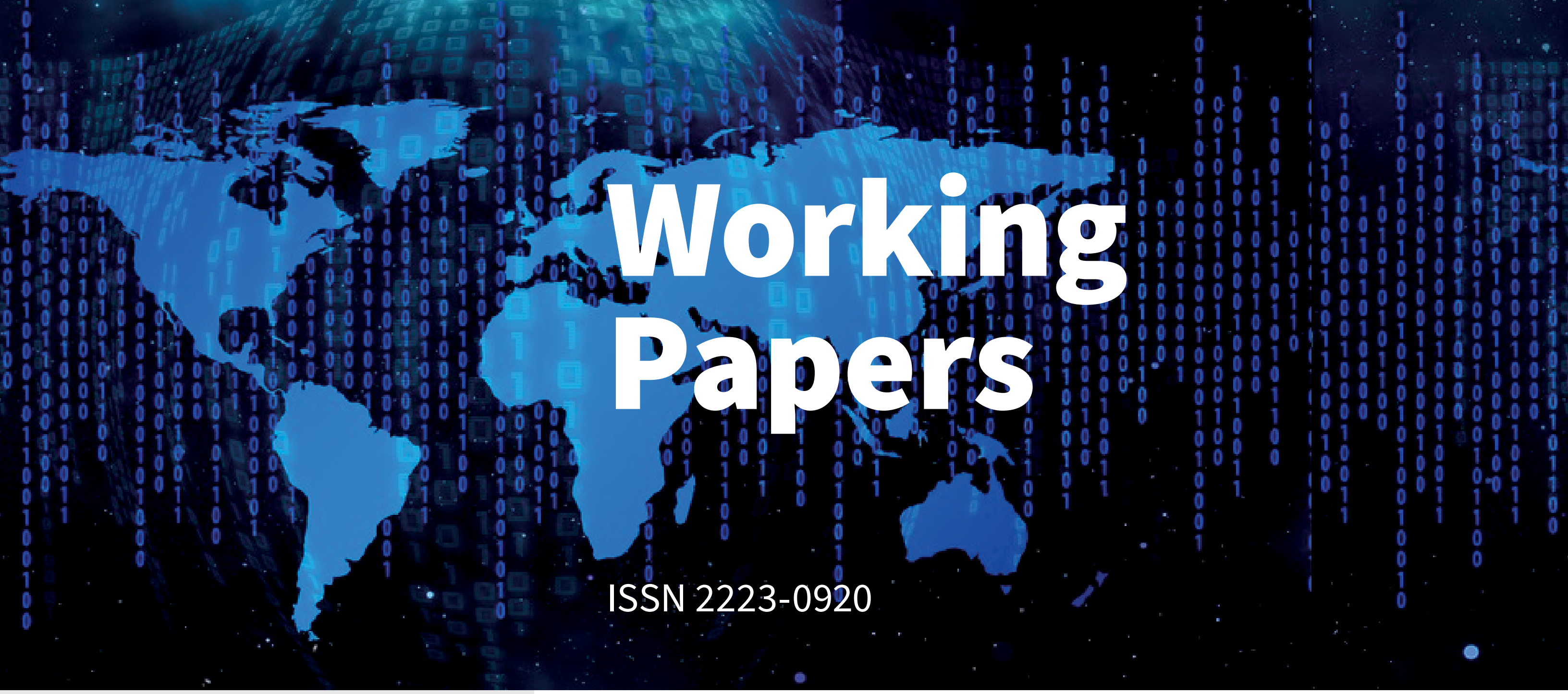

Working Papers

ISSN 2223-0920

6

September 2026

Building Accounting Evidence in Tax Audits:

International Standards, Substance Over Form, and Digital Challenges in Latin America

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Serie: Working Papers
ISSN: 2223-0920

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Cite as follows:
Llaque, R. (2026). *The Construction of Accounting Evidence in Tax Audits: International Standards, Substance Over Form, and Digital Challenges in Latin America.* (Working Paper No. 6, WP-06-2026). Inter-American Center for Tax Administrations.

Content

Glossary of terms

Dynamic burden of proof. A rule according to which the burden of proving a fact rests with the party best positioned to establish it, regardless of that party's formal procedural status (Meroi & Ramírez-Carvajal, 2020).

Professional skepticism. An attitude that involves an inquisitive mindset and a critical evaluation of evidence, without automatically assuming the taxpayer's good faith or dishonesty (Ortega & Díaz, 2020).

Fehaciencia. A standard of jurisprudential origin, particularly widespread in Peru and Mexico, requiring proof of the actual economic reality of a transaction beyond its formal documentary support. It is used in this document as a national example of a broader phenomenon: the requirement to prove the reality of transactions (Escudero-Whu, 2021).

GAAR (*General Anti-Avoidance Rule*). A provision that authorizes the TA to disregard the tax consequences of artificial or improper acts or transactions, reclassifying them according to their economic substance (Isaác Gonzalo & Marcio, 2025).

ISA 500. International Auditing Standard on Audit Evidence, which establishes the attributes of relevance, reliability, sufficiency, and persuasiveness as criteria for evaluating evidence (Robleto & Bermúdez, 2018).

Probatio diabolica *(Diabolica proof)*. A situation in which a party is required to prove a fact that is impossible or extremely difficult to establish, contrary to the principles of reasonableness and ease of proof (Rodrigues, 2023).

SAAR (*Specific Anti-Avoidance Rule*). A rule designed to combat specific, predetermined tax avoidance schemes, as opposed to the general provision (Orlov & Zakharov, 2024).

Automation bias. The tendency of human operators to overvalue the conclusions generated by algorithmic systems, thereby reducing their own critical judgment when faced with the results produced by artificial intelligence tools (Romeo & Conti, 2025).

Substance Over Form. The doctrine according to which the tax treatment of a transaction must be based on its economic substance and not solely on the legal form adopted by the parties (Wulandari & Tambunan, 2026).

Material truth. A principle that requires the TA to focus its evidentiary efforts on reconstructing the factual circumstances of the events in their material dimension, which must take precedence over the formal appearance of the facts declared or alleged by the parties (Guzmán, 2023).

Executive Summary

In tax audits in Latin America, there has been an evolution in the evidentiary standards applied to facts with tax relevance. Unlike traditional models—which are strictly dependent on the formal verification of documentation—practices in the region reflect a consolidation of standards aimed at establishing the actual economic reality of transactions (Chavez-Gonzáles, 2015).

This document examines the theoretical, regulatory, and technological foundations underpinning accounting evidence in the context of tax audits. To this end, it integrates the general theory of evidence with international auditing standards, contemporary doctrine regarding evidentiary quality, professional skepticism, and the principle of substance over form, while also considering the new challenges arising from the digital transformation that are evident in tax control and audit procedures.

The study presents a model structured in five successive levels that enable the construction of accounting evidence. The model has been designed as a versatile conceptual framework adaptable to the region's diverse legal systems. The paper also analyzes the dividing line between ordinary economic characterization and the implementation of anti-avoidance rules. Additionally, the paper includes a comparative study on the distribution of the burden of proof in certain countries, confirming the prevalence of a common trend regarding this issue.

The study also delves into the principle of material truth and its impact on the burden of proof, acknowledging the trend toward cooperative compliance and cooperative audit models supported by comparative empirical evidence. Similarly, it assesses the influence of digitization and artificial intelligence (AI) on the collection and evaluation of tax evidence, proposing minimum due process safeguards against algorithmic auditing.

To provide practical guidance for audit teams, the document includes a set of practical tools—comprising a tiered checklist derived from the proposed model and minimum standards for case file documentation. These resources enable the operationalization of the theoretical framework developed, facilitating its translation from theory to audit practice.

Although the text draws on case law examples from the Peruvian system, this is done strictly for illustrative purposes. It should be noted that the document does not constitute an exhaustive study of comparative law but rather aims to support the construction of a conceptual framework that can be adapted by different tax administrations according to their specific regulatory and institutional contexts.

Keywords: Accounting evidence, tax audits, substance over form; material truth, burden of proof, professional skepticism, digital evidence, artificial intelligence, GAAR; SAAR, progressive evidence-building model.

Implications for Tax Administrations

This document proposes a conceptual framework for the development and evaluation of accounting evidence during tax audit processes. We believe that its most direct practical implications for the work of tax authorities are as follows:

1. **Documentary evidence is no longer sufficient as the standard for verification.** A valid payment receipt, voucher or other supporting document is the starting point—not the end point—for establishing the reality of a transaction (section 5).

2. **The five-level model provides a checklist that can be applied immediately.** Documentary evidence → corroboration → traceability → economic consistency → economic substance, which can be incorporated into audit manuals without prior regulatory changes (Section 10.1).

3. **Economic reclassification has limits that must be expressly justified.** The line between classifying a transaction and reclassifying it via an anti-avoidance clause (GAAR/SAAR) must be clearly defined in each legal system (Section 6.2).

4. **The burden of proof is subject to important qualifications.** Comparative experience shows that the dynamic burden of proof and the prohibition against "diabolical" evidence must be incorporated into regulatory and operational frameworks (section 7.3).

5. **Digital evidence requires sound technical governance, not just data availability**. The probative value of electronic documents depends on the quality of the systems in which they are generated and preserved (section 8).

6. **Artificial intelligence must be incorporated with safeguards ensuring traceability and human oversight from the design stage onward in order to guarantee due process and reduce litigation** (section 9.5).

1. Introduction and Methodological Framework

In recent years, tax audits have faced an increasingly complex challenge: the need to define the standard of evidentiary sufficiency required to validate the tax consequences of a transaction.

The sophistication of economic dynamics, the proliferation of transnational corporate structures, and the progressive digitalization of operational processes have called into question the effectiveness of traditional approaches, which rely primarily on the formal validation of documentation.

To date, tax administrations (TAs) have had to evolve their audit processes from simply reviewing receipts, contracts, or accounting records to audit processes that prioritize comprehensive analysis in order to verify the economic reality of the transactions reported by taxpayers (Agostino et al., 2021; Martinez, 2021).

To this end, tax authorities have been progressively incorporating control mechanisms into their audit processes designed to verify the materiality, traceability, and economic consistency of transactions by comparing the documents presented or obtained during the process with the underlying operational reality in order to establish the tax base.

This change has not been limited to tax authorities; a review of administrative and judicial case law reveals the consolidation of a trend that prioritizes the material verification of facts over a purely formalistic approach (Martinez, 2021; Taruffo, 2013). This is because review bodies and courts have had to acknowledge that formal review is often insufficient to uncover the material truth of complex transactions.

Although the shift from an approach based on formal documentation toward the requirement to establish economic reality is a growing and increasingly widespread trend, it is evident that a limited conceptual framework still predominates regarding how evidence should be constructed in the context of tax audits.

The specialized literature contains valuable contributions on the general theory of evidence, financial auditing, the "substance over form" doctrine, and the principle of material truth. However, these developments tend to occur in isolation, without being integrated into a unified framework that directly addresses the needs of tax auditing (Carnelutti, 2018; Devis Echandía, 2019; International Auditing and Assurance Standards Board, 2023; Taruffo, 2013).

This paper argues that accounting evidence is not a static element, but rather a dynamic and iterative process aimed at building conviction regarding the economic reality of transactions. In this vein, the paper proposes the need for a model structured into five successive levels of substantiation: 1) documentary existence, 2) corroboration, 3) traceability, 4) consistency, and 5) economic substance.

The objective of this paper is to provide a conceptual framework that systematizes the relationship among various elements of evidence, thereby enabling, to a reasonable standard, the substantiation of conclusions reached during the tax audit process.

The proposal is based on the evidentiary quality criteria established by International Standard on Auditing (ISA) 500, which is adapted for the purposes of tax audits by focusing on the attributes of relevance, reliability, and sufficiency. The foundation underpinning this proposal also includes contemporary academic literature on accounting evidence and the substantiation of transactions (Barr-Pulliam et al., 2023; Hussein, 2025; International Auditing and Assurance Standards Board, 2023).

Additionally, theoretical perspectives derived from the doctrine of evidence and specialized tax literature have been integrated into the development of the model to address key concepts such as economic reality, the prevalence of substance over form, and the comprehensive evaluation of evidence (Maletska, 2025; Martinez, 2021).

The fundamental contribution of this research is the systematization of previous developments through a unified analytical framework oriented toward the practice of tax audits conducted by tax authorities. Although the proposed model utilizes the logic of transforming accounting information into evidence formulated by Lopo Martinez (2021), its purpose is different, as it seeks to offer a flexible conceptual structure designed to be implemented by tax administrations regardless of the legislative specifics of each jurisdiction and its legal tradition.

The model is necessary because it is evident that contemporary tax auditing has been undergoing a paradigm shift, moving from a model based essentially on formal documentation toward one grounded in evidence (Ugli & Kizi, 2026). As a result, the validation of a transaction has evolved from merely verifying the existence of supporting documentation to requiring that the *body of evidence* reasonably demonstrate the substance of the facts as reported. While documentation remains indispensable, its role has evolved, and it is no longer the sole and conclusive element for tax verification.

The transformation described is driven by two factors that are reshaping the paradigms under which tax administrations collect and evaluate information:

- The first is the preeminence of digital evidence, a phenomenon driven by the widespread adoption of electronic invoicing, the digitization of accounting records, the development of integrated management systems, and automated data exchange mechanisms—many of which stem from the inherent demands of business management, while others are promoted and/or mandated by tax authorities.

- The second is the gradual incorporation of advanced analytics and artificial intelligence tools into tax selection, control, and audit processes. Both of these developments significantly expand the capacity for risk detection and analysis, but they also create new challenges related to the reliability of evidence, the transparency of audit processes, and the protection of due process guarantees (Bellon et al., 2022; Fedyk et al., 2022; Kokina et al., 2025).

With this as a frame of reference, the objective of this document is to analyze the construction of accounting evidence in tax audits. To this end, an integrated perspective is used, aimed at identifying the doctrinal, regulatory, and technological criteria that determine the evidence’s ability to substantiate the economic reality of transactions. To this end, the document has sought to:

a) Analyze the conceptual foundations of accounting evidence and how it relates to the general theory of evidence.

b) Evaluate the applicability of the international standards for audit evidence, as set forth in NIA/ISA 500, in the context of tax audits.

c) Elucidate how the criteria of corroboration, traceability, economic substance, material truth, and the distribution of the burden of proof are interconnected.

d) Examine the impact of digitization and artificial intelligence (AI) on procedures for obtaining and evaluating evidence for tax purposes.

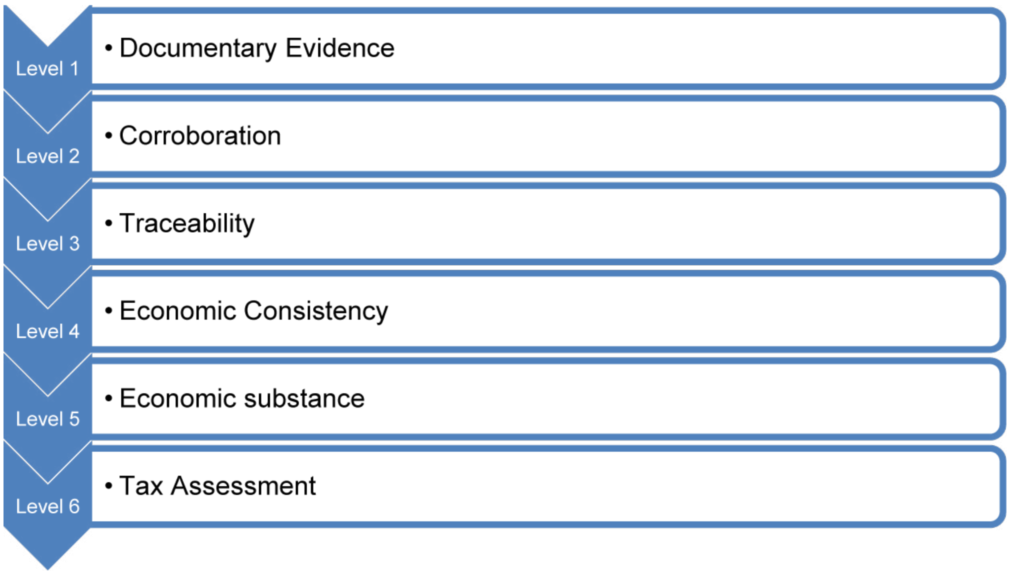
e) Develop a conceptual model and a set of tools to facilitate practical application so that tax authorities can assess the advisability of adopting or adapting them.

The document develops the idea that tax audits should be conceptualized as a progressive process of evidence-building conducted with the purpose of verifying the economic reality of transactions. From this perspective, the quality of an audit does not depend on the auditor's isolated evaluation of documentation, but rather on the institutional capacity to articulate, corroborate, contextualize, and assess the *body of evidence* in a coherent and reasonably persuasive manner.

The document is organized according to the conceptual progression illustrated in Figure 1. Chapters 2 and 3 address the theoretical foundations and quality standards of evidence; Chapters 4 through 7 discuss the mechanisms through which evidence makes it possible to verify the economic reality of transactions; Chapters 8 and 9 then analyze the challenges arising from digital transformation and artificial intelligence; finally, Chapter 10 proposes practical tools designed to facilitate the operational implementation of the proposed model within tax authorities.

The methodological approach of the research presented in this document follows a qualitative, dogmatic, and comparative approach. The theoretical foundations are derived from an examination of specialized literature on the theory of evidence, auditing, accounting, and tax law, supplemented by an analysis of international standards and a review of case law criteria, all of which serve a purely illustrative purpose without claiming the comprehensiveness typical of a comparative law analysis, as the study is primarily aimed at identifying principles, criteria, and strategic tools to strengthen the audit capabilities of tax administrations in Latin America and the Caribbean.

Figure 1: Progressive Construction Model of Accounting Evidence



As previously mentioned, Figure 1 summarizes the conceptual framework that structures this document. As can be seen, the model is based on the premise that the verification of a transaction is not a one-time event nor does it depend exclusively on supporting documentation; rather, it is the result of a progressive process of accumulating and validating evidence.

The first level of this process involves verifying the existence of the documents; this allows for verification of the basic formal basis of the transaction. However, formality does not in and of itself guarantee the economic reality of the reported facts. Therefore, at the second level, the information must be corroborated using additional and independent sources in accordance with ISA principles. Subsequently, at the third level—that of traceability—the goal is to reconstruct the complete sequence of the transaction, from its origin to its accounting and financial reflection.

The fourth level involves the assessment of economic consistency, during which the reasonableness of the transaction is analyzed in light of the operational capacity and economic context of the parties involved. The fifth level—the assessment of economic substance—uses this concept as an analytical criterion to determine whether the legal form employed adequately reflects the underlying economic reality. Once this process is completed, we can accept or reject the effects of the transaction to arrive at a tax determination.

The methodological proposal is not intended to replace the evidentiary standards currently applied by the various tax authorities, nor to modify the legal rules regarding the allocation of the burden of proof. Its purpose is to provide an analytical framework that seeks to optimize the structuring and evaluation of evidence within the context of tax audit procedures.

2. Global Theoretical Framework for Accounting Evidence

2.1. From the General Theory of Evidence to Tax Evidence Law

General evidence theory has traditionally defined this institution as the set of means intended to establish conviction regarding the existence or nonexistence of legally relevant facts.

Along these lines, Carnelutti (2018) considers that evidence functions as an instrument of knowledge aimed at reconstructing past events that are relevant to the legal resolution. Following a similar line of thought, Devis Echandía (2019) posits that the purpose of evidence is to instill in the adjudicator the necessary conviction regarding the veracity of the facts alleged by the parties.

In the tax sphere, this function takes on specific nuances. Since the tax obligation stems from economic realities that must be quantified and translated through accounting information systems, the evidentiary process is clearly closely linked to the taxpayer's financial and commercial records.

However, the specialized literature notes that the mere presentation of documents does not provide sufficient assurance to substantiate the facts asserted; therefore, the evidentiary process requires a rational assessment aimed at establishing the level of corroboration that each piece of evidence contributes to the factual hypothesis under examination (Twining, 2006; Taruffo, 2013).

Based on the foregoing arguments, we can conclude that the evidentiary process in tax matters goes beyond the simple formal validation of documentary evidence (whether physical or digital) and that, to date, it is fundamentally oriented toward verifying material truth and ensuring substantial correspondence between the documentation provided and the operational reality declared by the taxpayer.

2.2. Accounting Evidence as a Specialized Category

While the technical aspect of accounting refers to the existence of an information system designed to record, classify, and report the financial effects arising from an entity's economic transactions, its legal aspect is not the same.

From a procedural perspective, the mere existence of accounting records does not automatically lead to recognition of their probative value; as Lopo Martinez (2021) points out, records only acquire legal relevance to the extent that they are suitable for proving the decisive facts that serve to establish tax obligations.

Along the same lines, Rico-Martínez et al. (2023) note that evidence consists of the set of records, documents, and supporting materials—including accounting ledgers, payment vouchers and invoices, financial statements, contracts, banking documentation, electronic records, and third-party sources, among others—which, taken together, allow for the demonstration of the existence, specific characteristics, and economic implications of facts with tax implications.

Lopo Martinez (2021) recognizes this field under the term "accounting evidence law," understanding it as the interdisciplinary convergence of tax law, procedural law, and accounting science.

A significant advance in the specialized literature lies in the conceptual distinction between proof and evidence (Amaya & Gama, 2014), whereas the Latin American legal tradition has prioritized the study of proof as a procedural instrument (Ruíz et al., 2023); from an auditing perspective, a theory of evidence has been formulated that focuses on evaluating data quality to support technical conclusions; in this context, the evaluation is structured around four pillars—relevance, reliability, sufficiency, and persuasiveness—(Colombia et al., 2017), topics that will be addressed later.

Under this paradigm, the mere presentation of a document (for example, a payment receipt) is insufficient to prove the economic reality of a transaction (Escudero-Whu, 2021); the probative value of the document is contingent upon its consistency with a coherent set of corroborating elements—such as contracts, accounting entries, cash flows, logistics traceability, or information provided by third parties—as highlighted by Rico-Martínez et al. (2023). This shifts the discussion from documentary formality to a comprehensive assessment focused on the sufficiency and quality of the available body of evidence.

2.3. The distinction between the source and the means of evidence

To formulate a theory of accounting evidence, it is necessary to define a fundamental concept that has already been addressed by modern procedural doctrine: the distinction between the source of evidence and the means of evidence.

Based on the approaches of the *New Evidence Scholarship* outlined by Twining (2006) and Murphy (2003), the "*source of evidence*" can be defined as information in its extrajudicial dimension—that is, the body of books, records, and supporting documents that substantiate transactions—whereas "means of evidence" should be understood as a procedural mechanism that allows the decision-making body—whether in an administrative or judicial setting—to formally incorporate and validate said source for the purpose of forming a conviction.

This distinction is also shared by Lopo Martínez (2021), who recognizes the dual nature of tax accounting evidence. In his work, he points out that the role of accounting evidence extends beyond the judicial sphere, functioning primarily as procedural evidence in the administrative context. He further argues that the legitimacy of tax audit proceedings is contingent upon the correct determination of accounting facts through rigorous standards that safeguard the taxpayer's actual ability to pay taxes.

This allows us to recognize that the dynamics of accounting evidence are structured through three sequential phases—presentation, production, and evaluation—which explain the process by which extrajudicial accounting data acquires probative value in the context of tax audits. This progression is the transition from *the source* to the evidence through successive stages of introduction, corroboration, and evaluation.

2.4. Toward a Theory of Accounting Evidence in Tax Matters

Based on the above review, it can be argued that *accounting evidence* is an integrated information system designed to substantiate the economic reality of transactions relevant to the determination of tax obligations; to this end, the sources must be evaluated according to criteria of relevance, reliability, sufficiency, and persuasiveness.

Thus, evidence cannot be analyzed in isolation or by focusing exclusively on documentary and formal aspects, because its effectiveness depends on its ability to demonstrate that economic events actually occurred and that they are consistent with the body of available information—that is, on its transition from a mere *source* of information to a *means of proof* with procedural effectiveness.

Based on this conceptual framework, this paper discusses international standards for the quality of evidence (Section 3), the role of professional skepticism in the evaluation of evidence (Section 4), and, finally, the model for recognizing the economic reality of transactions (Section 5).

3. International Standards on the Quality of Evidence (NIA/ISA 500)

The usefulness of accounting evidence depends not only on its existence, but also on its quality. Auditors recognize that a document may formally exist and yet prove insufficient to substantiate the economic reality of a transaction. They are also aware that a multitude of records may lack probative value if they lack a logical connection to the facts they are intended to demonstrate.

The criteria used in this study to evaluate the *quality of audit evidence*, as previously mentioned, are those that form the core of International Standard on Auditing 500—“Audit Evidence”—an international standard that requires the collection of *sufficient and appropriate audit evidence* as the basis for reaching well-founded professional conclusions (Pérez & Ordóñez, 2024).

In the definitions provided in this ISA, sufficiency functions as a quantitative criterion, while appropriateness is a qualitative metric that depends on the relevance and reliability of the information (Pérez & Ordóñez, 2024).

3.1. Criteria for evaluating the quality of evidence: Relevance, reliability, sufficiency, and persuasiveness

NIA/ISA 500 states that the ***relevance criterion*** refers to the logical relevance between the piece of evidence and the circumstance being sought to be substantiated; according to the standard, this criterion is defined by the rational link between the evidence and the objective of the audit procedure, including the validation of the specific assertion under review (Pérez & Ordóñez, 2024); it follows that any information unrelated to that purpose lacks probative value, regardless of its formal existence.

In the tax context, ***relevance*** serves as the first filter in assessing the probative value of evidence; for tax audits, it is necessary that the evidence be directly related to the specific subject matter of the audit. It is recognized that while a document, such as an invoice, may be suitable for verifying the formal existence of a purchase, documentary validity alone is insufficient to substantiate all the economic aspects of the transaction.

The standard also elaborates on the criterion of ***reliability***, noting that this corresponds to the level of credibility attributed to pieces of evidence; in assessing this, factors such as the impartiality of the source, the independence of the issuer, the integrity of the medium, and the possibility of cross-checking through external verification (third-party verification) must be evaluated.

NIA/ISA 500 systematizes this criterion by establishing a widely accepted hierarchy of reliability; under this standard, evidence from independent third parties is considered more valuable than internally generated evidence, and evidence gathered directly by the auditor takes precedence over evidence obtained by reference. Physical documentation is preferable to oral statements; and originals are more reliable than copies, although electronic media are admissible if there are robust controls in place regarding their preparation and preservation.

In the tax sphere, although documentation generated by the taxpayer may be relevant, its probative value is substantially enhanced when it is corroborated by third-party documents or information from independent sources to which the TA has access (Hernández, 2024).

The criterion of **sufficiency** is the most complex; contrary to traditional approaches that sought to establish quantitative thresholds for evidence, the NIA/ISA and contemporary doctrine maintain that sufficiency cannot be limited to a predetermined volume of documents but rather depends on the ability of the body of evidence to reasonably mitigate uncertainty regarding the facts under examination. It is established, however, that the volume of evidence required is directly proportional to the risk being assessed, without constituting a static parameter (Espinosa-Jaramillo et al., 2025).

This analytical framework can be applied to the effects of tax audits, in which the requirement for supporting evidence is proportional to the level of risk, complexity, or economic significance of the transaction (Arias & Maurício, 2019). In accordance with this premise, the verification of routine expenses requires a different standard of proof (fewer documents and simpler elements) than that required for complex transactions, such as corporate reorganizations, related-party transactions, or international tax planning schemes.

We will now address the criterion of ***persuasiveness***, which is not an isolated attribute of evidentiary information, but rather the synergistic result of the interaction among the three criteria described above. ISA 500 does not formalize *persuasiveness* as an independent criterion; nevertheless, specialized literature conceptualizes it as a practical synthesis derived from the relevance, reliability, and timeliness of the evidence (Flood, 2015).

Indeed, the analysis should not be limited to the isolated existence of documents—such as invoices, contracts, or accounting records—but should focus on the ability of the body of evidence as a whole to reasonably support the truth of the facts alleged, in a manner consistent with the principles of rational evaluation of evidence that characterize sound critical views. In the audit, the distinction we have just outlined is essential to understanding why evidence that formally meets legal standards might be insufficient to establish a sufficient degree of conviction if it lacks logical coherence.

3.2. Corroboration and Resolution of Conflicting Evidence

Hung & Cheng (2018) note that the probative effectiveness is significantly strengthened when various elements consistently point toward it. Legal scholarship indicates that more complex transactions require high levels of corroboration, as the multiplicity of independent sources minimizes the risk of error and helps reinforce the reliability of the auditor's conclusions.

The empirical literature on *professional judgment* suggests that standard practice does not consist of an isolated validation of documents, but rather in the construction of a comprehensive narrative of the transaction (Austin et al., 2019)—a process during which each new finding is evaluated against the provisional explanation, which is adjusted when contradictory data emerge.

Various studies have highlighted that explicitly documenting the evidence that refutes—as well as that which supports—a preliminary conclusion, when evaluated rationally, mitigates the tendency to prematurely dismiss unfavorable information (Griffith et al., 2014). Under a holistic review approach (as opposed to a methodology focused exclusively on validating the initial hypothesis), identifying inconsistencies within the body of evidence and analyzing them rationally leads the auditor to make better decisions.

Applying this concept to the tax sphere, we recognize that corroboration is reflected in the mutual consistency among various forms of evidence—contracts, invoices, accounting records, payment flows, logistics documentation, and business correspondence, etc.—which, taken together, contribute to a body of evidence that goes beyond the isolated assessment of each individual document.

In tax case law regarding the evaluation of evidence, the requirement for a holistic assessment of the evidence has been established; case law holds that the validity of a single piece of evidence is insufficient when the body of evidence as a whole contains inconsistencies for which the taxpayer has failed to provide a reasonable explanation (Alvarado, 2023).

3.3. Quality of Evidence and Professional Skepticism

To date, there is a consensus that the evaluation of evidence is not a mechanical process; studies on auditing show that professional skepticism significantly improves the quality of evidentiary evaluation by encouraging the search for additional information, the independent corroboration of facts, and the questioning of insufficiently supported explanations.

The empirical literature consistently indicates that high levels of professional skepticism are associated with improvements in the quality of the conclusions reached (Nazari & Kirana, 2025; Tümmler & Quick, 2025).

Therefore, a modern theory of accounting evidence cannot be limited to the analysis of documents; it must also consider the auditor's critical approach to the information provided during the proceedings. The assessment of evidence requires evaluating not only what the documents show, but also what they might be concealing.

3.4. Operational Application

The quality attributes of evidence developed by NIA/ISA 500 have utility that extends beyond the scope of financial auditing. In the context of tax audits, these attributes can be transformed into operational criteria that guide both the collection and evaluation of evidence. Table 1 summarizes a possible application of these concepts to day-to-day audit work.

Table 1: Practical Application of Evidence Quality Attributes

Atributo	Question for the auditor	Risk When It Is Absent
Relevance	What fact does this evidence aim to prove?	Obtaining information that does not help establish the disputed fact.
Reliability	Does the information come from a verifiable and independent source?	Use of evidence that is not very credible or difficult to verify.
Sufficiency	Does the available evidence allow us to reasonably reduce the uncertainty surrounding the facts?	Conclusions based on insufficient or incomplete information.
Persuasiveness	Does the evidence support a reasonably well-founded conclusion about the reality of the transaction?	Difficulty in providing technical and legal grounds for objecting to or accepting the transaction.

Source: Compiled by the author based on IAASB (2023), Barr-Pulliam et al. (2023), Hussein (2025), and Tamami et al. (2025).

The practical value of these attributes lies in the fact that they allow us to shift the focus of our analysis from the isolated existence of documents to the quality of the process of building evidence.

From this perspective, an invoice, a contract, or an accounting record are merely starting points. Their probative value will depend on the extent to which they are relevant to the matter under examination, reliable based on their source, sufficient considering the level of risk being assessed, and persuasive when considered together with the rest of the available evidence.

4. Professional Skepticism as a Tax Audit Methodology

4.1. The concept and its application in tax audits

NIA/ISA 200 defines ***professional skepticism*** as an attitude that involves an inquisitive mind, attention to circumstances that may indicate material misstatements, and a critical evaluation of the evidence obtained (International Auditing and Assurance Standards Board, 2023).

The specialized literature maintains that this notion should not be equated with a presumption of fraud or with radical skepticism; on the contrary, various studies suggest that professional skepticism requires a balanced approach that seeks to avoid both naivety and the unfounded rejection of data, thereby allowing for a thoughtful assessment of the information provided. Furthermore, various studies have documented that there is a direct correlation between the exercise of professional skepticism and the optimization of the evaluation of audit evidence, which leads to improved identification of material misstatements.

Professional skepticism can also be applied to the field of tax auditing; however, it is necessary to distinguish between the professional skepticism applied by the financial auditor and the critical role of the tax auditor; this is because the financial auditor operates based on sound judgment and selective sampling in a context where detecting tax irregularities is not their primary objective, unlike the tax auditor.

By contrast, the tax auditor performs a role that is essentially investigative in nature; his or her work is focused on uncovering the material truth and, as a result, is not typically subject to the methodological limitations of sampling in routine audits (Dávila et al., 2024; Lozano, 2018).

This explains why the standards applicable to the Tax Administration cannot automatically be equated with those required of an external auditor, given that its scope of authority goes beyond expressing an opinion on the reasonableness of the financial statements to focus on the factual verification of transactions with tax implications. Therefore, professional skepticism must be redefined so that it ceases to be an expression of distrust and instead becomes a rational methodology for evaluating evidence, the application of which is tailored to the institutional competencies and objectives of the public tax auditor.

4.2. Detection of Fictitious Transactions: The Auditor's Critical Assessment

The interplay between professional skepticism and the detection of transactions lacking economic substance (fictitious or unsubstantiated transactions) is a recurring focus of analysis in contemporary legal scholarship. Empirical evidence confirms that a critical assessment focused on identifying documentary inconsistencies, red flags, and atypical economic patterns significantly enhances the ability to detect fictitious transactions or those lacking sufficient supporting evidence. (Tümmler & Quick, 2025).

In the course of an audit, auditors sometimes encounter situations in which they detect indications that cause them to doubt a transaction; in this context, professional skepticism goes beyond a mere presumption of noncompliance to establish a methodology aimed at verifying the economic reasonableness of the evidence provided in order to accept or, conversely, reject it, with the resulting tax consequences, including, where appropriate, pursuing a tax fraud case.

4.3. Professional Skepticism in Technology-Assisted Audit Environments

Frontier literature offers relevant perspectives on professional skepticism; the studies reviewed suggest that the integration of AI and advanced analytics into audit processes enhances professional skepticism, as it not only allows for a broader scope of review and optimizes the detection of anomalies but also frees up time for the auditor to focus their efforts on activities that require greater technical judgment (Lazari, 2025).

Despite this positive impact, the studies document “automation bias,” a phenomenon that can manifest itself in the tendency of auditors—especially those with less experience—to place excessive trust in algorithmic conclusions, thereby reducing their ability to conduct independent verification.

This reality, characterized by the tension between the enhancement of skepticism through analytical capabilities and its undermining by overreliance on technology, is a significant issue that must be considered by tax authorities implementing data analysis tools and large-scale cross-referencing of information.

This is a sensitive issue that has the potential to raise questions about the work of the TAs, which could call their decisions into question. Therefore, it must be addressed proactively both in the region’s legal systems and in the practices of the regulatory authorities; failure to do so could significantly undermine the effectiveness of the measures implemented as part of the compliance improvement plans that they seek to roll out.

4.4. Toward a Standard of Professional Tax-related Skepticism

Considering the convergence between the international literature on auditing and developments in case law, we can propose an operational standard of professional skepticism tailored to the field of tax auditing.

The proposal is structured around five key areas: 1) a critical assessment of the integrity of the documents submitted; 2) the validation of the documents through cross-checking information using independent sources when circumstances permit; 3) an examination of the economic rationale underlying the transactions;4) the systematic identification of inconsistencies, contradictions, or gaps in information; and, finally, 5) an unwavering focus on the search for the material truth.

The proposal makes it possible to align financial auditing standards with the specific characteristics of contemporary tax audits, thereby providing a framework that tax authorities can use to optimize their operations, considering their legal framework and their own case law precedents.

Any decisions that TAs may make regarding the accounting evidence obtained during their audit processes, for the purpose of supporting their findings, must incorporate not only evidentiary quality standards but also a critical assessment methodology focused on verifying the economic reality of the transactions, such as the one proposed in this paper.

5. Establishing the Reality of Operations: Substance Over Form

5.1. The Standard for Establishing Transactions in Comparative Law

A cross-cutting challenge in tax auditing—regardless of the specific regulatory characteristics of each jurisdiction—lies in resolving disputes related to the deductibility of expenses, the validity of tax credits, and, ultimately, the verification of reported transactions (Marcos & Miñano, 2025).

In most cases, the auditor must answer a fundamental question: Is it possible to verify, based on a standard of reasonableness, the authenticity of the transaction reported by the taxpayer?

The answer to this question is complex and has undergone a process of convergence across various legal systems. While at the outset of the reformed tax authorities' operations in the 1990s, approaches prioritized the adequacy of formal documentation, current audit practice has gradually shifted toward scrutiny based on cross-verification, the traceability of operational flows, economic consistency, and a holistic assessment of the body of evidence.

In this paradigm shift, we can observe, in the realm of evidence, the application of the "substance over form" principle—which has long guided the judgment of accountants and financial auditors—and which has now extended to the sphere of tax audits. In this application, the tax classification of the facts is determined by the underlying economic substance, which takes precedence over the formal legal structure adopted by the parties involved (Wulandari & Tambunan, 2026). It is therefore not surprising that, to date, various tax systems include in their valuation criteria elements such as economic purpose, the actual existence of business activity, the effective flow of goods or services, and the economic rationale underlying the transaction, in order to recognize the effects of such transactions in terms of their impact on the determination of the tax base.

5.2. Insufficiency of documentary evidence and the need for corroboration

A significant advance in tax enforcement has been moving beyond the paradigm that equates the possession of supporting documentation with conclusive proof of the economic reality of a transaction (Istrate, 2024). The experience of various tax authorities has led to a consensus that the formal validity of supporting documents does not in itself guarantee the material accuracy of transactions; and in response to instances of abuse by taxpayers and tax intermediaries, they have been compelled to seek to corroborate the evidence, typically through cross-checking information.

As a result of this change, in most jurisdictions, the probative value of evidence no longer depends exclusively on the documents submitted and/or produced, but rather on the consistency of this documentary evidence with a variety of concurrent sources of information, such as contracts, quotations, purchase orders, bank records, technical reports, and accounting entries, among others—documents that, as Wulandari & Tambunan (2026) point out, must be evaluated in an integrated and reasoned manner, avoiding a fragmented or isolated analysis of the evidence in order to reach a conclusion.

Consequently, it can be noted that verification serves as an essential mechanism for increasing the reliability of information through the convergence of independent sources, and that the probative value of an operation increases to the extent that various elements providing evidence converge toward a coherent and unambiguous explanation of the events.

5.3. The Sequential Verification Model: From Documentary Evidence to Economic Substance

Based on these factors—the inadequacy of purely documentary evidence, the need for corroboration, and the requirements for traceability and economic consistency We can propose a **model for the progressive development of accounting evidence** that can serve as a general conceptual framework for any auditor facing the challenge of substantiating the economic reality of a transaction.

The model views accounting evidence as a tiered verification system consisting of five successive levels:

Table 2: A Progressive Model for Building Accounting Evidence

Level	Main Question	Main evidence
1. Documentary Existence	Is there a formal basis for this?	Receipts, contracts, records
2. Corroboration	Are the documents consistent with one another?	Purchase orders, emails, technical reports
3. Traceability	Can the operation be reconstructed from start to finish?	Negotiation, execution, payments, accounting entry
4. Economic Consistency	Does the operation make economic sense?	Operational Capacity and Business Conduct of the Parties
5. Economic substance	Does the legal form reflect the economic reality?	Comprehensive Assessment of the Actual Economic Effects

Each level constitutes a necessary but not sufficient condition for the next: documentary existence is merely the starting point, and the full substantiation of a transaction requires progressing through all five levels cumulatively.

This model is not intended to describe the positive law of any particular country, but rather to provide a common analytical framework for addressing recurring evidentiary issues (Cambrano et al., 2023). Each tax administration is responsible for identifying how its own legal system and jurisprudence have developed, or could develop, each of these levels. The proposed model can be used not only as a conceptual analytical tool, but also as a practical guide for audit and enforcement teams.

Table 3 presents a possible operational application of each level of the model, proposing questions that guide audit activities and identifying the types of evidence that are typically most relevant at each stage.

Table 3: Operational Application of the Progressive Construction Model of Accounting Evidence

Level	Main objective	Audit Question	Typical evidence
1. Documentary Evidence	Verify formal support	Is there supporting documentation for the transaction?	Invoices, contracts, accounting records
2. Verification	Validate Document Consistency	Are there any independent sources that support the operation?	Purchase orders, emails, technical reports, third-party statements
3. Traceability	Reconstruct the operation	Can the entire transaction sequence be tracked?	Payment flows, logistics records, bank transactions
4. Economic Consistency	Assess reasonableness	Is the transaction consistent with the parties' financial and operational capabilities?	Financial information, installed capacity, historical performance
5. Economic Substance	Determine the underlying reality	Does the legal form accurately reflect the economic reality?	Comprehensive assessment of all available evidence

Source: Compiled by the author.

The practical utility of the model lies in the fact that it allows audit activities to be organized according to a logical sequence for validating evidence. As previously noted, each level constitutes a necessary condition for moving on to the next; although none is sufficient on its own to fully substantiate a transaction, together they provide the highest level of substantiation envisaged by the model. As can be seen, the emphasis shifts from the isolated existence of certain documents to the ability of the body of evidence to reasonably explain the economic reality of the facts under examination.

5.4. A regional example: the evolution of the standard in Peruvian case law

An example of how this model plays out in practice can be found in Peruvian case law. Peru provides a documented example of progress toward the higher levels of the model; in that country, the Tax Court has repeatedly held that Invoices, receipts, vouchers, and supporting documents, while indispensable, do not in and of themselves constitute sufficient proof of the reality of a transaction when there are factors that raise reasonable doubts about whether it actually took place (Tax Court of Peru, 2020a, 2020b). Similarly, the Supreme Court has expressly recognized that SUNAT may disregard the tax consequences of a formally documented transaction when an audit demonstrates, through a comprehensive assessment of the available evidence, that such transaction lacks economic substance (Supreme Court of Justice of the Republic of Peru, 2017).

These precedents are not isolated or anecdotal cases, but rather indicative of a well-established trend in case law. The observed evolution reveals a shift in the standard of evaluation from a predominantly documentary approach toward a comprehensive assessment of the evidence, aligned with levels 4 and 5 of the proposed model.

6. Economic Substance and Limits on Recharacterization: GAAR/SAAR

6.1. The Doctrine of Economic Substance and Its Codification in the Region

As we have already established, documentary evidence of the existence of a transaction does not exhaust the tax analysis; once the facts have been reasonably verified—in accordance with the model outlined in the previous section—an additional question arises, of determining the true economic nature of the documented transaction and, consequently, establishing the legal effects that arise from it. This issue lies at the heart of one of the main debates in contemporary tax law: the relationship between legal form and economic substance.

Moreno et al. (2022) remind us that the economic substance doctrine is based on the premise that the determination of tax effects must take into account the underlying economic reality, which takes precedence over mere legal form, and that in its application, this principle seeks to ensure that transactions have a legitimate business purpose and generate tangible economic consequences, beyond the mere attainment of tax advantages, with the aim of preventing the use of legal structures that conceal the true nature of the facts and result in tax advantages not intended by the legislature.

Comparative legal theory and the literature on the subject—including the work by Isaac Gonzalo & Marcio (2025)—emphasize that the criteria used to assess economic substance include: commercial purpose, value creation, risk-taking, the parties' operational infrastructure, and the actual flow of goods, services, or financial assets.

At this point, it is necessary to define the economic substance of the verification of the reality of the transaction discussed in Section 5; while the former analyzes whether the transaction took place, the latter focuses on characterizing its economic nature and its tax implications. It is evident that both categories follow a logical order; the factual verification of the events constitutes a prerequisite for proceeding—in accordance with the principle of legality—to determine their economic substance and derive the resulting tax consequences.

6.2. The Line Between Ordinary Characterization and Avoidance: The GAAR/SAAR Interaction

Legal doctrine recognizes the importance of the substance-over-form principle in preventing taxpayers from evading their obligations; however, it also acknowledges that its application can lead to administrative arbitrariness when it is used to reclassify legitimate transactions without sufficient justification (Carvalho, 2014).

Consequently, there is a consensus that this administrative power does not authorize the TA to disregard the legal structures chosen by taxpayers and requires that any reclassification conducted by the tax authorities be based on a reasoned assessment demonstrating a genuine discrepancy between the legal form and the economic substance of the transaction.

This is not a straightforward issue, and tensions often arise, even at the operational level, as we can see when analyzing the general (GAAR) and specific (SAAR) anti-avoidance rules incorporated into various tax systems as a result of the influence of the OECD's BEPS project (Dourado, 2015; Isaác Gonzalo & Marcio, 2025).

In principle, the distinction between the two types of rules is clear: while GAARs empower the TA to disregard the tax effects of artificial structures through procedures with enhanced safeguards, SAARs target specific cases of tax avoidance defined by the regulations; however, in practice, a gray area still remains.

A relevant example of this situation is the distinction between economic classification for valuation purposes and reclassification for anti-avoidance purposes; in Peru, this issue has been addressed in the courts, and in a cassation proceeding, it was clarified that the economic characterization required to apply transfer pricing methods does not amount to the invocation of the general anti-avoidance clause; therefore, it does not require following the special procedure established for the latter.

The significance of the ruling in question lies not only in its status as a precedent, but also in the issue it raises—one that must be resolved: the need to clearly and unequivocally define, through legislation, the dividing line between ordinary authority to determine economic classification and the application of anti-avoidance clauses, in order to reduce litigation.

6.3. Economic Substance as a Complement to Accounting Evidence

In the context of tax auditing, accounting evidence, and the principle of economic substance function as interdependent categories. The former provides the basic evidentiary input for reconstructing economic facts, while the latter constitutes the necessary criterion for the legal and tax assessment in the pursuit of the material truth.

It is futile to attempt to establish the economic substance of a transaction without sufficient supporting evidence—and vice versa—but it is also clear that, if we do not look beyond the purely documentary aspect to examine the underlying economic nature of the transaction under review, we cannot ensure that taxpayers are properly fulfilling their tax obligations.

The complementary relationship described above effectively constitutes a dual safeguard mechanism: it ensures that taxation is linked to economic reality, thereby preventing the exploitation of artificial structures, and, furthermore, it protects the taxpayer's legal certainty against any potential misuse of the TA's power to reclassify transactions.

The discussion of accounting evidence cannot be separated from the ultimate objective of tax audits, which remains to reconstruct, as faithfully as possible, the economically relevant facts for determining tax liabilities.

7. The Burden of Proof and the Search for Material Truth in Tax Audits

7.1. Material Truth and the Reconstruction of Economic Reality

On the subject of truth as a construct, administrative doctrine distinguishes *between formal truth and material truth*. The first—formal truth—is constructed exclusively on the basis of the information provided by the parties and the procedural rules applicable to the case. The latter, material truth, requires the administrative authority to take steps to verify how the facts actually occurred, and it is normally empowered to conduct additional investigations and/or to admit new evidence. (Pacori, 2025).

For the purposes of tax audits, the material truth is not intended to resolve disputes over documentation, but rather to arrive at a reasonable approximation of the economic reality that may give rise to tax consequences. In the field of taxation, economic reality is typically spread across multiple sources of information: Invoices, receipts, vouchers, accounting records, banking documentation, third-party information, electronic records, and digital evidence. For this reason, an exclusively formal (documentary) approach is often insufficient to adequately explain transactions that have become increasingly complex and digitalized in recent years.

Within the region's regulatory frameworks, the principle of material truth has been institutionalized as a pillar of administrative procedure, resulting in the requirement that the Tax Administration (TA) not adopt a passive role with respect to the information provided by the taxpayer; on the contrary, the TA is expected to take all steps reasonably necessary to clarify the facts in dispute, and this pressure has led to the reconstruction of economic reality taking precedence over an exclusively documentary interpretation of the proceedings (Devis Echandía, 2019; Martinez, 2021; Taruffo, 2013).

7.2. Burden of Proof and Evidential Accessibility

The allocation of the burden of proof is currently essential to reducing factual uncertainty in the context of legal proceedings. Classical legal doctrine explains the difference between the subjective burden of proof—understood as the requirement to provide evidence supporting the parties' claims—and the objective burden of proof, which serves as a decision-making criterion in the absence of evidence. Based on this distinction, it assigns legal consequences.

In the tax sphere, there is already a well-established framework for the distribution of responsibility for the tax burden that guides the actions of both the administration and taxpayers; as Choi (2024) points out, it is the responsibility of the Tax Administration to bear the burden of proof regarding the facts underlying its objections or adjustments, while the taxpayer bears the burden of proving the factual circumstances that entitle them to benefits, deductions, exemptions, or preferential tax regimes.

Although it might seem that the issue has already been settled given the abundance of administrative and judicial precedents, the growing sophistication of economic transactions has revealed the limitations of this traditional framework and situations in which the burden of proof lies with the party closest to the source of knowledge or to the means of confirming it.

In light of this issue, legal doctrine has formulated corrective mechanisms aimed at preventing rulings that are contrary to reasonableness; thus, principles such as the ease of proof, the prohibition against requesting "diabolical" evidence, and the so-called dynamic burden of proof converge into a single procedural remedy that shifts the duty to present evidence to the party who, due to their factual position, is in a better position to meet the requirement.

The importance of these mechanisms is heightened in environments of rapid digitalization; indeed, in such environments, while taxpayers typically manage their own documentation, tax authorities have the authority to collect information from third parties, perform bulk data validations, and access external sources that are inaccessible to individuals. Conversely, in situations where, despite the existence of administrative assistance agreements between tax authorities, the taxpayer is closer to the source of direct knowledge, the taxpayer must therefore provide the evidence.

The foregoing demonstrates how the discussion regarding the burden of proof—and who bears it—is no longer framed solely as a matter of allocating procedural risks but is instead integrated into a broader objective: that of constructing a reasonably well-founded explanation of the facts giving rise to the tax liability, toward which the parties must make their best efforts.

7.3. Trends in Comparative Law

Although the distribution of the burden of proof varies across different tax systems, there is a converging trend toward models that combine the obligation to provide evidence with proactive duties of cooperation. Below, and for illustrative purposes only, we will discuss a few examples.

In the U.S. context, the traditional framework imposes on the taxpayer the burden of rebutting the Tax Administration's determination (presumption of correctness), following the reform introduced by the IRS Restructuring and Reform Act of 1998—codified in section 7491 of the Internal Revenue Code. The burden of proof may shift to the Internal Revenue Service when the taxpayer provides credible evidence and has reasonably complied with their record-keeping and cooperation obligations during the audit (Knight & Knight, 1999; Choi, 2024). We observe in this model a shift toward the dynamic burden of proof, which is expressly provided for in the law and is contingent upon the taxpayer's prior cooperative behavior.

Another example can be found in the German legal system, which is structured around the principle of ex officio investigation (*Untersuchungsgrundsatz,* Article 88 of the *Abgabenordnung*), which requires the administration to clarify the relevant facts regardless of the parties' allegations (Özdiler Küçük, n.d.). This mandate coexists with enhanced obligations on the part of taxpayers to cooperate, particularly in cross-border transactions (Etel & Strzelec, 2021), recognizing the structural limitation of any TA—namely, its limited ability to investigate events that occurred outside its jurisdiction—despite the possibility of seeking administrative assistance from other jurisdictions.

In Japan, as noted by Choi (2025), a distinct body of legal doctrine and case law has developed on this subject. In Japan, unlike the U.S. model, the burden of proof in tax litigation tends to rest, at least initially, with the Tax Administration. In

Japan, administrative practice also recognizes the taxpayer's duty to cooperate during the audit phase, following an approach more closely aligned with the cooperative model described in section 7.4.

We can also highlight the experience of the ALADI countries; despite their institutional differences, a common pattern emerges: The Tax Administration must prove the facts underlying its objections, while the taxpayer retains the burden of proving the elements that justify favorable tax treatment (Yacolca et al., 2012; Gaona et al., 2025), a situation that confirms that the regional trend in Latin American countries is moving toward models of shared responsibility in the development of the body of evidence.

Finally, Georgia's experience illustrates how economies with more recent institutional reforms have faced similar tensions regarding taxpayers' due process rights in the design of their tax dispute resolution mechanisms (Gvenetadze, 2025), suggesting that the tensions examined in this section are not unique to mature legal systems; rather, they are a structural problem in any TA.

7.4. From the Burden of Proof to Cooperative Models of Tax Compliance

The convergence of material truth, the principles of *evidentiary ease*, and *accounting evidence*—as discussed previously—allows us to observe a gradual shift toward cooperative audit models. In this approach, the reconstruction of economic reality is no longer viewed as a unilateral task but rather as a collaborative process aimed at clarifying the facts that determine tax liability. The conceptual evolution described above can be summarized in the following sequence:

ACCOUNTING EVIDENCE → ESTABLISHING THE REALITY OF THE TRANSACTION → ECONOMIC SUBSTANCE → MATERIAL TRUTH → TAX ASSESSMENT

In this process, accounting evidence serves as the analytical starting point, making it possible to validate the reality of the transactions under review. Subsequently, the analysis of economic substance provides the essential interpretation of the nature of the substantiated facts.

The principle of material truth integrates and systematizes these elements within a narrative that aims to be coherent and provide a coherent explanation of the disputed events, in order to arrive at a tax determination as the legal consequence of the reasonably reconstructed facts.

The effectiveness of tax audit work is not based solely on the technical application of the rules regarding the burden of proof outlined above, but rather on the institutional capacity of the Tax Administration, as a whole, to support its decisions with sufficient, reliable evidence that is consistent with the observed economic reality. This approach applies equally to traditional adversarial compliance models and to recent models based on cooperative compliance, which are grounded in transparency, the timely exchange of information, and technical collaboration.

With regard to the new collaborative compliance programs, the model works quite well, as reported by Adams & Bauer (2023), who, in their work, link these schemes—which incorporate a duty to collaborate in establishing the material truth—to a reduction in disputes, greater consistency in tax compliance, and a better understanding of tax risks on the part of the stakeholders involved.

8. Digital evidence and electronic auditing

The emergence of technology in the business world has driven the digitalization of business processes, and this has profoundly transformed the processes of generating, maintaining, and evaluating evidence in tax proceedings, as physical documentation is gradually being replaced by electronic records.

Companies, either on their own initiative or at the urging of TAs, have made this transition, and this has given rise to new methods of documenting economic transactions that, in turn, pose significant challenges regarding the authenticity, integrity, preservation, and traceability of information. These challenges have not yet been effectively addressed and continue to create tensions between taxpayers and the public sector.

Notwithstanding the foregoing, the criteria analyzed in the preceding sections (relevance, reliability, sufficiency, persuasiveness, and demonstration of economic reality) remain fully applicable but must be adapted for proper application in an essentially digital environment characterized by automation, mass data processing, and the decisive role of technological systems in the construction of the body of evidence.

8.1. The Concept of Digital Evidence and Its Reliability

Zambrano & Pérez (2025) note that digital evidence can be defined as the body of information generated, transmitted, stored, or preserved by electronic means, the suitability of which allows for the substantiation of legally relevant facts. This category includes various elements, such as electronic receipts and accounting records, electronic filings, corporate databases, and metadata associated with digital documents, among others.

The fundamental distinction between physical and digital documentary evidence lies in digital evidence's intrinsic dependence on the technological systems that generate, manage, and safeguard it. For this reason, the assessment of its probative value goes beyond an analysis of the information's content and additionally requires an examination and validation of the technical protocols used to ensure the integrity, authenticity, and traceability of the data. The Peruvian Tax Court has already adopted this line of reasoning and has highlighted this need in rulings it has issued in recent years.

There has also been an evolution in this area, unlike authenticity in physical media, which is typically associated with external markers such as signatures or seals, the evidentiary validity of electronic records depends on the implementation of technical mechanisms—such as electronic signatures, timestamps, or chain-of-custody certifications—that enable the attribution of authorship and reasonably rule out subsequent alterations (Zambrano & Pérez, 2025).

It is clear that the reliability of digital records depends on the robustness of the recording systems, the integrity of the stored data, and the effectiveness of preservation controls; and that, while technological advances are transforming verification methodologies, the need for a critical assessment of the quality and probative value of the information provided remains unchanged.

8.2. Integrity, Authenticity and Digital Traceability

It is necessary to define certain concepts. The first *is integrity*, which can be defined as the guarantee that the information retains the same content it had at the time of its creation or capture. Authenticity, on the other hand, refers to the ability to reasonably attribute the information to a specific source (Platonov, 2025).

To better understand this distinction, let's analyze the case of electronic payment receipts or invoices (e-cdp); in which case the *probative validity* of the document is contingent upon the presence of elements that confirm its legitimate issuance by the identified party, the substance of the underlying transaction, the integrity of its content against alterations, and its consistency with the supporting body of evidence.

In this case, we can see that, far from constituting categories independent of classical evidentiary theory, these conditions essentially represent the evolution of the subject and become technological manifestations of the reliability criteria previously analyzed.

In this digital environment, *traceability* takes on even greater importance. The international literature defines *traceability systems* as mechanisms that allow for the sequential reconstruction of activities performed on specific information, recording who performed an action, when it occurred, and how it relates to other relevant events (Regueiro et al., 2021; Kupec et al., 2022).

In the tax sphere, this makes it easier for TAs to reconstruct economic transactions by integrating electronic receipts, digital accounting records, bank transfers, and logistics systems. The greater the ability to reconstruct a transaction using interrelated electronic records, the greater the reliability of the conclusion reached. This explains why tax authorities are committed to building a fully digital ecosystem for tax system management and are promoting comprehensive electronic accounting among taxpayers.

8.3. Electronic Invoicing: A regional example of Digital Traceability

The implementation of mandatory electronic invoicing systems is now a common practice among a growing number of tax administrations in Latin America (Calijuri, 2024). The reason for this trend is that tax administrations have found that these systems offer a significant advantage over traditional documents. In fact, because they are generated within structured systems that allow for the verification of their transmission, receipts, recording, and storage, they facilitate large-scale data cross-checks, thereby strengthening the ability of government agencies to identify inconsistencies or risk patterns.

The Peruvian case study documented by Bellon et al. (2022) on the gradual implementation of mandatory electronic invoicing in the country found that the adoption of electronic payment receipts significantly increased the sales reported by companies required to issue them, without producing a corresponding effect on reported purchases. This pattern is consistent with a genuine improvement in tax compliance; the study found that there was no simple accounting shift between periods and that this effect was even more pronounced in sectors with greater interaction with end consumers.

Despite the above, Grijalva Salazar et al. (2023), in a study examining the adoption of electronic invoicing by micro and small businesses, documented that evidentiary effectiveness depends critically on the level of technical training and the quality of the taxpayer's own information systems. This provides empirical evidence confirming that the reliability of an electronic record is not a consequence of its digital nature per se, but rather of the quality of the mechanisms used to generate and maintain it.

It should be noted that digitalization does not reduce the complications inherent in verifying economic reality; as we have already established that the mere existence of a valid electronic receipt does not automatically confer authenticity on the documented transaction; therefore, this type of evidence remains subject to the same assessment standards set forth in Sections 3 and 5 of this paper, enhanced by new advanced capabilities for interconnection and big data analysis.

8.4. Blockchain and New Forms of Evidence

Academic literature has identified blockchain technology as an innovative tool for strengthening evidentiary reliability (Nembe et al., 2024). The distributed ledger architecture optimizes data integrity, authenticity, and traceability by employing immutable storage mechanisms. Thus, while facilitating the auditing of transactions, it also effectively prevents the retroactive alteration of information (Han et al., 2022).

Some studies suggest adopting blockchain-based triple-entry accounting models (Cai, 2019) and argue that this approach would allow each transaction to be recorded and validated simultaneously by the parties involved and a trusted third party, thereby minimizing the potential for the issuance of receipts for nonexistent transactions. The proposal is appealing, and it is a natural step in the process of improving the digital ecosystem, which enhances control by tax authorities.

The path is not without its challenges; some studies warn of critical barriers related to scalability, interoperability, data protection, and operational complexity that could arise (Pellegrino & Stasi, 2024), which suggests that caution is warranted in this regard. Although this technology has considerable evidentiary potential, its effective integration into tax proceedings still poses significant regulatory challenges, which must be examined holistically before it is adopted.

9. Artificial Intelligence, Data Analytics, and Evidentiary Boundaries

Digital transformation in the field of tax auditing cannot be viewed as a simple shift from physical to electronic formats; it presents risks, challenges, and opportunities that must be analyzed and managed.

From the perspective of TAs, the availability of large volumes of data has prompted them to adopt artificial intelligence, machine learning, and advanced analytics tools, which have substantially reshaped the paradigms for constructing, analyzing, and evaluating tax evidence (Atayah & Alshater, 2021).

The development of this digital ecosystem suggests the possibility of moving toward increasingly automated models of tax control and assessment. This is not an unfounded prospect; there are already some initiatives underway. We can point to the Partial Electronic Tax Audit—currently in the process of development and consolidation—as an example in Peru.

It must be acknowledged that these technologies enhance the ability to detect risks and optimize oversight mechanisms, and that they open up the possibility of widespread use of computer-assisted auditing techniques (CAATs). However, it must also be acknowledged that this disruption to the traditional model poses critical challenges in terms of algorithmic transparency, explainability, and the safeguarding of due process.

The key point to consider here is that the issue is not merely whether artificial intelligence will replace auditing functions or parts of the auditing process, but rather—given the inescapable reality that the advent of technology is inevitable—how it will transform the evidentiary processes essential for verifying the economic reality of transactions.

9.1. Big Data and the Transformation of Tax Evidence

We have previously noted that the increased availability of digital information has not only redefined the Tax Administration's approach to tax compliance but has also redefined the nature of evidence in the context of tax audits. Unlike traditional audits, which are limited to small samples, current processing capabilities allow TAs, thanks to electronic payment records and their ability to access third-party information, to examine data sets comprehensively, thereby facilitating the identification of behavioral patterns and the detection of irregularities with a scope that was previously unattainable.

The literature in this field highlights that the implementation of advanced analytical tools—which enable the integration of data from both structured and unstructured sources—significantly enhances the capacity of tax authorities to identify deviations, anomalous economic relationships, and critical risk factors for tax audits (Fedyk et al., 2022; Peng, 2025).

However, this advancement in detection capabilities must also be accompanied by developments in the field of evidence; from an evidentiary perspective, this evolution does not exempt us from the requirement to substantiate the facts with reliable, consistent, and verifiable evidence in order to reduce the possibility of error both in data processing and in the quality of the source data.

For the purposes of the topic addressed in this document, it should be clear that, while the technological component optimizes detection capabilities, the evidentiary process has not been reduced and continues to require, as an indispensable and unavoidable necessity, rigorous validation, and corroboration procedures.

9.2. Artificial Intelligence and Risk-Based Auditing

The integration of artificial intelligence systems into tax audit processes expands the analytical capabilities of TAs, as it enables them to implement advanced algorithms for anomaly detection, risk categorization, and the identification of unusual behavioral patterns in vast datasets, allowing them to better tailor their approaches to tax risks.

The literature in this field has consistently shown that the adoption of these technologies correlates with substantial improvements in audit capacity and analytical accuracy, particularly by maximizing the scope of oversight and strengthening the early detection of contingencies (Fedyk et al., 2022; Qader & Çek, 2024). Studies also report a shift from reactive approaches toward risk-based preventive monitoring models, in which the determination of interventions (treatments) and the allocation of resources are increasingly based on automated analytics (López, 2024).

The above is correct, but we must not forget that the results derived from these algorithms lack intrinsic probative value. The purpose of using them is to identify areas that require detailed scrutiny; from a legal perspective, artificial intelligence is a tool to guide the search for evidence, but its use does not exempt one from the subsequent stages of evidence collection, validation, and evaluation (Perlatti & Vernetti, 2026).

9.3. Evidentiary Risks and Automation Bias

The growing adoption of artificial intelligence in the field of TA has created substantial challenges for the integrity of decision-making processes. Various studies identify the following as predominant risks: the opacity of algorithms (the “black box” effect), the presence of intrinsic biases in training datasets, and the inherent difficulties in explaining the inferences produced by complex machine learning models (Hu et al., 2023; Kokina et al., 2025).

A very significant risk that TAs must manage is automation bias—a bias that manifests itself in the decision-maker’s tendency to place disproportionate trust in the outputs of automated systems, thereby compromising their analytical ability and affecting their critical judgment. The literature shows that this bias is exacerbated when algorithmic results involve a high degree of technical complexity or when external validation is difficult to perform (Campbell et al., 2023; Romeo & Conti, 2025).

This bias takes on critical significance in the context of tax audits; it can be seen in the scenario where an algorithmically generated alert is erroneous and this error goes undetected. The decision-maker might consider this distortion to be correct and fail to conduct even the most basic steps of verification and evidentiary validation, resulting in the TA’s entire effort being not only unproductive but also causing reputational damage.

One way to manage this risk is to apply the principle of professional skepticism, discussed in previous sections, which takes on renewed and fundamental importance in preventing excesses and reputational damage that undermine trust in and the perceived effectiveness of the TA.

9.4. The Enduring Role of Professional Judgment

Despite the progress observed in recent years regarding the impacts and potential of applied technology and artificial intelligence, the academic consensus, for the time being, is that these technologies will not eliminate the need for expert human judgment (Chen & Fan, 2025), in the field of taxation, it remains necessary to assess the economic reality of transactions, along with interpreting their context and determining the legal classification of their effects, and this necessitates the involvement of a qualified professional.

Researchers point out that the integration of artificial intelligence into tax enforcement should not be viewed as a replacement or shift toward AI but rather should be implemented with the goal of playing a supporting role. New technologies make it possible to scale up analytical capacity, streamline risk identification, and optimize the allocation of administrative resources; however, the evaluation of evidence to reach conclusions must remain an intrinsically human prerogative.

9.5. Minimum Safeguards Against Algorithmic Auditing

Several studies, including that of Guglyuvatyy (2025), highlight that the integration of artificial intelligence into tax audit functions requires the establishment of safeguards consistent with the principles of motivation, adversarial proceedings, and material truth that govern the presentation of evidence. Proper conduct by tax authorities points to the need for them to provide three fundamental guarantees to taxpayers:

- **First:** *Algorithmic traceability*: When an automated system generates a risk alert that triggers an audit, it is imperative that the elements underlying that alert can be reconstructed. As Gupta & Bansal (2026) point out, this should not be understood as a requirement for exhaustive disclosure of the algorithm's inner workings, but rather as a guarantee that the specific facts and patterns justifying the administrative intervention can be documented and explained.

- **Second:** *Prior to making tax-related decisions, human verification* must ensure that the conclusions derived from automated systems are verified using evidence collected and evaluated in accordance with quality standards such as those established in this document; therefore, no algorithmic inference should, on its own, constitute sufficient grounds for issuing a tax assessment (Singh & Sehgal, 2025).

- **Third**. *Right to know the basis for automated selection*: In any administrative action resulting from risk analysis processes, taxpayers must be able to access sufficient information to understand the premises underlying such selection in order to properly exercise their right to a defense (Bermeo, 2026).

The safeguards outlined above are not intended to limit the use of artificial intelligence in tax audits; their sole purpose is to ensure that the deployment of this technology does not disrupt the TA's operations in a way that conflicts with the principles of evidentiary quality, justification, and due process that underpin traditional evidentiary procedures.

The working premise of tax authorities must be based on the understanding that AI significantly enhances the administration's analytical capabilities, but its use cannot alter the primary objective of tax audits: to reliably establish the economic reality of facts relevant to taxation—a task that continues to be grounded in the principles governing the construction of evidence, which remain valid and unchanged.

10. Practical Considerations for Implementing the Evidence Model

In the previous sections, we have established a conceptual framework for the development and evaluation of accounting evidence; this section applies these principles to the practical setting by proposing operational tools designed for audit teams.

The systematization aims to facilitate the integration of the proposed methodology into the audit manuals, documentation protocols, and training programs of the TAs, allowing for its adaptation to the specific regulatory requirements and institutional capacity of the various jurisdictions.

10.1. From the Conceptual Model to the Tiered Verification Checklist

The model for the progressive development of accounting evidence (Section 5.3) can be converted into an operational checklist to guide the auditor throughout the procedure, without replacing the auditor's professional judgment:

Table 4: Checklist

Level	Operational question for the case file
1. Documentary Evidence	Has all available supporting documentation been identified and collected?
2. Corroboration	Are there independent sources—such as contracts, business correspondence, or purchase orders—that support the primary documentation?
3. Traceability	Is it possible to reconstruct the entire sequence of the transaction, from its origin through its accounting entry to its settlement?
4. Economic Consistency	Is the transaction reasonable in light of the taxpayer's operational capacity and historical performance?
5. Economic substance	Does the legal structure adequately reflect the actual economic effects of the transaction?

The above list is not intended to provide an exhaustive analysis, but rather to explicitly document in the record the extent to which it was possible to verify each observed transaction—and the reasons why, where applicable, it was not possible to proceed to a higher level. The traceability of the auditor's analysis is an essential input both for review bodies and for developing a defense strategy before the courts.

The practical operation of the model may be illustrated through the following example. We will use a purchase transaction; in this case, presenting an invoice serves solely to verify whether or not the required documentation exists, and on that basis, the transaction is rejected at the source for VAT purposes. Once this level has been met, the inclusion of supporting documentation—such as purchase orders, business correspondence, or proof of service receipt—enables the verification level to be achieved.

Continuing with the analysis of the case, the systemic reconstruction of the operational chain—which includes contracting, execution, settlement, and accounting records—makes it possible to verify the level of traceability. On the other hand, an examination of the technical capacity of the parties involved and the economic rationale behind the transaction makes it possible to determine the level of economic consistency (Peruvian rules regarding parties without operational capacity illustrate the requirement for this level). Finally, the economic substance of the transaction is conclusively established when the evidence gathered demonstrates that the legal structure adopted is consistent with the economic reality of the facts.

10.2. Minimum Standards for Case File Documentation

The quality of the evidence gathered during an audit depends, to a large extent, on the rigor with which the process of obtaining and evaluating that evidence is documented. Based on the criteria of relevance, reliability, sufficiency, and persuasiveness outlined in Section 3, we propose the following minimum standards.

- **Justification of the evidentiary relevance**: This standard requires that the relevance of each piece of evidence included in the case file be explicitly justified, avoiding the inclusion of documents that lack a direct connection to the facts under review.

- **Comprehensive record of contradictory evidence:** Under this standard, both the evidence supporting the objection and the evidence refuting it must be documented with equal diligence, along with the reasons why the audit rejects the latter.

- **Traceability of the verification chain:** The verification process must be systematized and documented, detailing the independent sources analyzed, the cross-validation method, and the conclusions drawn from this comparison, to the extent that they are relevant to supporting an observation.

The incorporation of these standards into the audit process does not require regulatory changes; they are simply best practices in administrative management that can be integrated into operational audit processes without significant restrictions.

10.3. Criteria for Ensuring the Quality of Evidence

The specialized literature on financial auditing notes that the quality of audit evidence is not based on the auditor's isolated judgment but rather is underpinned by institutional oversight mechanisms (Taib et al., 2024). This same reality applies to the field of tax audits: the quality of evidence requires the implementation of quality review procedures prior to the conclusion of the audit.

In the context of TAs, checks are necessary in all cases, but they should become progressively more rigorous as the subject matter becomes more complex. These controls should be designed to critically assess the adequacy of the supporting evidence, the logical consistency between the evidence gathered and the conclusions reached, and the manner in which the auditor resolved any contradictory elements identified during the audit procedure.

A review conducted under this approach should not be interpreted as a hierarchical, mechanical check designed to demonstrate the functioning of a chain of command but rather should be understood as what it is intended to be: an additional layer of institutional professional skepticism, in line with the standard outlined in the section 4.4.

10.4. Guidelines for Training Tax Audit Teams

The effective implementation of the proposed conceptual framework calls for an ongoing training component; to that end, four fundamental training areas have been identified based on the analyses presented:

- **First**, training on the evidentiary quality criteria of NIA/ISA 500, adapted to tax practice.
- **Second**, the promotion of professional skepticism—understood as a rigorous analytical methodology—distinguishing it from a stance of generalized suspicion.
- **Third,** a technical examination of the boundaries between ordinary economic characterization and the application of anti-avoidance provisions, in order to prevent the discretionary use of recharacterization.
- **Fourth,** the digital literacy needed to understand the scope and evidentiary limitations of data analytics and artificial intelligence tools, with a particular focus on mitigating the risks arising from automation bias.

International experience confirms that the implementation of a policy framework must be coordinated with sustained institutional training programs to ensure the technical competence of staff (Asian Development Bank, 2018).

10.5. Possible Institutional Uses of the Model

The model we have been developing is potentially useful for TA; among its possible applications, we can highlight the following:

- the development of manuals or operational guidelines for oversight
- the design of tools for verifying the implementation of audit procedures;.
- ongoing training for technical teams.
- the standardization of internal criteria for evaluating evidence.
- Strengthening documentation and quality assurance mechanisms in case management.
- The development of methodologies for analyzing digital evidence and the results generated by data analytics and artificial intelligence tools.

One of the strengths of this model is its ability to provide a unified analytical framework for evaluating evidence, allowing it to serve as a complementary tool that respects—without seeking to replace—the legal and procedural standards in force in each jurisdiction.

Conclusions

Contemporary tax auditing takes place in an environment marked by growing economic complexity, the digitization of business activities, and access to multiple sources of information. This context has reshaped the work of tax authorities on multiple levels, including their evidentiary requirements, which have shifted the burden of proof onto them to demonstrate facts with tax implications—a task that requires them to use valuation criteria aimed at reconstructing the economic reality underlying the transactions.

Accounting evidence should be understood as a specialized category of information intended to support the verification of economically significant facts for the purpose of determining tax liabilities. Its probative value does not stem from the possession of isolated documents, records, or supporting evidence, but rather from the ability of the entire body of evidence, taken as a whole, to provide a coherent explanation of the economic reality under examination.

The criteria of relevance, reliability, sufficiency, and persuasiveness, as defined in NIA/ISA 500, provide an ideal framework for evaluating the quality of evidence in the context of tax audits (Espinosa-Jaramillo et al., 2025) and should be explicitly adopted for the examination of tax evidence.

Validating the economic reality of a transaction requires a process of building evidence that goes beyond the level of documentary evidence. The model proposed in this paper—a progressive approach to building accounting evidence, structured into five hierarchical levels: documentary evidence, corroboration, traceability, economic consistency, and economic substance—allows for a conceptual framework to address the evidentiary challenges faced by TAs, providing an analytical structure that can be adapted as needed.

The interconnection between accounting evidence, economic substance, material truth, and the burden of proof must be understood as a whole for the purpose of reconstructing economic reality; each of these elements has its own scope that complements the other two. While evidence allows for the proof of facts, economic substance facilitates their proper tax interpretation, and material truth guides administrative efforts toward an effective understanding of relevant events. The rules on the burden of proof function as mechanisms for allocating responsibilities; taken together, they serve as complementary pillars of contemporary tax enforcement.

Digital transformation has impacted the tax compliance ecosystem by significantly altering the procedures for obtaining, organizing, and evaluating evidence; the widespread use of electronic invoicing, digital records, mass data matching, and advanced analytics provides tax authorities with greater oversight capabilities (Orozco, 2026), however, this does not relieve tax administrations of their duty to critically assess the quality of the body of evidence; thus, the criteria of relevance, reliability, sufficiency, and corroboration remain in effect regardless of the technical medium used.

The integration of artificial intelligence into audit processes is one of the most significant challenges for the development of modern tax evidence. AI offers significant opportunities, but to ensure fairness to taxpayers, it should not be viewed as a substitute for human professional judgment, and taxpayers must be assured that a specialized official makes the final decision—as a minimum requirement for safeguarding the legitimacy and guarantees inherent in the tax procedure.

Implications for Tax Administrations

The preceding conclusions confirm that the modernization of tax enforcement goes beyond the mere adoption of new information sources or technological tools; the transformation of tax authorities within the new ecosystem currently under development requires a shift in the paradigms used to build, structure, and evaluate the body of evidence that serves as the basis for the tax authorities' actions.

In light of the foregoing, the model for the progressive development of accounting evidence proposed in this document serves as a support mechanism to strengthen the technical quality of audits, once adapted to the institutional environment. The value of the model lies in providing a methodological framework that facilitates the organization of evidentiary analysis, optimizes the justification of administrative actions, and enables the transition from approaches focused on documentary support to a model oriented toward verifying economic substance.

This highlights the need for tax authorities to strengthen their audit procedures by adopting methodologies for the progressive development of evidence, incorporating criteria for corroboration, traceability, and assessment of economic consistency, thereby moving beyond the conventional document-based review model.

To achieve this, tax authorities must incorporate the attributes of evidentiary quality established in NIA/ISA 500 as guiding principles for the collection, evaluation, and recording of information in the context of tax audits.

In addition, TAs must establish robust institutional standards for the management of digital evidence, ensuring the authenticity, integrity, traceability, and preservation of the information used in tax audit proceedings, They must also implement governance mechanisms for the adoption of advanced analytics and artificial intelligence, ensuring that all decisions with tax implications are subject to human validation and adequate justification, and that the taxpayer's right to be heard is guaranteed at all times.

It is also necessary to intensify the technical training of audit teams in areas such as the evaluation of evidence, professional skepticism, economic analysis of transactions, and the responsible use of technologies applied to tax enforcement; failure to do so limits the effectiveness of the aforementioned measures.

Tax authorities must recognize that accounting evidence has become a cornerstone of contemporary tax auditing and is increasingly focused on the reasonably substantiated reconstruction of the economic reality that forms the factual basis of tax law. In this vein, the progressive construction model we have proposed seeks to provide an adaptable conceptual and operational framework designed to help tax authorities strengthen the technical quality, transparency, and legitimacy of their audit activities in this new digital ecosystem.

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Appendix I

Checklist for Accounting Evidence Levels

A working tool derived from the progressive-build model for accounting evidence (Section 5.3) and the minimum standards for case file documentation (Section 10.2).

Taxpayer / audited transaction:

Lead Auditor:

Date:

Level	Verification Question	Accredited? (Yes / Partially / No)	Supporting Evidence	Observations
1. Documentary Evidence	Was all the available supporting documentation identified and collected?			
2. Corroboration	Are there independent sources that support the primary documentation (contracts, correspondence, purchase orders)?			
3. Traceability	Can the transaction be reconstructed from start to finish—negotiation, execution, payment, and accounting entry?			
4. Economic Consistency	Is the transaction reasonable in light of the taxpayer's operational capacity and historical performance?			
5. Economic substance	Does the chosen legal form adequately reflect the actual economic effects of the transaction??			

Highest level reached: ____ / 5

Contradictory evidence identified *(Section 10.2—Make a record of this, even if it has not been used):*

Reason it was not possible to advance to a higher level *(if applicable):*

Does t**he operation involves a risk signal generated by data analytics or artificial intelligence systems?** Yes / No *If the answer is "Yes": Were the factual elements that led to the signal (section 9.5) and the human verification performed before it was converted into an observation documented? Yes / No*

Note: See sections 5.3 and 10.1 for the conceptual development of this model.

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