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## Analyzing the application of Business Risk Audit approach in Algeria's audit framework

### معالجة تطبيق منهجية تدقيق مخاطر الأعمال في إطار التدقيق الجزائري

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**Abstract:** This study aims to address the attitude of International Accounting and Auditing Firms (IAAFs) and highlight their reaction regarding the application of Business Risk Audit (BRA) in Algerian audit environment. this study is important because it helps to correct some of the misconceptions that “the Algerian audit environment so far is still only applicable for traditional audit approach (TAB)”. Therefore, an exploratory study was developed to elicit the opinions of 43 specialists in the field of auditing distributed on a few local companies. The results of the study revealed that: The application of the Business Risk Audit (BRA) equation is governed by several variables that are directly related to the characteristics and advantages of the local business environment, which in turn led to change IAAFs’ audit approach.

**Key words:** Traditional Audit Approach (TAB); Business risk audit (BRA); International Accounting and Auditing Firms (IAAFs); Algerian audit environment.

**JEL classification :** M40 ; M41 ; M48 ;

ملخص:

تهدف هذه الدراسة إلى معالجة موقف شركات المحاسبة والمراجعة الدولية (IAAFs) وتسليط الضوء على رد فعلها فيما يتعلق بتطبيق تدقيق مخاطر الأعمال (BRA) في بيئة التدقيق الجزائرية. هذه الدراسة مهمة لأنها تساعد في تصحيح بعض المفاهيم الخاطئة بأن "بيئة التدقيق الجزائرية لا تزال حتى الآن تطبق نهج التدقيق التقليدي فقط (TAB)". لذلك تم تطوير دراسة استطلاعية لاستقصاء آراء 43 متخصصاً في مجال التدقيق موزعين حول ثلة من

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الشركات المحلية. كشفت نتائج الدراسة بأن: تطبيق معادلة تدقيق مخاطر الأعمال (BRA) تخضع لعدة متغيرات ترتبط مباشرة بخصائص ومزايا بيئة الأعمال المحلية، مما أدى بدوره إلى تغيير نهج التدقيق الخاص ب IAAFs الكلمات المفتاحية: المقاربة التقليدية للتدقيق (TAB) ، تدقيق مخاطر الأعمال (BRA)، شركات المحاسبة والمراجعة الدولية (IAAFs)، بيئة التدقيق الجزائرية

## INTRODUCTION

Business risk is a typical concept of what businesses are currently facing due to an ever-increasing pace of changes caused by modern globalization and high technological advancement. International accounting and auditing firms (IAAFs) had converted their methodologies into a Business Risk-based Audit (BRA) to meet the requirements of a modern economy and answer for requested demand for quality information.

A streamline of researchers investigating the BRA concept have agreed that the emergence of such an approach was during the mid-1990s. Proponents of this approach argued that the purpose of this innovative technique was to enhance audit quality and answer for shareholders expectations (Abdullatif & Al-Khadash, 2010; Allaham, Nassar, & Reesh, 2017; Alnodel & Turley, 2006; Ballou, Early, Rich, & paper, 2001; Bell, Peecher, & Solomon, 2002; Elliott & Theory, 1983); Humphrey, Jones, Khalifa, and Robson (2003); (Knechel, 2007; Kutum, 2010; O'Donnell & Schultz, 2002; Salehi & Khatiri, 2011). On the contrary, the downtrend of the BRA; especially the aftermath of US and European corporate failure, had reinforced the opposite view of researchers regarding IAAFs' attitude (Aissaoui, N. Hamaizia , L, 2018, p. 3), many believe that changing in the accounting-dogma to more lucrative manner had led to commoditize audit services to Non-Audit Services (NAS) and it may impair audit independence. For example, IAAFs' endeavour had been diagnosed merely as the reason for compensating losses caused by competition propensity (Knechel, 2007, p. 383), in addition to low-balling techniques (Sewon & Wang, 2012), therefore, BRA was articulated as an inevitable event that resulted from the interaction of multidimensional factors that serves the interest of IAAFs to promote advisory services and enhance audit quality to their audit clients.

Business risk as defined in ISA, is derived from condition and events, brought to bear on entities, prevent them from achieving their goals and

execute strategies, ((IAASB), 2016-2017, p. 282). According to (Bell et al., 2002) BRA requires that auditors should consider the risks of the full entity's system from a strategic view, referred to as strategic system-lens. Therefore, considering the holistic context of the entity will direct the auditor 's attention to critical areas and systems dynamics(p2). The selling point of this approach is the anticipation of key risk factors that result in financial distortion; by using a top-down technique as a systematic inquiry to identify significant factors leading to business risk. In this regard, auditors perform a profound understanding of objectives, strategy, and internal control environment to detect business factors that have significant effects on the financial statements (IAASB) (2016-2017).

The remainder of this study is organized as follow: first, analyzing the BRA application in relevant previous studies, thus help to picture how BRA is applied in the context of developed and less developed countries, Big and non-Big 4 firms. Second, debriefing the accounting and auditing environment in the context of Algeria. Third, we have developed statement of the problem where research questions were asked. Then we presented the method used to collect data. The results and discussion come later, followed with the conclusion

## **1. Analyzing BRA application in relevant previous studies**

It should be noted that most researches that investigated BRA were conducted in the context of developed countries (Abdullatif & Al-Khadash, 2010; Alnodel & Turley, 2006; Kutum, 2010; Salehi & Khatiri, 2011). Moreover, the conduct of BRA between big and non-big audit firms as well as between developed and undeveloped countries is important to consider, many reasons were captured for major developments especially within developed countries; for example, the effectiveness of auditing consensus and authoritative guidance provided by professional bodies helped to promote the BRA approach. Meanwhile, the recognition of the BRA concept in Less Developed Countries (LDC) was narrowed to just an only privileged-few known as Big 4 and others, many countries were affiliated with IAAFs and share their auditing market as an international convergence for new capitalism requirements.

### **1.1 Debriefing the case of Kingdom of Saudi Arabia(Alnodel & Turley, 2006)**

In the case of the Kingdom of Saudi Arabia (KSA), the authors argued that LDCs' environmental factors do not prevent IAAFs from arguing

their audit approach, they claimed that the imported audit approach was not imported only for technical advantage, but also to serve a social function (advancement, modernization, superiority of knowledge) regardless of whether the BRA is been fully or partially applied. Yet, it is important to consider the differences that present obstacles for implementing BRA, which undervalues the technical advantage of the new audit approach. However, the author stated that the dissemination of BRA in KSA can be treated under three phases included in introduction, implementation, and utilization, where:

- the introduction of BRA:

the internationalization of audit practice in KSA was mainly seen as a pure dominance of non-KSA audit firms over the audit environment, especially, after the inability of local audit firms to cope with the boom of the economy during that time, thus, made KSA firms rely most on outside alliance with other countries, hence, helped to import international experience of major audit firms. In addition to that, the author reported that the introduction of BRA and the rapid pace of dissemination regardless the environmental factors, IAAFs still claiming their superiority of knowledge because of their link to their origin countries, this had been seen from the angle of western dominance of audit practice and regulation especially in the USA, UK, and Canada.

Introducing BRA to the local Saudi Arabi audit environment was not merely considered as a vague content to audit procedures, but, it was attached with technical contents of BRA approach includes; analyzing client's strategy and objectives, understanding the client's business, business process, and so on, the study also contends, whether the imported approach is fully applied, modified or ignored, IAAFs can still claim their modernization to serve other non-technical functions; such as providing multi-service and added services to local KSA firms, thus helped to prompt the advertisement of BRA.

- Implementing BRA:

BRA Implementation in LDCs has been considered as a 'rhetorical adoption', this has been illustrated by the many obstacles that LDCs have faced. The authors argued that the audit environment differs in significant aspects from developed countries, and these aspects were outlined in:

- ✓ The study and the practice of businesses

- ✓ Development in economy
- ✓ The culture of society
- ✓ The role of financial statements and audit,
- ✓ The status of auditors and the professional education that might impair audit quality.

According to the authors, the difficulties in integrating and using the BRA approach in LDCs can be arranged around the following aspects of the audit environment:

- The nature of the business practice and economy

The qualification of the audit office in terms of the number of staff and their qualification, considered essential for BRA utilization because BRA requires several senior auditors, managers, and partners, with a diversity of knowledge and background in business, this problem is evident in the KSA audit environment which suffers from skilled manpower, this number is quite small because of the hard nature of the business, in addition to low payment of jobs provided by these firms, resulting in under-presentation of Saudi professionals in audit firms, what's more, is that the KSA regulations heightened the problem by constraining the number of senior staff, especially non-Saudi, for example, the CPA law 1991 prevents non-Saudi nationally from practicing as a sole practitioner.

- The culture of audit society:

The authors reported that educational curricula must improve knowledge learning to perform BRA, which is currently lacking in KSA universities. Educational knowledge is important to consider because performing BRA aspects necessitates an understanding of the client's business, advising management, and alerting clients about their business risks. The study revealed that client resistance regarding increased audit fees limited the estimate of BRA usefulness. The auditors (auditors) have criticized their clients' expectations and perception about the audit, and they believe that their client should do everything related to the financial statements even the work of the accountant, moreover, the lack of public information offered to auditors, is also a huge factor in the implementation of BRA engagement. KSA audit clients believe that Confidentiality of information is an important aspect of the company that must not be disclosed to auditors especially non- KSA auditors.

- The utilization:

The authors reported that technical difficulties of the BRA approach do not prevent IAAFs from claiming globalization and modernization of their audit approaches, especially when negotiating their internationally recognized audit approach compared to less sophisticated auditing culture in LDCs. It is possible to see the adoption of the international audit brand as an assurance of audit quality, this attitude could be due to a lack of accurate and alternative auditing measures locally. As a result, IAAFs could use an internationalization approach claim to convey to audit society meanings such as quality, advancement, and superiority to serve certain important non-technical functions such as marketing, separation from other local non-international audit firms, and superiority over local legislation

### **1.2. the case of Jordan (Abdullatif & Al-Khadash, 2010)**

In the context of the audit approach been applied in the Jordanian audit environment, which is considered to be at high levels of risk profiles, the study reported that risk assessment under the BRA approach is an unnecessary procedure to be applied in such an environment because it rarely affects audit planning. Therefore, the authors view that BRA is considered to be irrelevant in the Jordanian audit environment, furthermore, they see that the local environment does not require the full application of BRA risk assessment procedures, especially under low audit fees. The authors asserted that the adoption of BRA has led to increasing audit costs due to additional effort of risk assessment procedures and more tests of controls especially if they are acquired to fulfil the pre-determined audit procedures set by IAAFs. Moreover, the authors mentioned that local auditors do not take the BRA application seriously regarding the affiliation with international audit firms. Meaning, they viewed the concept of BRA in a prestigious manner just to cope with modern technology. In the scene of formulating the final results about BRA application in the Jordanian audit environment, the authors have concluded that:

- the nature of the audit approach applied:

The study revealed that the type and strength of an audit firm's affiliation with an international audit firm (i.e., whether it is a full membership with IAAFs, or, with a corresponding relationship with IAAFs), has a significant impact on the nature of the audit approach used in Jordan.

However, the authors concluded that the use of BRA varied between IAAFs. However, the study concluded in terms of the nature of the audit approach applied, that it is unclear whether the reluctance of some local audit firms to use a risk-based approach is due to a lack of willingness to implement it or a real perception that it is economically inefficient and/or ineffective in the local context.

- The application of certain aspects related to BRA

How BRA has been fully or partially applied in the Jordanian audit environment, has been viewed as contradictory to the decision-making process, where Jordanian audit firms give limited importance to business risk and, therefore, questions the method applied concerning the efficiency and effectiveness of audit performance, for an example; The study confirmed, that IAAFs forced affiliated firms to apply certain aspects of the entirety of BRA procedures such as substantive tests, regardless of the client's business risk assessment, is it low or high, hence, applying BRA in Jordanian audit environment is likely to lead to more risk assessments with unfavourable results.

- The effects of adopting BRA on the audit firms

In the Jordanian audit environment, BRA was described as a burden to audit firms since IAAFs pressured them to perform a broad list of risk assessments, which involved a lot of time and effort and was irrelevant to the Jordanian context. The authors discovered that the majority of risk assessments were negative, necessitating the use of substantive testing; however, if the risk assessment was positive, there would be more emphasis on control tests and analytical methods, rather than a reduction in audit procedures.

### **1.3. The case of the USA, UK and Canada(Kutum, 2010)**

The research aims to identify the attitude of non-big4 auditors working in small and medium-sized auditing firms in the USA, UK, and Canada, the research was guided to be focused on the following aspects:

- motivation on auditing firms to adopt BRA

The study revealed that responses to BRA motivations in all three countries were somewhat similar, there was a general trend of adopting BRA in the auditing industry that motivated the Canadian participants. They also emphasized more revenues from clients because more clients

are demanding BRA. In order to address clients' requests for BRA, participants in the UK agreed to conform to criteria that focused more on BRAs and competition in the auditing industry. Contrary to their reactions to the advantages and disadvantages of the use of BRA, the answers of US participants to the motivation of following the general trend in the sector were almost the same as those in the UK and Canadian participants.

- the advantages and disadvantages of BRA implementation

Regarding the advantages of BRA, many views were captured stating that representatives from all three countries were able to notify that BRA to enable to improve audit efficiency and audit quality by reducing business risks that the audit client have, furthermore, auditors performing BRA can develop in-depth knowledge about the client business and operation which helps to identify the material information, many representatives also believe that the time investment was the main advantage noticed when conducting BRA because it helps to save time rather than been wasted in the unnecessary audit procedure

It is interesting to note that, regarding the advantages that representatives believed in, other representatives stick to the opposite that BRA was only brought and been implemented right after corporate scandals, this view was endorsed with proves stating that regulation and accounting consensus did not force the implementation of BRA because it merely addresses larger firms as a reason for the disability of SME's to endure the audit cost of thorough risk assessment which might be considered as unnecessary audit procedure another reason was mentioned is that BRA had an effect over auditors, this view was interpreted from the view that auditors change the way of thinking because the in-depth knowledge they have developed during audit planning, thus, results that auditors may avoid all necessary work rather than performing their audit procedures.

- the BRA aftermath

The BRA aftermath was seen as the implication noted after the usage of BRA, whether auditing firms accept to embrace the approach or, to decline it, the authors reported that none of the representatives in all three countries have shown features of total rejection. Contrarily, they highlighted the need for a change to enhance audit quality and efficiency, finally, the authors noted that BRA entails a lot of information that must be treated and examined during the audit process, a reason why BRA approach was seen as a burden, especially for SMEs, representatives stated

that the reduction of BRA details must be done in order to benefit the mutual acceptance form both auditors and clients, therefore, BRA needed a more detailed understanding of actions and plans of its clients and that this knowledge can be utilized to identify material risks which could have a detrimental impact on clients.

Finally, the study concluded that BRA should not be fully abandoned. BRA was seen to have various advantages that improved audits for clients. However, to increase the flexibility of auditors, adjustments are necessary, especially in audits of SMEs that are not as risky as large firms.

## **2. accounting and auditing in the Algerian environment**

### **2.1 accounting system**

The financial and accounting system in Algeria had witnessed radical changes, starting with the General Accounting Plan (GAP) named PCG, then, the National Accounting Plan (NAP) named PCN-75, and finally, the Financial Accounting System (FAS) referred to as SCF, the convergence via International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), was in correspondence to the transition from centralized-economy to free market-economy, this change was the subject to meet with open market's expectations and the needs of potential investors, Currently, Algerian corporations are mandated by applicable law of 07/11 corresponding to November 25/2007, which imposed in 2010, the new standards systems aims to make financial and accounting information more relevant and reliable in decision-making, in addition, to enhance comparability of financial data to measure corporation's performance in a global context.

### **2.2. Auditing system**

In a move to standardize contractual and legal audits, Algeria started new reform concerning the alignment with International Auditing Standards (ISA). The government issued the first package in 2016 containing 16 (in progress of auditing standards issuance in the future) standards referred to as the National Norm of Auditing (NNA). Interestingly, these new standards are purely intersected with traditional audit methodology. Whereas, it firstly consists of preparing audit planning and mission engagement that includes a general understanding of the entity, the risk assessment process, and the organization's performance. Secondly, conducting internal control tests and account controls. Finally, it

synthesizes audit work in a final report. We believe that the birth of NAA is a good indicator to improve audit quality in accordance to international benchmarks and enhance financial information disclosure.

### 3. Statement of the problem

In the context of Algeria, IAAFs (as depicted in the table below) had deployed their branches since 2002, these firms are operating as an accompanying to Algerian firms through the provision of multiservice including assurance, taxation, audit, legal services, and consultancy. However, the mixture of audit approaches (i.e., BRA and traditional based audit (TBA) marketed locally, urged the need for local auditors to cope with audit innovations and global trends, therefore, local auditors make remote effort to keep track of the updates regarding new techniques of auditing profession through the partnership with experience allies from abroad, hence facilitated the transfer of knowledge and auditing technique, in addition to the issuance of auditing standards that boosted the convergence toward an international approach with a comparable level to those within developed countries (audit approach in concordance with ISA).

*Table (01): top 10 IAAFs ranking deployed in LDC's*

| Firm name           | Revenues        | Number of employees |
|---------------------|-----------------|---------------------|
| Deloitte            | \$46.2 billion  | 312,000             |
| PwC                 | \$42.4 billion  | 276,000             |
| EY                  | \$36.4 billion  | 284,000             |
| KPMG                | \$29.75 billion | 219,281             |
| BDO                 | \$8.1 billion   | 80,087              |
| Grant Thornton      | \$5.45 billion  | 53,000              |
| RSM                 | \$5.37 billion  | 43,000              |
| Crowe Horwath       | \$4.3 billion   | 42,000              |
| Nexia International | \$4.3billion    | 24,781              |
| Baker Tilly         | \$3.4 billion   | 30,490              |

*Source: adapted by the author based on accounting firm's official homepages*

The mimic of auditing practice in the local dimension is consistent with the traditional based audit approach (TBA), changing that dogma will be a breakthrough for the local environment, Nowadays, audit in Algeria is challenged to deal with new technology imported by IAAFs as a necessity to cope with modern globalization and contemporaneous economy. This study is orchestrated to address how IAAFs conduct their audit approach in Algeria's audit environment. This study also unfolds the answer for two main questions; to what extent is BRA applied? and, what are the main factors affecting the dissemination of such an application?

#### **4. METHOD**

This research is built on a survey investigation where data were collected using a questionnaire regarding the BRA approach. The questionnaire was administered online .70 auditors sampled from Big and non-Big 4 affiliated firms located in Algeria (IAAFs) answered the questionnaire. Out of 70 auditors, we had received only 43 responses. The target sample is consistent with auditors, managers, tax advisers among others integrated within the organizational chart of IAAFs.

Correspondents were asked to deliver their opinion about the expectation underlies the core matter of BRA dissemination in Algeria; therefore, the expectations were:

- Expectation 1: Defining factors that might prevent IAAFs to disseminate BRA in Algeria.
- Expectation 2: Whether or whether not IAAFs change BRA procedure to what suits the local environment.

The time allocated to data collection started from September 2020 to August 2021. Responses were captured on a 3-points Likert scale based on “low”, “medium “and high”. SPSS 21.0 software is used for statistical analysis. The questionnaire was supervised academically by accounting and finance professors of OEB University along with professional revisions made by experienced auditors working at IAAFs. The Cronbach alpha was tested for 68.87%. Meaning that the data collected from correspondents were reliable and valid

5. RESULTS AND DISCUSSION

5.1 Expectation1

This projection is built on the perception that IAAFs are unable to disseminate BRA because of several factors that govern the business environment in Algeria. The first step is; define IAAFs' audit approach, whether it is BRA or TBA and their extent of application. The second step is to identify those factors. The results are shown in the table below:

5.1.1 Define IAAFs audit approach

Table (02): descriptive statistics for BRA application

|                         | Low  | Moderate | High | Mean | St. Deviation |
|-------------------------|------|----------|------|------|---------------|
| BRA application by IAAF | 72.1 | 27.9     | -    | 1.28 | 0.454         |
| TBA application by IAAF | 7    | 9.3      | 83.7 | 2.77 | 0.571         |

Source: adapted from SPSS

It is evident that most of the study sample responses were in agreement with BRA application to the extent of 27.9% (mean 1.28, St Deviation 0.454). TBA is applied to 83.7 % (mean 2.77, St Deviation 0571). We conclude that TBA represents the dominant audit approach applied by IAAFs and BRA is only applied to an average of a low extent. According to these results, we point out that there are multiple factors that govern the business environment in Algeria.

5.1.2 Define factors that may prevent the dissemination of IAAFs' audit approach

As depicted in the table below, the multiple correlation coefficient  $R=0.961$  or 96.1% indicates that there is a strong correlation between the observed independent variable (the dissemination of BRA) and those predicted by the regression model. The coefficient of determination (i.e.,  $R^2$ ) measured by our fitted model explains the variability in the dissemination of BRA in Algeria with a proportion of 92.4%. Put otherwise, the dependent variable is explained by the seven variables. The Durban Watson statistic showed a value of  $0<0.939<4$  indicating the absence of autocorrelation in the data set that was detected in the sample

**Table (03): Model Summary**

| Model | R                 |  | R square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|--|----------|-------------------|----------------------------|---------------|
| 1     | .961 <sup>a</sup> |  | .924     | .909              | .08819                     | 1.939         |

*Source: adapted from SPSS*

The ANOVA analysis provides an F-test for the null hypothesis which implies; none of the independent variables are related to the dissemination of IAAFs' audit approach in Algeria. Therefore, ( $F(7, 35) = 61.165, P < 0.001$ ) the null hypothesis is rejected.

### 5.1.3 Statistical significance for independent variables

The purpose of this test is to define which factor affects most the dissemination of BRA in the Algeria audit environment. The following table explains further:

**Table (04): linear regression**

| Model                                                                                                                    | Unstandardized Coefficients |            | Standardized Coefficients |       | Collinearity Statistics |               |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------|---------------------------|-------|-------------------------|---------------|
|                                                                                                                          | B                           | Std. Error | Beta                      | t     | Sig.                    | Tolerance VIF |
| (Constant)                                                                                                               |                             |            |                           |       |                         |               |
| the tendency of the client toward the additional cost of an audit                                                        | .297                        | .190       | .190                      | 1.560 | .128                    | -             |
| regulatory and legislation factors regarding the standardization of the audit profession                                 | .169                        | .027       | .358                      | 6.373 | .000                    | .685          |
| auditor's resistance in terms of the changes in their methods required to conduct an audit mission due to low audit fees | .096                        | .044       | .352                      | 2.152 | .038                    | .433          |
| factors related to information and communication technologies                                                            | .124                        | .027       | .275                      | 4.593 | .000                    | .603          |
| the client's needs and the objectives expected from the audit engagement                                                 | .123                        | .032       | .294                      | 3.914 | .000                    | .383          |
| the capacity of audit firms concerning size, reputation, and audit quality                                               | .109                        | .031       | .262                      | 3.545 | .001                    | .394          |
| deficiency of organizational culture and managerial tools                                                                | .187                        | .032       | .347                      | 5.885 | .000                    | .535          |
|                                                                                                                          | .075                        | .023       | .158                      | 3.261 | .002                    | .914          |

*Source: adopted from SPSS*

The data from the table (04) show that all factors have a positive relationship at the level of 5% of significance on business risk audit dissemination in Algeria. The data revealed that the tendency of clients toward the additional cost to audit showed a strong correlation with a standardization coefficient of 0.358. Moreover, the factor of regulatory and legislations regarding the standardization of audit profession showed 0.352, followed by the factor of the capacity of audit firms concerning size, reputation, and audit quality with the proportion of 0.347. The standardized coefficient also revealed that the deficiency of organizational culture and managerial tools is the weakest factor with the percentile of 0.158. As for the Value of the Inflation Factor (VIF), the results in the table indicate the absence of multicollinearity problems for all seven variables.

## 5.2 Expectation 2

BRA is a holistic audit approach that involves examining the business entirely and evaluating relevant risks that audit clients are exposing to. It starts with developing a mental model about the client's business activities and processes, then defines the risk that threatens the entity from achieving its objectives. The hypothesis designed in this section is to define whether or whether not IAAFs adjust their BRA audit approach just to be suited to their client's situation. Based on the aforementioned factors (expectaion1) IAAFs tailor the extent of BRA in its full or partial procedures.

- Develop an understanding of the client business

Auditor's first concern is to locate the company's position within its operating environment, along with assessing the market and industry trends among other external factors, this will help the auditor to develop an understanding of the network in which the company is creating value, also, informs the auditor about how management set strategy per its objectives and assess the relevant business risks that threaten the achievement of those objectives. ISA 315 (revised) demonstrates matters that auditor need to consider when developing their mental models regarding the audited company.

**Table (05): descriptive statistics regarding auditor's knowledge development**

| Item                                                           | Parameter                                                                           | Mean   | St. Deviation |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------|--------|---------------|
| Does your firm's policy require knowing the client's business? | Nature of the client business                                                       | 1.26   | 0.492         |
|                                                                | The sector in which the client operates                                             | 1.35   | 0.482         |
|                                                                | The level of competition within that sector                                         | 1.19   | 0.394         |
|                                                                | Analysis of customer/supplier portfolio and identification of key customer/supplier | 1.37   | 0.618         |
|                                                                | Analyzing the environment in which the client operates                              | 1.28   | 0.504         |
| Total                                                          |                                                                                     | 1.6744 | 0.1935        |

**Source: adopted from: SPSS**

The average response of correspondence toward the requirement of IAAFs to gain knowledge about the client business model is narrowed to a "moderate extent" where the Arithmetic mean=1.67 and standard deviation= 0.19. The results extracting from the ANOVA presents evidence for retaining the null hypothesis were ( $F(5.37) = 0.397, P > 0.001$ ).

- IAAFs audit strategy

BRA auditors use their knowledge gained from strategic assessment to define significant business risks that could threaten the achievement of strategic objectives, after that, they link the acquired knowledge with a significant class of transaction, account balance, and disclosers to define the abnormalities. In this part we chose several aspects of BRA procedures that auditors need to acquire, therefore, IAAFs' audit approach must be consistent with those procedures.

**Table (06): descriptive statistics regarding BRA aspects**

| Item                                                              | Parameter                                                                      | Mean | St.<br>Deviation |
|-------------------------------------------------------------------|--------------------------------------------------------------------------------|------|------------------|
| Does your firm's audit approach consist of the following aspects? | Strategic analysis and related business risks                                  | 1.42 | 0.587            |
|                                                                   | Process analysis and related business risks                                    | 1.60 | 0.495            |
|                                                                   | Residual risks                                                                 | 1.51 | 0.506            |
|                                                                   | The corporate governance system of the audited client                          | 1.63 | 0.621            |
|                                                                   | Critical success factors that guarantee the attainment of strategic objectives | 1.60 | 0.6225           |
|                                                                   | Core business process that sustains the creation of value                      | 1.72 | 0.629            |
|                                                                   | Monitoring and follow up measures                                              | 1.62 | 0.535            |
| Total                                                             |                                                                                | 1.60 | 0.284            |

**Source: adopted from SPSS**

As depicted in the table (06), correspondents have agreed that IAAF's audit approach is consistent with the aforementioned parameters to an average of "low extent" where the arithmetic mean = 1.60 and standard deviation = 0.284. The resulting test for IAAFs' audit strategy revealed that ( $F(6.36) = 169.077, P < 0.001$ ), thus presents evidence to reject the null hypothesis. To our view, the arithmetic Mean for testing this paragraph was not enough to suggest the answers of correspondents were of high agreement, the reason may be due to IAAFs' not taking business environment in Algeria rigorously and does not require to conduct full BRA procedures.

## CONCLUSION

In the matter of investigating the application of BRA in Algeria's audit environment, this study found that BRA is applied to a moderate extent; whereas, TBA represents the dominant audit approach applied; thus, support the conviction that Algeria's audit environment is only relevant to TBA. As indicated previously, Algeria's audit environment is governed by numerous factors effected the BRA dissemination, where, the study documented three major factors: (1) the tendency of clients toward the

additional cost of an audit; (2) regulation and legislation regarding the standardization of audit profession; and (3) the capacity of audit firms, reputation and audit quality.

According the study results, IAAFs do not take BRA application to be fully applied, because they control the extent of audit procedures; this was supported in (Alnodel & Turley, 2006) study, where they stated that IAAFs claim their audit approach regardless whether it is fully applied.

Our study subjected to a number of limitations, where they outlined as follow:

- The study was conducted in the context of Algeria audit environment; therefore, the results will be limited to Algeria, caution must be made when generalizing the results to other countries,
- The study also subjected to some difficulties especially when collecting data from associated professional within the IAAFs, although the amount of time we have provided.

Finally, we concluded that the BRA is an important topic to study, especially in the context of Algeria, we recommend more focus and attention, and we hope in the future that the IAAFs and universities will work in mutual cooperation to provide accounting materials to students.

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