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# The Effect of the Characteristics of the Audit Firm and Client on the Application of the Business Risk Audit Approach

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**ABSTRACT:** *The purpose of this study is to identify the impact of certain fundamental characteristics of audit firms and their clients on the application of the business risk audit approach in Yemen, as well as to identify the responses implemented by these firms and companies to these characteristics. The study uses a descriptive-analytical approach, where the data collected through the questionnaire are described and analyzed using appropriate statistical methods. The study sample included 60 auditors from 42 audit firms and 8 individual offices, with a focus on larger offices and those associated with international audit offices, as they are more likely to apply the business risk-based audit approach. Data was sourced from the Ministry of Industry and Trade's publications on licensed audit offices. Out of 50 electronic and 10 paper questionnaires distributed, 38 responses were received, representing a response rate of 63.33%. The results showed that the characteristics related to the audit firm have a varying impact on the application of the business risk audit approach and that the specialization of the audit firm in the client's business is the most influential factor in this regard. The results also showed that the characteristics related to audit clients do not affect the application of the business risk audit approach, indicating the existence of other factors that may affect this approach. This study is one of the few studies that address the application of the business risk audit approach in the Yemeni context, highlighting the factors affecting this application and its challenges. The study also provides some recommendations to improve audit quality and deal with business risks.*

**KEYWORDS:** Business risk audit approach, Audit firm characteristics, Audit client characteristics.

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## INTRODUCTION

Businesses constantly strive to find innovative ways to navigate the complexities of an ever-evolving marketplace. One technique that has emerged as a powerful tool in the auditing industry is the adoption of the business risk audit approach, more commonly known as the 'business risk audit methodology' (BRA). With the increasing demand for transparency and accountability, this contemporary auditing technique has gained the utmost significance, revolutionizing the way auditors evaluate and understand an organization's business risks. The BRA goes beyond the traditional auditing standards and guidelines set by the International Auditing Standards (IASs). While IASs focus primarily on financial risks and material misstatements, the BRA method empowers auditors to delve deep into the intricate web of an organization's operations, identifying potential risks and obstacles that could hinder its growth and success. This holistic approach allows auditors to comprehensively assess the efficacy and productivity of the organization, bringing about a new level of value addition to their work. One of the key attributes of BRA is its emphasis on proactive risk management. Gone are the days when auditors used to focus solely on financial statements, blindly following a predetermined checklist. With the BRA methodology, auditors become partners in the organization's journey, actively participating in its risk management process. This collaborative approach not only strengthens the auditor-client relationship but also results in enhanced risk mitigation strategies.

Furthermore, the BRA method provides a platform for auditors to gain a deeper understanding of the organization's industry and competitive landscape. By conducting thorough research and analysis, auditors can identify emerging trends and industry-specific risks that could pose a threat to their client's business. Armed with this knowledge, auditors can tailor their audit procedures, focusing on areas where the organization is most vulnerable. This proactive approach enables auditors to provide valuable insights and recommendations, aiding the organization in making informed decisions and improving its overall performance. The BRA methodology also encourages auditors to think beyond the conventional boundaries of their profession. It calls for auditors to adopt a multidisciplinary approach, collaborating with experts from various fields such as IT, finance, and operations. This cross-functional collaboration allows auditors to gain a comprehensive view of the organization's processes and systems, enabling them to identify potential risks that may not be apparent in siloed audits. By integrating diverse perspectives, auditors can offer a more holistic assessment of the organization's risks and provide practical solutions tailored to its unique.

The BRA method goes beyond the traditional boundaries of an accounting information system and provides auditors with a more holistic understanding of the client's business risk. By evaluating the risks of material misstatement, BRA aids auditors in planning audits and defining the nature, timing, and scope of the audit process. This proactive approach ensures that auditors address significant conditions that could potentially impede an organization's ability to achieve its objectives (Zaid & Imamul, 2023). Recognizing the significance of the comprehensive audit strategy in addressing the risk of material misstatement, auditors employ planned audit responses to specific risks, develop the audit plan, and determine the necessary resources for the engagement. This strategic approach enables auditors to effectively mitigate risks and deliver high-quality audits (Deimantė & Dalia, 2023). While the adoption of Business Risk among audit firms in emerging economies like Kenya is moderate, it provides a compelling rationale for the implementation of BRA (Zaid et al., 2023). As a result, numerous studies have been conducted to evaluate the impact of risk-based audit practices on the audit process and quality (Lumidi & Gordon, 2022). One such study focused on the financial performance of registered fruit processing firms in Thika Municipality, Kenya, assessing how the incorporation of BRA influenced their operations (Awni et al., 2023). The contemporary risk-oriented audit model requires auditors to identify, evaluate, and address risks by gaining a deep understanding of entities and their environment. By focusing on areas that are more susceptible to significant distortion of financial statements, auditors can conduct internal control procedures that timely identify and eliminate risks. This approach ensures that audits are robust and provide accurate and reliable financial information (Natalia et al., 2022; Svitlana et al., 2023).

In the Yemeni context, where the application of the business risk audit approach is still limited, this study stands out as one of the few that examines the factors influencing its implementation and the challenges associated with it. Furthermore, the study offers valuable recommendations to improve audit quality and effectively manage business risks.

Overall, as the business landscape continues to evolve, the business risk audit approach has become an indispensable tool for auditors. Its ability to address the risks of material misstatement, plan audits effectively, and comprehensively assess business risks has made it an essential component of the audit process. By adopting this approach, auditors can enhance the quality of their services, strengthen their capabilities, and effectively navigate the ever-changing challenges and demands of the modern business world.

The business risk audit approach

A business risk-based audit approach is a powerful tool for enhancing the quality and reliability of financial data and the overall management of companies. This approach aims to identify, evaluate, and address risks that could adversely impact the financial performance and internal operations of companies (Zaid, Esmail, & Haque, 2023). It involves conducting regular audits and providing detailed reports and recommendations to mitigate risks and enhance efficiency, transparency, and accountability within companies (Çidem & ARSLAN, 2022). This approach helps to bolster the reputation of companies as organizations committed to compliance and quality, thereby increasing the trust of customers, partners, and investors in them (Ng, 2022). This approach is utilized in companies smaller than the Big 4 in some countries, and it requires specialized skills and expertise from auditors. This approach faces challenges regarding the cost, resources, and standards required for its implementation. However, when applied correctly, it represents an effective method for managing risks and improving business activities (Kalutskaya et al., 2023). Furthermore, this approach can also assist organizations in identifying areas for improvement and implementing proactive measures to reduce risks before they escalate (2022). By conducting comprehensive audits and risk assessments, companies can ensure compliance with regulatory requirements and maintain their market reputation (Zaid, Esmail, & Haque, 2023).

Interaction between audit firm and client characteristics:

The interaction between the characteristics of the audit firm and the client is a critical aspect that influences the application of the business risk audit approach. There are several factors to consider, such as the size of the audit firm, its specialization, reputation, expertise, communication, trust, and the regulatory environment. Firstly, the size of the audit firm can impact its ability to effectively apply the business risk audit approach (Einde et al., 2023). Larger firms may have more resources and experience to dedicate to understanding and comprehensively assessing business risks (Dwyer et al., 2023). On the other hand, smaller firms may provide more personalized and focused attention to clients, which can also be valuable in identifying and managing specific risks (Almunawwaroh & Setiawan, 2023). The specialization of an audit firm is another important factor. Clients tend to choose auditors with strong reputations and extensive experience in their industry, as they believe these auditors will have a better understanding of their unique business risks and can offer valuable recommendations for improvement (Etemadi & Rezazadeh, 2023). The level of communication and trust between the audit firm and its clients is critical, as open and transparent communication allows auditors to gather relevant information and better understand their clients' specific risks and concerns (Sampet et al., 2023). When there is trust between the two parties, clients feel more comfortable sharing sensitive information, enabling auditors to conduct a more comprehensive risk assessment (van Nieuw Amerongen et al., 2022). Furthermore, the regulatory environment is a factor that cannot be overlooked, as audit firms must adhere to existing regulatory requirements and standards while conducting their audits (Knežević et al., 2022). A supportive regulatory environment promotes the use of risk-based approaches and encourages auditors to consider business risks in their assessments (Alotaibi, 2023).

The impact of the modern audit approach, "Business risk auditing (BRA)," on the audit process can also be considered, as it has been found to positively impact audit procedures and audit quality. Overall, a comprehensive understanding of these factors and approaches enables audit firms to enhance their risk assessment capabilities and provide valuable insights to their clients.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT:

The Impact of the Characteristics of the Audit Firm on The Application of The Business Risk Audit Approach Through the Impact of Audit Firm Size:

The size of an audit firm can have a significant impact on the application of the business risk audit approach. Larger firms tend to have more resources and expertise, enabling them to better understand and assess the risks that their clients face (Jing, 2023). This allows them to tailor their audit procedures and focus on areas that are most relevant to the client's business risks (Dewa et al., 2023). On the other hand, smaller firms may have fewer resources and may not be able to perform as detailed of an assessment, potentially leading to a less effective application of the business risk audit approach (Suzana et al., 2023). Additionally, larger firms may also have stricter quality control processes in place, ensuring that their audits are conducted with high standards and minimizing potential errors or oversights (Ihar, 2022). Overall, the size of an audit firm plays a crucial role in determining its ability to effectively apply the business risk audit approach for its clients (Lankadeva et al., 2023). It is anticipated that larger audit firms will have a more pronounced influence on enhancing audit quality when implementing the business risk audit approach. Nevertheless, it is imperative to recognize that the audit quality of larger audit firms is already substantial, which may limit the potential for further enhancement through increased audit efforts (Caramanis & Lennox, 2008). Furthermore, clients undergoing audits by large firms are usually more intricate than those audited by small firms. This complexity may prompt auditors in large firms to escalate their audit efforts, but there may be diminishing returns that mitigate the impact of this heightened effort on improving audit quality. This implies that while larger firms have greater resources available and potentially heightened efficiency, there are constraints to the influence of their size on the implementation of the business risk audit approach.

***H1:* There is no effect of the size of the audit firm on the application of the business risk audit approach**.

The Impact of The Characteristics of The Audit Firm on The Application of The Business Risk Audit Approach Through the Impact of The Audit Firm's Specialization on The Client's Work:

The characteristics of an audit firm, such as specialization in a particular industry, can significantly impact the application of the business risk audit approach. Firms with industry specialization have more expertise and experience in assessing the unique risks associated with that sector, leading to a more thorough and effective business risk audit approach (Chandra, 2022). Specialized firms may also have access to specialized tools and resources, allowing them to gather and analyze relevant data more efficiently (Ebenezer et al., 2023). On the other hand, audit firms lacking specialization in a certain area may struggle to identify all potential risks for their clients, resulting in an incomplete or inadequate assessment (Afsaneh, 2022). Therefore, businesses should carefully consider the specialization of their chosen audit firm when implementing the business risk audit approach (Johannes, 2022). The specialization of an audit firm is crucial in implementing the business risk audit approach. Audit firms that emphasize their expertise in relevant areas to their clients' operations have an advantage. For example, Petrov and Stocken found that specialist auditors in industries with correlated firm values benefit from information spillovers between clients, leading to lower expected fees and higher audit reporting quality (Ebenezer et al., 2023). Additionally, Yeboah et al. found that audit firm industry specialization reduces the cost of debt for businesses, as specialized auditors are more likely to detect questionable accounting practices and report errors (Sergey & Eremin, 2023). Therefore, it is advantageous for audit firms to specialize in specific industries to provide more effective and efficient audits for their clients. In summary, the specialization of audit firms in specific industries and areas of expertise is crucial for effectively implementing the business risk audit approach. Industry-specific knowledge empowers auditors to gain a deep understanding of client operations and risks, ultimately leading to higher-quality audits

***H2:* There is no effect of the audit firm's specialization in the client's business on the application of the business risk review approach**.

The Influence of The Characteristics of The Audit Firm on The Application of The Business Risk Audit Approach Through the Influence of The Experience and Efficiency of The Audit Firm:

The characteristics of an audit firm, such as experience, efficiency, and technological resources, significantly impact the application of the business risk audit approach (Medina & Doddy, 2023; Alice & Monica, 2022; Johannes, 2022). A highly experienced and efficient audit team can effectively identify, assess, and respond to potential business risks, improving the overall quality and effectiveness of the audit process (Madhu & Jayant, 2022). On the other hand, a lack of experience or efficiency within the audit firm may result in overlooking important risks and biased or inadequate audit conclusions (Taras et al., 2022). Additionally, a well-equipped audit firm with modern technology and resources can better support the implementation of the business risk audit approach. Therefore, auditors and clients should consider these characteristics when selecting an audit firm to ensure a thorough and accurate evaluation of business risks. Studies have indicated that auditors with longer tenure are more adept at developing audit methodologies and planning audits while considering audit risk management (Yakimova & Bevzyuk, 2019).

***H3:* There is no impact of the experience and efficiency of the audit firm on the application of the business risk review approach.**

The Impact of the Characteristics of the Client Being Audited on The Application of the Business Risk Audit Approach Through: The Impact of the Systems Used by Clients:

The characteristics of a client being audited can have a significant impact on the application of the audit approach, particularly in terms of business risk. If a client has efficient and reliable systems in place, it can minimize the risk of errors and fraud, making the audit process smoother and less time-consuming. On the other hand, if a client's systems are outdated or not well-maintained, there is a higher likelihood for material misstatements and fraudulent activities to go undetected. This increases the level of business risk and requires the auditor to apply a more thorough approach to obtain sufficient evidence and provide an accurate opinion on the financial statements. Therefore, both auditors and clients need to recognize the importance of strong internal control systems in mitigating business risk and ensuring a successful audit engagement (Afsaneh, 2022; Uday et al., 2022). The integration of information technology into audit processes is indeed an essential trend, as businesses increasingly rely on computer systems for their transactions. Several studies have highlighted the significant impact of information technology on the implementation of Risk-Based Audit (RBA) and audit quality. For instance, a study by Rawashdeh, Bakhit, and Al-Okdeh found that control risk plays a mediating role in the adoption of AI-based predictive analysis in professional audits (Crucean & Hategan, 2023). Additionally, Alsaleem and Husin's study demonstrated that the COBIT 5 framework, which focuses on IT governance, can significantly affect audit risk (Awni et al., 2023). Therefore, it is evident that the role of infrastructure, including information technology, cannot be overlooked when considering the implementation of risk-based audit (Enas & Norhayati, 2023).

***H4:* There is no impact of the systems used by clients on the application of the business risk review approach.**

The Impact of the Characteristics of the Client Subject to The Audit on The Application of the Business Risk Audit Approach Through: The Impact of the Risks of the Client Subject to The Audit:

The characteristics of a client subject to an audit, such as size, industry, and complexity, can greatly impact the application of the business risk audit approach. This approach focuses on identifying and

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assessing potential risks within a company that could affect its financial statements. For example, a large multinational corporation may have more complex financial transactions and operations, leading to higher levels of risk (Karen et al., 2023). Additionally, the industry in which the client operates may also affect the risks they face; companies in highly regulated industries may have stricter compliance requirements (Afsaneh, 2022). Therefore, auditors need to consider these characteristics when applying the business risk audit approach to effectively assess potential risks and provide accurate reporting on a client's financial statements (Elizabeth et al., 2022; Taras et al., 2022). The utilization of the Risk-based Approach (RBA) has proven to be more effective than traditional approaches in identifying and addressing business risks that could result in material misstatements in financial statements. RBA allows auditors to allocate scarce audit resources effectively, align audit efforts with management objectives, and reduce potential risks by focusing on high-risk areas and activities (Sergey & Eremin, 2023; Zaid et al., 2023; Anders, 2022). Client risks in Vietnamese audit firms have a positive relationship with the implementation of RBA and the quality of independent audits in Vietnam (Nhung, 2023). High client risks require more extensive audit work and impact risk identification and audit planning (Nguyen, 2023). The evaluation of inherent business risk leads to an increase in audit efforts (Thao et al., 2023).

***<u>H5:</u> There is no impact of the risks of the clients under audit on the application of the business risk review approach.***

The Effect of the Characteristics of the Client Subject to The Audit on The Application of the Business Risk Audit Approach Through the Effect of the Nature of the Work of the Clients Subject to The Audit:

The characteristics of a client subject to an audit, such as size, industry, and complexity, can greatly impact the application of the business risk audit approach. This approach focuses on identifying and assessing potential risks within a company that could affect its financial statements. For example, a large multinational corporation may have more complex financial transactions and operations, leading to higher levels of risk (Karen et al., 2023). Additionally, the industry in which the client operates may also affect the risks they face; companies in highly regulated industries may have stricter compliance requirements (Afsaneh, 2022). Therefore, auditors need to consider these characteristics when applying the business risk audit approach to effectively assess potential risks and provide accurate reporting on a client's financial statements (Elizabeth et al., 2022; Taras et al., 2022).

***<u>H6:</u> There is no impact of the nature of the work of the clients being reviewed on the application of the business risk review approach.***

## RESEARCH METHODS

This study aims to identify the impact of some intrinsic characteristics of audit firms and firms and their clients on the application of the audit approach based on business risk in Yemen, as well as to identify the responses implemented by these firms and companies to these characteristics. To achieve this goal, a questionnaire tool was designed and developed to survey the opinions of the study sample. The study uses the descriptive analytical method, where it describes the data collected through the questionnaire, and analyzes it using appropriate statistical methods. The study population consists of offices (companies and individual offices) auditing and auditing the accounts licensed and renewed licenses to practice the profession in the Republic of Yemen for the year 2022 AD (44 audit companies, 321 individual offices. Questionnaires were distributed both electronically and on paper, targeting responsible managers and audit managers who could provide valuable data for the study. The study sample included 60 auditors from 42 audit firms and 8 individual offices, with a focus on larger offices and those associated with international audit offices, as they are more likely to apply the business risk-based audit approach. Data was sourced from the Ministry of Industry and Trade's publications on licensed audit offices. Out of 50 electronic and 10 paper questionnaires distributed, 38 responses were received, representing a response rate of 63.33%. The questionnaire was prepared to study the intrinsic characteristics that affect the application of the audit approach based on business risk, and the theoretical framework, literature, and previous studies related to the subject of the study were relied upon to design an integrated questionnaire that achieves the objectives of the study.

**Definition of variables:**

- Dependent variable: **Business risk-based audit approach**. It is a variable that expresses the extent to which audit firms use this approach in their work.
- Independent variables: These are variables that affect the business risk-based audit approach. They can be divided into two groups:
    - **The first group relates to the audit firm itself and includes:**
        - **Firm size**: Expresses the size of the audit firm in terms of staff, customers, and resources.
        - **Professional experience and competence**: express the level of knowledge, skill, training, and certifications of audit firm staff.
        - **Specialization of the firm in the client**'s business: expresses the extent to which the activity of the audit firm matches the activity of its clients, and the extent to which it understands their business.
    - **The second group: is related to audit clients, and includes:**
        - **Systems used by clients**: express the sophistication, efficiency, and reliability of the systems used by audit firm clients in their work.
        - **Audit Customer Risk**: Expresses the likelihood of error, misinformation
        - or manipulation of audit desk customer data.
        - **The nature of the work of the clients under Audit**: expresses the complexity, diversity, and change of the activity of the clients of the audit firm.

**Descriptive Statistics:**

Descriptive statistics for the first part of the questionnaire are represented by demographic variables: This section explains the distribution of the sample, the data, and the composition of the study participants, as it shows their excellence in the field of Audit thanks to their education and practical and professional experience. The various results of the current study showed that the age group aged 35 years and above accounted for the overwhelming most of respondents at 78.9%. It also shows that the most of the sample has higher qualifications, with most participants holding a bachelor's degree (65.8%), followed by holders of a master's degree (26.3%). In addition, most of the participants in audit firms act as responsible partners at 55.3%, reflecting good work experience in the field. for years of experience, the vast most of respondents have more than 10 years of experience (71.05%), indicating a high level of audit experience. in professional certifications, more than 76% of respondents hold professional certificates, demonstrating their excellence and experience in the field. Finally, the distribution of the sample by type of firm shows that the overwhelming majority belong to audit firms at 81.6%, which shows the focus of the study on this sector. About the date of establishment of firms, it seems that firms established between 2010 and 2022 constitute the largest part of the sample at 73%.

Descriptive statistics for the second part of the questionnaire includes the independent axes and the dependent variable associated with the basic study variables at the macro level of the study dimensions, the following is the result of the processing of statistical meta-analytical data that helps to obtain general picture related to independent variables, mediating variables, and dependent variable. Descriptive statistical analysis is used to show the prevalence of study data. This analysis presents the study data by looking at the arithmetic mean and standard deviation of the value of the research data. SPSS 22.0 software was used in this study.

**Table (1) Descriptive Statistics Results:**

| Variable | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Audit Firm Characteristics | | | | | |
| Size of the audit firm | 38 | 2.67 | 5.00 | 3.8596 | .58321 |
| Audit Firm Specialization in Client Business | 38 | 2.71 | 5.00 | 4.0038 | .46319 |
| Experience and professionalism of the audit firm | 38 | 2.43 | 5.00 | 4.1241 | .58683 |
| Characteristics related to Audit clients. | | | | | |
| Systems used by customers | 38 | 2.50 | 4.83 | 3.3991 | .47543 |
| Client risk under Audit | 38 | 2.25 | 5.00 | 3.3092 | .59965 |

| | | | | | |
|---|---|---|---|---|---|
| The nature of the work of the clients under Audit | 38 | 2.14 | 4.86 | 3.1316 | .59077 |
| Dependent variable | | | | | |
| Business risk-based audit approach | 38 | 3.13 | 4.63 | 3.8980 | .44727 |

Source: based on SPSS outputs, 2023.

Through descriptive statistics, we can understand the nature and distribution of data, and compare variables to each other. From Table (1) we can see the following:

N = 38 for all variables, which means that the sample is homogeneous and balanced. The minimum value is between 2.14 and 2.71 for independent variables, and 3.13 for the dependent variable. The upper value is between 4.83 and 5.00 for independent variables, and 4.63 for the dependent variable. The arithmetic mean ranges between 3.1316 and 4.1241 for independent variables and 3.8980 for the dependent variable. The standard deviation is between 0.44727 and 0.59965 for independent variables, and 0.44727 for the dependent variable.

- ***Independent variables related to the audit firm*** (firm size, experience, professionalism, firm's specialization in the client's business) have high arithmetic averages, ranging between 3.8596 and 4.1241, which shows that audit firms have good levels of these factors and that they positively affect the business risk-based audit approach. These variables also have low standard deviations, ranging from 0.46319 to 0.58683, which shows that the data are close and homogeneous around the mean.

- ***Independent variables related to audit clients*** (systems used by clients, risk of audited clients, nature of work of audited clients) have low arithmetic averages, ranging between 3.1316 and 3.3991, which indicates that audit clients do not have high levels of these factors and that they negatively affect the business risk-based audit approach. These variables also have mean standard deviations, ranging from 0.47543 to 0.59965, which shows that the data are spaced and heterogeneous around the mean.

- ***The dependent variable*** (Business Risk-Based Audit Approach) has an arithmetic mean of 3.8980, which indicates that audit firms use this approach to varying degrees and that there is room for improvement in its application. This variable also has a low standard deviation, equal to 0.44727, which indicates that the data are close and homogeneous about the mean.

Based on these descriptive statistics, we can say that the data are suitable for statistical analysis and that they reflect the relationship between independent and dependent variables. We can also use this data to test hypotheses about the impact of audit firm and audit client characteristics on the application of a business risk-based audit approach, using inferential statistics.

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**Hypothesis testing:**

To validate the hypotheses, the researchers used multiple regression analysis to measure the impact of independent variables on the dependent variable "Application of the Business Risk-Based Review Approach" with a 95% confidence level (CI), and calibrate the statistical values (β, t, p), where we can compare them with standard values that determine the level of significance (α) and the direction of the relationship between the two variables. If the coefficient value (β) is far from zero, the test value (t) exceeds the critical test value (tα), and the probability value (p) is below the significance level (α), this means that the alternative hypothesis True and that the variable has an impact or a significant relationship with the independent variable. And vice versa.

Table 2: regression analysis result:

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | (P)Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 2.256 | .632 | | 3.571 | .001 |
| Size of audit firm Audit Firm | -.068- | .134 | -.088- | -.504- | .618 |
| Experience and professionalism of the audit firm | .000 | .158 | .001 | .003 | .998 |
| Specialization in Client Business | .475 | .203 | .492 | 2.334 | .026 |
| a. Dependent Variable: Business Risk-Based Audit Approach | | | | | |

Source: based on SPSS outputs, 2023.

***The first hypothesis:*** assumes that the size of the audit firm does not affect the application of the audit approach based on business risk. The results confirmed this hypothesis, as the beta value of this variable was statistically insignificant ($\beta1=-0.088$, $t=-0.504$, $p=0.618$). This means that there is no statistically significant correlation between the size of the audit firm and the application of the business risk-based audit approach. This finding can be explained by the fact that the size of the audit firm does not necessarily reflect the quality of services provided and that other factors may influence the decisions of the audit firm.

***Hypothesis Two:*** It assumes that the audit firm's specialization in the client's business affects the application of the audit risk-based approach. The results denied this hypothesis, as the beta value of this variable was statistically significant ($\beta2=0.492$, $t=2.334$, $p=0.026$) and positive, which means that there is a statistically significant correlation and a positive trend between the audit firm's specialization in the client's business and the application of the audit risk-based approach. This means that the more specialized the audit firm is in the client's business, the more the application of a business risk-based audit approach has increased. This result can be explained by the fact that the audit firm's specialization in the client's business enables it to better understand the risks associated with the business, thus identifying the most sensitive areas and focusing efforts on them.

***For the third hypothesis***: It assumes that the experience and professionalism of the audit firm do not affect the application of the business risk-based audit approach. The results also confirmed this hypothesis, as the beta value of this variable was statistically insignificant ($\beta 3 = 0.001$, $t=0.003$, $p=0.998$). This means that there is no statistically significant correlation between the experience and professionalism of the audit firm and the application of the audit risk-based approach. This finding can be explained by the fact that the experience and professionalism of the audit firm do not necessarily guarantee the application of a business-risk-based audit approach and that other factors may affect this, such as the nature of the business or the level of risk.

Accordingly, it can be concluded that the characteristics of the audit firm have a varying impact on the application of the audit risk-based approach to business and that the specialization of the audit firm in the client's business is the most influential factor in this regard. This shows the importance of choosing the right audit firm for the type of work performed by the client. These results are consistent with some previous studies that indicated the role of audit firm specialization in improving the quality of services provided. Based on Table No. (2) and the previous results of the hypothesis test, we can write the regression equation for the first model of the audit firm as follows:

$$\boldsymbol{y = 2.256 - 0.068x_1 + 0.000x_2 + 0.475x_3 + \epsilon}$$

where: y = Business risk-based audit approach, x1 = size of audit firm, x2 = experience and professionalism of the audit firm, x3 = specialization of the audit firm in the client's business.

Table (3): regression analysis result:

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | (P)Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| Constant | 3.284 | .586 | | 5.604 | .000 |
| Systems used by customers | -.083- | .171 | -.088- | -.487- | .630 |
| Client risk under Audit | .177 | .148 | .237 | 1.194 | .241 |
| The nature of the work of the clients under Audit | .100 | .149 | .132 | .670 | .507 |
| a. Dependent Variable: Business Risk-Based Audit Approach | | | | | |

Source: based on SPSS outputs, 2023.

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***For the fourth hypothesis***: it assumes that the systems used by clients do not affect the application of the business risk-based audit approach. The results confirmed this hypothesis, as the value of the coefficient ($\beta 4$) was not statistically significant ($\beta 4 = -0.088$, $t = -0.487$, $p = 0.630$). This means that there is no statistically significant correlation between client-based systems and the application of a business-risk-based audit approach. This finding can be explained by the fact that the systems used by customers do not affect the level of risk or internal control of the business.

***For the fifth hypothesis***: it assumes that the risks of the clients under Audit do not affect the application of the business-risk-based audit approach. The results also confirmed this hypothesis, where the value of the coefficient ($\beta 5$) was statistically insignificant ($\beta 5 = 0.177$, $t = 1.194$, $p = 0.241$). This means that there is no statistically significant correlation between the risks of the clients under Audit and the application of the business-risk-based audit approach. This finding can be explained by the fact that the risks of the clients under Audit do not necessarily reflect the level of interest or professionalism of the audit firm.

***As for the sixth hypothesis***: it assumes that the nature of the work of the clients under Audit does not affect the application of the business risk-based audit approach. The results also confirmed this hypothesis, where the value of the coefficient ($\beta 6$) was not statistically significant ($\beta 6 = 0.100$, $t = 0.670$, $p = 0.507$). This means that there is no statistically significant correlation between the nature of the work of the audited clients and the application of the audit approach based on business risk. This finding can be explained by the fact that the nature of the work of the clients under Audit does not necessarily determine the complexity or diversity of the business.

Accordingly, it can be concluded that the three hypotheses I have mentioned are correct and that the three factors I have studied do not affect the application of the business risk-based audit approach. This indicates that other factors may influence this approach, which could be examined in future research.

Based on Table No. (3) and the previous results of the hypothesis test, we can write the regression equation for the first model of the audit client as follows:

$$\boldsymbol{y = 3.284 - 0.083x_4 + 0.177x_5 + 0.100x_6 + \epsilon}$$

y= Business risk-based audit approach, x4= systems used by clients, x5= customer risk under Audit, x6= nature of the work of the audited clients.

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## CONCLUSION AND FUTURE RESEARCH

### Conclusion

In summary, the implementation of the business risk audit approach is a multifaceted process that necessitates the consideration of diverse elements. Key characteristics of audit firms, such as the size of the audit firm, the firm's specialization, and its experience and efficiency, all play a pivotal role in determining the efficacy of the business risk audit approach. Similarly, client characteristics, including the systems utilized by clients, the risks subject to audit, and the nature of their work being audited, also significantly impact the application of the business risk audit approach. The interaction between audit firm and client characteristics is crucial in determining the success of the business risk audit approach. Auditors must align their audit strategies with client objectives to effectively identify and address potential risks. Moreover, mitigating risks in the application of the business risk audit approach entails implementing strategies to address limitations in both audit firm and client characteristics. Taking these factors into account will result in a more effective application of the business risk audit approach, ultimately enhancing audit quality and ensuring the detection and reporting of material misstatements. The significance of understanding and addressing business risks from both auditor and client perspectives cannot be overstated, and auditors need to adapt their methodologies to effectively tackle these risks.

The study concluded that the application of the business risk audit approach is influenced by various factors related to the audit firm and the audit client. Among the audit firm characteristics, the specialization of the firm in the client's business was found to have the most significant impact, while the size, experience, and professionalism of the firm did not have a significant effect. Among the audit client characteristics, none of the factors (systems used by clients, client risk, and nature of work) had a significant effect on the application of the business risk audit approach. The study also provided some recommendations to improve audit quality and risk management using this approach.

**Future Research:** The study suggested some areas for future research, such as exploring other factors that may affect the application of the business risk audit approach, such as the regulatory environment, the audit fees, and the audit expectations gap. Moreover, future research could also examine the impact of the business risk audit approach on the audit outcomes, such as the audit opinion, the audit report, and the audit satisfaction. Furthermore, future research could also compare the application of the business risk audit approach across different countries and contexts, to identify the best practices and challenges in different settings.

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