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Extent of External Auditors Compliance with Audit Risk Model: Evidence from Palestine

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Abstract

The main goal of the study is to explore external auditors' compliance with Audit Risk Model (ARM) in Palestine and to explore preferred responses to assessed level of risks from external auditors' perspective. To achieve research objectives, exploratory methodology is followed. It is applied by descriptive analysis of literature from both primary and secondary sources. In addition, a comprehensive survey of 75 external auditors are investigated by a questionnaire. The study finds that; (1) External auditors highly comply with Audit Risk Model (ARM); (2) External auditors prefer to respond to assessed risks by increasing sample size, perform additional audit tests and allocate more audit evidences; (3) Audit risk valuation is documented by descriptive technique and as percentages. In addition to that, results of risk assessment are integrated using professional judgment and computer programs. The study recommends external auditors to give interest to training and professional learning specially in the field of risk-based auditing and to increase the effectiveness of professional bodies role in controlling the profession and to review law number 9/2004 which controls audit profession to develop conditions of giving license for practitioners.

Keywords: Audit Risk Model, Risk Based Audit, External Audit, Audit Risk.

مدى التزام المدققين الخارجيين بنموذج مخاطر التدقيق في فلسطين

الملخص:

هدفت الدراسة إلى استكشاف مدى التزام المدققين الخارجيين في فلسطين بتطبيق نموذج مخاطر التدقيق، والتعرف على الاستجابات المفضلة لدرجة المخاطر المقدرة من وجهة نظر المدققين الخارجيين. لتحقيق ذلك اتبعت الدراسة المنهج الاستكشافي، وذلك من خلال تطبيق الأسلوب الوصفي في مراجعة الأدبيات السابقة بالإضافة مسح شامل لآراء 75 مدقق حسابات خارجي عن طريق استبانة صممت لهذا الغرض. توصلت الدراسة إلى عدة نتائج أهمها، (1) يلتزم المدققين الخارجيين في فلسطين بتطبيق نموذج مخاطر التدقيق (2) تتمثل الاستجابات المفضلة لمستوى المخاطر المقدر في زيادة حجم العينة وتنفيذ المزيد من الاختبارات التفصيلية بالإضافة إلى تجميع المزيد من أدلة التدقيق، (3) يقوم المدققين الخارجيين الفلسطينيين بتوثيق عملية تقييم المخاطر بالأسلوب الوصفي و على شكل أرقام ونسب مئوية (4) كما توصلت الدراسة إلى أنه يتم دمج نتائج تحليل المخاطر بتوظيف الحكم المهني و باستخدام بعض البرامج الحاسوبية. وقد أوصت الدراسة بضرورة الاهتمام بالتعليم و التدريب المهني خاصة في المجالات التي تتعلق بالتدقيق المبني على المخاطر، وزيادة فعالية الدور المنوط بالمؤسسات المهنية في الرقابة على مهنة تدقيق الحسابات والعمل على تحسين شروط و متطلبات ممارسة المهنة بما يضمن جودة الأداء و كفاءة الممارسين لمهنة التدقيق الخارجي.

كلمات مفتاحية: نموذج مخاطر التدقيق مخاطر التدقيق الخارجيين التدقيق على اساس المخاطر

1. Introduction

Early, in the beginning of 21st century audit expanded beyond the traditional audit. New trends go toward business and process risk assessment, the value of the assurance provided by the external audit is evaluated base on the ability of minimizing critical risks. The new audit approach emphasizes several changes in the audit strategy which is affected by the level of uncertainty and risk that increase possibilities of audit failure. Therefore, increasing the quality of audit requires proper allocation of efforts based on the assessed levels of risks (Peter, 2013). Many changes are imposed by new trends of audit, include changes in audit team structure, changes in administration and timing of the engagement, changes in risks addressed and evidences collected through audit mission and increase the need for value added services (Eilifsen, et al., 2001).

In addition, ISA 315 requires auditors to assess risk in both financial statement level (detection risk) and assertion level (inherent and control risk), these risks are referred to in the audit literature as Audit Risk Model which promotes a risk-based approach to allocate audit efforts, in other words this model acts as a planning guidance for the auditors (Blay, Kizirian, & Jr, 2008).

The application of audit risk model reduces the level of fraudulent financial reporting through the detection of misstatement in audit practice (Peter, 2013). Audit risk model is a normative model established to help auditors in making decisions relate to risk assessment and developing overall audit plan. Preliminary risk assessment is appropriate for deciding audit evidence mix, staff of the engagement and analytical procedures to be performed (Blay, et al., 2008).

2. Research problem

The second standard of field work standards of Generally Accepted Auditing Standards (GAAS) issued by American Institute of Certified Public Accountants (AICPA) required auditors to obtain sufficient understanding of the auditee and its environment considering internal control in the purpose of risk of material misstatement of financial statement assessment (Strother 1975). In addition to that, international standers on auditing (ISA 300) requires the auditor to develop an audit plan to reduce audit risk level to an acceptable level, also ISA 315 requires the auditors to obtain a sufficient understanding of auditee industry, nature of its business, its goals and strategies and associated risk that may result in material misstatement in the financial statement, its financial performance and its internal control (IFAC 2005).

In regard to the nature of businesses in Palestine which are classified as a small and medium size businesses which is expected to be exposed to lack of controls and risks of weak organizational

structures which increase the audit risk, based on this situation auditors have to be cautious when assessing audit risk for such businesses. Moreover, most of large businesses are publicly held and are listed in Palestine exchange committee which raise the external auditors responsibility and risks toward published financial statements.

Previous discussion justifies the problem of this research which is: Measuring the extent of external auditor's compliance with audit risk model in the Palestinian context, and evaluating their response to the evaluated risk; this problem leads to following research questions:

3. Research Questions

The main question of this research is: To what extent do external auditors in Palestine commit to audit risk model? In addition to that, other question will be answered by this study in the context of the problem, these questions are:

- What are the most important factors that affect risk assessment from external auditor's point of view?
- To what extent do external auditors commit to AAR, CR, and IR?
- What are the preferred responses to the assessed level of risk from external auditors point of view?

4. Research objectives

The main aim of this research is to identify the extent of Palestinian external auditor's commitment to audit risk model. Beside the main objective researchers tried to achieve, there are many other sub objectives.

- 1- To explore the main factors that affect the evaluation and risk assessment from perspective of external auditors in Palestine.
- 2- To identify the auditors' responses to the evaluated factors.
- 3- To assess Palestinian auditors' compliance with the assessment of ARR, CR, and IR?

5. Importance of the research

The importance of this research derived from its main objective which is to identify the degree of external auditors' compliance with audit risk model as a requirement of ISA 315, the researchers also claim that the proper risk assessment play a great role in cost reduction of the audit mission because based on the assessed level of the risk, auditors can decide the level of tests to be performed.

This research identify main factors that affect acceptable audit risk level, inherent risk and control risk, which may represent a mile-stone for coming researches. In addition, it can give

indicators about most important risk factors which play as a guide for auditor's attention in other fields.

In addition, this study directs the attention of professional and governmental bodies to the real situation of the profession specially in the context of risk valuation and mitigation. Also, it spreads a call for educational institution to develop and improve subjects offered by them in the scope of auditing and accounting.

6. Research Variables

There is only one dependent variable of this study, which is the degree of external auditors' commitment with ARM. There are many factors affect external auditors compliance with audit risk model, which is consider as independent factors to be used in the application of a refining process. Refined factors are then classified together in four groups to be tested using questionnaire as independent variables. These independent variables are:

- Acceptable audit risk (AAR) evaluation
- Control risk (CR) evaluation
- Inherent risk (IR) evaluation

7. Research Hypothesis

Ho (1): External auditors do not commit to the assessment and to the evaluation of acceptable audit risk (AAR).

Ho (2): External auditors do not commit to the assessment and to the evaluation of control risks (CR).

H0 (3): External auditors do not commit to the assessment and to the evaluation of inherent risks (IR).

Ho (4): There are no differences between external auditor's commitment to audit risk model (ARM) due to demographic factors at 5% a significance level.

Ho (5): There are no differences between external auditor's responses to the assessed level of risk at 5% a significance level.

8. Previous studies

1.(Rashedi, 2018) The study aimed to identify factors affecting audit risk with taking into account the interdependencies between these factors, thereby applying fuzzy multi-criterion decision support. The study concluded that, audit risks are affected by auditor's professional judgment, Judging the auditee's related declaration degree, and Auditor's understanding of client's business. while inherent and control risk are affected by Process used by internal audit to prevent,

detect and correct errors, Authorization of transaction, and Installation and responsibility division of internal audit department.

2. **(El-Said, 2017)** The study aimed to explore effects of macroeconomic changes on auditors' assessment of audit risks during the engagement, the study where applied in Egypt. To Achieve its objective study used two rounds questionnaire the first round was in 2013 while the second round were in 2017, results of two rounds are compared to test for changes. The study concluded that; In unfavorable economic situation auditors depend on non-financial information to assess audit risk instead of financial information. Also, auditors use analytical procedures cautiously through assigning the duty of analytical procedures for more experienced auditors.

3. **(Baldauf, Steckel, & Steller, 2015)** The aim of the study is to test the effect of audit risk and quantitative guidelines have on assessment of planning materiality and adjustments of material misstatement. A case study experiment is used were the students of audit are considered as practitioners. The study found that risk assessment significantly influences materiality assessment and standardized quantitative materiality guidelines lead to better uniformity of judgment among different auditors and that materiality judgments span a wider range in the absence of quantitative materiality guidelines. In addition, it found that, the implementation of quantitative guidelines does not result in a change of the relative position of the materiality assessment in comparison to when guidelines are absent

4. **(Peter, 2013)** The study aimed to examine the audit risk assessment and detection of misstatement in annual reports to do so the study used books and journals as secondary sources, and a questionnaire as a primary source, respondents were 360 auditors on the sampled 20 accounting firms. The study concluded that the application of Audit Risk Model "statistically and significantly affects the detection of misstatement in the financial statement"; the Audit Risk Model reduces the fraud of financial statements by detecting misstatements in audit performance, in addition, Peter concluded that the model provides evidence to enable auditors to modify their opinion. Recommendations of the study provided in the aim of enhancing the application of Audit Risk Model, it recommended consistently with other studies that CPA firms have to provide its members' training courses to reduce individual's risk tendency.

5. **(Alkhateeb, 2012)** The study aimed to explore the degree of Jordanian auditors' compliance with audit risk model and responds of those auditors to the assessed level of risk using a questionnaire to examine 162 auditors, results showed that there is a limited compliance with the model and revealed the main factor affect each component of the model. Uncertainty about client integrity was the main factor affects accepted audit risk, while control risks were affected

obviously by the absence of accounting system from Jordanian auditors' point of view, indicators of fraudulent financial statements affects inherent risk assessment. Main responds to the assessed level of risks are to maximize the audit sample size. Change the time and level of audit tests and involvement of more experienced audit team.

6.(Almatarneh, 2011) The study aimed to assess Jordanian auditors' compliance with the assessment of Inherent Risks (IR), Control Risks (CR) and Detection Risks (DR). A total of 70 Jordanian auditors were investigated using a questionnaire. Statistical tests such as t-test. Means, standard deviations and one sample t-test were used to reach to the results of applied questionnaire. Results revealed that Jordanian auditors comply with the assessment of the tree risks. Also, the study recommended to train new auditors about how to assess audit risks, strengthen cooperation between internal and external auditors, and impose control over external auditors to ensure that they perform risk assessment procedures and tests.

7.(Law, 2008) The study aimed to evaluate the perception of the reasonable assurance term and the effectiveness of the audit risk model as a helping tool for auditors to gain reasonable assurance about the fairness's of financial statements, to achieve these goals law examined three factors 1- CPA certification, 2- ranks of auditors, and 3- gender. Findings indicated that only CPA certification showed differences in auditor`s perception of reasonable assurance while in the context of audit risk model three factors "have high-mean ratings on the effectiveness of the audit risk model".

8. Comments on previous studies

The study derives from a master's thesis and it is almost the same as the study of (Alkhateeb, 2012) and (Almatarneh, 2011) but it differs in the geographical area where the study is applied, this study is applied on Palestinian external auditors it will differ noticeably in the effect of cultural and environmental factors, it goes along with the recommendations of (Kochetova, et al., 2013) to test more deeply the relationship between different risk elements and its effect on audit procedures, (Peter, 2013) give support to the importance of this study since its results reveal the role of the audit risk model in helping auditors deciding about critical decisions in several aspects of audit mission. The study will take into consideration more factors than Alkhateeb did. (Rfaah & Katrib, 2013) support this study with main factors affecting components of audit risk model to be used as evaluation questions in designing research tools to examine external auditors' compliance with audit risk model.

Study of (Rashedi, 2018) will be useful in refining several factors to be taken into consideration by smoothing the ambiguity between factors affecting control risk from one side, and factors affecting inherent risk from another side.

9. External auditor responsibilities

The auditor in the eyes of the society is responsible for protecting the rights of different parties relate to the auditee, so that the auditor holds many rights. Against that the auditor has many responsibilities and obligations should be followed in the context of professionalism.

According to the expectation gap theory, society expect much more than what the auditor supposed to do, which expose the auditor to legal and other claims as a result of this critical situation ISA and audit literature discussed different types of responsibilities as follows:

Auditors responsibilities against fraud detection and prevention changed over time from being fully responsible to be not responsible, but increased number of legal cases due to fraud in the financial life emphasize the importance of addressing fraud in different audit standards by different professional institutions around the world. These standards perform as a guide for auditors in dealing with fraud so auditors need to exercise due care and diligence in performing the audit mission (Chong, 2013).

ISA (250) stated that management and those charged with governance hold the responsibility of preventing and detecting fraudulent behavior by spreading strong attitude against fraud, which prevent employees from committing fraud actions to avoid detection and punishment (International Assurance and Auditing Standard Board, 2016).

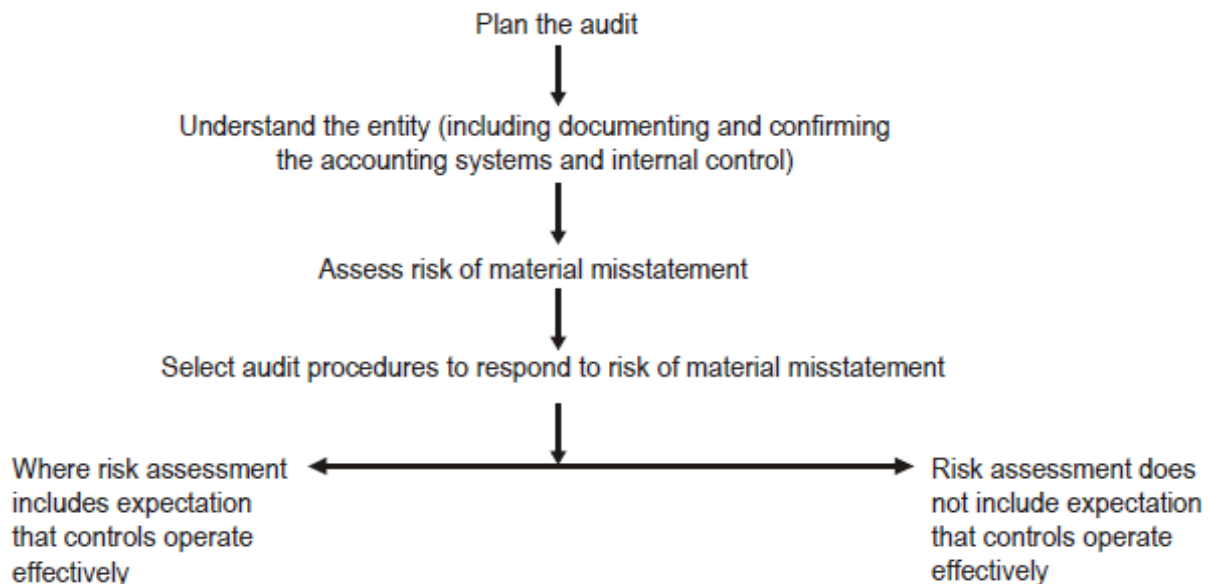
Auditor is responsible for obtaining a reasonable assurance that financial statements taken as a whole are free of material misstatements whither resulted from errors or fraud according to the ISA (200), so the auditor is responsible for fraud only if it is cause a material misstatement.

Fraud can be committed in two forms, fraudulent financial reporting and misappropriation of assets, in spite of both of them are critical to be considered by the auditors, misappropriation of assets happened rarely in a material level, while management has the power and the opportunity to manipulate financial figures for several reasons, so it is considered riskier (Arens, et al., 2012). In addition, the nature of misstatements raised from fraudulent actions impose significant inherent limitations which makes them riskier than material misstatements raised from errors (International Assurance and Auditing Standard Board, 2016) so that ISA requires the auditor after obtaining reasonable assurance to keep professional skepticism in all aspects of the audit.

10. Process of external audit

Audit process can be divided into three main phases, which are planning, performing and reporting.

In the planning phase of audit, auditors start with making acceptance or reject of the client, if the client is accepted the auditor then gathering information to gain an understanding of the client. his business and industry. Also, the auditor builds his own risk strategy and try to identify risks. This stage ends with the assessment of risk and materiality levels. In this phase of audit, auditors execute their work by start testing and collecting evidence. in the final phase auditor evaluates results, makes conclusion, forming his opinion and issuing audit report (Arens, et al., 2012).



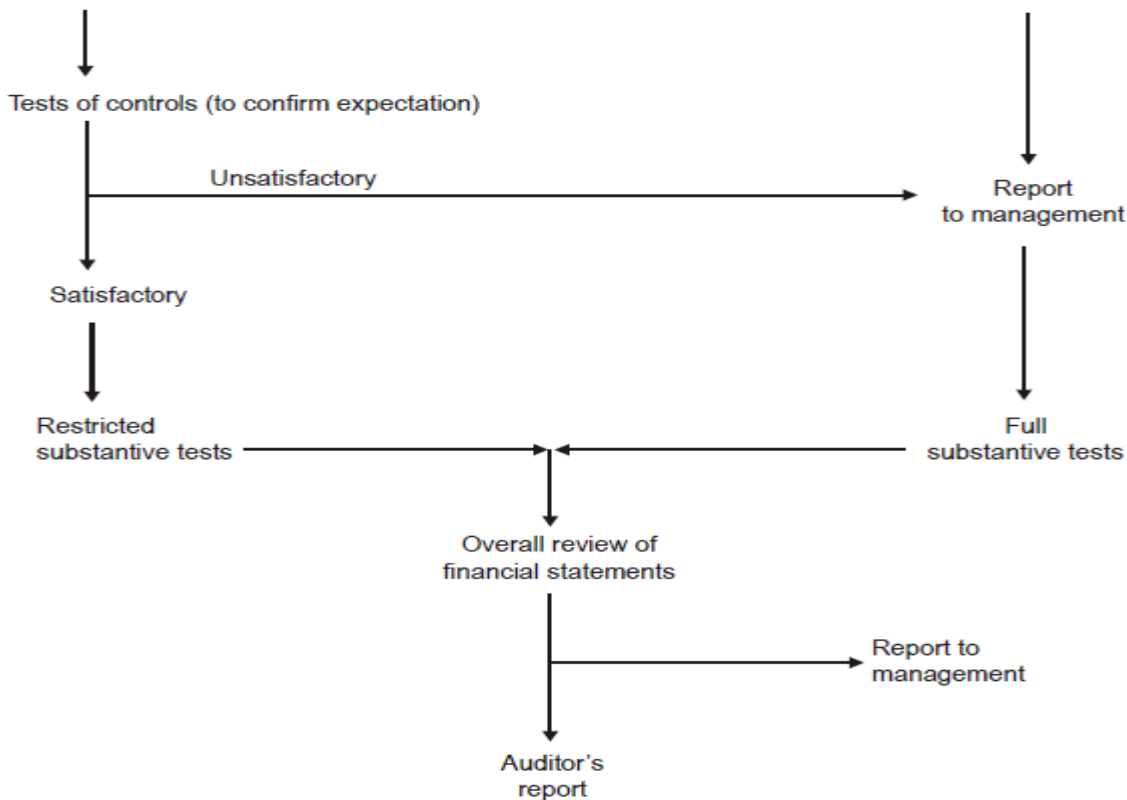


Figure (1): External Audit Process

Source: (Porter, et al., 2003)

11. Acceptable Audit Risks (AAR)

AAR is an indicator about how assure the auditor desires to be, if the auditor decide to be assure by 95% of his work then he state AAR level at 5%. It's not economically visible to auditors to achieve full assurance so it is very important to set a reasonable level of AAR. Arens, et al., (2012) defined AAR as:

“a measure of how willing the auditor is to accept that the financial statements may be *materially misstated after the audit is completed and an unqualified opinion has been issued*”.

Most of audit literature refers to AAR as audit risk and sometimes as business risks, so they believe that the process of assessing AAR is the same for the assessment of business risks. Arens, et al., (2012) are from the supporter of the notion calls for modifying evidence for engagement risks – the risk that auditor will suffer harm after the audit is completed and finished.

The following factors are suggested by s (Arens, et al., 2012), (Hajiha, 2012), and (Almatarneh, 2011)

- 1- Reliance on financial statements which can be determined by client's size, distribution of ownership, and nature and amount of liabilities.
- 2- Possibility of future financial difficulties, auditor should be aware of financial capabilities of management, liquidity status, historical financial performance, nature of client's business and operations and financing activities.
- 3- Integrity of management.
- 4- Auditors understanding about client's businesses, operations, industry and environment.
- 5- Auditors professional capabilities and experience.
- 6- Degree of judgments and assessments.
- 7- Financial relationships between auditors and clients.
- 8- Consideration of audit costs while performing audit mission.
- 9- Ability of accounts falsification.

12. Problems facing Palestinian external auditors

Durgham (2009) performed analytical study to explore main problems facing auditors in Palestine, result of the study show seven problems.

- 1- The authoritative bodies play a weak role in forcing auditors to comply with international accounting and auditing standards.
- 2- The weakness of professional associations roles in spreading awareness about the audit profession.
- 3- Needed modification of audit related laws to be taken into consideration.
- 4- The main goal of audit is to discover mistakes and fraud cases.
- 5- The range of audit fees is not corresponded with the audit work performed.
- 6- The weak role of the government comparing with other professions.
- 7- Unethical competition among auditors.

13. Research methodology

Collected data are analyzed by implementing descriptive analysis as a research methodology, where summarization and description of data are intended to determine the pattern in the data to give answers of research questions. It is considered as a fundamental for almost every research project as it offers what can be known about capacities, needs, methods, practices, policies, populations, and settings in a way that is appropriate to a particular research question (Loeb, et al., 2017). Descriptive statistics includes the construction of graphs, charts, tables, and the calculation of various descriptive measures such as averages, measures of variation, and percentiles (Dean &

ILLOWSKY, 2017). The researcher depends on the poll and use main program Statistical Package for Social Sciences (SPSS 25).

13.1 Data sources

In addition to statistical analysis applied in this research, the researchers followed analytical and descriptive approach for data collection. The primary source of data is represented by the applied questionnaire that was developed specifically for this research, many of measurement tools “questionnaires” used by other researchers were adapted, translated, combined and modified to fit the purpose of this research ended up in developing one questionnaire distributed to 75 respondents to collect the primary data, the researchers retrieved 61 out of them.

13.2 Population size

Because of the small number of the population, the researchers depends on a comprehensive survey for the questionnaire distribution, and thus 75 questionnaires were distributed which represent 78.13% of the external auditors in Gaza-Strip and 28.7% of the total external auditors in Gaza and West bank. 61 questionnaires are received with a response rate 81.3%.

13.3 Questionnaire procedures and design

A five likert questionnaire is designed, consist of 67 paragraphs distributed over four parts of the questionnaire, most of these paragraphs are affecting factors on different types of audit risks. The first scope of the questionnaire measures the compliance with acceptable audit risks assessment. The second scope is for testing the compliance with control risks assessment, it is divided into five groups (control environment, risk assessment, control activities, monitoring activities and information and communication). Third scope is for assessing degree of external auditors compliance with inherent risk assessment, the considered factors in the questionnaire are divided into both on the financial statement level and on the accounts level. The final scope is consist of four close questions, designed to control responses of the respondents and to discover risk practices favored by the external auditors.

13.4 Data Measurement

In order to be able to select the appropriate method of analysis, the level of measurement must be understood. In this research, ordinal scales were used. Ordinal scale is a ranking or a rating data that normally uses integers in ascending or descending order. The numbers assigned to the important (1,2,3,4,5) do not either indicate that the interval between scales are equal, nor do they indicate absolute quantities, they are merely numerical labels.

Table (1): Likert measurement Scale

Item	<i>Aggressively agree</i>	<i>Agree</i>	<i>Agree with some reservation</i>	<i>Disagree</i>	<i>Aggressively disagree</i>
Scale	5	4	3	2	1

13.5 Statistical analysis Tools

The study uses data analysis both qualitative and quantitative data analysis methods. The data analysis made utilizing (SPSS 25). The study utilizes the following statistical tools:

- 1) Kolmogorov-Smirnov test of normality.
- 2) Pearson correlation coefficient for validity.
- 3) Cronbach's Alpha for reliability statistics.
- 4) Frequency and Descriptive analysis.
- 5) One-sample T test.
- 6) Independent Samples T-test.

14.

Structure

Consistency Validity

Table (2) clarifies the correlation coefficient for each field of the questionnaire. The p-values (Sig.) are less than 0.05, so the correlation coefficients of all the fields are significant at $\alpha = 0.05$, so it can be said that the fields are valid to be measured what it was set for to achieve the main aim of the study.

Table (2): Correlation coefficient of each field of the questionnaire

No.	Field	Pearson Correlation Coefficient	P-Value (Sig.)
	Acceptable Audit Risks (AAR)	0.832*	0.000
1.	Control environment	0.884*	0.000
2.	Risk assessment	0.842*	0.000
3.	Control activities	0.796*	0.000
4.	Monitoring activities	0.782*	0.000
5.	Information and communication	0.828*	0.000
	Control Risks (CR)	0.947*	0.000
1.	Financial statements level	0.955*	0.000
2.	Accounts and transactions level	0.931*	0.000
	Inherent Risks (IR)	0.931*	0.000

* Correlation is significant at the 0.05 level

15. Reliability of the Research

Cronbach's Coefficient Alpha

Table (3) shows the values of Cronbach's Alpha for each field of the questionnaire and the entire questionnaire. For the fields, values of Cronbach's Alpha were in the range from 0.740 and 0.933. This range is considered high; the result ensures the reliability of each field of the questionnaire. Cronbach's Alpha equals 0.968 for the entire questionnaire which indicates an excellent reliability of the entire questionnaire.

Table (3): Cronbach's Alpha for each field of the questionnaire

No.	Field	Cronbach's Alpha
	Acceptable Audit Risks (AAR)	0.849
1.	Control environment	0.795
2.	Risk assessment	0.828
3.	Control activities	0.740
4.	Monitoring activities	0.771
5.	Information and communication	0.836
	Control Risks (CR)	0.933
1.	Financial statements level	0.905
2.	Accounts and transactions level	0.902
	Inherent Risks (IR)	0.943
	All items of the questionnaire	0.968

16. Test of normality

From Table (4), the p-value for each variable is greater than 0.05 level of significance, then the distributions for these variables are normally distributed. Consequently, parametric tests should be used to perform the statistical data analysis.

Table (4): Kolmogorov-Smirnov test

Field	Kolmogorov-Smirnov	
	Statistic	P-value
Acceptable Audit Risks (AAR)	0.841	0.479
Control environment	0.862	0.447
Risk assessment	1.240	0.092
Control activities	1.096	0.181
Monitoring activities	1.536	0.081
Information and communication	0.865	0.443
Control Risks (CR)	0.981	0.291
Financial statements level	1.278	0.076
Accounts and transactions level	1.007	0.262
Inherent Risks (IR)	1.116	0.165
All items of the questionnaire	0.776	0.584

17. Demographic factors analysis

Table (5) shows low concern in the profession toward training courses related to audit risk, if these results are compared with number of years of experience the expectation will be that most of respondents participate in more training courses. This result can be justified because the concept of risk-based auditing is new and still need more time to take place in the profession of audit in Palestine. But it is too important to the professional bodies to give interest to the risk analysis skills to be in line with international trends on auditing

Table (5) Demographic factors

Gender	Frequency	Percent
Male	52	85.2
Female	9	14.8
Total	61	100.0
Job title	Frequency	Percent
Partner	9	14.8
Manager	6	9.8
Senior auditor	30	49.2
staff assistant	16	26.2
Total	61	100.0
Years of Experience	Frequency	Percent
Less than 2 years	9	14.8
From 2 years to less than 5 years	15	24.6
From 5 years to less than 10 years	16	26.2
10 years and above	21	34.4
Total	61	100.0
Professional certificate	Frequency	Percent
Yes	36	59.0
No	25	41.0
Total	61	100.0
Educational level	Frequency	Percent
Bachelor degree	53	86.9
High diploma	2	3.3
Master and above	6	9.8
Total	61	100.0
Audit and accounting training courses	Frequency	Percent
One	10	16.4
from 2 to 4	26	42.6
from 5 to 7	8	13.1
8 and more	17	27.9
Total	61	100.0
Risk bases audit and risk training courses	Frequency	Percent
One	29	47.5
from 2 to 4	20	32.8
from 5 to 7	5	8.2
8 and more	7	11.5
Total	61	100.0

18. Test of Hypothesis

18. 1. Assessment and evaluation of acceptable audit risk (AAR)

In regard of Acceptable Audit Risk as whole, the mean of the field equals 4.10 (81.91%), Test-value = 16.33, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. We conclude that the respondents agreed to field of "Acceptable Audit Risks (AAR)".

The null hypothesis is rejected, which means external auditors comply with the assessment of acceptable audit risk (AAR) which is the first component of audit risk model. Most of audit risk factors suggested by the questionnaire were related from respondent's point of view. The importance of each factors is shown by ranks in table (6)

This result is agreeing with results of (Alkhateeb, 2012) who found that there is a moderate compliance of external auditors with assessment of AAR. The important factors in this section as viewed by external auditors are the same of those discussed by (Hajiha, 2012). Hajiha found that auditors professional knowledge, understanding of auditee, evaluation of management integrity and honesty are the most important factors in identifying AAR level.

In contrast with this study Hajiha stats that financial relation with the client is not an important factors, while non-financial relation is considered as important. The diffirance between two studies due to the way in whitch the study is performed, in the study of Hajiha a delphi technique is followed were the financial relation is deleted and replaced with non-financial relations factor while in this study the question is about the independancy of auditor as general and it is considered as important from Palestinian auditors point of view. Other reason is the cultural factors.

Table (6): Means and Test values for "Acceptable Audit Risks (AAR)"

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Internal and external economic environment, operations and industry	4.18	0.79	83.61	11.74*	0.000	4
2.	Experience and capabilities of audit team members	4.33	0.65	86.56	15.93*	0.000	1
3.	Integrity and efficiency of management	4.11	0.78	82.30	11.21*	0.000	6
4.	Management's decision making and implementation style	4.10	0.79	81.97	10.86*	0.000	8
5.	Auditor independency	4.18	0.90	83.61	10.20*	0.000	4
6.	Risks of clients' operations and activities	4.11	0.80	82.30	10.91*	0.000	6
7.	Integrity of board of directors and	4.20	1.00	83.93	9.37*	0.000	3

	independency of internal audit committee						
8.	Quality of internal audit	4.25	0.70	84.92	13.92*	0.000	2
9.	Transactions with related parties	4.10	0.96	81.97	8.93*	0.000	8
10.	Possibilities of financial difficulties after issuance of audits report	3.92	0.86	78.36	8.32*	0.000	10
11.	Sufficient cash inflows to finance operations and short-term obligations	3.85	0.91	77.05	7.32*	0.000	11
12.	Rewards and performance measurement policy	3.82	1.04	76.39	6.15*	0.000	12
	All items of the field	4.10	0.52	81.91	16.33*	0.000	

* The mean is significantly different from 3

18.2. Assessment and evaluation of control risks (CR).

Control Environment

In regard to control environment as whole. The mean of the field "Control environment" equals 4.07 (81.36%), Test-value = 14.41, and P-value=0.000 which is smaller than the level of significance $\alpha=0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. Respondents agreed to field of "Control environment".

Helliar, Monroe, & Woodliff (1996) found that segregation of duties is the most important factor affects CR in control environment. (Messier, et al., 2000) found that segregation of duties, management attitude and actions regarding financial statements and reporting, and effective role of audit committee are the important factors affect the CR assessment. (Hajiha, 2012) found that factors relating to employees' policies such as: training, rewards, morality and professional capacity are important. These results support results reached by the study.

Table (7): Means and Test values for "Control environment"

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Continuous training policy of employees	4.10	0.83	81.97	10.33*	0.000	2
2.	Participation of board of directors and audit committee in internal audit activities	4.02	0.90	80.33	8.79*	0.000	6
3.	Audit trends toward following up operations and related risks	4.05	0.85	81.00	9.54*	0.000	4
4.	Management follow optimistic policy in preparing financial statements and financial reports	4.05	0.83	80.98	9.93*	0.000	5
5.	Management due care about financial statements preparation process	4.07	0.77	81.31	10.78*	0.000	3
6.	Suitability of organizational structure	4.02	0.97	80.33	8.15*	0.000	7
7.	Segregation of duties	4.18	0.92	83.61	10.00*	0.000	1
	All items of the field	4.07	0.58	81.36	14.41*	0.000	

*** The mean is significantly different from 3**

Risk Assessment

In regard to risk assessment as whole. The mean of the field "Risk assessment" equals 4.10 (81.97%), Test-value = 13.57, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. Respondents agreed to field of "Risk assessment".

Almatarneh (2011) and Messier, et al., (2000) agreed with this study that risks of information and electronic systems are the most important factors while (Hajiha, 2012) argued that the above factors are useful in predicting CR for risk assessment components but the risk assessment component is the less important of the five components of internal controls according to the opinion of Iranian auditors. This difference among the two studies is referred to cultural factors, Martinis, Fukukawa, & Mock (2011) state that, country and clients type have an impact on auditors risk assessment.

Table (8): Means and Test values for "Risk assessment"

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Risks of new laws and accounting standards	4.15	0.77	82.95	11.62*	0.000	2
2.	Clients'' responds to external risks	4.03	0.75	80.66	10.73*	0.000	4
3.	Clients responds to risks of changes – accounting policy, operational policies, products and services changes	4.05	0.90	80.98	9.08*	0.000	3
4.	Risks of information and electronic systems	4.31	0.76	86.23	13.40*	0.000	1
5.	Risks of new employees	3.95	0.90	79.02	8.23*	0.000	5
	All items of the field	4.10	0.63	81.97	13.57*	0.000	

*** The mean is significantly different from 3**

Control Activities

Table (9) shows the following results: The mean of the field "Control activities" equals 4.10 (81.97%), Test-value = 14.20, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. So that, respondents agreed to field of "Control activities".

Respondents give all items of control activities a mean above four, means that they are highly agree with the importance of these factors in the assessment of risks related to control activities. This conclusion is supported by (Hajiha, 2012) and (Messier, et al., 2000).

Table (9): Means and Test values for “Control activities”

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Risks of weak compliance with code of ethics	4.18	0.79	83.61	11.74*	0.000	1
2.	Risks resulted from financial information processing policy	4.00	0.75	80.00	10.38*	0.000	4
3.	Level of control over accounting books, documents and holding assets	4.03	0.80	80.66	10.14*	0.000	3
4.	Segregation between internal control and financial statements preparation and review	4.18	0.89	83.61	10.41*	0.000	2
	All items of the field	4.10	0.60	81.97	14.20*	0.000	

* The mean is significantly different from 3

Monitoring Activities

Table (10) shows the of the field “Monitoring activities” equals 4.19 (83.85%), Test-value = 15.15, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. These results prove that that the respondents agreed to field of “Monitoring activities ”.

Respondents give all items of monitoring activities a mean above four, means that they are highly agree with the importance of these factors in the assessment of risks related to control activities. This conclusion is supported by (Hajiha, 2012) and (Messier, Austen, & Austen, 2000).

Table (10): Means and Test values for “Monitoring activities”

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Effective and sufficient control over preparation of financial statements	4.43	0.74	88.52	15.04*	0.000	1
2.	Appropriate delegation of power and responsibilities is given to internal audit team	4.05	0.96	80.98	8.57*	0.000	4
3.	Mistakes prevention and detection policy	4.16	0.76	83.28	12.01*	0.000	2
4.	Practicing of independent check over	4.13	0.72	82.62	12.30*	0.000	3

	performance						
	All items of the field	4.19	0.61	83.85	15.15*	0.000	

* The mean is significantly different from 3

Information and Communication

Table (11) shows that the mean of the field "Information and communication" equals 4.10 (82.10%), Test-value = 13.63, and P-value=0.000 which is smaller than the level of significance $\alpha=0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. Respondents agreed to field of "Information and communication".

Respondents give all items of information and communication a mean above three, means that they are highly agree with the importance of these factors in the assessment of risks related to control activities.

Table (11): Means and Test values for "Information and communication"

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Give importance to material transactions	4.31	0.81	86.23	12.69*	0.000	1
2.	Reviewing of processing material transactions from occurring to full disclosure	4.18	0.76	83.61	12.07*	0.000	2
3.	Continuous investigation of records relevancy and sufficiency	4.11	0.78	82.30	11.21*	0.000	3
4.	Accounting system allows capturing and processing of material misstatements	3.84	0.90	76.72	7.27*	0.000	5
5.	Mechanism of reports preparation including recording, posting, adjusting and representation and disclosure	4.08	0.82	81.64	10.27*	0.000	4
	All items of the field	4.10	0.63	82.10	13.63*	0.000	

* The mean is significantly different from 3

Control Risk in General

Table (12) shows the mean of all items equals 4.11 (82.12%), Test-value = 16.99 and P-value =0.000 which is smaller than the level of significance $\alpha=0.05$. The mean of all items is significantly different from the hypothesized value 3. We conclude that the respondents agreed to all items of Control Risks (CR).

As expected the null hypothesis is rejected, which means external auditors comply with the assessment of control risk (CR) which is the second component of audit risk model. Most of audit risk factors suggested by the questionnaire were related from respondent's point of view. Ranks of the five components of the control risk are given bellow in table (14).

Table (12): Means and Test values for " Control Risks (CR)"

Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
Control environment	4.07	0.58	81.36	14.41*	0.000	5
Risk assessment	4.10	0.63	81.97	13.57*	0.000	3
Control activities	4.10	0.60	81.97	14.20*	0.000	2
Monitoring activities	4.19	0.61	83.85	15.15*	0.000	1
Information and communication	4.10	0.63	82.10	13.63*	0.000	4
All Items of Control Risks (CR)	4.11	0.51	82.12	16.99*	0.000	

***The mean is significantly different from 3**

In contrast of this results, (Alkhateeb, 2012) found that Jordanian auditors compliance with CR assessment is limited. While (Rfaah & Katrib, 2013) found that there is a medium commitment of Jordanian auditors with the assessment of internal controls.

(Almatarneh, 2011) followed the same methodology of current study in investigating sample members to measure the degree of Jordanian auditor commitment to audit risk valuation and he found that they are comply with control risk assessment.

18.3. Assessment and evaluation of inherent risks (IR)

Financial statements level

The mean equals 4.05 (81.05%), Test-value = 14.58, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. So that, the respondents agreed to field of "Financial statements level".

Respondents agrees on the importance of risk factors suggested by the study, their ranking of these factors fit with importance given by the study of (Almatarneh, 2011) which were applied in Jordan. Both studies find that the nature of clients' business and management experience, knowledge and turnover, doubt of going concern and external environment are at the top. The ranking of the factors importance is near to the ranks provided by the study of (Al-Basteki, 1998) in Al-Bahrain except for the policy of performance measurement and rewards which is at the top in his study. The importance of the suggested factors agrees with the study of (Helliard et al., 1996) in UK but it differ in the ranks of them. According to the UK study the audit for first year is the most important factor, followed by the strategy of management against risk assessment and stability of the financial performance of the client, and management bonus schemes are tied to earnings.

Table (13): Means and Test values for “Financial statements level”

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Doubt of going concern	4.44	0.67	88.85	16.78*	0.000	1
2.	Impact on inherent risks imposed by nature of client’s activities	4.31	0.74	86.23	13.79*	0.000	2
3.	Client’s management rotation average	3.97	0.98	79.34	7.69*	0.000	9
4.	Client’s rotation average of accounting department employees	3.92	1.00	78.36	7.14*	0.000	12
5.	Management changes external auditor continuously	3.92	0.99	78.36	7.26*	0.000	12
6.	Management accounting knowledge and its ability to understand and interpret financial policies and reports	4.10	0.75	81.97	11.50*	0.000	5
7.	Possibilities of misappropriation of assets, theft of assets and damage of assets due to weak controls	4.16	0.82	83.28	11.08*	0.000	4
8.	Existence of up normal transactions which needs experts	4.25	0.75	84.92	13.06*	0.000	3
9.	External economic environment	4.05	0.90	80.98	9.08*	0.000	6
10.	Performance measurement policy is based on realized returns	3.95	0.83	79.02	9.00*	0.000	11
11.	Management estimates appears unrealistic	3.89	0.95	77.70	7.27*	0.000	14
12.	Through previous experience, client portable to commit intended financial misstatement	3.98	0.90	79.67	8.50*	0.000	8
13.	Through previous missions, auditor experienced arguments about accounting estimates with the clients	3.84	0.82	76.72	7.96*	0.000	15
14.	Historical financial position of the client	3.97	0.82	79.34	9.26*	0.000	9
15.	Integrity of management	4.05	0.90	80.98	9.08*	0.000	6
	All items of the field	4.05	0.56	81.05	14.58*	0.000	

* The mean is significantly different from 3

Accounts and transactions level

The mean equals 4.03 (80.54%), Test-value = 12.88, and P-value=0.000 which is smaller than the level of significance $\alpha = 0.05$. The sign of the test is positive, so the mean of this field is significantly greater than the hypothesized value 3. study concludes that the respondents agreed to field of “Accounts and transactions level “.

Suggested risk factors at accounts and transaction level are viewed as important from respondents' point of view, the ranks are almost the same as suggested by previous studies such (Al-Basteki, 1998), (Helliari, et al., 1996), (Almatarneh, 2011), and (Messier, et al., 2000).

Table (14): Means and Test values for “Accounts and transactions level”

	Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
1.	Changes in inventory accounting policy	4.05	0.94	80.98	8.73*	0.000	4
2.	Through previous missions, management did not properly estimate provisions	4.00	0.86	80.00	9.12*	0.000	8
3.	Financial statements show uncollected due debit balances	4.11	0.97	82.30	9.00*	0.000	2
4.	Financial statements show unpaid due credit balances	3.98	0.96	79.67	8.03*	0.000	9
5.	History of the clients shows difficulties related to products and services stability	3.77	0.90	75.41	6.67*	0.000	11
6.	Through previous missions, auditor experienced arguments about accounting estimates with the clients	4.11	0.80	82.30	10.91*	0.000	2
7.	Through previous missions, auditor detected material misstatements	4.05	0.90	80.98	9.08*	0.000	4
8.	Degree of complexity of financial transactions	4.05	0.83	80.98	9.93*	0.000	4
9.	Through previous missions, auditor discovers false implementation of accounting standards	3.98	0.85	79.67	9.08*	0.000	9
10.	New changes in accounting policy	4.13	0.83	82.62	10.69*	0.000	1
11.	Sensitivity of accounts to external and internal economic factors, especially those depends on professional judgement	4.05	0.80	80.98	10.18*	0.000	4
	All items of the field	4.03	0.62	80.54	12.88*	0.000	

* The mean is significantly different from 3

Table (14) shows the mean of all items equals 4.03 (80.54%), Test-value = 14.63 and P-value =0.000 which is smaller than the level of significance $\alpha = 0.05$. The mean of all items is significantly different from the hypothesized value 3. study concludes that the respondents agreed to all items of Inherent Risks (IR).

The null hypothesis is rejected, which means external auditors comply with the assessment of inherent risk (IR) which is the third component of audit risk model. Most of audit risk factors suggested by the questionnaire were related from respondent's point of view. The importance of each factor is shown by ranks in tables (13), and (14). Ranks of the two components of the inherent risk are given bellow in table (15).

Table (15): Means and Test values for “Inherent Risks (IR)”

Item	Mean	S. D	Proportional mean (%)	Test value	P-value (Sig.)	Rank
Financial statements level	4.05	0.56	81.05	14.58*	0.000	1
Accounts and transactions level	4.03	0.62	80.54	12.88*	0.000	2
All Items of Inherent Risks (IR)	4.04	0.56	80.83	14.63*	0.000	

*The mean is significantly different from 3

18. General Comments

The null hypothesis of the first three hypothesis is rejected, which means that external auditors in Palestine are commit to the assessment of AAR, IR, and CR so it is possible to say they are commit to the audit risk model. This conclusion is supported by paragraph number 64 which asks the respondents about types of risk which they evaluate in the planning phase, 65.6% of them evaluate AAR, IR and CR. Almatarneh (2011) found that Jordanian auditors are commit to perform audit risk assessment. In contrast, (Alkhateeb, 2012) found that there is a limited compliance with audit risk model by CPA firms in Jordan but for the IR there are a high commitment. Rfaah & Katrib (2013) found that there are a medium commitment of jordanian banks aditors to CR assessment.

In contrast with the study of (Hajiha, 2012), external auditors in Palestine when assessing control risk, give importance to risk factors relates to risk assessment component of COSO. This give an indicator that they mix between IR factors and CR factors since the audit literature consider risk assessment procedures are the same as those followed to assess both business and inherent risks. Helliare et al., (1996) found that external auditors in UK find it difficult to distinguish between IR and CR factors, Al-Basteki (1998) found that bahrainian auditors found defeculties in identifying variables associated with IR. Messier, et al., (2000) found that auditors mix between IR and CR.

In contrast with the study of (Miller, et al., 2012) in USA which fund that auditors assess inherent risk as if there is an average of expected level of control. External auditors assess inherent risk as if there is no control, they give high importance to the assessment of all suggested factors of both IR and CR. They show low possibilities of reliance on clients internal control. This is because of the size and nature of most businesses which is classified as small and medium size businesses,

and the few number of businesses which considered as large and listed companies are audited by international audit firms.

19. Risk evaluation in the planning phase

Table (16) shows the trends of respondents toward audit risk evaluation. 42.6% of respondents implementing audit risk model in the planning phase, 23% of them evaluate IR, CR and AAR without the valuation of planned detection risk which is result from merging the assessment of IR, CR and AAR.

Result above agree with the conclusion of the study about the commitment of external auditors with ARM since 42.6 % of respondents value the four components of the Model – including the dependent factor “PDR” – which also means that they are integrate the assessment of AAR, IR and CR. If these results compared with results of (Shailer, et al., 1998) in which a third of the sample assess only IR and CR, while two members of 36 assess the four components. This because at that time the concept of audit risk model was a suggestion which is not stated and required by audit standards.

Table (16): Evaluation of risk on the planning phase of audit

Audit and accounting training courses	Frequency	Percent
Evaluate inherent and control risks	4	6.6
Evaluate inherent, control and planned detection risks	5	8.2
Evaluate inherent, control and acceptable audit risks	14	23.0
Evaluate planned detection, control and acceptable audit risks	9	14.8
Evaluate planned detection, inherent, control and acceptable audit risks	26	42.6
Evaluate control risks	4	6.6

20. Preferred responses to the assessed level of risk

Table (17) show responses of the investigated sample members on the assessed level of risk, frequency analysis show that the preferred response is increasing sample size and the lower rank is for employing experts for the audit mission. Alkhateeb (2012) found that, there are limited responses to the assessed level of risks, the responses are in form of perform more tests, increasing sample size, allocate more evidence, and employing experience auditor in the audit team. For the option of employing experts, this choice is not applied by the Jordanian auditors.

Table (17): responds to the evaluated risk

responds to the evaluated risk could be	Frequency	Percent
Employing of experience auditor	17	27.9
Allocate more audit evidence	26	42.6
Perform more audit tests	23	37.7
Increasing sample size	33	54.1
Employing other experts	7	11.5

21. Conclusions and Recommendations

- The study concludes that external auditors highly comply with the assessment of acceptable audit risk model.
- The study concludes that the external auditors are highly comply with the assessment of control risks. The assessment of inherent risk on both financial statement and accounts level.
- The audit risk model is formed from the acceptable audit risk, inherent risk and control risk. So it is justified to say that external auditors in Palestine are comply to the audit risk model as whole, this conclusion is supported by the results of paragraph 64, in which 42.6% of the respondents assess AAR, CR, and IR.
- Results of the study showed that all factors included in the questionnaire are viewed as important by the external auditors.
- The study concludes that the popular way used by the external auditors to document the process of risk assessment is description technique and using numbers and percentages as well.
- The study find that risk assessment results are integrated and aggregated by using computer program as the first choice and professional judgment as the second choice.
- Responses of external auditors to the assessed level of risk can be ranked from most preferred to the least preferred as follow: increasing sample size, allocate more evidences, perform more audit tests, employing of experienced auditors and employing of an expert.

Based on the research findings and conclusions the following are suggested recommendations: All the suggested factors are viewed as important risk factors by respondents, that's mean external auditors are less willing to accept risks, as a result more efforts, time, evidence, detailed tests are required. So, it is important to support studies of risk factors to distinguish between high risk and low risk factors so that audit resources are deployed in an efficient and effective manner.

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