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Audit Risk Assessment and Fair Financial Reporting: Evidence from Muscat Stock Exchange in Oman

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ABSTRACT

Manuscript type: Research paper
Introduction/Main Objectives: This study examines the link between audit risk assessment and the fairness of financial statements among companies listed on the Muscat Stock Exchange. It highlights auditors' perceptions of risk assessment covering inherent, control, and detection risks and underscores its importance for stakeholders and boards in supporting sound financial decisions and mitigating financial distress, losses, and bankruptcy, in line with international guidelines such as ISO 31000. **Novelty:** This study addresses the gap in audit risk assessment research within the Omani context. By applying advanced quantitative analysis, it demonstrates the importance of risk assessment in safeguarding firm assets and preventing bankruptcy or shutdown, while offering a foundation for future studies. **Research Methods:** This study employs a deductive quantitative approach using structured questionnaires distributed to external auditors and stockholders. Of 250 questionnaires, 162 valid responses were analyzed with SPSS to test the hypotheses. **Finding/Results:** Findings reveal a significant positive association between audit risk assessment and the fairness of financial statements, which strengthens stakeholder trust in Oman's financial reporting. **Conclusion:** This study confirms a significant positive relationship between audit risk assessment and the fairness of financial statements, reinforcing the reliability of external auditors' reports in Oman. Supported by regulatory frameworks and Oman's Vision 2040 emphasis on governance and transparency, the findings highlight the crucial role of auditors in enhancing stakeholder confidence in financial reporting.

1. Introduction

Audit risk assessment has become one of the most critical elements in ensuring the credibility and fairness of financial reporting across global capital markets. In an era characterized by corporate scandals, financial crises, and increasing regulatory scrutiny, the role of auditors has expanded beyond the traditional verification of accounts to encompass a deeper evaluation of risks that may compromise the reliability of financial statements. The Muscat Stock Exchange, as one of the leading financial markets in the Gulf region, provides a unique context for examining how audit risk assessment influences the fairness of financial reporting. This study explores the relationship between audit risk assessment, comprising inherent risk, control risk, and detection risk, and the fairness of financial statements among listed companies in Oman.

The importance of this research lies in the fact that financial statements serve as the primary source of information for stakeholders, including investors, regulators, and boards of directors. When financial statements are fairly presented, they enhance stakeholder confidence, support sound decision-making, and reduce the likelihood of financial distress, losses, or bankruptcy. Conversely, when audit risks are not properly assessed, material misstatements may occur, leading to misleading financial information and potential harm to stakeholders. The assessment of audit risks is therefore not merely a technical exercise but a fundamental responsibility of auditors in safeguarding the integrity of financial reporting.

Audit risk is traditionally defined as the risk that an auditor may issue an inappropriate opinion on materially misstated financial statements. It comprises three interrelated components: inherent risk, control risk, and detection risk. Inherent risk refers to the susceptibility of an account or transaction to material misstatement in the absence of internal controls. Control risk reflects the probability that a misstatement will not be prevented or detected by the entity's internal control system. Detection risk, on the other hand, represents the possibility that audit procedures will fail to uncover material misstatements. Together, these risks form the foundation of the audit risk model, which guides auditors in planning and executing their work.

In Oman, the regulatory framework governing auditing and financial reporting is shaped by the Commercial Companies Law (No. 18/2019), International Financial Reporting Standards (IFRS), and International Auditing Standards (IAS). These regulations emphasize auditors' responsibility to preserve company capital, ensure compliance with international standards, and provide unbiased opinions on financial statements. The Capital Market Authority (CMA) has also introduced risk-based auditing procedures to enhance audit quality. Despite these measures, violations by some audit offices persist, highlighting the need for a deeper understanding of audit risk assessment in the Omani context.

The end of the twentieth century witnessed a surge in legal cases against external auditors stemming from financial losses resulting from inadequate audit procedures. In many instances, auditors failed to exercise sufficient professional care, resulting in misleading financial statements and subsequent harm to stakeholders. In Oman, similar challenges have been observed, with the CMA penalizing audit offices for weak audit practices. These recurring violations underscore the importance of assessing audit risks comprehensively to enhance the fairness of financial statements.

This study addresses a gap in the existing literature by focusing on the Omani context, where limited research has examined the relationship between audit risk assessment and financial reporting fairness. By examining auditors' and stakeholders' perceptions, the study aims to provide empirical evidence on how risk assessment contributes to the credibility of financial statements in Oman.

Three key research questions guide the study:

1. What is the relationship between inherent risk assessment and the fairness of financial statements?
2. What is the relationship between control risk assessment and the fairness of financial statements?
3. What is the relationship between detection risk assessment and the fairness of financial statements?

The significance of this study extends to multiple stakeholders. For auditors, it provides insights into how risk assessment can improve audit efficiency and effectiveness. For regulators, it highlights the importance of enforcing compliance with international standards to safeguard the integrity of financial markets. For stakeholders, including investors and boards of directors, the study underscores the value of fair financial reporting in supporting informed decision-making. Moreover, the study contributes to the academic literature by filling a gap in research on audit risk assessment in Oman and providing a foundation for future studies in the region.

While audit risk assessment has been extensively studied in other contexts, research in Oman remains limited. This study contributes to the literature by providing empirical evidence on the relationship between audit risk assessment and financial reporting fairness in the Omani context. It highlights the importance of considering local regulatory frameworks, cultural factors, and market dynamics in understanding audit practices. By doing so, the study offers valuable insights for auditors, regulators, and stakeholders in Oman and beyond.

The remainder of this paper is organized as follows. Section Two presents a comprehensive literature review, examining previous studies on audit risk assessment and its impact on financial reporting. Section Three outlines the research methodology, including data collection and analysis procedures. Section Four presents the study's findings, highlighting the relationship between audit risk assessment and financial reporting fairness. Finally, Section Five concludes the paper, summarizing the key contributions and suggesting directions for future research.

2. Literature Review

The theoretical foundation of this study is built upon the audit risk model, which posits that audit risk is a function of inherent risk, control risk, and detection risk. This model has been widely adopted in auditing practice and research, serving as a conceptual framework for evaluating the likelihood of material misstatements. The model emphasizes the interdependence among the three risk components, suggesting that auditors must assess each component comprehensively to determine the overall audit risk.

Inherent risk is influenced by factors such as transaction complexity, management integrity, and the susceptibility of assets to misappropriation. Control risk depends on the effectiveness of the entity's internal control system, including its accounting procedures and governance structures. Detection risk is affected by the quality of audit planning, the appropriateness of audit procedures, and the auditor's professional judgment. By integrating these components, the audit risk model provides a systematic approach to risk assessment, enabling auditors to design procedures that minimize the likelihood of issuing inappropriate opinions.

The Omani regulatory environment places significant responsibilities on auditors. Under the Commercial Companies Law, auditors are jointly responsible with the boards of directors for preserving company capital. They are required to prepare audit reports in accordance with IFRS and IAS, ensuring that financial statements reflect the true economic position of companies. The CMA has introduced risk-based auditing procedures that require auditors to consider external and internal risk factors when conducting audits. Despite these measures, challenges remain, as evidenced by repeated violations by audit offices. This study seeks to address these challenges by examining how audit

risk assessment can enhance the fairness of financial reporting in Oman.

Audit Risk Assessment

Audit risk is the probability that an auditor will issue an inappropriate opinion when financial statements are materially misstated. According to the International Federation of Accountants (IFAC, 2007), audit risk comprises three elements: inherent risk, control risk, and detection risk. The Generally Accepted Auditing Standards (GAAS) and International Standards on Auditing (ISA 315) require auditors to evaluate these risks systematically to minimize the likelihood of audit failure.

Dusenbury et al. (2000) emphasized that auditors must evaluate inherent risks before performing control tests and subsequently reassess detection risks based on the results of those tests. This iterative process ensures that auditors maintain a comprehensive understanding of the client's risk environment. Tanasă (2018) further argued that risk assessment procedures should be coherent, continuous, and complex, beginning with preliminary information gathering and culminating in the issuance of an audit opinion.

Auditing Function and Procedures

The effectiveness of audit risk assessment is closely tied to the quality of auditing functions and procedures. Al-Adawi (2018) investigated the impact of internal control systems on the efficiency of audit reviews using statistical samples. The study concluded that a robust accounting system enhances the quality of auditing processes, while weak internal controls increase the likelihood of material misstatements. Similarly, Al Matarneh (2011) highlighted that auditors must understand the client's accounting system to design effective audit procedures and reduce risks to acceptable levels.

The GAAS requires auditors to consider materiality when assessing risks, ensuring that financial statements are fairly presented in accordance with Generally Accepted Accounting Principles (GAAP). Failure to perform adequate inspection tests may result in auditors issuing clean opinions despite the presence of material misstatements, underscoring the importance of rigorous risk assessment.

Components of Audit Risk

Inherent Risk

Inherent risk refers to the susceptibility of an account or transaction to material misstatement in the absence of internal controls. IFAC (2007) defines it as the likelihood of errors arising from the nature of accounts or transactions. Arens et al. (2005) identified factors influencing inherent risk, including the complexity of operations, management integrity, and susceptibility of assets to misappropriation. Naghi (2000) emphasized that auditors must exercise professional judgment to assess inherent risk, taking into account pressures on management, the nature of the company's activities, and the complexity of the account balances.

Monroe et al. (1993) distinguished between external and internal influences on inherent risk. External factors include economic conditions, technological changes, and industry practices, while internal factors include transaction volume and complexity, as well as asset vulnerability. These findings suggest that inherent risk is context-dependent, requiring auditors to adapt their assessments to specific organizational environments.

Control Risk

Control risk arises when material misstatements are not prevented or detected by the entity's internal control system. IFAC (2007) defines it as the probability that errors in account balances or transactions will not be corrected on time. Zaqoot (2016) found a strong positive correlation between red flag indicators in financial statements and the effectiveness of external audits in detecting fraud. The study demonstrated that effective internal controls significantly reduce control risk, thereby enhancing audit quality.

Al Matarneh (2011) noted that when auditors find accounting systems ineffective, control risk assessments are elevated to high levels. Bedard & Graham (2002) identified factors influencing control risk, including the organization of accounting departments, internal conditions conducive to fraud detection, and the safety of electronic data processing systems. These findings highlight the importance of evaluating both structural and technological aspects of internal controls.

Detection Risk

Detection risk refers to the possibility that audit procedures will fail to uncover material misstatements. Alssabagh (2016) examined the effect of quantitative measurement of material error risks on the accuracy of audit risk assessment, concluding that precise measurement improves the evaluation of detection risk. Detection risk is influenced by audit planning, execution quality, and the appropriateness of sampling.

Chang et al. (2008) identified factors affecting detection risk, including improper audit processes, execution errors, misinterpretation of audit results, and reliance on random inspection. Bedard & Graham (2002) similarly emphasized that detection risk is shaped by the auditor's professional judgment and the adequacy of audit procedures. These studies underscore the need for auditors to design rigorous procedures that minimize detection risk and enhance the reliability of audit outcomes.

Risk-Based Audit Approaches

Several studies have advocated risk-based audit approaches to improve audit quality. Abdel-Jalil (2018) examined the impact of audit risks on external audit quality in Algeria and found that risk-based approaches enhance audit effectiveness. The study emphasized the importance of applying systematic risk assessment procedures to reduce material misstatements and improve stakeholder confidence.

The International Auditing Standards (ISA 315) also promote risk-based approaches, requiring auditors to identify business risks and evaluate their impact on financial positions. By integrating operational risk assessments into audit procedures, auditors can design more effective strategies to mitigate risks.

Fraud Risk Factors

Audit risk assessment is closely linked to the identification of fraud risk factors. Tandon (2020) argued that auditors must consider fraud risks at every stage of the audit process, including planning, execution, evaluation, and reporting. Fraud risk factors vary across firms and may include illegal tax avoidance, frequent changes in management, weak internal controls, and financial instability.

Kassem (2014) examined fraud risk factors, noting that they are frequently manifested through asset misappropriation, insufficient oversight of cash and inventory, and inadequate segregation of duties within accounting systems. These findings underscore the importance of auditors maintaining vigilance in detecting fraud risks, as such factors directly compromise the fairness of financial statements and erode stakeholder confidence. These findings suggest that auditors must remain vigilant in identifying fraud risks, as these risks directly affect the fairness of financial statements.

Empirical studies consistently demonstrate the positive relationship between audit risk assessment and the fairness of financial reporting. For instance, Alssabagh (2016) showed that quantitative risk measurement enhances the accuracy of audit assessments, while Zaqoot (2016) confirmed that effective control risk evaluation improves fraud detection. Abdel-Jalil (2018) provided evidence from Algeria that risk-based approaches improve audit quality, supporting the broader applicability of audit risk assessment across different contexts.

In the Omani context, limited research has been conducted on audit risk assessment. This study seeks to fill that gap by providing empirical evidence on how risk assessment influences financial reporting fairness in Oman. By focusing on auditors' and stakeholders' perceptions, the study contributes to a

deeper understanding of audit practices in the region.

3. Method, Data, and Analysis

Research Design

This study adopts a deductive quantitative research design, reflecting the need to empirically test hypotheses derived from established theories of audit risk assessment. The deductive approach is appropriate because the research begins with theoretical constructs, namely, the audit risk model comprising inherent risk, control risk, and detection risk, and examines their relationship with the fairness of financial statements. A quantitative methodology was chosen to ensure objectivity, replicability, and statistical rigor, thereby allowing generalizable conclusions about auditors' and stakeholders' perceptions at the Muscat Stock Exchange.

The research design is structured around three stages: (1) development of hypotheses based on literature, (2) collection of primary data through structured questionnaires, and (3) statistical analysis using SPSS to test the hypotheses. This systematic approach ensures that the study maintains internal validity while addressing the research questions comprehensively.

Population and Sampling

The population of this study comprises external auditors and stockholders of companies listed on the Muscat Stock Exchange. These groups were selected because they represent key stakeholders in financial reporting: auditors assess risks and issue opinions, while stockholders rely on financial statements to make investment decisions.

A total of 250 questionnaires were distributed to participants, using purposive sampling to ensure respondents had relevant knowledge and experience in auditing and financial reporting. Of the distributed questionnaires, 162 valid responses were obtained, yielding a response rate of approximately 65 percent. This sample size is considered sufficient for statistical analysis, providing a reliable basis for hypothesis testing.

Data Collection Instrument

The primary data collection instrument was a structured questionnaire designed to capture perceptions of audit risk assessment and its impact on financial reporting fairness. The questionnaire was divided into several sections:

1. Demographic Information: including respondents' professional background, years of experience, and role (auditor or stockholder).
2. Inherent Risk Assessment: items measuring perceptions of susceptibility to material misstatements due to the nature of accounts, transactions, and management integrity.
3. Control Risk Assessment: items evaluating the effectiveness of internal control systems in preventing or detecting errors.
4. Detection Risk Assessment: items assessing the likelihood that audit procedures may fail to uncover material misstatements.
5. Fairness of Financial Statements: items measuring perceptions of whether financial statements accurately reflect the economic position of companies.

Responses were measured using a five-point Likert scale ranging from "very low" to "very high," consistent with prior studies on audit risk assessment. This scale allowed for the quantification of perceptions and facilitated statistical analysis.

Validity and Reliability

To ensure the questionnaire's validity, items were developed based on established definitions and frameworks from international auditing standards (IFAC 2007; ISA 315; AICPA 1983). Content validity was confirmed through expert review by academics and practitioners in auditing. Construct validity was assessed using factor analysis, which confirmed that items clustered appropriately under the intended constructs of inherent risk, control risk, detection risk, and fairness of financial statements.

Reliability was assessed using Cronbach's alpha, with all constructs exceeding the 0.70 threshold, indicating acceptable internal consistency. This ensured that the questionnaire provided reliable measures of the variables under investigation.

Data Analysis Procedures

Data were analyzed using SPSS software, employing both descriptive and inferential statistical techniques.

1. Descriptive Statistics: Frequencies, means, and standard deviations were calculated to summarize respondents' demographic characteristics and perceptions of audit risks.
2. Correlation Analysis: Pearson correlation coefficients were computed to examine the relationships between inherent risk, control risk, detection risk, and the fairness of financial statements.
3. Regression Analysis: Multiple regression models were employed to test the hypotheses, with the fairness of financial statements as the dependent variable and the three risk components as independent variables.
4. Hypothesis Testing: Statistical significance was assessed at the 0.05 level, ensuring that findings were robust and not due to random chance.

Research Hypotheses

H1: There is a significant positive relationship between inherent risk assessment and the fairness of financial statements.

H2: There is a significant positive relationship between control risk assessment and the fairness of financial statements.

H3: There is a significant positive relationship between detection risk assessment and the fairness of financial statements.

4. Results and Discussion

This section presents an analysis of the respondents' demographics, including gender, nationality, educational level, current job position, and years of experience.

Table 1. Demographic of respondents

Demographic	Frequency	%
Gender		
Male	145	89.5
Female	17	10.2
	162	100
Education		
PhD	6	3.7
MBA	45	27.8
Bachelor	94	58
Chart. Acc	6	3.7
Others	11	6.8
	162	100
Job Position		
Manager	46	28.4
Supervisor	54	33.3
Senior Auditor	25	15.4
Auditor	37	22.8
	162	100
Years of Experience		
< 5 years	15	9.3
5 – 10 years	36	22.2
11 - 15 years	52	32.1
> 15 years	59	36.4
	162	100

Table 1 shows that the percentage of male respondents out of several samples is (89.5%), while the percentage of female respondents is (10.5%). That indicates that the number of external auditors in these offices targeted primarily males. Most respondents hold a bachelor's degree (58%). Secondly, MBA holders accounted for (27.8%), while respondents of chartered accountants and PHD holders are equal to (3.7%), which indicates most external auditors hold a bachelor's degree, compared with those auditors holding a chartered accountant certificate. Most of the respondents have the position of supervisor, which represents (33.3%). The position of manager represents (28.4%), while the position of auditors represents (22.8%), and finally, the least respondents have the position of senior auditors (15.4%). That indicates

the most responding auditors are in high-level positions. Most respondents have work experience of 15 years or more (36.4% of the total respondents), and the respondents with work experience between 11-15 years are (32.1%). The respondents with work experience between 5-10 years are (22.2%), and lastly, the respondents with work experience less than 5 years are (9.3%). This indicates that most respondents have more than 15 years of experience, which increases the credibility and importance of the data.

Descriptive analysis

This section presents a descriptive analysis of the study variables identified in the conceptual framework, including Inherent risk, Control risk, and Detection risk as independent variables, and the fairness of financial statements as the dependent variable.

Table 2. Descriptive Statistics of Inherent Risk

Items	Mean
The external auditor is assessing the nature of the company operation procedure when assessing the inherent risk.	4.19
The Auditors are generally assessing unusual and complex transactions near the end of the reporting period.	3.84
Inherent risk is high for accounts balances which are based on estimate the degree of risk and try to reduce it.	3.93
The inherent risk is mostly not controlled by external auditors, but by those can estimate the degree of risk and try to reduce it.	3.89
When inherent risk is high, acceptable detection risks are low for the purpose of reducing risk to the lowest acceptable level.	3.63
Mean	**3.89**

Table 2 shows the mean and standard deviation of inherent risk. Five elements were questioned to analyze the inherent risk variable, and a total of 160 responses were received. The mean of the five items of inherent risk is 3.89, indicating that the assessment of inherent risk falls within the auditing procedure.

Table 3. Descriptive Statistics of Control Risk

Items	Mean
The control test is performed to ensure the ability of control systems to prevent errors and correcting them.	4.20
The External Auditors are assessing control risks at a high level for some or all of the assurances when the accounting system and internal control system are ineffective.	3.91
External Auditors are mostly assessing the effectiveness of accounting system for the purpose of assessing the control risk.	4.14
The External Auditors mostly rely on the internal control system of the company to reduce the risk of errors.	3.89
Mean	**4.03**

Table 3 shows the average control risk and its standard deviation for the analysis of the importance of assessing control risk, based on 160 responses. The mean of the four items in the assessment of control risk is 4.03, indicating that control risk affects the fairness of financial statements.

Table 4. Descriptive Statistics of Detection Risk

Items	Mean
The amount of evidence to be obtained by auditor is based on the Auditors assessment of inherent and control risk.	4.02
Detection risks increase when there are fundamental deviations in some budget items, and the audit procedures of external auditor are unable to discover them.	3.86
The level of detection risk is directly related to the significant auditor's procedures.	3.88
The external auditors mostly accept high detection risk when there is low inherent risk, while continuing to reduce audit risk to an acceptable level.	3.86
Mean	**3.90**

Table 4 shows the mean and standard deviation of the detection risk assessment for the detection risk variable, based on 160 responses. The mean of the four items of detection risk is 3.90, indicating that assessment of detection risk has received significant attention from external auditors.

Table 5. Descriptive Statistics of Fairness of Financial Statements

Items	Mean
The users of financial statement rely on the audit reports carried out by an independent auditor as an unmodified opinion usually ensures that fraud and illegal behaviors that may be present in the financial statement does not exist.	3.95
The shareholders expect the auditor to detect majority of the misstatements that may exist, as the Auditor obtains the highest level of assurance during the audit.	3.93
The external audit enhances the insurance that the financial statements are free from material misstatements and errors.	3.96
The external audit enhances the investor confidence in integrity of financial statements.	4.39
Mean	**4.05**

The fairness of the financial statements is shown in Table 5, which analyzes the effectiveness of the audit risk assessment in this regard using the 160 responses received. The mean of the four items measuring financial statement fairness is 4.05, indicating a significant effect of audit risk assessment on fairness.

Discriminative Validity

In the components of the correlation matrix that are observed in the table below, the Pearson correlation of all variables is significant, with a value of around (1%) indicating that the discriminative validity of these variables has been established.

Table 6. Factor Correlation Matrix

Pearson Correlation	IR	CR	DR	FS
IR	1	0.504	0.519	0.515
CR	0.504	1	0.632	0.681
DR	0.519	0.632	1	0.627
FS	0.515	0.681	0.627	1

Normality Test

The most common statistical methods for testing normality are the Shapiro-Wilk and Kolmogorov-Smirnov tests. The Shapiro-Wilk test shows the secondary data sets (e.g., n < 0.05), while the Kolmogorov-Smirnov test shows the total samples (> 100). The table and graph below show the mode test results (Hanafi and Fadilah, 2017). After analyzing the data, it was found that the p-values for all variables are less than 0.05, indicating that the data are normally distributed within the required sample.

Table 7. Tests of Normality

Variables	Kolmogorov-Smirnov Sig.	Shapiro-Wilk Sig.
IR	0.000	0.000
CR	0.019	0.000
DR	0.001	0.000
FS	0.000	0.000

Reliability

The reliability of the variables has been measured using Cronbach's alpha. Based on the SPSS analysis, the variables had Cronbach's alpha values above 70%, indicating high reliability across the 160 responses.

Table 8. Reliability Test

Variables	Items of No	Cronbach alpha
Inherent Risk	5	0.757
Control Risk	4	0.742
Detection Risk	4	0.750
Fairness of Financial Statement	4	0.755

Anova

The ANOVA results indicate that the independent variables are statistically significant for the dependent variables, $F(3, 156) = 62.301$, $p < .005$. Then, the value of Sig indicates that the model in the table below is significant for further analysis, as Sig is less than 5%.

Table 9. ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	47.621	3	15.874	62.301	0.000
Residual	39.748	156	0.255		
Total	87.369	159			

Coefficients

The unstandardized coefficients indicate that the independent variables account for the variance in the dependent variable. This is according to the table below, which shows that the value of the (IR) is (.019), which is less than (5%). This indicates that there is a significant relationship between (IR) and the fairness of financial statements. The value of (CR) and (DR) is (0.000), implying that there is a significant relationship between the independent variable and the dependent variable. Therefore, the coefficient values for all variables are accepted.

Table 10. Coefficients

Model	Unstandardized Coefficients	t	Sig.
Constant	0.636	2.493	0.014
IR	0.145	2.379	0.019
CR	0.451	5.923	0.000
DR	0.270	3.780	0.000

H1: There is a positive relationship between inherent risk assessment and the fairness of financial statements.

This study concluded that there is a positive relationship between inherent risk and the fairness of financial statements, with the coefficient (Sig) at the 5% level. Therefore, there is a significant relationship between the assessment of inherent risk and the fairness of the financial statements. Based on prior studies, there was a positive relationship between the assessment of inherent risk and the fairness/quality of financial statements when auditors consider inherent risk in their assessment. Inherent risk is the possibility of a material misstatement in the accounts, independent of the client's internal control, and is sometimes combined with control risk into a single risk factor. According to De Martinis (2005), who investigated the impact of the audit risk assessment on the auditing process, the study may include: audit risk, inherent risk, control risk, and other risks related to the quality of the financial statements. Zaqoot (2016) found that signals from financial statements' risk controls enhance the effectiveness of the external audit in detecting financial fraud at the $\alpha = 0.05$ level. Khurana & Raman (2004) "The audit risk model is expressed as AR = IR *CR*DR. When audit risk refers to the risk that the auditees' 32 of financial statements could not reveal misstatement or fraudulence after their internal control activities and audit personnel's detection". In the audit risk model, the items of (IR *CR) are sometimes called "auditee risk" or "occurrence risk" since these two risks both refer to the misstatement has already existed in the financial statement. Finally, most of the studies mentioned in this research have focused on investigating the link and significant relationship between audit risk assessment and the fairness/quality of financial statements, which require more attention, care, and effort on the part of auditors in assessing audit risk during the auditing process.

H2: There is a positive relationship between control risk assessment and the fairness of financial statements.

The results show a significant relationship between control risk and the fairness of the financial statements, with a correlation coefficient of less than 5%. Therefore, the study confirmed that external auditors in Oman are mostly committed to assessing control risk when performing auditing procedures. The control risk assessment is defined as the auditor's expectation of the internal control system's ability to prevent errors, the likelihood of

their occurrence, and its ability to detect and correct them if they occur (Arens et al., 2005).

H3: There is a positive relationship between detection risk assessment and the fairness of financial statements.

Analysis of the data found a correlation between assessments of detection risk and the fairness of financial statements. As noted, the correlation coefficient for all variables is less than 5%. Accordingly, the study found that the auditor should conduct a risk assessment during the audit procedures to produce fair financial statements free of any misrepresentations or fundamental errors. Therefore, the external auditor is primarily concerned with detection risks, while control and inherent risk are the responsibility of management. Detection risk is the risk that audit evidence fails to detect errors that exceed acceptable errors in a given set of data (Arens et al., 2005).

5. Conclusion

External auditors present their reports to many people, known as shareholders. There are regulations and professional standards for all auditors to follow when conducting external audits. The external auditors are required to obtain an understanding of the entity being audited and its environment, including internal control and the risks of material misstatement of the financial statements, whether due to fraud or error. This includes an understanding of the entity's objectives, strategies, and risks. Related actions may also lead to material misstatements in the financial statements. (IAASB, 2008). The Sultanate of Oman has focused more on governance and transparency, as these are among the foundations of its vision for 2040. Therefore, the Commercial Companies Law No. (18/2019) regulates the procedures for preparing financial accounts, including the General Accepted Accounting Principles. Article No. 21 of Royal Decree No. 76/87 states that auditors shall be responsible to the firm, the shareholders, and others for any resulting damages arising from any fraud committed in the performance of their duties. In this study, the researcher has attempted to link the previous studies (literature reviews) with the results of the questionnaires analyzed by SPSS) program.

The final results show significant, positive relationships between the independent variable (audit risk assessment) and the dependent variable (fairness of financial statements), indicating a strong influence between the study variables. The study has also found a significant relationship between the assessment of audit risk within the auditing procedure and the reliability and fairness of financial statements. Furthermore, the study has shown that external auditors in Oman pay attention to and address audit risk when practicing auditing procedures, which, in turn, affects the reliability of external auditor reports in the Sultanate of Oman.

Recommendation

This study recommended that government institutions, auditing offices, and external auditors pay closer attention to the assessment of audit risk during auditing procedures. This study focuses primarily on Oman to update and develop the rules and regulations of the Accounting and Auditing law and instructions for the auditing of firms' financial statements, especially for corporations listed on the market.

The study recommends that the Capital Market Authority provide additional care and attention to develop new regulations, including manuals, checklists, matrices, and guidelines to apply when performing the auditing procedure. Finally, the researcher recommends the use of measurement tools to assess the compliance of external auditors and auditing firms with auditing risk assessments.

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