



RESEARCH ARTICLE

Analyzing the Attitude of Iranian Auditing Experts toward the Business Risk Audit Efficiency for Stakeholders

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Abstract

In evaluating a business based on the business risk audit (BRA) approach, auditors should define and perceive strategic management control techniques and operating processes. They should also select risk control processes in vital operating processes to estimate the type and magnitude of residual business risks that might affect the accuracy and fairness of financial statements. Given the international re-emergence of BRA concepts in recent years, this approach is considered an essential innovation in the auditing methodology. This study aims to analyze the attitude of Iranian auditing experts toward the BRA efficiency for stakeholders. For this purpose, a researcher-made questionnaire was designed in three dimensions: normative legitimacy of BRA, pragmatic legitimacy of BRA, and cognitive legitimacy of BRA (per dimensions of the legitimacy theory proposed by Greenwood, Suddaby & Hinings, 2002). The questionnaire was then distributed to a research sample including the Partners, Audit Org., and IACPA obtained at the end of 2021; the research results indicated that the BRA approach had normative legitimacy ($m= 3.61$), pragmatic legitimacy ($m= 3.78$), and cognitive legitimacy ($m= 3.29$) in Iran for the opinions of experts and statistical findings. Given the flaws and shortcomings of Iran's current auditing framework, integrating the BRA approach into the current framework will be promising. At the same time, this approach can prevent over-auditing due to its proven inherent value. It can also be considered a naturally correct method of auditing.

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1. Introduction

Audit methods have experienced many developments in the auditing profession in recent decades. The first generation of audit methods focused mainly on analysing financial statements and records for auditing, whereas the second generation was called the analytic or systemic approach. The third generation started with the audit risk approach, whereas the fourth generation is called the business risk audit (BRA) approach (Al-Qudah, 2021). As Al-Qudah pointed out the business risk assessment in auditing, auditors and clients need to consider the business risk, which monitoring institutions and standardizes have always addressed. In the latest report published by the European Confederation of Institute of Internal Auditors (ECIIA) (2020) called *Focus on Risk*, attention to business risk was put at the top of the agenda for auditing.

The emergence of BRA has resulted in a noteworthy innovation in audit methods (Van Buuren et al., 2018). From a conceptual perspective, this approach pays great attention to a wide range of business risks and gives a more comprehensive perception of clients in a structured method. In this approach, auditing is performed through a “top-down approach” method while evaluating the auditee's business risk (ABR). Compared with conventional audit approaches that focus an auditor's efforts on minimal or partial assessments of the risk of material misstatements, the BRA leads an auditor to concentrate on the comprehensive correlation evaluation. It can increase the probability of implementing effective and efficient auditing. Increasing an auditor's knowledge of the existing risks at an institutional level, this approach can facilitate further attention to the risk of material misstatement in a client's financial statements, and the disclosed relevant information. The increased knowledge can improve an auditor's assessment of the business risk caused by client communication and prevent over-auditing (De Martinis & Houghton, 2019). It can be stated that each of the Big Four audit firms (Big4) has based the diversity of their services on the abovementioned approach, which can be described as the process of conducting an institutional test in which the initiatives examine, explore, and expand the boundaries of this area (Malsch & Gendron, 2013). Although some elements of the BRA have been included in the audit standards, others have not been institutionalized yet (Van Buuren, 2014; Curtis, Humphrey and Turley, 2016). Since the BRA pays a great deal of attention to a complete set of the ABR, the audit standards require a more limited approach and attention to business risks of financial statements that probably lead to misstatements. Greenwood, Suddaby & Hinings (2002) emphasised the critical role of legitimacy and the successful change in their comprehensive model that addresses the process of changing a conventional approach into a novel one. Legitimacy is defined as a generalized perception or assumption based on the fact that the internal states of some systems of norms, values, beliefs, and social concepts are favorable, appropriate, or correct (Suchman, 1995). Within the process of this change, legitimacy necessitates identifying the reasons that justify the need for change; therefore, the proposed changes are accepted as an appropriate method of improving performance. Suchman (1995) distinguished three different forms of legitimacy: a) moral legitimacy for normative approval, b) pragmatic legitimacy (inherent value), and c) cognitive legitimacy based on perceptibility and taken-for-grantees. In these change conditions, if an innovation (approach) is consistent with the existing normative frameworks and is evaluated appropriately, it will have normative legitimacy. If a user is convinced about these changes' pragmatic and inherent values, that approach will have pragmatic legitimacy. Finally, cognitive legitimacy will be achieved if the user considers it the natural way of doing tasks (Greenwood, Suddaby & Hinings, 2002). According to Greenwood, Suddaby & Hinings (2002), legitimacy should be formed within the organizational field, defined as “a series of organizations which all form the institutional life” (DiMaggio & Powell, 1991). The organizational field of auditing in Iran can be considered audit institutes, professional associations, and monitoring institutions. This study analyzes

the attitudes of partners of Iranian audit institutions toward the efficiency and legitimacy of the BRA approach. This analysis is an essential part of the organizational field of auditing. Since legitimacy plays a vital role in the institutionalization of changes from the conventional audit approach into the novel approach, it is essential to analyze the experiences of partners of audit institutions. According to [Durocher and Gendron \(2014\)](#), achieving legitimacy for using an approach would lead to cognitive unity in the organizational auditing field. The formulators of standards are always concerned with developing a common audit procedure and are not willing to change the standards that are either hard to implement or are unfeasible on smaller scales ([Curtis, Humphrey and Turley, 2016](#)). The institutional change theory by [Greenwood, Suddaby & Hinings \(2002\)](#) proposes an efficient framework for evaluating the transformation process into BRA. For this purpose, theorizing is first implemented, which was pointed out by [Van Buuren et al. \(2018\)](#). Theorizing is the method of determining a problem and the novel concept of its solution. In other words, theorizing is the justification of a new concept to coordinate this concept within the existing framework and achieve normative approval (*i.e.*, normative legitimacy). If theorizing is successful, the user will observe the pragmatic value of the above approach (*i.e.*, pragmatic legitimacy). Finally, the re-institutionalisation step will accept a novel approach and concept. The new concept is accepted as the normal way of doing tasks (*i.e.*, cognitive legitimacy). Hence, three types of legitimacy should be accepted to analyze the BRA efficiency.

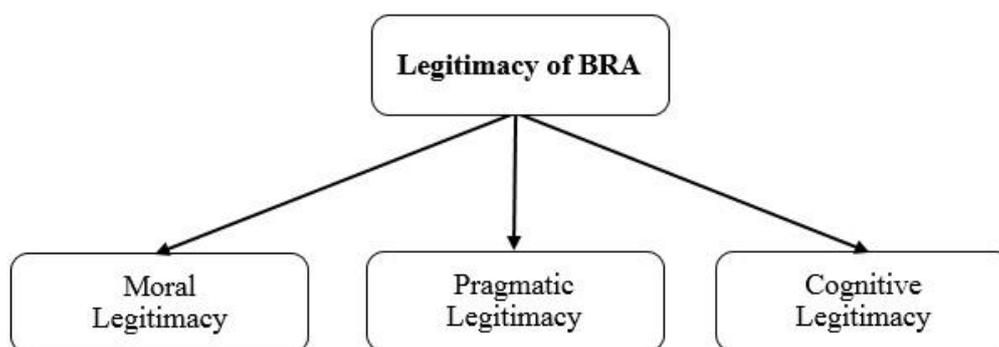


Figure 1. Explaining different types of legitimacy for BRA

The model proposed by [Greenwood, Suddaby & Hinings \(2002\)](#) emphasizes the role of a type of legitimacy achieved through innovation in an organizational field (*e.g.*, auditing) and its extensive acceptance. Some of the previous studies on auditing addressed the BRA innovation in countries such as Australia, Germany, the Netherlands, and the US. However, the efficiency and legitimacy of this approach have not yet been analyzed in Iran. Therefore, this study focuses on the attitudes and reactions shown by the partners of audit firms and standardizer institutions in Iran to the BRA approach.

This study collected the data through questionnaires and face-to-face interviews to analyze all aspects of the BRA approach and participants' experiences. The international professional institutions and the International Auditing Standard Boards have formulated appropriate standards such as ISA 315. However, most of these standards do not propose specific methods for auditing, although their contents facilitate the flexible (relative) acceptance of BRA. The research sample of this study included the partners of the reliable audit institutions of the Tehran Stock Exchange (Partner), some members of the Standards Formulation Committee at Iran's Audit Organization (Audit Org.), and the members of specialized working groups at Iranian Association of Certified Public Accountants

(IACPA). The research sample consisted of these three groups to obtain diverse experiences per what [Patton \(2015\)](#) pointed out about the effective assessment methods. This study analyzes the legitimacy and efficiency of the BRA approach for audit institutions and clients by deepening the knowledge and attitudes of audit partners, monitoring institutions, and standardizers of audit in Iran. Such studies can help academic and professional research bodies with innovation. They can also help better perceive changing approaches to a profession such as auditing.

According to the initial analyses of auditing experts' opinions, the evaluation of the ABR is essential for stakeholders (*i.e.*, not only for auditors in the audit process but also for auditees in the risk management of companies). Therefore, it is necessary to identify a method of auditing that can perform this process in the best way. They believe the BRA is a thoughtful auditing method that can implement this evaluation in Iran. Thoughtful auditing means that an auditee's business environment is evaluated thoroughly based on the dimensions of external business risk and internal business risk. In this case, the auditing workload decreases, and auditors will be efficient. In addition, the BRA can differentiate auditees with high business risk from those with low business risk, which will be very effective in the initial audit planning and allocation of audit resources. According to Iranian auditing experts' opinions, most Iranian public companies do not report their material business risks. Even if they do, their reports are limited to identifying and introducing these risks, not their evaluation. Therefore, introducing and conducting the BRA and evaluating business risks in the auditing process can benefit auditees (in identifying bottlenecks and fraud risks). However, Iranian auditing experts believe that different industries face different business risks in Iran; thus, Iranian auditors should have sufficient knowledge of the industries they are auditing. In addition, an independent auditor's business risk evaluation would require specific infrastructure that auditees should provide for independent auditors.

The rest of this paper consists of four sections. Section (2) reviews the BRA and its background and introduces the research questions. Section (3) discusses the research method. The results and findings are then presented. Finally, a research conclusion is drawn.

2. Theoretical Foundations and Research Background

The BRA approach has always been important to the research society (E.g., [Abdullatif & Al-Khadash, 2010](#); [Fukukawa & Mock, 2011](#); [Van Buuren *et al.*, 2014](#); [Curtis, Humphrey and Turley, 2016](#); [Wright, 2016](#)). Nevertheless, this approach has always had critics and doubters, especially in the small-to-medium-sectors of the accounting industry, due to its value-added ([Curtis, Humphrey and Turley, 2016](#)). This approach emphasizes the necessity of closer attention to business risks and their deeper integration into all auditing steps. The novel approach aims to enable the audit partners and their teams to gain a more comprehensive perception of the strategic risks of their clients. [De Martinis and Houghton \(2019\)](#) introduced the ABR as a factor consisting of five items evaluated by auditors (Figure 2).

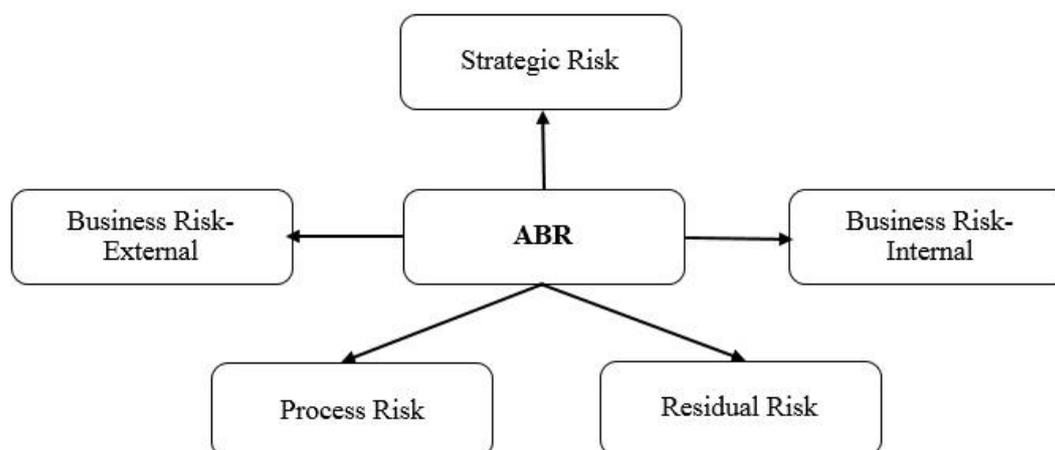


Figure 2. The dimensions of ABR evaluated by auditors (Adapted from [De Martinis & Houghton, 2019](#))

Where:

Business risk-external assesses the risk that the entity's business objectives will not be attained due to the external (i.e., local and global), including social, political, and economic pressures and/or forces. Business risk-internal assesses the risk that the entity's business objectives will not be attained due to internal factors (i.e., organizational) pressures and/or forces. Strategic risk, which assesses the level of strategic risk, is defined as the risk that the entity's strategy and strategic management process will not achieve statutory obligations.

Process risk assesses the risk that the entity's key business processes are not fulfilling their objectives.

And,

Residual risk assesses the risk that the entity has not considered all significant business risks or the extent to which strategic and process risks remain uncontrolled.

A comprehensive client perception helps auditors improve risk assessment and interpretation of evidence obtained from the main tests. The Big4 claim that the novel auditing method (based on the business risk) must be employed to pay close attention to the dynamism and increased complexities of different business industries and environments; therefore, the BRA was developed to improve the quality of auditing ([Van Buuren et al., 2018](#)).

The importance of the BRA approach in audit planning and its relationship with the nature of necessary evidence and other approaches were explained by [Van Buuren et al. \(2014 & 2018\)](#) in the following four aspects:

The BRA is the head of all approaches. It means the extensive use of the business risk assessment to collect audit evidence, including evaluating the business model risks and key business processes.

The BRMM refers to the Business Risks that result in the risk of Material Misstatements. This approach includes the average and normal use of the business risk assessment to collect audit evidence by focusing on the key business processes. The primarily systems based approach focuses on the internal control systems as an essential part of the audit evidence through the limited use of the business risk assessment. The primarily substantive based approach focuses on the main tests as the major part of the process of audit evidence through the limited use of the business risk assessment.

The BRA approach is partially included in audit standards such as ISA 315 (2019), which emphasizes that “an auditor should perceive the goals and strategies of a business”. This and other relevant standards explain the necessary boundaries for paying attention to business risks. Accordingly, “an auditor has no responsibility for identifying or evaluating all business risks”; however, the only responsibility of an auditor is “to identify and evaluate the risks that lead to financial material misstatements”. In addition, the above standards indicate that “the business risk is more extensive than the risk of material misstatement” and that “all business risks do not lead to the risk of material misstatement”. This short version of the BRA presented in “International Standards for Auditing” is what [Van Buuren et al. \(2014 & 2018\)](#) called the BRMM.

Table (1) presents an overview of the previous studies on BRA and their results. The research questions are then developed.

Table 1. Some of the previous studies on the BRA

Title	Authors	Case Study	Major Results
The Impact of Business Risk-Based Audit Approach on Reducing Unsystematic Risks: Evidence from Jordanian Banks	Al-Qudah (2021)	25 banks in Jordan	Al-Qudah stated that the BRA approach could mitigate nonsystematic risks' effects and improve banking performance. The BRA approach is considered with three components: external environment risk, operation risk, and information risk. The concept of nonsystematic risk is considered with operational, credit, liquidity, capital, and office risks. According to the results, the BRA approach and its hybrid dimensions significantly affected the mitigation of nonsystematic risks in the banks of Jordan. They believed that the re-emergence of the BRA approach would result in the further fixation of its position in the contemporary procedure and method of auditing. Most probably, the BRA approach will survive the next shock to the auditing industry (if any) and will again lead to certain discussions on the part of its supporters. According to their results, the BRA approach can improve auditing quality efficiently and effectively. Moreover, the audit proceedings are efficient when they have higher levels of “audit technology”, <i>i.e.</i> , there are longer activity hours of risk perception, further judgmental plans, and more auditors with above 10 years of work record.
The Business Risk Audit Approach and Audit Production Efficiency	De Martinis & Houghton (2019)	60 clients in Australia	They did not address the BRA directly but reported a significant relationship between audit fees and financial and operational risks. However, there was no evidence of a significant relationship between business risk and audit fees.
The Effect of Risk Dimensions on Audit Pricing	Azinfar et al. (2019)	85 companies listed on the Tehran Stock Exchange	It is important to know that auditing contracts or fees analyze a few studies on audit production efficiency. The authors stated that an advantage of analyzing the contracts of only one audit institution was the possibility of considering the auditor’s unmeasured characteristics, such as technology and auditing style affecting the audit
Technical Inefficiency, Allocative Inefficiency and Audit Pricing	Chang et al. (2018)	165 clients audited by the Big4	

Title	Authors	Case Study	Major Results
Standards of Innovation in Auditing	Curtis, Humphrey and Turley (2016)		production. They believed that the globally vital role of audit institutions increased the importance of perceiving efficiency in this industry along with the shortage of skilled workers and the downward pressure on costs. They stated that the concept of the BRA gained a new concept. Technological developments and the extensive domains of financial reporting, such as integrated reporting and the necessity of considering business sustainability, made the BRA approach popular. Moreover, the studies of behavioral auditing indicated evidence that the BRA would improve the efficiency of audit judgments.
Integrating Business Risk into Auditor Judgment about the Risk of Material Misstatement: The Influence of a Strategic-Systems-Audit Approach	Schultz <i>et al.</i> (2010)	44 auditors in auditing institutions in the US and 49 auditors in other institutions	They proposed the evidence that the BRA approach could increase an auditor's attention to business risks, for it is more probable that business risk is directly considered in planning to judge the risk of material misstatement.

2.1. Research Questions

Theorizing plays a significant role in developing innovation or a novel approach. Theorizing means pointing out particular failures or problems/shortcomings in the existing versions and visualizing the new concept as the solution (Tolbert & Zucker, 1996). The framework proposed by Greenwood, Suddaby & Hinings (2002) emphasizes the role of theorizing in achieving change. This conceptual framework helps facilitate the normative acceptance of changes (*i.e.*, normative legitimacy) to support the novel ideas within the framework of the existing solutions (Suchman, 1995; Tolbert & Zucker, 1996). A significant reference for the evaluation of theorizing in the Big4 auditing institutions would be their published monographs (*e.g.*, KPMG, Bell *et al.*, 1997; Bell *et al.*, 2005). Bell *et al.* (2005) stated that innovations in information technology would change the business atmosphere and make it more efficient and effective, reducing the use of the (conventional) methodology.

Nevertheless, previous studies indicate that auditors have difficulty developing novel approaches even in the Big4 auditing companies (Van Buuren *et al.*, 2018). The emergence of the BRA can be considered an attempt to legitimize the development of auditing. This change will have certain outcomes for constructing and reconstructing socioeconomic and political relationships in auditing.

We are interested in realizing what changes the auditors have determined in response to some shortcomings of the current auditing method in Iran (the conventional method in many countries) and how promising they consider integrating the BRA approach into the current auditing methods. These concepts were used to develop the first research questions regarding the normative legitimacy and change toward the BRA.

At the same time, the big auditing institutions developed the BRA as a useful method for improving auditing quality (De Martinis & Houghton, 2019). The business risks were analyzed extensively under this novel approach to propose a more comprehensive view helping both auditing effectiveness (identification of errors) and auditing efficiency (reduction of main tests and prevention of over-auditing). If the stakeholders accept that the novel approach is useful (pragmatic legitimacy), new concepts will be disseminated more extensively.

In addition, improving the inter-professional level of auditors in the audit community may help the pragmatic legitimacy of new risk standards. In other words, the auditors wish to communicate with the big auditing companies through auditing methods at the small-to-medium audit institutions and adapt to the international standards on auditing (ISA) to identify themselves as high-quality auditors (Samsonova & Tadi, 2013).

Nevertheless, implementing the BRA would be challenging due to the diversity of industries and businesses. Even the Big4 auditors sometimes use the BRA only as “additive methods” because auditors might not be willing to reduce the conventional auditing methods. This behavior leads to “over-auditing” which indicates auditing inefficiency. Moreover, an auditor’s request to become aware of a company’s strategic plans is different from the batched observation of statements. Thus, convincing the stakeholders, especially the clients, about the usefulness of the BRA is a new challenge necessitating establishing appropriate relationships between clients and stakeholders.

As discussed earlier, the BRA approach was included partially in auditing standards, *e.g.*, AS 5, ASA 315, ISA 315, and ISA 330. This dissemination and penetration of business risk views in the auditing performance and procedure through professional standards would indicate that the novel approach has gained the minimum degrees of pragmatic legitimacy in auditing organizations. Furthermore, the penetration and dissemination of this view can help pragmatic legitimacy. If innovations are more structured and objectified, their perceived values can improve through the effect of pragmatic legitimacy and further dissemination (Tolbert & Zucker, 1996; Greenwood, Suddaby & Hinings, 2002).

Hence, we are interested in knowing whether Iranian auditors accept the shortcomings of the current auditing methods and start seeing the value of evaluating business risks in audit proceedings. These concepts were used to develop the second research question regarding pragmatic legitimacy and the inherent value of the BRA.

Finally, auditors must avoid the classic approach and believe that the novel concept is the natural auditing method. Hence, the institutionalization and comprehensive but sustainable adoption of the new concept will necessitate changing the mindset. Moving toward the BRA requires a change in paradigms. This study analyzes how Iranian auditors consider the BRA from the legitimacy perspective. As the BRA is partially included in auditing standards, the question is whether some auditors have started to perceive the BRA approach due to having a high level of cognitive legitimacy. In particular, we are initially interested to know how much the auditors have changed their mindsets to move towards the BRA. Regarding those auditors who have used the main elements of the BRA in their proceedings or know its concepts completely, we then analyze whether they now consider the BRA a natural and normal method of auditing. These concepts were considered to develop the third research question regarding the cognitive legitimacy and acceptance of the BRA as a natural auditing method. Hence, the research questions are presented below:

RQ1. Does the BRA approach have normative legitimacy in Iran?

RQ2. Does the BRA approach have pragmatic legitimacy (inherent value) in Iran?

RQ3. Does the BRA approach have cognitive legitimacy in Iran? Can it be considered a natural method of auditing?

3. Research Methodology

This is a fundamental exploratory survey in which a qualitative approach was employed to provide a basis for the statistical sample. Qualitative studies help researchers enter the specialized worlds of participants and indicate their opinions and experiences regarding specific subjects (Power & Gendron, 2015). A researcher-made questionnaire was used for data collection. For this purpose, the research literature on the BRA was reviewed accurately in addition to using the dimensions of the legitimacy theory (Greenwood, Suddaby & Hinings, 2002) and considering the environmental conditions of Iran. First, a 20-item questionnaire was designed with the Likert scale in three sections (*i.e.*, normative legitimacy of the BRA, pragmatic legitimacy of the BRA, and cognitive legitimacy of the BRA). The questionnaire was distributed to two Partners, two members of audit Org., and two faculty members specializing in auditing research. After discussion, one item was deleted, and the texts of the two items were changed. Finally, a 19-item questionnaire was approved for distribution among the final research sample.

The content validity was used to evaluate the validity of the questionnaire. It refers to a kind of validity employed to analyze the constituents of a measurement instrument. The content validity of a measurement instrument depends on its constituent items. The test has content validity if the questionnaire items represent the special features and skills the researcher intends to measure. Moreover, the content validity of a test is usually determined by experts. As discussed earlier, the questionnaire items were designed through the exchange of thoughts between executive experts and standardizers, who then approved the questionnaire. Therefore, it has the necessary validity. It should also be stated that the questionnaire was distributed among eight experts who filled it out to evaluate reliability and validity. Table (2) reports the reliability analysis results through Cronbach's alpha. Since this coefficient is above 0.7, all three sections of the questionnaire and the entire questionnaire meet the adequate reliability requirement to evaluate the research subject.

Table 2. Results of Cronbach's alpha

Questionnaire	No. of Questions	Cronbach's Alpha
The moral legitimacy of BRA	5	0.745
Pragmatic legitimacy of BRA	9	0.719
Cognitive legitimacy of BRA	5	0.828
All	19	0.706

The statistical population included Partners. As mentioned earlier, Audit Org. and IACPA were also considered the standardizer institutions for effective evaluation (Patton, 2015). The statistical sample was selected for the following conditions to acquire appropriate, accurate, and effective information:

1- They should have at least 10 years of executive experience in auditing.

2- They should be selected from Partners, Audit Org, and IACPA.

3- They should be scientifically and executively experts.

After meeting the above conditions, they should be completely acquainted with implementing the BRA and the specialized concepts in an initial interview between the researcher and experts.

After the above conditions were applied, a few eligible participants were identified. The researcher then started distributing the questionnaire. Moreover, the questionnaires were completed in person, and the interviews were conducted face-to-face from June to December 2021. At the end of each questionnaire, every expert was asked about the next expert to fill out the questionnaire by describing the above conditions. Eventually, 31 experts were determined for the demographics in Table (3). They completed the questionnaire.

Table 3. Demographics of the statistical sample

Row	Country	Audit Exp. {year}	Rank	Education	Gender
1	IR	Over 20	Partner	PhD	Male
2	IR	16	Partner	PhD	Male
3	IR	18	Audit Org.	PhD	Female
4	IR	Over 20	Partner	MA	Male
5	IR	Over 20	Partner	BA	Male
6	IR	20	Partner	MA	Male
7	IR	18	IACPA	PhD	Male
8	IR	16	Partner	PhD	Male
9	IR	Over 20	Partner	BA	Male
10	IR	Over 20	Partner	BA	Male
11	IR	Over 20	Partner	MA	Male
12	IR	15	Audit Org.	PhD	Female
13	IR	Over 20	Partner	MA	Male
14	IR	19	Partner	PhD	Male
15	IR	11	Partner	MA	Male
16	IR	15	Partner	MA	Male
17	IR	11	Partner	PhD	Male
18	IR	14	Partner	BA	Male
19	IR	15	Partner	MA	Male
20	IR	14	Partner	MA	Male
21	IR	Over 20	IACPA	BA	Male
22	IR	11	Partner	PhD	Male
23	IR	Over 20	Partner	PhD	Male
24	IR	Over 20	Partner	PhD	Male
25	IR	11	Partner	PhD	Male
26	IR	20	Partner	PhD	Male
27	IR	12	Partner	PhD	Male
28	IR	Over 20	Partner	PhD	Male
29	IR	Over 20	Partner	PhD	Male
30	IR	Over 20	IACPA	MA	Male
31	IR	Over 20	Partner	MA	Male

According to Table (3), the statistical sample included 26 Partners, three members of IACPA, and two members of audit Org. Furthermore, 16 participants had PhDs, whereas ten and five had MA and BA degrees, respectively. Regarding work experience, the highest frequency was about 14

participants with more than 20 years of record. According to the analysis results in Iran, all participants were Iranian.

4. Results

This section analyzes the research results. Due to the use of an exploratory approach and the presence of research questions, it is merely necessary to compare means and interpret experts' responses to analyse questions. For this purpose, a mean of 3 will be considered the ineffective index and used as the criterion for analyzing the research questions due to the spectrum of items and three sections of the questionnaire design on a five-point Likert scale. The Friedman test will then be employed to rank each factor. Moreover, the research findings were provided to three experts (one Partner, one member of audit Org., and one member of IACPA) for revision and confirmation.

5.1. Analyzing the First Research Questions

The first research question asks whether the BRA approach has normative legitimacy in Iran. Table (4) reports the descriptive findings on this question.

Table 4. Results of normative legitimacy of the BRA

Dimension	Min	Max	Mean	SD
The moral legitimacy of BRA	2.600	4.800	3.610	0.624

The mean of 3.61 was obtained from 31 questionnaires for the normative legitimacy of the BRA. It is greater than the mean of 3; therefore, it indicates that the experts gave positive answers to the first question. In other words, using the BRA approach for auditing has normative legitimacy in Iran. According to the results of the first question, the following essential details were provided directly by the experts. Like what was mentioned in the theoretical foundations for designing this question, theorizing (shortcomings and flaws of the current auditing approach) is essential and was discussed by many experts in the research sample. For instance, one expert stated, "From a conceptual standpoint, assume that the current auditing approach remains active. In this case, if you lack sufficient concentration, there is still the risk of losing important details in auditing." Another expert stated, "When you have to finalize your auditing commitments and reporting until October 22 (30 Mehr in the Persian calendar) while you still have 50 auditing commitments, the current approach, which requires a great deal of time on each audit, will not work. This is where the novel approach can be effective".

Regarding the current approach, the above experts mentioned the problems of effectiveness (the first quote) and efficiency (the second quote). Although these quotes do not indicate whether a full-scale BRA plan is required to solve the abovementioned problems, they refer to some shortcomings and flaws of the current approach. However, other factors apart from the comprehensive assessment of the client business risk by auditors can be considered in Iran (the client–auditor relationship) about the efficiency problem. These factors can delay reporting the audited financial statements or lead to

the duplication of audits (several clients) by an independent auditor in the short remaining time. These factors include the untimely delivery of clients' unaudited final financial statements or the multifold moderation and registration of some unregistered events after the financial statements are delivered to the independent auditor. Another problem is the insufficiency of efficient human resources in audit institutes in proportion to the input workload. The massive input workload of an institute and the lack of constraints on work reception can highlight the previously mentioned problem. Accordingly, shortcomings and flaws are evident in Iran's current audit approach. Moreover, the results indicate that the experts accepted the normative legitimacy of the BRA approach. What matters is the perceptibility of the novel approach. Regardless of standardization and immediate implementation, specialized training should be provided for the audit institutions' employees to use and comprehensively realize the normative legitimacy of this approach. Creating normative legitimacy through theorizing necessitates formulating an understandable abstract framework to realize the effective conveyance of concepts in the novel approach.

5.2. Analyzing the Second Research Question

The second research question asks whether the BRA approach has pragmatic legitimacy (inherent value) in Iran.

Table (5) reports the descriptive findings on the second question.

Table 5. Results of pragmatic legitimacy of the BRA

Dimension	Min	Max	Mean	SD
Pragmatic legitimacy of BRA	3	4.780	3.780	0.456

The mean of 3.78 was obtained from 31 questionnaires for the pragmatic legitimacy (inherent value) of the BRA approach. It is greater than the mean of 3; therefore, the experts have positive answers to this question. In other words, using the BRA approach for auditing has pragmatic legitimacy and inherent value in Iran. Similar to the analysis of the first question, a few detailed experts' responses to the second research question are presented. As mentioned in the theoretical foundations for designing this question, the dissemination and penetration of business risk views in the auditing performance and procedure would first be important through professional standards. Secondly, audit production efficiency is essential. In this regard, an expert stated, "Changing to use the BRA is a noteworthy change. This auditing framework includes many checklists and countless questions that the International Standards can formulate on Accounting". Another expert stated, "Considering the client levels in business risk at first, the BRA approach consumes shorter auditing periods and requires fewer specialized resources. The novel approach informs us that we can do the tasks correctly". A third expert stated, "All companies must have risk management committees. Recently, the TSE-listed companies have published their risk management committee reports per the requirements and mention all the risks that can threaten a company's and its stakeholders' goals. It is important to assess these risks. If an auditor is assessed correctly, they can be used the most widely by clients and stakeholders. However, the client should implement this assessment, and the auditor should evaluate its sufficiency and reliability".

The first quote indicates that referring to “auditing standards” and checklists would mean the more official use of the BRA. The requirements of legislating institutions can first be employed to adopt this approach. It can then turn into an auditing culture gradually. The second quote indicates the efficiency of this approach to audits, whereas the third approach refers to the main application of this approach for stakeholders. However, some considerations are also of importance in the pragmatic legitimacy of this approach. For instance, the complete implementation of the above audit depends on the client’s industry and special conditions. If the internal controls do not act effectively, it will be impossible for some clients to implement the BRA approach fully. Hence, if the internal control system is weak, auditors will be driven toward the conventional method, which is time-consuming. In practice, these clients will be deprived of auditing services in the novel approach. According to the above quotes, it is valuable to consider the business risk assessment in audits. Furthermore, experts' opinions show that the business risk views penetrated the audit procedures through professional standards and prevented over-auditing. The survey results indicate that the experts accepted the pragmatic legitimacy of this approach.

5.3. Analyzing the Third Research Question

The third research question asks whether the BRA approach has cognitive legitimacy in Iran and is considered a natural auditing method. Table (6) reports the descriptive findings on the third question.

Table 6. Results of cognitive legitimacy of the BRA

Dimension	Min	Max	Mean	SD
Cognitive legitimacy of BRA	2	4.800	3.290	0.831

The mean of 3.29 was obtained from 31 questionnaires for the cognitive legitimacy of the BRA approach. It is greater than the mean of 3; therefore, the experts gave positive answers to this question, and using the BRA approach for auditing has cognitive legitimacy in Iran. It can be considered a natural method of auditing. Like the two previous questions, a few opinions of experts are quoted directly in detail. Similar to what was designed in theoretical foundations for this question, it is essential to change auditors' mentality to institutionalise an approach. For this purpose, some opinions of experts are presented. An expert stated, “The BRA approach is another way of thinking about auditing. What matters is to have the right mindset”. Another expert stated, “The auditors should write the most important problems of a company on two or three sheets. They should repeat this process. It helps clarify a company's business, shareholders, and target market. In other words, we should have a mindset approach”. These quotes indicate that some experts seriously revised the methods they had experienced and were interested in the BRA approach. Especially the last quote suggests that the mindset change might be intellectually challenging. Similarly, another expert stated, “It has been challenging for an elder auditor to start auditing a company using an audit program. It might take years to forget the conventional approach. Some old-hand auditors can never quit the conventional approach; however, their mindsets should be changed one way or another”. Although institutionalizing the BRA approach necessitates changing the mindset, many experts emphasized the necessity of providing auditors with new training to make a change. For instance, an auditor stated,

“Most of the auditors are not well-trained and might not be able to identify all main points of business risks in a company; thus, we need skilled executive trainers and an appropriate plan to make this auditing approach universal”. Hence, training is a prerequisite to the transformation of auditing in this dimension. It helps redefine the specialized boundaries of auditing and drives it toward consultation. In brief, the experts who changed toward the BRA often discussed the subjects of the change of mindset. The mind is considered an essential element in institutionalising a novel approach. Many experts confirmed that the BRA is the right method of auditing. They did not disagree with their assessment that at least some of the BRA principles are the “natural” and “correct” auditing methods.

The above opinions and the previously presented statistical results indicate that the experts accepted the cognitive legitimacy of the BRA approach.

5.4. Friedman Test

After the results of analyzing the research questions were presented, each legitimacy dimension of the BRA was ranked by using the Friedman test (Table 7).

Table 7. Results of the Friedman test

Dimension	Mean of Rank	Rank
The moral legitimacy of BRA	2.060	2
Pragmatic legitimacy of BRA	2.130	1
Cognitive legitimacy of BRA	1.810	3

According to the mean of rank obtained from the Friedman test, pragmatic legitimacy was ranked first, whereas normative legitimacy and cognitive legitimacy were ranked second and third, respectively. The resultant ranks are consistent with the consequent mean of responses from 31 experts. As pragmatic legitimacy had the highest mean, it was ranked first on this test. Therefore, it can be stated that the experts were unanimous about the pragmatic legitimacy (inherent value) of the BRA approach more than the other dimensions of legitimacy.

5.5. Structural Equation Modeling

Finally, structural equation modeling (SEM) was adopted to present the relationships between the legitimacy dimensions of the BRA approach. Figure (3) demonstrates the SEM framework indicating the relationships between the legitimacy dimensions of the BRA approach (Factor loading and T-Value). Furthermore, Table (8) presents the SEM results and the correlations of the legitimacy dimensions and their significance levels.

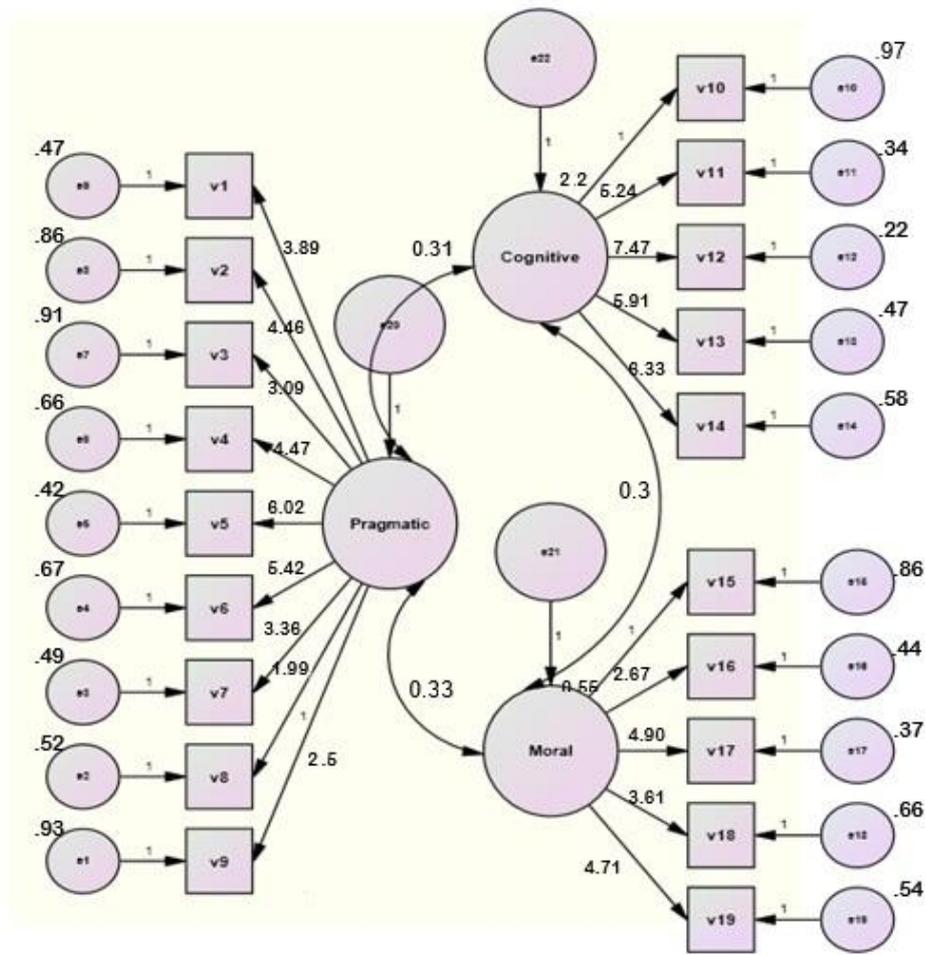


Figure 3. Structural equation modeling

Table 8. The fitness results of the SEM

Relationships of Legitimacy Dimensions	Correlation	P-value
Pragmatic Legitimacy <--> Moral Legitimacy	0.33	0.000
Cognitive Legitimacy <--> Pragmatic Legitimacy	0.31	0.003
Moral Legitimacy <--> Cognitive Legitimacy	0.30	0.005

According to Table (8), there were significant correlations between all dimensions. They all had significant relationships (because the significance level of each two dimensions was below 0.05). Also, the T-Value between the dimensions of legitimacy and the sub-criteria of each are all above 1.96, which shows that the criteria for measuring the main dimensions are also significant.

5. Conclusion

The BRA focuses on an auditor’s further learning of a client’s strategies, operations, and work environment to determine whether financial statements have been presented fairly. Through evident effects, this can improve an auditor’s ability to identify the risks that directly and indirectly affect

financial statements. This study analyzes Iranian auditing experts' attitudes toward the BRA approach's efficiency for stakeholders. As discussed earlier, specific constraints were applied to select the experts. Finally, the research subject was analyzed through 31 questionnaires completed by experts in 2021. According to the scientific outcomes, the BRA approach can be useful in creating efficiency in auditing, for auditors focus on the comprehensive and complicated risks of financial reports at an institutional level. This knowledge can improve the process of selecting the methods of auditing and supplying auditing resources without wasting time or irrelevant auditing. Such a comprehensive perception of a client is an instrument that helps auditors improve risk assessment and the evidence from main tests. The Big4 stated that it would be necessary to employ the BRA approach to pay complete attention to the dynamism and increased complexity of different business environments and industries. From this perspective, the BRA approach is developed to improve auditing quality. The institutional change framework proposed by Greenwood, Suddaby & Hinings (2002) was adopted to analyze the efficiency of this approach in Iran. This theory provides an opportunity to perceive auditors' experiences and attitudes toward the BRA's success and efficiency in achieving the dimensions of legitimacy (normative, pragmatic, and cognitive). Hence, the research questions were based on these dimensions. The normative legitimacy (theorizing change toward the novel approach) analyzed the shortcomings and flaws of Iran's current auditing approach and its integration into the BRA approach. The pragmatic legitimacy (inherent value) analyzed the dissemination and penetration of business risk views in the auditing performance and procedure through professional standards and audit production efficiency. Finally, the cognitive legitimacy (natural auditing method) analyzed changes in auditors' mindsets to institutionalise the novel approach.

Regarding the first research question (normative legitimacy of the BRA), the results indicated that the mean of responses was 3.61, which is greater than the ineffective mean of 3 (based on the five-point Likert scale). In this regard, a few opinions of experts were also quoted for more accurate analysis. The results suggested that Iran's current auditing approach had shortcomings and that the experts accepted the normative legitimacy of the BRA approach. Regarding the second research question (pragmatic legitimacy of the BRA), the results indicated that the mean of responses was 3.78, which is greater than the ineffective mean of 3. Moreover, a few opinions of experts were quoted for more accurate analysis. The results suggested the BRA's value in audits and the penetration into auditing procedures through standards. Hence, the experts accepted the pragmatic legitimacy of the BRA approach. Finally, regarding the third research question (cognitive legitimacy of the BRA), the results indicated that the mean of responses was 3.29, which is greater than the ineffective mean of 3. In this regard, a few opinions of experts were quoted for more accurate analysis. According to the results, the institutionalization of an approach would necessitate changing auditors' mindsets. Many experts confirmed that the BRA would be the natural auditing method. Therefore, the statistical results indicate that the experts accepted the cognitive legitimacy of the BRA. Regarding these three dimensions, experts emphasise training the auditing personnel to be acquainted with the client's business risk assessment skills and internal control system. The presence of technology such as auditing programs, which are now commonly used in the leading countries at an international level

to conduct audit processes, can greatly help implement this approach appropriately in Iran. Since there are no similar studies in Iran, comparing the results with their domestic counterparts is impossible. However, the results were consistent with the findings of international studies conducted by [De Martinis and Houghton \(2019\)](#) and [Van Buuren et al. \(2018\)](#) in terms of the fact that the BRA can improve audits and prevent over-auditing.

According to [Van Buuren et al. \(2018\)](#), who evaluated this method in Germany and the Netherlands with 39 experts, the audit companies interested in making changes must try to perceive the BRA. They also have to share these changes to make their colleagues aware of its values, which requires training. Moreover, it is stated that the audit companies having many auditees and work commitments that needed to be done in specific periods had to leave behind the conventional approach (due to its inefficiency) and start using the BRA. These opinions indicate an emphasis on acquiring ABR evaluation skills and BRA efficiency in Germany and the Netherlands, like Iran. However, some other experts in these two countries believe that they have not used all of the BRA tools and that the conventional auditing approach and correct evaluation of inherent risk might be sufficient in some industries and small and medium-sized enterprises (SMEs) in Germany and the Netherlands due to the inappropriate control structures. This is also true in Iran, for many SMEs lack official control and top-down structures. [De Martinis & Houghton \(2019\)](#) analyzed the BRA for 60 Australian auditees and stated that the audit contracts were much more efficient after implementing the BRA approach than before the BRA was implemented. This finding was more evident in the Australian auditees with lower business risks. As a result, it can be concluded that implementing the BRA approach can improve audit production efficiency. According to the analysis of the BRA among Australian auditees, no cases of over-auditing (audit inefficiency) were observed in the BRA implementation. Like Iranian experts, they also believed that the ABR evaluation necessitated considering all aspects of internal and external business risks and evaluating strategic, process, and residual risks.

Implications

The business risk status and business risk assessment by auditors should be updated in every period (year), for the risk status in an organization, especially in Iran, changes alternatively as the economic environment of that organization and other environmental conditions (*e.g.*, currency exchange rate and inflation) change. At the same time, a major part of Iran's economy is owned and run by the government; thus, international economic fluctuations can have additional effects on the activities of businesses and their risks. In this case, the business risk assessment of a particular time will not necessarily be reliable in the future (*i.e.*, a continuous approach to business risk assessment). In practice, independent auditors should have the specific infrastructure, which should be provided for them by clients, to employ the business risk assessment. This infrastructure includes a company's financial information. Iran's Securities and Exchange Organization (SEO) ensures the actionable guarantee for providing information in a platform of interest, including all the TSE-listed companies and their subsidiaries (listed and unlisted companies). The efficiency of the organization can double in this case. Therefore, the SEO is advised to formulate the necessary instructions for the requirements of the companies above within the necessary periods. The SEO is also recommended to formulate uniform coding bands and announce them as instructions to these companies within the above periods

to improve the proposed platform by developing specialized working groups. It will also be effective to create a domain accessible for the reliable audit institutes of the Tehran Stock Exchange and all investors on the proposed platform for business risk assessment. The IACPA and Audit Org. should provide the actionable guarantee that the independent auditors implement the audit processes based on the BRA; therefore, the firms will be committed to employing this approach. For this purpose, the abovementioned institutions are advised to determine how much the business risk instruments were used by institutes and what appropriate scores should be assigned to them when evaluating these audit firms. Regarding the importance of business risk and the necessity of audit institutes in conducting audit processes based on business risk, the IACPA is recommended to refuse to admit clients who fail to provide risk assessment reports or insert the initial information into the platform. The BRA can also yield effective outcomes for audit institutes and prevent the accumulation of auditing tasks within a specific period. It can also make the audit tasks efficient and effective. Finally, the quality of auditing reports will be higher than the conventional auditing approach, and stakeholders will incur lower costs.

This study analyzed the BRA and its efficiency in Iran and evaluated its legitimacy appropriate in Iran's environment. Since different industries face various business risks in Iran, conducting specific case studies on the BRA of different Iranian industries is recommended to expand this study. In addition to identifying the BRMM in a specific industry, it can lead to the purposiveness of the use or non-use of the BRA for independent auditors in respective companies.

Limitations

This study was conducted in certain circumstances when Covid-19 and its consequent restrictions were present in Iran, which affected the face-to-face interviews and completion of questionnaires. In addition to prolonging the research process, this constraint prevented three experts from participating in interviews and filling out the questionnaires. Despite all constraints, all interviews were conducted in person because the statistical sample had to be selected from special experts to acquire extensive results.

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