

***Integrating risk-based auditing standards: Possible reflection
of NAAs in the audit process in Algeria***

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Abstract:

The purpose of this research paper is to investigate whether the risk-based auditing standards embodied in (ISA/NAA 200/315/330) might be reflected in the conduct of an audit of financial statements in Algeria. To address this issue, we collected responses from a sample of auditors in two wilayas in eastern Algeria, Batna and Oum El Bouaghi, on their perceptions regarding the degree of integration of risk-based auditing standards (hereafter R-ISAs) in audit engagements. The results provided evidence that the reflection of R-ISAs is absolute and evident, but changing perspectives toward risk-based audit is questionable and may not seem as promised as in the R-ISAs due to controlling factors attributed to R/ISAs regulations.

Keywords: risk-based audit, R/ISAs, NAA200, NAA315, NAA330

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1. Introduction

Recently, the convergence toward the International Standards of Auditing (ISAs) has gained massive momentum, and most countries are on the cusp to achieve global standards-reconciliation. The establishment of an international framework for audit practice is the proxy that IFAC-aligned countries are seeking. As a part of the international community, Algeria has aligned with IFAC in order to boost public confidence and regulate its financial reporting (Boubakeur, 2016), extensive reforms were included in the process which culminated in the subsequent adoption of IFRS-IAS and ISAs-NAAs (other frameworks are on hold perhaps for interim periods¹) by an ad-hoc commission responsible for standardization under local authorities' jurisdictions (CNC). Since the NAAs have not been fully promulgated, because they are still in the beta period, other presumable allegations concern the readiness to change local perspectives on the common practice of auditing, regulators are reluctant to institute amendments, especially the influence of delayed NAAs may exert on audit practice (referred to the NAA 200).

It is difficult to picture the entire audit process when the full ISAs are promulgated especially in local dimension, from our point of view, the impact of the ISAs-requirements exerted on local perspectives needs special inquiries, however, to the best of our knowledge, few existing studies focused only on compliance and extent of application (Ayachi, 2019; Ayadi & Belguet, 2018; BARAKA, KASMI, & BENIKHLEF, 2021; Benguetib & Gasmi, 2016; Saad & Maamer 2018; Seghir; Youcef; Youcef; Zineb; & Meriem, 2019), similar study conducted by (BOUKERSOUL & AISSAOUI, 2022) have explored the analogue of these standards from the standpoint of IAAF's methodologies, they find that the dissemination of such a business risk-based approach is controlled by the idiosyncrasy of local business environment that Algeria has. This study takes a different approach, where the introduction of new perspectives embodied in R-ISA is the center of our focus, this study

takes advantage of examining the requirements of risk-based standards (R-ISAs) embodied in NNA 200/315/330 and assesses the impact exerted on local audit practice, mostly assessing the possible orientation of local audit practice toward risks.

In fact, requirements embodied in the R-ISAs are much reflected in the audit approach commonly known as Business Risk Audit (BRA). The incorporation of BRA in auditing standards was not the fruit of hazard; the series of corporate failures that occurred in 2001 resulted in major accusations being raised against auditors simply because they failed to anticipate business risks that led to bankruptcy. Regulations and joint task forces were formed in order to establish the legitimacy of audits, which subsequently standardized the audit practice. A part of that is the emphasis on business risk assessment, which is our main focus.

The remainder of this study is built on: the first section describes the theoretical basis of business risks and the introduction of a new perspective that is risk-based; the second: research questions and hypothesis development, followed by a conclusion.

1.1. Business Risk: Emerging Thoughts, Perspectives

In the jargon of risk, entities have found themselves positioned to either choose to endure the impact of the risk, or to incur the cost of treatment to solve their problems. Other methods have recently emerged in which the anticipation of risk is the doctrinal corpus that determines the achievement of strategic objectives, distilled from well-known references (COSO2 and ISO 31000) (BEY, 2020, p. 10) in order to establish corporate governance benchmarks, managements were forced to monitor their risks by setting minimum requirements of internal controls and establish Enterprise Risk Management (Hermanson, Houston, & Rice), yet, the terminology of risks has broadened pervasively to exceed the simple comprehension narrowed in financial reports, making the Audit-risk Model (ARM)

dissatisfactory in delivering assurance about the fairness of financial reports, later, the focus on ARM was transposed gradually to Auditing based-Client's Business Model (ACBM) developed by international accounting firms in the 1990s, this innovations in auditing methodologies have fruited the so-called (BRA), literature have documented that the contextual structure of ACBM is built on the perception that a better understanding of the client's business, strategy, objective and environment is the basis that constructs a knowledge-laden and thinking skills (referred in some references as mental model) that auditors must acquire to determine RMMs and subsequent testing(Ballou, Early, Rich, & paper, 2001; T.B. Bell, Peecher, Solomon, & International, 2005; Timothy B Bell, Peecher, & Solomon, 2002; Carnaghan, 2006; Crawford & Stein, 2002; Eilifsen, Knechel, & Wallage, 2001; O'Donnell, 2005; O'Donnell & Schultz Jr, 2005; O'Donnell & Schultz, 2002)

In 1998, efforts began to establish a legal structure for the development of audit methodologies in international auditing standards. A Joint Working Group (JWG) was formed between the UK, the USA, and Canada to :1) respond to the development of auditing methodologies developed by international auditing firms; and 2) analyze the way they implement ARM. The JWG resulted in a report that led to the creation of the International Auditing Practices Committee (IAPC), which culminated later in the emergence of the International Risk-Based Auditing Standards in October 2003, which became effective in December 2004 (Curtis, Humphrey, & Turley, 2016, p. 5). However, whilst the academic endorsement toward adopting a risk-based audit (BRA) calls for expanding perspectives of strategic assessment and a broader array for business risk consideration, the regulatory counterpart (ISA 315 and ISA 330) limits the focus to the client's business risks that may result in RMMs and the related response to the assessed risk. (Schultz Jr., Bierstaker, & O'Donnell, 2010, p. 238) stated that auditing standards direct auditors to consider business risk and other risk factors when they evaluate the overall RMMs during the planning phase of an audit, this finding is

supported by (Paino, Hadi, & Tahir, 2014). They explained that the shifting perspective from the financial statement risk-based audit approach to the business risk audit perspective is basically the result of the auditor changing his procedures regarding the assessed business risks (P5). Other related studies (Diaz & Wolfe, 2007) have examined senior auditors' ability to identify and assess business risks, as well as whether they use the identified risk to inform RMMs. The results were extremely interesting; only 60% of senior auditors identified fewer business risks, auditors had difficulties identifying business risks, and they did not use the business risk to inform the assessed RMMs. The study concluded that auditors who identified fewer business risks had a statistically insignificant correlation between business risk and the RMMs. (Diaz & Wolfe) theorized that a lack of training and standardized guidance makes identifying business risks a difficult task for senior auditors. Similarly, Schultz Jr. et al. (2010) found that auditors only trained to use financial statement audits structured on accounts and transactions, may be less likely to integrate evidence about business risks into their planning judgment about the RMMs. Diaz & Wolfe (2007) recommended that auditors benefit from additional training and business risk evaluation, which would assist auditors in improving their knowledge of business risk issues. Furthermore, they see that in order to promote the consistency of auditing standards, the auditor should be held accountable for linking the business risk to the RMMs, which helps him to assimilate the correlation between business risk identification and the assessment of RMMs (16).

1.2. Introduction of Algerian Auditing Standards NAAs

The sociological neo-institutional theory explains Algeria's partial adoption of the IASB repository through mimicry phenomena that produce legitimacy (Khouatra & Merhoum, 2018, p. 18; Sefiane, 2010, p. 119). whereas, the resemblance of NAAs to ISAs was mostly visible in the number of standards, objectives, and requirements, the name-reference to "national" rather than "international," and minor

adjustments in the contents to include the domestic business environment, where only partial changes were made to preserve Algerian jurisdiction over auditing locally. The NAAs are intended to serve as the foundation for framing audit practice distilled from the convergence of the ISAs. The issuance of NAAs was accomplished through ministerial decrees in sequential packages, each of which contains four standards, many believe that the reason for this is to ensure the adequacy of their material, and not repeat conventional errors as in the Law of 11-07 when the Financial Accounting System (FAS) been issued (Ayadi & Belguet, 2018, p. 544), with the first package being issued through the dated decree N°2 on February 3, 2016, containing NAAs (210/505/560/580), the second package being promulgated through the decree N° 150 on October 11, 2016, containing NAAs (500/300/510/700), and the third package being promulgated through the decree N°32 on March 15, 2007, containing NAAs (520/570/610/620). Finally, NAAs (230/501/530/540) are included in Ministerial Decree N°77, which was issued on September 24, 2018.

2 Risk-Based ISAs (R-ISAs): Objectives and Requirements

2.1 NAA 200 (ISA 200): Overall objectives of an independent auditors to conduct and audit in accordance with ISAs

According to this standard, the independent auditor's overall objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, both from fraud and error, which, enables the auditor to express an opinion on whether the financial statements are prepared according to the applicable accounting framework. Therefore, to achieve that purpose, the independent auditor is required to:

- Comply with ethical requirements for an audit of financial statements.

- Exercise professional judgement and professional skepticism when planning and performing an audit.
- Acquire sufficient and appropriate audit evidence to reduce the audit risk.
- Conduct an audit based on ISAs.

2.2 NAA 315 (ISA 315): Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

ISA 315 “Identifying and assessing the risk of material misstatements through understanding the entity and its environment”, was originally issued in 2003 after a joint work about audit risk between the IAASB and the US Auditing Standards Board ((IAASB))) (Curtis et al., 2016). After that, the ISA315 went through a series of revisions as part of the CLARITY PROJECT in order to improve the standard and provide guidance on the auditor’s performance. In December 2019, ISA 315 was issued, namely “identifying and assessing the risks of material misstatements”, and is effective for audits of financial statements for periods on or after December 15,2021.

The main objective of the extant standard is to enhance the risk assessment procedures that the auditor relies on when obtaining sufficient and appropriate audit evidence to formulate an audit opinion about the validity of financial statements and design further audit procedures to respond to the assessed risks. The extant ISA 315 deals with the auditor’s responsibility to identify and assess RMMs in the financial statements through an understanding of the entity and its environment, including the entity’s internal controls and risk assessment process (par.11). During that process, ISA 315 requires the auditor for risk assessment to:

- Perform risk assessment procedures and related activities (inquiries from management, analytical procedures, observation and inspections)

- Consider the information obtained during the client acceptance and continuation phase, along with other information obtained from other engagements.

2.3 NAA 330 (ISA 330) the Auditor's Response to Assessed Risks

Under ISA 330, the responsibility of an auditor is to design and implement responses to the assessed risks of material misstatements identified and assessed in accordance with ISA 315. Therefore, the objective of the auditor is to obtain sufficient and appropriate evidence regarding the assessed risk while designing and performing an appropriate response.

It is important to highlight that complying with amendments described in these standards will establish an orientation that audit is risk based (ISA200). These standards help the auditor establish a risk assessment procedure (as defined in ISA 315) that assists in defining which audit procedure is necessary and sets the overall audit strategy (as defined in ISA 300), and moreover, the overall audit response to address the RMMs at the financial statements level. The standard requires the auditor to design and perform further audit procedures (conduct the test of controls and the substantive procedure) whose nature, timing, and extent are based on and responsive to the assessed risk of material misstatements at the assertion level (as defined in ISA 330).

NNAs: Status Quo, Straggle with the reality of application

Overall, the application of NAAs comes with many positive points, mostly building a constructive reference for reporting. The majority of auditors believe that Algeria's trend toward adopting ISAs is a good thing because it establishes a framework for the profession's qualifications, guides the performance of its tasks, and defines rights,

obligations, and responsibilities (Mansouria, 2016, p. 114), as well as corporate governance (Benguetib & Gasmi, 2016; Faiz; Mansouria; & Fatima). However, the new auditing culture based NAAs must be accompanied by CNC thoroughly (Ayadi & Belguet, 2018, p. 544). They stated that, before the final arrangements of including NNAs in regulatory texts and complete final promulgation, a preliminary draft should be distributed, followed by training programs to ascertain a level of assimilation among professionals, for example, (BARAKA et al., 2021) concluded that most Algerian auditors have both less implementation and comprehension of NAA 210, and if applied, it does not conform to the aspired application amended once the standard is issued, especially in small offices because they lack technological and computer means that facilitate the work of the auditor, and quality control structure that serves as an internal verification factor for good practice and standard implementation (242).

Accordingly, empirical evidence provided by (Zineb; & Meriem, 2019) concluded that the affinity of NAA-ISA was only slight, owing to a few reasons that auditors have encountered during their audit engagement: Firstly, compliance with previous regulations made the audit engagement conducted in an automated and more strictly controlled manner, the NAAs (210,300,500,510,650,570,610,700,230,501,530). More or less, these standards are already recognizable in the audit ritual in Algeria, hence, the resemblance is primarily relevant to the audit approach adopted from the law of 91-08. Secondly, the irresponsibility and careless attitude perceived by concerned parties, along with biased indicators from management that are extremely noticeable, were the impediments that unable the auditor form fulfilling the required criteria; in reference to NAA 505 and NAA 540. Thirdly, the authoritative parties (national accountancy board) do not amend the total application of certain NAAsⁱⁱ, the sample of their study stated that the application of NAA 520 is not required in their audit and is only considered a rare case conducted with banks. They emphasized

that their role is only for book-keeping verification, although they find it difficult due to existing deficiencies in IFRS application by accountants, further, the sample reported that the NAA 580 and NAA 620 were only used to a limited extent, because the nature of the auditee is not much complex for an auditor to appoint an expert (159-161).

3. Research question and developing hypothesis

The current syllabus of the IFAC framework is conditional in the consideration of broader aspects, including risks surrounding the environment in which the audit client operates, Alternatively, previous and current regulatory frameworks for audit practice in Algeria ⁱⁱⁱ, have entrenched the mantra of a limited focus on risks (i.e., the absence of reliance on risks affecting the client's business). What's more, these regulations primary concerns are limited to general principles pertaining to neutrality and due diligence in audit conduct. Once the NAAs are fully and completely promulgated, it is inevitable that the local lexicon of audits will be subjugated to new concepts incorporated in the NAAs, where an emphasis will be exerted in considering business risks affecting the auditee (NAA315). One could argue that the delays in issuing risk-based audit standards can be attributed to these two main reasons: Firstly, the current audit environment is not yet ready to embrace the idea of risk because its core standards are mainly rooted in general aspects that auditors must acquire. Secondly; the sufficiency of guidelines on how to conduct an audit based-risk, particularly the incorporation of risk-based ISAs (200/300/315/330/420/500) in the audits of financial statements, the authorities have not published guidelines on how to conduct an audit based on NAAs, unlike the law of 10-01 (although the topic of NAAs has been incorporated into the curriculum). Furthermore, other reasons continue to exist; traditional methods of audit practice (particularly contractual auditing) are still in use subconsciously, for example; the mindset of auditors towards self-regulatory techniques; habits,

resistance to change, non-compliance, etc., just to facilitate their duties outside the framework of the profession.

We developed a hypothesis based on the preceding arguments:

H1: *Many factors influence the R-ISAs reflection in audit engagements conducted by Algerian Auditors (AAs).*

The presumed advantage that can be attributed from this study is the outcomes that underlie behind the investigation into Algerian auditors' perception regarding the R-ISAs, the uncertainty of how Algerian auditors are going to deal with the standards given that the R-ISAs emphasis is the identification and assessment of client-business risks and the responses attributed to these risks during the planning phase of their audit process ,especially (ISA315 and ISA330), meaning, auditors need to incorporate client-business risk assessment in their audit engagement, this could happen if auditors acquire the knowledge and expertise to do it, mostly, acquire the underlined requirements that the risk-based ISAs are requiring in their context, the second hypothesis is that:

H2: *Algerian auditor can assimilate the requirements and objectives underlined in the R-ISAs.*

1. Research design

We interviewed 9 participants (highly experienced auditors, more than 10 years) about their perceptions of ISAs (200/315/330), these standards have not been issued in the Algerian setting, we analyzed the possibility of integrating R-ISAs and the extent to which the audit process is affected, we evaluated any future risk-orientation cues. This study employed a major fact-gathering process consistent with relevant NAAs topics, including the use of ministerial decrees and limited library searches consistent with primary and secondary sources. We have used the ISAs (200/315/330) as a benchmark similar to the issued NAAs to build a memo that outlines the basic structure of the interviews. We expected to make significant contributions, as the answers to the above questions will provide a foundation for defining the auditor's perception when using NAAs, as well as the

extent to which audit practice will be risk-oriented in the future. The interviews included a sample of external auditors (CAC) from small offices operating in Algeria's eastern region; these offices are consistent with one or two licensed auditors and a limited number of audit staff consisting of two to three members based on the reputation and audit market in the office's operating area; the nature of their clients includes wholesalers, retailers, import/export businesses, manufacturing, pharmaceuticals, and others. To the best of our knowledge, we chose semi-structured interviews as an instrument to conduct this study, this seems reasonable to us because the research is primarily qualitative in nature. Another reason is the novelty of the research and the lack of quantitative data provided.

We allowed the participants to be fully free to express their views on the subject matter, we ensured the anonymity of our subjects and personal data were secured, the interviews were transcript according to the occurred discussions, this study was conducted between September and December 2022, the terms of conducting these interviews were extremely laborious; given the time frame that is sequential to year-end proceeding account closures. The average length of the interviews was 40 to 60 minutes, the subject matter of the interviews is depicted in the Appendix.

6. Results

This section provides the findings that the interviews have resulted

6.1 Auditor's knowledge structure and the mental assimilation

6.1.1 Terminology

In this section, our purpose is to assess the cognitive load that corresponding auditors are possessing when we interviewed them (**see appendix**), the Q1; is consistent with whether or whether not auditors show recognition to the terms embodied in the R-ISAs, for example; most of our sample seems to be familiar with both terms of business risks and significant risks, but only to a limited degree, owing to the

definition that business risk is the risk that their clients encounter when operating within a certain environment, a “*cost of doing business*” as one auditors mentioned, while significant risk according to some auditors refers to the gravity of the risks that occurred due to ‘force major’ that clients may face during his operations. As for the term auditing-based risk, 6 auditors stated that they already knew about the term because it is related to international auditing firms, as one auditor mentioned.

“I have read an article about business risk auditing when the government first issued NAAs. I find it similar to the standards that most international auditing firms are complying with, but to be honest, I did not have a sufficient understanding to perform it.”

However, the term seems to be confusing to 3 of them, they show less knowledge about the term, according to one auditor:

“Given my 15 years of experience, this term (business risk) is new to me, I have never heard about it. The only risk I know of is that when financial statements contain technical errors that occurred because of accounting principles, or by persons.”

Q2 addresses the auditors' ability to correlate influences within the external environment to the extent that they affect the financial statements. In this line, although most of our sample showed recognition of business risk (as shown in Q1), only a limited number (N = 4) of them were able to relate the effects of the external environment to the financial statements, as reported by one of the auditors:

“Take, for example, one of my clients who is currently in manufacturing, we may face a lot of business risks inherent in the

environment in which he operates. My clients have less appetite for risk, and they don't have risk management in their organizational chart, in addition to weak control. In fact, they know about the risks, but sometimes, they choose to ignore it, so that it finally has an impact on their finances, let's say. Risks may come from technology, new regulatory regimes, taxes, and global effects. I think that the impact is already happened, I mean, technology obsolete may cause inventory problems, but this has already happened, we cannot control that. and mostly we cannot document the effect, we do not have the tools to do that."

6.1.2 Requirements, Objectives, and Scope

Overall, conducting an audit established in R-ISAs is challenging, especially in the context of Algeria, where the requirements embodied in NAA 200/315/330 may establish a different perspectives than Algerian auditors had before, according to R-ISAs, auditors in their pursuit to obtain reasonable assurance about the validity of financial statements as a whole, and provide the basis to issue an audit opinion regarding the reporting framework and conditions in which those financial statements have been prepared, Algerian auditor find themselves complying to requirements sets in NAA 200 to establish the framework that the audit engagement must adhere to, and a developing understanding about the CBS to be able to assess the RMMs according to NAA 315, then, tailor the audit response according to amendments established in NAA 330. Responding auditors, when asked about the extent to which they understand the process to establish a more rigorous risk-based audit, the results were attributed as follow:

The level of understandability among the respondent auditors differs between the subjects of our sample, many auditors express their total agreement to the requirements established in NAA 200, they described that the criteria in this standard are more extensive than the regulations in Law 10/01 because they lack a vision of risks, and more detailed when describing objectives, requirements, scope, and other explanatory materials. Respondents have demonstrated recognition of amendments established in NAA 315 criteria, as one auditor said, *“I know that I’m required to understand my client’s strategy, goals, and any deviation that may have an impact on the achievement of those goals, but, I did not understand why this is related to RMMs, also, it is different than applying it.”*

However, most of the auditors have expressed their concerns regarding the proper application of the NAA 315. Given their best response to be related to the absence of the risk culture that their clients have, one participant stated that: *“Even when our clients set their strategies to accomplish their linear goals, they know about the risk that may encounter their execution of strategies. Also, most of our clients are family businesses or small businesses (PME), where internal control and risk management merely exist; it does not matter to them because they only worry about government regulations and taxation.”*

NAA 330 establishes the criteria for audit responses in accordance with the assessed risk, therefore, the response patently suggests that most auditors are directly applying substantive procedures extensively; they stated that the limited reliance on internal controls, the status of corporate governance, and the style in which management operates are the main reasons for that (Q3 also provides evidence that corroborates the finding in this matter).

In sum, it is apparent that the knowledge structure that respondent auditors acquire with regard to understanding the terms in the R-ISAs show partial agreement with the business risks faced by their clients' businesses, whether they are experience-based or background-based. However, it has been proven that linking the

effects of business risks to the financial statements was weak, and perhaps the absence of a risk culture among the respondents controls this result.

6.2 The perceptions of senior auditors regarding the R-ISAs

The Q5 explains the views of respondent auditors regarding the ISAs (200/315/330). Three auditors express their concerns regarding the NAA 315, claiming that the criteria may seem premature in Algeria. Others feel that it needs further guidance and more technical training from specialized parties. The general trend of the answers is mainly focusing on the "need for further explanation". According to one auditor, *"I'm afraid that the rest of the ISAs may face a lot of obstacles, The implementation of these ISAs may be questionable, especially those related to risks, and I believe that when the authorities indented to release a standard, adequate guidance and training programs, courses, and meetings must be held in order to get a proper understanding"*. Furthermore, respondent when asked about the delays to issue the R-ISAs and other standards, they attributed their answers to the following arguments:

- Sufficient understanding (savoir-faire)
- Prolonged legislative process
- Accounting and auditing standards are governed by a political system.
- Economic factors related to economy fabric and structure
- Lack of coordination between national and international auditing standards (problems related who is going to provide the training about the ISAs).

In the case of new foreign clients, the respondent stated that they rarely accept foreign clients, because they demand high audit quality that takes risk assessment into account, or they may be looking for consultations about doing business locally. In extreme cases, few responses indicate that auditors would recommend specialized offices, mostly international firms, arguing that this may outweigh their

jurisdiction, in contrast to others, they claimed that “I would accept that client if it is not too risky and honest to a certain degree according to my opinion, I would exert stringent audit procedures, it may be exhausting but that must not come free”, arguably, these cases are considered to be rare given Algeria's economic fabric, and if they exist, auditors with a high reputation and polyvalent services (techno-economique) are the ones targeted in this matter.

Q9 explains the possible drivers that may influence the auditors to rely on R-ISAs in their audit process. Most of the answers indicate that R-ISA is governed by the factors of “level of assurance” demanded from both clients and regulations, however, respondents think that the factor of “competitive advantage” that auditors provide is irrelevant to the auditing practice in Algeria, because the audit market is mostly built on connections and personal relations that auditors have. Another reason is that auditors may exert low audit fees to expand the client-portfolio.

In short, conducting an audit based-risk may be driven by the changes in standards, and the power of endorsement executed by authoritative guidance, rather than the fear of litigation risk that clients may exert due to an injury or loss occurred because of their auditors. As depicted in the following table:

Table1: Initial evaluation of respondent about R-ISA usage

Can you please indicate your agreement or disagreement with the following statements:	agree	disagree	neutral
I believe conducting an audit based on R-ISAs will help to decrease litigation risk.	2/9	3/9	4/9
Relying on R-ISAs may change my perspective on business risk affecting my clients.	4/9	3/9	2/9
understanding my client’s business is the foundation for me to be able to identify RMMs in the financial statements.	1/9	2/9	6/9
I found that R-ISAs are applicable in our local environment.	1/9	5/9	3/9

Source: developed by authors.

Three auditors reported that they do not think that R-ISAs help to decrease litigation risk, others have demonstrated a neutral opinion, however, four of them show agreement that R-ISAs may change the current perspective regarding the business risks that their clients have, probably the way in which the business risks are affecting the financial statements, as indicated by the statement 3 “Relying on understanding my client’s business is the foundation for me to be able to identify RMMs in the financial statements” where most of the respondents provide their answers under the square of “neutral”. It appears that the level of applicability of R-ISAs in the current auditing environment may be viewed by the respondent as uncharacteristic and questionable, as the majority of respondents express their opinion with the phrase “disagree”, perhaps the reason behind this is the delay in issuing such standards , or because of the level of comprehension of the auditor respondents, these results must be taken into account with the fact that the instrument used in this study was developed based on a hypothetical memorandum that used actual ISAs as a benchmark, therefore, participants were limited to provide their opinions in relation to R-ISAs, whereas actual participation is outside the scope of this study where open theories might be tested differently.

7. Conclusion

It is generally agreed that the current status of audit practice in Algeria is witnessing dramatic shifting, whether it is a dynamic repair, or open suggestions for changing perspectives, especially toward a risk-based approach, the affiliation with IFAC may subjugate the audit environment to a new setting. This study aimed to investigate the possibility of risk-based audit standards embodied in ISAs/NAAs 200/315/330) referred as R-ISAs to be reflected in audit process. Based on the results and quotations stated by corresponding auditors, the possibility of R-ISAs being reflected in audit engagement locally is absolute, however, changing perspectives toward a risk based-audit may not seem as promised as in the standards, Although, auditors may show recognition to new terms within the ISAs, and acquire a certain

level of mental assimilation regarding the R-ISA (200/315/330), this may seem insufficient given the absence of training and technical practice, We might say it is because the lack the framework to do that, as supported by (BOUBIR, 2016, p. 23) that ISA 200 should be published before all norms. However, even if R-ISAs were issued, complying with their criteria rigorously is questionable, and auditors may encounter difficulties, especially in the application of NAA 315. As this study advocated, the consideration of business risk in the auditing process locally is a new concept, not to mention the documentation of those business risks in the audit process. The results distilled from this argument are that the local lexicon of practicing audit is far from changing audit methodologies toward a risk-based, the existing factors controlling such change may be attributed to the process of ISA promulgations and the process to endorse the establishment of quality control (ISQC/ISQM, or equivalent regulations in the local dimension).

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9. Appendices

We posed the following questions to all of our interviewees in order to capture their perceptions regarding the subject matter that constitutes the core of our study, therefore, these questions were attributed to:

- Q1: To what extent do you demonstrate recognition for the following keywords? Business risk, significant risk, auditing based risk
- Q2: Do you think that the external environment where your clients are operating has the capacity to influence the annual financial outputs, for example, the income statement? (Objective is to assess whether AAs are capable to link RB to RMMs.)
- Q3: There are three audit tests: risk assessment procedures, test of controls, and substantive procedures (test of details, and substantive analytical procedures), which do you rely most?

- Q4: Can you please indicate your agreement or disagreement with the following statements:
 - I believe conducting an audit based on R-ISAs will help to decrease litigation risk.
 - Relying on R-ISAs change my perspective on the business risks affecting my clients.
 - Relying on R-ISAs helped me document the potential risk that may impair the FS of my client.
 - Understanding my client business is the foundation for me to be able to identify RMMs in the FS.
 - I found that R-ISAs are applicable in our local environment, if not, why?
 - I believe that relying on R-ISAs will add a burden to my audit work.

- Q5: I find complying with the requirements of R-ISAs much:
 - complex to understand
 - Easy to understand
 - In need of further explanation
 - Technical difficulties pertaining to the application

- Q6: In your opinion, what is a possible obstacle that may hinder the proper application of such standards?

- Q7: In the case of a new client that wants me to conduct a risk-based audit, I would:
 - accept to conduct an audit
 - Refuse to conduct and audit
 - I would recommend other offices to do so.

- Q8: Do you consider the adoption of R-ISAs a sign for the transformation of audit methodology from the current context to a risk-based context.

- Q9: what are the drivers are factors that might influence the auditors to use the R-ISA? for example: the assurance demand from clients, and regulatory authorities, secondly: the

competitive advantage that the auditors provide to capture more clients.

ⁱ The IFAC framework is mainly composed of the following constituents: Statements of Membership Obligations (SMOS); the code of ethics for professional accountants; International Education Standards (IES); International Quality Control (IQCs); International Public Sector Standards (IPSAS); International Standards on Review Engagement (ISRE); International Standards on Assurance Engagements (ISAE); International Standards on Related Services (ISRS); International Standards on Auditing (ISAs).

ⁱⁱ The absence of amending endorsements (ISQC and ISAQM)

ⁱⁱⁱ The law N°91-08 of April, 27, 1991, pertaining to the profession of accountants statutory auditors, and chartered accountants and the law of 10-01.