells and subjecting the company to possible unnecessary scrutiny by SARS (E5). As one respondent noted:

> *Interestingly if you look at the consultation draft of the integrated reporting framework ,then that contains a discussion around companies not needing to provide some information that they consider could be harmful or damaging [to the company or companies operations]. So I think there is going to be that tension, there's no doubt about it (E5).*

> *It is a hornets' nest. A lot of the time it is right up there with "why do I have to disclose what my top earners earn? why do I need to disclose my sales strategy?" Tax risk and how it's managed within an organisation is very sensitive. The reason being is that if an organisation is skirting that [tax compliance] line, it's almost seen as if we are telling the regulator "here is what you need to look for" (E3).*

Another concern which has been identified is that some statements of clients in their integrated reports are more philosophical in nature and less specific about TRM discussions (E2). As one expert noted:

> *If tax risk is a critical and material component of the organisation then absolutely it needs to be fully disclosed (E 3). While nobody is expecting in an integrated report to give the nitty-gritty of how you've [an organisation] structured [certain tax transactions] but what does need to be described is your [the organisations] TRM policies. This is not being done (E3).*

Integrated reporting needs to include TRM considerations as part of the strategic level of the company and organisations need to be cognisant of the fact that integrated reporting is not a "compliant process" but rather a "strategic process" (E5). Organisations should consider the integrated report as a good PR tool and an opportunity to "showcase" what their company is about and the value that their company can contribute to industry and their stakeholders (E4). From the above arguments it can be seen that, although there is a general view that there is some disclosure of TRM in the integrated report and there is a good level of awareness around TRM, there is still criticism around the fact that organisations aren't utilsing the integrated report appropriately and that there still exists a general gap in the understanding of the intention of the integrated report and of the related required TRM disclosures.

6. Conclusion

The significant changing corporate governance landscape over the last 15 years has provided an need for the rapidly changing attitudes towards effective risk-management and specifically TRM (Weinberger *et al.* 2012). Taxation is increasingly being viewed as an integral part of an organisation that needs to be actively monitored, controlled and adequately reported on (consider Bakker & Kloosterhof 2010; Weinberger *et al.* 2012).

In this context, Section 2 focuses on the classification of tax risks and discusses the nature of each of these broad tax risk categories. This provides a frame of reference for exploring the nature of the tax risks faced by organisations and thus introduces Section 3 which highlights the various legislative requirements introduced in South Africa which focus on TRM and the reporting of this. A most notable recent implementation has been the introduction of the TAA which has sought to improve companies' TRM policies and disclosures, specifically SARS's approach to be more "lenient" on corporates that have introduced TRM planning as part of their control structures. These sections have provided results on the primary objective of the study which is the understanding of the South African corporate ERM, highlighting how this incorporates TRM as part of an overall commitment to sound corporate governance.

This has then been commented on in the results and findings of the experts and regulators interviewed in the context of their TRM understanding, specifically aimed at meeting the secondary objective of the study which is to understand fully how South African organisations identify, rank and manage tax risks in terms of importance and relevance to their corporation, as well as to understand whether South African companies adequately and appropriately incorporate tax risks into their integrated reporting requirements. For several of our interviewees, it is evident that companies have a knowledge and understanding of the need of the importance of sound risk-management and TRM practices but are not fully aware of how to implement these practices appropriately into their organisations. Many organisations have improved their understanding of the relevance of TRM over the last 5 years but what is evident from the interview results is that there exists an apparent contradiction between organisations knowing what is right to do in terms of TRM and being able to balance that by still trying to get the best tax favourable position. This is further illustrated by respondents identifying that TRM in integrated reporting "still needs work" and the fact that many companies are still utilizing the integrated report as a compliance exercise, as opposed to a means to add value to the organisation through strategic analysis of the companies' control and risk management policies. What is clear though is that TRM is definitely taken seriously by tax managers and their clients and there certainly is an improvement in both understanding and disclosures, however, additional work needs to be done by companies in further improving their understanding of appropriate integrated reporting of TRM disclosures.

On a final note, this paper is not free from limitations. The paper does not claim to provide a complete account of all South African companies' understanding of TRM and their adequate or inadequate disclosures in integrated reports. This is due to the fact that the research relies on a relatively small sample of subject experts. The line of enquiry could be expanded by interviewing additional tax practitioners or alternately shifting the focus from interviewing experts in the field to interviewing investors and users of the integrated reports to gain an understanding of their perceptions of TRM and how useful adequate TRM disclosures are for them as users of the report. This paper is an academic contribution and does not intend to identify any implications for practice.

Ultimately, with only a limited number of studies concerning themselves with TRM as part of the broader corporate governance machinery, this particular area of corporate governance is little researched, offering numerous opportunities for future academic efforts.

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Reviewer 1

Comments

The study makes a contribution to the academic literature, however the purpose of the study should be stated clearly and not repeated numerous times in the introduction. A primary objective complimented by secondary objectives will provide more structure.

Author response

The introduction has been restructured so that the purpose is not repeated. This has been restructured into a primary and secondary objective.

Comments

The contribution should be aligned with the purpose of the study and also not repeated several times.

Author response

The introduction has been restructured so that the contribution flows from the primary and secondary objectives.

Comments

Literature review should be revised to replace the copy and paste exercise from Segal and Maroun, 2014. There is no link between the current literature review and the purpose of the study.

Author response

The literature review has been revised and now links to the primary objective/purpose of the study which is:

Understanding of the South African corporate enterprise risk-management profile (ERM) as well as highlighting how this incorporates TRM as part of an overall commitment to sound corporate governance.

Comments

Methodology should be expanded so that the article is clear on: number of interviews, questions asked in interviews, the process of analysing the data. No information is available to replicate the research.

Author response

The methodology has been revised and expanded using tables in order to provide further clarity on the above requirements. Sufficient information and understanding of the analysis is now available to replicate the research.

Comments

Results should be presented in a more structured manner.

Author response

The detailed results have been pre-ceded by Table C in order to provide clarity and the link between the theme principles (Table B) and paper objectives.

Comments

The paper requires professional language editing.

Author response

The paper has been professionally edited by Mrs Lelys Maddock.

Additional Questions:

Comments

The title does not clearly describe the content of the paper. The paper is more about the current state of tax risk management in SA from an auditor's percpective rather than the perceived relevance of tax risk-management.

Author response

The paper has been restructured and the current title should now describe the content of the paper.

Comments

The purpose of the study is not communicated clearly in the document - between the abstract and the introduction it is stated at least for times that the aim of the study is to .... Except for the fact that they are not the same it is often not even related (take a different angel). The result is that the contribution, which is mentioned about three times is not aligned with the purpose of the study.

Author response

The introduction has been restructured so that the contribution flows from the primary and secondary objectives.

The literature review has been revised and now links to the primary objective/purpose of the study which is:

Understanding of the South African corporate enterprise risk-management profile (ERM) as well as highlighting how this incorporates TRM as part of an overall commitment to sound corporate governance.

Comments

The current literature review is an copy and paste exercise of the article: Segal, T. and Maroun, W., 2014. Tax risk-management analysis: comparison between the United States of America, the United Kingdom and South Africa. Journal of Economic and Financial Sciences, 7(2):375-392. The literature review should be revised and aligned with the purpose of the study.

Author response

The introduction has been restructured so that the contribution flows from the primary and secondary objectives.

The literature review has been revised and now links to the primary objective/purpose of the study which is:

Understanding of the South African corporate enterprise risk-management profile (ERM) as well as highlighting how this incorporates TRM as part of an overall commitment to sound corporate governance.

Comments

The interviews are suitable to answer the question, however the interviewees should be identified clearly.

interviewees are referred to as: tax and corporate governance experts, tax professionals/practitioners, audit partners (it is very confusing).

Author response

The various professionals have been explained through the use of codes We use "E 1-12" and "R 1-3" to identify the expert and regulator interviewees respectively). This has been further sub-divided by expert in order to rectify the confusion and provide additional clarity in the results.

Comments

Also interchangeable use of interviewees and respondents should be corrected. How many interviews (1st par of method = 12 + 2 and 3rd par of method is 15)? What is the reason for the variation between the sequence of issues and detail provided to interviewees?

Author response

This was an error in terms of par of method and this has been corrected.

Comments

If the interviews were semi-structured, document the open-ended questions asked to the interviewees. It will be helpful if the last par of method is illustrated by way of an diagram and more detail is provided on the different 'codes' and 'pools' used.

Author response

The methodology has been revised and expanded using tables in order to provide further clarity on the above requirements. Sufficient information and understanding of the analysis is now available to replicate the research.

The detailed results have been pre-ceded by Table C in order to provide clarity and the link between the theme principles (Table B) and paper objectives.

Comments

Results should be presented in a more structured and concise manner. Do not introduce new literature or more results in conclusion. Conclusion should only be a summary of the findings and how the research has contributed to the body of knowledge.

Author response

This has been restructured. The conclusion has been revised to be a summary of findings and contribution.

Comments

5. Practicality and/or Research implications: Does the paper identify clearly any implications for practice and/or further research? Are these implications consistent with the findings and conclusions of the paper?: Paper should clearly identify that it only has an academic contribution and do not intend to identify any implications for practice.

Author response

This has been noted.

Comments

6. Quality of Communication: Does the paper clearly express its case, measured against the technical language of the field and the expected knowledge of the journal's readership? Has attention been paid to the clarity of expression and readability, such as sentence structure, jargon use, acronyms, etc.: Language and technical care is poor:

- 50% of the pages have spelling errors,

- no consideration is given to the requirements of using abreviations,

- sentences are too long,

- repetition of info, especially in introduction and method,

- list of references does not match with in-text references, referencing not in accordance with Meditari guidelines.

Author response

The paper has been professionally language edited and referencing has been changed.