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Compliance with International Standards on Auditing (ISA) As a Framework for Reducing Audit Risk and Narrowing the Expectation Gap: A Comparative Study of Saudi SABIC Company and the Algerian BIOPHARM Group.

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ABSTRACT

This study aims to evaluate the role of compliance with International Standards on Auditing (ISA) in reducing audit risk and narrowing the expectations gap, through a comparative analysis of the external auditor reports of both SABIC (Saudi Arabia) and BIOPHARM (Algeria). The study is based on the premise that the actual level of compliance with ISA standards, particularly those related to risk-based auditing and reporting transparency, is a crucial factor in improving audit quality and enhancing users' understanding of the auditor's liability. The study adopted a descriptive-analytical approach to develop its theoretical framework, drawing on peer-reviewed literature on auditing standards, audit risk, and the expectations gap. For the practical application, a comparative approach and content analysis were employed, examining the published external auditor reports of the two companies under study. The measurement tool was an ISA checklist designed according to the requirements of international standards related to planning, risk assessment, audit evidence, going concern, and report structure. The qualitative assessment results were then translated into quantitative indicators to measure the degree of compliance. The study results showed that SABIC's report demonstrated a high degree of compliance with modern ISA standards, particularly regarding the disclosure of key audit matters, the clarification of the risk-based audit methodology, and the responsibilities of stakeholders. This contributed to reducing audit risk and narrowing the expectations gap. In contrast, BIOPHARM's report showed partial compliance with the standards, with the absence of some essential requirements. This limited the areport's effectiveness in managing audit risk and enhancing communication with users. The study concludes that there is a positive relationship between the level of compliance with International Auditing Standards and the reduction of audit risk and the

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expectations gap. This relationship is influenced by the regulatory context and the level of professional practice maturity.

Keywords: International Auditing Standards, audit risk, audit expectations gap, external auditor's report, risk-based audit, audit quality.

I. Introduction

External auditing is a cornerstone of ensuring the credibility of financial reports and enhancing the effectiveness of governance systems in modern business environments, particularly given the continuous expansion of operations and the increasing complexity of economic transactions. International interest in professional auditing standards has grown with the emergence of a need for a framework that ensures consistency in auditing practices and mitigates the risks associated with issuing an inaccurate opinion on financial statements. In this context, International Standards on Auditing (ISA) have emerged as a comprehensive reference framework that defines procedures for planning, risk assessment, evidence gathering, and opinion formation, thereby ensuring a reasonable level of certainty regarding the absence of material misstatement in financial statements.

At the regional level, Saudi Arabia and Algeria have adopted these standards to varying degrees through their regulatory and professional bodies. This is expected to contribute to raising the level of transparency and disclosure and improving the quality of financial outputs for companies listed on the stock market. BIOPHARM Algeria and SABIC are prominent examples of companies attempting to implement these standards within a large and complex industrial environment, given the diversified nature of their activities, their international reach, and their adherence to stringent disclosure requirements. Analyzing the external auditor's report provides a valuable opportunity to examine compliance with International Standards on Auditing (ISAs) and to determine the impact of this compliance on reducing audit risk, on the one hand, and narrowing the expectations gap between auditors and users of financial statements, on the other.

Despite the importance of professional developments in the field of auditing, the expectations gap remains a persistent challenge in most business environments. Users' understanding of the nature of auditing and its limitations often differs from what professional standards permit. This discrepancy becomes more complex as the risks associated with accounting estimates or the evaluation of material financial events increase. Hence, the need arises for a comprehensive study exploring the relationship between compliance with ISAs and audit risk management, and the extent to which this can reduce the expectations gap in large organizations such as BIOPHARM Algeria and SABIC.

Research Problem

The research problem stems from the following main question:

To what extent does adherence to International Auditing Standards (IAS) contribute to reducing audit risk and narrowing the expectations gap, based on the findings of the external auditor's report for BIOPHARM Algeria and SABIC?

Sub-Questions

Based on the main research problem, the following sub-questions can be posed:

a) To what extent does the external auditor's report for BIOPHARM Algeria and SABIC adhere to the International Auditing Standards related to audit risk management?

b) How does this adherence contribute to reducing audit risk related to the detection of material misstatements?

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c) What role does adherence to the standards play in narrowing the expectations gap among users of the company's financial statements?

d) What is the nature of the relationship between audit risk management and the level of user expectations, according to the auditor's report for BIOPHARM Algeria and SABIC?

Study Hypotheses

Based on the preceding sub-questions, the following research hypotheses can be formulated:

a) Adherence to International Auditing Standards (IAS) in the auditor's report for BIOPHARM Algeria and SABIC is high and complies with professional requirements.

b) Adherence to IAS contributes to reducing audit risk by improving planning and risk assessment procedures.

c) Applying IAS reduces the expectations gap between auditors and users of financial statements.

d) There is a positive relationship between the effectiveness of audit risk management and a reduction in the expectations gap among users of financial reports.

Significance of the Study

The significance of this study lies in monitoring professional perceptions to understand how adherence to IAS impacts the level of audit risk, and in analyzing the role of this adherence in narrowing the gap between what the auditor actually delivers and what users expect. The research is further significant given the scarcity of applied studies that rely on direct analysis of the content of independent audit reports of major industrial companies in the region, thus giving it added scientific and professional value.

Study Objective

This study aims to analyze the level of compliance with International Auditing Standards (IAS) in the external auditor's report for BIOPHARM Algeria and SABIC for the year 2024, and to determine the impact of this compliance on reducing audit risk and narrowing the expectations gap. This will be achieved through a case study based on content analysis of the external auditor's report published on the official digital platforms of the two companies under study.

Spatial and Temporal Scope

a. Spatial Scope: The study is limited to BIOPHARM Algeria and SABIC as case studies representing an industrial company operating within a regulatory environment that adopts IAS.

b. Temporal Scope: The study relies on the financial statements and the external auditor's report, based on their most recent published reports for the years 2023 and 2024.

Methodology

The research employs a descriptive-analytical approach in its theoretical aspect, reviewing the literature related to auditing standards, audit risk, and the expectations gap. On the practical side, content analysis was used to assess the extent to which the external auditor's report for the SABIC Group complied with International Standards, relying on the ISA Checklist, a measurement tool designed in accordance with the relevant standards provisions related to planning, risk assessment, audit procedures, and reporting.

Research Structure

This study consists of two main axes:

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The first axis addresses the theoretical framework, which includes International Standards on Auditing, audit risk, and the expectations gap. The second axis focuses on the applied study through content analysis of the external auditor's report for BIOPHARM Algeria and SABIC. It assesses the impact of compliance with standards on audit risk and the expectations gap, leading to conclusions and recommendations.

II-The Theoretical Framework of International Auditing Standards (ISA)

Delving into the heart of financial auditing requires a suitable theoretical foundation, which is provided by International Auditing Standards (ISAs). Issued by the International Auditing and Assurance Standards Board (IAASB), these standards represent the methodological framework that unifies auditing practices globally and aims primarily to ensure the quality and international consistency of the audit process. This theoretical framework rests on fundamental pillars, most notably the auditor's obligation to adhere to the principles of complete independence and professional integrity. The standards also emphasize the importance of sound engagement planning and the accurate collection of sufficient and appropriate audit evidence. The desired outcome is to enable the auditor to formulate an impartial and reliable professional opinion on the fairness of the financial statements, in accordance with the adopted financial reporting framework, thereby enhancing the confidence and credibility of the financial information provided to users of the statements internationally.

1.The Concept and Importance of International Auditing Standards

International Auditing Standards are the most widely adopted reference framework for ensuring the quality and effectiveness of financial audit work globally, as they provide a comprehensive methodology for conducting audits based on clear professional principles. In this context, understanding the concept of these standards is particularly important for comprehending the nature and scope of the audit process.

They can be defined as follows: International Standards on Auditing (ISA) are a set of professional standards that define the responsibilities and objectives of the independent auditor, clarify the nature and scope of the audit process, and establish the legal and regulatory framework for the process. This ensures the auditor's independence and compliance with professional requirements when examining financial statements (Rizalnur & Nugraha, 2020, p. 76).

The importance of International Standards on Auditing lies in their role as a pivotal framework for improving audit quality and enhancing professional practices. This is due to their adoption of a risk-based approach, their focus on professional judgment and critical thinking, and their reinforcement of the role of governance in the audit process. These standards contribute to aligning audit practices with global requirements, thereby increasing transparency and credibility and supporting the quality of education and training outcomes in accounting and auditing (Tyasari, 2025, pp. 180-181).

2. The General Scope of International Auditing Standards

As stated in International Standard on Auditing (ISA) 200, the general scope of International Auditing Standards encompasses the complete framework for regulating the work of the independent auditor. This includes the auditor's responsibilities and objectives, the assessment of material misstatement risks, the design of appropriate procedures for gathering evidence, the format of the final report, and disclosure requirements. These standards define the nature of the audit process, the level of assurance that can be achieved, and the relationship between the auditor, management, and governance, ensuring professional consistency and high transparency in the examination of financial statements (IAASB, IAS 200, 2016, pp. 1-2).

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3.The Role of Standards in Enhancing the Efficiency and Effectiveness of the Audit Process

International Standards on Auditing (ISAs) are the most widely used professional framework for regulating and controlling audit practices. Recent literature has addressed the impact of these standards on enhancing audit efficiency and effectiveness. Haapamaki and Sihvonen (2019) have shown that research on the application of ISAs falls into several categories, most notably audit efficiency. This reflects the importance of these standards in improving the utilization of effort and resources within the audit process. The researchers also pointed out that adopting International Standards on Auditing (ISAs) leads to improved consistency, quality, and efficiency in audit procedures. These standards provide a unified framework that reduces variability among auditors and supports more disciplined and transparent procedures. Their analysis shows that standardizing professional practices contributes to increased planning and execution effectiveness by enhancing the ability to identify risks and focus efforts on the most critical issues, thus improving the use of time and resources.

The empirical evidence reviewed by the researchers indicates that adopting international standards is associated with a tangible improvement in the quality of audit outputs and the efficiency of auditors' efforts, thereby enhancing the reliability of audit results. The results also demonstrate that standardized procedures enable auditors to collect relevant evidence more efficiently, which contributes to reducing audit risks and improving the ability to make sound professional judgments. Based on the above, it is clear that International Standards on Auditing are not merely regulatory rules, but rather a fundamental factor in enhancing the efficiency and effectiveness of the audit process by improving the quality of procedures, standardizing professional practices, reducing performance variability, and enhancing auditors' ability to identify and manage risks effectively. I. Audit Risk

Audit risk is a central concept in auditing practices, reflecting the possibility that an auditor may issue an inappropriate opinion about financial statements due to insufficient evidence or undetected errors. This risk arises from various factors, including the nature of the business, the internal control system, and the complexity of financial operations. Therefore, auditors focus on accurately assessing this risk to ensure that efforts are directed toward the most sensitive areas and to enhance the credibility of the audit process and the quality of its outputs.

What is Audit Risk? Initially, audit risk was associated with the use of statistical sampling, and the concept of risk was expressed using terms derived from it, consistent with the inductive research method. These terms included confidence level, plausibility, and probability. Audit risk is defined as the risk that an auditor may unintentionally fail to modify their opinion appropriately regarding financial statements that contain a material misstatement (Awadallah & El-Said, 2016, p. 367). Audit risks arise from multiple sources, including: insufficient information provided by the client, weak internal control systems, management fraud, and changes in laws and regulations (Meng, 2024).

III- Audit Risk

Audit risk has been defined by numerous researchers and auditing bodies due to its crucial importance to both the auditor and the audited entity. We will attempt to provide the most important definitions of audit risk below:

- The American Institute of Certified Public Accountants (AICPA) defines audit risk as: the risk that the auditor may, unknowingly, fail to modify their opinion on materially misrepresented financial statements (ettamimi, 2006, p. 53).

- It is defined by the US Auditing Standards Bulletin No. (7), Section (312), Paragraph (2) as: the risk of the auditor unintentionally failing to modify their opinion appropriately on financial

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statements that contain material misrepresentations, without their knowledge (lakhdari & zine, 2020, p. 125). Audit risk is defined as the possibility of errors in financial statements, even after auditing, arising from an unqualified opinion on financial statements that are materially misrepresented, and the auditor's failure to detect these misrepresentations during the audit process (echalhaa, 2015, p. 145).

It is also defined as the possibility that the auditor will issue an incorrect opinion about financial statements when those statements contain a material misrepresentation (Enas & Norhayati, 2023, p. 5). In light of the preceding definitions, it is clear that audit risk all revolves around a fundamental concept: the possibility of the auditor issuing an inappropriate opinion regarding financial statements containing material misrepresentations, due to an unintentional failure to detect or properly assess those misrepresentations. These definitions combine three central elements: the existence of a material misrepresentation, an unintentional deficiency in the auditor's procedures, and the auditor's eventual issuance of an incorrect opinion. Some definitions focus on the professional and ethical aspect of the auditor's role, considering their lack of awareness of the error, while others highlight the procedural dimension related to the audit's ability to detect it. Accordingly, a comprehensive definition can be formulated as follows: Audit risk is the possibility that the auditor will issue an inappropriate opinion on the financial statements due to the failure to detect or adequately assess material misstatements, despite the execution of audit procedures, leading to the unintentional acceptance of incorrect information.

1.Types of Audit Risk

Arzhenovskiy, Bakhteev, Sinyavskaya, and Hahonova (2019, p. 75) argue that the classical model of audit risk relies on breaking down risks into several levels. The factors for the first and second levels in this model remain the same as in the classical model: material misstatement risk and non-detection risk. The risk of material misstatement is broken down into two components: inherent risk and control risk. There is broad consensus among professional bodies and relevant stakeholders regarding the types of audit risk, and all standards and rules agree that all audit risks fall into three main categories:

2. Inherent Risk: This is a risk that is difficult for the auditor to detect and is directly related to the organization's environment and nature. It is also defined as the susceptibility of an account balance or a class of transactions to material misstatement (HELLIAR, MONROE, & WOODLIFF, 1996, p. 45). According to the above definition, inherent risk is a form of audit risk that arises from the possibility of material misstatement in a specific item or group of items, such that the accumulation of these misstatements leads to a material error affecting the financial statements, assuming the absence of any internal control system related to these items. These risks are linked to the nature of the organization and the characteristics of its internal and external environment. They are difficult for auditors to detect because they can accumulate over long periods, complicating the tracking and evaluation process. These risks represent the susceptibility of certain accounts or transactions to material misstatements, making their detection and evaluation more challenging for the auditor, especially in the absence of effective internal controls.

3.Control Risks: These risks are directly related to the internal control system. The American Institute of Certified Public Accountants (AICPA) defines control risks as the risk of a material misstatement in a specific account or transaction, either on its own or in conjunction with another misstatement or transaction, that cannot be prevented or detected in a timely manner due to weaknesses in the internal control systems in place.

In other words, internal control risks relate to risks arising from errors in a specific account or group of accounts, or in a group of transactions, that the internal control system fails to detect. - Detection risk: The International Federation of Accountants (IFAC) defines detection risk as the risk

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that substantive audit procedures performed by the auditor may uncover erroneous information in an account balance or a group of transactions that may be substantive, individually, or when combined with erroneous information in other account balances or groups.

4.Audit Risk Model

The audit risk model provides a link between the actions performed by the auditor and the opinion issued. It is used for planning purposes to determine the amount of audit evidence that should be collected in each audit cycle.

The mathematical model for audit risk (ARM) is one of the most important quantitative foundations that auditors rely on to estimate the acceptable level of risk during the audit process. This model is based on the fundamental premise that audit risk is formed from the interaction of three main components: inherent risk (IR), control risk (CR), and detection risk (DR). According to Zaiceanu, Hlaciuc, and Lucan (2015), the mathematical relationship between these elements is expressed in its simplest form as: AR = IR × CR × DR. The importance of this model lies in the fact that it provides an interpretive framework for determining the potential level of material misstatement in the financial statements before the auditor intervenes. The risk of material misstatement is defined as the product of inherent risk and control risk: RMM= IR×CR. This reflects the role of the internal control system in mitigating material misstatements before they reach the auditor's examination stage. Based on the auditor's assessment of both IR and CR, the acceptable level of DR is determined, set at 0.5%. The higher the level of inherent or control risk, the lower the detection risk, which means a broader scope of audit procedures and a greater amount of evidence required to reach a well-supported professional opinion.

The audit risk model, in both its basic and expanded forms, also contributes to systematic audit planning by enabling the auditor to prioritize examination and focus efforts on high-risk areas. Furthermore, the model enhances the consistency of audit decision-making by providing a quantitative formula that helps assess the adequacy and appropriateness of evidence to reach a reasonable assertion about the fairness of the financial statements.

IV-The Expectations Gap in Auditing

The expectations gap in auditing is one of the most prominent challenges facing the auditing profession in recent decades. It reflects a significant discrepancy between what users of financial statements expect from the auditor's role and what the auditor actually delivers according to International Standards on Auditing (ISAs). This gap has been exacerbated by a lack of clarity regarding the nature and limits of the auditor's responsibility, coupled with the increasing demands of financial statement users for absolute assurance regarding the accuracy and validity of financial data and its freedom from errors, fraud, or deception. Hence, the need has arisen to reconsider the concept and dimensions of the expectations gap, contributing to the development of effective mechanisms to narrow it and enhance public confidence in the auditing profession.

1. The Concept of the Expectations Gap

A number of concepts have focused extensively on the expectations gap in accounting auditing, including: - The expectations gap is defined as: the inconsistency between what users expect from the auditor and what the auditor actually performs in terms of responsibilities and procedures. This difference in perceptions reflects a gap between expected performance and actual audit capabilities. The gap is divided into a plausibility gap, related to unrealistic public expectations, and a performance gap, resulting from the discrepancy between audit standards and their actual application. Key Audit Matters Disclosure (KAM) is viewed as a mechanism to reduce this gap by enhancing transparency and improving communication between the auditor and users of financial statements. (Fatkhur, Widya, Syaharani, Octary, & Majidah, 2025, p. 276) The expectations gap is defined as the difference

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between the performance of audit stakeholders and their expectations of that performance. (Çeltikci, 2024, p. 464) The expectations gap is a multidimensional phenomenon involving gaps in knowledge, performance, and development, in addition to functional dimensions related to the auditor's responsibilities regarding fraud, continuity, internal control, and report quality. Addressing the expectations gap requires a comprehensive approach that includes developing standards, raising the quality of professional performance, and improving users' awareness of the auditor's role. The expectations gap can be described as a cognitive and professional discrepancy that arises when societal expectations of the auditor's role exceed their professional and procedural ability to meet those expectations. This gap is formed by the interaction of three levels: the general understanding of the nature of the audit function, the adequacy of the regulatory and normative framework, and the quality of professional work. This gap represents the result of the mismatch between the auditor's primary role and the role expected by users of financial information, and not merely a difference between expected and actual performance.

2.The Relationship Between Audit Risk and the Expectations Gap

This relationship is evident through a number of factors, the most important of which are:

a. High Risk Leads to a Widening Gap:

Massicame, Inácio, and Bastos (2023) argue that audit risk is a pivotal factor in the emergence of the expectations gap between auditors and users of financial statements. High levels of risk, whether related to material misstatements, the possibility of failure, or professional judgment, increase the likelihood of users misunderstanding the limitations of the audit process and its ability to provide assurance. While some parties continue to believe that auditing can provide absolute assurance regarding the absence of material misstatement, fraud, or deception in financial statements, the gap widens due to a lack of understanding of the true nature of reasonable assurance and the residual risks that cannot be entirely eliminated. Conversely, part of this expectations gap stems from users' inadequate understanding of the structure of audit risk, including detection limits, the reliance of auditors on professional judgment, and the factors affecting the detection of misstatements. This leads to expectations that are significantly higher than the actual capabilities of the audit process. Thus, a direct relationship exists between increased audit risk and a widening expectations gap. This gap can be narrowed by enhancing users' awareness of the nature of risks and the limits of the assurance that auditing can provide.

B. Report Clarity Reduces the Gap

The auditor's report represents the final product of the auditor's work and the primary channel through which their impartial opinion on the fairness of the financial statements is expressed. A study by Dashtbayaz, Salehi, and Shiri (2024, p. 24) found a direct relationship between the auditor's report and the expectations gap. This means that the clearer and easier the report is to understand, the smaller the gap between the expectations of financial report users and the auditor's actual responsibilities. Therefore, improving the readability and clarity of audit reports is an effective factor in reducing user misunderstandings and narrowing the expectations gap.

It can be argued that this paragraph reflects a convincing explanation of the relationship between audit risk and the expectations gap, but it shows an excessive focus on user perception without discussing the role of professional practice quality or standards deficiencies in creating the gap. It also assumes a direct correlation between increased risk and a widening gap, while mediating variables such as auditor experience, digital audit tools, or the strength of governance may also play a role. Regarding report clarity, the paragraph presents a logical conclusion supported by the literature, but it relies on a one-sided perspective. It does not distinguish between formal clarity and informational content, and both may affect the expectations gap differently.

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V-Applied Study – The Case of SABIC Saudi Arabia and BIOPHARM Algeria

Adherence to International Standards on Auditing (ISA) forms the theoretical framework upon which the process of assessing audit risks and reducing the expectations gap is based, as analyzed in the theoretical section of this research. However, the effectiveness of these standards can only be accurately assessed by testing them in field contexts that differ in their regulatory environments and levels of organizational maturity. Hence the need to move to the applied section, where the extent to which both SABIC Saudi Arabia and BIOPHARM Algeria adhere to the requirements of the International Standards will be examined, and the impact of this adherence on audit risk management and reducing the expectations gap between auditors and users of financial information will be analyzed. This comparative analysis allows for the embodiment of theoretical concepts in practical reality and demonstrates how the application of standards can enhance audit quality in different regulatory environments, thus linking the conceptual framework to the practical reality of the study.

1. Study Methodology and Measurement Tool

a. Methodology Used

- Descriptive-analytical approach and comparative approach

- Content analysis of the external auditor's report for the two companies under study

b. Data Sources

- SABIC's published annual financial report

- Biopharm Algeria's published external auditor's report

2. Compliance Assessment Mechanisms and Final Measurement Tool: ISA Checklist

In assessment tools (checklists), qualitative responses such as yes, partially, and no are converted into percentages to quantitatively measure the degree of compliance. (Molléri, Petersen, & Mendes, 2019) The most commonly used academic standard (in peer-reviewed studies and professional applications) employs the following conversion:

Standard conversion of percentages

Interpretation	*%*	*Answer*
Full commitment / Verify the item without any omissions	100%	Yes
Average commitment / Incomplete item verification or limited verification	50%	Partially
Non-compliance / Complete absence of the clause	0%	No

Assessing ISA Compliance in the Reports of the Two Companies Under Study

Assessing the extent to which the companies under study adhere to International Standards on Auditing (ISA) is a crucial step in understanding the quality of auditing practice and its impact on audit risk and the expectations gap. Analyzing the audit reports of both SABIC (Saudi Arabia) and BIOPHARM (Algeria) allows for measuring the actual level of compliance with the standards' requirements, particularly regarding risk assessment, evidence documentation, and report clarity. This enables the identification of strengths and weaknesses in practical application.

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A. Comparison of the Application of International Standards on Auditing in the Annual Reports of the Two Companies:

Based on the independent auditor's report of SABIC (Saudi Arabia) and the audit file of BIOPHARM (Algeria), the analysis also includes direct reference to the appropriate statement immediately following the judgment from the report for each company.

- General Axis: General Objectives, Independence, Responsibilities (ISA 200, 220, 700)

N	***Evaluation Item***	***Standard***	***SABAIC Saudi Arabia***	***BIOPHARM Algeria***
1	The declaration is intended to obtain reasonable assurance that the lists are free from material .misrepresentation	ISA 200	Yes – the report states that the auditor's objective is to obtain reasonable assurance that the consolidated financial statements are free from material misstatements, whether resulting from fraud .or error	Partially – the auditors' report without explicitly using the term reasonable assurance, but implicitly performing the same .function
2	Explicit reference to the application of adopted international/national auditing standards	‹ISA 200 220	Yes – we conducted our audit in accordance with international auditing standards adopted in the .Kingdom of Saudi Arabia	Yes - the report states that it was completed in accordance with the laws derived from the Algerian financial and accounting system, which is equivalent to the local framework that is partially .compatible with ISA
3	Disclosure of independence and commitment to the code of ethics	‹ISA 200 220	Yes – Text: We are independent of the group in accordance with the International Code of Professional Conduct and …Ethics	Partially - the auditors' report refers to the practice of the task without detailing the reference to an international code of ethics, which is a traditional formulation and not complete in the ISA .concept
4	Clearly outline the responsibilities of management and the auditor in separate .paragraphs	‹ISA 200 700	Yes – the sections on management responsibilities, governance officials, and auditor responsibilities are clearly detailed on separate .pages	Yes, but less detailed – there is a section that explains the responsibilities of the board of directors in preparing the financial statements and the responsibility of the auditors to give an opinion, but with a lower degree of detail than the ISA 700 .model

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

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-Planning and Assessment of Material Misrepresentation Risks (ISA 300, 315, 320, 330)

N	*Evaluation Item*	*Standard*	*SABAIC Saudi Arabia*	*BIOPHARM Algeria*
1	Reference to the planning and design of the review based on risks.	ISA 300، 315، 330	Yes – Our audit methodology section – Overview states that the audit design is based on assessing the risk of material misstatements and determining materiality.	Partially – the BIOPHARM report states that the auditor, in accordance with the standards, referred to the risk assessment, but without detailing the risk-based methodology.
2	Materiality is mentioned as an element in audit planning.	ISA 320	Yes - it was included in the review methodology section in the design of audit procedures.	No/Implicit – The concept of materiality is not explicitly mentioned in the auditors' report, although it is applied in practice within the professional framework.
3	The text addresses the assessment of the risks of material misrepresentation due to fraud or error.	ISA 315	Yes – identifying and assessing the risk of material misstatements in consolidated financial statements, whether resulting from fraud or error...	Partially – the BIOPHARM report indicates the possibility of discrepancies in the lists, without clearly distinguishing between fraud and error or explaining the evaluation mechanism in detail..
4	Understanding and evaluating the internal control system for the purpose of test design	ISA 315	Yes – gaining an understanding of internal control systems... for the purpose of designing audit procedures appropriate to the circumstances...	Partially – BIOPHARM's wording mentions that the auditor took internal control into account in determining the nature of the tests, but there is no separate paragraph for the responsibility for evaluating control as in ISA.

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

-Audit Guidelines and Procedures (ISA 500–610)

N	*Evaluation Item*	*Standard*	*SABAIC Saudi Arabia*	*BIOPHARM Algeria*
1	The declaration that sufficient and appropriate evidence has been obtained as a basis for an opinion	ISA 500	Yes – we believe that the audit evidence obtained is sufficient and appropriate as a basis for expressing our .opinion	Yes –: We believe that the evidence we have obtained is sufficient and .appropriate to form our opinion
2	Reference to the use of professional	،ISA 200 500	Yes – we exercise professional diligence and	Yes – the BIOPHARM report does address professional skepticism in

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	skepticism and professional judgment		maintain professional skepticism throughout the .review process	.evaluating evidence, but in brief terms
3	Using analytical procedures and tests on accounting estimates	،ISA 520 540	Yes – in key aspects of impairment auditing, the use of discounted cash flow models, sensitivity testing, and assumption evaluation .are mentioned	Partially – the BIOPHARM report refers to examining the estimates and consistency of the assumptions presented, without detailing the analytical tools as in the main aspects .of the audit
4	Seek expert assessment when needed	ISA 610	Yes – the key aspects of the audit include the use of internal valuation experts .to analyze impairment	Not explicitly stated – the BIOPHARM report does not explicitly mention the use of independent experts, although .this is practically possible

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

-Continuity (ISA 570)

N	***Evaluation Item***	***Standard***	***SABAIC Saudi Arabia***	***BIOPHARM Algeria***
1	Statement of management's responsibility for assessing the entity's ability to continue as a going concern	ISA 570	Yes – management is responsible for assessing the group's ability to continue as a going concern and disclosing matters …related to going concern	Partially – the BIOPHARM report implicitly indicates that management prepared the lists on a going concern basis without an expanded paragraph on management's responsibility for .assessing going concern
2	Statement of auditor's responsibility for assessing the existence of material uncertainty related to going concern	ISA 570	Yes – the auditor's responsibilities section clarifies that they assess the existence of a material uncertainty that could cast significant doubt on the group's ability to continue …as a going concern	No / Very weak – There is no separate paragraph on the assessment of substantial uncertainty regarding continuity in the BIOPHARM report, but .continuity is implicitly assumed

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

-Key aspects of auditing (ISA 701)

N	***Evaluation Item***	***Standard***	***SABAIC Saudi Arabia***	***BIOPHARM Algeria***
1	There is a separate section entitled "Key Matters in the "Review	ISA 701	Yes – a whole section dedicated to key audit matters deals with the issue of the decrease in the value of property, plant and .equipment	No – the Algerian system does not impose key auditing matters in auditors' reports, and there is no similar section in the .BIOPHARM report

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2	Explain why the topic is considered a key aspect of auditing and state the degree of .risk	ISA 701	Yes – it explains that the main issues in auditing are due to the high judgments and estimates and the uncertainty inherent in .degradation tests	Not available – the main points of the audit are not included, and .therefore there is no explanation

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

-Other information (ISA 720) and report structure (ISA 700, 706)

N	***Evaluation Item***	***Standard***	***SABAIC Saudi Arabia***	***BIOPHARM Algeria***
1	There is another information section that distinguishes between the auditor's responsibility for the lists and the rest of the report.	ISA 720	Yes – a separate paragraph entitled Other Information clarifies that the review does not cover the entire content of the Integrated Annual Report.	No – there is no similar paragraph in the auditors' report; the focus is solely on the legal statements.
2	The opinion report must include the following elements: Opinion paragraph – basis for opinion – responsibilities paragraph – Signature – date	ISA 700، 706	Yes, and in full – the opinion, the basis of the opinion, the responsibilities, the key matters in the audit, other information, the signature and date.	Yes, but without the key audit matters and other information – the BIOPHARM report contains an opinion paragraph, basis of opinion, responsibilities, legal checks, signature and date, but it does not include the key audit matters or Other Information, reflecting a model prior to ISA 701/720.

Source: Prepared by the researchers based on: (BIOPHARM, 2023) and (SABIC, 2024)

A- Analysis of the preceding tables between the BIOPHARM Algeria report and the SABIC Saudi Arabia report

- General Framework for Comparison

The audit reports of both SABIC Saudi Arabia and BIOPHARM Algeria reflect two fundamental differences: The first relates to the regulatory and standard framework; SABIC is subject to the requirements of the Saudi Organization for Certified Public Accountants (SOCPA) and the Capital Market Authority, with explicit adoption of International Standards on Auditing (ISA) in its updated form. BIOPHARM, on the other hand, operates under a local system derived from the financial accounting system, applying national standards similar to ISA but without fully adopting all its modern annexes, particularly regarding key audit matters and other information. The second difference relates to the report's message and its role in managing audit risks and reducing the expectations gap; SABIC's report focuses on clarifying the risk-based audit methodology, while

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BIOPHARM's report remains closer to the tradition of legal certification of the regularity and accuracy of the financial statements.

-Comparison of the Formal Structure of the Two Reports

The SABAIC 2024 report is structured according to ISA 700 and beyond; it begins with the opinion paragraph, followed by the basis for the opinion, then the key audit matters section, then other information, and finally a breakdown of the responsibilities of management, those responsible for governance, and the auditor. In contrast, the BIOPHARM Group's 2023 auditors' report follows the traditional French structure: an introduction outlining the audited financial statements, an opinion paragraph confirming that the statements present a fair and regular picture, a basis for the opinion documenting the professional background, followed by a section on special verification and legal obligations, and finally a brief overview of the responsibilities of management and the auditors.

This difference in structure is not merely formal; it also reflects the level of development of the audit system. The inclusion of key audit matters and other information in the SABAIC report is a direct response to the requirements of ISA 701 and ISA 720, which aim to enhance transparency in communication with users and reduce the expectations gap. In contrast, the absence of such information in the BIOPHARM report means that users do not clearly see the higher-risk areas or the limits of the auditor's responsibility for the non-audited parts of the annual report.

-Audit Risk Management in Light of ISA

The SABAIC report addresses audit risk explicitly. The auditor declares that they have identified and assessed the risk of material misstatements due to fraud or error and that they have designed their response based on this risk, taking into account the internal control system without expressing an opinion on its effectiveness.

Furthermore, the presentation of key audit matters related to the impairment of property, plant, and equipment demonstrates how audit risk (especially the risks inherent in complex valuations) is translated into specific actions: the use of cash flow models, sensitivity testing, assumption evaluation, and the engagement of valuation experts. This report thus constitutes a practical application of the audit risk model (AR = IR × CR × DR), highlighting areas with high IR and linking them to targeted actions to reduce DR.

While the BIOPHARM report acknowledges the risk of significant misstatements and states that the auditor used professional judgment and sufficient and appropriate evidence, it does not explicitly link this to the concept of risk-based auditing as presented in ISA 315 and ISA 330, nor does it identify the areas most exposed to risk for the external user.

The risk assessment is implicit, but its demonstration to the user is relatively weak compared to the SABAIC report, thus limiting the report's ability to clarify how audit risks are managed in sensitive areas.

-Going Concern and the Expectations Gap

In the SABAIC Saudi Arabia report, the issue of going concern is clearly addressed in the management and auditor responsibilities sections. Management is obligated to assess the group's ability to continue as a going concern and disclose any material doubts, while the auditor is obligated to assess the existence of a material uncertainty that could raise significant doubt about the company's ability to continue as a going concern. This approach presents the user with the reality that the responsibility for identifying going concern issues is shared but specific, bringing their understanding closer to the limits of the auditor's role in this area. This helps reduce the expectations gap regarding what an audit can guarantee concerning the entity's future.

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In the BIOPHARM report, there is no separate treatment of going concern; the report implicitly assumes that the financial statements were prepared on a going concern basis without clearly stating the responsibilities of management and the auditor in assessing this assumption. This leaves a gap in expectations, as the user might mistakenly assume that the auditor implicitly guaranteed the company's going concern simply because they issued an unqualified positive opinion.

Key Audit Issues and Other Information as Mechanisms for Reducing the Expectations Gap

At SABAIC, Key Audit Issues are central to communication regarding high-risk areas and sensitive assessments. Selecting impairment as the Key Audit Issue, explaining the rationale behind this selection, and outlining the actions taken, allows the user to understand where the auditor's efforts are focused and why.

The Other Information section clearly indicates that management is responsible for the remaining parts of the Integrated Annual Report, and the auditor's role is limited to comparison and ensuring consistency with the audited financial statements.

This distinction reduces the unrealistic expectation that the auditor is responsible for every single word in the annual report.

At BIOPHARM, the absence of Key Audit Issues and Other Information means the user is unaware of which areas the auditor deemed most critical, where the audit tests were concentrated, and whether certain aspects of corporate communication might not even be included in the audit. This exacerbates both the standards gap and the performance gap, as the user bases their expectations on a generalized mental model of the audit rather than on the communicative information provided by the ISA report.
Comparative Summary

The differences between the two reports can be summarized as follows:

-Formal Compliance with ISA

SABAIC Report: Near-complete compliance with ISA 200–720, including key audit matters and other information.

Biopharm Report: Good compliance with the traditional structure derived from the French system (opinion, basis, responsibilities), but without applying ISA 701 and ISA 720.

-Audit Risk Governance

SABAIC Report clearly demonstrates how audit risks are managed, particularly in the area of impairment.

BIopharm Report alludes to risk assessment and evidence, but does not explain them in sufficient detail to allow the user to understand the level of risk versus the procedures.

-Reducing the Expectations Gap

SABAIC Report provides strong communication that reduces the expectations gap: key audit matters, other information, and the responsibilities of the parties.

BIopharm Report remains within the framework of legal certification of the accuracy of the financial statements, with a limited explanation of the auditor's role and scope of work, thus leaving the expectations gap wider.

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VI-Conclusion

This study, within its theoretical and applied framework, aimed to analyze the relationship between audit risk and the expectations gap, and to evaluate the role of compliance with International Standards on Auditing (ISA) in reducing this gap. This was achieved by comparing the application of these standards in two companies operating in different regulatory environments: SABIC in Saudi Arabia and BIOPHARM in Algeria. The study reached key findings that represent a comprehensive summary for understanding the phenomenon under investigation, as follows:

-The expectations gap is not a one-dimensional phenomenon, but rather a complex structure in which users' perceptions interact with the auditor's professional capabilities, the limits of the standards, and the regulatory environment.

-Audit risk, whether related to material misstatements, internal control risks, or the potential for failure of professional judgment, plays a pivotal role in widening the gap as the level of complexity and uncertainty in the audit environment increases.

-The clarity and readability of the audit report effectively contribute to reducing misunderstandings among users of financial information, thereby enhancing their understanding of reasonable assurance limits and reducing unrealistic expectations. In terms of applied findings, the study revealed the following:

-Adherence to ISA standards is a crucial factor in improving the quality of audit procedures and reducing the expectations gap. It provides a professional framework that governs the process of risk assessment, determining the nature of the evaluation, documenting evidence, and communicating with users of financial statements.

-Strict adherence to International Standards on Auditing (ISAs) directly enhances the quality of professional judgment and the reliability of the report, thus contributing to narrowing the gap between what users expect and what the auditor actually delivers.

-A comparison between the two companies studied, SABIC and BIOPHARM, reveals clear differences in the level of compliance. SABIC benefits from a mature regulatory and supervisory environment that encourages the advanced application of standards, while BIOPHARM faces challenges related to varying levels of professional experience and weak governance, which partially affect the effectiveness of its compliance with ISAs.

-The study confirms a positive relationship between the maturity of professional practices in the audit environment and a reduction in the expectations gap. This highlights the importance of training and the adoption of continuing professional development programs. - The level of users' awareness of audit issues is a significant factor in shaping their expectations and the extent to which these expectations align with professional reality.

Based on the preceding findings, the study highlights the direct relationship between adherence to International Standards on Auditing (ISAs) and reduced audit risk. The accurate application of these standards is a fundamental mechanism for minimizing uncertainty and improving the quality of professional assessments. This adherence contributes to narrowing the expectations gap by enhancing reporting transparency, clarifying auditor responsibilities, and improving communication with users. Accordingly, the study offers several recommendations, the most important of which are:

-Strengthening auditors' commitment to ISA standards.

-Intensifying specialized training programs.

-Updating the legislative and regulatory framework to support compliance.

-Developing corporate governance systems to improve the quality of financial reports.

The study also suggests future research into comparative studies of different audit environments, examining the impact of digitalization on audit risk management and narrowing the expectations gap, and analyzing the role of audit committees in supporting professional compliance within organizations.

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