

**FACTORS AFFECTING EXTERNAL AUDIT QUALITY IN
MUNICIPALITIES OF PALESTINE: MODERATING ROLE OF
SUPREME AUDIT INSTITUTIONS**

HUSNI IBRAHIM AS'AD RABAIAH

UNIVERSITI SAINS ISLAM MALAYSIA

**FACTORS AFFECTING EXTERNAL AUDIT QUALITY IN
MUNICIPALITIES OF PALESTINE: MODERATING ROLE OF
SUPREME AUDIT INSTITUTIONS**

Husni Ibrahim As'ad Rabaiah

Thesis submitted in fulfilment for the degree of
DOCTOR OF PHILOSOPHY IN
ECONOMICS AND MUAMALAT ADMINISTRATION

UNIVERSITI SAINS ISLAM MALAYSIA

February 2024

AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

Date: 2nd February 2024

Signature:

Name: Husni Rabaiah

Matric No: 4181467

Address: Kajang - Malaysia

ACKNOWLEDGEMENTS

My thanks go to Almighty Allah for His immeasurable and unending blessings, which cannot be expressed in words. He, the Almighty, has given me the courage, patience, and enthusiasm to embark on this journey. I would not have been able to finish this study without His help and protection.

I am extremely grateful to my supervisors, Prof. Dato' Dr. Mustafa, Dr. Rosnia and Dr. Nurul Nazelia, for the really valuable advice and support they have provided me to embark on this research journey. In fact, they have devoted a significant amount of their valuable time to support me. They have also provided me with ongoing encouragement in achieving the goal of this study. Having them as supervisors was an incredible honor.

I owe a debt of gratitude to my cousin Mahmoud Mohammad As'ad Rabaiah, my wife Ghada Rabaiah, my sons Ibrahim, Yousef, and Younis, as well as my daughters Nour, Israa, and Maryam. I can't deny that their prayers and their sincere good wishes for my success have always been and will always be my greatest strength.

As such, I dedicate this modest work, as well as all of my previous achievements, to the souls of my mother and father, as well as the soul of my son Muhammad, age 21, whom I lost while studying in Malaysia.

Finally, I'd like to express my heartfelt gratitude to everyone who helped me along the journey, both directly and indirectly, including Palestinian, Malaysians, and others.

ABSTRAK

Kajian ini bertujuan untuk menganalisis faktor kualiti audit luaran yang dipercayai oleh akauntan dan juruaudit dalaman adalah signifikan di majlis perbandaran Palestin. Selain itu, kajian ini bertujuan untuk mengkaji pengaruh Institusi Audit Tertinggi (SAI) terhadap hubungan antara kualiti audit luaran dan faktornya. Faktor-faktor ini termasuk ciri juruaudit, sifat firma audit, dan keberkesanan kawalan dalaman perbandaran di majlis perbandaran. Data kajian dikumpul daripada sumber sekunder dan primer. Data sekunder dikumpul daripada penyelidikan terdahulu serta laporan tahunan dan interim SAI Palestin. Tambahan pula, kajian itu menggunakan tinjauan soal selidik yang diedarkan kepada lebih daripada 309 akauntan dan juruaudit dalaman di 155 majlis perbandaran Palestin yang mempunyai pengetahuan langsung tentang penyata kewangan yang diaudit dan sentiasa berhubung dengan juruaudit luar. Perisian Smart PLS3 yang digunakan dalam analisis statistik data yang diperolehi daripada 186 responden tinjauan. Kajian mendapati hubungan yang signifikan dan positif antara kualiti audit dan penentunya: ciri-ciri juruaudit dengan dimensi etika, kebebasan dan kecekapan; ciri firma audit dengan dimensi yuran audit dan saiz firma audit; dan keberkesanan kawalan dalaman perbandaran dengan dimensi pengauditan dalaman, asas perakaunan, serta undang-undang dan peraturan. Tambahan pula, penemuan mendedahkan bahawa institusi audit tertinggi menyederhanakan secara negatif hubungan antara ciri firma audit dan kualiti audit, tetapi secara positif hubungan antara ciri juruaudit dan kualiti audit, serta hubungan antara keberkesanan kawalan dalaman perbandaran dan kualiti audit. Kajian ini bukan sahaja menyumbang dalam mengembangkan literatur mengenai kualiti audit di majlis perbandaran Palestin, ia juga menyediakan garis panduan yang bermakna kepada pengawal selia profesion audit dan kerajaan dalam menetapkan piawaian dan prosedur audit. Pengurusan majlis perbandaran dalam mengambil juruaudit berkualiti tinggi, dan firma audit dalam menyediakan kualiti audit yang tinggi. Akhir sekali, kajian ini mengambil kira beberapa sekatan dan cadangan untuk siasatan lanjut dalam aspek baharu kualiti audit dalam organisasi sektor awam.

ABSTRACT

The study aims to analyze the factors of external audit quality that accountants and internal auditors believe are significant in Palestinian municipalities. Moreover, the study aims to examine the influences of the Supreme Audit Institutions (SAIs) on the links between external audit quality and its factors. These factors include auditor characteristics, audit firm attributes, and the effectiveness of municipal internal control in the municipalities. The study's data were gathered from secondary and primary sources. The secondary data was gathered from previous research as well as the annual and interim reports of the Palestinian SAIs. Furthermore, the study used a questionnaire survey that distributed to over than 309 accountants and internal auditors in 155 Palestinian municipalities who have firsthand knowledge of the financial statements under audit and are in constant contact with external auditors. SmartPLS3 software used in the statistical analysis of the data obtained from 186 survey respondents. The study found significant and positive relationships between audit quality and its determinants: auditor characteristics with dimensions of ethics, independence, and competence; audit firm attributes with dimensions of audit fees and audit firm size; and effectiveness of municipal internal control with dimensions of internal auditing, accounting basis, and laws and regulations. Furthermore, the findings revealed that supreme audit institutions moderated negatively the relationship between audit firm attributes and audit quality, but positively the relationship between auditor characteristics and audit quality, as well as the relationship between the effectiveness of municipal internal control and audit quality. This study not only contributes in expanding the literature concerning audit quality in Palestinian municipalities, it also provides meaningful guideline to the audit profession regulators and government in setting the audit standards and procedures, municipal management in hiring high-quality auditors, and audit firms in providing a high-audit quality. Finally, this study considered a few restrictions and recommendations for further investigation in new aspects of audit quality in the public sector organizations.

الملخص

تهدف الدراسة إلى تحليل عوامل جودة التدقيق التي يعتقد المحاسبون والمدققون الداخليون أنها مهمة في البلديات الفلسطينية. كما تهدف الدراسة الى فحص تأثير الأجهزة العليا للتدقيق على العلاقات بين جودة التدقيق الخارجي وعواملها. وتشمل هذه العوامل خصائص المدقق، وخصائص مؤسسة التدقيق، وفعالية نظام الرقابة الداخلية في البلديات. تم جمع بيانات الدراسة من المصادر الثانوية والأولية. مصادر البيانات الثانوية كانت من البحوث السابقة والتقارير السنوية والمرحلية للأجهزة العليا للتدقيق في فلسطين. كما استخدمت الدراسة استبياناً تم توزيعه على أكثر من 309 محاسباً ومدققاً داخلياً في 155 بلدية فلسطينية لديهم معرفة مباشرة بالحسابات المالية قيد التدقيق وعلى اتصال دائم بالمدققين الخارجيين. كما ان الدراسة استخدمت برنامج Smart PLS3 في اختبار العلاقة بين متغيرات الدراسة بالإضافة الى ادوات التحليل الإحصائي لبيانات المستجيبين للاستبانة. وقد وجدت الدراسة علاقات مهمة وإيجابية بين جودة التدقيق ومحدداته مثل خصائص المدقق المتمثلة بالأخلاق والاستقلالية والكفاءة، وخصائص شركة التدقيق المتمثلة بألعاب التدقيق وحجم شركة التدقيق، وفعالية الرقابة الداخلية في البلدية المتمثلة بالتدقيق الداخلي والأساس المحاسبي والقوانين واللوائح. علاوة على ذلك، كشفت النتائج أن مؤسسات الرقابة العليا تؤثر بشكل سلبى على أثر خصائص مؤسسة التدقيق على وجودة التدقيق، ولكنها تؤثر بشكل إيجابي على العلاقة بين خصائص المدقق وجودة التدقيق، وكذلك العلاقة بين فعالية الرقابة الداخلية في البلدية وجودة التدقيق. لا تساهم هذه الدراسة فقط في توسيع الأدبيات المتعلقة بجودة التدقيق في البلديات الفلسطينية، بل إنها توفر أيضاً إرشادات ذات مغزى لمنظمي مهنة التدقيق والحكومة في وضع معايير وإجراءات التدقيق، وتساعد إدارة البلدية في تعيين مدققين لديهم جودة عالية، وتساعد مؤسسات التدقيق في تقديم خدمات تدقيق ذات جودة عالية. أخيراً، أخذت هذه الدراسة في الاعتبار بعض القيود والتوصيات لإجراء مزيد من الدراسات في جوانب جديدة لجودة التدقيق في مؤسسات القطاع العام.

TABLE OF CONTENTS

CONTENT	PAGE
AUTHOR DECLARATION	ii
ACKNOWLEDGEMENTS	iii
ABSTRAK	iv
ABSTRACT	v
الملخص	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	xii
LIST OF FIGURES	xiv
LIST OF APPENDICES	xv
LIST OF EQUATIONS	xvi
LIST OF ABBREVIATIONS	xvii
 CHAPTER 1: INTRODUCTION	 1
1.1 Introduction	1
1.2 Research Background	2
1.3 Problem Statement	8
1.4 Research Questions and Objectives	13
1.5 Significance of the Study	13
1.6 Justifications of the Study	18
1.7 Organization of the Study	19
1.8 Conceptual Definition of Terms	20
1.9 Summary	21
 CHAPTER 2: LITERATURE REVIEW	 23
2.1 Introduction	23
2.2 Environment of the PSOs	23
2.2.1 Nature and Types of PSOs	23
2.2.2 Financial Reporting System in PSOs	25
2.2.3 Laws and Regulations Governing PSOs	28
2.2.4 Governance of PSOs	29
2.2.5 Audit of PSOs	30
2.2.6 Municipalities	32
2.2.6.1 General Characteristics of Municipalities	33
2.2.6.2 Municipalities in Palestine	34
2.3 Relevant Theories	36
2.3.1 Public Interest Theory	38
2.3.2 Stakeholder Theory	41
2.3.3 Agency Theory	42
2.4 Audit Quality	44
2.4.1 Importance of Audit Quality	45
2.4.2 Definitions of Audit Quality	47
2.4.3 Measures of Audit Quality	49
2.4.3.1 Proxies of Audit Quality	50
2.4.3.2 Perception of Audit Quality Attributes	52
2.4.3.3 Integrated Framework of Audit Quality in Prior Research	57

2.5	Determinants of Audit Quality	62
2.5.1	Auditor Characteristics	63
2.5.1.1	Auditor Ethics	64
2.5.1.1.1	Importance of Auditor Ethics	65
2.5.1.1.2	Auditor Ethics in the Public Sector	68
2.5.1.2	Auditor Independence	69
2.5.1.2.1	Definition of Auditor Independence	70
2.5.1.2.2	Importance of Auditor Independence for Audit Quality in the Public Sector	71
2.5.1.2.3	Measures of Auditor Independence	72
2.5.1.2.4	Determinants of Auditor Independence	73
2.5.1.3	Auditor Competence	75
2.5.1.3.1	Definition of Auditor Competence	75
2.5.1.3.2	Importance of Auditor Competence in the Public Sector Context	78
2.5.1.3.3	Factors and Measures of Auditor Competence	79
2.5.2	Audit Firm Attributes	80
2.5.2.1	Audit Fees	81
2.5.2.1.1	Audit Fees in PSOs	81
2.5.2.1.2	Determinants of Audit Fees	82
2.5.2.1.3	Relationship between Audit Fees and Audit Quality	85
2.5.2.2	Audit Firm Size	86
2.5.3	Internal Control	88
2.5.3.1	Internal Controls in PSOs	90
2.5.3.2	Factors of Effectiveness of Internal Controls	92
2.5.3.2.1	Internal Audit	92
2.5.3.2.1.1	Importance of Internal Audit in PSOs	94
2.5.3.2.1.2	Relationship between Internal Audit and Audit Quality	94
2.5.3.2.2	Accounting Basis	95
2.5.3.2.2.1	Accounting Basis in PSOs	96
2.5.3.2.2.2	Relationship between Accounting Basis and Audit Quality	97
2.5.3.2.3	Laws and Regulations	98
2.5.3.2.3.1	Laws and Regulations in PSOs	99
2.5.3.2.3.2	Laws and Regulations in Palestinian Municipalities	99
2.5.3.2.3.3	Relationship between Laws and Regulations and Audit Quality	101
2.5.4	Supreme Audit Institutions	102
2.5.4.1	Financial and Administrative Control Bureau (FACB)	105
2.5.4.2	General Department of Control and Guidance (GDCG)	109
2.6	Hypotheses Development	111
2.6.1	Auditor Characteristics	111
2.6.2	Audit Firm Attributes	112
2.6.3	Effectiveness of Municipal Internal Control	112
2.6.4	Supreme Audit Institutions	112
2.7	Conceptual Framework	116
2.8	Review of Empirical studies on Audit Quality	119
2.9	Summary	126
CHAPTER 3: RESEARCH METHODOLOGY		127
3.1	Introduction	127

3.2	Measurement of Variables	127
3.2.1	Measurement of Auditor Characteristics	128
3.2.1.1	Auditor Ethics	128
3.2.1.2	Auditor Independence	129
3.2.1.3	Auditor Competence	130
3.2.2	Audit Firm Attributes	131
3.2.2.1	Audit Fees	131
3.2.2.2	Audit Firm Size	132
3.2.3	Effectiveness of Municipal Internal Controls	133
3.2.3.1	Internal Audit	133
3.2.3.2	Accounting Basis	134
3.2.3.3	Laws and Regulations	134
3.2.4	Supreme Audit Institutions (SAIs)	135
3.2.5	Audit Quality	136
3.3	Pilot Study	141
3.4	Research Design and Measurement	144
3.4.1	Sample Selection and Data Collection Procedures	144
3.4.1.1	Research Population	144
3.4.1.2	Sample Selection	147
3.4.1.3	The Study Instrument	147
3.4.2	Data Analysis	150
3.4.2.1	Confirmatory Factor Analysis	151
3.4.2.2	Multiple Regression Analysis	151
3.4.2.3	An Overview on Structural Equation Modelling (SEM)	152
3.4.2.3.1	Convergent Validity	152
3.4.2.3.2	Discriminant Validity	153
3.4.2.3.3	Internal Reliability of Cronbach's Alpha	154
3.4.2.3.4	Hypotheses Testing	154
3.4.2.4	Coefficient of Determination (R^2)	155
3.4.2.5	Blindfolding and Predictive Relevance (Q^2)	155
3.4.2.6	Common Method Variance (CMV) and Collinearity	156
3.4.2.7	Effect Size (f^2)	157
3.4.3	Model Fit Analysis	157
3.4.3.1	Goodness of Fit (GoF)	157
3.4.3.2	Standardized Root-Mean-Square Residual (SRMR)	158
3.4.3.3	Root Mean Square Residual Covariance (RMS_{Theta})	158
3.5	Research Structural Models	159
3.5.1	Research Structural Models 1	159
3.5.2	Research Structural Models 2	160
3.6	Questionnaire Development	161
3.7	Summary	164
CHAPTER 4: DATA ASSESSMENT AND DESCRIPTIVE STATISTICS		165
4.1	Introduction	165
4.2	Analysis of Survey Response	165
4.2.1	Data Collection	166
4.2.2	Demographic Profile	167
4.2.2.1	The First Group: Demographic Characteristics	169
4.2.2.2	The Second Group: Audit Process Characteristics	171

4.3	Construct Measures	174
4.4	Data Screening	174
4.4.1	Missing Values	175
4.4.2	Outliers	175
4.4.2.1	Univariate Outliers	176
4.4.2.2	Multivariate Outliers	177
4.4.3	Assessment of the Data Normality	178
4.4.3.1	Univariate Normality	178
4.4.3.2	Multivariate Normality	180
4.5	Common Method Bias (Harman's single-factor test)	181
4.6	Measurement Model (Confirmatory Factor Analysis) – Stage 1 of SEM	182
4.6.1	Measurement Model 1	183
4.6.1.1	Convergent Validity and Reliability	184
4.6.1.2	Discriminant Validity	187
4.6.1.2.1	Fornell-Larcker Criterion	188
4.6.1.2.2	HTMT Discriminant Criteria	188
4.6.2	Measurement Model 2	189
4.6.2.1	Reliability and Convergent Validity	189
4.6.2.2	Discriminant Validity	190
4.6.2.2.1	Fornell-Larcker Criterion	190
4.6.2.2.2	HTMT Discriminant Criteria	191
4.7	Descriptive Analysis	192
4.7.1	Descriptive Analysis of Auditor Characteristics (ACH) Items	194
4.7.2	Descriptive Analysis for of Audit Firm Attributes (AFA) Items	196
4.7.3	Descriptive Analysis of Effectiveness of Municipal Internal Control (EMIC) Items	197
4.7.4	Descriptive Analysis of Supreme Audit Institutions (SAI) Items	198
4.7.5	Descriptive Analysis of Audit Quality (AQ) Items	199
4.8	Reports of SAIs in Palestine	200
4.8.1	FACB Reports	201
4.8.2	MOLG-GDCG Reports	205
4.9	Summary of Chapter Four	206
CHAPTER 5: MULTIPLE REGRESSION ANALYSIS AND THE RESULTS		208
5.1	Introduction	208
5.2	Structural Models - Stage 2 of SEM	208
5.2.1	Examining Direct Effect Hypotheses - Structural Model 1	209
5.2.1.1	The Relationship Between the Auditor Characteristics and the Audit Quality	212
5.2.1.2	The Relationship Between the Audit Firm Attributes and the Audit Quality	214
5.2.1.3	The Relationship Between the Effectiveness of Municipal Internal Control (EMIC) and the Audit Quality (AQ)	215
5.2.2	Examining Moderation Effect Hypotheses	216
5.2.2.1	The Moderating Role of SAIs between the Auditor Characteristics and Audit Quality	219
5.2.2.2	The Moderating Role of SAIs between the Audit Firm Attributes and Audit Quality	221

5.2.2.3	The Moderating Role of SAIs between the Effectiveness of Municipal Internal Control and Audit Quality	223
5.2.3	Examining Direct Effect Hypotheses - Structural Model 2	225
5.2.3.1	The Relationship Between the Auditor Ethics and the Audit Quality	228
5.2.3.2	The Relationship Between the Auditor Independence and the Audit Quality	230
5.2.3.3	The Relationship Between the Auditor Competence and the Audit Quality	231
5.2.3.4	The Relationship Between the Audit Fees and the Audit Quality	232
5.2.3.5	The Relationship Between the Audit Firm size and the Audit Quality	233
5.2.3.6	The Relationship Between the Internal Audit and the Audit Quality	234
5.2.3.7	The Relationship Between the Accounting Basis and the Audit Quality	236
5.2.3.8	The Relationship Between the Laws and Regulations and the Audit Quality	237
5.3	Summary of Chapter Five	238
CHAPTER 6: CONCLUSION		240
6.1	Introduction	240
6.2	The Main Finding of the Study	240
6.2.1	The Auditor Characteristics and Audit Quality	241
6.2.2	The Audit Firm Attributes and Audit Quality	241
6.2.3	The Effectiveness of Municipal Internal Control and Audit Quality	242
6.2.4	The Moderating Role of SAIs on the audit quality	243
6.3	Contributions of the Study	245
6.3.1	Literature Contributions	245
6.3.2	Theoretical Contributions	246
6.3.3	Methodological Contributions	248
6.3.4	Managerial Contributions	249
6.4	Limitations and Suggestions for Future Research	250
6.5	Recommendations	252
6.6	Concluding	253
REFERENCES		255
APPENDICES		281

LIST OF TABLES

Tables	Page
Table 1.1: Conceptual Definitions of Terms	20
Table 2.1: Research Hypotheses Codes and Descriptions	115
Table 2.2: Summary of Some Prior Studies on the Determinants of Audit Quality	120
Table 3.1: Number of Professionals in the Audit Team	132
Table 3.2: Audit Quality Attributes, Dimensions and their codes, and Sources	137
Table 3.3: Audit Quality Items in the Questionnaire	140
Table 3.4: The Reliability of Respondents and the Descriptive Analysis	143
Table 3.5: Reliability of Respondents and the Descriptive Statistics - Dimensions	143
Table 3.6: Number of Municipalities in Palestine and in Each Class	145
Table 3.7: Positions of the Main Accountants in Each Class of Municipality	146
Table 3.8: Research Population	146
Table 4.1: Responses Rate	166
Table 4.2: Sample Profile ($N = 186$)	168
Table 4.3: List of Constructs and Measurement Items	174
Table 4.4: Result of Univariate Outlier Based on Standardized Values	176
Table 4.5: Assessment of Normality of All Items	179
Table 4.6: Mardia's Multivariate Normality	181
Table 4.7: Mardia's Multivariate Skewness and Kurtosis	181
Table 4.8: Convergent Validity and Cronbach Alpha for Measurement Model 1	185
Table 4.9: Results of Fornell-Larcker Criterion in Measurement Model 1	188
Table 4.10: Results of HTMT Discriminant Criteria in Measurement Model 1	189
Table 4.11: Fornell-Larcker Criterion in Measurement Model 2	190
Table 4.12: HTMT Discriminant Criteria in Measurement Model 2	191
Table 4.13: Results of Descriptive Statistic for Variables	193

Table 4.14: Results of Descriptive Statistic for the Items of ACH Constructs	195
Table 4.15: Descriptive Statistic for the Items of AFA Constructs	196
Table 4.16: Results of Descriptive Statistic for the Items of EMIC Constructs	198
Table 4.17: Results of Descriptive Statistic for the Items of SAI Constructs	199
Table 4.18: Results of Descriptive Statistic for the Items of AQ Constructs	200
Table 4.19: General Data of FACB Audit Reports	202
Table 4.20: General Notes and Recommendations of FACB on AQ	203
Table 4.21: The Notes and the Recommendations of MOLG GDCG	206
Table 5.1: Hypothesized Direct Effects of the Constructs in Structural Model 1	212
Table 5.2: Examining Results of Hypothesized Moderation Effects of SAI	219
Table 5.3: Hypothesized Direct Effects of the Constructs in Structural Model 2	228

LIST OF FIGURES

Figures	Page
Figure 2.1: Audit Quality Framework	59
Figure 2.2: Framework on Audit Quality of the FRC of the UK	61
Figure 2.3: Conceptual Framework	118
Figure 3.1: Research Hypotheses in Research Structural Model 1	160
Figure 3.2: Research Hypotheses in Research Structural Model 2	161
Figure 4.1: The Initial Measurement Model 1	184
Figure 4.2: Measurement and Structural Model 2	192
Figure 4.3: Means and Standard Variations of All Constructs	194
Figure 5.1: Structural Model 1 – Causal Effects – Path Coefficients	210
Figure 5.2: Results of Direct Effect Hypotheses in Structural Model 1	211
Figure 5.3: Results of Moderation Effect Hypotheses in Structural Model 1	218
Figure 5.4: Effect of ACH on AQ at Low and High Level of SAI	220
Figure 5.5: Effect AFA on AQ at Low and High Level of SAI	222
Figure 5.6: Effect of EMIC on AQ at Low and High Level of SAI	224
Figure 5.7: Structural Model 2 – Causal Effects – Path Coefficients	226
Figure 5.8: Results of the Structural Model 2	227

LIST OF APPENDICES

Appendices	Page
Appendix 1: Research Questionnaire (English version)	281
Appendix 2: Research Questionnaire (Arabic version)	289
Appendix 3: Questionnaire Validation Tool	295
Appendix 4: Content Validity Index (CVI)	303
Appendix 5: Common Method Bias (Harman's single-factor test)	305
Appendix 6: Cross-Loading of all Items and 1st Order Constructs	306
Appendix 7: Smart PLS Modified Measurement Model 1	308
Appendix 8: Smart PLS Structural Model 1 – Causal Effects – t-value	309
Appendix 9: Smart PLS Structural Model 1 – Moderation Effects	310
Appendix 10: Smart PLS Structural Model 2 – Causal Effects – t-values	312

LIST OF EQUATIONS

Equation	Page
3.1	157
3.2	158
5.1	211

LIST OF ABBREVIATIONS

IAASB	International Auditing and Assurance Standards Board
(NGOs)	Non-Governmental Organizations
AQ	Audit Quality
CIPFA	Chartered Institute of Public Finance and Accountancy
COSO	Committee of Sponsoring Organizations of Treadway Commission
CPAs	Certified Public Auditors - External Auditors
EU	European Union
FACB	Financial and Administrative Control Bureau
FRC	Financial Reporting Council
GAAS	Generally Accepted Auditing Standards
GDCG	General Department for Control and Guidance
GS	Gaza Strip
IAF	Internal Audit Function
ICAS	Institute of Chartered Accountants in Scotland
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IMF	International Monetary Fund
ISA	International Standards of Auditing
MOLG	Palestinian Ministry of Local Government
NSW	New South Wales
PNA	Palestinian National Authority
PSOs	Public Sector Organizations
SAACB	State Audit and Administrative Control Bureau
SAIs	Supreme Audit Institutions
WB	West Bank
ACH	Auditor Characteristics
ET	Auditor Ethics
IN	Auditor Independence
CM	Auditor Competence
AFA	Audit Firm Attributes
AF	Audit Fees
AFS	Audit Firm Size
IA	Internal Auditing
AB	Accounting Basis
LR	Laws and Regulation
EXP	Experts
PLS	Partial Least Squares
AVE	Average Variance Extracted
CR	Construct Reliability
SME	Structural Model Evaluation
CMV	Common Method Variance
GoF	Goodness of Fit
SRMSR	Standardize Root-Mean-Square Residual
RMS _{theta}	Root Mean Square Residual Covariance

CFA	Confirmatory Factor Analysis
EMIC	Effectiveness of Municipal Internal Control
CVI	Content Validity Index

CHAPTER 1

INTRODUCTION

1.1 Introduction

This study aims to evaluate the external audit quality in the municipalities of Palestine, which are the most important public sector organizations in the country, and to assess the audit quality attributes based on the perspective of accountants and internal auditors, who are the main participants in the accounting information system and are in constant, direct contact with external auditors. The main audit quality attributes selected by this study include auditor characteristics, audit firm attributes, and the effectiveness of municipal internal control. Moreover, the study aims to explore the effect of supreme audit institutions (SAIs) on the relationships between these attributes and audit quality.

High audit quality boosts public trust in audited financial statements issued by government accountants. However, even if a government agency receives an unmodified audit opinion, public confidence will still weaken if corruption remains (Kusumawati & Syamsuddin 2018). Corruption and scandals in the public sector organizations are linked to the internal control system, which is at the heart of the accounting policies and auditing procedures. The governments can reduce the corruption when they reform public-sector accounting by adopting the International Public Sector Accounting Standards (IPSAS) or the accrual accounting basis (Cuadrado-Ballesteros et al., 2019).

In addition to the secondary data about the audit quality, the study employed the survey design to obtain the perception of accountants and internal auditors in the Palestinian municipalities on the extent of quality of the external auditing and the degree of responsiveness of auditors to their needs, as well as of audit quality attributes that make auditors more credible and efficient in audit engagements. The data are analyzed using the SmartPLS 3 software. The study provides a comprehensive model for audit quality and its three determinants of auditor characteristics (ethics, independence, and competence); audit firms attributes (audit fees and audit firm size); and the effectiveness of municipal internal control that is consistent with the components and objectives of the Committee of Sponsoring Organizations of Treadway Commission's (COSO) integrated internal control framework, such as internal audit, accounting basis, and compliance with applicable laws and regulations.

1.2 Research Background

Audit firms usually provide financial audit, compliance audit, performance audit (Jeppesen et al., 2017) and other assurance or non-assurance services (Arens et al., 2017). These services may add credibility and trustworthiness to the client's financial information reports, making them more useful and beneficial for decision makers and other users. Independent private external audit firms provide their services to for-profit or non-profit organizations, including non-government organizations (NGOs) (Analoui & Samour, 2012). More recently, they started to serve public sector organizations (PSOs) in some countries (Johnsen, 2019). For example, in Palestine, the Policy Paper to Develop Mechanisms for Directing and Monitoring the Work of Local Authorities in July 2011 mentioned that the Palestinian municipalities have

given the option for voluntary external audit beside the internal auditing and the auditing of SAIs by the Palestinian Ministry of Local Government (MOLG) and recommended all the municipalities for external auditing, but did not require it as compulsory issue (MOLG, 2011). Moreover, MOLG issued a new Local Government Units Financial Regulation No. (11) of year 2019 without requiring from the municipalities to provide audited financial statements. To support and encourage the municipalities to hire external auditors and issuing the audited financial statements, the Municipal Development and Lending Fund (MDLF) as part of MOLG conducts periodical assessment of all Palestinian municipalities to determine the size of government contributions to the municipalities. This assessment includes metrics such as the release of two years of audited financial statements. Indeed, MOLG encourages all municipalities to audit their financial statements annually in order to receive extra government contributions. Moreover, most of the foreign donors of Palestinian municipalities require the audit financial statements (Rustom, 2018).

An external auditor typically conducts a financial statements audit and provides his opinion on the accuracy and fairness of the financial statements (Hay & Cordery, 2018) in a standardized written audit report. The client may either come from the public or private sector (Johnsen, 2019). The majority of PSOs offer fundamental services like infrastructure (roads, bridges, public buildings, parking), energy, water, sewage treatment, health, and other services (Avis et al., 2018; Besley & Ghatak, 2017). These critical services are provided in Palestine by PSOs, particularly the local government units (UNDP 2009), and the importance of these services has made the stakeholders of PSOs to be interested in the credibility and transparency of the information reports of the PSOs, particularly the financial statements, hence the importance of external audit (Yamamoto & Kim, 2019). For example, the

management, as one of the central stakeholders of the PSOs, is interested in the positive public's perception of the credibility of the financial reports. Consequently, the management requires a reliable independent auditor who offers top-notch audit services (Hay & Cordery, 2018). Likewise, citizens who pay taxes view such audits as crucial because they want to know where their money is going and whether it is being used in an efficient, effective, and economical manner (Bojkovska et al., 2019).

Most audit firms strive to deliver high-quality audits that have a positive impact on financial decisions in order to keep their current clients and capture new ones (Ali et al., 2019). High audit quality will give more assurance that the audited financial reports are reliable, credible, and high quality (Bala, 2019). But there are some debates on the definition of audit quality among researchers. Audit quality is defined by DeAngelo (1981) as the likelihood that an auditor will recognize and disclose an error in the client's accounting system. Lowensohn et al. (2007) mentioned that according to the Governmental Accountability Office (GAO) (1986), audit quality is defined as adherence to professional standards and the terms of the contract for the audit in question (Vu & Hung, 2023). Audit quality is a three-part process of examining the suitability of the pre-described procedures in relation to the determined objectives; conformity of the real activities with the planned activities; and effectiveness of these activities in achieving the stated objectives (Woodhouse, 2003).

The procurement of external audit services by the municipalities in Palestine is governed by procurement law and related regulations and instructions. The MOLG has been issued in 2016 a guideline on how the municipalities can prepare price quotation to hire an external auditor. The auditor must be recorded in the Palestinian Association of Certified Public Accountants (PACPA), which adopts the International Standards of Auditing (ISA) in its bylaw (Hassan, 2016). These instructions require

large municipalities to announce a public tender in a public newspaper about its plan to appoint an external auditor for specific years. After a lengthy tendering process, the municipality selects an auditor based on its evaluation of the financial and technical offers of the potential auditors. Small municipalities or village councils may distribute price quotations to many auditors to select the best auditor that satisfies the requirements of the MOLG's instructions, particularly the technical and professional requirements. Nonetheless, in general, audit fee is important in determining the successful audit tender (Elder et al., 2015).

From the start of the twenty-first century, there has been increasing awareness about the importance of SAIs, given that they audit government spending in accordance to relevant laws and regulations, accounting frameworks, and the approved budget. Furthermore, their audit evaluates the effectiveness and efficiency of public sector programs (Bojkovska et al., 2019; Carrington et al., 2019). According to World Bank report of year 2001, the majority of countries have national audit agencies like SAIs in place, which are in charge of auditing the financial statements of public sector institutions, (Gustavson & Sundström, 2018) and these agencies carry out performance audit (Carrington et al., 2019). All types of auditing, including financial, performance, and compliance audit, are typically provided by SAIs (Johnsen, 2019).

The Palestinian National Authority (PNA) created a SAI in 1994 when it issued Presidential Decree No. 22 of 1994 to set up the General Audit Institution (GAI), followed by the Act No. 17 of 1995 on the General Audit Institution, and the Financial and Administrative Control Bureau (FACB) Act No. 15 of 2004. Article 31(10) of the FACB Act No. 15 of 2004 states that local government units (LGUs), including municipalities, village councils, and other entities, shall be under the jurisdiction of

the FACB. At the end of 2019, there were 571 LGUs under the jurisdiction of the FACB in addition to 4,671 other PSOs. However, in the same year, the FACB released 125 audit reports, most of these reports were compliance audit, and 63 audit reports related to LGUs that made up 50.4 percent of the total FACB reports (FACB, 2019). But this percentage reached 51.08% in 2018 when FACB issued 139 audit reports, 71 of them related to LGUs. All of these reports related to compliance audit except three reports were related to financial and compliance audit, but there were no reports related to only financial or performance audit (FACB, 2018). This means that LGUs constitute most of the FACB's audit reports for public entities, and that compliance audit type is the most common type of auditing for public entities under the FACB. For example, in 2019, the share of compliance audit was 68%, while the remainder was shared among financial audit (11%), performance audit (8%), and financial and compliance audit (18%) (FACB, 2019). Moreover, FACB receives yearly numerous complaints. In 2018, FACB handled 237 complaints, 82 of which were related to LGUs (FACB, 2018). While in 2019, FACB received 200 complaints, 45 of which were related to LGUs , and FACB employees visited 37 LGUs for auditing and 91 LGUs to follow-up on the complaints (FACB, 2019).

In addition to FACB, there is another body under the MOLG that performs audit as a SAI, namely, the General Department of Control and Guidance (GDCG). GDCG annually examines the efficiency and effectiveness of the operating activities in most LGUs and examines the extent to which they comply with the general acts, regulations, budgetary announcement, instructions, policies, and procedures issued and approved by the MOLG and other relevant legislative bodies. In addition, GDCG follows up the complaints of the interested parties.

In addition to external auditors and SAIs, some municipalities, particularly large ones, practice voluntary internal audit. MOLG through the Policy Paper for Developing Mechanisms for Directing and Monitoring the Work of Local Authorities in July 2011 encourages all municipalities to establish an internal audit unit in their organizational structure. This type of audit is performed by the employees (internal auditors) of the entity (Dimitrova & Paneva, 2019). Internal audit examines the effectiveness and efficiency of the operating activities of the PSOs, and it is considered as part of the organization's governance mechanism (Alqudah et al., 2019).

Most municipalities in Palestine use cash basis accounting, but they are encouraged by the MOLG and donors to switch to modified or full accrual basis by providing various tools such as accounting software, standard charts of accounts, guidance of transition to full accrual basis, and manual procedures for how to apply the accrual basis accounting. Though these facilities have been available since 2004, but the cash basis accounting remains common. According to Sabri (2010), 85 percent of municipalities in Palestine used cash basis accounting, and according to Albuhaici (2013), 100 percent of municipalities in the Gaza Strip used cash basis accounting, but the MOLG Annual Performance Report for 2020 revealed that 30 municipalities of 130 in the West Bank use the accrual basis, this means that the accrual basis is used by 23% of these municipalities (MOLG, 2020). The Local Government Units Financial Regulation No (1) of 1998 was based on cash basis, but the new Financial Regulation No (11) of 2019, did not state and require specific accounting basis. Accordingly, the municipalities are allowable to use accrual basis, cash basis, or both. As a result, the accounting basis and financial process are not consistent across municipalities.

The keystone of public sector governance is the internal control system (ICS) (Reginato et al., 2016), who helps PSOs to enhance their efficiency, effectiveness,

transparency, accountability, and compliance with laws and regulations, as stated in COSO's internal control framework (Sari, 2018). ICS encompasses various elements, such as internal audit, organizing personnel, record keeping, reporting, plans, procedures, policies, and supervision (Sari, 2018), and the functions of the ICS are significantly influenced by size of the organization (Reginato et al., 2016).

MOLG is the governmental regulator for the municipalities in Palestine, and its interventions in the municipalities are represented through the enactment of public laws and regulations which control and influence most operations in the municipalities, including the audit process. This government intervention may have incurred according the public interest theory which will be discussed in details as well as other main concepts and variables of this study in the second chapter with title literature review.

The subsequent sections of this chapter are organized as follows: problem statement, research questions and objectives, significance of the study, justifications and contributions of the study, and organization of the study.

1.3 Problem Statement

According to DeFond and Zhang (2014), the audit process in PSOs always adds value to the financial reports, and the auditors are regarded as key players in providing trustworthy and credible financial statements (Ismail et al., 2019). However, the Palestinian SAIs publish numerous violations each year, including allegations of fraud and corruption. For example, the FACB's annual report of 2018 mentioned many violations through its audit and complaints follow-up in 65 LGUs, including 48 municipalities. These violations reached more than 644, some of them involved suspicions of corruption and misappropriation, so many customized audit reports were

created and forwarded to relevant authorities in order to pursue legal action against the violators (FACB, 2018). The violations and the deficiencies continued in 2019 to reach 466 deficiencies in 35 LGUs, including 19 municipalities (FACB 2019), most of these municipalities have appointed external audit firms who issued unmodified audit report for these municipality. This problem continued in increasing rate in next years to reach more than 1180 violations are founded in the FACB's annual report for 2022 related to local units in 51 audit reports (FACB, 2022). This issue was a motivation for this study by raising the questions about the usefulness of the external auditing, and how to measure audit quality in these municipalities?

The reviewing process of previous external audit reports which they are available on the municipalities' websites of the most important municipalities in West Bank in Palestine since 2012 to 2020, Nablus city in the north, Ramallah city in the center, and Hebron city (the city of Allah's messenger Abraham peace be upon him) in the south revealed that Ramallah and Hebron municipalities use accrual basis since 2008, while Nablus still uses cash basis, and all these municipalities received unmodified audit reports despite of the numerous violations in the three cities as FACB's (SAI of Palestine) issued in its annual report for 2018. Accordingly, the audit reports of these cities are not relevant for the measurement of audit quality and its factors because they are standard reports and have not sufficient details for all issues related to fairness of the audited financial statements, and they are prepared according different accounting bases.

According to the Terms of Reference (ToR) for employing external auditors in Palestinian municipalities and the instructions of SAIs, the external auditors must prepare and send a detailed report of the audit notes to the municipality management (management letter). Municipal management discussed this letter with external

auditors and related personnel including the accountants and internal auditors, in order to justify these deficiencies. The management letter is confidential but available for the SAIs when they want it, and their contents are known to the main accountants and internal auditors. According to the nature of the auditors' reports (standard report) and the confidentiality of the management letters make the researchers unable to use these reports to measure the audit quality. Additionally, the actual audit quality is imperceptible both before and after an audit is conducted (Chadegani, 2011), and the auditors' efforts during an audit engagement are invisible to the naked eye (Donatella et al., 2019). Therefore, the majority of the previous studies have used variety proxies of audit quality to measure the audit quality construct in PSOs or private organizations. Because each proxy is an indirect measure of audit quality and has some limitations, they are not entirely relevant and valid measures of audit quality if they are used individually or collectively. These proxies are either related to the elements of inputs, outputs, or audit process (Velte, 2023; Gaynor et al., 2016; Bell, et al, 2015; DeFond & Zhang, 2014) . Moreover, the proxies which used heavily in private sector as direct method such as restatement, discretionary accruals, and issuing going concern opinions are not applicable to the municipalities, particularly when the municipality uses the cash basis accounting. Accordingly, this study uses the perception of the accountants and internal auditors on the audit quality in the municipalities to examine the audit quality and its factors. The including of both accountants and internal auditors in a single study as respondents in Palestinian municipalities in developing countries distinguishes this study from others.

There are many difficulties are facing the researchers in measuring the audit quality in the municipalities through reviewing the audit reports or using direct proxies encourage the researchers to use the perception of one or more groups of the

stakeholders (accountants, internal auditors, users, external auditors) of audit quality and its determinants. Most studies have examined, developed, and derived audit quality attributes from the perspective of auditors and users of the financial statements, but a few of them have considered the perspective of accountants and internal auditors, who directly operate the accounting information system and issue the financial statements and used them to demonstrate the accountability, transparency, and to be a basis of the budgetary process. Carcello et al. (1992) examined the audit quality perspective of the auditors, users and the preparers, and they found that understanding of the perspectives of both users and preparers regarding audit quality becomes critical in an increasingly competitive climate.

Most prior studies on audit quality focus on the external audit of private sector organizations, particularly public companies. In contrast, there is a lack of studies on audit quality in PSOs (Harris et al., 2019) particularly the municipalities which differ from for-profit firms in their nature, objectives, ethics, culture, regulators, operating procedures, financial and accounting processes, governance bodies, laws and regulations, stakeholders, SAIs, and the effectiveness of internal controls (the COSO integrated framework) which their implementation may vary among municipalities. In Palestine, some municipalities establish a specialized department or section for internal audit, but others do not. Some municipalities are still using cash basis accounting, but others have transitioned to accrual basis. Moreover, compliance with laws and regulations may differ among the municipalities because it depends on the culture of the governance body and the suitability and adequacy of those regulations, as well as the severity of fines and penalties for their violation.

Supreme Audit Institutions (SAIs), independent government audit entities, perform audit (compliance and performance) for all PSOs (Johnsen, 2019). In

Palestine, FACB audits some municipalities according to a prepared plan of audit due to the limited capabilities and resources of the FACB. Therefore, the FACB requires external auditors (CPAs) who audit the public organization to meet all professional conducts and applicable ethics in the auditing of governmental organizations, and to inform FACB for any deficiencies found in any entity under the audit. Moreover, the SAIs use the external audit reports and monitor how the municipality engaged with the external auditor, also, the external auditors may use the SAIs reports and depend on them in audit process. This indicates that there is a connection between SAIs and external auditors that could have an impact on the accuracy of the audit. Previous research has not looked into the effect of SAIs as a moderator variable on the relationship between external audit quality factors and external audit quality in Palestinian municipalities. Moreover, no agreements among the researcher on the specific theory can explain effectively the link between audit quality and independent audit quality factors.

The study aims to fill a gap in the literature by examining audit quality in Palestinian municipalities from the perspective of their accountants and internal auditors through the questionnaire distributed to them in order to address the highlighted the research problem. In addition to the auditors' characteristics and audit firms' attributes, the study seeks to define the effects of new factor of audit quality, such as the effectiveness of municipal internal control and the moderating effect of SAIs on the relationships between audit quality and the selected factors of auditor characteristics, audit firm attributes, and the effectiveness of the municipal internal control.

1.4 Research Questions and Objectives

According to the research problem, the study formulates the following questions that related to external audit quality which known audit quality in this study:

1. What is the relationship between auditor characteristics and audit quality?
2. What is the relationship between audit firm attributes and audit quality?
3. What is the relationship between the effectiveness of municipal internal control and audit quality?
4. Do SAIs moderate the relationship between the audit quality and its determinants of auditor characteristics, audit firm attributes, and the effectiveness of municipal internal control?

To answer the research questions, the study formulates the following objectives:

1. To investigate the relationship between auditor characteristics and audit quality.
2. To investigate the relationship between audit firm attributes and audit quality.
3. To investigate the relationship between the effectiveness of municipal internal control and audit quality.
4. To determine whether SAIs moderate the relationship between the audit quality and its determinants of auditor characteristics, audit firm attributes, and the effectiveness of municipal internal control?

1.5 Significance of the Study

This study is important for Palestine, because PSOs are relatively new. Abushamsieh et al. (2013) reported that the Palestinian National Authority (PNA) was established in 1994 after the Oslo Accords in 1993 in West Bank and Gaza. PNA started with the establishment of necessary administrative frameworks for ministries

and governmental entities without adequate controls, procedures, and financial legislations. Numerous resolutions, instructions, and circulars were issued to create the financial system and apply rules to direct and monitor government revenues and expenditures, as well as to publish financial regulations and guidelines on current and capital expenditure. However, Palestine is still under the Israeli occupation and faces numerous financial and economic difficulties, therefore Palestine at level government, LGUs, and NGOs depends heavily on foreign aids for its expenditures (Risheq et al., 2023). This implies that these institutions must adhere to the terms of their financial donors, particularly the preparation of financial statements audited by external auditors within the parameters established by these supporting organizations (Clark et al., 2023).

The study emphasizes on the audit quality in the municipalities as the most important PSOs in Palestine, which is classified as a developing country, while most studies have largely concentrated on audit quality in private sector organizations in developed countries. According to Cohen and Leventis, (2013) and Gustavson and Sundström (2018), only a few researches have examined the factors of audit quality in PSOs. Most studies on audit quality are carried out in developed countries, while similar research in developing countries remain lacking (Ismail et al., 2019; Johnsen, 2019; Mattei et al., 2021). In order to fulfill their accountability to their stakeholders, superior governmental bodies or the public sector organizations provide general purpose financial statements and demonstrate how the funds are used in providing services to beneficiaries in the public sector organizations (Brusca et al., 2019). The accounting information system in public sector organizations does not concentrate on achieving the profits but on the effectiveness of service provision to the public (Brusca et al., 2018). Therefore, the financial accounting information system in the

public sector entities is based on a specific accounting framework for public sector accounting standards (Gamayuni, 2019). These standards may vary by countries as each one has unique conditions and financial reporting objectives. The study focuses on the unique environmental characteristics of the public sector particularly the Palestinian municipalities, may expected to influence on the audit quality and its determinants, these characteristics as follow: laws and regulations, compliance audit, performance audit, operation plan and related financial budget, supreme audit institutions, political pressure, looking to hire external auditors and setting their fees through bids, source of funds and government grants, superior government bodies' strategies, and specific accounting standards and practices. In addition, the ownership of public sector organizations is not clear as in the private sector, and some studies revealed that the nature of ownership affects audit quality (Alhababsah, 2019). Political factors, such as the strength of the opposition parties, changes in mayors who is appointed by public elections or by the superior government, and the distribution of government grants, may also have an impact on the quality of PSO audits (Cohen et al., 2013). Even so, as Dimitrova and Paneva (2019) found that there is little research on the effects of political factors on audit quality in PSOs.

The importance of the audit quality study increases after the downfall of large companies and audit firms, such as Enron and Arthur Andersen (Saputra, 2015; Singh et al., 2019), and the growth in regulators and their codes of conduct (Knechel, 2016). International Ethics Standard Board of Accountants (IESBA) has issued the International Code of Ethics (IFAC, 2018) to guide auditors in performing audit activities (Mohamed et al., 2013). Regulators refer to this code to oversee the performance of auditors (Chiu et al., 2017) and to guarantee that the audit processes are performed with an acceptable level of quality (Knechel, 2016). The compliance of

auditors with related laws, audit regulations, and professional codes of conduct, among other factors, contribute to high audit quality (Corderly & Hay, 2018; McGowan et al., 2019). But the question of whether the audit quality has improved with more audit professional regulations, remains difficult to answer, as there is no agreement among researchers about how to state and measure audit quality (Hussein & Hanefah, 2013). This may lead to expectation gaps about what factors can determine and measure audit quality in all audit engagements in either the private or public sector. The study tries to examine selected some factors of audit quality in the Palestinian municipalities by using the audit quality perception of the accountants and the internal auditors. This type of perception may distinct the study and increases its importance, because the accountants in the municipalities legally liable and responsible on the misstatements in the financial reports more than the top management as in the private sectors. Therefore, the accountants and the internal auditors need independent parties to assert the credibility their reports in order demonstrate the financial position of the municipalities to the regulators, and show the accountability and the transparency for the public and for the interested parties. Also, the Audit firms may refer to the perception of the accountants and the other users as a basis to enhance their audit efficiency (Takiah et al., 2010). And some studies have studied the perception of accountants and internal auditors on audit quality in private and public sectors particularly the municipalities in developed countries, e.g., Behn, et al. (1997), Pandit (1999), Boon et al. (2008), and Takiah et al. (2010), but this study uses this perception in Palestinian municipalities as the first study in this field. The study does not select to examine the perception of the external auditors and the auditors of the SAIs, because the audit quality perception of these groups depending on the nature of audit procedures that performed in the auditing process, and they

always accept to provide reasonable assurance instead of absolute assurance, but the accountants and internal auditors as preparers and users of the financial reports observe all audit process, communicate continuously with audit teams, interest with audit quality as a whole, and they expect from the audit process to provide correct financial statement, therefore their perception is more benefit for the regulators of audit profession and audit firms in improving the audit profession and achieving more audit quality.

In addition to the audit quality perception of the accountants and the internal auditors in the Palestinian municipalities the study reviews the reports of SAIs in Palestine which they related to the LGUs in order to support of result of perception of the effect of the SAIs role on the relationship between the audit quality and the main audit quality factors; auditor's characteristics, audit firm attributes, and the effectiveness of internal control in the Palestinian municipalities. And the study uses the SmartPLS 3 software in statistical analysis of the result of the questionnaire, this software estimates data with little or no bias. Hair et al. (2017) encouraged social sciences researchers to use SmartPLS 3 because it is a newer, more powerful, and often more flexible statistical method.

The study bridges the literature gap concerning the selected determinants of the quality of external audit in municipalities of Palestine, these determinants includes new factors related to effectiveness of municipal internal controls (internal audit, accounting basis, and laws and regulations) and the moderation role of SAIs between audit quality and audit quality factors (auditor characteristics, audit firm attributes, and effectiveness of municipal internal controls).

1.6 Justifications of the Study

The study introduces many benefits for different parties, such the audit quality literature, audit profession regulators, audit firms, municipalities managements, MOLG, the government and the legislative bodies, and the SAIs. The study increases the audit quality literature through examining new factors of the audit quality as the elements of the effective internal control and the role of the SAIs in the audit quality in the municipalities. Also, the study discusses the audit quality in the developing countries which they have limited studies in this aspect, particularly the Palestine which faces difficult political circumstances and weaknesses of the economic resources. Also, the study uses the public interest theory in explaining the relationship between the audit quality and its attributes, this theory is considered more relevant in the public sector. The study can be useful to audit profession regulators in developing a comprehensive audit quality framework for the public sector including current new selected attributes, and looking at other new attributes of audit quality. The study will be helpful for the management of the PSOs and the governance bodies in evaluating the audit bids and thus choose the best professional auditors who can provide high audit quality. The study investigates accountants' and internal auditors' perceptions of audit quality, and when this perception is known to audit firms, it assists them in developing effective strategies to satisfy your clients, allowing audit firms to differentiate their promotion and service provision strategies, and improve their audit service quality, allowing them to retain clients and strengthen their market position. Because the study will suggest a comprehensive framework for audit quality while considering the PSOs environment, it will assist the municipal regulator (MOLG) in reviewing its regulations related to the appointment of external auditors and the issuance of audited financial statements. Furthermore, the study may benefit the

government and legislative parties in reviewing and imposing internal audit laws and regulations; adopting relevant accounting bases; and expanding the activities of the SAIs in all Palestinian municipalities.

1.7 Organization of the Study

This study is organized into six chapters as the following:

Chapter One presents an introduction and background on the research in addition to the research problem statement, questions, objectives, significance, justifications and contributions, and organization of the study.

Chapter Two discusses the review literature of audit quality and other concepts of the study. It covers the environment of PSOs, theoretical framework, the importance of audit quality and its definitions, measures, and determinants. Furthermore, this chapter discusses the auditor characteristics, audit firm attributes, effectiveness of the municipal internal control, and SAIs. Moreover, this chapter explains how the research hypotheses are formulated, and how the conceptual framework is developed. Finally, the chapter discusses and summarizes some prior studies on audit quality.

Chapter Three describes the research methodology, the measurement of the study variables, and research design. Moreover, it describes the population and sample selection, data collection, data analysis, model fit analysis, research structure models and how to develop the questionnaire and pilot study.

Chapter Four presents analysis of survey response, construct measures, data screening, common method bias, and the measurement model. Moreover, this chapter discusses and explains the descriptive statistics, and analysis of annual SAIs reports.

Chapter Five presents an analysis and explanations of the results of the study through the discussion of the Structural Models-Stage 2 of SEM and the examining direct effect hypotheses-structural model 2.

Finally, Chapter Six presents the study's primary findings as well as the implications and limits of the study, as well as research accomplishments. This chapter includes suggestions for further research. Lastly, a general conclusion is offered.

1.8 Conceptual Definition of Terms

The following Table 1.1 summarizes the study conceptual definitions of terms

Table 1.1: Conceptual Definitions of Terms

#	The Term	The definition
1	Auditor Characteristics	Indicators of the auditor's capacity to carry out a high-quality audit, including the ethics competence and independence (including ethics) of auditors are taken into consideration (Dickins et al., 2018).
2	Audit Firm Attributes	Attributes, such as audit fee and audit firm size, are inputs of the audit process that indicate audit quality (Omer et al., 2016).
3	Effectiveness of Municipal Internal Control	The management's strategy for ensuring that operations are productive and successful, financial reporting is correct, and laws and regulations are followed (Younas & Kassim 2018).
4	Supreme Audit Institutions	National organizations in charge of monitoring the use of public funds and the effectiveness and integrity of governmental processes and policies (Hay & Cordery, 2018).
5	Audit Quality (AQ)	Audit quality as the auditor's capacity to identify and disclose misstatements, adhere to ethical and professional standards, and/or satisfy investor needs (Dickins et al., 2018).
6	Auditor Ethics	Ethics is a system of moral standards or ideals serves as both the glue that holds society together and is necessary for a society to function in organized activities (Alvin et al. (2017).

Table 1.1, continued

#	The Term	The definition
7	Auditor Independence	Independence as a notion comprising of two components: independence in appearance and independence of mind (Alvin et al., 2017).
8	Auditor Competence	Competence generally refers to the auditor's capability to do tasks seriously and in accordance with professional standards (Abbott et al., 2016).
9	Audit fees	Audit fees reflect the level of audit efforts that the audit firm will expend on the audit engagement, and are negotiated bilaterally between the audit firm and the client (Yebba & Elder, 2019).
10	Audit firm size	Audit firms are classified into three main classes by size: international firms (Big 4), national or regional firms, and local (small) firms. Alvin et al. (2017)
11	Internal Auditing	Internal auditing as one component of the internal control system implemented by institutions' management for the purpose of evaluating, examining, and disclosing the effectiveness of its internal controls over financial reporting (Chalmers et al., 2019; Dimitrova & Paneva, 2019).
12	Accounting Basis	Method is used by accounting systems to record financial transactions and summarize outcomes over time (Ahmed & Al-Kake, 2019).
13	Laws and Regulations	Laws and regulations include all the orders of superior authorities and regulators of the client's industry (Zuarub & Abaalal, 2015).
14	The Public Interest Theory	Public interest theory was developed from conventional conceptions of representative democracy and the role of government to enact regulations (Christensen, 2010).

1.9 Summary

This chapter has discussed the research problem, questions, and objectives. It has explained the significance of this study, as well as its motivations and justifications. This study aims to examine the determinants of external audit quality in PSOs, particularly the municipalities in Palestine. This chapter has also presented briefly about the auditing process in the municipalities, and the motivations and the

justification of the study. Finally, the organization of the study provides an overview about the structure of the study.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the environmental factors of PSOs, that includes the nature and types, financial reporting system, laws and regulations, governance, auditing, and the municipalities. Moreover, the chapter discusses the theories that used in the prior studies to in explain the relationship between the audit quality and its factors, and give justification why the public interest theory is used in the study to explain the relationships among the study variables. Additionally, the chapter defines and discusses all the study variables. Accordingly, the study hypotheses and the conceptual framework are developed. Finally, the chapter reviews past empirical studies on audit quality and shows the literature gap and explain the differences between the study and the prior studies.

2.2 Environment of the PSOs

This section discusses the nature and types, accounting basis, laws and regulations, governance of the PSOs, as well as municipalities as the most important type of PSOs.

2.2.1 Nature and Types of PSOs

All federal and state governments, statutory entities, municipalities (cities and towns), joint services councils, public universities and hospitals, and state

corporations are considered PSOs. An entity may also be considered as a PSO if it fulfils one or more of the following criteria: its director is chosen by the general public election or by government officials; it has the authority to establish and carry out a tax levy; it has the power to directly issue debt with federal tax-free interest; or the government could unilaterally dissolve it and take over its assets and liabilities (Ives et al., 2004). Government organizations play a vital role in providing essential services like water, electricity, education, health care, and garbage collection (Edmonds et al., 2020; Boex 2010). PSOs' objectives are different from those of for-profit businesses. PSOs prioritize the public's needs while for-profit businesses concentrate on maximizing profits for their owners or shareholders (Rashman et al., 2009). PSOs prioritize services over cost considerations and financial incentives (Goodwin, 2004), and the operating activities of PSOs are not governed by market conditions. In contrast, business organizations must consider market conditions, in addition to sales, expenses, and net income, when making any decisions (Visser & Van, 2016). In general, PSOs typically operate in accordance with political rules, numerous laws, and regulations, and they strive to accomplish policy goals and objectives (Visser & Van, 2016). But hybrid organizations, like municipal corporations, function at the nexus of private and public sector objectives because they possess both public and private sector characteristics (Grossi & Thomasson, 2015).

When compared to business entities, whose ownership interests are divided into tradeable shares or are owned by individual investors, PSOs have less stringent governance and accountability mechanisms because they lack ownership interests (McGowan et al., 2018). The governance body of the municipality includes the mayor and council members, who are chosen by the public or appointed by a higher authority. Those members frequently lack training in management, accounting, and

finance (Axén et al., 2019). PSOs base their operations on striking a balance between available income and expenditures over a specific time frame. As a result, PSOs' function is to provide citizens with public services as a means of wealth redistribution (Eulner & Waldbauer, 2018). PSOs' importance, size, and budgets increased in most countries, particularly between the 1970s and 1980s (Carrington et al., 2019). Furthermore, PSOs have begun to embrace new public management (NPM) techniques (Lonsdale, 2000).

2.2.2 Financial Reporting System in PSOs

According to agency theory, PSO management is in charge of running a suitable financial reporting system (Dewi et al., 2019). Nur (2015) as cited by Dewi et al. (2019) assert that in the reporting system, management performs the role of an agent by providing information to the principals who are relevant stakeholders in order to show accountability and make the best social, economic, and political decisions. According to the stakeholder theory, parties who have an interest in an entity, have a right to obtain information about that entity's performance that may affect their choices. As a result, interested users must receive financial statements from PSO management (Anggriawan & Yudianto, 2018). For decision-makers, these statements must be pertinent and useful, especially in terms of accountability (Dewi et al., 2019). Accountability calls for real, accurate, believable, trustworthy, and comparable (Eulner & Waldbauer, 2018), understandable, and relevant information (Dewi et al., 2019). International Federation of Accountants (2012) stated that a government can only earn public trust if it issues sufficient and truth information related to its financial transactions (e.g., revenues and expenditure). By doing so, it demonstrates accountability, good governance, and reliability (Dewi et al., 2019).

PSOs worldwide may use either cash basis, modified cash basis, modified accrual basis, or full accrual basis accounting, in contrast to the private sector, who employs accrual accounting only. IFAC's 2018 International Public Sector Financial Accountability Index mentioned that around 25 percent of countries (150 countries jurisdictions globally) prepare their financial reports according the accrual accounting, 45 percent use partial cash basis and accrual accounting, while 30 percent remains to use cash basis (IESBA-IFAC 2018). There are differences in the global accounting standards used by PSOs. Though many PSOs use accrual accounting, many variances remain between them due to the timing, content, and the method of adoption of accrual accounting (Christiaens & Reyniers, 2010; Cohen et al., 2019).

Cohen and Leventis (2013) as citing Taylor and Rosair (2000), defined two types of financial statements in PSOs: balance sheet (financial position) and income statement (performance report). Also, certain regulations require publication of these statements in specific period, and consider them as accountability tools (Cohen & Leventis, 2013). Some countries require additional statements, such as budget comparison report, statement of cash flows, statement of changes in equity, and clarification notes (Brusca et al., 2015; Dewi et al., 2019). The implementation of an accounting information system and issuing of financial reports in specific periods according to the regulations are costly, because many services are needed and necessary to accomplish the job of the accounting information system, such as hiring employees and consultants, installing and running an accounting system, appointing internal and external auditors, implementing control procedures, developing regulatory systems and legal procedures, and using different tools to present the financial reports (Cohen et al., 2013). Accordingly, the financial reports quality in PSOs depends on the nature of the regulations in each country. Therefore, there has

been an increase in demand for relevant and standardized financial statements to enhance the accountability and good governance of PSOs, as well as to improve the process of decision-making and avoid corruption (Rossi et al., 2016).

IFAC established in 1986 the International Public Sector Accounting Standards Board (IPSASB) as Public Sector Committee, which became an independent standard setting board in 2004, this board is supported by IFAC. Until 2015, IPSASB has issued 38 standards for public entities (International Public Sector Accounting Standards- IPSAS). These standards and the IFRS, which are used in the private sector, are similar (Brusca et al., 2015). Since 1996, IPSAS, as a unique setter of high quality standards, has played a crucial role in supporting the important qualities of financial statements, such as transparency, credibility, and comparability, to meet the information needs of stakeholders (Rossi et al., 2016).

The International Monetary Fund (IMF) and the World Bank (WB) have played significant roles in encouraging every country to adopt IPSAS. In fact, they set the adoption of IPSAS as a condition for any financial and nonfinancial supports or loans (Rossi et al., 2016). According to IMF (2015), financial data presented in accordance with IPSAS is trustworthy and comparable, and as a result, it can aid users in understanding it and performing accurate financial analyses. Additionally, it can improve risk management and government accountability. IPSASB-based financial reporting systems must be implemented properly, which necessitates the use of competent, knowledgeable, and experienced personnel (Mir & Sutiyono, 2013). The globalization of markets and increased openness require the public sector around the world to agree and adopt harmonized and standardized accounting activities (Christophe et al., 2015; Mnif Sellami & Gafsi, 2019). Because the accounting information system generates the financial statements that serve as the primary input

for the audit process, a high-quality reporting system will generate high-quality pre-audit statements, which will result in high-quality audit statements (DeFond & Zhang, 2014).

2.2.3 Laws and Regulations Governing PSOs

PSOs generally follow pre-established rules and operating procedures rather than acting arbitrarily. The governance and management bodies are guided in their decision-making by political conventions, administrative unit governance, laws and regulations, an annual financial plan that has been approved, emerging events, lobby groups, and uncertain indicators (Rashman et al., 2009; Visser and Van 2016). Public administration is anticipated to be significantly impacted by a more legalized and politicized environment (Spanou, 2008), auditing (Cohen et al., 2013), and accounting (Ballas & Tsoukas, 2004). Although there may be some variations between countries, laws and regulations govern every aspect of PSOs, especially the financial reporting system and the financial report audit. For example, Nurlis (2018) as cited by Dewi and Yusoff (2019) explained that in Sumatra, Indonesia, Government regulations No. 71/2010 must be followed in the preparation and issuance of financial statements. DeFond and Zhang (2014) claimed that government rules both domestically and internationally are tightening controls on accounting and auditing procedures.

The audit quality could be impacted by the varying rules in each country. Chase (1999) as cited by Yebba and Elder (2019), noted that auditors cannot serve PSOs in several states in the U.S. because to variances in the disclosure note requirements for financial statements. The wide-ranging generally accepted accounting principles (GAAP) between U.S. states require highly experienced and specialized auditors (Yebba & Elder, 2019). The PSOs in each country or state represent a distinct market

for external auditors, because they are governed by dissimilar laws and regulations. Accordingly, the determinants of audit contract and reporting quality also vary (Yebba & Elder, 2019).

2.2.4 Governance of PSOs

The effectiveness of the governance determines how social, economic, and political concerns in society turn out. Fukuyama (2015) argues that the state's capacity to deliver basic services and goods has an impact on the effectiveness of governance (Carrington et al., 2019). IFAC (IFAC Public Sector Committee, 2001) defines governance as activities involving organizational structure, decision-making procedures, monitoring techniques, accountability, and top management ethics and conduct. The Chartered Institute of Public Finance and Accountancy (CIPFA) and IFAC (CIPFA & IFAC, 2014) revealed that the governance function ensures that an entity is operated ethically, efficiently, and effectively, and that it achieves its stated goals and the anticipated outcomes for the general public and the users of the company's services. Procedures, policies, norms, and programs used to direct organizational actions and give reasonable confidence that the entity's objectives are achieved accountably and ethically, hence lowering the danger of corruption, are referred to as PSO governance (Rosa & Morote, 2016).

Good governance assures the application of morals, values, ethical principles, code, norms, and rules within a framework of risk management, which includes well defined accountabilities (Khalid et al., 2016). Omar and Bakri, (2019) claimed that effective rules, support values, accountability, clarity and openness, and building abilities are the five principles that make up successful governance. Financial and analysis reports, particularly performance reports, are necessary for sound governance.

An independent auditor must review these reports to increase their transparency and accountability. One of the mechanisms of good governance in PSOs is the internal audit (Maldonado et al., 2019; Rosa & Morote, 2016). In order to ensure the release of high quality financial statements to interested users, the auditors collaborate with other departments of the company and are thus a crucial component of an entity's monitoring system (Khalid et al., 2016).

2.2.5 Audit of PSOs

PSOs are dedicated to achieving their objectives with economy, effectiveness, and efficiency while making appropriate use of public resources (entity assets). The released audited information ensures the entity's transparency and accountability. As a result, audit is a tool that helps public managers meet their need to account for how they use resources (Brusca et al., 2015).

DeFond and Zhang (2014) claimed that PSO audits offer value. For instance, compulsory audits in public schools increase the effectiveness of resource allocation, and mandated audits in public housing authorities decrease overstatements.

It is crucial that the public has faith in the PSOs' financial reports. The primary contributors to producing trustworthy and credible financial accounts are thought to be auditors (Ismail et al., 2019). Auditing is defined by Alvin et al., (2017) as the procedure of compiling and analyzing data pertaining to certain economic entities in order to ascertain and publish an audit report on the degree of correspondence or compliance between the data and the agreed-upon specific criteria. Also, they mentioned that an impartial qualified individual should conduct the auditing. The notion of audit quality varies between the public and private sectors and is dependent on the audit's goal (Watson, 2019).

Due to the sophisticated government accounting systems used by PSOs, the auditor for these entities must be highly specialized in this sort of audit. Additionally, unique state laws that govern financial reporting in US-PSOs may have an impact on the terms of audit contracts (Salehi et al., 2019; Yebba & Elder, 2019). Depending on a country's rules, PSOs are subject to several forms of audits (Rosa & Morote, 2016), such as financial audit, operational audit, compliance audit, or performance audit which includes mixed audit types. According to Goodwin (2004) performance audit and financial audit are appropriate for the public sector. In a financial audit, the auditor looks at how well the company uses its resources to accomplish its goals. In a performance audit, the auditor looks at how well resources are used and how efficiently they are used in relation to the entity's goals. Three categories of auditors, SAI, internal auditors, and external auditors, may carry out these types of audits. All SAIs perform all forms of audits, although other types of auditors differ between countries according to the norms and regulations of each one (Brusca et al., 2015; Carrington et al., 2019; Gustavson & Sundström, 2018; Johnsen, 2019). The European Union's (EU) Council Directive 2011/85/EU states that independent audits and internal controls must be applied to public accounting systems (internal and external audits). Internal controls encompass the oversight of practices including financial oversight, legal intervention, and typically effectiveness controls (Brusca et al., 2015).

Any entity that receives more than a specific amount of federal financial aid (variable depending on related regulations) must be audited by an external independent auditor in accordance with the requirements of Office Management and Budget (OMB) Circular A-133, according to the Single Audit Act of 1984 in the United States. According to the Circular, the financial reports must be audited, all

requirements for federal programs and grants must be met, and the internal control system must be effective (Yebba & Elder, 2019).

Elder et al. (2015) discovered an indirect correlation between improved audit quality and audit firm rotation policies. PSOs must periodically seek audit bids in accordance with entity-specific laws or regulations in order to keep the current auditor in place or to replace him after a technical assessment. In order to provide focused, transparent, and reliable authoritative reports on government performance, auditors utilize audit reports to ensure accountability and make reference to particular criteria in the form of professional audit standards (Rosa & Morote, 2016). The type of an audit, the users who are interested in the information, and the needs of any applicable standards and regulations all influence the nature of the audit reports (Rosa & Morote, 2016). The form of applied audit varies each country, therefore national and international agencies have developed public audit standards. International standards have occasionally been used as a guide in some EU countries (Brusca et al., 2015). The majority of audit standards for PSOs mandate that the auditors report on the efficacy of internal controls, as well as compliance with laws, regulations, and contractual or grant agreement conditions, in addition to the fairness of the financial statements (Cagle & Pridgen, 2015).

2.2.6 Municipalities

This study focuses on municipalities as LGUs with some independence from superior authorities and governed by distinct accounting standards in most countries. The audit system of municipalities varies across the world and includes all types of audits, such as financial statement, operational, and compliance audit, which are carried out by different types of auditors, such as SAIs, internal auditors, and CPAs as

external auditors. The following sections describe the characteristics of municipalities generally and in Palestine.

2.2.6.1 General Characteristics of Municipalities

Municipalities are the main forms of PSOs in any country, and they have a direct relation with their citizens, providing basic needs and solving their problems (Rua & Alves, 2020). The conventional responsibilities of the municipality as a local government authority include the provision of the following services: keeping the local registry, trash collection, infrastructure protection and expansion (e.g., roads, parks, bridges, tunnels, water supplies, sewers, and electricity networks), and encouraging investment and investing in entertainment activities. In addition to these services, the municipality may provide other services such as education, transportation, and health services (Cohen et al., 2013). The services of municipalities are always financed by their own revenues, which mainly come from taxes, services fees, and government contributions (Cohen et al., 2013).

The top management (governance body) of a municipality includes the mayor, municipal council, and council committees, particularly the financial committee, whose members are the mayor, some members of the municipal council (Cohen et al., 2013), and the financial manager. In most countries, the mayor and members of the municipal council are elected by the citizens of the municipality every four years (Cohen et al., 2013). In the U.S., there are two structures of municipal governance body. The first one includes the mayor and council, while in the second type includes the municipal council and municipality manager. There has been a trend to shift towards the second type to ensure more stability and informative disclosure notes on the financial statements (Giroux & McLelland, 2003).

The literature indicates that some countries have adopted accrual accounting based on IPSAS for the public (municipal) accounting system, while others still use the cash basis. Nonetheless, cash basis accounting has become less common because accrual accounting provides more transparency and enables the measurement of the efficiency and effectiveness of the municipality management (Christiaens & Reyniers, 2010). Sometimes the municipalities of a country may use different accounting bases, such as in Austria (Cohen et al., 2019). In general, the application of any accounting system is governed by the requirements of laws and regulations. For example, most European countries use accrual accounting, and the measurement of performance system is legally required (Cohen et al., 2019).

2.2.6.2 Municipalities in Palestine

Palestine is a small country in terms of population and geographic size, but it has around 519 LGUs in the form of municipalities, local village councils, and local committees (Sabri & Jaber, 2010). These units vary in terms of population, area size, and government subsidies. Based on these characteristics, they are classified into four categories: class A (central of district, and A+ central of area includes many districts), class B, class C, and class D (Sabri & Jaber, 2010). All LGUs are governed by Local Authorities Act No. 1 of 1997, which stipulates 27 areas of responsibilities of LGUs: town planning; building licensing and construction control; water supply; electricity supply; sewage; licensing of trades and businesses; public health monitoring; collection and disposal of solid waste; public parks; cultural and sport activities; public transport; disposal of remnants of roads; social services for the poor; cemeteries; precautions against natural disasters; budget approval and management; control of dogs; demolishing dangerous buildings, monitoring of hotels; controlling

the movements and sales of animals; advertising and announcement policies; monitoring of scales; sales of unused roads; prevention of begging and helping poor families; managing the assets of the local unit; and other duties consistent with the laws and regulations, such as providing emergency services and constructing and maintaining schools.

Palestine, like any Arab country, is working to improve its government financial reporting system so that it can issue more informative and transparent reports. Such reports fulfil the public's need for information about where the municipality funds are invested and expended, and how the revenues from tax and non-tax resources are distributed and used (Abushamsieh et al., 2013).

Most government organizations use cash basis accounting, but the municipalities are encouraged by the MOLG or donors to switch to modified or full accrual basis. Sabri (2010) pointed out that most local governments in Palestine use cash basis accounting. Numerous efforts have been made since 2004 to encourage PSOs to transition to modern accrual accounting, but they have not been successful. More than 85 percent of municipalities are still using cash basis accounting (Sabri & Jaber, 2010), according to Albuhaici (2013) 100 percent of municipalities in the Gaza Strip used cash basis accounting, but the MOLG Annual Performance Report for 2020 revealed that 30 municipalities of 130 in the West Bank use the accrual basis, this means that the accrual basis is used by 23% of these municipalities (MOLG, 2020), but most Joint Services Councils (JSCs) and all NGOs are using accrual accounting.

All government organizations, municipalities, village councils, and JSCs must provide annual budget using cash basis as required by the Local Authorities Act No. 1 of 1997. The budget statement is prepared based on a standardized format regulated by the MOLG, and includes five sections: operational and capital budget, budget of

profit centers, performance indicators, summary of capital projects, details of budget structure, and credit and debit statements (Sabri 2010). According to the annual budgetary announcement for 2021, the MOLG requires all LGUs to use the Budget Gate Site for preparing and reporting budget. The budget preparers may use accrual basis or cash basis, but in all cases the budgeted cash flows must be prepared according unified accounts of chart. The announcement also recommends the LGUs to audit their financial statements using external auditors (MOLG, 2021). In addition, most municipalities use accounting policies and procedures that are approved by the MOLG. They use computerized accounting software, but a few of them still use the manual accounting system (Sabri, 2010).

2.3 Relevant Theories

The theories can be applied at all stages of the study, including the justification for the study; research objectives and questions; methodology; instrument development; and data analysis and interpretation (Stewart & Klein, 2016). Cooper and Schinlder (1998) as cited by Boakai and Phon (2020) defined the theory as a collection of conceptualizations, definitions, and claims that are suggested to explain and forecast occurrences. Because there is a wealth of literature on audit quality and theories to explain its determinants in the private sector, it is worthwhile to apply some of these theories, in addition to other auditing theories, in the public sector (Hay & Cordery, 2018). Audit quality is not the explicit subject of public sector audit studies (Dwyer & Wilson, 1989). Rubin (1988) demonstrated that findings from private sector research can be used to the public sector entities. Deis and Giroux (1992) confirmed that the theoretical framework built in their study is primarily focused on private sector studies and were empirically tested to assess the merits of

generalizing various findings on the quality of private sector audits to the public sector. In addition, Kurtenbach and Roberts (1994) confirmed that public sector accounting research is largely grounded on the theories of the private sector, for instance applying principal-agent analysis to public sector accounting, auditing, and performance assessment review. Likewise, accounting researchers are investigating control and accountability problems from an economic perspective.

Some studies found the different effects of certain theories on public and private sectors. For example, the effect of the governance theory on the public sector is unlike its effect on the private sector (Jacobs, 2012).

Researchers use different theories linked to audit quality to explain the influence of different factors on audit quality, either in the private or public sector entities. For example Ismail et al. (2019) used the theory of inspired confidence to examine the relationship between auditor competence, auditor independence, and auditor workload in the context of auditing in Malaysian public sector (in Malaysia, public audit is carried out by the SAI, the National Audit Department (NAD)). This theory suggests that auditor competence and independence are related to the ability of the auditor to find errors and fraud in the client's accounting system (Ismail et al., 2019). But sometimes a single theory cannot explain all issues related to the variables of the study. Therefore, researchers may use more than one theory in their theoretical framework. For example, Mnif and Gafsi (2019) used institutional theory and the theory of economic regulation as the underlying theories of their research. Boakai and Phon (2020) used agency theory and stakeholder theory, while Jacobs (2012) confirmed that the most widely used theories are neo-institutional theory and agency theory. Jacobs, (2012) mentioned many theories are used by researchers to explain the audit qualities as the following: the institutional theory, auditing theory, emergency

theory, economic theory, agency theory, signaling theory, insurance theory, management control theory, governance theory, and confirmation theory. The current study indicated that the public interest theory can explain the majority of relationships between the study's variables as main theory.

The public interest theory, which serves as the study's leading theory, is described in the subsections that follow, along with other theories of stakeholder theory and agency theory that serve as supporting theories.

2.3.1 Public Interest Theory

Public interest theory was developed from conventional conceptions of representative democracy and the role of government to enact regulations (Christensen, 2010). Government regulations, according to this theory, are the instruments to resolve the drawbacks of imperfect competition, unbalanced economic activities, missed markets, and unwanted market outcomes (Den Hertog, 1999). In general terms, the public interest theory states that legislation aims to protect and support the public at large (Hantke-Domas, 2003). There are two acceptable concepts of the public interest theory. The first concept states that legislation seeks the security and advantage of the public. The second concept proposes that when market fails, economic regulation should be imposed to maximize social welfare (Hantke-Domas, 2003). Accounting regulations are an effective approach for countries to improve their GAAP to address market vulnerabilities and low financial reporting performance (Kaya & Koch 2015). The regulations also increase social welfare, which is the main priority of each government (Posner, 1974). According to Joskow and Noll (1981) as cited by Den Hertog (1999), the public interest theory is generally used to describe

regulations as a mean to achieve economic efficiency. Therefore, some researchers consider the public interest theory as part of the theory of economic welfare (Den Hertog, 1999; Hantke-Domas, 2003; Mnif & Gafsi, 2019). There are also other theories related to the public interest theory, such as interest group theory and capture theory. Both theories state that regulation is a mechanism by which the state intervenes to respond to the demands of particular groups, and the lobbying efforts and political pressures exerted by these groups are significant motivations for government regulation. For instance, accounting rules could be the result of international financial institutions pressuring states to adopt international accounting standards as a prerequisite for receiving loans and aid from other countries (Mnif & Gafsi, 2019).

According to the theory, as discussed above, the government imposes regulations to realize public interest. This explains the regulations that require municipalities to provide reliable information for the use of all their stakeholders. For example, the EU's Council Directive 2011/85/EU claims that independent audits and internal controls are applied to public accounting systems (Brusca et al., 2015). The MOLG requires all class A and B municipalities through yearly budgetary announcement to hire a CPA firm to audit their financial statements. The CPA firm must be registered with the Palestinian Association of Certified Public Accountants (PACPA). The MOLG also encourages all municipalities to audit their financial statements annually to receive extra government contributions (Rustom, 2018). To aid the municipalities in selecting a competent auditor, the MOLG has issued guidelines document in 2016 on how to select an independent and competent external auditor with reasonable audit fees through tendering process. In addition to this guidelines document, which is directly related to the audit process, there are many laws and

regulations related to internal controls. The MOLG has issued numerous regulations that cover all aspects of operating activities of LGUs, for example, local government financial regulation no. 1 of 1998, which has been superseded by regulation no. 11 of 2019, budgetary procedures, accounting information system manuals, regulations for payroll and human resources procedures, organizational structures for all levels of LGUs, procurement instructions, taxes regulations, and other regulations and instructions. These regulations are important to ensure effective internal control including the external and internal audit.

According to the aforementioned explanation, the public interest theory may account for the majority of correlations between the study's variables. Government action seeks to benefit all parties, including residents, through laws and regulations that allow local government units to accomplish their objectives of providing services to the community in an effective and efficient manner without corruption. These laws and regulations also demand local government units (LGUs) to exhibit openness and accountability by disseminating accurate information for all interested parties. Reliable and credible information can be produced when LGUs adhere to regulations on how to select suitable audit firms that possess all audit quality attributes specified in those regulations, such as auditor ethics, independence, competence, audit fees, and audit firm size. Therefore, Vu and Hung, (2023) confirmed that the literature on audit quality in the public sector points out the relevance of elements defined in each country's present legislative framework. The government also imposes many regulations and instructions to strengthen the internal controls of the LGUs, such as conducting internal auditing, reforming the accounting information system (accounting basis), and updating, interpreting and monitoring the implementation of all laws and regulations applicable to LGUs through GDCG (MOLG - Department)

and FACB (SAI in Palestine). All these actions may influence the audit quality of government units, particularly the municipalities.

This study relies heavily on the public interest theory and other related theories. But to form a comprehensive theoretical framework and support the conceptual framework, the study includes other theories, such as stakeholder theory and agency theory.

2.3.2 Stakeholder Theory

The stakeholders group is defined as any group that has the potential to have an impact on or is impacted by the achievement of the organization's goals (Alvarez & Sachs, 2023). But there is no single framework for the concept of stakeholders common to all organizations, and it is necessary to first understand the sector in which the organization operates, its products, and its ultimate consumers (Matuleviciene & Stravinskiene, 2015).

According to the stakeholder theory, organizations have to identify the interests of all stakeholders (Yamamoto & Kim, 2019). According to Abi et al., (2018) the stakeholder theory states that all stakeholders have the right to obtain information about the performance of the organization that can affect their decision-making. In municipalities, the main stakeholders are the (1) governance body (municipal council), (2) the management and staff, particularly the financial department staff, (3) government regulators, such as the MOLG in Palestine, (4) SAIs, (5) donors, (6) citizens who receive the municipalities' services and pay fees and taxes, and (7) other parties such as creditors and suppliers of goods and services. Every stakeholder has a vested interest in high audit quality, so audit quality assessment is critical. For example, the management, particularly the financial managers, are interested in high

audit quality because it is required by law, to maintain the entity's accountability and transparency towards the citizens and monitoring parties, and to avoid any litigations.

Based on the preceding discussion, the stakeholder theory explains the importance of audit quality of municipalities in its provisions of reliable and credible financial statements for all users. This theory justifies gathering the perspectives of accountants and internal auditors on the effect of audit quality attributes on audit quality, as they are interested in demonstrating accountability and transparency towards citizens and government regulators.

2.3.3 Agency Theory

Jensen and William (1976) defined an agency relationship as a contract wherein one or more people (the principal) hire someone else (the agent) to carry out some tasks on their behalf and give the agent some decision-making authority. They added that the agency relationship exists in all types of organizations, such as universities, cooperatives, bureaus, government authorities, unions, mutual companies, and in all cooperative efforts at every level of management in the firms. The conflict between principals and agents can happen because the latter tends to prioritize their personal interests over the interests of principals. In addition, there is information discrepancy between principals and agents (Chui et al., 2020). According to the agency theory, auditing is one of the main governance mechanisms to minimize conflicts of interests and decrease agency costs. Audit quality is also likely to reduce information asymmetry (Piot, 2010).

The public sector can benefit from agency theory (Dewi et al., 2019; Greenwood & Zhan, 2019; Jensen and William, 1976; Kurtenbach & Roberts, 1994; Zimmerman, 1977). The agency problem exists in LGUs (municipalities) because of the divergent

interests of the electorate (principals) and the elected politicians (agents). The agent may evade, abuse his privilege, or engage in illegal acts. These actions may directly affect the voters' welfare through the agents' power to levy taxes and to decide the combination and quality of services provided by the LGUs to the principals. They may also indirectly affect the voters' welfare through changes that can influence property values. As result, the principals' welfare is linked to the performance of the agents (Kurtenbach & Roberts, 1994). The agency relationships are more complex in the public sector entities than they are in the private sector entities because there are several levels of principal-agency relationships. Politicians are principals, and bureaucrats (managers) are their agents. Bureaucrats are principals, and their agents are those who really provide services to citizens. Citizens are the principals, and politicians are their agents (Hay & Cordery, 2018). In all levels of agency in PSOs, the agents must provide useful reports about their performance to their principals. Financial reporting in PSOs can thus be explained with the agency theory (Dewi et al., 2019). The manager of the government unit assumes the role of an agent who is responsible for giving readers of government financial statements valuable information. Those users act as principals who evaluate the accountability and transparency of the management (Mustapha & Ahmad, 2011).

Agency theory is a typical theoretical framework for examining accountability and efficacy in LGUs. The public sector's accountability system, however, might be better understood as an institutional, complex, multi-principal, multi-agent system as opposed to a straightforward principal-agent connection (Makris, 2006).

The demand for higher audit quality depends on the incentives of voters to monitor agents of PSOs. If the voters have little incentive to monitor the elected officials, they have little demand for audited full accrual financial statements. Such

financial statements are more useful monitoring tools than modified accrual or cash basis statements because they include additional information about the cost of the firm's operations (Zimmerman, 1977).

Based on the preceding discussion, agency theory can support this study's conceptual framework by explaining the needs of different levels of principals of the municipalities for high audit quality. A high-quality audit can provide principals with reliable information and mitigate agency problems.

2.4 Audit Quality

Audit quality remains an unclear concept despite a wealth of research. Researchers have not reached a uniform understanding of audit quality. The concept has many facets, and different stakeholders, such as those who use financial information, auditors, industry regulators, and society, will have different perspectives on it (Masood & Lodhi, 2015; Knechel et al., 2013). Knechel et al. (2013) provided the following summary of each stakeholder's point of view. Users of financial accounts define good audit quality as the absence of major errors and fraud in the financial statements. However, auditors define good audit quality as complying with all standards set by the profession and performing all audit responsibilities. High audit quality, in the eyes of the auditing company, is the capacity to support any claims or objections in a court of law. Profession regulators define it as compliance with professional standards. Society sees it as the prevention of economic problems threaten the presence of the entity or its market. Watson (2019) noted that the notion of audit quality varies across the public and private sectors and depends on the audit's objectives. This situation encourages researchers to suggest many definitions and measures of audit quality. Nonetheless, It's crucial to remember that audit quality is a

trait that is sensed rather than actually observed, hence it is only possible to identify situations where audit quality is at risk (Knechel et al., 2013). Prior research documented some factors that affect the perception of audit quality, for instance, audit firm ethics, sector expertise, audit partner rotation, audit committee oversight, adherence to auditing standards, client awareness, the auditor's financial independence, and audit inspection (Beattie and Fearnley 2012). Researchers must access new and better data on drivers of audit quality, whether it comes from audit firms, clients, regulators, or other sources, to reach a next level of understanding of audit quality (Knechel et al., 2013).

Continuing these studies is important because defining and measuring audit quality enable interested parties to assess whether audit quality has improved over time. They can also help to identify the determinants of low-quality audit, as well as to support and incentivize audit firms to invest and develop audit quality.

2.4.1 Importance of Audit Quality

The primary goal of the audit process is to determine if the financial statements accurately reflect the firm's financial status and operational results for a certain time period (Alareeni, 2019). Users of financial statements, particularly those who are municipal stakeholders like investors, can benefit from independent audit reports (Edmonds et al., 2020).

Research on audit quality has a positive effect on the quality of financial statements, because it stimulates the publication of detailed and accurate disclosure of the financial transactions of the PSOs (Kusumawati & Syamsuddin, 2018). As it guarantees the veracity and integrity of the financial statements, a high-quality audit

boosts the trust of stakeholders and society. On the other hand, a subpar audit will make stakeholders feel more untrustworthy (Alareeni, 2019).

Audit quality is important for the entity's management. It is a valuable monitoring method for assessing and verifying quality-related practices. It is also an impartial examination to see whether the entity's operations follow the specified regulations, and whether the utilized methods successfully and efficiently accomplish the goals and objectives of the entity (Kusumawati & Syamsuddin, 2018). The literature suggests that auditing adds values to the financial statements. For example, the audit process reduces capital cost because of the lower information risk (DeFond & Zhang, 2014). Therefore, studying audit quality of PSOs can ensure that the entities are operated, and the funds are managed well. This way, public confidence in the audit procedures is maintained effectively. Audit quality also enables the PSOs to achieve integrity, accountability, and improvements in their operations (Ismail et al., 2019; Dickins et al., 2018).

Management of PSOs is interested with the public perception about the credibility of their financial statements, therefore, they choose a reliable independent auditor who offers high-quality audit services (Hay & Cordery, 2018). High audit quality decreases agency costs and increases the principal's confidence in the entity's financial reports. Therefore, the agent (the entity's management) incurs the cost of hiring a high quality auditor due to his self-interest to keep a virtuous relationship with the principals and to prevent them from taking unwanted actions against the management, such as decreasing the scope of the agents' activities or terminating their services (Hay & Cordery, 2018). When there is one agent and multiple principals (e.g., share/stakeholders, ministerial cabinet, parliament, or voters), such development

will be expected. Additionally, government agencies that do not conduct any audit will receive smaller amount of resources (Hay & Cordery, 2018).

2.4.2 Definitions of Audit Quality

Researchers have defined audit quality in different ways. For example, Dickins et al. (2018) describe audit quality as the auditor's capacity to identify and disclose misstatements, adhere to ethical and professional standards, and/or satisfy investor needs. DeAngelo (1981) defined the audit quality as the likelihood that an auditor will detect a violation in the financial reporting system and record it in the audit report. This definition is widely used among researchers (Ismail et al., 2019). Despite its widespread use, academics still cannot agree on a single definition of audit quality. The definition essentially returns to the perspectives of different stakeholders of audit quality in audited financial statements (Knechel et al., 2013). Other researchers reason that the difficulty of defining audit quality is because of its nature as a socially constructed concept (Humphrey, 2008; Holm & Zaman, 2012).

Some regulators and standard-setters come to the conclusion that it is impossible for interested parties to agree on a precise definition of audit quality. In its Consultation Report 2009, the International Organization of Securities Commissions (IOSCO) noted that it is challenging to define and specify audit quality to stakeholders, and gaining consensus is challenging.

Knechel et al. (2013) made the suggestion that an effective audit (of high audit quality) entails a well-designed audit process carried out by motivated, competent, trained, and expert auditors who are aware of the inherent uncertainty of the audit and appropriately adapt to the innate characteristics of the client. DeFond and Zhang (2014) defines audit quality as the level of assurance given by the auditor on the

accuracy of the financial statements under review. In other words, better audit quality increases the likelihood of accurate financial accounts. According to the FASB (2010) in Statement of Financial Accounting Concepts (SFAC) No. 8, the relevance and faithful depiction of financial statements are two essential qualitative features that characterize financial statements as being of high quality. Due to these characteristics, all users can benefit from the financial statements.

DeFond and Zhang (2014) added that despite their technical compliance with GAAP, high-quality auditors must consider the financial reporting system and the inherent qualities of the firm to assess how faithfully the financial statements represent the firm's core economics. Therefore, the responsibility of the auditors extends beyond detecting violations against GAAP requirements.

The Statement on Auditing Standards (SAS) No. 90 demands auditors to critique the quality of the company's accounting criteria which they applied in issuing the financial statements. SAS No. 14 requires auditors to analyze the qualitative aspects of the company's accounting procedures, taking into account any potential for management bias (PCAOB, 2010). When assessing the quality of financial reporting, the auditor may also take into account judicial decisions that hold auditors accountable for financial statement faults (DeFond & Zhang, 2014).

From the above arguments, it can be decided that audit quality is a construct that provides a degree of assurance that the firm issues high-quality financial statements. A high-quality audit enhances the credibility of the financial statements. It bears mentioning that the quality of financial reports is determined by numerous factors, among others the accounting system or innate characteristics of the client, auditor, and regulations of the accounting and audit profession.

2.4.3 Measures of Audit Quality

The auditor offers assurance regarding the audited financial accounts, but the level of this assurance is impenetrable, making the measuring of audit quality a cloudy and difficult subject (Chadegani, 2011; Dickins et al., 2018; Knechel et al., 2013). However, this does not dissuade scholars from investigating all aspects and components related to the audit process in order to well understand the idea of audit quality measures.

According to Kusumawati and Syamsuddin (2018), the behavior of auditors during the audit engagement determines how well the audit quality is measured. Alareeni (2019) claimed that numerous aspects and traits of the audit firm that affect audit quality have been covered in various ways by prior studies. Some research looked at the impact of only one feature, while others looked at the impact of a number of attributes on audit quality.

As discussed in the previous section, researchers do not agree on one strict definition of audit quality. Following this, the tools to measure audit quality are still unclearly defined, so researchers use various proxies to evaluate audit quality. There is also no agreement among scholars about the effectiveness of these proxies, seeing that they have mixed effects on the correlations between audit criteria and audit quality (Alareeni 2019; DeFond and Zhang 2014). When examining its determinants, some researchers measured audit quality using a single proxy (Allen & Woodland, 2010), while others used multiple proxies (Alareeni 2019; DeFond and Zhang 2014). According to Lowensohn et al. (2007), both public and private sector research frequently uses the Big 5 audit firms as a stand-in for audit quality. However, they discovered that Big 5 auditors who do not focus on government audits are not related to greater perceived audit quality, and to determine whether these findings are

particular to the Florida market, they recommended additional research on actual and perceived audit quality for Big 5 audits in the public sector.

Hussein and Hanefah (2013) reported that researchers have taken numerous direct and indirect approaches in measuring audit quality. They added that the direct approach is related with the likelihood of discovering and reporting misstatements or breaches in the accounting system under audit, which will be reflected in the contents of the audit process, including the errors of the auditor. On the other hand, the indirect approach concerns the use of proxies of audit quality or assessing audit quality by examining the factors perceived to affect audit quality. Chadegani (2011) listed some indirect and direct measures of audit quality: indirect measures include the audit firm size, auditor tenure, industry expertise, audit fees, economic dependence, reputation, and cost of capital. While the direct measures include financial reporting compliance with GAAP, quality control review, bankruptcy, desk (peer) review, and regulators' performance. Greenwood and Zhan (2019) considered audit adjustments as a more direct measure of audit outcomes. In this case, audit quality is determined by comparing pre-audit and post-audit surplus or deficit.

The proxies of audit quality, perception of the audit quality, and the integrated frameworks of audit quality are discussed in the following subsections.

2.4.3.1 Proxies of Audit Quality

Most studies use the following proxies of audit quality to identify its determinants: modified audit opinion, the auditors' going concern opinion decision, non-Big versus Big 4, discretionary accruals, adjusted discretionary current accruals, accruals quality, reporting of material weaknesses, and audit report timing (Alareeni, 2019; DeFond & Zhang, 2014; Francis & Yu, 2009; Omer et al., 2016).

The qualities of competence (expertise) and independence (objectivity) are crucial to audit quality (Knechel, 2016; Kusumawati & Syamsuddin, 2018) and Watson (2019) asserted that the auditors are in charge of ensuring the quality of the audit. In order to attain audit quality, auditor quality is crucial. The independence, commitment, ethics, competence, diligence, moral courage, reputation, and experience of the auditor are used to estimate their level of quality (Barn, 2023). The audit standards and the profession both demand for all of these qualities.

DeFond and Zhang (2014) classified audit quality proxies into two groups. Each group is divided further into categories, and each category is affected and characterized by several dimensions that give it unique strengths and weaknesses. The first group of audit quality proxies is the outputs of the audit process, such as the auditor's going concern opinion. Material misstatements, auditor communication, financial reporting quality, and perceptions are some of the categories that fall under the first group. The audit process inputs, such as auditor size, make up the second group. Auditor qualities and auditor-client contracting aspects are some of the categories under the second group (e.g., audit fees). DeFond and Zhang (2014) also described several dimensions that affect the categories of the audit quality proxies, whether the proxies capture substantially more extreme audit failures, if they capture actual or perceived audit quality, and whether measurement inaccuracy is particularly problematic are some examples of the direct or indirect ways that the auditor influences the proxies in each category. They discussed the various categories through the influencing dimensions. For instance, the material misstatements category, which are directly influenced by the auditor, captures more egregious audit failures and actual audit quality. DeFond and Zhang (2014) discussed various audit quality proxies, such as restatements of the financial statements, accounting and auditing

enforcement releases (AAERs), auditor's going concern opinion, modified audit opinions, discretionary accruals, accrual quality, conservatism, market reaction, cost of capital, change in market share, Public Company Accounting Oversight Board (PCAOB) inspections, audit firm size (Big N), industry specialization, audit fees, and changes in fees. They concluded that no single category adequately captures the quality of an audit, and that it is preferable to use a number of proxies from other categories to maximize their strengths and minimize their limitations.

Some proxies are more effective for measuring specific factors on audit quality than others, and some proxies may be appropriate in the private sector but inappropriate in the public. A going concern audit opinion is not applicable in the public sector because the survival of PSOs does not depend on its losses, deficits, or risks, but on political and legal decisions. Accordingly, the most suitable proxies of audit quality of PSOs are restatements (i.e., An unqualified opinion on materially misstated financial statements is given by the auditor in error) and modified audit report, but not going concern audit opinion. These proxies are classified by DeFond and Zhang (2014) as output measures of the audit process.

2.4.3.2 Perception of Audit Quality Attributes

According to the earlier section, several researchers utilize audit quality proxies to measure audit quality and its determinants based on how stakeholders perceive the audit process. Audit quality was measured by many researchers through evaluating the perception of different groups as follow: According to Preparers as accountants and internal auditors are two stakeholder groups (Carcello et al., 1992; Warming-Rasmussen et al., 1998); external auditors (Carcello et al., 1992; Davis, 1995; Schroeder et al., 1986), clients (Davis, 1995), audit committee heads (Schroeder and

Ira, 1986), general federal inspectors (Aldhizer et al., 1995), stockholders and financial journalists (Warming-Rasmussen et al., 1998) and users of the financial statement (Carcello et al., 1992).

Some of these studies used the perception of one group of the stakeholders of audit process to determine the audit quality attributes, but others use more than one group, for example, Carcello et al. (1992) conducted a survey of 245 audit partners, 264 controllers (financial statement preparers), and 120 investors and creditors (financial statement users) to investigate the attributes associated with audit quality as perceived by auditors, preparers, and users. The significance of evaluating the three views simultaneously is to identify the characteristics associated with the quality of audit service both overall and among the three categories of financial statement preparers, auditors, and users. However, in an increasingly competitive environment, it is vital to comprehend the viewpoints of both users and preparers on audit quality (Carcello et al., 1992). Any distinctions may assist audit firms in providing more satisfaction to both segments while enhancing audit quality. Audit firms may refer to these perspectives (preparers and users) as a basis to enhance their audit efficiency (Takiyah et al., 2010). Carcello et al. (1992) used exploratory factor analysis to derive 12 audit quality components based on 41 attributes discovered in the literature and the authors' experience as audit partners. These 12 components are: (1) audit team and firm experience with the client; (2) industry expertise; (3) audit firm responsiveness to client needs; (4) audit firm compliance with general audit standards; (5) audit firm commitment to quality; (6) audit firm executive involvement; (7) conduct of audit field work; (8) involvement of audit committee; (9) individual team member characteristics; (10) audit firm maintains a skeptical attitude; (11) audit firm's freshness of perspective; and (12) degree of individual responsibility. Carcello et al.

(1992) revealed that the qualities of the audit team members were regarded as being more crucial to audit quality than features of the audit company itself, such as litigation history. And the four most crucial elements in evaluating audit quality were compliance with generally recognized auditing standards (competence, independence, and due care - GAAS), experience of the audit team and firm with the client, industry knowledge, and responsiveness to client needs. However, there were significant disparities in the priority attributed to each component across the three groups. Both preparers and users valued conformity to general standards of GAAS requirements much more than auditors, and the preparers valued auditor responsiveness to client demands more than auditors did. Also, the findings of Al-Dhubaibi, (2020) study shows that there is a discrepancy between Saudi auditors' expectations and those of preparers and users of financial statements with regard to auditors' duties generally and their duty to detect fraud in particular. Auditors believe they have less responsibility for ensuring that financial statements conform with tax regulations, whereas preparers and users believe auditors have more responsibility in this regard. Furthermore, auditors recognize that, while audit procedures are designed to ensure that financial statements are free of intentional and unintentional material misstatements, the test-based nature of the audit process prevents auditors from being confident in their conclusions and providing assurance to users that financial statements are error-free. But the view of the preparers and users that auditors should guarantee audited financial statements are free from material misstatements either intentional or unintentional.

In public and private sector, many researches have studied the perception of accountants and internal auditors on audit quality, e.g., Behn et al. (1997), Pandit (1999), Boon et al. (2008), and Takiah et al. (2010). All these studies adopted the 12

attributes of audit quality which they determined by Carcello et al. (1992) after making some modifications to these attributes, such as replacing the compliance with general audit standards attribute with three components: independence, due care, and technical competence. Therefore, the number of audit quality attributes becomes 14. Behn et al. (1997) asked 434 financial controllers from Fortune 1000 firms to find out which characteristics are linked to the satisfaction of the audit firm and audit team and the client's overall satisfaction. This is considered as an indicator for the validity of the view of the accountants and internal auditors in perceiving audit quality. Pandit (1999) surveyed 359 senior executives from U.S. organizations to learn more about the impact of customer satisfaction on audit service quality, and the influence of performance efficiency and reputation of auditors on the decision to retain or replace auditors. Through a questionnaire survey of 235 local council (municipalities) finance practitioners (including the accountants) and 35 local internal auditors, Boon et al. (2008) inspected the audit quality attributes perceived to be relevant in compulsory audit tendering (CAT) in local councils in New South Wales (NSW), focusing primarily on whether the CAT results impaired auditor independence and audit quality. Takiah et al. (2010) used Behn et al. (1997) instrument, examined the influence of audit quality attributes and client contentment on audit performance at the audit firm and audit team levels. The questionnaire, sent via mail, sought the perceptions of financial controllers of selected companies listed on Bursa Malaysia on audit quality attributes and their level of satisfaction with audit services. Takiah et al. (2010) classified audit quality attributes into two groups. The first group of attributes relate to the audit firm, while the second to the audit team (auditors). The participants were asked to describe their opinions on each attribute of audit quality for the audit team and for the audit firm. The first group of attributes are: (1) audit firm's

experience with client; (2) audit firm's industry expertise; (3) audit firm's independence; (4) audit firm's commitment to quality; and (5) audit firm's responsiveness to client needs. The second group contains ten attributes: (1) audit team competence with approved accounting standards and auditing standards; (2) audit team member's conduct to audit field work; (3) audit team exercises due care; (4) audit team independence; (5) audit firm's executive involvement in the engagement; (6) audit team's experience; (7) audit team's industry expertise; (8) audit team's interaction with the audit committee; (9) audit team members maintain skepticism; and (10) audit team's ethical and knowledgeable in accounting and auditing (Takiyah et al., 2010).

In Palestinian municipalities, accountants are responsible legally on the reliability of the financial accounting reporting process, therefore they interested with the fairness of the financial statements, and to get the trust of the public and the regulators bodies with their financial statements. Independent audit is considered as most important tool to add trustworthiness to these financial statements. Accountants and the internal auditors in the public sectors, particularly in the municipality, may considered at the same time as preparers and users of the audited financial statements, they use them to demonstrate the balance sheet (financial position) and the result of operation (revenues and expenses statement) of the municipalities in front of the regulators or any controlling agency. Accordingly, the current study inspects the attributes of audit quality and their dimensions from the perspective of accountants and internal auditors who are involving in operation of the financial accounting system and preparing of the financial statements.

2.4.3.3 Integrated Framework of Audit Quality in Prior Research

Prior studies have used many proxies to measure audit quality and its determinants. But there is still no agreement among researchers on which measures are best, and there is no proper guidance on how to evaluate them (DeFond & Zhang, 2014). Most studies used one or more factors to understand audit quality, despite the complexity and multidimensionality of audit quality, and despite ongoing debates on its definitions and measures. Some studies provided an integrated, comprehensive framework of the determinants of audit quality to assist practitioners, regulators, and researchers in understanding audit quality research in the private or public sector. While most studies on audit quality are in the private sector, their frameworks can still be adapted for studies in the public sector. The most important frameworks of audit quality in past research are summarized below.

Chadegani (2011) stated that prior studies on audit quality can be classified by outputs of audit engagement, audit processes, and inputs of audit engagement. Outputs include audit opinion, which has a significant effect on audit quality if:

- a. it expresses the audit's findings clearly.;
- b. the stakeholders rely on it in their valuations of the audit quality;
- c. the auditor's judgment is improved when audit tenure increases, issuing the appropriate audit opinion; and
- d. the audit is performed by the Big 4.

Most studies used the proxy of going concern or modified audit report to estimate the effect of the input factors on audit quality.

Audit processes include audit environment, process performance, earning forecast, earnings management, the validity of the audit methodology, the efficiency

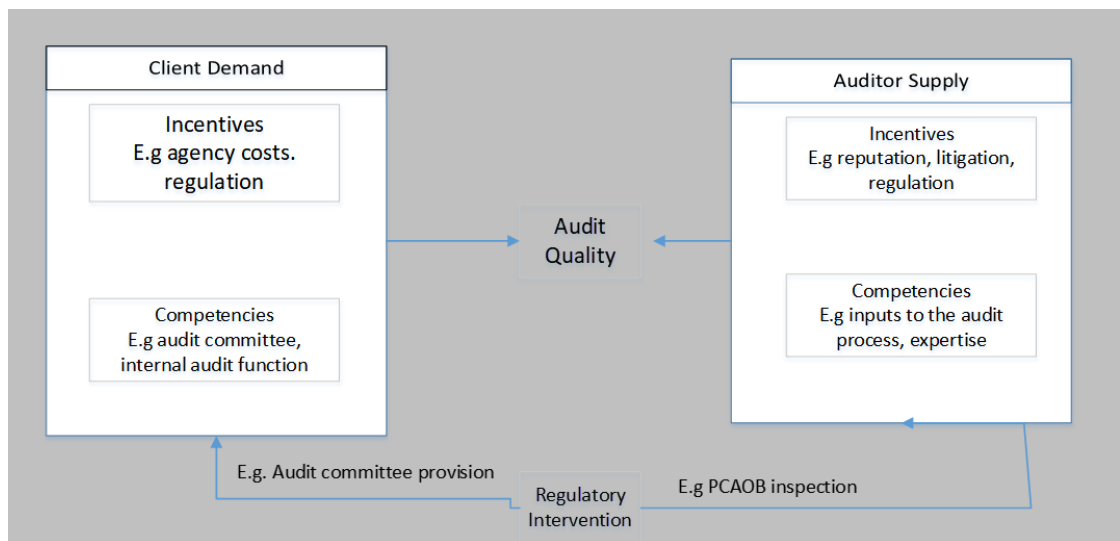
of the audit tools, and the accessibility of appropriate technical assistance. Inputs include auditor perception, compulsory audit tendering, auditing standards, and the auditor's personal characteristics, e.g., skills, experience, ethical values, and mindset.

Francis (2011) highlighted out the fact that audit quality is a multifaceted idea that exists on a continuum, and he thus proposed a framework for comprehending and studying audit quality. The framework comprises six levels of analysis, ranging from audit inputs to outcomes. The units of analysis in audit research are:

1. Audit inputs
 - Test of Audit
 - Engagement team members
2. Audit process
 - Implementation of audit tests by members of the engagement team
3. Accounting firms
 - Engagement teams work in accounting firms
 - Accounting companies recruit, educate, and pay auditors as well as create audit guidelines (testing procedures)
 - Audit reports are issued in the name of accounting firms
4. Audit industry and audit markets
 - Accounting firms constitute an industry
 - Industry structure affects markets and economic behavior
5. Institutions
 - Institutions affect auditing and incentives for quality
6. Economic consequences of audit outcomes
 - The results of audits have an impact on clients and users of audited financial information.

Knechel et al. (2013) suggested an integrated framework to assess the audit quality in the private sector companies, which consists of linkages among the most important attributes of audit (incentives, uniqueness, process, uncertainty, and judgment) and the different aspects of audit engagement, such as inputs, process, outcomes, and context.

DeFond and Zhang (2014) offered a different paradigm for comprehending and assessing the audit quality proxies that are widely employed in the literature. This framework consists of three elements: audit quality demand, audit quality supply, and the intervention of the regulators in both demand and supply of audit quality (Figure 2.1).



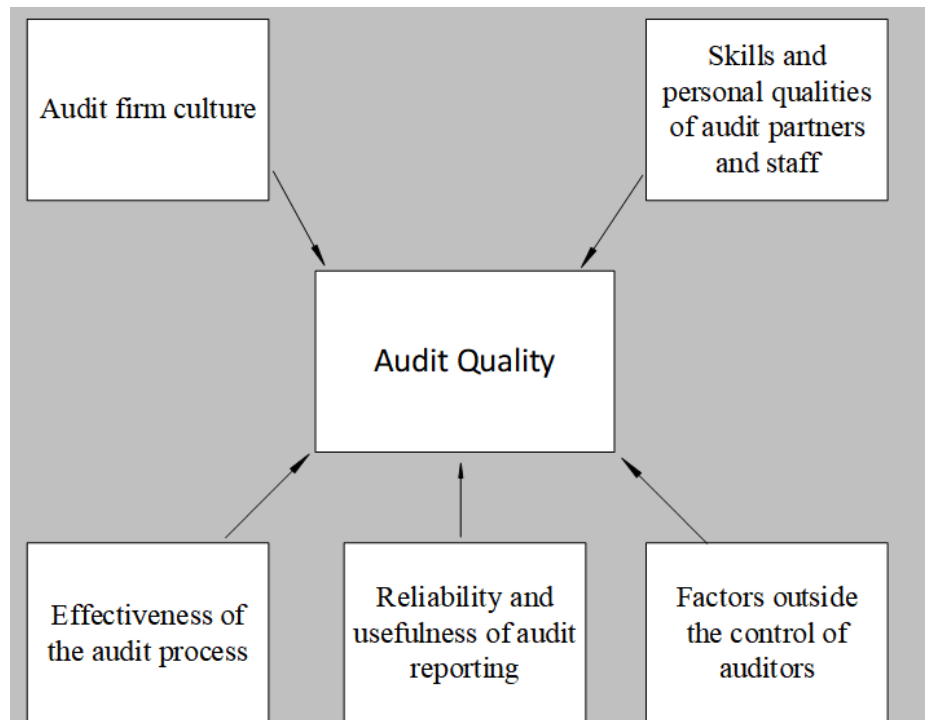
Source: DeFond and Zhang (2014)

Figure 2.1: Audit Quality Framework

DeFond and Zhang (2014) suggested in their audit framework that the client's incentives and competence determine the demand for audit quality. The client's incentives are stated through many factors, for example agency costs and regulations, while client competence is reflected in many factors, for example the audit committee and the internal audit function. The supply of audit quality is determined by the

auditor's incentives and skills. The independence of the auditor is tied to auditor incentives and is influenced by a variety of variables, including litigation, reputation, and regulatory issues. Many other characteristics, including knowledge and engagement-level inputs to the audit process, might indicate an auditor's competency. Regulator action has a substantial impact on these incentives and competencies of client demand and auditor supply of audit quality.

The Financial Reporting Council (FRC) in the UK developed the first official framework for audit quality in 2008 in the U.K. Five factors that affect audit quality are listed in this framework: (1) the culture of an audit firm; (2) the expertise and character of audit partners and personnel; (3) the efficiency of the audit process; (4) the accuracy and value of audit reporting; and (5) elements impacting audit quality that are not under the control of auditors (Knechel et al., 2013) (see Figure 2.2). For each driver, the FRC developed a number of potential audit quality indicators. For instance, establishing a culture where achieving high quality is valued and rewarded; ensuring that partners and employees have enough time and resources to deal with challenging issues; and ensuring strong systems for client acceptance and re-engagement are some indicators under the audit firm's culture. On the other hand, the indicators of the effectiveness of the audit process are the design of audit program and audit procedures, technical support availability, and enforcement of ethical and independence standards (Knechel et al., 2013).



Source: (Robert Knechel et al., 2013)

Figure 2.2: Framework on Audit Quality of the FRC of the UK

Other formal audit quality frameworks have been established by the Australian Treasury (Commonwealth of Australia 2010) and the International Auditing and Assurance Standards Board (IAASB 2011). The investors and the audit committee members' perspectives on audit quality were both discussed. The framework shows that the auditor's attributes, the auditor's report, and contextual circumstances (laws and regulations) influence on audit quality (Robert Knechel et al., 2013).

Measuring audit quality in the public sector is challenging for academicians and practitioners because there is no single model that can explain and define the factors of audit quality. At the same time, the auditor must comply with the Generally Accepted Auditing Standards (GAAS) and relevant ethics and code of profession conduct in the public sector (Ismail et al., 2019).

While there is extensive literature on audit quality in the private sector (Francis 2004), the findings cannot be readily applied to the public sector due to the alterations in both institutional and motivation frameworks that affect both managers and auditors (Greenwood & Zhan, 2019). Previous empirical studies on public sector audit quality are limited (Rosa & Morote, 2016) and are concentrated in North America, particularly U.S. municipalities. The following studies support the dearth of research on audit quality in PSOs, particularly municipalities: Greenwood and Zhan, (2019), Copley, (1991), Deis et al. (1992), McLelland and Giroux, (2000), and Cohen and Leventis, (2013). Moreover, despite extensive research on audit quality in the private sector, there is no framework that can interpret all issues related to audit quality in PSOs generally and municipalities specifically.

2.5 Determinants of Audit Quality

The study aims to improve understanding on the nature of audit quality and its main determinants in municipalities, in addition to providing a framework as guidance in determining audit quality proxies. As discussed in the previous section, the integrated framework of audit quality facilitates understanding on the nature of the audit process, the determinants of audit quality, and how to measure the effects and directions of audit quality factors. This enables researchers, practitioners, and regulators to make improvements to the audit profession and enhance public confidence in the audit profession. Only a small number of studies have provided an integrated framework of audit quality on the public sector, but most of them focus on the private sector. As an example, DeFond and Zhang (2014) used clients' incentives and competencies that drive client demand of audit quality and auditors' incentives and competencies that drive auditor supply of audit quality, as well as the role of

regulatory intervention in shaping the incentives and competencies of both clients and auditors. Other studies used different drivers, indicators, factors, and proxies to understand audit quality. But there is still no agreement among researchers about the proper approach to understand audit quality. Prior studies confirmed that using more relevant and sufficient factors and proxies of audit quality may allow more accurate evaluation of audit quality (DeFond & Zhang, 2014) in audit engagement either in the private or public sector. The current study categorizes the factors of audit quality based on the prior literature of audit quality to three categories: auditors characteristics, audit firm attributes, and the effectiveness of municipal internal controls. The next subsections address the relevance of these factors and their dimensions in assessing audit quality in PSOs, as well as why they were chosen for this study to participate in its audit quality conceptual framework.

2.5.1 Auditor Characteristics

There is general agreement that the key factors of audit quality are the auditor's characteristics (Christensen et al., 2016). Schroeder et al. (1986) and Carcello et al. (1992) suggested that the audit company is less frequently associated with audit quality criteria than the particular audit team (auditor characteristics). From DeAngelo (1981) definition of audit quality, Watson (2019) deduced five qualities of an auditor: competence, conscientiousness, independence, moral bravery, and reputation. Kusumawati and Syamsuddin (2018) divided the characteristics of an auditor into five categories: ethics, commitment, independence, competence, and experience. They added a long list of personal characteristics that auditors must possess, including honesty, diplomatic skill, hard work ethic, objectivity, care and diligence, methodicalness, ability to find data and figures, insatiable curiosity, courage, ability to

keep secrets, communication skills, and common sense. As inputs to the auditing process and potential indicators of the auditor's capacity to carry out a high-quality audit, competence and independence (including ethics) of auditors are taken into consideration (Dickins et al., 2018).

This study discusses three attributes of auditors: ethics, independence, and competence. These factors are regarded as significant drivers of audit quality by scholars, practitioners, and regulators, and they serve as the foundation for additional characteristics and determinants of audit quality.

2.5.1.1 Auditor Ethics

According to Cohen and Wheelwright (2004), ethics is rational and moral considerations that found the activity of a person or a community. Ethics provides a guiding principle for a person or a group to decide whether an action is good or evil. According to Alvin et al. (2017), ethics is a system of moral standards or ideals. They continued by saying that ethical behavior serves as both the glue that holds society together and is necessary for a society to function in organized activities. Valasquez et al. (2010) as cited by Cummings (2020) defined ethics as solid moral principles that outline what people should do and are generally expressed in terms of rights, obligations, benefits to society, fairness, or particular virtues.

According to Alvin et al. (2017) the Josephson Institute identified six basic ethical beliefs that are connected to ethical behavior as the following

1. Trustworthiness (honesty, reliability, integrity, and loyalty)
2. Respect (courtesy, decency, autonomy, dignity, tolerance, civility, and acceptance)

3. Responsibility (self-restraint, leading by example, perseverance, pursuing excellence, and engaging in continuous improvement)
4. Fairness and justice (equality, proportionality, openness, impartiality, and due process)
5. Caring (genuinely concerned for the safety of others, acting altruistically, and showing kindness)
6. Citizenship (voting, serving on juries, obeying laws, giving more than one takes, and conserving resources)

The application of ethics is guided by two principles. The first is the imperative principle, which directs decision-making so that it complies with ethical standards. The second is the utilitarianism principle, which emphasizes examining the effects of each decision made rather than upholding moral standards (Haeridistia & Agustin, 2019).

2.5.1.1.1 Importance of Auditor Ethics

Ethics outlines what is appropriate and inappropriate, acceptable and nonacceptable in perception and action, and provides recommendations for what people should do. It defines moral behavior in terms of a certain group's ideology (Ermasova et al., 2018). Ethical and moral thinking are dispositional traits of auditors (Parsimin et al., 2023), if these traits combined with the trait of professional skepticism, auditors can produce high quality audit (Knechel et al., 2013). Ethics is important for the auditor to perform their tasks in any audit engagement in a professional manner. Therefore, most professional regulators and standard setters regulate auditors' ethics through codes of ethics, for example the Code of Ethics for

Professional Accountants. This code is published by the IFAC through its institution, the IESBA. The IESBA Handbook Code of Ethics (2018) outlines the following five key principles of ethics for accountants:

1. Integrity: to be transparent and truthful in all interactions with colleagues and clients.
2. Objectivity: not allowing bias, conflicts of interest, or improper outside influence to affect one's professional or business judgment.
3. Professional competence and due care: (a) based on current technological and professional standards, applicable laws, and maintaining professional knowledge and competence at the level necessary to ensure that a customer or hiring organization obtains competent professional service, and (b) follow all relevant technical and professional standards with diligence.
4. Confidentiality: must uphold the confidentiality of information obtained through business and professional interactions.
5. Professional behavior: to abide by all applicable laws and regulations as well as refrain from any actions that a professional accountant knows or should know could damage the image of the profession.

In the U.S., the PCAOB and Securities and Exchange Commission (SEC) are empowered to set independence requirements and ethical guidelines for public company auditors. The AICPA has established the Code of Professional Conduct, which is applicable for all its members. This code includes the principles of public interest, responsibility, integrity, objectivity and independence, due care, and scope and nature of services (Alvin et al., 2017). The Institute of Chartered Accountants in Scotland (ICAS) amended its Code of Ethics to include moral courage as a supporter

of the core values of business ethics (objectivity, professional competence, integrity, confidentiality, due care, and professional behavior) (ICAS, 2020).

The auditor usually faces ethical dilemmas when performing audit. Because the auditor provides his services to many users, there may be a conflict of interest between them. In addition, the auditor is hired by the audit committee and receives audit fees from the management (Alvin et al., 2017). When an auditor is presented with an ethical choice, he must have the confidence to acknowledge the choice, adopt a reasonable position, and operate in accordance with those values, and audit quality is enhanced by moral courage, which enables the auditor to turn his ethical decision into an ethical act (Khelil et al., 2016).

Better audit quality results from adherence to and dedication to ethical standards. For instance, it is believed that female auditors are more sensitive and morally righteous than male auditors. Thus, they are less likely to engage in certain practices that can reduce audit quality and auditor independence (Jonnergård et al., 2010; Reheul et al., 2017; Sweeney et al., 2010). Female auditors also have a higher probability of issuing a going concern opinion (Hardies et al., 2016). They are also more conservative, independent, and show greater effort in processing information (Reheul et al., 2017).

The auditor's commitment to adhere to ethics will lead to higher audit quality (ALBeksh, 2016). Nasrabadi and Arabbian (2015) and Anis (2017) as cited by Haeridistia and Agustin (2019) found that audit quality is influenced by professional ethics. Blay et al. (2019) defined two fundamental principles in the auditing profession: responsibility and honesty, and they used both to assess an individual's potential for moral reasoning in auditing.

2.5.1.1.2 Auditor Ethics in the Public Sector

According to Knechel et al. (2013), ethical and moral thinking are personal traits of auditors when combined with professional skepticism, lead to higher audit quality. The judgment of any person is influenced by the events, laws, regulations, and beliefs around him. This means that the auditor's judgment will be different when auditing PSOs versus private business firms. This is because PSOs differ in many aspects from commercial firms, including in the nature of the ownership, governance and management, laws and regulations, nature of services provided, and purpose of establishment. To develop the quality of audits in PSOs, Kusumawati and Syamsuddin (2018) argued that the auditor must have the courage to disclose the truth. The auditor must have a professional commitment to act in the public's interest while maintaining their professionalism. A dedicated auditor will keep professional skepticism to generate superior audit quality (Lord and DeZoort 2001). According to Kusumawati and Syamsuddin (2018), professional commitment is a condition in which the audit firm's members are interested in the firm's aims, values, and goals, and it has a positive impact on performance.

According to Chang et al. (2007), professionalism and ethical behavior has a substantial effect on public confidence in the accounting and auditing industry. Suraida (2005) as cited by Kusumawati and Syamsuddin (2018) found that competence, ethics, audit risk, and audit experience are positively related to professional skepticism.

According to ISA No. 200, the auditor must design and conduct the audit with professional skepticism, recognizing that the financial statements may contain inaccuracies. In addition to professional skepticism, the audit plan determines the ability of the auditor to accomplish his duties professionally and ethically. An

experimental and survey research confirmed that work overload forces the auditor to adopt dysfunctional behavior and lower audit quality (Ismail et al., 2019). An example of dysfunctional behavior is underreporting time, which is a common ethical dilemma among auditors and has several harmful consequences for audit firms (Emett et al., 2015) and the auditing profession as a whole (Herda & Martin, 2016).

Based on the preceding discussion, auditor ethics significantly influences the quality of audit in the private and public sectors. Ethics is the values that drive the auditor's behaviors and enable the auditor to identify correct or incorrect actions. Ethics can increase the public's trust in the auditor's work and acceptance of audit functions as value-added services. This trust can be improved when the auditor concentrates on their core values of competence, integrity, objectivity, independence, and audit quality (Rezaee et al., 2016). The auditor's ethics includes many attributes that can directly or indirectly influence audit quality. For example, Boon et al. (2008) listed some attributes of auditor's ethics that influence audit quality: audit firm's compliance with general audit standards, due care, audit firm's commitment to quality, individual team member's characteristics, and the degree of individual responsibility. Many researchers have looked at the influence of the auditor's moral traits on audit quality from the perspective of external auditors and the users of financial statement, but few have observed it from the perspectives of accountants and internal auditors, as this study does.

2.5.1.2 Auditor Independence

The auditor is independent when his mental attitude is free from any limitations and constraints; his decisions is not under control of or dependent on others; he considers only the facts and performs his duties with objectivity and honesty with

himself; and he avoids situations that would lead others to question his independence. Otherwise, it is doubtful that his professional skepticism can deliver quality audit (Kusumawati & Syamsuddin, 2018). Auditor independence is higher as his financial and family ties with the client reduce (Dickins et al., 2018).

The following subsections discuss the definition of auditor independence, the significance of auditor independence in the audit quality of PSOs, measures of auditor independence, and the determinants of auditor independence.

2.5.1.2.1 Definition of Auditor Independence

Audit value depends greatly on the public perception of auditor independence. Auditor independence is an important determinant of the readiness of various financial statements users to trust and rely on audit reports. The AICPA Code of Professional Conduct and the IESBA Code of Ethics for Professional Conduct define independence as a notion comprising of two components: independence in appearance and independence of mind (Alvin et al., 2017). The two components of independence are described by IESBA (2018) as follows:

(a) Independence of mind – the state of mind that allows a conclusion to be expressed without being influenced by influences that damage professional judgment, allowing an individual to behave with integrity, impartiality, and professional skepticism. (b) Independence in appearance - the avoidance of facts and situations that are so substantial that a reasonable and knowledgeable third party would be likely to believe that the honesty, objectivity, or professional skepticism of a firm or an audit or assurance team member has been compromised.

IESBA (2018) stated that independence is linked to the fundamental principles of objectivity and integrity. The International Independence Standards requires professional accountants in public practice to hold on both principles when they perform audits, reviews, or other assurance engagements (IESBA, 2018).

Haeridistia and Agustin (2019) confirmed that audit quality and professional value be contingent on auditor independence, and they confirmed that the principle of responsibility requires the auditor to preserve independence in his mental attitude and appearance. In mental attitude means that the auditor is expected to be impartial and does not discriminate, using his professional judgment to evaluate the financial statements. In appearance means that the auditor must demonstrate his independence to the users of financial statements. The auditor must avoid any direct or indirect financial ties with the client under audit. He must also give his opinion without any influence in any part on his independence. Auditor independence can safeguard the auditor's ability to issue independent opinions and remain neutral during the audit process.

2.5.1.2.2 Importance of Auditor Independence for Audit Quality in the Public Sector

Auditor independence in the public sector means that the auditor cannot be easily swayed by the public even if they work for the public's profit; auditors are without support if they support the interest of any given party (Ismail et al., 2019). Auditor independence is essential for providing reasonable certainty regarding the accuracy of the financial statements under audit. It increases the likelihood of discovering misstatements, which outcomes in greater audit quality and enhances public confidence in the audit profession (Ismail et al., 2019). According to Francis

(2011) audit quality emerges when auditors can work competently and independently. Octavia and Widodo (2015) and Bouhawia et al. (2015) confirmed that auditor independence and competence have a significant effect on audit quality. Haeridistia and Agustin (2019) stated that many researchers found that auditor independence influences audit quality, e.g., Soekrisno (2014), Ling (2014), and Jamal and Sunder (2011). Haeridistia and Agustin (2019) concluded that auditor independence has a positive effect on audit quality. An audit is successful when it is carried out in accordance with auditing standards and actual data by an independent auditor (Haeridistia & Agustin, 2019). Francis (2011) mentioned that audit failure occurs when the auditor is not independent. In fact, audit failure has economic repercussions for auditors, clients, and third parties. Gustavson and Sundström (2018) demonstrated that corruption in the public sector at the national level is affected significantly by good auditing, which encompasses three principles of professionalism, independence, and recognizing the people as principal. When the auditor embraces all three principles, he can produce a high-quality audit, which can reduce corruption at the national level. But in PSOs, particularly municipalities, specialized and expert auditors are more important than independent ones. Elder et al. (2015) found that Florida municipalities that appoint specialized audit firms have higher audit quality. Therefore, municipalities should consider specialized, rather than independent, audit firms when selecting audit firms (Elder et al., 2015).

2.5.1.2.3 Measures of Auditor Independence

Competent and objective (independent) auditors can arrive at the correct conclusions when applying professional standards (Knechel, 2016). The literature uses the issuance of a going concern opinion or modified audit report as a measure of

auditor independence because the client's management has an incentive to pressure auditors to issue an unmodified opinion. Other studies used many proxies for auditor independence, such as audit firm size, auditor tenure and rotation, non-audit services, and discretionary accruals (Khurram et al., 2023). Auditors with better competence, lower risk tolerance, greater conservatism, or greater independence are more likely to offer modified audit opinions, ensuring that financial statements are free of misstatements from error or fraud (Ruiz-Barbadillo et al., 2004). Junaidei et al. (2016) reveal that auditor tenure negatively affects auditor independence, but the significance of this effect differs by the length of the tenure. This effect is also measured by the auditor's propensity to give a going concern opinion. In Spain, Kyriakou and Dimitras (2018) found the effect of long-term auditor tenure on discretionary accruals, which in turn indirectly affect auditor quality and independence.

An auditor that offers non-audit services to the client (auditee) may be less independent. This practice is proscribed by the audit profession regulators in the U.S. because it can negatively affect public perception of and confidence in audit quality. Additionally, it can potentially compromise the auditor's objectivity (independence) and skepticism (Francis, 2004). However, Ashbaugh and Mayhew (2003) found no systematic evidence to support that non-audit services violates auditor independence.

2.5.1.2.4 Determinants of Auditor Independence

As mentioned in the previous sections, prior research has discussed many factors that may affect auditor independence (Ashbaugh et al., 2003; Elder et al., 2015; Francis, 2004; Hardies et al., 2016; Junaidei et al., 2016; Knechel, 2016; Kyriakou & Dimitras, 2018a; Ruiz-Barbadillo et al., 2004). Hardies et al. (2016) confirmed that female auditors provide improved audit quality since they are more

independent. Female auditors also have lower audit error rates, implying greater reporting accuracy. Kaplan et al. (2008) demonstrated that competent auditors rely less on inappropriate data or data that aligns with management's self-interest. Their higher selective interest in appropriate information increases their neutrality in dealing with clients. The IESBA Handbook Code of Ethics (2018) stated that the auditor faces many types of pressure that can threaten the compliance with the fundamental (independence) principles, such as pressure to sway information preparation or presentation, pressure to report false financial results to satisfy investor, analyst, or lender expectations, pressure from elected officials on public sector accountants to misrepresent programs or projects to voters, and pressure from coworkers to inflate income are all examples of pressure.. IESBA directly mentioned that its code of ethics is applicable to public auditors and professional accountants in businesses and PSOs. In Section 400, IESBA suggested that a number of factors, such as financial interests, audit fees, compensation and evaluation policies, gifts and hospitality, actual or threatened legal action, loans and guarantees, business ties, personal ties, recent service with an audit client, serving as a director or officer of an audit client, temporary personnel assignments, employment with an audit client, and long association, can affect the independence of audit and review engagements (IFAC, 2018).

Based on the preceding discussion, auditor independence significantly influences audit quality in the private and public sectors. Independence enables the auditor to perform his tasks without bias, thereby improving the perception of users of the audit quality and enhance their confidence in the audited report.

2.5.1.3 Auditor Competence

Competence generally refers to the auditor's capability to do tasks seriously and in accordance with professional standards (Abbott et al., 2016). A thorough understanding of the client's operations and client-specific knowledge, such as knowledge of a firm's internal control structure, procedures and processes, operations, and accounting systems, are necessary for successful audits (Ball et al., 2015).

In the following subsections, the study discusses the definition of auditor competence, auditor competence in the public sector context, and the factors and measures of auditor competence.

2.5.1.3.1 Definition of Auditor Competence

Competence means that the auditor possesses extensive knowledge and practical experience that enable him to perform a high quality of audit and to give proper opinions on the financial statements (Ismail et al., 2019). Competence is a broad concept that includes many qualities of professional auditors to provide effective assurance services to their clients and to enhance the confidence of stakeholders and financial statement users in the audit findings. Therefore, the auditor must be competent, possessing various qualities gained through formal education, practical experience, professional exams, good moral standing, and training. These qualities increase the competence of the auditor (Allen & Woodland, 2010; Kusumawati & Syamsuddin, 2018). However, there is no agreement among regulatory bodies, professional organizations, academia, and practitioners on what constitutes an optimal education level for admittance to the public accounting profession (Allen & Woodland, 2010).

Competence also includes experience in technical and practical aspects. Experience can be divided into two types: generic experience and industry (sector) expertise (Reheul et al., 2017). Past research suggested that the auditor's judgment improves with years of generic experience, as his knowledge base grows and his ability to determine essential information improves (Simnett, 1996). Reheul et al. (2017) found that more experienced auditors are more likely to disclose FS mistakes and uncertainty in the audit report, because they are aware of errors that possibly exist in the financial statements under audit. And they added that auditors who are older or have more experience are less likely to provide a modified opinion. Old auditors always receive a lower audit fee, which may lead to lower audit quality (Hardies et al., 2016) as they become less conservative (Sundgren & Svanström, 2014). Reheul et al. (2017) concluded that current empirical evidence shows a curvilinear relationship between audit partner experience and the probability to issue a qualified (modified) opinion.

Biggs et al. (1993) as cited by Reheul et al. (2017) suggested that industry or sector experience gives the auditor in-depth knowledge about auditing and financial accounting systems, the environment of the organizations, laws and regulations, sector norms, performance indicators, and threats and risks, thus allowing them to make better judgment on the going concern decision of organizations in that particular sector. Such experience can be achieved directly through practice, observation, discussion with colleagues, and review and oversight of supervisors. It may also be gathered indirectly through reading (Kusumawati & Syamsuddin, 2018).

Christensen et al. (2016) confirmed that archival research suggests that audit quality is increased with expertise because of the increased likelihood of discovering errors in the financial statements. A substantial volume of empirical research has

explored this relationship in detail (Alareeni, 2019; Ismail et al., 2019; Minutti-Meza, 2013; Reheul et al., 2017).

For an audit to be successful, Kusumawati and Syamsuddin (2018) argued that the auditor must have full knowledge of accounting principles; accounting theory; accounting procedures; accounting systems; branches of accounting; current issues in accounting; regulations concerning businesses such as companies act; techniques of auditing; developments in auditing standards and principles; computer accounting and other automatic machine devices; commercial and taxation laws; principles of economic and social environment; statistics and mathematics; judgments in audit cases; industrial and business management; financial administration; and the technical details of the business under audit.

IESBA-IFAC (2018) discusses the principles of professional competence and due care in Section R113.1 of its Ethics Code in page 20:

“A professional accountant is required to abide by the professional competence and due care concept, which calls for an accountant to:

- a. Achieve and maintain the professional knowledge and skills necessary to guarantee that a client or hiring organization obtains competent professional service in accordance with current technical and professional standards and applicable laws; and
- b. exercise diligence and conform to the relevant technical and professional requirements”.

The principles of professional competence and due care require auditors to possess the knowledge and technical skills to adhere to professional standards in any audit engagement. They must also continually develop their professional abilities to perform competently within the professional environment. The auditor must also act according to the requirements of an assignment carefully, thoroughly, and on a timely basis. All professional accountants working under the certified public accountants’ authority have suitable training and supervision, and they should clarify to their clients

and other users of their professional services of the restrictions inherent in these services (IFAC, 2018).

2.5.1.3.2 Importance of Auditor Competence in the Public Sector Context

As discussed previously, the nature of PSOs and their regulations are different from the private sector, which means that their reporting system environment is also dissimilar, which may cause some complexities. The complexities in government accounting system requires the client to appoint a specialist auditor with experience in the auditing of PSOs (Hogan et al., 1999).

Yebba and Elder (2019) reported that federal regulators recommend the procurement of specialist external auditors to ensure audit quality. The International Code of Ethics for Professional Accountants requires accountants to comply with the principles of professional competence and due care. These principles are similarly applicable to the external auditors of PSOs because they provide their services as professional public accountants. According to the Code, a professional accountant can be an employee, contractor, partner, director (executive or non-executive), owner-manager, volunteer, or someone who works in the public sector, education, the not-for-profit sector, or in regulatory or professional bodies (IFAC, 2018).

Prior research in the public sector confirms the importance and usefulness of auditor sector expertise. Sector specialist auditors are related to higher compliance with GAAS reporting, fewer audit quality deficiencies, and higher perceived audit quality. Sector specialist auditors are more likely to issue modified audit opinions and higher earnings quality. They are less likely to cause accounting restatements. They have higher expertise, more concern for lawsuit and reputational damage, more conservative attitude and independence, greater reporting of control exceptions, and

shorter reporting lags with disclosure regulation (Chi & Chin, 2011; Chin & Chi, 2009; Deis et al., 1992; Elder et al., 2015; Hardies et al., 2016; Yebba & Elder, 2019).

2.5.1.3.3 Factors and Measures of Auditor Competence

Competence is subjective issue and affected by different factors, hence auditor competence might vary from an auditor to another (Ismail et al., 2019). Most studies used the proxy of issuing going concern or modified audit report to measure the effect of the inputs factors on audit quality (Chadegani, 2011). Auditor competence is the main factor in the audit input (Dickins et al., 2018; Rezaee et al., 2016). And the auditors who have more expertise, lower risk tolerance, and are conservative or independent are more likely to give modified audit opinions, thus giving more assurance that the financial statements are free of mistakes and fraud (Reheul et al., 2017; Ruiz-Barbadillo and Gómez-Aguilar, 2004). There are many indicators for the competence of external auditors, such as a formal education in accounting and related topics, practical experience in the audit profession, passing professional exams, good moral standing, and participating in continuous training programs. These requirements increase the competence of the auditor (Allen & Woodland, 2010; Kusumawati & Syamsuddin, 2018). Auditors that specialize in a specific sector, for example municipalities or other PSOs, are familiar with all contextual factors of the sector, including its laws and regulations, business risks, and accounting standards. These are obtained through years of audit experience in the sector. Ashton (1991) as cited by Reheul et al. (2017) reported that auditors with more years of experience have more ability to explain audit findings because they are aware of errors that possibly exist in the financial statements under audit.

Auditor competence has a significant and positive effect on audit quality (Bouhawia et al., 2015; Octavia et al., 2015). In other words, higher auditor competence leads to higher audit quality.

As discussed in the preceding sections, auditor competence includes many attributes that can directly or indirectly affect audit quality. Boon et al. (2008) mentioned some indicators of auditor competence that can influence audit quality: auditor experience with the client (municipality) under audit; auditor experience with LGUs; auditor knowledge on how to conduct a financial audit (technical competence); and conducting the audit in accordance with accounting and auditing standards.

The above discussion shows that auditor characteristics have significant influences on audit quality and public confidence in the audited financial reports of private and public sector organizations. The outputs of the audit process are directly affected by the auditor's characteristics. Therefore, the auditors should be independent in their judgment; possess a high level of competence; comply with professional standards; gain practical experience; and maintain and develop their capability through continuous professional education and training. All these activities should be carried out according to moral and ethical rules so that the auditor can produce high quality audit.

2.5.2 Audit Firm Attributes

Audit firms attributes, such as audit fee and audit firm size, are inputs of the audit process that indicate audit quality (Omer et al., 2016). They are also used as proxies for audit quality. Clients can easily determine audit quality based on these observable inputs. Other audit firm attributes are auditor-client tenure, industry specialization, non-audit services (NAS), U.S. and non-U.S. setting, and pre-SOX and

post-SOX setting. These attributes are related to the proxies for audit quality. For instance, specialized audit firms are associated with higher audit quality (Elder et al., 2015).

The next subsections discuss audit fees and audit firm size as the most important characteristics of the audit firm because they mirror the effects of other audit firm attributes. For example, audit fee is related to the level of industry specialization, non-audit services, auditor tenure, independence, and reputation. These and other related attributes have been touched upon briefly in the previous sections.

2.5.2.1 Audit Fees

A going concern opinion is more likely to be issued by audit firms that have a higher audit quality, according to prior research (Omer et al., 2016). And organizations that are more likely to receive a going concern view may pay higher audit fees, because auditors spend more time and money, and hence charge higher rates from clients who are more likely to receive a going concern opinion (Carson et al., 2013; Francis et al., 2009; Geiger et al., 2003). The next subsections discuss the audit fees in PSOs, determinants of audit fees, and the link between audit fees and audit quality.

2.5.2.1.1 Audit Fees in PSOs

Audit fees may reflect the level of audit efforts that the audit firm will expend on the audit engagement. These fees are negotiated bilaterally between the audit firm and the client (Yebba & Elder, 2019). Audit efforts are related to the attributes of the audit firm, the auditor's qualities, market share, level of disclosure regulations, client demand and perception of the audit services, accounting and environmental

complexities, litigation liability, industry specialization, and specific sector requirements. Yebba and Elder (2019) suggested that the mandated disclosure level for state governments (PSOs) requires fee premiums for specialized audit firms. However, the market conditions that determine these fee premiums are unclear. Yebba and Elder, (2019) mentioned that some prior studies revealed mixed results, and audit firms specializing in PSOs may compete on pricing rather than the value added in their services, particularly in a state where there is no regulation for specific disclosure on the financial statements.

Government auditing is a complex process, but the auditor charges a lower fee than audit engagements in the private sector. Therefore, the government audit market is not attractive for international (Big 4) and large national audit firms (Petrovits et al., 2011; Yebba & Elder, 2019). Most audit fees in PSOs are determined by public tender, and the most important determinant of a winning bid is the audit fee (Elder et al., 2015).

2.5.2.1.2 Determinants of Audit Fees

The client demand and auditor supply for audit services and other factors in the context of the audit profession determine audit fees. Alareeni (2019) found that the audit fee is determined by the legal system in a country. If it provides more protection to the stakeholders, such as the ability to sue the auditor, the audit firm would treat its clients more conservatively and it may engage in increased audit activities. The audit firm considers litigation risk during the negotiation of the audit fees with the client, either directly or through the public tender (Axén et al., 2019).

The audit cost is transferred to the clients through audit fees. This cost may include the cost of mandatory education and training for the auditors. Any changes in

the input cost of the audit process may be reflected in the audit fees (Allen & Woodland, 2010).

Audit firms use reported audit time during their negotiation with the client to determine the audit fees, in addition to additional services which are provided to complete the audit engagement effectively. But if the auditors in the audit team underreports time, this can lead to discrepancy between the actual and proposed auditing budget, which has a negative consequence on the audit fee negotiation with the client (Herda & Martin, 2016).

State regulations (GAAP-regulated state) have a vital role in audit pricing. Disclosure regulations directly affects the audit process and forms the client's demands for specialized audit. Moreover, the market positioning of each specialist auditor determines the audit fee. Therefore, the audit fee varies by the market positioning of the audit firm and regulations (Yebba & Elder, 2019). Yebba and Elder (2019) found evidence for lower audit fees in GAAP-regulated states. In non-regulated states, the audit fee is determined by competition, thus the client is interested in audit firms with the lowest audit fee without considering their value added. The audit firms that are considered as market leaders always provide discounts on the audit fees, and accordingly most governmental units are served by local auditors.

Elder et al. (2015) mentioned that Gauthier (2005) and the U.S. Governmental Accountability Office (1987) reported that in appointing audit firms, PSOs may adhere to numerous alternatives and methods recommended by specific procurement policies (e.g., competitive bidding, direct selection from a higher authority or governance body, election by citizens in some countries) to ensure the selection of quality auditors. The procurement staff must also consider an acceptable price range,

which can be gathered from the historical experience of the client or from the recommendations of professional organizations and agencies. Neal and Riley (2004) and Mayhew and Wilkins (2003) as cited by Elder et al. (2015) reported that specialist audit firms and more experienced auditors may be associated with efficiency and lower costs of audit activities, which lead to lower audit fees.

The business risk in PSOs particularly municipal corporations is less than equivalent private corporations. Therefore, the audit fees for PSOs are lower than for private sector organizations (Axén et al., 2019). The conflict and competition between political parties over the control of PSOs may necessitate more monitoring and auditing efforts, which can lead to higher audit fees (Deis & Giroux, 1992; Cohen & Leventis, 2013). The audit firm always considers its reputation risk when it prepares and submits audit tenders for the auditing of municipal entities. It should reflect the amount of potential loss in the audit fees (Axén et al., 2019). Axén et al. (2019) added that accuracy in the audit process needs more time and effort, which increases audit fees. The external auditor can use the report of the internal auditors of the PSOs. However, relying on the work of the internal control of PSOs, which is often less effective than its counterpart in the private sector, may increase audit fees. On the other hand, lower accountability and litigation risk may lower audit efforts and eventually audit fees (Goodwin, 2004). Hay and Cordery (2018) referred many recent studies, including Redmayne, et al. (2010), to argue that the political visibility of a PSO establishes a need for more audit justifications. They also showed that larger political visibility is related to more audit hours and higher audit fees.

2.5.2.1.3 Relationship between Audit Fees and Audit Quality

Auditor can charge higher fees when (i) there is more client demand for further audit efforts, (ii) the auditor has specific industry knowledge, or (iii) the auditor can provide more added value to the client (Yebba & Elder, 2019). In other words, higher fees reflect higher efforts in audit services and more audit experience (Wu et al., 2024), both of which can lead to high audit quality. Therefore, prior research used audit fees to proxy audit quality because they are expected to reflect the level of the auditor's effort in completing his job, therefore higher effort implies higher audit quality (DeFond & Zhang, 2014). The audit effort may be measured by the amount of audit hours spent in the audit process. These hours can also be used to measure audit quality (Deis et al., 1992). In addition to actual audit quality, higher perceived audit quality in the public sector is associated with higher audit effort and audit fee premium (Hardies et al., 2015). For example, female auditors have higher perceived audit quality and higher effort in the auditing process, as evidenced by their higher audit fees (Hardies et al., 2015). DeFond and Zhang (2014) concluded that audit fees are used in both client demand and auditor supply studies. Demand studies often use audit fees to see whether the competencies of the committee are associated with audit quality. Auditor supply studies typically use audit fees to see whether audit quality is related to industry specialist auditors or audit firm size. DeFond and Zhang (2014) cautioned that the researcher should be careful when using audit fees to interpret changes in audit quality, because they cannot capture all factors of auditor supply and client demand.

2.5.2.2 Audit Firm Size

Audit firms are classified into three main classes by size: international firms (Big 4), national or regional firms, and local (small) firms. Alvin et al. (2017) summarized the description of each category in the U.S. context as follows. International firms have offices throughout the world and audit most of the largest companies in the world. National audit firms have offices in most main cities across the U.S. Regional audit firms have a number of offices in the region or state. A local or small audit firm has one office and employs less than 25 professionals. Francis et al. (2013) reported that 61 percent of U.S. public companies are audited by the Big 4, while most government entities are audited by local or regional firms. In general, the audit market concentration in the private sector is higher than that in the public sector. This means that audit firms specializing in the public sector faces less competition, which can lead to better audit quality (Yebba & Elder, 2019). DeAngelo (1981) found a positive relationship between audit quality and audit firm size because larger audit firms can lose more reputation and clients if they fail to report material errors or frauds. Audit firm size is determined by the number of clients, therefore the audit firm with a large number of clients may be more independent, and more specialist auditors who are expected to provide better reporting of control deficiencies in spite of government disclosure mandate (Yebba & Elder, 2019).

Alareeni (2019) reported that many past studies confirmed the positive connection between audit firm size and audit quality. However, some studies did not find this relationship in PSOs (Ali & Aulia, 2015; Lowensohn et al., 2007; Yuniarti, 2011). Deis et al. (1992) suggested that if the audit firm considers its reputation more essential than the retention of any given client, audit firm size has a moderating effect between the reputation and performance of higher quality audit. Habib (2013)

confirmed that Big N auditors provide higher audit quality and are more probable to issue a modified audit opinion. Moreover, the Big4 auditing firms assure the legitimacy and trustworthiness of their auditees' non-financial disclosures, as evidenced by their stringent auditing procedures (Saeed et al., 2024).

Alareeni (2019) concluded that in general, most studies found a positive connection between audit firm size and audit quality, while a few did not find such a relationship. Greenwood and Zhan (2019) confirmed that some prior studies on the determinants of audit quality in the public sector (e.g., Copley, 1991; McClelland & Giroux, 2000; Ballantine et al., 2008) found that auditor size and reputation have small effects on audit quality.

Elder et al. (2015) found a positive association between audit firm size and audit quality in municipalities and other municipal organizations. Larger audit firms are more expected to issue a modified audit report, which is a proxy for audit quality. They added that they cannot predict the direction of this relation due to the mixed results on the influence of audit firm size on audit quality in government entities.

Large, geographically dispersed audit firms are more likely to be decentralized and have a higher degree of individual responsibility. They are also more likely to offer higher-quality audit services because they run the risk of losing their reputation and clientele if they offer lower-quality audit services (Boon et al., 2008). Audit firm size increases the degree of individual responsibility in completing the audit engagement according to the professional conduct approved by the top management of the audit firm. Therefore, audit firm size positively affects audit quality. A larger size allows the audit firm to build a hierarchal organization structure and rank its staff as partners and senior managers. As both conduct visit to the audit site, audit quality is improved (Boon et al., 2008).

Based on the preceding discussion, audit firm characteristics influence audit quality and indirectly affect the outputs of the audit process. Therefore, these attributes are used by many researchers as proxies for audit quality, though some use them as determinants of audit quality. Several studies find that some audit firm attributes have no effect on audit quality, particularly in PSOs. This study chooses audit fees and audit firm size because they are the best representation of other audit firms' attributes. For example, audit firm experience is reflected in both audit fee and audit firm size.

2.5.3 Internal Control

Internal control is typically defined as the management's strategy for ensuring that operations are productive and successful, financial reporting is correct, and laws and regulations are followed (Länsiluoto et al., 2016; Petrovits et al., 2011; Younas & Kassim 2019). Romney and Steinbart (2018) provides the following definition of internal controls and their objectives in page 198:

Internal controls are the processes implemented to provide reasonable assurance that the following control objectives are achieved:

- Safeguard assets: prevent or detect their unauthorized acquisition, use, or disposition.
- Maintain records in sufficient detail to report company assets accurately and fairly.
- Provide accurate and reliable information.
- Prepare financial reports in accordance with established criteria.
- Promote and improve operational efficiency.
- Encourage adherence to prescribed managerial policies.
- Comply with applicable laws and regulations.

COSO issued the Internal Control – Integrated Framework in 1992, which comprises five elements that form an effective internal control, namely control environment, risk assessment, information and communication, control activities, and monitoring. In addition, the COSO framework identified three goals for internal

control: reliability of financial report, effectiveness and efficacy of business, and compliance with applicable laws (Lämsiluoto et al., 2016; Romney et al., 2018; Younas & Kassim 2019). According to Ziegenfuss (2001) both public and commercial enterprises in the United States, Europe, and Finland frequently employ the COSO framework. For example, in the U.S., the AICPA, IIA, and the General Accounting Office (GAO) join the COSO framework into their auditing standards. All components of the COSO framework rely on the control environment since it establishes the tone and culture of an organization, which all other activities are built upon (Lämsiluoto et al., 2016). Control activities are management practices to ensure that goals are met and that risk mitigation measures in the form of policies and procedures are implemented successfully. Some examples of these practices are the segregation of duties, information processing, physical control, and performance reviews (Aikins, 2011). The main objective of control activities is to make sure that critical responses are given to risks to the firm's goals. The risk assessment procedure, which is heavily weighted in the contemporary control framework COSO Enterprise Risk Management (ERM, 2004) (Lämsiluoto et al., 2016).

The last two elements of COSO framework relate to all activities of the organization. While internal and external communication is necessary to supply information needed to carry out daily internal control activities, the information and communication system gathers and exchanges the data necessary to conduct, communicate, manage, and control the operations of the organization. Continuous evaluations are part of the monitoring component's process to make sure every component is there, functioning, and that any defects are reported right away. The board of directors and top management are informed of significant difficulties (Romney & Steinbart, 2018).

The discussion above suggests that the effectiveness of internal controls has an impact on audit quality. The external audit's goals are supported by the accomplishment of internal control goals, which can enhance the effectiveness of the audit. For example, the efficiency and effectiveness of operations facilitate the audit engagement and minimize its costs, particularly when the external auditor depends on the internal auditors' reports. Therefore, this study considers internal audit as a proxy for the efficiency and effectiveness of the organization's operations. Additionally, this study substitutes the accounting basis for the financial reports' dependability, which has a direct impact on the audit process' input by resulting in more accurate financial statements (DeFond & Zhang 2014). According to auditing standards, the external auditor is in charge of finding any violations of laws and regulations that have a direct impact on the organization's financial statements and ability to continue its operations (Alvin et al., 2017). It is obvious that the purpose of internal controls is to ensure that the organization conducts its operations in accordance with all applicable laws and regulations (Lansiluoto et al, 2016). This helps to ensure high audit quality is achieved. Due to the tight relationship between audit quality and internal controls, external auditors are required by audit standards to comprehend and assess the efficacy of the internal controls of the examined organizations.

The next subsections go over internal control in PSOs and how well internal control elements like internal audit, accounting principles, and laws and regulations work.

2.5.3.1 Internal Controls in PSOs

An essential component of public sector governance, the internal control system which aids in enhancing the efficiency, productivity, openness, transparency, and

accountability of public organizations (Reginato et al., 2016; Troupin et al., 2010). A public sector manager will create and execute internal controls to help the organization accomplish its financial goals and priorities while minimizing organizational and financial risks. These procedures include things like authorizing invoices before paying them, dividing up the tasks involved in documenting and paying for financial transactions, and checking reported transactions for consistency and procedural enforcement (Aikins, 2011).

Governmental entities' internal controls and reporting environment are subject to single audit standards and are impacted by relevant laws and regulations (Yebba & Elder, 2019). PSOs conduct internal controls to ensure that the public authorities have determined that the actions taken comply with relevant laws and legal standards, to prevent the performance of tasks in an ineffective or inefficient manner, and to prevent the uneconomic management of public resources and assets owned by government entities (Stašová, 2019). Any form of control aims to prevent future mistakes by teaching people from past mistakes. To achieve credibility and transparency at all levels of the administration, it is crucial to make sure that day-to-day control is a component of governance in public administration (Nemec, 2015). Control in the public sector should continuously offer incentives to enhance all procedures and act as a tool to foster positive interactions between citizens, PSOs, and the public administration (Bovaird & Löffler, 2003).

Lansiluoto et al. (2016) proposed that the three components of financial reporting dependability, effectiveness and efficiency of activities, and legal and regulatory compliance make up the internal control effectiveness construct. As a result, three proxies for internal control effectiveness are used in this study. First, internal audit, which checks to see if operating operations, such as internal control

procedures, are carried out effectively and efficiently. The presence of the internal audit indicates the effectiveness and efficiency of activities. Second, accounting basis, which is considered as the foundation of a financial reporting system and directly affects the reliability of financial reports. Third, the existence of adequate and relevant laws and regulations and their proper compliance may support the effectiveness of internal control.

From the above discussion, this study concludes that an active internal control can assist the PSOs in operating and maintaining a high-quality financial reporting system that can produce high quality financial statements and helps the auditor to deliver a high-quality audit. Auditors must comprehend and consider the effectiveness and efficiency of the client's internal control system in their audit plan and other audit processes in order to comply with applicable audit standards, such as the International Standards of Auditing (ISA) and AICPA audit principles.

2.5.3.2 Factors of Effectiveness of Internal Controls

As discussed in the previous sections, the internal control of any entity can only be effective if it complies with COSO's integrated framework and requirements. This study selects three factors related to audit quality and have a significant effect on the effectiveness of internal controls: internal audit, accounting basis, and compliance with laws and regulations applicable to the municipalities. The following subsections discuss each factor and its effect on audit quality.

2.5.3.2.1 Internal Audit

Internal audit is the process of examining organizational problems or business processes and making organized recommendations for improvements. It provides

guidance to the business on how to better accomplish its goals by controlling risks and enhancing internal controls (Asare, 2009). Auditing Practice Committee of the Institute of Internal Auditors of the U.S. defined the internal auditing as one component of the internal control system implemented by institutions' management for the purpose of evaluating, examining, and disclosing the effectiveness of its internal controls over financial reporting (Chalmers et al., 2019; Dimitrova & Paneva, 2019). The Institute of Internal Auditors defines internal auditing as an objective assurance and consulting process that adds value and seeks to enhance an organization's operations. Internal audit helps the organization accomplish its goals by methodically and systematically evaluating and enhancing the effectiveness of the risk management, control, and governance systems (Goodwin, 2004; Pilcher et al., 2013). The activities of internal auditors in the private and public sectors can be grouped into four categories: (1) risk management, (2) internal controls and financial audit, (3) operational and systems audits, (4) specific and other projects (Goodwin, 2004). Internal auditor competency is linked with the success of internal control over compliance (Chang et al., 2019). Internal audit, according to Romney and Steinbart (2018), looks at the consistency and correctness of financial and operational data as well as the effectiveness of internal controls, employee adherence to management policies and procedures, as well as relevant laws and regulations. They also said that internal audit should report to the audit committee rather than the controller or chief financial officer and should be organizationally distinct from accounting and operations.

2.5.3.2.1.1 Importance of Internal Audit in PSOs

Internal audit is a crucial component of the governance process and can support PSOs (Janse & Coetzee, 2016). Internal auditing is becoming more essential in the public sector as a result of the government's efforts to make sure that all resources are utilized effectively and that public assets are utilized to their fullest capacity. When compared to the citizens' demands for better services, increased openness, and greater accountability, these resources are expanding more slowly (Asare, 2009; Aikins, 2011).

In the private sector, the internal audit is considered as part of the internal control of the firm. The internal audit in a PSO examines the internal control activities on the operating activities to guarantee that the organizational units perform their functions efficiently. The internal audit, in this sense, assists the management of the PSO to control the operating activities of each unit. It provides input to the directors of the PSO in the form of outcomes, obstacles, and irregularities (Sari et al., 2019). Mazza and Azzali (2015) found that there is a correlation between increased internal audit effectiveness and decreased severity and persistence of control weaknesses.

2.5.3.2.1.2 Relationship between Internal Audit and Audit Quality

The internal auditors interact with the external auditors, and the external auditor relies on the work of the internal audit in the private and public sectors. However, in the public sector, this does not lead to reduced audit fees (Goodwin, 2004). The external auditor, in the audit process, must comply with the requirements of ISA 610 (Revised 2013) on using the work of internal auditors (IFAC, 2018).

In general, Aikins (2011) concluded that local government auditors (internal auditors) conduct further audits in operating areas, including fiscal receipts and

expenses. Furthermore, internal auditors have a significant direct and indirect effect on the performance of local government through improvements in internal controls and operational quality.

Research on the internal audit function (IAF) is still nascent, and it is interesting to see whether IAF can substitute or complement the external audit function, or whether outsourcing IAF impairs or enhances audit quality (DeFond & Zhang, 2014). Sari et al. (2019) determined that internal audit has a quality assurance function, which can enable high-quality audit, because the external auditors employ the work of the internal audit function depending on the objective of its core activities (Barr-Pulliam et al., 2024).

2.5.3.2.2 Accounting Basis

When a financial transaction needs to be entered into the accounting records and reported in the financial statements depends on the accounting basis. IFAC Status Report (2018) defines cash accounting basis as the recognition of financial transactions when the cash is received or paid, while accrual basis accounting as the recognition of financial transactions when the underlying economic event occurs, while reporting the assets and liabilities in the financial statements. Based on the accrual accounting basis, organizations must publish a series of financial statements in accordance with IPSAS, including a statement of financial position, a statement of financial performance, and a statement of changes in net assets and equity. A government agency must at least issue the statement of revenues and payments if it employs the cash basis (Zedan et al., 2020). The timing differences between the two bases of accounting have a direct and indirect impact on the goals of the internal controls, particularly when it comes to gauging how well operations are run and how

trustworthy and timely the financial reports are. When a company employs the cash basis, which simply exposes financial assets, it may have an impact on how the audit quality is regarded by the public. The accounting basis in PSOs and its connection to audit quality are detailed in the ensuing subsections.

2.5.3.2.2.1 Accounting Basis in PSOs

Dewi et al. (2019) reported that according to IFAC (2018), in the world, 25% of governments use accrual accounting to publish their financial statements, whereas 30% continue to report on a cash basis. The remaining entities are switching to accrual accounting and publishing their reports on either a modified cash basis or modified accrual basis, which means that their financial statements include a lot of accrual components. The PSOs of some developed countries, for instance member states of the EU, use cash accounting. There is no convincing argument to adopt only accrual accounting, based on the cost-benefit connection, hence the German state authorizes the use of either cash basis or accrual basis in the financial reporting system of the public sector (Eulner & Waldbauer, 2018).

Cash basis accounting generates factual, dependable, and comparable data to fulfill the accountability requirements for public sector earnings and expenditures. Additionally, applying it is not too difficult. PSOs frequently adopt cash-based budgeting since it is simple to understand (Eulner & Waldbauer, 2018). Nevertheless, there are numerous advantages for various users of accrual based accounting. It increases the amount of useful (relevant and trustworthy) information available to decision-makers, promotes public administration's effectiveness and efficiency, promotes transparency by publishing balance sheets based on accruals, offers multiple reporting frameworks, makes it possible for taxpayers and voters to access the same

data, and offers contemporary financial reporting that is appropriate for cross-border comparison (Ademola et al., 2020; Dewi et al., 2019; Eulner & Waldbauer 2018; Interntional Federation of Accountants, 2012; Setyaningrum et al., 2020). In addition to the above benefits, adoption of the accrual basis accounting or IPSAS reduces corruption in PSOs and increases financial reporting quality (Ademola et al., 2020; Cuadrado-Ballesteros et al., 2019).

IFAC issues accounting standards for the public sector based on the accrual basis to harmonize accounting standards around the world and to issue high quality, credible, and comparable financial reports (Ademola et al., 2020).

Through the provision of dependable, excellent financial procedures that result in a reasonable level of accountability and transparency, the implementation of IPSAS promotes good functional performance and the efficient distribution of an entity's resources (Abimbola et al., 2017). IPSASB (2015) stated that the objective of IPSAS is to assist government managers in making decisions concerning public governance in a transparent and creditable manner. The IPSASB favors accrual basis accounting and believes that the cash basis is insufficient to satisfy the needs of financial reporting users. A self-regulatory internal control mechanism is also provided by IPSAS (Ademola et al., 2020).

2.5.3.2.2.2 Relationship between Accounting Basis and Audit Quality

The accuracy and usefulness of financial information generated by a system are indicators of the system's value to a company. The accounting foundation affects the quality of pre-audited financial statements, which are the primary inputs into the audit process (DeFond & Zhang, 2014). As a result, the accounting basis affects audit quality by resulting in accurate financial statements.

2.5.3.2.3 Laws and Regulations

According to Alareeni (2019), the legal environment, auditing standards, and accounting practices all have a significant impact on the accuracy of an audit. The Big Four audit firms are more cautious when dealing with clients in countries with legal frameworks that provide greater protection to users of audited reports. In other words, the legal framework affects the auditor's behavior. The client's investment in reporting systems and assurance tools may expand as a result of the implementation of reporting standards and other disclosure-related laws, as well as government examination of financial reports, leading to more trustworthy financial statements (Yebba & Elder, 2019). Legal enforcement is better in industrialized countries, but it should be recognized that the implementation of laws is just as crucial as their content (Alareeni, 2019; La Porta et al., 2000).

Laws and regulations include all the orders of superior authorities and regulators of the client's industry. The auditor's objectives when responding to non-compliance or suspected non-compliance with laws and regulations are to uphold the standards of professionalism and integrity by notifying the client's management or governance so that they can mitigate the effects of the identified or suspected non-compliance as well as prevent future violations (IFAC, 2018). Some examples of these laws and regulations are accounting standards and procedures, fraud, corruption and bribery, money laundering, terrorist financing and proceeds of crime, securities markets and trading, banking and other financial products and services, data protection, tax and pension liabilities and payments, environmental protection, public health and safety and related regulations, and regulations related to the auditing and issuance of audited financial statements (IFAC, 2018). These laws and regulations are taken into account

as a component of the client's internal controls, and they have an impact on the effectiveness of audits (Alareeni, 2019).

2.5.3.2.3.1 Laws and Regulations in PSOs

Yebba and Elder (2019) compared between the U.S. audit markets of Michigan and Pennsylvania. Both states are quite similar in almost every way, especially when it comes to how their various levels of government—county, city, township, villages, and boroughs—are organized. Both states also mandate that each government entity employ an impartial audit company to review its financial statements. However, because there are certain variations in the regulatory environment, namely with regard to state-level GAAP and the objectives of governmental regulators and standard setters, each state is seen as having its own distinct audit market. Yebba and Elder (2019) found that Michigan, a GAAP-regulated state, has better audit quality because its regulations enhance the reporting environment and require specialist auditors who have practical experience in the applicable regulations. Ahmaro (2014) suggested the necessity to modify the laws and bylaws of municipalities to develop and implement an efficient financial system with clear accounting standards, control principles and procedures, and organizational standards. Governments in Europe are responsible for regulating the external audit function. Central government audits are governed by legislation or decree, and professional auditors occasionally work together to develop the auditing standards (Brusca et al., 2015).

2.5.3.2.3.2 Laws and Regulations in Palestinian Municipalities

In Palestine, most municipal activities are governed by laws and regulations, but most of them were issued by previous authorities before the Israeli occupation in West

Bank and Gaza Strip (Qafishe, 2018). These laws, regulations, rules, and accounting policies and procedures are mentioned as annexes in the Terms of Reference (ToR) for hiring the external auditors in the LGUs. The ToR is approved by MOLG in 2016 as guidelines example for bid documents, and requires the external auditors to consider these laws, regulations, and accounting policies and procedures when they are performing the audit in the municipalities. In addition, the auditors must comply with other laws and regulations that relate to the municipality's activities and affecting its financial performance and are not mentioned in the following list:

- Act No. (1) of 1997 on Local Authorities
- General Electricity Act 2009
- Expropriation Act No. (2) of 1953
- Buildings and Land Tax Act within the Municipalities and Local Council Regions No. (11) of 1954
- Crafts and Industries Act No. (16) of 1953
- Land Tax Act No. (30) of 1955
- Act No. (79) of 1966 on the Regulation of Cities, Villages and Buildings
- Profession Licensing Act No. (89) of 1966
- Public Retirement Act No. (7) of 2005
- Act No. (12) of 2005 for the Election of Local Councils
- Education Tax Regulation No. (1) of 1956
- Financial Regulation for Local Authorities for the Year 1999
- The Regulation of the Joint Services Councils for the year 2016
- Vegetable and Fruit Market Regulation No. (3) of 1997

- The Regulation of Signs and Advertisements in the Local Authority Area No. (5) of 1998
- Slaughterhouse Regulation in the Local Authority Area No. (4) of 1998
- Local Authorities Employees Regulation No. (1) of 2009
- Regulation of Procurement and Executing Works in Local Authorities No. (1) of 1998
- Act of Vehicle Parking in Local Authorities No. (1) of 1998

In addition to the above laws and regulations, the ToR requires the external auditors to adhere the updated International Standards on Auditing (ISA) in their audit process and to consider the following accounting policies and procedures:

- Unified Chart of Accounts
- Accounting Procedures for Cash Basis
- Accounting Procedures for Accrual Basis
- Fixed Assets Valuation Methodology
- Guidance for Transferring from Cash Basis to Accrual Basis
- Annual Budget Preparation Declaration

2.5.3.2.3.3 Relationship between Laws and Regulations and Audit Quality

The auditor may be made aware of non-compliance or suspected non-compliance with applicable laws and regulations while performing an audit service for a client. Such non-compliance can directly affect the computation of considerable amounts and disclosures in a client's financial statements, and indirectly threaten the client's operational elements, its ability to continue functioning, or its ability to avoid material penalties (IFAC, 2018).

The effectiveness of internal control over financial reporting may be improved by more investment in the system to comply with rules, which could reduce the auditor's finding of control inadequacies (Yebba & Elder, 2019). In other words, the audit quality increases when the client complies with all applicable laws and regulations and achieves the goal of an effective internal control. The clients are guided in how to carry out their activities, including how to choose external auditors, the terms of the audit agreements, the scope of the audit process, and its results, by the laws and regulations that are applicable to them. This makes the auditor more cautious when developing audit procedures and methodologies and more determined to complete the audit in the most effective way. The study concluded that laws and regulations significantly affect the quality of audits.

Based on the preceding discussion, municipal internal control is expected to influence the audit quality. The outputs of the audit process are directly affected by the client's internal control components, such as internal audit, accounting basis, and applicable laws, rules, and regulations.

2.5.4 Supreme Audit Institutions

Supreme Audit Institutions (SAIs) are national organizations in charge of conducting compliance, performance, or financial statements audits in government organizations as well as their auditing adherence to legal requirements, relationships with other parties, and the efficacy of various governance techniques, procedures, and policies. Monitoring the use of public funds and the effectiveness and integrity of governmental processes and policies is the main objective of SAIs (Hay & Cordery, 2018).

Since the twenty-first century, there has been increasing awareness about the importance of SAI due to its importance in investigate the spending of government according to the related laws, regulations, accounting applicable framework, and approved budget. It also evaluates the effectiveness and efficiency of public sector programs (Bojkovska et al., 2019; Carrington et al., 2019). This type of audit is delivered by independent governmental agency for all PSOs (Johnsen, 2019), including the federal government (ministries), state governments, local governments, municipalities, state corporations, any business that receives funding from the government or is owned by it, such as hospitals and universities (Desmedt et al., 2017; Zbyslaw Dobrowolski, 2020; Johnsen, 2019). All public organizations and their users of public funds are subject to audits in accordance with the rules governing the budget system, financial transactions, financial statements analyses, and other audit records and data (Bojkovska et al., 2019). Normally, SAIs are granted unlimited power to perform their responsibilities professionally. For example, the Jordanian laws grant Accounting Bureau the authority to conduct auditing without any restraint and reveal all audit findings in the annual report to the legislature's authority, detailing the observations and notes made during the audit (Ahmaro, 2014).

Although SAIs report to parliaments, they are not part of the executive, legislative, or judicial branches of the government. In Greece and Portugal, they are part of the judiciary, but in other countries (e.g., France, Italy, and Spain), they are not part of the judiciary, even if they perform judicial functions (Dobrowolski, 2020). SAIs audit and evaluate public policies and programs for the benefit of their respective parliaments. Therefore, they work only as subordinates of their parliaments. Even so, they do not question the political goals themselves, but rather appraise how

they are being employed by public organizations (Dobrowolski 2020; Dobrowolski & Sułkowski, 2020).

The primary role of SAIs is to provide unbiased reporting on the activities, services, and pursuits of public-funding recipients as well as to provide reliable assurance and evaluation of the performance of the public sector in order to exercise responsible jurisdiction (Bojkovska et al., 2019). Therefore, the effectiveness of SAIs be contingent on the information function, which means that the SAIs perform their audit activities and formulate audit conclusions and recommendations; however, there is no legal requirement to follow these recommendations (Dobrowolski, 2020). Control, prevention, education and training, investigation, standards and regulatory, political, and advising duties of SAIs are derived from their primary function and their laws and regulations (Acker & Bouckaert, 2018; Dobrowolski, 2020; Dobrowolski & Sułkowski, 2020; Hay & Cordery, 2018).

The SAIs try to provide accurate, unbiased, and objective information in the audit reports they produce and make these reports available to the users, as well as all views and findings that are supported by adequate and pertinent audit evidence. The SAIs are responsible for promoting change, advancing knowledge, and making recommendations to enhance the effectiveness of the PSOs. SAIs aim to establish facts, identify the causes and effects of irregularities based on the audit evidence, and provide auditees with advice on how to get rid of irregularities and enhance their operations (Bojkovska et al., 2019; Dobrowolski & Sułkowski, 2020). The tasks of the SAIs can be summarized as follows: (1) to audit, review, and examine the proper use of public funds (revenue and expenditure) in the federal government, regional governments, and provinces; (2) to report the audit findings to the parliament and county council; (3) and to examine the accounts of the public administration and those

financially responsible for the state (Acker et al., 2017). The effectiveness of these tasks depends on the quality of the SAIs' auditors. Octavia and Widodo (2015) found that the quality of financial statements of PSOs is positively related to the competence of government auditors (SAIs). Competent auditors in SAIs can improve external audit quality because external auditors may rely on high quality financial reporting, which leads to high audit quality (DeFond & Zhang, 2014).

Ahmaro (2014) explained that every Arab state has its own mechanism for performing municipal audits. In Lebanon, municipalities are under the authority of the General Controller, not a ministry. In Jordan, the municipality's accounts are audited by the Ministry of Municipal Affairs and Accounting Bureau. In Iraq, the Ministry of Finance audits some municipalities, while the Bureau of Financial Control audits others. The Accounting Board is the body in Algeria that conducts municipal audits. Municipalities in Egypt are audited by the Ministry of Finance.

Financial and Administrative Control Bureau (FACB) is the SAI of Palestine, but there is another body does as SAI in the Palestinian municipalities established by MOLG at the name of the General Department of Control and Guidance (GDCG). Both agencies perform compliance and performance audit for LGUs. The following subsections discuss each agency.

2.5.4.1 Financial and Administrative Control Bureau (FACB)

The Palestinian National Authority (PNA) was established in Palestine in 1993, and following it was the creation of many PSOs. The audits of PSOs commenced in 1994 under Presidential Decree 22/1994, which was later amended by Act 17/1995. Both acts relate to the establishment of the General Audit Institution (GAI), which was later replaced by the Financial and Administrative Control Bureau (FACB) Act

no. 15/2004. This law is based on Palestinian Basic Act of 2003 and passed in 2005. The FACB is one of the SAIs of Palestine. It is also known as State Audit and Administrative Control Bureau (SAACB), as stated on its official website. This study uses its name as it appears in the law, FACB. The FACB is a statutory body whose activities are planned by its own statute. It has a budget that is included in Palestine's overall budget, independent legal personality, and complete legal competence to exercise the duties and exercising the authority granted by the FACB Act and other relevant laws and regulations. FACB's main goals are to ensure that the financial and administrative operations of Palestine's executive, judicial, and legislative entities are sound and sustainable, to reveal any financial or administrative fraud or material errors, including the abuse of public positions, and to make sure that public performance is carried out in a reasonable, efficient manner in accordance with applicable laws, regulations, bylaws, instructions, standards, and procedures (FACB, 2021).

The FACB works to improve its professional and transparent relation with PSOs under audit and stakeholders to enhance audit quality, improve performance, and conserve public funds. The FACB adopts the standards of the International Organization of Supreme Audit Institutions (INTOSAI) standards and international standards on audit. It is committed to improve its conduct to fulfil with all INTOSAI standards (FACB, 2010). The FACB releases quarterly and annual reports that include overall operations carried out in accordance with the pre-established plan or emergency issues, in addition to the individual audit reports of public bodies. The Palestinian president, the legislative council, and the council of ministers are all given these reports as proposed laws. All PSOs subject to financial and compliance audit are

allowed to use control processes under the FACB's legislative mandate. It just began performing performance audits as part of a development program (FACB, 2021).

Article 3 of the FACB Act No. 15 of 2004 states that the main objectives of the FACB are as follows:

1. Ensure the financial activity is sound and that public funds are used for the intended purposes.
2. Conduct administrative inspections, ensure performance effectiveness, assure proper authority application, and disclose any deviations when they are discovered.
3. Verify that financial and administrative operations comply with relevant laws, rules, regulations, and resolutions.
4. To guarantee public performance is fair, unbiased, and transparent as well as to reinforce the PNA's financial, administrative, and economic policies' dependability and trustworthiness.

Article 31 of Act No. 15 lists PSOs that are under the jurisdiction of the FACB. They include LGUs, i.e., municipalities, village councils, and others, as specified in item 10 of Article 31. The PSOs in Article 31 are as follows:

1. The presidency of the PNA and its related institutions.
2. The prime minister, cabinet members, and officials of equivalent offices.
3. The legislative council and all of its divisions and institutions.
4. The judicial authority, the prosecution, its members (prosecutors), and its staff.
5. The ministries and the bodies of the PNA.
6. The police, security forces, and all military and security bodies.

7. Public and private bodies and institutions, trade unions, associations, and federations of all kinds and levels and their equivalent.
8. Organizations and companies that are owned or contributed by the PNA, or receive assistance from the PNA or from its donors to the PNA.
9. Institutions and companies licensed to operate or manage a public facility.
10. Local government units, - municipalities, village councils, and other units.
11. Unless there is a special provision regarding it, the requirements of this law shall apply to the entities that contain laws, regulations, bylaws, or decisions issued in respect of them with special rules.
12. The bodies, departments, and units to which the provisions of this law apply are called "administrative bodies".

The FACB has developed the Palestinian Government Auditing Standards based on INTOSAI standards, code of ethics as amended by the ISA, and ARABOSAI membership requirements. The FACB, as Palestine's SAI, is mandated by law to accomplish the national audit development goals:

- Increase transparency and accountability: Audits are conducted to determine whether regulations are in place, whether financial/administrative procedures followed are in accordance with applicable laws/regulations/decisions, to ensure proper use of power, to disclose deviations in order to ensure efficient performance, to avoid corruption, and to increase transparency/accountability of the State of Palestine's public performance.
- Increase local government response to citizens: Through audit reports on local government entities, the FACB guarantees the compliance of local government

entities with relevant laws and regulations, as well as efficiency and economy in resource management (FACB, 2017).

On October 2010, the FACB issued Ordinance No. 1 of 2010 on the Adoption of Palestinian Government Auditing Standards (PGAS). According to Article 4 of the Ordinance, licensed Palestinian auditors shall disclose their compliance in the auditor's report in accordance with the law on the practice of the auditing profession when auditing any entities subject to the mandate of the Bureau. When auditing entities subject to the Bureau's mandate and its procedures, the auditor must comply with the code of ethics adopted in the Standards according to Article 5. According to Article 14, "the auditor shall promptly and within a period not to exceed two weeks from the date of the discovery of the violations notify the Bureau of any financial and regulatory violations at entities subject to the mandate of the Bureau. The other articles of the Ordinance relate to the relationship between the external auditors, FACB, and their clients (FACB, 2010).

In 2019, the FACB issued 125 audit reports, 63 of which are related to LGUs. There are 571 LGUs (including joint service councils) under the jurisdiction of the FACB, which means that it has not been able to audit every LGU. In fact, some municipalities have not been audited for many years. The FACB's auditors also visited 91 LGUs during 2019 to investigate various complaints (FACB, 2019)

2.5.4.2 General Department of Control and Guidance (GDCG)

The General Department of Control and Guidance, a separate department in the MOLG, performs assurance and advising activities to LGUs. Therefore, the department's auditors investigate and evaluate the efficiency and effectiveness of the

operating activities of the municipalities and other LGUs, and examine the extent of their obedience with wide-ranging laws, regulations, policies, budgetary announcement, procedures, and instructions issued by the MOLG related to the financial and operational activities of municipalities.

The MOLG states that the main objectives of the GDCG are:

1. Assuring the security of financial transactions and the correct use of public funds for the purposes for which they were intended.
2. Ensuring effective results, proper delegation of authority, and the detection of anomalies wherever they occur.
3. Examining the degree to which the financial and administrative operations of LGUs comply with applicable laws, rules, and decisions, as well as approved circulars.
4. Increasing public results' transparency, fairness, and accountability to increase public results' trust in and reputation for financial and administrative policies (MOLG, 2011).

GDCG auditors visit each LGU twice a year and provide a primary audit report to the LGU council at the conclusion of each visit (MOLG, 2013). The focus of this report is on compliance audits and substantial changes that occur between two visits; in some situations, the Department follows up on citizen complaints and audit reports provided by the FACB and external auditors (MOLG, 2011). It also joins in the evaluation of external auditor procurement bids and ensuring the external auditors' conformity with the ToR (MOLG, 2013).

The above discussion indicates the importance of SAIs (FACB or GDCG) in the auditing of municipalities. Their audit can affect external audit quality. additionally,

based on the public interest theory, the SAIs' activities reflect the government's interference in the direction of municipalities. The public interest theory can explain the relationship between most variables of the study. Government involvement strives to benefit all parties by implementing laws and regulations that allow local governments to achieve their goals of providing community services in an efficient and effective manner. These laws and regulations also allow management to demonstrate openness and responsibility by providing trustworthy information to all stakeholders.

2.6 Hypotheses Development

This section presents the research hypotheses, which are developed based on the above discussions. The main variables and their dimensions are (1) auditor characteristics (ethics, independence, and competence); (2) audit firm attributes (audit fees and audit firm size); and (3) effectiveness of municipal internal control (internal audit, accounting basis, and laws and regulations). In addition, the study examines the effect of SAIs as a moderator between audit quality and those main variables.

2.6.1 Auditor Characteristics

As discussed in Section 2.5.1, numerous studies have shown the positive relationship between auditor characteristics and audit quality. This study expects auditor characteristics to be positively associated with audit quality. Thus, the following hypotheses are proposed:

H1: There is a positive relationship between auditor characteristics and audit quality.

H1a: There is a positive relationship between auditor ethics and audit quality.

H1b: There is a positive relationship between auditor independence and audit quality.

H1c: There is a positive relationship between auditor competence and audit quality.

2.6.2 Audit Firm Attributes

As discussed in Section 2.5.2, many studies have found a positive relationship between audit firm attributes and audit quality. This study expects audit firm attributes to be positively related to audit quality. Thus, the following hypotheses are proposed:

H2: There is a positive relationship between audit firm attributes and audit quality.

H2a: There is a positive relationship between audit fees and audit quality.

H2b: There is a positive relationship between audit firm size and audit quality.

2.6.3 Effectiveness of Municipal Internal Control

As discussed in Section 2.5.3, many studies have found a positive relationship between the effectiveness of municipal internal controls and audit quality. This study expects that the effectiveness of internal control positive related to audit quality. Thus, the following hypotheses are proposed:

H3: The effectiveness of municipal internal control has a positive influence on audit quality.

H3a: Internal audit has a positive effect on audit quality.

H3b: Accrual basis accounting has a positive effect on audit quality.

H3c: Laws and regulations have a positive effect on audit quality.

2.6.4 Supreme Audit Institutions

As mentioned in earlier sections, audit quality is positively related to auditor characteristics, audit firm attributes, and the effectiveness of municipal internal controls. Do SAIs moderate the relationship between audit quality and its

determinants (Auditors Characteristics, Audit Firms Attributes, and Effectiveness of Municipal Internal Control)? To answer this question, the study develops three sub-hypotheses relating to the effect of SAIs on the relationships between audit quality and its determinants. The determinants chosen for this study are auditor characteristics, audit firm attributes, and the effectiveness of municipal internal control.

The FACB issued the Palestinian Government Auditing Standards (PGAS) in October 2010, which are based on the INTOSAI and the code of ethics as updated by the ISA (FACB, 2010). In the financial reporting system of PSOs, the PGAS place a strong emphasis on strong internal controls, including internal audit, an appropriate accounting information system, and compliance with relevant laws and regulations. In 2016, the MOLG issued the Terms of Reference (ToR) for the procurement of external audit services as guidelines for Palestinian municipalities. The ToR listed a few qualities of auditors and audit companies, including audit team size, auditor independence, competency, and ethics. It also explained how to choose the best audit services charge. The MOLG has also published a number of regulations to activate internal control in municipalities over their activities, particularly the financial reporting system. As another SAI for municipalities, GDCG keeps an eye on these rules.

The PGAS and ToR of the MOLG mandate that municipal external auditors adhere to the Code of Ethics and uphold the following principles: trust, confidence and credibility, independence, objectivity and impartiality, professional secrecy, competence, professional development, political neutrality, conflict of interests, and professional skepticism (FACB, 2010). Moreover, Supreme Audit Institutions (SAIs) play an important role in the operation of governments by informing legislators and

other stakeholders through independent audit reports. They support strong government, accountability, and openness (World Bank, 2020). This means that the role of the SAIs is assistant in the effective of external audit process and influence indirectly on the audit quality. Accordingly, the study formulates the following hypothesis:

H4a: SAIs moderate the relationship between auditor characteristics and audit quality.

Some characteristics of the audit firm, including audit fee and audit firm size, are included in the ToR of the MOLG. Along with the specialty and rating of the auditors in the audit engagement team, it also mentions the number of auditors in the team based on how LGUs are categorized. The MOLG requires the municipalities to comply with the public Purchase Act in procuring audit firms, which means prioritizing those with the lowest audit fee. Accordingly, the study develops the following hypothesis:

H4b: SAIs moderate the relationship between audit firm attributes and audit quality.

Internal control should be investigated and evaluated in accordance with the type of audit being undertaken, according to the PGAS, which mandates that auditors analyze and assess the dependability of the client's internal controls. Internal control assessments, for instance, may help to preserve assets and resources and to guarantee the accuracy and completeness of accounting records. In addition, the auditor must check for compliance with applicable rules and regulations to give a reasonable assurance of finding mistakes, irregularities, and unlawful activity that could materially affect the financial statements (FACB, 2010). The MOLG mandates that class A and class B municipalities set up an internal audit division to assess the efficacy and efficiency of their operations. To oversee all of the towns' financial

activities, each municipality is required to form an audit committee that is comprised of members of the local council. The MOLG has additionally published guidelines and instructions that describe how to switch from cash basis accounting to accrual basis accounting. It also encourages the municipalities to adopt the accrual basis, because it is more reliable method of accounting. Accordingly, the study develops the following hypothesis:

H4c: SAs moderate the relationship between the effectiveness of municipal internal controls and audit quality.

The following Table 2.1 summarizes the study hypotheses and the codes of the variables and the path of each hypothesis.

Table 2.1: Research Hypotheses Codes and Descriptions

Code	Description	Path
Direct or Causal Effect Hypotheses		
H1 ⁺	Auditor Characteristics (ACH) has significant positive effect on Audit Quality (AQ)	ACH→AQ
H1a ⁺	Ethics (ET) has significant positive effect on Audit Quality (AQ)	ET→AQ
H1b ⁺	Independence (IN) has significant positive effect on Audit Quality (AQ)	IN→AQ
H1c ⁺	Competency (CM) has significant positive effect on Audit Quality (AQ)	CM→AQ
H2 ⁺	Audit Firm Attributes (AFA) has significant positive effect on Audit Quality (AQ)	AFA→AQ
H2a ⁺	Audit Fees (AF) has significant positive effect on Audit Quality (AQ)	AF→AQ
H2b ⁺	Audit Firm Size (AFS) has significant positive effect on Audit Quality (AQ)	AFS→AQ
H3 ⁺	Effectiveness of Municipal Internal Control (EMIC) has significant positive effect on Audit Quality (AQ)	EMIC→AQ
H3a ⁺	Internal Auditing (IA) has significant positive effect on Audit Quality (AQ)	IA→AQ
H3b ⁺	Accounting Basis (AB) has significant positive effect on Audit Quality (AQ)	AB→AQ
H3c ⁺	Laws and Regulation (LR) has significant positive effect on Audit Quality (AQ)	LR→AQ

Table 2.1, continued

Code	Description	Path
Moderation Effect Hypotheses		
H4a	Supreme Audit Institutions (SAI) moderates the relationship between Auditor Characteristics (ACH) and Audit Quality (AQ)	ACH*SAI→AQ
H4b	Supreme Audit Institution (SAI) moderates the relationship between Audit Firm Attributes (AFA) and Audit Quality (AQ)	AFA*SAI→AQ
H4c	Supreme Audit Institutions (SAI) moderates the relationship between Effectiveness of Municipal Internal Control (EMIC) and Audit Quality	EMIC*SAI→AQ

Source: Author

2.7 Conceptual Framework

Based on its theoretical foundation and the definitions of the audit quality attributes as discussed in earlier research, this study developed its conceptual framework. As discussed in Section 2.3.1, the public interest theory is able to explain most variables in the study. According to this theory, superior authorities impose some rules on the organizations to prevent unwelcome results and to achieve specific goals, such as obtaining credible and reliable information on the municipalities operations. This goal can be achieved if the external auditors produce a high-quality audit of the municipalities. To achieve this goal, the MOLG has approved and issued in 2016 the ToR for the procurement of external audit services as guidelines for Palestinian municipalities. This ToR defined several independent factors associated with the traits of auditors and audit companies, including audit team size, auditor independence, competency, and ethics, also, it described how to choose the most appropriate cost for audit services. Additionally, the MOLG has released a number of regulations to implement internal controls for the municipality's activities, particularly the financial reporting system. Class A and B municipalities must have an internal audit department in order to assess the efficacy and efficiency of their operations to be according to the MOLG standards. To oversee all of the municipalities' financial activities, each

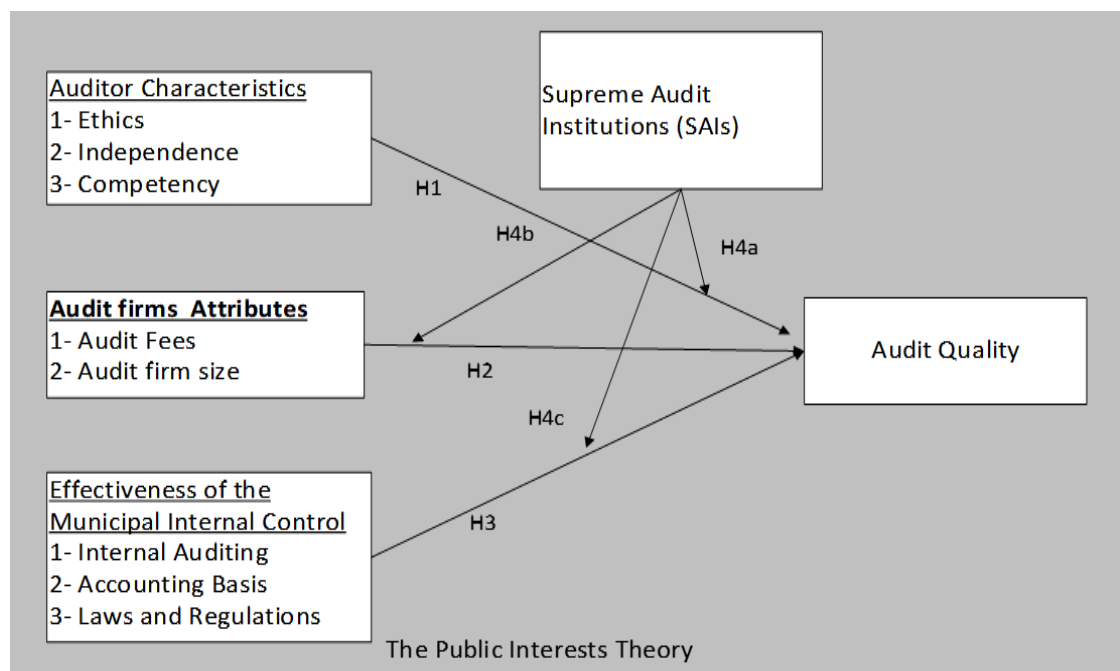
municipality is required to form an audit committee from the members of the local council. Additionally, the MOLG has published policies and guidelines that outline how to switch from cash basis to accrual basis accounting and urges local governments to do so because it is a more accurate manner of accounting. Along with the FACB, the MOLG also established the GDCG to keep track of how well the LGUs, particularly municipalities, adhere to relevant laws and regulations.

The above procedures taken by the MOLG are consisting with the elements and objectives of COSO Integrated framework and the public interest theory. For example, MOLG issues and updates the laws, regulations, guidelines, and accounting policies and procedures to support the municipalities and other LGUs to achieve the objectives of COSO and its elements as controls of the environments, control activities, risk assessment, information and communication, and monitoring. Also, the establishing GDCG in MOLG and encouraging the establishment of internal auditing units in the municipalities support the monitoring element of COSO.

From the above discussion, the interventions of the superior authority, in this case the MOLG, in the municipalities to achieve public interest are consistent with the public interest theory. The moderating impact of SAIs can be explained by the public interest theory, as well as the correlations between the independent variables and the dependent variable. Also, there are other supporting theories that can explain specific issues in this study, such as the stakeholder theory and agency theory (see Sections 2.3.2 and 2.3.3).

According to the audit quality literature, three categories are used in this study to classify audit quality attributes: (1) auditor characteristics (ethics, independence, and competence); (2) audit firm attributes (audit fees and audit firm size); and (3) effectiveness of municipal internal control (internal audit, accounting basis, and laws

and regulations). This classification provides an effective framework to facilitate the understanding and measurement of audit quality in Palestinian municipalities from the perspectives of their accountants and internal auditors who play a significant role in creating the financial accounts and who frequently communicate with external auditors. The study includes only two or three factors under each construct to facilitate the research, as it is unfeasible and complex to include all possible determinants of audit quality. Additionally, the determinants of audit quality tend to overlap, and as such only the most representative factors are included. This study also explores whether the SAIs, as unique entities within the context of the municipalities, moderate the relationship between audit quality and its three main determinants. The conceptual framework is summarized in Figure 2.3.



Source: Author

Figure 2.3: Conceptual Framework

2.8 Review of Empirical studies on Audit Quality

Prior studies have investigated the determinants of audit quality in the private sector. A few studies have been carried out on PSOs, including municipalities. Table 2.2 summarizes past empirical research on the association between audit quality and its determinants.

Table 2.2: Summary of Some Prior Studies on the Determinants of Audit Quality

Study	Independent variables	Evidence	Significance	Audit quality or its proxies	Notes
Ismail et al. (2019) Malaysia	Auditor independence	+	Sig.	Audit quality	Survey data collected from 114 auditors involved of public entities in Malaysia. The data is analyzed using correlation test and regression test.
	Auditor competence	+	Sig.	Audit quality	
	Work overload	-	Not Sig.	Audit quality	
Kusumawati and Syamsuddin (2018) Indonesia	Auditor quality			Audit quality	Indirect effect
	Professional skepticism	+	Sig.	Audit quality	Direct effect
	Auditor quality	+	Sig.	Professional skepticism	Direct effect
	1. Ethics				
	2. Commitment				
	3. Independence				
	4. Competence	+	Sig.	Auditor characteristics	
	5. Experience				
	1. Auditor's doubt towards audit evidence	+	Sig.	Professional skepticism	Survey of auditors in the Audit Board of the Republic of Indonesia in South Sulawesi Partial least squares for analysis
	2. Immediate confirmation				
	1. Field work instructions				
	2. Responsiveness to the need of clients	+	Sig.	Audit quality	
	3. Leader involvement in the audit				
	4. Auditor work				

Table 2.2, continued

Study	Independent variables	Evidence	Significance	Audit quality or its proxies	Notes
Butcher, Harrison, and Ross (2013) Australia / NSW	1. Relationship <ul style="list-style-type: none"> • Council experience • Industry expertise 2. Competence <ul style="list-style-type: none"> • Reputation • Assurance • Capability 3. Independence 4. Audit Service qualities/ Responsiveness	+	Sig.	Audit service quality satisfaction Auditor retention	The survey for the sample of 235 finance professionals, and 35 internal auditors of NSW municipalities
Boon et al. (2008) Australia / NSW	1. Council experience 2. Industry expertise 3. Technical competence 4. Field work conduct 5. Executive involvement 6. Skepticism 7. Independence 8. Freshness of perspective 9. Due care 10. Quality commitment 11. Individual responsibility 12. Ethical standards 13. Responsiveness 14. Audit Committee	+, except skepticism	Sig.	Audit service quality satisfaction	The survey for the sample of 235 finance professionals, and 35 internal auditors of NSW municipalities

Source: Author

Ismail et al. (2019) studied the relationship among audit quality and auditor independence, auditor competence, and work overload. They emphasized that auditor independence positively relates to audit quality. Auditor competence has the strongest relationship with audit quality, while work overload negatively affects audit quality. Data were collected through a survey of 114 public sector auditors in Malaysia, and they were analyzed using correlation test and regression test. Similar to this study, the authors focus on the public sector context. The factors were measured from the perspective of SAI auditors without using any audit quality proxy. Their study was underpinned by the theory of inspired confidence, which argues that audit quality increases with more independent and competent auditors.

Kusumawati and Syamsuddin (2018) examined the relationship between auditor characteristics (auditor ethics, independence, commitment, competence, and experience), professional skepticism (auditor's doubts towards audit evidence and immediate confirmation), and audit quality (good response to the need of clients, guidelines for field work, the involvement of leader, and auditor work). According to the study, there is a direct relationship between auditor characteristics and professional skepticism, a direct relationship between professional skepticism and audit quality, and an indirect relationship between auditor characteristics and audit quality via professional skepticism. The study investigated the relationship between audit quality and professional skepticism. The province of South Sulawesi's auditors for the Republic of Indonesia's Audit Board were surveyed by the authors. The partial least squares method was used to examine the data. The authors focus on public sector audit and examined the effects of auditor characteristics on audit quality through the mediation of professional skepticism. However, they did not include audit firm

attributes and environmental factors. Moreover, they did not examine the quality of external auditors.

Within the context of mandatory tendering for local governments in the Australian state of New South Wales, Butcher et al., (2013) investigated the relationship between auditor retention and perceived audit service quality. The authors distributed a questionnaire containing 48 audit service quality attributes drawn from the literature to finance professionals and internal auditors in local government units. The study was based on the marketing model in Ismail et al., (2006) and hypothesized a positive correlation between the perceived quality of audit services and auditor retention due to the satisfaction of the local government councils with the audit quality. The study used the taxonomies of Carcello et al. (1992) and Schroeder et al. (1986) in its sensitivity analysis. The study offers proof that higher-order relationship variables (by the expertise dimension) and service qualities (via the responsiveness to client needs dimension) are linked to auditor retention. This study focuses on the public sector in a developed country. It examined audit quality through the proxy of audit retention, which indicates the satisfaction of clients with the audit.

Boon et al. (2008) examined the most important audit quality attributes as perceived by local councils in New South Wales, Australia. The data were collected using a questionnaire sent to 235 finance professionals and internal auditors in the local councils. The results showed that audit firm experience with a local council, industry (public sector) expertise, auditor competence in technical aspects, ethical values and principles, due care, and independence are the most significant attributes of audit service quality. The least important attributes are skepticism, audit firm size, freshness of perspective, and non-audit services. The study focuses on local councils in developed country. However, it only determined audit service quality attributes as

perceived by the internal financial experts and auditors of those councils. They did not consider other factors that may affect audit quality, such as SAIs.

In addition to the above studies, Ghebremichael (2018) collected 54 audit quality attributes divided into three categories of technical (competence) audit quality, functional audit quality, and auditor independence. Technical audit quality includes whistle blowing (public agent), detection and reporting of fraud and illegal acts, and integrity in financial reporting process. Functional audit quality includes reliable audit process, company and industry knowledge, easy-to-deal-with, reliable, providing quality insights, and accessibility. The author considered auditor independence as a unique technical audit quality attribute in the sense that it is a single variable loaded into a factor by itself. Moreover, Lai and Pham (2020) found five key factors affecting audit quality, namely tangibles, reliability, responsiveness, assurance, and non-audit service. But Duff (2004) provided a model for audit quality that had two key dimensions: technical quality and service quality. Technical quality had five lower-order factors: reputation, competency, independence, expertise, and experience (responsiveness, empathy, client service, and non-audit services).

There are many studies on audit quality, but most of them either focus on the private sector and developed countries and address one or more determinants of audit quality. Only a few of them have proposed an integrated framework to understand the causes of audit quality (Chadegani, 2011; DeFond & Zhang, 2014; Francis, 2011; Knechel et al., 2013). This study discusses audit quality and its attributes in Palestinian municipalities. Palestine is a developing country under the Israeli occupation and administration of the PNA. Results from the private sector cannot be easily generalized to the public sector since managers and auditors are subject to different institutional and incentive frameworks (Greenwood & Zhan, 2019).

However, both sectors still share some common concepts, theories, and practice, hence it is possible to build on the wealth of literature on audit quality in the private sector.

While prior studies investigated one or more variables of audit quality or introduce different frameworks of audit quality in the private or public sector, this study provides a comprehensive integrated framework of audit quality in municipalities as the most important type of PSOs. This study examines three main categories of audit quality determinants. Each category includes selected elements that totally or partially represent the other elements in the category. Auditor characteristics include auditor ethics, independence, and competence. Audit firm attributes include audit fees and audit firm size. The effectiveness of municipal internal controls includes internal audit, accounting basis, and laws and regulations. This study adds to its framework the moderation effect of SAIs as a unique audit institutions of PSOs between audit quality and its determinants.

Prior studies used proxies for audit quality because it is not directly observable. Most studies measure audit quality as the tendency of the auditor to issue a going concern audit opinion, a modified audit opinion, and discretionary accruals, but these proxies are not entirely applicable to the public sector. Most PSOs are established by political decisions and operate according to applicable laws and regulations without considering the efficiency of their activities and generating profits, even if the governments encourage PSOs to operate their activities economically. When these organizations suffer from losses or face high risks, they do not become bankrupt or enter liquidation, unlike private organizations. This means that the going concern opinion is not a suitable measure of audit quality in municipalities. Abnormal accruals and discretionary accruals are also unsuitable proxies because municipalities use cash

basis accounting, and most accruals such as debts are governed by laws and government regulations. This study relies on the satisfaction of accountants and internal auditors towards the performance of the external auditors to measure audit quality. The attributes were collected from instruments in the literature. They were then modified and reclassified to fit into the conceptual framework of this study. The current study contributes to the literature by examining new external audit quality variables, namely SAIs and some elements of the effectiveness of municipal internal controls.

2.9 Summary

This chapter has presented the background of PSOs and discussed the underpinning theories of the study. It has also discussed audit quality and its importance, definitions, measures, and determinants, as well as auditor characteristics and audit firm attributes. Additionally, it has discussed the effectiveness of municipal internal controls and supreme audit institutions (SAIs). The research hypotheses have been formulated after reviewing the relevant audit quality literature. Similarly, the conceptual framework has been designed. The chapter ends with a review of empirical studies on audit quality.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The determinants of audit quality in the public sector, particularly municipalities, have been identified and discussed in the previous two chapters. This chapter discusses the measurement of the variables, research methods, population and sample, data collection, data analysis, developing questionnaire survey, and pilot study.

3.2 Measurement of Variables

This study examines the auditor characteristics, audit firm attributes, and effectiveness of municipal internal control as independent variables that influence audit quality in Palestinian municipalities by distributing questionnaires to their accountants and internal auditors. This questionnaire includes questions covered all the variables of the study, and most of these questions have been developed based on the audit quality literature. Prior studies adopted and used most questions, as we can see in tables no. 3.2, and 3.3. This study modified some of these questions based on the context of Palestinian municipalities. The questions that related to the moderation role of SAIs were developed based on the literature, and used by the author in pilot study aimed to examine the moderating roles of SAIs on the relationship between the audit quality and its determinants in Palestinian municipalities from the perception of the external auditors, in addition to examining and analyzing the annual audit reports of Palestinian SAIs that related to LGUs in the past 10 years (2011 to 2020).

The following subsections discuss the measurements of the independent variables and their dimensions, namely, the auditor characteristics (ethics, independence, and competence); audit firm attributes (audit fees and audit firm size); and effectiveness of municipal internal controls (internal audit, accounting basis, and laws and regulations); as well as measuring audit quality as a dependent variable by examining specific audit quality attributes and measuring the effect of SAIs as a moderator variable on the relationship between audit quality and its determinants.

3.2.1 Measurement of Auditor Characteristics

This section discusses auditor ethics, independence, and competence, three most important characteristics that external auditors must possess. These characteristics represent the main constructs that can improve audit quality in municipalities. These characteristics are applicable for individual auditors who are part of an audit team and audit firms themselves.

3.2.1.1 Auditor Ethics

The previous chapter has shown that auditor ethics has a significant effect on the quality of audit engagements in the private and public sectors. Ethics serves as a driver and basis for the auditor's conduct and it enables the auditor to know right or wrong actions (Alvin et al., 2017; Emmett et al., 2012; Herda & Martin, 2016; Ismail et al., 2019; Jonnergård et al., 2010; Kusumawati & Syamsuddin 2018; Reheul et al., 2017; Rezaee et al., 2016; Sweeney et al., 2010).

This study adopted some attributes of audit quality which they were used by many researchers as Boon et al. (2008) to measure the effect of auditor ethics on audit quality. These attributes include (1) compliance of audit firm with due care as general

audit standard; (2) audit firm commitment to quality; and (3) individual team member characteristics (ethical standards).

The questionnaire contains two items for the attribute of “compliance of audit firm with due care as general audit standard” as: (1) the overall reputation of the audit firm; and (2) the audit team members as a group always exercise due care throughout the engagement. And three questions are under the “audit firm commitment to quality” attribute: (3) the audit firm has strict guidelines on the procedures; (4) the audit firm actively encourages staff members to take training courses in client industry; and (5) the audit firm conducts a pre-engagement investigation before accepting the new client. In addition to these questions, there is one general question under the “individual team member characteristics” for high ethical standards, such as integrity, honesty, responsibility, objectivity, public interests, and moral courage.

3.2.1.2 Auditor Independence

As discussed in Chapter 2, numerous studies have found that audit quality and professional value depend on auditor independence. Auditor independence has a positive effect on audit quality, which can lead to better audit report (Bouhawia, M. Irianto, & Baridwan, 2015; Francis, 2011; Haeridistia & Agustin 2019; Ismail et al., 2019; Knechel, 2016; Octavia & Widodo, 2015).

This study adopted some auditor independence attributes and items which they were used by many researchers as Boon et al. (2008), namely (1) audit firm compliance with independence as a general audit standard; (2) audit firm maintains freshness of perspective; and (3) audit firm maintains skeptical attitude.

The questionnaire contains three items related to the attribute of “audit firm compliance with independence as general audit standard”: (1) the percentage of the

audit fee from the client to total audit fee revenue of the audit firm is not material; (2) the audit firm and audit team members never, in fact or appearance, take any action that would jeopardize their independence; and (3) the audit firm that is doing the audit gives non-audit services to the client. Two items are related to the attribute of “audit firm maintains freshness of perspective”: (4) the audit firm has a high audit staff turnover rate; and (5) members of the audit team are rotated on a regular basis. One item under “audit firm maintains skeptical attitude” is (6) the audit firm has a skeptic attitude, not an advocate of the client.

3.2.1.3 Auditor Competence

Auditor competence is the main factor in audit inputs (Rezaee et al. 2016; Dickins et al., 2018). Archival research suggests that audit quality is increased with expertise because the likelihood of discovering errors in the financial statements is higher (Alareeni, 2019; Christensen et al., 2016; Ismail et al., 2019; Minutti-Meza, 2013; Reheul et al., 2017; Ruiz-Barbadillo et al., 2004). The auditor's judgment improves by years of generic experience as he obtains a greater knowledge base and better ability to determine essential information (Simnett, 1996; Reheul et al., 2017).

Auditor competence covers many attributes that can directly or indirectly affect audit quality. For example, Boon et al. (2008) listed the following attributes: (1) auditor's experience with the client (municipality) under audit; (2) auditor's experience with the industry (LGUs); and (3) auditor's knowledge to conduct a financial audit in accordance with accounting and auditing standards.

The questionnaire contains two questions concern the “experience of the auditor with the industry (LGUs)”: (1) the audit team (partner, manager, and supervisor) who is in charge of the audit is quite experienced about the sector; and (2) other local

council audit clients are audited by the audit firm that is conducting the audit. To measure the “auditor’s knowledge to conduct a financial audit”, the questionnaire includes five items: (3) the engagement auditors are quite informed about accounting and auditing standards, and they have passed professional exams such as CPA; (4) the audit team members as a whole have a good understanding of the municipality’s operations; (5) in completing the audit, the audit firm makes considerable use of computers and statistical methodologies; (6) the audit firm creates time budgets for each audit area and expects its employees to stick to them; and (7) the total number of hours that the audit team spent on the audit.

3.2.2 Audit Firm Attributes

There are many audit firm attributes that influence audit quality. This study only selects two attributes, namely audit fees and audit firm size, because they are directly related to the audit firm. Other attributes, such as independence and competence, overlap with the auditor characteristics in this study.

3.2.2.1 Audit Fees

As explained in Section 2.5.2.1, many studies have found that audit fees are determined by client demand for audit services, auditor supply for audit services, and other elements in the context of the audit profession (Carson et al., 2013; Francis & Yu, 2009; Geiger & Rama, 2003). In the public sector, audit fees also vary by the audit firm’s market positioning and legislation (Yebba & Elder, 2019). The actual audit quality and higher perceived audit quality in the public sector are associated with higher audit effort and specialist audit fee premiums (Hardies et al., 2015).

The questionnaire includes two questions related with the audit fees as an attribute of audit quality: (1) the average amount of audit fees paid in previous years; and (2) the amount of audit fees related with the auditor efforts in the audit engagement.

3.2.2.2 Audit Firm Size

As explained in Section 2.5.2.2, most research have found a positive association between audit firm size and audit quality, but a few have not (Alareeni, 2019). Elder et al. (2015) found a positive relationship between audit firm size and audit quality in municipalities and other municipal organizations.

Boon et al. (2008) measured audit firm size using the following items: (1) audit firm size, and (2) the tendency of the audit firm to have decentralized offices rather than centralized offices. The ToR for external auditing issued by the MOLG requires a certain number of professionals in the audit team for each class of municipality (Table 3.1). The number of professionals serves a proxy for audit firm size.

Table 3.1: Number of Professionals in the Audit Team

Auditor position	Municipality classification			
	A	B	C	Village council
Audit manager	1	1	1	1
Senior auditor	2	1	1	0
Assistant auditor	4	2	1	1
Information system auditor	1	1	0	0
Total	7	5	3	2

Source: ToR of Hiring Auditor in LGUs

Based on Boon et al. (2008) and the ToR of external auditing in Palestinian municipalities, the questionnaire includes two items to measure firm size: the first question related to the increase in the number (from 2 to 7) of professionals in the

audit team increases the audit quality. The second question related to effect of size of audit firm on audit quality; international Big 4 and small local companies.

3.2.3 Effectiveness of Municipal Internal Controls

Strong internal control improves the financial reporting system and enables it to issue higher quality pre-audited financial statements. Such financial statements help the auditor to provide high quality audit service (DeFond & Zhang, 2014).

In the subsequent subsections, the study discusses how to measure the selected three dimensions of the effectiveness of municipal internal control, namely internal audit, accounting basis, and laws and regulations.

3.2.3.1 Internal Audit

Section 2.5.5.2.1 has discussed the importance of the internal audit function for an effective internal control, which directly and indirectly influences audit quality. Sari et al. (2019) revealed that internal audit has a quality assurance function that minimizes the risk of fraud and improves audit quality. IESBA-IFAC (2018) stated that the external auditor, during the audit process, must comply with the requirements of ISA 610 on Using the Work of Internal Auditors. Accordingly, the questionnaire includes two questions to measure the effect of internal audit on audit quality: (1) the nature and type of internal audit (employees, outsources, or audit committee) in the municipality affect the audit quality; and (2) external auditors work together with internal auditors increase the audit quality. These items were used by Boon et al. (2008) to measure field work conduct as audit quality attributes.

3.2.3.2 Accounting Basis

As discussed in Section 2.5.5.2.2, Between two types of audit government marketplaces, the nature of the auditing services may vary: uniform GAAP (accrual-basis accounting) and multiple accounting bases, such as cash basis, modified cash basis, modified accrual basis, and accrual basis (Yebba & Elder, 2019). Accordingly, the questionnaire includes three questions to measure the effect of accounting basis on audit quality: (1) the accounting basis used in the municipality's accounting system; (2) transition from cash basis to accrual basis improves the relevance and reliability of the financial statements; and (3) accrual basis requires the auditor to increase his efforts in the auditing process.

3.2.3.3 Laws and Regulations

Section 2.5.5.2.3 proposes that the lawful environment has a critical effect on audit quality (Alareeni, 2019). Audit quality in GAAP-regulated state (Michigan) is higher because the reporting environment is stronger with these regulations. The regulations also require specialist auditors who have practical experience in the applicable regulations (Yebba & Elder, 2019). And any violation of the laws and regulations by the client requires the auditor to communicate with the audit committee and the appropriate level of management. Accordingly, the questionnaire includes three questions: (1) the existence of appropriate laws and regulations increase audit quality; (2) the commitment of the client with the laws and regulations enhances audit quality; and (3) the commitment of the auditors to investigate the client's compliance with applicable laws and regulation increases audit quality.

3.2.4 Supreme Audit Institutions (SAIs)

As discussed in the section 2.5.4 in the previous chapter, the main purpose of the (SAIs) is to oversee the management of public funds and the quality and credibility of the reported financial information of government entities (Hay & Cordery, 2018). Accordingly, the external auditors may consider the SAIs' reports in their audit engagement in the municipalities. And the financial managers should also consider the role of the SAIs, which encourage and support the management of the municipalities to adhere to applicable laws and regulations, particularly in selecting the external auditors. This is lead to examine and measure the effect of the SAIs on the audit quality.

The study uses primary and secondary sources to measure the effect of SAIs on the relationships between audit quality and the chosen audit quality attributes. Secondary data were collected manually from the FACB's annual, interim, and special reports from year 2006 to 2020. These reports are available on the FACB's website (<https://www.saacb.ps/BruRptsTestSAACB/IndexRPTArabic>). The investigation also looked at some information that the MOLG released through the GDCG, but these reports are confidential and not available to the general public. However, some of them were obtained by the researcher through direct contact with select municipalities. Primary data will be gathered from the municipalities' internal auditors and accountants utilizing a questionnaire. The questionnaire items have been examined by three academic experts in audit quality from the Arabic American University in Palestine. The respondents have answered the questionnaire in a pilot test. The results indicated the internal consistency of the items (Cronbach's $\alpha = 0.777$).

The questions related to the effect of SAIs on audit quality and its determinants in order to know: (1) whether the municipality has been audited by SAIs and when the

last audit; (2) whether the audit of SAIs influences the quality of the audit team characteristics and the audit firm attributes (commitment to professional ethics, independence, competence, fairness of audit fees, and audit firm size); (3) whether the audit of SAIs increases the effectiveness of the municipal internal control factors (internal audit, accounting basis, and laws and regulations); and (4) whether the audit of SAIs improves audit quality.

3.2.5 Audit Quality

Audit quality is characterized by a variety of quality attributes that apply primarily to the audit firm and the audit team assigned to the audit engagement (Schroeder et al., 1986). The study examines three categories of audit quality attributes (auditor's characteristics, audit firm attributes, and effectiveness of the internal control), which collectively determine the overall audit quality in the municipalities. Also, the study examines the effect of each attribute and its constructs on audit quality as perceived by the accountants and internal auditors in the municipalities through distributing online the questionnaire. Also, this questionnaire includes eight questions related to measure audit quality as dependent variable of the study. These questions which will be answered by accountant and internal auditors in the municipalities in order to know how they see the audit quality in the municipality. The study considers the role of the SAIs as assistant and moderator variable on the relationship between the audit quality and the audit quality attributes. Accordingly, the audit quality as dependent variable will be measured by direct questions to the accountants and internal auditor, and the questions related to the audit quality attributes, the existence and the weakness and the strongest of effect of these attributes will determine the level of the audit quality in the municipality

Table 3.2 shows the main categories, subcategories of audit quality attributes, the items, and their sources, most of these resources are cited by Butcher et al. (2013), and the other sources are cited from various sources as appeared in the Table 3.2.

Table 3.2: Audit Quality Attributes, Dimensions and their codes, and Sources

Category	Subcategory	Code	Items	Source
Auditor characteristics	Ethics (ET)	ET1	The overall reputation of the audit firm is positive	Schroeder et al., (1986), Carcello et al. (1992), Chen et al. (2001)
		ET2	The audit team members as a group always exercise due care throughout the engagement	Aldhizer et al. (1995), Sucher et al. (1998), Chen et al. (2001)
		ET3	The audit firm has strict guidelines on the procedures that must be completed before signing the audit report	Schroeder et al. (1986), Chen et al. (2001)
		ET4	The audit firm actively encourages staff members to take courses and attend seminars in fields where the firm has major clients	Schroeder et al. (1986), Carcello et al. (1992)
		ET5	The senior auditors supervise junior audit staff	Davis (1995)
		ET6	The engagement auditors maintain high ethical standards	Carcello et al. (1992), Davis (1995), Behn et al. (1999), Pandit (1999)
	Independence (IN)	IN1	The audit firm has a skeptic's mindset, not a client advocate's mindset.	Carcello et al. (1992), Behn et al. (1999), Pandit (1999), Chen et al. (2001)
		IN2	The audit fee is less than 10% of the total revenue of the audit firm	Schroeder et al. (1986), Carcello et al. (1992), Chen et al. (2001)
		IN3	The audit firm and individual audit team members never participate in any conduct that might undermine its/their independence, either in fact or in appearance, in any of your contact with them	Behn et al. (1999)
		IN4	The audit firm performing the audit does not provide consultancy services to the municipality	Carcello et al. (1992), Chen et al. (2001)
		IN5	The audit firm has a high audit staff turnover rate	Chen et al. (2001)
		IN6	Members of the audit team are cycled off the audit on a regular basis.	Schroeder et al. (1986), Carcello et al. (1992), Chen et al. (2001)

Table 3.2, continued

Category	Subcategory	Code	Items	Source
Audit firm attributes	Competence (CM)	CM1	The audit team assigned to the audit engagement (partner, manager, and supervisor) is well educated on local government units	Carcello et al. (1992), Behn et al. (1999), Pandit (1999), Chen et al. (2001)
		CM2	Other municipalities are audit clients of the auditor that is conducting the audit	Carcello et al. (1992), Aldhizer et al. (1995), Pandit (1999), Chen et al. (2001)
		CM3	The auditors assigned to the engagement have extensive understanding of accounting and auditing standards, as well as professional certifications such as the CPA.	Carcello et al. (1992), Davis (1995), Behn et al. (1999), Pandit (1999)
		CM4	The audit team members as a whole have a good understanding of the municipality's operations	Aldhizer et al. (1995), Sucher et al. (1998), Chen et al. (2001)
		CM5	In completing the audit, the audit company makes considerable use of computers and statistical methodologies	Carcello et al. (1992), Pandit (1999), Chen et al. (2001)
		CM6	Each audit area has a strict time budget that the audit firm wants its auditors to stick to	Carcello et al. (1992), Pandit (1999), Chen et al. (2001)
		CM7	The total number of hours spent on the audit by the audit team (from the beginning of field work to the audit report date)	Aldhizer et al. (1995)
	Audit fees (AF)	AF1	The average amount of audit fees paid in the preceding years	Hardies et al. (2015)
		AF2	The amount of audit fees is related to the efforts of the auditors in the audit engagement	
	Audit firm size (AFS)	AFS1	The suitable number of professionals in the audit team to achieve audit quality	Boon et al. (2008) study and ToR of external audit in Palestinian municipalities Boon et al. (2008)
		AFS2	The legal form of the audit firm and its size affect audit quality	
	Internal auditing (IA)	IA1	The nature and type of the internal audit function in the municipality	Sari et al. (2019), IESBA-IFAC (2018)
		IA2	External auditors work closely with internal auditors	Boon et al. (2008)
Internal control (IC)	Accounting basis (AB)	AB1	The accounting basis used in the municipality's accounting system	Yebba and Elder (2019); Ademola et al. (2019)
		AB2	The transition from cash basis to accrual basis improves the relevance and reliability of the financial statements	Ademola et al. (2019); Dewi et al. (2019)

Table 3.2, continued

Category	Subcategory	Code	Items	Source
Supreme audit institutions (SAI)	Laws and regulations (LR)	AB3	Accrual basis requires the auditor to increase his efforts in the auditing process	
		LR1	The existence of appropriate laws and regulations increases the audit quality	Alareeni (2019); Yebba and Elder (2019)
		LR2	The commitment of the client to the laws and regulations enhances audit quality	Yebba and Elder (2019)
		LR3	The commitment of the auditors with the investigation of client's adherence with applicable laws and regulation increases audit quality	IESBA-IFAC (2018)
	Auditor characteristics	SAI1	The SAI's audit affects the municipal administration in order to choose a good reputation auditor with a high professional ethics	DeFond and Zhang (2014) and (Rabaiah et al. (2022)
		SAI2	The SAI's audit affects the municipal administration in order to choose an independent auditor either in his mind and appearance	(Rabaiah et al. (2022)
		SAI3	The SAI's audit affects the municipal administration in order to choose a high professional competence auditor	(Rabaiah et al. (2022)
	Firm attributes	SAI4	The SAI's audit influences on the audit firm to appoint a highly qualified and professional audit team.	(Rabaiah et al. (2022)
		SAI5	The SAI's audit affects the municipal administration in order to choose an audit firm whose audit fees are reasonable and fair.	Hay and Cordery (2018b) and (Rabaiah, H. I. A., Hanefah, M. M., Masruki, R., & Jamil, 2022)
	Effectiveness municipal internal controls	SAI6	The SAI's audit affects the municipal administration in order to choose a large-size audit firm such as the Big 4	
		SAI7	The SAI's audit affects the municipal administration in order to establish an internal audit unit in the municipality, and works to increase its efficiency and effectiveness	Octavia and Widodo (2015) and (Rabaiah et al. (2022)

Table 3.2, continued

Category	Subcategory	Code	Items	Source
		SAI8	The SAIs audit affects the municipal administration in order to adopt the accrual basis of accounting	(Rabaiah et al. (2022)
		SAI9	The SAIs audit affects the municipal administration in order to comply with the applicable laws and regulations	(Rabaiah et al. (2022)
	Audit quality	SAI10	The audit team always relies on the reports and findings of the SAIs audit in the audit engagement process	(Rabaiah et al. (2022)
		SAI11	The SAIs audit supports and increases the quality of the external audit in general.	(Rabaiah et al. (2022)

DeAngelo (1981) defines audit quality as whether an auditor will discover and report an error or fraud in the financial statements in the audit report. Some items were adapted from Boon et al. (2008) to examine the responsiveness of the auditors towards audit quality as perceived by the accountants and internal auditors of the municipalities. The audit quality items are shown in Table 3.3.

Table 3.3: Audit Quality Items in the Questionnaire

Code	Survey Items	Source
AQ1	Audit quality detects and reports the material errors and fraud in the client's financial statements	DeAngelo (1981)
AQ2	Audit quality detects and reports the material weakness of the internal control system	DeAngelo (1981)
AQ3	The audit firm agrees to complete the audit by a deadline stipulated by the client	Schroeder et al. (1986), Carcello et al. (1992), Davis (1995), Pandit (1999)
AQ4	The audit team and the audit committee of the council communicate often	Schroeder et al. (1986), Carcello et al. (1992), Behn et al. (1999)
AQ5	The audit team and the council's management communicate often	Schroeder et al. (1986), Carcello et al. (1992), Davis (1995), Pandit (1999), Chen et al. (2001)
AQ6	Throughout the year, the audit firm keeps the council management informed about accounting and financial reporting developments that have an impact on the council	Carcello et al. (1992), Davis (1995), Chen et al. (2001)
AQ7	During the audit, the audit engagement partner and manager conduct numerous visits to the council	Carcello et al. (1992), Davis (1995), Pandit (1999)
AQ8	The auditor adds benefits to the municipality by generating useful improvement ideas	Davis (1995), Sucher et al. (1998)

3.3 Pilot Study

As discussed in the previous sections, all questions in the survey related to audit quality and audit quality determinants have been used in many prior studies over the last two decades to examine auditors, preparers, and users' perceptions of audit quality and its determinants as is shown in table 3.2. Accordingly, all the study's questions which related to measurement of the audit quality and its determinants were used many times by many researchers in the prior studies were excluded from the pilot study. The pilot study looks into the new 11 questions in the study survey, that aim to examine the moderating effect of SAIs on the relationships between audit quality and its determinants that were chosen by this study.

The pilot study created a questionnaire survey based on audit quality literature to assess the impact of SAIs on each dimension of audit quality attributes. The questionnaire was reviewed by three experienced academics in audit quality from Arab American University in Palestine (AAUP) who provided suggestions and recommendations that improved the questionnaire's value. The questionnaire is divided into two sections: the first section collects demographic information from respondents, while the second section includes a series of closed-ended questions using a five-point Likert type scale about the impact of SAIs as a moderator variable on the link between audit quality and its factors such as auditor characteristics, audit firm attributes, and effective internal control in Palestinian municipalities. The questionnaire contains 11 questions, four of which are about the dimensions of auditors' ethics, independence, and competence. 2 questions about the dimensions of the audit firms' audit fees and audit firm size, 3 questions about the dimensions of the effectiveness of internal control, and 2 questions about the effect of SAIs on total audit quality.

The questionnaire was sent to 210 external auditors in Palestine who have practical experience in external auditing and email addresses in the professional organization (PACPA). The data was collected using online survey software. Respondents completed 78 valid surveys in total. According SPSS software for statistics, that 59 percent of all responses coming from auditors over the age of 50, this group accounted for the majority of responses. Male auditors made up the majority of those who took part in this study (95 percent). The majority of survey respondents (69.2%) held the position of audit firm partners, who had an average auditing experience of more than 15 years (73.1 percent). Furthermore, the participants have a high level of accounting education: 6 have PhDs, 30 have master's degrees, and 39 have bachelor's degrees, accounting for more than 96% of the participants. Additionally, more than 69% of the participants have experience auditing municipalities and are familiar with the function of SAIs in these municipalities. This indicates that the survey's findings may be trustworthy and helpful in examining how SAIs affect the relationship between audit quality and the audit quality determinants that was selected for this study.

The participants filled self-constructed questionnaires of the pilot study, which had an internal consistency of 0.777 based on the Cronbach Alpha, and it will be 0.67, 0.706, 0.73, and 0.77 based on the Cronbach Alpha if the following variables are deleted: auditor characteristics, audit firm attributes, internal control effectiveness, and audit quality. respectively as the table: 3.4 shows.

Table 3.4: The Reliability of Respondents and the Descriptive Analysis

The Variables of the study	N	Mean	Std. deviation	Cronbach's alpha if item deleted
The Effect of SAIs on Auditor Characteristics	78	3.8013	.91998	.670
The Effect of SAIs on Audit Firm Attributes	78	3.2564	.87810	.706
The Effect of SAIs on Effectiveness of Internal Control	78	3.9060	.56573	.730
The Effect of SAIs on Audit Quality	78	3.7885	.72756	.770

Source: SPSS 27 software

Furthermore, the Cronbach Alpha of all questions in the survey of the pilot study was 0.884, and it will not be less than 0.856 if any question is deleted, as shown in Table 3.5. This means that the survey questions of pilot study are reliable for investigating the effect of SAIs on the relationship between audit quality and its attributes: auditor characteristics, audit firm attributes, and effectiveness of municipal internal control.

Table 3.5: Reliability of Respondents and the Descriptive Statistics - Dimensions

The Study variables dimensions	Code	N	Mean	Std. Deviation	Cronbach's alpha if item deleted
The SAIs and choosing of a good reputation auditor with a high professional ethics	SAI1	78	3.85	1.106	.856
The SAIs and choosing of an independent auditor either in his mind and appearance	SAI2	78	3.85	.941	.863
The SAIs and choosing of a high professional competence auditor	SAI3	78	3.82	1.029	.862
The SAIs and choosing of a highly qualified and professional audit team.	SAI4	78	3.69	.984	.865
The SAIs and choosing of an audit firm whose audit fees are reasonable and fair.	SAI5	78	3.50	1.016	.866
The SAIs and choosing of a large-size audit firm such as the Big 4	SAI6	78	3.01	1.000	.883
The SAIs and establishing an internal audit unit in the municipality, and works to increase its efficiency and effectiveness	SAI7	78	3.78	.767	.875
The SAIs audit affects the municipal administration in order to adopt the accrual basis of accounting.	SAI8	78	3.78	.847	.884

Table 3.5, continued

The Study variables dimensions	Code	N	Mean	Std. Deviation	Cronbach's alpha if item deleted
The SAIs and complying with the applicable laws and regulations.	SAI9	78	4.15	.704	.884
The audit team always relies on the reports and findings of the SAIs audit in the audit engagement process.	SAI10	78	3.51	.936	.886
The SAIs audit supports and increases the quality of the external audit in general.	SAI11	78	4.06	.762	.880

Source: SPSS 27 Software

The pilot study found that auditing SAIs moderates the links between audit quality and audit quality attributes of auditor characteristics, audit firm attributes, and effectiveness of municipal internal control, as shown in tables 3.4 and 3.5.

3.4 Research Design and Measurement

The study uses the quantitative methodology to examine the effect of audit quality attributes on audit quality as perceived by accountants and internal auditors in Palestinian municipalities. The next subsections discuss the sample selection and data collection procedures, data analysis, and the questionnaire development.

3.4.1 Sample Selection and Data Collection Procedures

The following subsections discuss the population and sampling procedure, as well as the data collection technique used in the study.

3.4.1.1 Research Population

The study seeks to determine the effect of audit quality attributes on audit quality from the perspective of the accountants and internal auditors of Palestinian municipalities. Therefore, the population is all accountants and internal auditors who

work in the Palestinian municipalities in the West Bank and Gaza Strip, and their tasks include preparing financial statements, participating in the tendering process, and appointing auditors in accordance with the MOLG's regulations. The tendering process aims to select the best auditor who can provide high audit quality with reasonable audit fees. The bidders are required to provide two separate offers, one for technical attributes and another for financial details (audit fees). The accountants and internal auditors always participate in studying and evaluating these offers (technical and financial) because they are supposed to be knowledgeable and experts in the audit quality attributes, so that they can effectively evaluate the quality of audit services that provided by the external auditors.

The MOLG has standardized the organizational structure for each class of municipalities to be guidelines for their managements. Class A and class B municipalities must have a finance department. Under this department there are three sections: accounting, budgeting, and internal audit (Office, 2020). Each section always has more than one employee, depending on the size of operations of each municipality. For example, the finance department in Ramallah municipality has 26 employees who cover different aspects in financial activities (Municipality, 2018). The targeted respondents are experienced and key personnel in each section of the finance department.

Table 3.6 shows the total number of municipalities in Palestine at the end of 2020 and the number of municipalities in each class.

Table 3.6: Number of Municipalities in Palestine and in Each Class

Description	Class			Total
	A	B	C	
West Bank	10	27	93	130
Gaza	5	20	-	25
Palestine total	15	47	93	155

Source: Author

Class A municipality always represents the center of the governorate. The classification of Gaza Strip municipalities is not formal, but there are five governorates, which means that there are five municipalities in class A. The size and population of the remaining municipalities qualify them to be in class B. This study is interested in the perspective of the main accountants and internal auditors of the municipalities. Table 3.7 shows the position and distribution of the main accountants and internal auditors in each class of municipality.

Table 3.7: Positions of the Main Accountants in Each Class of Municipality

Position	Section	Class		
		A	B	C
Chief accountant	Accounting	1	1	1
Revenue accountant	Accounting	1		
Expenditure accountant	Accounting	1		
Budget accountant	Budget	1	1	
Main internal auditor	Internal	1	1	
Total		5	3	1

Source: Author

The research population can be estimated by finding the number of main accountants and internal auditors in each class and multiplying this number with the number of municipalities in each class.

Table 3.8 shows that there are 309 main accountants and internal auditors across all municipalities in Palestine.

Table 3.8: Research Population

Class	A	B	C	Total
Accountants and internal auditors	5	3	1	9
Municipalities	15	47	93	155
Total employees	75	141	93	309

Source: Author

3.4.1.2 Sample Selection

As discussed in above section the study population is 309 accountants and internal auditors across 155 municipalities in the West Bank and Gaza Strip. This study does not use any systematic sampling technique because the population will be the respondents. According Acharya et al. (2013), the best strategy in any research study is to investigate the problem across the entire population, and other researchers used the total population in their empirical studies for example, Omar and Bakri (2019) and Raymond and Désiré (2019). Accordingly, the sample of this study is all main accountants and internal auditors who have sufficient experience in the preparation of the financial statements and in constant, direct contact with the external auditors of the municipalities. Potential respondents include chief accountants, accountants, and internal auditors. Those potential respondents are considered to be in a position that enables them to respond effectively to the questionnaire. Therefore, the characteristics that were looked at fell into two categories: first, there were characteristics of the respondents, such as occupation, gender, age, level of education, and work experience; second, there were characteristics of the audit process in the municipalities, such as municipality class, audit fees, accounting basis, the number of in the external audit team, internal auditor number, last year's audit report type, last year's the municipality is audited, and last year's SAIs audit. These characteristics show the degree of the ability of the respondents to answer the questionnaire.

3.4.1.3 The Study Instrument

In social sciences research, data are collected from primary and secondary sources. This study used the annual and interim reports of Palestinian SAIs to collect

relevant data that enable the examination of the moderation role of SAIs between audit quality and its attributes.

The best way to gather other forms of information, such as employee's perceptions and attitudes, is to speak with them, observe events, people, and objects, or ask them questions. Primary data are those that were gathered at the real site. Additionally, the individual focus groups, panels of respondents that the researcher specifically created and from which opinions may occasionally be sought on certain subjects, or other discrete sources are primary data sources (Hajjawi, 2012). The objective of this study is to measure the perception of accountants and internal auditors in Palestinian municipalities on external audit quality and its determinants by using an electronic questionnaire to collect primary data from the respondents.

This study collects data through online survey. This method is confidential and promotes honest responses. It is also widely used in audit research, especially during the movement restrictions due to the Covid-19 pandemic. According to Smith et al. (2005), the advantage of the survey method is to operationalize definitions of concepts that reflect the strength of attitudes, perceptions, views, and opinions. Al-Dhubaibi (2020) reported that online surveys have been used by other researchers, e.g., Kassem (2018). And Gonthier et al. (2016) used the Survey Monkey website to gather information on perceptions of audit quality in France among auditors and financial statement preparers. Because this data collection technique promotes sincerity and confidentiality, the respondents may give more objective answers. In this study, online survey is more suitable because Gaza Strip is closed due to the Israeli occupation, and travelling to it from the West Bank is difficult and requires a special permission from the Israeli occupants.

The questionnaire uses close-ended questions to obtain clear answers and encourage respondents to provide objective answers. Close-ended questions save the respondents' time, easier to answer, increase the likelihood that the sample will answer the questions.

The questionnaire includes 31 questions related to eight most important audit quality attributes (auditor ethics, independence, competence, audit fees, audit firm size, internal audit, accounting basis, and laws and regulations). Also, there are 11 questions related to the moderating role of SAIs and 8 questions related to external audit quality.

Each questionnaire contains the sentence of all responses are anonymous and will be used for research purposes only, and the result from the survey will only be presented in aggregate form. This statement gives the respondent more freedom in responding to the survey. Moreover, the questionnaire includes a statement of belief to measure the perception of the accountants and internal auditors of the audit objectives, auditor responsibilities and liabilities, and the level of assurance provided by the auditors to the users of the financial statements. The questionnaire aids the achievement of the research objective. Moreover, it allows determining the relative importance of each attribute of audit quality and comparison between the attributes according to their relative importance. The questionnaire also helps to determine how preferences are attached to a specific attribute. All items are measured by using a five-point Likert scale, ranging from "strongly disagree" (1) to "strongly agree" (5). Respondents are asked to choose a number that identifies their level of agreement or disagreement with each statement.

The questionnaire contains four sections. The first section covers the profile of the respondents and the audit process in the municipalities. The second section covers

all the audit quality determinants chosen for this study. The third section covers the effect of the SAIs on the relationship between audit quality attributes and audit quality. The fourth section covers the evaluation of audit quality as total, whether errors and fraud in the client's financial statements and weakness in the client's internal control system are discovered and reported in the audit report, and the responsiveness of the auditors towards audit quality as perceived by the accountants and internal auditors.

3.4.2 Data Analysis

According to previous studies, confirmatory factor analysis and multiple linear regression are commonly used to analyze the collected data. In this study, the data analyzed by using SmartPLS 3. According to Sarstedt et al. (2016), PLS provides the best estimation of composite models while simultaneously allowing for the approximation, with virtually no limitations, of common factor models involving effect indicators. Regardless of whether the measurement models are reflective or formative, PLS estimates data with little or no bias. Hair et al. (2017) encouraged social sciences researchers to use SmartPLS 3 because it is a newer, more powerful, and often more flexible statistical method.

There are three objectives in data analysis (Sekaran, 2003): (1) getting a feel for the data, (2) testing the goodness of data, and (3) testing the hypotheses developed for the research. The following subsections explain the confirmatory factor analysis, multiple regression analysis, and Smart PLS 3.

3.4.2.1 Confirmatory Factor Analysis

Through the use of factor analysis, a researcher can utilize fewer variables to represent a given construct and then use the factor scores as dependent variables. Fewer elements are required to fully depict the variable matrix the more closely the variables are related (Neil 2012).

Consistent with previous research (e.g., Carcello et al., 1992; Behn et al., 1997; Saxby et al., 2004; Butcher et al., 2013; Anis, 2014), factor analysis is used to “reduce a large number of attributes to a smaller set of composite components” (Carcello et al., 1992). The real advantage of factor analysis is that it lets researchers look at a group of variables and gauge how closely they relate to one another as compared to only dealing with individual variables (Neil 2012).

3.4.2.2 Multiple Regression Analysis

Multiple linear regression is used to answer the hypotheses in this study. It is used to measure the strength and direction of the relationship between the dependent variable and the independent variables (Marsely, 2020). Multiple regression will be used to test hypotheses about the effect of auditor characteristics (ethics, independence, and competence), audit firm attributes (audit fees and audit firm size), and the effectiveness of municipal internal control (internal audit, accounting basis, and laws and regulations) on audit quality. It is also used to assess the role of SAIs in moderating the relationship between independent and dependent variables.

Prior performing the regressions, diagnostic tests will first be run to test five assumptions, namely multicollinearity, normality, linearity, heteroscedasticity, and autocorrelation (Ismail et al., 2006). The main statistical question is how to find a boundary between the extreme and the standard part. The normality test is one

possible instrument for testing the normality of the error terms (Střelec & Stehlík, 2017). The primary goal of the normality test is to ensure that the variables and data are normally distributed.

3.4.2.3 An Overview on Structural Equation Modelling (SEM)

The software program SmartPLS 3 was used to analyze the casual relationships between constructs using the Partial Least Squares (PLS) technique as part of Structural Equation Modelling (SEM). Due to the exploratory nature of the research, the PLS approach was chosen (Hair et al., 2011). In data analysis, the two-step process was used as recommended by Henseler et al. (2009). The measurement model is analyzed in the first step, and the structural relationships between the latent constructs are tested in the second. Prior to analyzing the structural relationship of the model, the two-step process aims to establish the validity and reliability of the measures.

The SEM's capacity to judge the construct validity of measurements is one of its main advantages. Construct validity here refers to the precision of measurements (Hair et al., 2006). In SEM analyses, two main factors used to evaluate construct validity are convergent validity and discriminant validity.

3.4.2.3.1 Convergent Validity

Convergent validity refers to the similarity in degree of variance between the items which are the indicators of a specific construct. The convergent validity could be measured by considering the size of factor loading (standardized regression weights), average variance extracted (AVE), and construct reliability (CR) among sets of items in the construct.

Factor loading estimates of 0.6 or greater, and average variance extracted of 0.5 or greater, indicate adequate convergence among the construct's items (Hair, et al., 2006). The average variance extracted can be determined by dividing the sum square of the standardized factor loading by the factor loading number. The construct reliability (CR) should be 0.6 or higher to show adequate internal consistency (Bagozzi & Yi, 1988). The CR is computed from the square sum of factor loading and sum of error variance terms for a construct (Hair et al., 2006).

3.4.2.3.2 Discriminant Validity

The goal of discriminant validity assessment is to ensure that a reflective construct in the PLS path model has the strongest relationships with its own indicators (e.g., in comparison to any other construct) (Hair et al., 2017). Two approaches were used in this study to evaluate discriminant validity:

- Fornell-Larcker criterion (Fornell and Larcker, 1981).
- Heterotrait-Monotrait ratio of Correlations (HTMT) (Henseler et al., 2015).

In the approach proposed by Fornell and Larcker (1981), Comparing the square root of the AVE for two constructs and their correlations can be used to assess discriminant validity. When the correlation between two constructs is less than the square root of the AVE for each construct, this is evidence of discriminant validity (Fornell and Larcker, 1981). Furthermore, correlations between the factors should not be greater than 0.85 (Kline, 2010).

The Heterotrait-Monotrait Correlations Ratio (HTMT) was used in this study to assess discriminant validity (Henseler et al., 2015). The Heterotrait-Monotrait ratio of Correlations (HTMT) which is a complementary to the result of the Fornell-Larcker discriminant method, is based on the multitrait-multimethod matrix to assess

discriminant validity. Henseler et al., (2019) demonstrate the superiority of this approach through a Monte Carlo simulation study in which they compare the new approach to the Fornell-Larcker criterion and the evaluation of (partial) cross-loadings. If the HTMT value is less than 0.90, discriminant validity between two reflective constructs has been established (Franke & Sarstedt, 2019).

3.4.2.3.3 Internal Reliability of Cronbach's Alpha

Internal reliability analysis should also be performed on the measurement items that represent each individual variable. The degree to which a measure is error-free is defined as its reliability. Cronbach's alpha coefficient of internal consistency should be examined to ensure that the items produce a reliable scale. The higher value of Cronbach's alpha denotes to greater reliability, with a range from 0 to 1. According to Nunnally & Bernstein, (1994) Cronbach's alpha shouldn't be less than 0.7 for a reliable scale.

3.4.2.3.4 Hypotheses Testing

To test hypotheses, parameter estimates and coefficient values were examined using bootstrapping with 1000 replications (Wetzels et al., 2009). According to Sarstedt et al., (2020) and Hair et al., (2017), bootstrapping is a non-parametric procedure for testing statistical significance in which subsamples are created with randomly drawn observations from the original set of data (with replacement). According to Hair et al. (2019), four criteria must be met for the hypothesis to be deemed supported: (1) the direction of the beta value must match the hypothesis' direction; (2) the t-value must be greater than or equal to 1.645; (3) the p-value must be lower than or equal to 0.05; and (4) the 95% confidence interval must not have a

zero straddle between the lower level (LL) and upper level (UL). The structural model's results are evaluated by looking at the relationships between the constructs and the model's predictive abilities (Hair et al., 2019).

3.4.2.4 Coefficient of Determination (R^2)

One of the key criteria in PLS-SEM structural model evaluation is the coefficient of determination, also known as R square (R^2). In fact, R^2 represents the proportion of variation in the endogenous variable (s) that can be explained by one or more exogenous variables (Hair et al., 2017). The R^2 measures, as well as the level and significance of the path coefficients, are the primary evaluation criteria for the structural model. Because the prediction-oriented PLS-SEM approach seeks to explain the variance of endogenous latent variables, the key target constructs level of R^2 should be high, according to (Hair et al., 2011). To confirm the structural model's accuracy, the value of R-squared (R^2), which represents the proportion of variance in the dependent variable explained by its predictors (Cohen, 1992), should be greater than 0.30, as recommended by Cohen (1992). According Chin (1998) R^2 values greater than 0.67 are considered high, values between 0.33 and 0.67 are considered moderate, values between 0.19 and 0.33 are considered weak, and 2 values less than 0.19 are considered unacceptable. As a result, the quality of structural mode is determined by R^2 values, which demonstrate the ability of the exogenous variables to explain the endogenous variables.

3.4.2.5 Blindfolding and Predictive Relevance (Q^2)

In addition to estimating the magnitude of R^2 , researchers have recently included predictive relevance developed by Stone (1974) and Geisser (1975), as an additional model fit evaluation. This method demonstrates the model's ability to

predict the manifest indicators of each latent construct. Stone-Geisser Q^2 (cross-validated redundancy) was computed to examine the predictive relevance using a blindfolding procedure in PLS. Following the guidelines suggested by (Chin, 2010) a Q^2 value of greater than zero implies the model has predictive relevance.

3.4.2.6 Common Method Variance (CMV) and Collinearity

The issue of common method variance (CMV) may arise because the dependent and independent variables were obtained from the same person at the same time in this study (Mackenzie et al., 2011). Podsakoff (2003) proposed procedural and statistical methods to combat whistleblowing intentions among external auditors. Several procedural remedies were used in this study, as follows: first, the instructions to the respondents were carefully written on the cover page of the questionnaires, along with statements assuring them that their personal information and responses would be kept confidential and anonymous. The cover page also indicates the response given to the questionnaire would be wholly voluntary and that there were no right or wrong answers. Secondly, the different scale endpoints were used for predictor and criterion measures as suggested by Mackenzie et al. (2011). In this study, all variables for the independent and dependent variables were measured with a five-point Likert scale.

Since data was collected using a single source, we first tested the issue of Common Method Bias by following the suggestions of Diamantopoulos and Siguaw (2006), Kock and Lynn (2012), Kock (2015), and Ngah et al. (2019) by testing the full collinearity. In this method all the variables will be regressed against a common variable and if the variance inflated factor (VIF) ≤ 5 then there is no bias from the single source data that would bias the regression results.

3.4.2.7 Effect Size (f^2)

Changes in R^2 can be studied to figure out whether the impact of a specific independent latent variable on a dependent latent variable has a significant impact (Chin, 2010). This is known as an effect size (f^2) analysis. When a specified exogenous construct is removed from the structural model, the effect size f^2 measures the impact on the endogenous constructs (Hair et al., 2019). The magnitude or strength of the relationship between the latent variables is measured by effect size. It is substantial because the effect size assists researchers in determining the overall contribution of a research study. Chin et al., (1996) have clearly stated that researchers should report not only whether the relationship between variables is significant or not, but also the effect size between these variables. The (f^2) is calculated as follow:

$$f^2 = \frac{R_{included}^2 - R_{excluded}^2}{1 - R_{included}^2}$$

(3.1)

According to Carte and Russell (2003), there is no effect size for f^2 less than 0.02, small for f^2 between 0.02 and 0.15, medium for f^2 between 0.15 and 0.35, and large for f^2 greater than 0.35.

3.4.3 Model Fit Analysis

This study looks at a few model fit measurements advised by the SmartPLS application:

3.4.3.1 Goodness of Fit (GoF)

Tenenhous et al. (2005) defined (GoF) as a model of the goodness of fit, it is the geometric mean of both average variances extracted (AVE) and the average of R^2 of

the endogenous variables. In fact, the purpose of (GoF) is to account on the study model at both level, namely measurement and structural model with focus on the overall performance of the model (Chin, 2010; Henseler & Sarstedt, 2013). The calculation formula of (GoF) is as follow:

$$GoF = \sqrt{(\overline{R^2} \times \overline{AVE})}$$

(3.2)

According to Wetzels et al., (2009), the GOF values of 0.1, 0.25 and 0.36, respectively, were used to interpret small, medium and large goodness of fit of the model.

3.4.3.2 Standardized Root-Mean-Square Residual (SRMR)

The SRMR is the root mean square difference between observed and implied correlations (Hair et al., 2016). SRMR in covariance-based SEM is useful as an absolute measure of fit when the model is simple and the sample is less than 250 (Hu & Bentler, 1998). Additionally, they believe that a value of less than 0.08 is typically regarded as a good fit. But according to (Hair et al., 2016), this threshold is too low for PLS-SEM. Additionally, Kline (2015) claims that SRMR value lower than 0.1 is still acceptable.

3.4.3.3 Root Mean Square Residual Covariance (RMS_{Theta})

Root mean square residual covariance (RMS_{theta}) is an alternative model fit measure that can be used in PLS-SEM in addition to the SRMR (Henseler et al.,

2014). This model fit measure has a similar way as SRMR when processing patterns but it depends on covariance (Hair et al., 2016). The threshold value of RMS_{θ} for a well-fitting model is somewhere around 0.1 – 0.14 (Henseler et al., 2014).

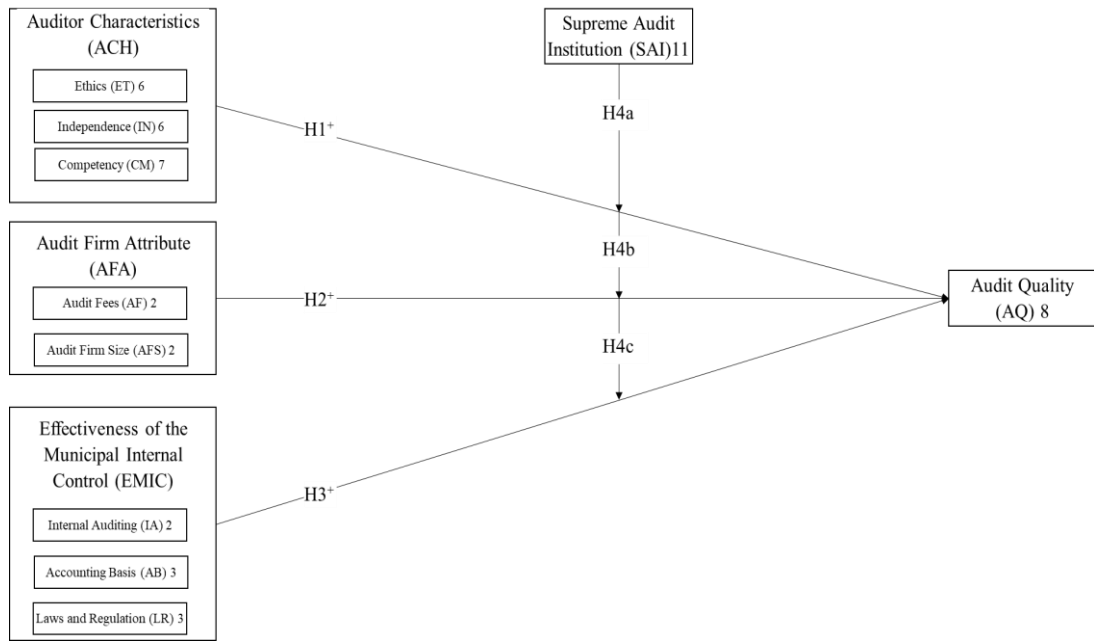
3.5 Research Structural Models

In order to specify the research hypotheses targeted in Table 2.1, two research structural models were developed in this study.

3.5.1 Research Structural Models 1

The first research structural model is intended to test direct or causal effects of Auditor Characteristics (ACH), Audit Firm Attributes (AFA) and Effectiveness of the Municipal Internal Control (EMIC) as independent variables on Audit Quality (AQ) as dependent variables which refer to hypotheses H1, H2 and H3 respectively. Further, the moderation effects of Supreme Audit Institutions (SAI) on these causal paths were also examined in structural model 1 which refer to hypotheses H4a, H4b and H4c. Source: Author

Figure 3.1 illustrates the hypothesized direct and moderation effects in the research structural model 1.



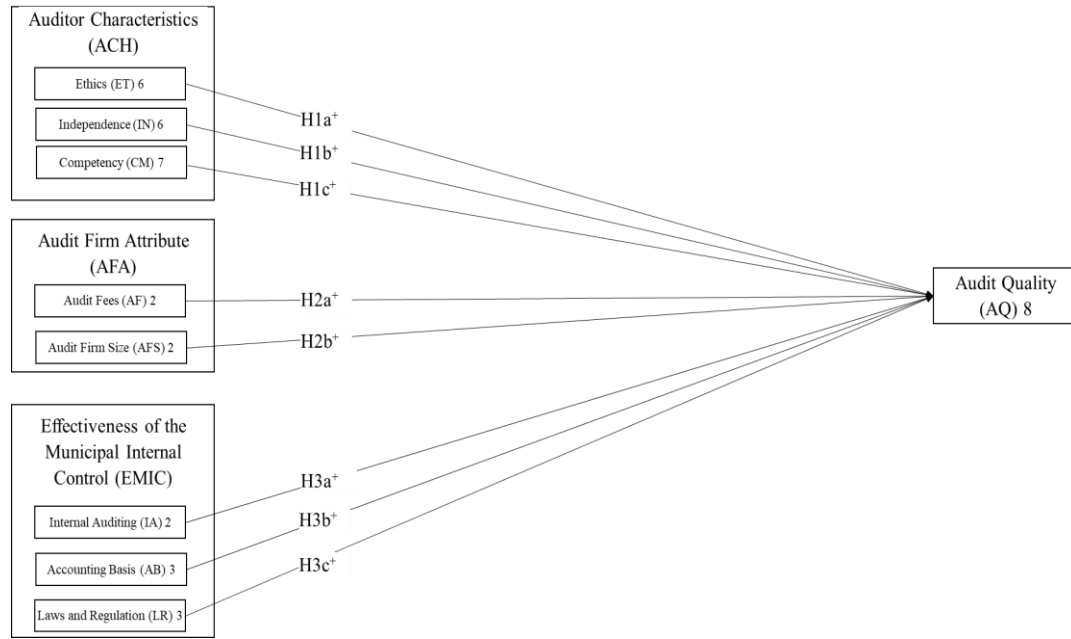
Source: Author

Figure 3.1: Research Hypotheses in Research Structural Model 1

3.5.2 Research Structural Models 2

The second research structural model is intended to test direct effects of Ethics (ET), Independence (IN), Competency (CM), Audit Fees (AF), Audit Firm Size (AFS), Internal Auditing (IA), Accounting Basis (AB) and Laws and Regulation (LR) as independent variables on Audit Quality (AQ) as dependent variables which refer to hypotheses H1a, H1b, H1c, H2a, H2b, H3a, H3b and H3c respectively.

Figure 3.2 illustrates the hypothesized direct effects in the research structural model 2.



Source: Author

Figure 3.2: Research Hypotheses in Research Structural Model 2

3.6 Questionnaire Development

The questionnaire consists of four sections and 50 questions. The questionnaire went through several stages of development. The first stage began with a review of prior studies (Behn et al., 1997; Boon et al., 2008; Butcher et al., 2013; Carcello et al., 1992; Ghebremichael, 2018; Lai & Pham, 2020; Sawalqa, 2014). This study adapted the items in Boon et al., (2008). Some modifications were made to the items and new questions were included to measure new variables in this study. Questions related to SAIs were added after used in the pilot study. These questions were approved by three experienced academics from Arab American University in Palestine (AAUP). They were reliable and internally consistent, with a Cronbach's alpha of 0.777. Items concerning audit quality were adopted from the literature. The first stage resulted in the first draft of the questionnaire in English, which was presented to the researcher's supervisors.

In the second stage, the English questionnaire will be translated into Arabic with the help an expert. The English and Arabic questionnaires were given by hand to four academicians in Palestinian universities for evaluation, comments, and validation of translation. Amendments made based on their feedback. In the third stage, the Arabic questionnaire sent to seven experienced accountants in five big municipalities and two joint services councils (group of municipalities for water services) via Emails and follow by Telephone to ensure that the respondents understand the questions clearly.

In the final stage, all relevant amendments incorporated to produce the final version of the questionnaire, and hosted on Google Form and distributed online to 155 municipalities that include around 309 respondents. The period of survey was more than 90 days.

The electronic questionnaire includes the cover page, which contains the title of the research, the name of the affiliated institution, the researcher's name, email and mobile number for any queries, and a confidentiality note to build trust between the researcher and the respondents.

The first section of the questionnaire inquires the demographic information of the respondents, such as job position, number of years in the position, education degree, professional certifications, gender, age. This section also contains some information related to the audit process, such as the period of last audited financial statements and audit of SAIs, audit fees, accounting basis, number of internal auditors, classification of municipalities, type of the audit report, and number of auditors in the audit team.

The second section contains 31 specific items that represent audit quality attributes. These items are ordered without specifying the attribute to which they belong. This prevents the respondents' bias when answering the questions. The third

section contains 11 questions related to the SAIs to measure the perception of the accountants and internal auditors about the effect of the SAIs on the relationship between audit quality and its determinants.

The fourth section contains 8 questions related to the evaluation of audit quality; whether the errors and fraud in the financial statements and weakness in the internal control system are discovered and included in the audit report; and the perception of the accountants and internal auditors on the external audit quality in Palestinian municipalities.

Each item is measured on a five-point Likert scale, ranging from “strongly disagree” (1) to “strongly agree” (5). The questionnaire consists of 50 questions and takes approximately 15-20 minutes to complete. It includes a brief instruction on how to answer and who should answer the questionnaire. Table 3.8 summarizes the variables and dimensions of the questionnaire. The complete questionnaire can be seen in Appendix 1.

Table 3.9: Main variables and their Dimensions, Roles, and Number of Questions

Variable	Dimension	Role	Section	Items
Auditor characteristics	Ethics	Independent	2	6
	Independence	Independent	2	6
	Competence	Independent	2	7
Audit firm characteristics	Audit fees	Independent	2	2
	Audit firm Size	Independent	2	2
	Internal auditing	Independent	2	2
Municipal internal controls	Accounting Basis	Independent	2	3
	Laws and regulations	Independent	2	3
	SAIs	Moderator	3	11
Audit quality	Service audit quality	Dependent	4	8

Source: Author

3.7 Summary

This chapter discussed the research methodology, including the research philosophy, design, and instrument development, including the pilot study, which involved 78 certified public auditors, to evaluate the instrument's validity and reliability in order to guarantee the quality of the data obtained prior to the actual data collection. Moreover, the chapter discussed the reasons for choosing the sample and population, as well as the unit of analysis (the internal auditors and accountants in the municipalities), were also discussed. This chapter discussed the development of the questionnaire, data collection and analysis, research structural models, and measurement of the study's variables in accordance with prior studies' measurements.

CHAPTER 4

DATA ASSESSMENT AND DESCRIPTIVE STATISTICS

4.1 Introduction

This chapter begins by describing the data collecting and survey response rate, as well as the demographic profile of the respondents, which covers both the respondents' and the audit process' characteristics. The chapter then moves on to the results of the first and second-order latent constructs and their relative measurement items, followed by the data screening results in terms of missing values, outliers, and the assessment of the data normality. Moreover, this chapter includes the results of confirmatory factor analysis (CFA) for the measurement models (model 1 and model 2) in terms of uni-dimensionality, reliability, and validity. In addition to the acquired the findings for the assessment of the structural model in the testing of hypotheses on direct and moderation effects are given, the chapter presents the descriptive analysis for all items of the study variables. Finally, the chapter provides a summary of SAIs' audit reports that related to municipalities either issue by the FACB or MOLG-GDCG.

4.2 Analysis of Survey Response

The following subsections discuss the data collection including the respond rate and the demographic profile for respondents including characteristics of the respondents and the characteristics of audit process.

4.2.1 Data Collection

The MOLG website registered 155 municipalities in Palestine, and the questionnaires were sent to these municipalities via their official email addresses, mainly, directed the URL of the Google Form to key persons in accounting and internal audit departments (Refer to Table 3.8). As a result of personal communication with accountants and internal auditors by telephone, mobiles, emails, WhatsApp groups, and other social media, the total of 186 questionnaires were collected, yielding a general response rate of 60.2%, but the respond rate in class C was 89%, 68% in class A, and 39% in class B as appeared in the Table 4.1. The response rate by official emails without following with telephone or other media around 17% was used by many scholars (Carini et al., 2018), but response rate increases after reminders sending (Saleh & Bista, 2017), if the first email followed by other email, the response rate will increase by 11.8% (Converse et al., 2008). Prior researchers accepted response rates of 31% and 26% when using email surveys distributed to financial statement preparers (accountants), and 21% when using email surveys distributed to financial statement users (Al-Dhubaibi, 2020). In light of this, the study's response rate of 60.2% seems appropriate.

Table 4.1: Responses Rate

Class	A	B	C	Total
Estimated number of employees (Population)	75	141	93	309
The number of respondents	51*	52	83	186
The respond rate	68%	39%	89%	60.2%
The number of municipalities	15	47	93	155
Average number of respondents in one municipality	3.4	1.1	0.89	1.2

*22 respondents in class A+(center of area) and 29 in class A (center of governance)

Source: Author

The relative decrease in response rate in municipalities class B and class A can be attributed to the municipality's management notion that few respondents from the municipality is sufficient, particularly from the main accountants who represent the municipality. And the overall average number of respondents in one municipality was 1.2 employees, indicating that the majority of municipalities were participating in the questionnaire response. As a result, the response rate is valid and representative of the study population. All of the questionnaires that were collected were used for the analysis in the study because each questionnaire had been verbally scanned to remove any missing responses, but there were no missing values in the study's variables because each question's response was eligible. As a result, all questionnaires were immediately verified using the Google occlusion tool.

The general rule of thumb for determining sample size, according to Sekaran and Roger (2003), is to multiply the number of constructs by 10. Given that there are 10 constructs (variables) in this study, the required sample size should be at least 100 observations (10×10). However, the 186 usable measured values in the current study met the aforementioned criteria, allowing the researcher to move forward with additional analyses.

4.2.2 Demographic Profile

All accountants and internal auditors of municipalities in Palestine make up the study's population. In order to see the description of the demographic profile of respondents and the audit process in the municipalities, frequency analysis was performed using SPSS version 27. Table 4.2 displays the demographic profile of this study, which is divided into two categories: (1) respondents' characteristics, which relate to the description of the respondents' personal qualifications, and (2) audit

process characteristics, which relate to the respondents' experience with audit processes performed by external auditors, internal auditors, and SAI auditing.

Table 4.2: Sample Profile ($N = 186$)

Group	Frequency	Percentage	Cumulative Percentage
The first Group: Respondents Characteristics			
Occupation			
Accountant	44	23.7	23.7
Senior Accountant	57	30.6	54.3
Accounting Department Head	72	38.7	93
Internal Auditor	13	7.0	100
Gender			
Male	132	71.0	71
Female	54	29.0	100
Age			
Less than 30 years old	26	14.0	14
30-40 years old	62	33.3	47.3
41-50 years old	65	34.9	82.3
More than 50 years old	33	17.7	100
Qualification			
Less than Bachelor Degree	1	.5	0.5
Bachelor's Degree or equivalent	144	77.4	77.9
Master Degree	36	19.4	97.4
PhD Degree	3	1.6	99
Bachelor's Degree in other field	2	1.1	100
Experience			
Less than 5years	20	10.8	10.8
5-10 years	40	21.5	32.3
11-15 years	43	23.1	55.4
More than 15 years	83	44.6	100
Second Group: Audit Process Characteristics			
Municipality Class			
Class A+	22	11.8	11.8
Class A	29	15.6	27.4
Class B	52	28.0	55.4
Class C	81	43.5	98.9
Class D	2	1.1	100
Audit Fees in USD			
Less than 2000	102	54.8	54.8
From 2001 to 4000	47	25.3	80.1
From 4001 to 6000	13	7.0	87.1
More than 6000	18	9.7	96.8
I do not know	6	3.2	100
Accounting Basis			
Cash Basis	79	42.5	42.5
Accrual Basis	63	33.9	76.4
Modified Accrual Basis	31	16.7	93.1
Mix as the type of budget	13	7.0	100
Number External Auditor in the team			
Two auditors	104	55.9	55.9
Three auditors	48	25.8	81.7
Four auditors	21	11.3	93
Five auditors or more	13	7.0	100

Table 4.2, continued

Group	Frequency	Percentage	Cumulative Percentage
Internal Auditors Number			
None	97	52.2	52.2
One employee	48	25.8	78
Two employees	19	10.2	88.2
Three employees or more	22	11.8	100
Last Year Audit Report			
2018	6	3.2	3.2
2019	2	1.1	4.3
2020	32	17.2	21.5
2021	138	74.2	96
Never Audited	8	4.3	100
Last Year Auditor's Report type			
Standard Unmodified	131	70.4	70.4
Unmodified with Emphasis Matter	12	6.5	76.9
Qualified Opinion	15	8.1	85
Adverse Opinion	2	1.1	86
Disclaimer	7	3.8	90
No audit in the municipality	19	10.2	100
Last Year SAIs Audit			
2019	23	12.4	12.4
2020	33	17.7	30.1
2021	72	38.7	68.8
2022	43	23.1	92
Never Audited	14	7.5	100

Source: SPSS 27 Software

4.2.2.1 The First Group: Demographic Characteristics

The first demographic question was the subject of the respondents' employment position (occupation). According to Table 4.2, the Accounting Department Head (38.7%) received the most responses, followed by Senior Accountants (30.1%), Accountants (23.7%), and Internal Auditors (7%). Given that the head of the accounting department and senior accountant are constantly deeply involved in the preparation of the financial statements as well as communication with external auditors in addition to internal auditors, this suggests that the respondents were competent in responding to the questionnaires that were distributed.

The second demographic question was the subject of the gender of the respondents. The results of Table 4.2 show that 71% of the respondents were men and

29% were women. As a result, men make up the bulk of the respondents in this study. This might be a result of the Palestinian culture, which discourages women from working outside the home as employees, especially in municipalities. However, in recent years, this culture has changed as a result of women attending universities and earning degrees that qualify them for high-level positions in the workforce.

The third question asked respondents to enter their age. According to frequency statistics, the majority of respondents were between the ages of 41 and 50 (34.9%), followed by those between the ages of 31 and 40 (33.3%), those over 50 (17.7%), and those under 30 (14%) respectively. This result as Table 4.2 shows means that younger people now play a less significant role than older people in the accounting departments of municipalities. This goes back to the era of municipality establishment, which began following the establishment of the PNA in 1993. The elderly is never in favor of implementing new accounting methods like accrual accounting, new accounting software, and the adoption of (IPSASs). However, older accountants may have more practical experience and be more qualified to respond to this survey with reliability.

Regarding the fourth question, which related to the respondents' work experience. Table 4.2 shows that the majority of respondents (44.6%) had more than 15 years of experience, followed by those with 11 to 15 years of experience (23.1%), those with 5 to 10 years of experience (21.5%), and those with less than 5 years of experience (10.8%). This result suggests that the respondents have relevant experience working in municipal accounting. As a result, this shows that the respondents have sufficient knowledge of audit quality and its factors, and raises the credibility of the responses provided on the distributed questionnaires.

The fifth demographic question asked about the respondents' current educational status in relation to their level of education. The most common level of education among respondents was a bachelor's degree (77.4%), a master's degree (19.4%), a doctorate (1.6%), a bachelor's degree in another field (1.1%), and respondents with less than a bachelor's degree (0.5%). Although the law of local governmental units and the regulations permit the employment of accountants from diploma degree if the accountant was employed before year of 2009 (Office, 2020) , as shown in Table 4.2, the municipalities in Palestine were concerned about the educational level of the accountants and the internal auditors. This suggests that the respondents were competent in responding to the questionnaires that were distributed.

4.2.2.2 The Second Group: Audit Process Characteristics

In the first question of audit process characteristics, participants were asked to enter the classification of the municipality where the participant works. Frequency statistics demonstrates that the majority of municipalities was classified as class (C) for (43.5%), followed by class (B) for (28%), class (A) for (15.6%), class (A+) for (11.8%) and lowest class (D) was (1.1%) which is transmitted to class (C) according the minister of the Local government ministry in Palestine. The structure of these percentages alignment with the actual structure classes of municipalities of Palestine. This structure of participants gives more credible for the answers of the questionnaire, in class (C), always there is one accountant who responsible on the accounting system and the communication with the external auditors, therefore he will have qualified perfectly to answer the questions.

The second question of the audit process characteristics was the subject of the audit fees. According to Table 4.2, most municipalities audit fees were in lowest

category less than 2000 USD (54.8%), followed by category from 2001USD to 4000 USD (25.3%), category from 4001 USD to 6000 USD (7.0%), category more than 6000 USD (9.7%) and (3.2%) the respondents did not know the audit fees. These rates reflect the municipalities size and their classification, and in general, the amount of audit fees in the municipalities is low when we compare it to the level of audit fees in the business organization in Palestine.

The use of accounting bases was the subject of the third audit process query. According to Table 4.2, the majority of municipalities in Palestine (42.5%) still use the cash basis for accounting, which is followed by accrual basis (33.9%), modified accrual basis (16.7%), and mixed basis (7.0%), respectively. Participants are better able to respond to questions about the accounting basis as a factor of internal control effectiveness and audit quality in municipalities as a result of their growing familiarity with various accounting bases and their impact on the accuracy of financial statements and the quality of audits.

Regarding the fourth question, which inquired about the number of audit team individuals in the audit engagement in the municipality, table 4.2 shows that the majority of municipalities (55.9%) were audited by two auditors, followed by three auditors (25.8%), four auditors (11.3%) and (7.0%) five auditor or more. This result means that most municipalities are audited by small audit firms which they have limited number of auditors, and may reflects the simplicity and small size of most municipalities in Palestine.

The fifth question of the audit process was related to number of internal auditors in the municipality, table 4.2 shows that (52.2%) of the municipalities have not internal audit as a separate function, because the function of internal audit is not required from the municipalities by law and regulations, However, MOLG issued

organizational structure models for municipalities based on their size and class to serve as guidelines for preparing a proper organizational structure for each municipality. According to these models, MOLG required all classes of municipalities to form a committee of municipal council members to perform at least the function of internal auditing and controlling, and required class (A) and recommended class (B) to establish an internal audit department, either supervised by the council or the financial manager (Office, 2020). Also, 25.8% of the participants have one internal auditor in their municipalities, 10.2% have two internal auditors, and 11.8% of the participants have three internal auditors.

The sixth question of the audit process characteristics was the subject of the last year audit report is issued by the external auditor for the municipality. According to Table 4.2, most municipalities audited their financial statements in year 2021, this means that most municipalities have recent experience in the external audit process and make audit regularly, therefore the percentage of participants who finished the external audit for 2021 year in the last quarter of 2022 year is (74.2%), and 17.2% of participants have audit report for year 2020, but (4.3%) have not external auditing, and (3.2%) did not audit since 2018, and (1.1%) since 2019.

The seventh question of the audit process characteristics was the subject of the last year audit report type is issued by the external auditor for the municipality. According to Table 4.2, most municipalities get a standard unmodified audit report which reached (70.4%) of participants who get unmodified audit report, followed by qualified opinion was (8.1%), unmodified with emphasis matter was (6.5%), disclaimer was (3.8%), and (1.1%) for the adverse opinion.

The last question of audit process was related with to last year the municipality are audited by SAIs auditors in order to know the extent of the experience of the

participants with audit of FACB as SAI in Palestine, most of participants have recent experience with the audit of FACB, this means that the participants able to evaluate the impact of auditing of FACB on the external audit quality. Table 4.2 shows that (23.1%) of the participants exposed for the audit of FACB in 2022, but 38.7% in year 2021, 17.7% in year 2020, 12.4% in 2019, and 7.5% of the participants have not exposed to this type of audit.

4.3 Construct Measures

The primary construct measures were built upon already-in-use tools. The measurement components for the research variables, as well as the first and second order constructs, are summarized in Table 4.3.

Table 4.3: List of Constructs and Measurement Items

2nd Order Construct	1st Order Construct	Items Number (50)	Measurement Scale
Auditor Characteristics (ACH) Audit Firm Attributes (AFA) Effectiveness of the Municipal Internal Control (EMIC)	Audit Quality (AQ)	8	5-Point Likert
	Supreme Audit Institutions (SAI)	11	//
	Ethics (ET)	6	//
	Independence (IN)	6	//
	Competency (CM)	7	//
	Audit Fees (AF)	2	//
	Audit Firm Size (AFS)	2	//
	Internal Auditing (IA)	2	//
	Accounting Basis (AB)	3	//
	Laws and Regulation (LR)	3	//

Source: Author

4.4 Data Screening

In order to ensure that data are correctly entered and free of missing values, data screening is required. This section also looked at normality, univariate outliers, and multivariate outliers.

4.4.1 Missing Values

For administering or distributing the survey to the respondents in the current study, a self-administered method was used through using the information technology and current communication tools such as Emails, WhatsApp, Telephone Calls, and other social media. But if any of the survey participants appeared to be having trouble understanding a particular question or statement, they were given personal assistance to clarify it. And all questionnaires were immediately verified using the Google occlusion tool, therefore no missing values in the study's items which related to variables of the study, because each question's response was eligible.

Following the collection of data via the survey, the data was coded and labeled according to the various sections and item numbers of the questionnaire. The researcher then checked the data file for any missing information by entering the frequency of occurrence of each indicator into SPSS. The results of the descriptive analysis showed that there are no invalid or missing entries, thereby attesting to the respondents' full cooperation and the high level of accuracy of their answers. The appropriateness of the items, suitability of the questions, and choice of respondents all had an impact on these results.

4.4.2 Outliers

The treatment of outliers is an essential step in the data screening process. Outliers are observations that have a distinct set of characteristics that distinguish them from the rest of the observations (Hair et al., 1998). According to Hawkins (1980), an outlier is an observation that differs so significantly from other observations that it raises questions about whether it was produced by a different mechanism. An extreme response from a participant to any or all questions is

considered an outlier (Hair et al., 2019). It might also be a distinct subcategory of the sample (Hair et al., 2019). Outliers were identified using univariate (histograms, box-plots and standardized z score) and multivariate detections (Mahalanobis D^2 distance).

4.4.2.1 Univariate Outliers

The term "univariate outliers" describes observations with a single variable's unusual value (Tabachnick & Fidell, 2007). In addition to looking at histograms and box plots, each variable's standardized (z) score was looked at for univariate detection (Tabachnick & Fidell 2007). A case is considered an outlier in accordance with Hair et al., (2006) if its standard score is ± 3.0 or beyond. As a result, any Z-score that is either greater than 3 or lower than -3 is regarded as an outlier. Table 4.4 provides a summary of the standardized (z) scores for each item in each construct.

Table 4.4: Result of Univariate Outlier Based on Standardized Values

1st Order Construct	Item	Standardized value (Z-Score)	
		Lower Bound	Upper Bound
Ethics (ET)	ET1	-2.607	1.434
	ET2	-2.391	1.188
	ET3	-2.297	1.278
	ET4	-2.471	1.289
	ET5	-2.432	1.361
	ET6	-2.262	1.266
Independence (IN)	IN1	-2.480	1.372
	IN2	-2.386	1.252
	IN3	-2.483	1.295
	IN4	-2.439	1.310
	IN5	-2.521	1.299
	IN6	-2.316	1.319
Competency (CM)	CM1	-2.494	1.188
	CM2	-2.432	1.330
	CM3	-2.520	1.530
	CM4	-2.291	1.557
	CM5	-2.296	1.604
	CM6	-2.245	1.483
	CM7	-2.340	1.511
Audit Fees (AF)	AF1	-2.692	1.145
	AF2	-2.638	1.249
Audit Firm Size (AFS)	AFS1	-2.627	1.353
	AFS2	-2.610	1.289
Internal Auditing (IA)	IA1	-2.657	1.436
	IA2	-2.639	1.288

Table 4.4, continued

1st Order Construct	Item	Standardized value (Z-Score)	1st Order Construct
		Lower Bound	Upper Bound
Accounting Basis (AB)	AB1	-2.476	1.299
	AB2	-2.708	1.421
	AB3	-2.600	1.324
Laws and Regulation (LR)	LR1	-2.605	1.383
	LR2	-2.701	1.425
	LR3	-2.436	1.233
Supreme Audit Institutions (SAI)	SAI1	-1.673	1.188
	SAI2	-1.768	1.364
	SAI3	-1.798	1.372
	SAI4	-1.759	1.202
	SAI5	-1.672	1.142
	SAI6	-1.665	1.189
	SAI7	-1.721	1.472
	SAI8	-1.744	1.212
	SAI9	-1.661	1.247
	SAI10	-1.721	1.349
	SAI11	-2.324	1.040
Audit Quality (AQ)	AQ1	-2.309	1.162
	AQ2	-2.103	1.123
	AQ3	-2.211	1.342
	AQ4	-2.224	1.188
	AQ5	-2.300	1.364
	AQ6	-2.450	1.332
	AQ7	-2.343	1.244
	AQ8	-2.181	1.271

N = 186

Source: Smart PLS3

As can be seen in Table 4.4, the findings showed that the cases' standardized (*z*) scores for the research variables ranged from -2.708 to 1.604, meaning that none of the items' values exceeded the threshold of ± 3.0 . So none of the 186 cases contain a single univariate outlier.

4.4.2.2 Multivariate Outliers

Since the variables in the current study were measured using a 5-point Likert scale, outliers were expected because some participants might have had an extreme or different opinion about a given question by selecting a response of 1 or 5. Thus, the Mahalanobis distance measure was employed in the current study to identify outliers.

The multivariate outliers have been successfully identified using Mahalanobis distance. To choose the best empirical values for the current study, the table of chi-square statistics was first applied. Two techniques exist to recognize outliers: (1) Based on the number of measurements in the questionnaire; (2) Based on the number of study variables.

The results indicated that the most significant Mahalanobis value was 27.386 (belonged to case#28) significant at 0.01 level. No any cases having Mahalanobis value less than 27.368 was found in this study, indicating the absence of any multivariate outliers, according to (Kline, 2010).

4.4.3 Assessment of the Data Normality

To ascertain whether the data for a variable are distributed according to a normal curve, the normality test was performed, either univariate or multivariate normality.

4.4.3.1 Univariate Normality

Due to the existence of kurtosis variables, data with non-normal distribution would appear to either skew to the left or to the right (Brown, 2012), leading to misleading results regarding the relationships between the variables under study and the significance of these relationships. Skewness and kurtosis values are used to evaluate the univariate normality. The values of skewness and kurtosis should both fall within the range of ± 2 and ± 7 , respectively (HO, 2006; Olsson et al., 2000; Oppenheim, 1966). The data seem to support this hypothesis with sufficient normality. The values for skewness and kurtosis for each item are summarized in Table 4.5.

Table 4.5: Assessment of Normality of All Items

1st Order Construct	Item	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
Ethics (ET)	ET1	-0.666	0.178	0.013	0.355
	ET2	-0.733	0.178	-0.219	0.355
	ET3	-0.61	0.178	-0.279	0.355
	ET4	-0.683	0.178	-0.002	0.355
	ET5	-0.647	0.178	-0.077	0.355
	ET6	-0.724	0.178	-0.265	0.355
Independence (IN)	IN1	-0.657	0.178	0.056	0.355
	IN2	-0.566	0.178	-0.279	0.355
	IN3	-0.703	0.178	0.041	0.355
	IN4	-0.553	0.178	-0.223	0.355
	IN5	-0.719	0.178	0.035	0.355
	IN6	-0.481	0.178	-0.415	0.355
Competency (CM)	CM1	-0.73	0.178	-0.085	0.355
	CM2	-0.582	0.178	-0.111	0.355
	CM3	-0.599	0.178	0.083	0.355
	CM4	-0.614	0.178	-0.003	0.355
	CM5	-0.514	0.178	-0.041	0.355
	CM6	-0.583	0.178	-0.062	0.355
	CM7	-0.558	0.178	-0.177	0.355
Audit Fees (AF)	AF1	-0.733	0.178	-0.056	0.355
	AF2	-0.909	0.178	0.555	0.355
Audit Firm Size (AFS)	AFS1	-0.583	0.178	-0.147	0.355
	AFS2	-0.625	0.178	-0.067	0.355
Internal Auditing (IA)	IA1	-0.521	0.178	-0.37	0.355
	IA2	-0.77	0.178	0.098	0.355
Accounting Basis (AB)	AB1	-0.412	0.178	-0.537	0.355
	AB2	-0.841	0.178	0.486	0.355
	AB3	-0.925	0.178	0.364	0.355
Laws and Regulations (LR)	LR1	-0.915	0.178	0.507	0.355
	LR2	-0.681	0.178	0.235	0.355
	LR3	-0.747	0.178	-0.083	0.355
Supreme Audit Institutions (SAI)	SAI1	-0.383	0.178	-1.215	0.355
	SAI2	-0.48	0.178	-0.862	0.355
	SAI3	-0.553	0.178	-0.905	0.355
	SAI4	-0.393	0.178	-1.031	0.355
	SAI5	-0.415	0.178	-1.212	0.355
	SAI6	-0.35	0.178	-1.187	0.355
	SAI7	-0.399	0.178	-0.97	0.355
	SAI8	-0.401	0.178	-1.115	0.355
	SAI9	-0.4	0.178	-1.135	0.355
	SAI10	-0.34	0.178	-1.029	0.355
	SAI11	-0.877	0.178	0.001	0.355
Audit Quality (AQ)	AQ1	-0.829	0.178	-0.133	0.355
	AQ2	-0.748	0.178	-0.478	0.355
	AQ3	-0.685	0.178	-0.402	0.355
	AQ4	-0.699	0.178	-0.404	0.355
	AQ5	-0.544	0.178	-0.423	0.355
	AQ6	-0.728	0.178	-0.123	0.355
	AQ7	-0.772	0.178	-0.121	0.355
	AQ8	-0.603	0.178	-0.428	0.355

N = 186

Source: Smart PLS3

The result demonstrates that all 50 items' skew and kurtosis fell between ± 2 and ± 7 , respectively. Therefore, it can be said that a normal distribution accurately described the entire data set of the items. The skew ranged from -0.925 to -0.340, and the kurtosis ranged from -1.215 to 0.555, as shown in Table 4.5.

4.4.3.2 Multivariate Normality

Mardia's procedures, which are regarded as a common test for multivariate normality in regard to skewness or kurtosis as suggested by Hair et al., (2017) and Cain et al., (2018) are used to analyze multivariate skewness and kurtosis, according to Mardia (1970) and Mardia (1974). In these procedures, it can be concluded that the data is not multivariate normal if the p-value of either multivariate skewness or kurtosis is lower than the significance level of 0.05, and thus suitable to use SmartPLS 3 using a 1,000-sample re-sample bootstrapping procedure (Hair et al., 2019; Ramayah et al., 2018).

The following link provides suitable software to assess the multivariate skewness and kurtosis as suggested by Hair et al. (2017) and Ngah et al. (2020) (<https://webpower.psychstat.org/models/kurtosis/results.php?url=c6c8ce84a2efb7ec83569e241bed548a>).

The result of applying Mardia's multivariate normality on the collected data according to the table 4.6 and table 4.7 was $\beta = 19.197$ and $p < 0.00001$ for the multivariate skewness, and $\beta = 188.074$ and $p = 0.01677$ for the multivariate kurtosis, this is yielded the conclusion that the multivariate skewness was not normal due to the p-value being less than 0.05. Additionally, because the multivariate kurtosis had a p-value of less than 0.05. Accordingly, the collected data was not multivariate normal.

Table 4.6: Mardia's Multivariate Normality

1st Order Construct	Skewness	SE_skew	Z_skew	Kurtosis	SE_kurt	Z_kurt
AB	-0.943	0.178	-5.293	0.158	0.355	0.446
ACH	-1.001	0.178	-5.621	0.140	0.355	0.395
AF	-1.013	0.178	-5.684	0.563	0.355	1.589
AFA	-1.103	0.178	-6.191	0.528	0.355	1.490
AFS	-0.719	0.178	-4.035	-0.138	0.355	-0.391
AQ	-1.070	0.178	-6.006	0.371	0.355	1.048
CM	-0.960	0.178	-5.390	0.256	0.355	0.722
EMIC	-1.156	0.178	-6.489	0.399	0.355	1.125
ET	-0.820	0.178	-4.604	-0.123	0.355	-0.346
IA	-0.754	0.178	-4.232	-0.074	0.355	-0.209
IN	-0.846	0.178	-4.750	0.039	0.355	0.109
LR	-0.971	0.178	-5.449	0.330	0.355	0.932
SAI	-0.418	0.178	-2.349	-1.345	0.355	-3.794

Table 4.7: Mardia's Multivariate Skewness and Kurtosis

Skewness and Kurtosis	b	z	p-value
Skewness	19.19667	595.096915	0.00001
Kurtosis	188.07378	-2.391609	0.01677

Source: <https://webpower.psychstat.org>

As a result, Smart PLS, a second generation non-parametric analysis software that can be used in this study to examine complicated models with latent variables and does not require normally distributed data (Hair et al., 2019). According the suggestions of (Hair et al., 2019), the structural model's path coefficients, standard deviation, t-values, and p-values were reported using a 1,000-sample re-sample bootstrapping procedure (Hair et al., 2019; Ramayah et al., 2018).

4.5 Common Method Bias (Harman's single-factor test)

Common method bias, which is described as variance due to the measurement technique rather than the constructs the measure represents, may pose a problem in behavioral studies (Podsakoff et al., 2012). The phenomenon describes a bias in the dataset brought on by a factor independent of the measurements. It's possible that something

unrelated to the question had an effect on the answer. This study's data collection method, an online questionnaire survey using Google Form, may have introduced systematic response bias, which could have impacted or inflated responses.

As this study used a one-wave self-reported design, in which all the data for all the variables were collected at the same time, Harman's single-factor test (Hoyle, 1995) was used to determine whether common method variance was a significant issue. The results of Harman's single factor test suggested that common method variance was not a major problem because one factor model explained 46.48% of the total variance, which was below 50% (Hoyle, 1995). Harman's single-factor test's results are shown in Appendix 5.

4.6 Measurement Model (Confirmatory Factor Analysis) – Stage 1 of SEM

To determine the relationships between manifest or observed and latent or unobserved variables, the measurement model or confirmatory factor analysis (CFA) is used. Therefore, it could be said that the measurement model specifies how latent or unobserved variables are evaluated in relation to the manifest variables (HO, 2006). The process of ensuring accuracy includes the operationalization of constructs, which is a crucial step (Hair et al., 2006). In an effort to ensure theoretical accuracy, researchers can choose from a number of recognized scales. Although there are many different scales available, researchers are frequently constrained by the problem of a lack of well-established scales, which forces them to either create new measurement scales from scratch or significantly modify existing scales to fit a new context. Given all of these factors, the selection of items to measure the constructs serves as the foundation for the SEM analysis (Hair et al., 2006).

Each of the constructs in the CFA models had its reliability and validity evaluated. Cronbach's alpha, construct reliability (CR), and average variance extracted (AVE) are used to measure reliability, while constructs, including convergent and discriminant functions, are used to measure validity.

This research included two overall measurement models, as well as the two research structural models depicted in Section 3.4. The following subsections go over the evolution of each measurement model. The results of testing the unidimensionality of each construct using SmartPLS 3 are presented.

4.6.1 Measurement Model 1

Confirmatory factor analysis was used to assess the overall measurement model 1. The overall measurement model 1 including all latent constructs with their indicators was portrayed by Smart PLS3 as the following figure 4.1 of the Initial Measurement Model 1 before omitting the item SAI11.

Table 4.8: Convergent Validity and Cronbach Alpha for Measurement Model 1

Construct	Item / 1 st Order Construct	Factor Loading	Average Variance Extracted (AVE) ^a	Composite Reliability (CR) ^b	Internal Reliability Cronbach Alpha
1st Order Constructs					
Ethics (ET)	ET1	0.882	0.790	0.957	0.947
	ET2	0.894			
	ET3	0.884			
	ET4	0.902			
	ET5	0.882			
	ET6	0.888			
Independence (IN)	IN1	0.867	0.781	0.955	0.944
	IN2	0.881			
	IN3	0.887			
	IN4	0.908			
	IN5	0.878			
	IN6	0.884			
Competency (CM)	CM1	0.874	0.727	0.949	0.937
	CM2	0.861			
	CM3	0.842			
	CM4	0.861			
	CM5	0.843			
	CM6	0.828			
	CM7	0.857			
Audit Fees (AF)	AF1	0.930	0.860	0.925	0.837
	AF2	0.924			
Audit Firm Size (AFS)	AFS1	0.932	0.873	0.932	0.855
	AFS2	0.937			
Internal Auditing (IA)	IA1	0.951	0.903	0.949	0.893
	IA2	0.950			
Accounting Basis (AB)	AB1	0.883	0.814	0.929	0.885
	AB2	0.913			
	AB3	0.910			
Laws and Regulation (LR)	LR1	0.918	0.834	0.938	0.900
	LR2	0.930			
	LR3	0.892			
Supreme Audit Institutions (SAI)	SAI1	0.780	0.739	0.966	0.969
	SAI2	0.804			
	SAI3	0.907			
	SAI4	0.867			
	SAI5	0.926			
	SAI6	0.902			
	SAI7	0.880			
	SAI8	0.825			
	SAI9	0.833			
	SAI10	0.864			
Audit Quality (AQ)	SAI11	0.347 ^c			
	AQ1	0.836	0.717	0.953	0.944
	AQ2	0.837			
	AQ3	0.817			
	AQ4	0.885			
	AQ5	0.870			
	AQ6	0.820			
	AQ7	0.847			
	AQ8	0.859			

Table 4.8, continued

Construct	Item / 1 st Order Construct	Factor Loading	Average Variance Extracted (AVE) ^a	Composite Reliability (CR) ^b	Internal Reliability Cronbach Alpha
2nd Order Constructs					
Auditor Characteristics (ACH)	Ethics (ET)	0.945	0.875	0.954	0.928
	Independence (IN)	0.939			
	Competency (CM)	0.921			
Audit Firm Attributes (AFA)	Audit Fees (AF)	0.926	0.858	0.923	0.834
	Audit Firm Size (AFS)	0.926			
Effectiveness of the Municipal Internal Control (EMIC)	Internal Auditing (IA)	0.906	0.843	0.942	0.907
	Accounting Basis	0.933			
	Laws and Regulation (LR)	0.915			

^a: Average Variance Extracted = (summation of the square of the factor loadings)/{(summation of the square of the factor loadings) + (summation of the error variances)}.

^b: Composite reliability = (square of the summation of the factor loadings)/{(square of the summation of the factor loadings) + (square of the summation of the error variances)}.

^c: denotes an item that was discarded because it didn't have enough factor loading to meet the cutoff of 0.6.

Source: Smart PLS3

The initial standardized factor loading of the SAI11 was 0.347, below the cut-off 0.6, as shown in Table 4.8 analysis of the standardized factor loadings of the model's items. Therefore, as advised by Hair et al. (2006) this item was taken off the model. Compared to the overall number of items in the constructs, the number of deleted items was not significant. Furthermore, the removal had little effect on the conceptualization of the constructs' content. The remaining 49 items and 8 first order constructs all had standardized factor loadings above 0.6, ranging from 0.780 (for SAI1) to 0.951 (for IA1).

Each of the constructs was evaluated for reliability after the unidimensionality of the constructs was achieved. Average variance extracted (AVE), construct reliability (CR), and Cronbach's alpha are used to evaluate reliability. According to Hair et al., (2006), the cut-off value for first and second order constructs is 0.5. Table 4-8 demonstrate that the AVE values, which reflect the overall amount of variance in

the indicators accounted for by the latent construct, were above this cutoff and ranged between 0.717 (for Audit Quality (AQ)) and 0.903 (for Internal Auditing (IA)).

The composite reliability values, which show how well the construct indicators predict the latent construct, were higher than Bagozzi and Yi (1988) recommended value of 0.6 for all first and second order constructs, ranging from 0.923 for the Audit Firm Attributes (AFA) to 0.966 for the Supreme Audit Institutions (SAI).

According to Nunnally and Bernstein, (1994), the Cronbach's Alpha values, which indicate how error-free a measure is, were higher than the cut-off point of 0.7 for all first and second order constructs. These values ranged from 0.834 for the Audit Firm Attributes (AFA) to 0.969 for the Supreme Audit Institutions (SAI).

4.6.1.2 Discriminant Validity

A construct's discriminant validity describes how it differs from other constructs based on the correlation and square root of AVE values that were determined. It indicates sufficient discriminant validity when the square root of AVE for both constructs is greater than the correlation between the two constructs (Fornell and Larcker 1981; Hair et al., 2006)

As shown in Appendix 6, who represents the results of cross loadings of the indicators to assess the discriminant validity of all Items and 1st order constructs. The cross loadings of the indicators specified that an indicator's outer loading on the associated construct was greater than all of its loadings on other constructs on each item row. These results demonstrated no any discriminant validity problem (Hair et al., 2011).

4.6.1.2.1 Fornell-Larcker Criterion

The results of the Fornell-Larcker criterion to assess the discriminant validity of the measurement model are shown in Table 4.9.

Table 4.9: Results of Fornell-Larcker Criterion in Measurement Model 1

	ACH	AFA	EMIC	SAI	AQ
Auditor Characteristics (ACH)	0.935				
Audit Firm Attributes (AFA)	0.704	0.926			
Effectiveness of the Municipal Internal Control (EMIC)	0.755	0.762	0.918		
Supreme Audit Institutions (SAI)	0.056	-0.012	0.062	0.860	
Audit Quality (AQ)	0.842	0.774	0.831	0.096	0.847

Note: The diagonals represent the square root of the average variance extracted, while the other entries represent correlations.

Source: SmartPLS 3

The inter-correlations between the five hypothesized latent constructs in measurement model 1 ranged from -0.012 to 0.842, as shown in Table 4.9, falling short of the cut-off of 0.85 (Kline, 2005). The analysis also revealed, as shown in Table 4.9, that the value of the off-diagonal elements was lower than the value of the AVE square root. Thus, it demonstrates that each latent construct measurement was completely discriminatory with respect to one another based on the Fornell-Larcker approach (Fornell and Larcker 1981; Hair et al., 2014).

4.6.1.2.2 HTMT Discriminant Criteria

The findings of the HTMT discriminant criteria used to evaluate the measurement model 1's discriminant validity are shown in Table 4.10.

Table 4.10: Results of HTMT Discriminant Criteria in Measurement Model 1

	ACH	AFA	EMIC	SAI	AQ
Auditor Characteristics (ACH)					
Audit Firm Attributes (AFA)	0.800				
Effectiveness of the Municipal Internal Control (EMIC)	0.823	0.876			
Supreme Audit Institutions (SAI)	0.073	0.068	0.042		
Audit Quality (AQ)	0.899	0.872	0.898	0.067	

Source: Smart PLS3

All of the HTMT values between the five hypothesized latent constructs in measurement model 1 were below 0.90, ranging from 0.042 to 0.899, as shown in Table 4.10. Thus, it demonstrates that each latent construct measurement was completely discriminatory with respect to one another (Henseler et al., 2015).

After looking at the measurement model 1's convergent validity and discriminant validity, it can be said that the modified measurement model 1 is valid and reliable for evaluating the constructs, their related items, and sub-constructs. The modified measurement model 1 is shown in Appendix 7 with uniform factor loadings for all latent constructs and related items.

4.6.2 Measurement Model 2

The overall measurement model 2 was evaluated using confirmatory factor analysis.

4.6.2.1 Reliability and Convergent Validity

All of the constructs in measurement model 2 have already been examined in measurement model 1 for standardized factor loading, Cronbach alpha, and convergent validity as shown in Table 4.8.

4.6.2.2 Discriminant Validity

Fornell-Larcker Criterion and HTMT Discriminant Criteria are used to evaluate the validity of the measurement model 2.

4.6.2.2.1 Fornell-Larcker Criterion

The findings of the Fornell-Larcker criterion used to evaluate the measurement model 2's discriminant validity are shown in Table 4.11.

Table 4.11: Fornell-Larcker Criterion in Measurement Model 2

	AB	AF	AFS	AQ	CM	ET	IA	IN	LR
AB	0.902								
AF	0.698	0.927							
AFS	0.691	0.715	0.935						
AQ	0.798	0.721	0.711	0.847					
CM	0.715	0.647	0.633	0.797	0.852				
ET	0.669	0.618	0.594	0.780	0.803	0.889			
IA	0.770	0.597	0.648	0.735	0.623	0.577	0.950		
IN	0.681	0.597	0.572	0.787	0.786	0.849	0.629	0.884	
LR	0.793	0.635	0.610	0.757	0.675	0.620	0.728	0.648	0.913

Note: Diagonals represent the square root of the average variance extracted while the other entries represent the correlations

Source: Smart PLS3

The inter-correlations between the nine hypothesized latent constructs in measurement model 2 ranged from 0.572 to 0.849, as shown in Table 4.11, falling below the cut-off of 0.85 (Kline, 2005). The analysis also revealed, as shown in Table 4.11, that the value of the off-diagonal elements was lower than the value of the AVE square root. This demonstrates that each latent construct measurement was completely discriminatory to each order based on the Fornell-Larcker approach (Fornell and Larcker, 1981; Hair et al., 2014).

4.6.2.2.2 HTMT Discriminant Criteria

The findings of the HTMT discriminant criteria used to evaluate the measurement model 2's discriminant validity are shown in Table 4.12.

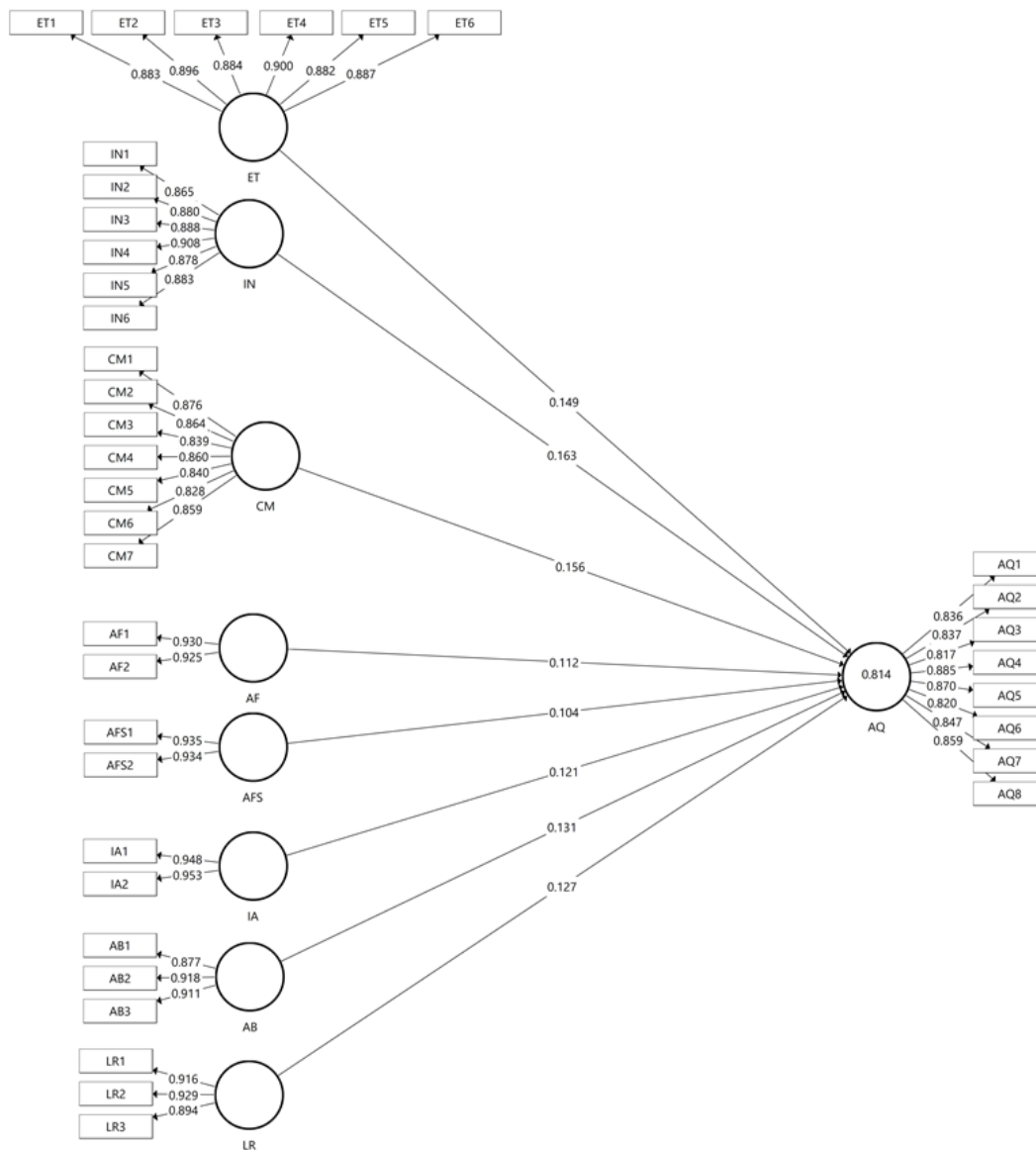
Table 4.12: HTMT Discriminant Criteria in Measurement Model 2

	AB	AF	AFS	AQ	CM	ET	IA	IN	LR
AB									
AF	0.811								
AFS	0.797	0.845							
AQ	0.871	0.812	0.792						
CM	0.783	0.729	0.706	0.845					
ET	0.730	0.694	0.659	0.825	0.851				
IA	0.867	0.690	0.741	0.800	0.681	0.627			
IN	0.745	0.672	0.637	0.833	0.835	0.898	0.685		
LR	0.888	0.732	0.695	0.821	0.733	0.671	0.812	0.702	

Source: Smart PLS3

All of the HTMT values between the nine hypothesized latent constructs in measurement model 2 were below 0.90, ranging from 0.627 to 0.898, as shown in Table 4.12. Thus, it demonstrates that each latent construct measurement was completely discriminatory with respect to one another (Henseler et al., 2015).

After analysing the convergent validity and discriminant validity of the measurement model 2, it can be said that the modified measurement 2 is a valid and reliable method for evaluating the constructs, their related items, and sub-constructs. The modified measurement model 2 is shown in Figure 4.2 with uniform factor loadings for all latent constructs and associated items.



Source: Smart PLS3

Figure 4.2: Measurement and Structural Model 2

4.7 Descriptive Analysis

To account for all of the variables in this analysis, the descriptive function was computed using the covariance matrix method. The variables' composite scores were calculated by parcelling the original measurement item scores. Parcels are summation or averages of several individual indicators or items based on their factor loadings on

the construct (Coffman & Maccallum 2005; Hair et al., 2006). Table 4.13 displays the mean and standard deviation of the constructs, assessed on a 5-point Likert scale:

Table 4.13: Results of Descriptive Statistic for Variables

Constructs	Mean	Standard Deviation	Minimum	Maximum
Auditor Characteristics (ACH)	3.560	0.872	1.365	4.746
• Ethics (ET)	3.597	0.959	1.167	5
• Independence (IN)	3.603	0.945	1	5
• Competency (CM)	3.480	0.891	1.143	5
Audit Firm Attributes (AFA)	3.710	0.884	1.25	4.75
• Audit Fees (AF)	3.761	0.960	1	5
• Audit Firm Size (AFS)	3.659	0.949	1	5
Effectiveness of the Municipal Internal Control (EMIC)	3.635	0.856	1.222	4.889
• Internal Auditing (IA)	3.642	0.949	1	5
• Accounting Basis (AB)	3.633	0.916	1	5
• Laws and Regulations (LR)	3.629	0.932	1	5
Supreme Audit Institutions (SAI)	3.299	1.184	1	4.9
Audit Quality (AQ)	3.576	0.965	1.125	4.75

N = 186

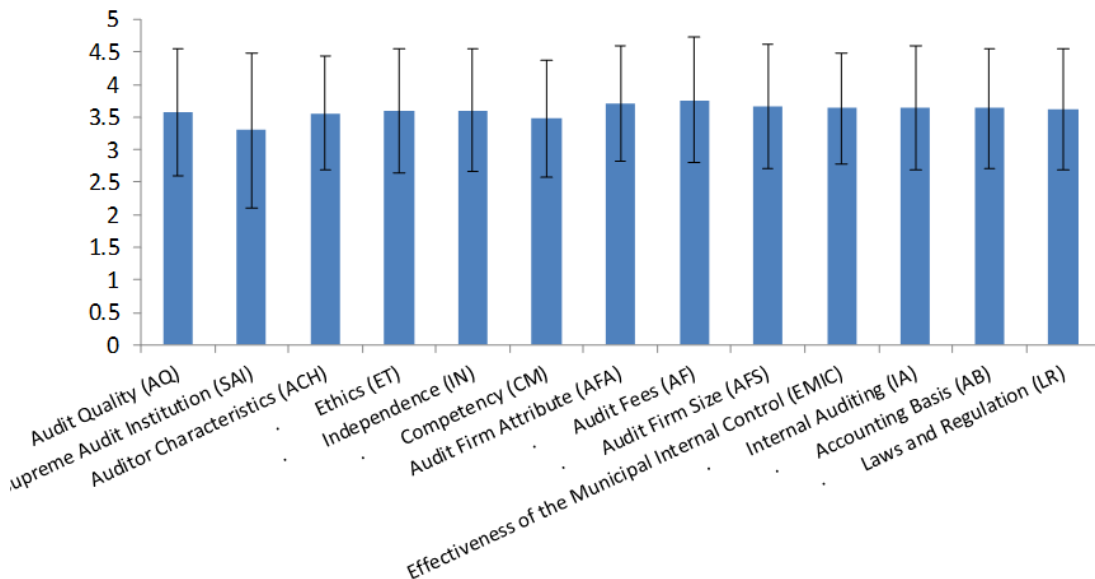
Source: Smart PLS3

As a measure of central tendency, the mean was used, and it showed that all constructs' mean values were higher than the midpoint of 3 on a 5-point Likert scale. The phenomenon showed that the consensus respondents had a more favorable perception toward these variables were above the average.

Audit Fees (AF), which had the highest mean score of (3.761), was followed by Audit Firm Attributes (AFA) (3.71), and Audit Firm Size (AFS) (3.659). Supreme Audit Institutions (SAI) had the lowest mean rating, with a mean score of (3.299).

The standard deviation was used as a dispersion index to show how much deviations within each variable are from the mean of the variable. The Supreme Audit Institution's (SAI) individual value deviated from the mean the most of any of the variables under study (SD = 1.184). The standard deviation indicated that respondents' perceptions of the Supreme Audit Institutions (SAI) varied somewhat. In other words,

the survey respondents' responses to this variable varied the most from one another. On the other hand, Effectiveness of Municipal Internal Control (EMIC), with a standard deviation of 0.856, had the lowest deviation from the mean. The mean of all constructs and their standard deviations are well represented in Figure 4.3 along with their respective ranges.



Source: Excel

Figure 4.3: Means and Standard Variations of All Constructs

4.7.1 Descriptive Analysis of Auditor Characteristics (ACH) Items

Table 4.14 shows the mean, standard deviation, minimum and maximum of all items on ACH. The obtained mean values exceeded the three-point mark (above average), ranging from 3.35 (CM5) to 3.71 (CM1). Furthermore, ET6 was found to have the highest deviation from its mean value ($SD = 1.134$), indicating that the responses obtained from respondents for ET6 varied the most from one another, whereas CM3 recorded the lowest deviation from its mean value ($SD = 0.988$).

Table 4.14: Results of Descriptive Statistic for the Items of ACH Constructs

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
Auditor Characteristics	ACH	3.560	0.872	1.365	4.746
Ethics	ET	3.597	0.959	1.167	5
The overall reputation of the audit firm is positive.	ET1	3.58	0.99	1	5
The audit team members as a group always exercise due care throughout the engagement.	ET2	3.67	1.117	1	5
The audit firm has strict guidelines on the procedures that must be completed before signing the audit report.	ET3	3.57	1.119	1	5
The audit firm actively encourages staff members to take courses and attend seminars in fields where the firm has major clients.	ET4	3.63	1.064	1	5
The senior auditors supervise junior audit staff.	ET5	3.56	1.055	1	5
The engagement auditors maintain high ethical standards.	ET6	3.56	1.134	1	5
Independence (IN)	IN	3.603	0.945	1	5
The audit firm has a skeptic's mindset, not a client advocate's mindset.	IN1	3.58	1.038	1	5
The audit fee is less than 10% of the total revenue of the audit firm.	IN2	3.62	1.1	1	5
The audit firm and individual audit team members never participate in any conduct that might undermine its/their independence, either in fact or in appearance, in any of your contact with them.	IN3	3.63	1.059	1	5
The audit firm performing the audit does not provide consultancy services to the municipality.	IN4	3.6	1.067	1	5
The audit firm has a high audit staff turnover rate.	IN5	3.64	1.047	1	5
Members of the audit team are cycled off the audit on a regular basis.	IN6	3.55	1.101	1	5
Competency	CM	3.480	0.891	1.143	5
The audit team assigned to the audit engagement (partner, manager, and supervisor) is well educated on local government units.	CM1	3.71	1.086	1	5
Other municipalities are audit clients of the auditor that is conducting the audit.	CM2	3.59	1.063	1	5
The auditors assigned to the engagement have extensive understanding of accounting and auditing standards, as well as professional certifications such as the CPA.	CM3	3.49	0.988	1	5

Table 4.14, continued

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
The audit team members as a whole have a good understanding of the municipality's operations.	CM4	3.38	1.039	1	5
In completing the audit, the audit company makes considerable use of computers and statistical methodologies.	CM5	3.35	1.026	1	5
Each audit area has a strict time budget that the audit firm wants its auditors to stick to.	CM6	3.41	1.073	1	5
The total number of hours spent on the audit by the audit team (from the beginning of field work to the audit report date).	CM7	3.43	1.039	1	5

N = 186

Source: Smart PLS3

According to the results of Table 4.14, the majority of respondents believe that auditor characteristics (ethics, independence, and competence) influence audit quality and that these characteristics can determine audit quality in the municipalities.

4.7.2 Descriptive Analysis for of Audit Firm Attributes (AFA) Items

Table 4.15 shows the mean, standard deviation, minimum and maximum of AFA.

Table 4.15: Descriptive Statistic for the Items of AFA Constructs

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
Audit Firm Attributes	AFA	3.710	0.884	1.25	4.75
Audit Fees	AF	3.761	0.960	1	5
The amount of audit fees that is paid	AF1	3.81	1.042	1	5
The amount of audit fees is related to the efforts of the auditors in the audit engagement.	AF2	3.72	1.029	1	5
Audit Firm Size	AFS	3.659	0.949	1	5
The suitable number of professionals in the audit team to achieve audit quality	AFS1	3.64	1.005	1	5
The legal form of the audit firm and its size affect audit quality	AFS2	3.68	1.026	1	5

N = 186

Source: Smart PLS3

Table 4.15 presents the mean and standard deviation of all items on AFA. The obtained mean values exceeded the three-point mark (above average), ranging from 3.64 (AFS1) to 3.81 (AF1). Furthermore, AF1 was found to have the highest deviation (SD = 1.042) from its mean value, indicating that the responses obtained from respondents for AF1 varied the most from one another, whereas AFS1 recorded the lowest deviation (SD=1.005) from its mean value.

According to the results of Table 4.15, the majority of respondents believe that audit firm attributes (audit fees, audit firm size) influence audit quality and that these attributes can determine audit quality in the municipalities.

4.7.3 Descriptive Analysis of Effectiveness of Municipal Internal Control

(EMIC) Items

Table 4.16 shows the mean, standard deviation, minimum and maximum of EMIC. It presents the mean and standard deviation of all items on EMIC. The obtained mean values exceeded the three-point mark (above average), ranging from 3.60 (IA1) to 3.69 (IA2). Furthermore, LR3 was found to have the highest deviation (SD = 1.09) from its mean value, indicating that the responses obtained from respondents for LR3 varied the most from one another, whereas AB recorded the lowest deviation (SD=1.005) from its mean value.

According to the results of Table 4.16, the majority of respondents believe that effectiveness of municipal internal control (internal auditing, accounting basis, laws and regulations) influence audit quality and that these attributes can determine audit quality in the municipalities.

Table 4.16: Results of Descriptive Statistic for the Items of EMIC Constructs

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
Effectiveness of the Municipal Internal Control	EMIC	3.635	0.856	1.222	4.889
Internal Auditing	IA	3.642	0.949	1	5
The nature and type of the internal audit function in the municipality.	IA1	3.6	0.977	1	5
External auditors work closely with internal auditors.	IA2	3.69	1.019	1	5
Accounting Basis	AB	3.633	0.916	1	5
The accounting basis used in the municipality's accounting system.	AB1	3.62	1.059	1	5
The transition from cash basis to accrual basis improves the relevance and reliability of the financial statements.	AB2	3.62	0.969	1	5
Accrual basis requires the auditor to increase his efforts in the auditing process.	AB3	3.65	1.019	1	5
Laws and Regulations	LR	3.629	0.932	1	5
The existence of appropriate laws and regulations increases the audit quality.	LR1	3.61	1.003	1	5
The commitment of the client to the laws and regulations enhances audit quality.	LR2	3.62	0.97	1	5
The commitment of the auditors with the investigation of client's adherence with applicable laws and regulation increases audit quality.	LR3	3.66	1.09	1	5

N = 186

Source: Smart PLS3

4.7.4 Descriptive Analysis of Supreme Audit Institutions (SAI) Items

Table 4.17 shows the mean, standard deviation, minimum and maximum of SAI. It presents the mean and standard deviation of all items on SAI. The obtained mean values exceeded the three-point mark (above average), ranging from 3.16 (SAI7) to 3.76 (SAI11). Furthermore, SAI5 was found to have the highest deviation (SD = 1.421) from its mean value, indicating that the responses obtained from respondents for SAI5 varied the most from one another, whereas SAI11 recorded the lowest deviation (SD=1.189) from its mean value.

According to the results of Table 4.17, the majority of respondents believe that Supreme Audit Institutions audit influence the relationship between audit quality and its determinants of auditor characteristics, audit firm attributes, and effectiveness of municipal internal control.

Table 4.17: Results of Descriptive Statistic for the Items of SAI Constructs

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
Supreme Audit Institutions	SAI	3.299	1.184	1	4.9
The SAIs and choosing of a good reputation auditor with a high professional ethics	SAI1	3.34	1.398	1	5
The SAIs and choosing of an independent auditor either in his mind and appearance	SAI2	3.26	1.277	1	5
The SAIs and choosing of a high professional competence auditor	SAI3	3.27	1.262	1	5
The SAIs and choosing of a highly qualified and professional audit team.	SAI4	3.38	1.351	1	5
The SAIs and choosing of an audit firm whose audit fees are reasonable and fair.	SAI5	3.38	1.421	1	5
The SAIs and choosing of a large-size audit firm such as the Big 4	SAI6	3.33	1.401	1	5
The SAIs and establishing an internal audit unit in the municipality, and works to increase its efficiency and effectiveness	SAI7	3.16	1.253	1	5
The SAIs audit affects the municipal administration in order to adopt the accrual basis of accounting.	SAI8	3.36	1.353	1	5
The SAIs and complying with the applicable laws and regulations.	SAI9	3.28	1.375	1	5
The audit team always relies on the reports and findings of the SAIs audit in the audit engagement process.	SAI10	3.24	1.303	1	5
The SAIs audit supports and increases the quality of the external audit in general.	SAI11	3.76	1.189	1	5

N = 186

Source: Smart PLS3

4.7.5 Descriptive Analysis of Audit Quality (AQ) Items

Table 4.18 shows the mean, standard deviation, minimum and maximum of AQ. Table 4.18 presents the mean and standard deviation of all items on AQ. The obtained mean values exceeded the three-point mark (above average), ranging from 3.49 (AQ3) to 3.66 (AQ1). Furthermore, AQ2 was found to have the highest deviation (SD = 1.24) from its mean value, indicating that the responses obtained from respondents for AQ2 varied the most from one another, whereas AQ6 recorded the lowest deviation (SD=1.085) from its mean value.

According to the results of Table 4.18, the majority of respondents believe that audit quality will be achieved if the auditors detect and report the deficiencies, advise

the municipal management with new accounting standards, and satisfy the audit committee through effective communication.

Table 4.18: Results of Descriptive Statistic for the Items of AQ Constructs

Constructs	Code	Mean	Standard Deviation	Minimum	Maximum
Audit Quality	AQ	3.576	0.965	1.125	4.75
Audit quality detects and reports the material errors and fraud in the client's financial statements.	AQ1	3.66	1.152	1	5
Audit quality detects and reports the material weakness of the internal control system.	AQ2	3.61	1.24	1	5
The audit firm agrees to complete the audit by a deadline stipulated by the client.	AQ3	3.49	1.126	1	5
The audit team and the audit committee of the council communicate often.	AQ4	3.61	1.173	1	5
There is a communication between the audit team and the council's management.	AQ5	3.51	1.092	1	5
Throughout the year, the audit firm keeps the council management informed about accounting and financial reporting developments that have an impact on the council.	AQ6	3.59	1.058	1	5
During the audit, the audit engagement partner and manager conduct numerous visits to the council.	AQ7	3.61	1.115	1	5
The auditor adds benefits to the municipality by generating useful improvement ideas.	AQ8	3.53	1.159	1	5

N = 186

Source: Smart PLS3

4.8 Reports of SAIs in Palestine

Financial and Administrative Control Bureau (FACB) and MOLG - GDGC issue annual, interim, and specialized reports. The reports that SAIs produce, the effects they have on society, and their capacity to fight corruption, protect public finances, and less an abuse of public office all have an impact on how strong and effective they are. The degree to which the recommendations in these reports are carried out as soon as possible will determine how well SAIs work. It is also evaluated based on the Legislature's capacity to act on recommendations and comments made in reports. The study summarized the SAIs reports to demonstrate the influence of these

reports on the study variables, as well as to support the study's data analysis in the effect of the SAIs as a moderator variable between audit quality and its factors.

4.8.1 FACB Reports

Annual reports of FACB issued semi-regularly in the period from 2006 to 2021, and the interim and the specialized reports which were issued sometimes in this period, these reports are available at FACB's (old name SAACB) web site <https://www.saacb.ps/BruRptsTestSAACB/IndexRPTArabic>). The FACB wants to make audit findings available to decision-makers and stakeholders because doing so will encourage an audit culture at audited institutions and result in more recommendations being followed through on. This will facilitate the use of preventative measures (FACB, 2014). The FACB has posted its fifteenth report online as evidence of compliance with the requirements of FACB Law no. 15 for 2004 since the publication of the FACB's reports which began in 2006 (FACB, 2020). Prior to 2011, these reports were not distributed on a regular basis or in a consistent format. Following that, the reports became more regular in format and subject matter, and they were issued on an annual basis except report of 2013. All FACB reports either annual report or interim reports on LGUs were examined and summarized in the Table 4.19 and Table 4.20. These tables show how the FACB influenced audit quality in the municipalities and the selected determinants of audit quality, auditor characteristics, audit firm attributes, and effectiveness of internal control, through its notes and recommendations, as well as the procedures implemented to address violations of laws and regulations and strengthen internal controls in LGUs.

Table 4.19: General Data of FACB Audit Reports

The years/ Items	2011	2012	2014	2015	2016	2017	2018	2019	2020	Average
Total FACB reports	156	123	104	118	119	123	139	125	115	125
Audit report related to LGUs	55	50	25	37	43	70	71	63	60	53
LGUs reports %	35%	41%	24%	31%	36%	57%	51%	50%	52%	42%
The responds rate to audit reports	70%	66%	72%	71%	79%	63%	79%	81%	72%	73%
Municipality Audited	7	35	12	16	17	20	25	21	17	19
Percentage of municipalities to audit reports for LGU	13%	70%	48%	43%	40%	29%	35%	33%	28%	38%
Complaints received	306	267	352	360	485	412	360	319	174	337
Complaints of LGUs	*	28	64	111	106	143	152	95	76	97
Percentage of Complaints of LGUs	*	10%	18%	31%	22%	35%	42%	30%	44%	29%
Complaints of Municipalities	*	*	*	*	51	20	19	16	16	24
Percentage of municipalities complaints to LGUs	*	*	*	*	48%	14%	13%	17%	21%	22%
Orders of Anti-Corruption Commission-ACC transferred to FACB for auditing	*	*	*	*	120	65	125	52	36	80
Cases are transferred to ACC	33	29	37	27	24	*	*	*	*	30
LGU cases transferred to ACC	13	17	*	11	14	23	11		26	19
Financial impact LGU in thousand USD	12,379	3,922	689	895	*	*	19,432	*	*	7,464
Total Financial impact in thousand USD	22,624	7,828	4,441	20,316	*	*	*	*	*	13,803
Attendance of tenders	414	550	676	*	368	*	*	*	*	402

Source: Author

According to Table 4.19, the average percentage of audit reports from local government units was 42%, while the average percentage of complaints was 29% of total reports. This demonstrates the importance of local government units in FACB auditing and the importance of this type of audit through the high percentage of responses to FACB reports, which average was 73%. Furthermore, the cooperation between ACC and FACB in dealing with corruption cases increased the importance of FACB auditing, because municipal councils recognized that compliance with laws,

regulations, and regulator recommendations is critical in order to avoid punishments and fines. Furthermore, the employees of FACB attend the bidding meetings in order to control the tendering policies and procedures for public sector organizations, particularly municipalities including the external audit bid for hiring the external auditors. The average number of bidding meetings was 402. The financial effect of the cases under audit is sometimes shown in FACB audit reports; for example, the financial effect in year 2018 was 19,432,978 USD, but the average was 7,463,627 USD.

Most of FACB auditing reports related to compliance auditing, and few of them related to financial statements auditing. Table 4.20 summarizes general auditing notes and recommendations which they appeared in the annual reports of FACB since 2006 and related with the audit quality and its selected determinants.

Table 4.20: General Notes and Recommendations of FACB on AQ

#	The Notes and the Recommendations	The Audit Quality Attributes
1	Employees in certain local governments abused their authority and misappropriated funds.	Weakness of internal auditing
2	Occasionally, spending can be done without all the required paperwork and necessary documents.	Weakness of internal auditing
3	Violation of the provisions of the Building and Organization Code 1996 for Local Authorities in terms of licensing fees, violation fees, and granting discounts.	Failure to comply with the laws and regulations
4	Some local governments did not put the code of conduct for local government employees into effect.	Failure to comply with the laws and regulations
5	When hiring new employees, some municipal governments do not always adhere to conceptual knowledge and legal procedures.	Failure to comply with the laws and regulations
6	Violation of code provisions for supplies and project implementation at local governments in terms of supplying, executing, or servicing.	Failure to comply with the laws and regulations
7	Some local government entities have a lack of internal control and a robust internal control system that protects assets.	Weakness of internal control
8	Violation of laws, regulations, and ordinances governing budgeting and revenue/expense measurement.	Failure to comply with the laws and regulations

Table 4.20, continued

#	The Notes and the Recommendations	The Audit Quality Attributes
9	Some municipalities do not have external auditors.	Laws and Regulations. Public Interest Theory for auditing.
10	Local government accounts are untrustworthy and raise concerns about accuracy, authenticity, and occurrence due to a lack of corroborating documents and a governing documentation cycle.	Accounting Basis
11	Some local government entities failed to collect fees mandated by applicable laws and regulations, particularly fees for billboards, crafts, and industries.	Failure to comply with the laws and regulations
12	Accounting software might not meet all the requirements of local governments because it does not assign user rights or incorporate actions, making financial statements susceptible to loss, damage, and deletion as well as casting doubt on their objectivity and fairness.	Weakness in accounting Information System and Accounting basis
13	The Municipality did not follow laws and decisions regarding its participation in licensed electricity distribution companies.	Failure to comply with the laws and regulations
14	The Municipality failed to comply with the Council of Ministers' 2017 electricity tariff.	Failure to comply with the laws and regulation
15	Internal supervision and audit system weakness.	Audit quality
16	A flaw in the financial system's application.	Accounting basis
17	Insufficient promises made by the financial system to local governments in terms of spending, budget planning, and document reinforcement	Weakness in Internal Auditing
18	Failure to prepare financial statements in accordance with regulations and legislation.	Accounting Basis and violation of laws and regulations
19	Weakness in audit regulations that govern spending, resulting in a lack of a tight internal control system.	Internal control and internal auditing
20	Some local governments may fail to perform proper bank reconciliations in order to keep track of their bank accounts.	Weakness in Internal Auditing
21	Many local governments fail to manage public finances due to a lack of control systems and a division of powers, resulting in cases of misappropriation, credit misuse, and public funds theft.	Weakness in the internal control system
22	The municipality violated international accounting rules by failing to disclose the accounting policies used to record the grant in the financial statements and failing to describe the nature of the grant.	Accounting Basis
23	Despite the accounting accrual concept, waste charges from previous years were recorded in the current books.	Accounting Basis
24	As required by accrual accounting, the municipality did not record expenses and allowance for doubtful debts for current books.	Accounting Basis

Source: Author

The majority of the preceding notes and recommendations are concerned with the internal control system and its dimensions: internal auditing, accounting basis and compliance with applicable laws and regulations.

These notes and recommendations serve as a warning to the management of all local government units to avoid them and improve their internal controls and accounting information systems. This is leading to an improvement in external audit quality by producing high-quality financial statements that are used as input in the external auditing process. However, the FACB audit reports notes and recommendations do not specifically and clearly mention the other inputs of the auditing process, such as the auditor characteristics (auditors' ethics, competency, and independence) and the audit firm attributes (audit fees and audit firm size), but the FACB auditors may take into account the audit firm's attributes and the auditor's characteristics as specified in the Palestinian government's auditing standards and the MOLG approved guidelines of ToR for hiring external auditors in the LGUs.

4.8.2 MOLG-GDCG Reports

MOLG prepares periodic (annual or semi-annual) reports on local government units (LGUs) through GDCG auditors, but these reports remain confidential and are not available to the public. The researcher obtained some of them for the study through personal contact with some municipalities. The audit report is a semi-structured document with many questions pertaining to the audit scope, including the reviewing of the financial aspects such as cash balances, debts, inventories, checks, accounting records of revenues and expenses. Also, this type of auditing includes the examination of the budget process including the compliance with stated expenditures and revenues amounts as appeared in the budget, internal controls and procedures in the accounting system, external audit reports, FACB audit reports, and the compliance with the applicable laws and regulations.

In comparison to the notes and recommendations of the FACB, the GDCG's are more precise, thorough, and detailed. The majority notes of this type of auditing referring to violations of the related laws, rules, policies, and MOLG directives, as a result, the focus of this audit is on operational and compliance audits, including internal control system audits. Table 4.21 shows the summary of the most notes and the recommendations of the GDCG.

Table 4.21: The Notes and the Recommendations of MOLG GDCG

#	The Notes and the Recommendations	The Audit Quality Attributes
1	Payment vouchers may be issued in the absence of all necessary paperwork, official authority approvals, beneficiary signatures, dates, and other data.	Weakness of internal auditing
2	Laws, regulations, and ordinances governing budgeting and revenue/expense measurement are being broken.	Failure to comply with the laws and regulations
3	Some municipalities use Excel to keep track of paper records instead of appropriate accounting software because they lack the necessary internal controls.	Internal control over accounting system
4	Due to an insufficiency of supporting documentation and a cycle for governing documentation, local government entities' accounts are unreliable and raise questions about their accuracy, authenticity, and occurrence.	Accounting Basis
5	Violation of some storekeeping procedures, particularly complete records, physical counting, and item evaluation and organization.	Failure to comply with the laws and regulations. And weakness of internal auditing
6	Accounting software that does not incorporate actions or assign user authorities may not meet the needs of some local governments, leaving financial statements vulnerable to data loss, destruction, and deletion, raising questions about their legitimacy and fairness.	Weakness in accounting Information System and Accounting basis
7	Spending more cash than the limit of 50 JOD without using current checks, and possibly using postponed checks, is a violation of financial regulations.	Failure to comply with the laws and regulations. And weakness of internal auditing
8	violation of income tax for council members' and employees' salaries and wages	Weakness in Internal Auditing
9	Not producing the financial statement in accordance with the rules and regulations that apply.	Accounting Basis and violation of laws and regulations
10	Both real cash counting and cash insurance are not practices on a regular basis. For the purpose of monitoring their bank accounts, some municipal governments might not carry out proper bank reconciliations.	Weakness in Internal Auditing

Source: Author

4.9 Summary of Chapter Four

In this chapter, there are two main stages to the data analysis process. An initial analysis of the data was part of the first stage. In order to use SEM effectively, the

data must adequately meet the fundamental assumptions. The entire data set of the items was, in general, normally distributed and devoid of errors, missing values, and univariate outliers. The two SEM stages were applied in the second phase. The first step involved creating measurement models for the research's latent constructs. Following the first stage's confirmation of the constructs' unidimensionality, reliability, and validity, the second stage was created to put the research hypotheses to the test by creating structural models. This chapter analyzes and discusses SAIs' reports in addition to the descriptive analysis of each variable in the research.

CHAPTER 5

MULTIPLE REGRESSION ANALYSIS AND THE RESULTS

5.1 Introduction

Chapter Five discusses multiple regression analysis and presents the results of the study. To achieve this objectives, two structural models were created in order to examine 11 hypothesized direct effects and 3 hypothesized moderation effects by using SmartPLS 3 to perform a path analysis and testing the significance of the path coefficients for each proposed path as follows: Audit quality as dependent variable and these independent variables, Auditor Characteristics (ACH), Audit Firm Attributes (AFA), Effective Municipal Internal Control (EMIC), Ethics (ET), Independence (IN), Competency (CM), Audit Fees (AF), Audit Firm Size (AFS), Internal Auditing (IA), Accounting Basis (AB), and Laws and Regulations (LR). This chapter discusses the structural models - stage 2 of SEM, examining direct effect hypotheses - structural model 1, examining moderation effect hypotheses, and examining direct effect hypotheses - structural model 2.

5.2 Structural Models - Stage 2 of SEM

The second primary step in the SEM analysis is the structural equation model. After the measurement model has been verified, the structural model can be represented by defining the connections between the constructs.

Details on connections between the variables are provided by the structural model. It demonstrates the precise details of the interaction between independent (exogenous) and dependent (endogenous) variables (Hair et al., 2006; HO, 2006).

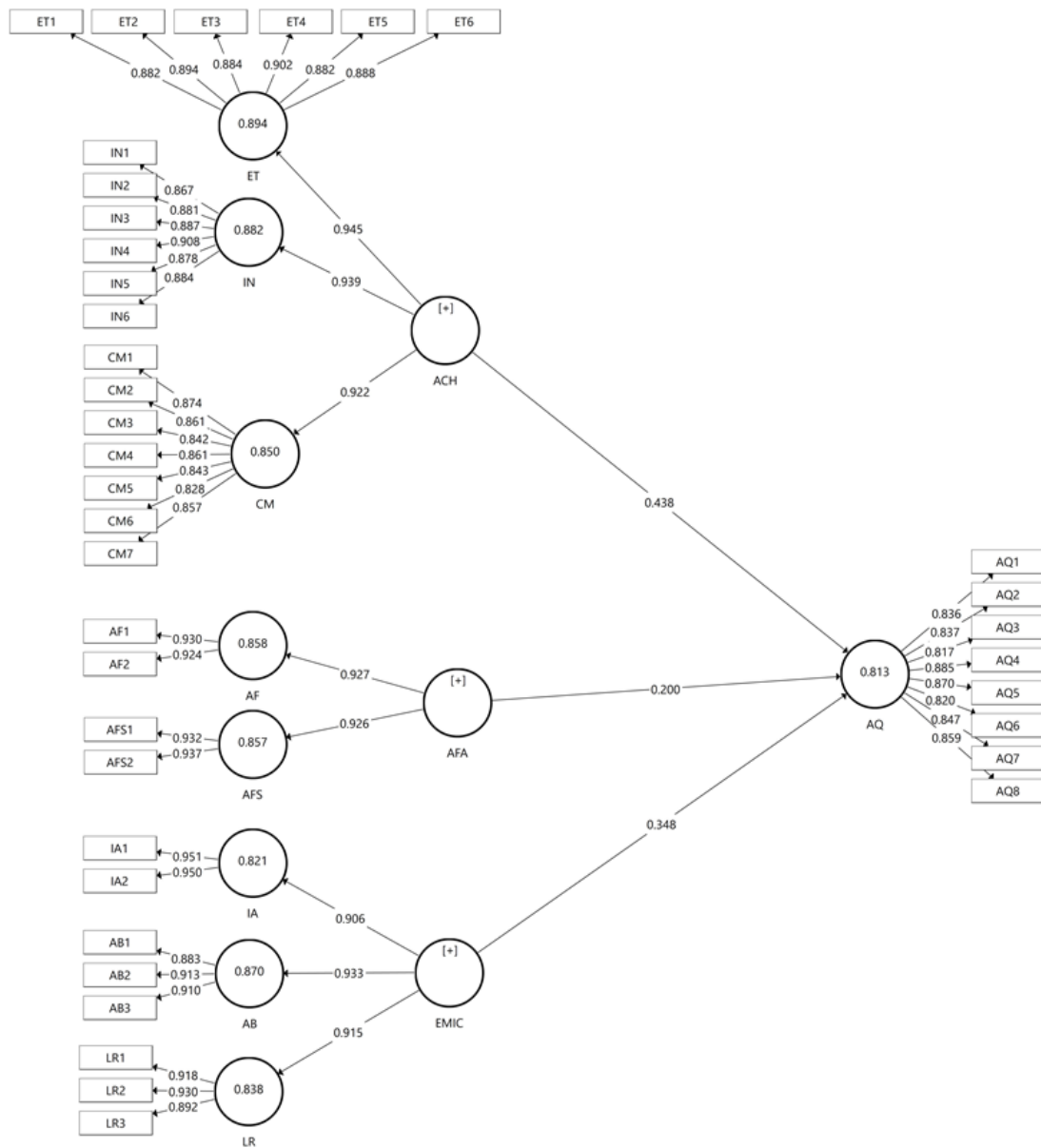
The overall model fit is first evaluated, followed by the size, direction, and significance of the hypothesized parameter estimates, as shown by the one-headed arrows in the path diagrams (Hair et al., 2006). The final stage involved the validation of the study's structural model, which was based on the proposed relationship between the variables identified and assessed.

In this study, the structural models were estimated using the PLS technique and bootstrapping with 1000 replications to examine the research hypotheses. The two structural models that were created to test the research hypotheses listed in Table 2 -1 are discussed in the following sub-sections.

5.2.1 Examining Direct Effect Hypotheses - Structural Model 1

In the structural model 1, the direct causal effects from Auditor Characteristics (ACH), Audit Firm Attributes (AFA) and Effectiveness of Municipal Internal Control (EMIC) on Audit Quality (AQ) were examined (i.e., H1, H2 and H3 respectively).

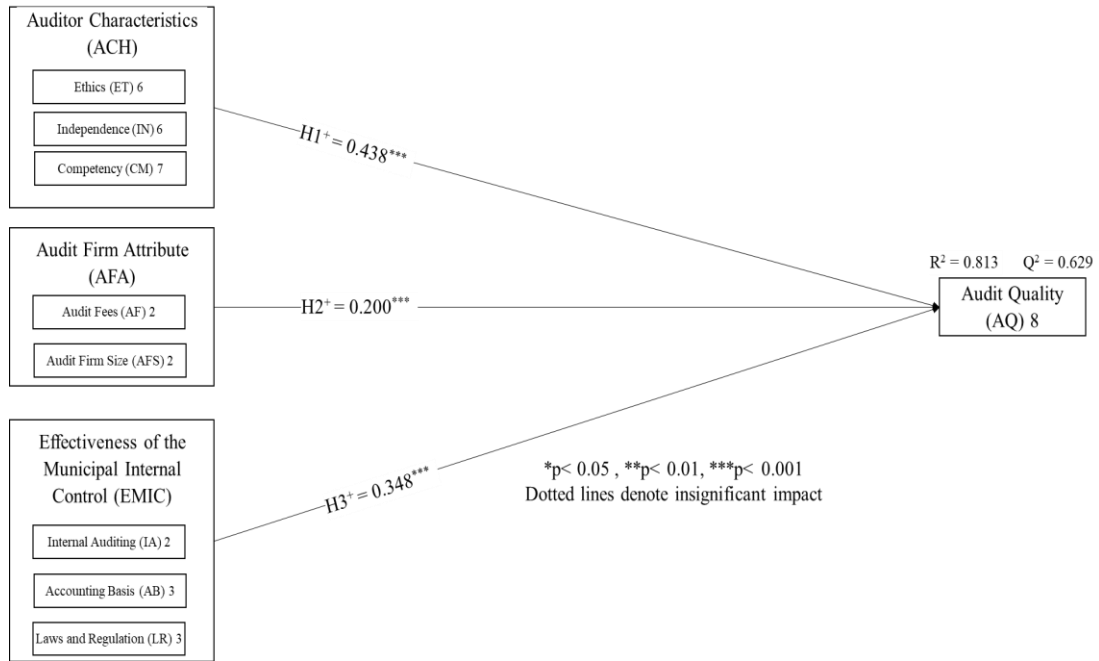
The structural model for testing the direct effects of the hypothesized variables as the SmartPLS 3 model is portrayed in Figure 5.1 and Appendix 8.



Source: Smart PLS3

Figure 5.1: Structural Model 1 – Causal Effects – Path Coefficients

The structural model for testing the direct effects of the hypothesized variables is summarized in the Figure 5.2.



Source: Smart PLS3

Figure 5.2: Results of Direct Effect Hypotheses in Structural Model 1

The value of R^2 for Audit Quality (AQ) was 0.813. This indicates 81.3% of variations in Audit Quality (AQ) are explained by its three predictors (i.e, ACH, AFA and EMIC). The R^2 value of 0.813 is high and satisfies the requirement for the 0.19 cut off value as recommended by (Wynne W Chin, 1998).

The value of Q^2 for Audit Quality (AQ) was 0.629, far greater than zero which refers to predictive relevance of the model as suggested by Chin (2010). In sum, the model exhibits acceptable fit and high predictive relevance.

The result indicated that the model's goodness of fit measure (GOF) was 0.763, referring to a large goodness of fit of the model as recommended by Wetzels et al., (2009)

$$GOF = \sqrt{0.813 * 0.717} = 0.763$$

(5.1)

The current structural model's SRMR value with 95% confidence interval was 0.043, indicating good fit as the threshold value should be less than 0.08 (Hair et al., 2014).

The result of this study showed that the RMS_{θ} value was 0.123, within the acceptable range of 0.1 and 0.14 as recommended by Henseler et al. (2014).

The estimated coefficient parameters are then used to test the hypothesized direct effects of the variables addressed in Table 2.1. Table 5.1 shows the path coefficients and the results of examining hypothesized direct effects.

Table 5.1: Hypothesized Direct Effects of the Constructs in Structural Model 1

Path	Std Beta	Std Deviation	t-value	p-value	95% LL-CI	95% UL-CI	f ²	VIF	Hypothesis Result
ACH→AQ	0.438***	0.040	11.109	0.000	0.358	0.517	0.401	2.563	H1 ⁺ : Supported
AFA→AQ	0.200***	0.049	4.077	0.000	0.102	0.298	0.082	2.623	H2 ⁺ : Supported
EMIC→AQ	0.348***	0.048	7.106	0.000	0.242	0.437	0.210	3.083	H3 ⁺ : Supported

*p< 0.05, **p< 0.01, ***p< 0.001

Source: Smart PLS3

As can be seen in Table 5.1, all paths were statistically significant because their p-values were below the threshold of 0.05 for standard significance and their t-values were greater than 1.645. Thus, the H1, H2, and H3 direct effect hypotheses were confirmed. The path analysis findings are discussed in relation to the direct effect hypotheses in structural model 1 in the following subsections.

5.2.1.1 The Relationship Between the Auditor Characteristics and the Audit Quality

As shown in Table 5.1, the t-value and p-value of Auditor Characteristics (ACH) in predicting Audit Quality (AQ) were 11.109 and 0.000, respectively. It

means that the chance of getting a t-value as large as 11.109 in absolute value is 0.000. In other words, the regression weight for Auditor Characteristics (ACH) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.001 level. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.358, and upper level of 0.517. The standard path coefficient was 0.438, indicating that the relationship was positive. It means that for every one standard deviation increase in Auditor Characteristics (ACH), Audit Quality (AQ) increases by 0.438 standard deviations. Furthermore, f^2 was 0.401, indicating that the effect size of Auditor Characteristics (ACH) on Audit Quality (AQ) was significant. The findings also revealed that the VIF of Auditor Characteristics (ACH) in predicting Audit Quality (AQ) was 2.563, which was less than the 5 threshold. Thus, single source bias is not a significant problem with the data, and the model can be said to be free of collinearity.

These findings show that hypothesis H1 (H1: Auditor Characteristics (ACH) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.438$, 95%LL-CI = 0.358, 95%UL-CI = 0.517, $t > 1.645$, $p < 0.001$, $VIF < 5$, $f^2 = 0.401$.

The significant positive relationship indicates that ACH is critical to increasing the level of AQ. In other words, the commitment of external of auditors with the audit team individual's characteristics has increased audit quality in the municipalities. This result is consistent with previous studies (ALBeksh, 2016; Knechel et al. 2013; Haeridistia and Agustin 2019; Christensen et al., 2016; Schroeder et al., 1986; Carcello et al., 1992). This finding is also supported by the of Public Interest Theory, which proposes that municipal management must follow laws and regulations which require specific characteristics of auditors such as independence, experience auditing public sector organizations, and compliance with general ethics.

As a result, it is recommended that municipalities to implement some procedures to hire audit firms based on the characteristics of audit staff and to require specific attributes of the audit team through the assessment of the audit team's history records.

5.2.1.2 The Relationship Between the Audit Firm Attributes and the Audit Quality

As shown in Table 5.1, the t-value and p-value of Audit Firm Attributes (AFA) in predicting Audit Quality (AQ) were 4.077 and 0.000, respectively. It means that the chance of getting a t-value as large as 4.077 in absolute value is 0.000. In other words, the regression weight for Audit Firm Attributes (AFA) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.001 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.102, and upper level of 0.298. The standard path coefficient was 0.200, indicating that the relationship was positive. It means that for every one standard deviation increase in Audit Firm Attributes (AFA), Audit Quality (AQ) increases by 0.200 standard deviations. Furthermore, f^2 value was 0.082, indicating that the effect size of 0.082 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Audit Firm Attributes (AFA) in predicting Audit Quality (AQ) was 2.623, which was less than the 5 thresholds.

These results demonstrated that H2 (H2: Audit Firm Attributes (AFA) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.200$, 95%LL-CI = 0.102, 95%UL-CI = 0.298, $t > 1.645$, $p < 0.001$, $VIF < 5$, $f^2 = 0.082$.

A small positive correlation indicates that AFA is something that increases the level of AQ. In other words, the high attributes of audit firm affect positively the audit

quality in the municipalities. This result is consistent with previous studies (Alareeni 2019; Yebba & Elder, 2019; Omer et al., 2016; Elder et al., 2015; Boon et al., 2008). This finding is also supported by the Public Interest Theory, which proposes that municipal management must follow laws and regulations requiring specific attributes of audit firms, such as the minimum number of audit team and their experiences, and selecting the best financial audit offer with considering the competency of the audit firms.

As a result, it is recommended that municipalities implement some procedures to hire audit firms based on their reputation, and the existence of experienced and sufficient auditors.

5.2.1.3 The Relationship Between the Effectiveness of Municipal Internal Control (EMIC) and the Audit Quality (AQ)

As shown in Table 5.1, the t-value and p-value of the Effectiveness of the Municipal Internal Control (EMIC) in predicting Audit Quality (AQ) were 7.106 and 0.000, respectively. It means that the chance of getting a t-value as large as 7.106 in absolute value is 0.000. In other words, the regression weight for the Effectiveness of the Municipal Internal Control (EMIC) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.001 level. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.242, and upper level of 0.437. The standard path coefficient was 0.348, indicating that the relationship was positive. It means that for every one standard deviation increase in the Effectiveness of Municipal Internal Control (EMIC), Audit Quality (AQ) increases by 0.348 standard deviations. Furthermore, f^2 was 0.210, indicating that the effect size of Effectiveness of Municipal Internal Control (EMIC) on Audit

Quality (AQ) was medium. The findings also revealed that the VIF of the Effectiveness of Municipal Internal Control (EMIC) in predicting Audit Quality (AQ) was 3.083, which was less than the threshold of 5. Thus, single source bias is not a significant problem with the data, and the model can be said to be free of collinearity.

These results demonstrated that H3 (H3: Effectiveness of the Municipal Internal Control (EMIC) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.348$, 95%LL-CI = 0.242, 95%UL-CI = 0.437, $t > 1.645$, $p < 0.001$, $VIF < 5$, $f^2 = 0.210$.

The medium positive correlation indicates that EMIC moderately increases the AQ level. In other words, the high effectiveness of Municipal Internal Control affects positively the audit quality in the municipalities. This result is consistent with previous studies (Yebba & Elder, 2019; Sari et al. 2019; DeFond & Zhang, 2014). Also, this result supports the public interest theory, which proposes that the municipal government regulator required from the municipal management to implement effective internal controls, such as internal auditing and an appropriate accounting system, and adhere to the applicable laws and regulations that govern all municipal activities.

As a result, it is recommended that municipalities implement and maintain effective internal controls, and that external auditors examine the internal controls components in municipalities, specifically the internal auditing, financial accounting system, and applicable laws and regulations.

5.2.2 Examining Moderation Effect Hypotheses

This study also investigated the moderating effects of Supreme Audit Institutions (SAI) as a moderating variable on the relationship between the Auditor

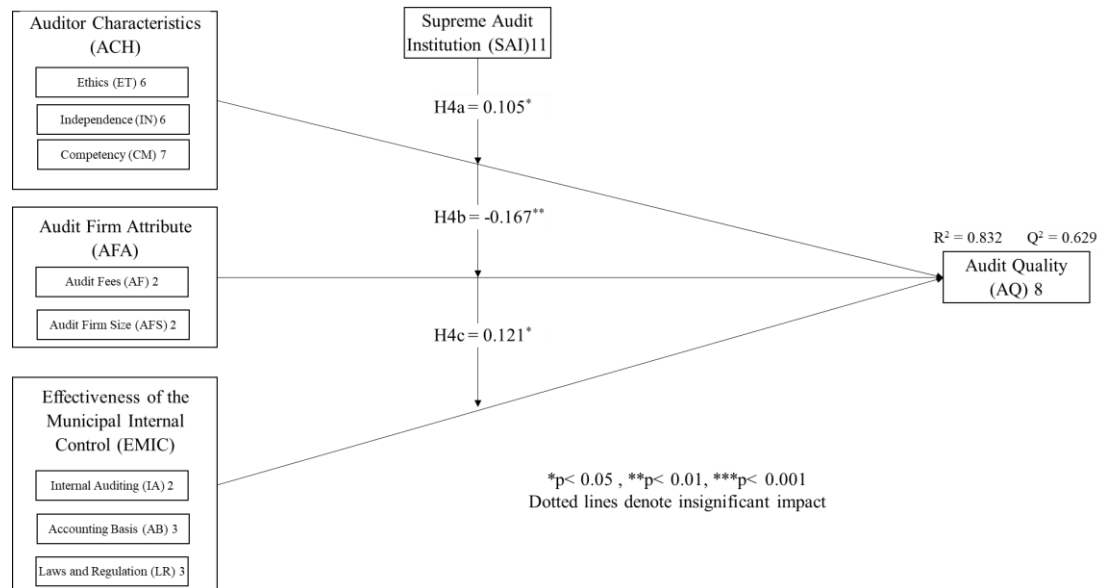
Characteristics (ACH) as independent variables and Audit Quality as dependent variable (H4a), Audit Firm Attributes (AFA) as independent variables and Audit Quality as dependent variable (H4b), and Effectiveness of Municipal Internal Control (EMIC) as independent variable and Audit Quality as a dependent variable (H4c).

To confirm that a third variable has a moderating effect on the relationship between the independent variables and dependent variable, the nature of the relationship should change as the moderating variable's values change. This is accomplished by including an interaction effect in the model and determining whether or not such an interaction is significant.

When using this analysis, all predictors must be standardised or centred to make subsequent interpretations easier and to avoid the problem of multicollinearity (Aiken & West, 1991). This was accomplished by subtracting a measured variable from its respective mean and then dividing the result by the measured variable's standard deviation. After that, the cantered indicator's product was calculated and used as an indicator of the latent interaction term. The effect of the interaction term on the DV should be significant to determine whether the moderator effect is significant. According Aiken and West (1991), method of creating plots for each interaction was used to demonstrate the moderator's influence on the correlation between the predictor and outcome variable. Therefore, four cell means must be generated in order to graph the interaction between the variables. One divides the independent variable (low and high) and the moderating variable (low and high) into two levels and crosses them to obtain four cell means. The term "low" refers to one standard deviation below the mean, while "high" refers to one standard deviation above the mean.

The structural model with interaction terms to investigate the moderation effects of the SAIs as the SmartPLS 3 model is portrayed in **Appendix 9**.

Figure 5.3 depicts the results of moderation effect hypotheses in structural model 1.



Source: Smart PLS3

Figure 5.3: Results of Moderation Effect Hypotheses in Structural Model 1

The R^2 value for Audit Quality (AQ) was 0.832, which was greater than the Chin (1998) cut off value of 0.19. According to Chin (2010), the value of Q^2 for Audit Quality (AQ) was 0.629, which is far greater than zero and indicates the model's predictive relevance. The model's goodness of fit measure (GOF) was 0.772 which is relatively large. The SRMR was 0.048, less than the threshold of 0.08. The RMS_{θ} value was 0.112, within the acceptable range of 0.1 and 0.14.

As shown in Table 5.2, the moderating effects of the Supreme Audit Institutions (SAI) in structural model 1 were investigated. The path coefficient was additionally used to assess each interaction term's impact on the dependent variable.

Table 5.2 demonstrates that all paths were statistically significant because their p-values were below the threshold for statistical significance of 0.05 and their t-values were greater than 1.645. The hypotheses H4a, H4b, and H4c regarding the moderation

effect were thus supported. The following section discusses the path analysis results in relation to the moderation effect hypotheses in structural model 1.

Table 5.2: Examining Results of Hypothesized Moderation Effects of SAI

Path	Std Beta	Std Deviation	t-value	p-value	95% LL-CI	95% UL-CI	f ²	VIF	Hypothesis Result
ACH*SAI→AQ	.105*	.049	2.103	.034	-.009	.192	.029	1.874	H4a: Supported
AFA*SAI→AQ	-.167**	.060	2.735	.006	-.254	.004	.065	2.256	H4b: Supported
EMIC*SAI→AQ	.121*	.058	2.057	.038	-.015	.217	.029	2.500	H4c: Supported

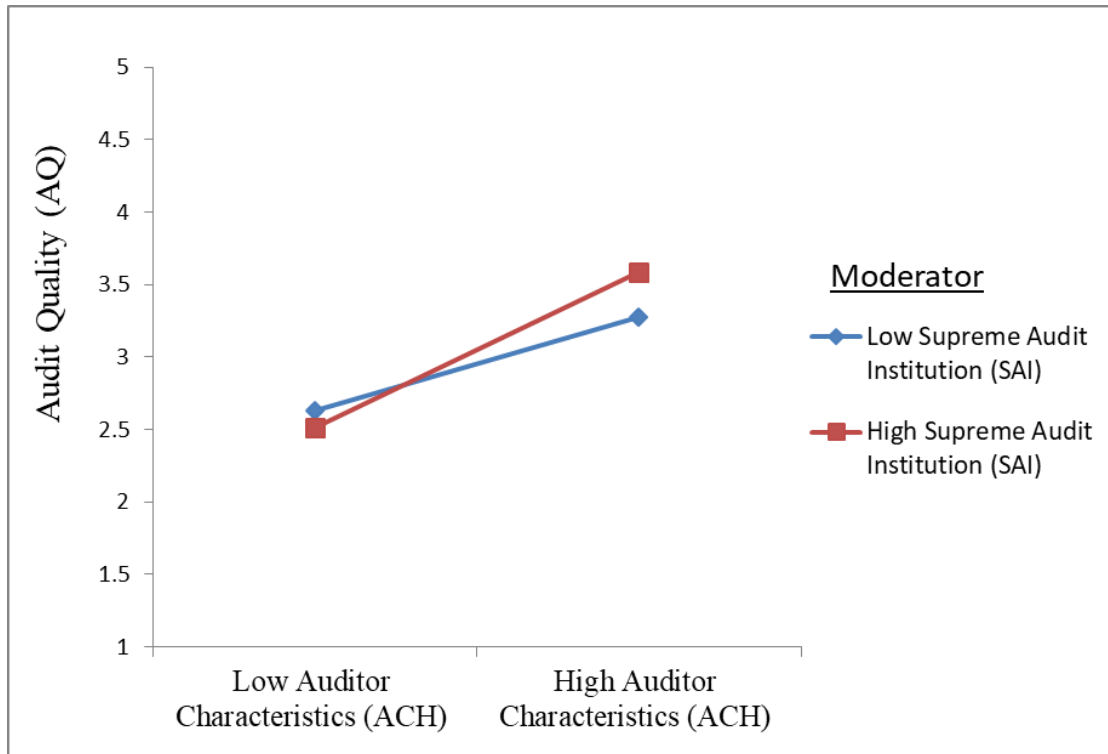
*p< 0.05, **p< 0.01, ***p< 0.001

Source: Smart PLS3

5.2.2.1 The Moderating Role of SAIs between the Auditor Characteristics and Audit Quality

As shown in the Table 5.2, the moderation effect of Supreme Audit Institutions (SAI) on the relationship between Auditor Characteristics (ACH) and Audit Quality (AQ) was statistically significant despite of existence of intervals straddling a 0, because the t-value is greater than 1.645 and the p-value is less than the standard significant level of 0.05 (coefficient path = 0.105; t- value = 2.103; p-value = 0.034). The f² value was 0.029, indicating small effect size. The VIF was 1.874, less than threshold of 5 and demonstrated free from collinearity. Thus, H4a (H4a: Supreme Audit Institutions moderates the relationship between Auditor Characteristics and Audit Quality) was supported; $\beta = 0.105$, 95%LL-CI = -0.009, 95%UL-CI = 0.192, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.029$.

Figure 5.4 shows the line chart effect of Auditor Characteristics (ACH) on Audit Quality (AQ) at low and high level of Supreme Audit Institutions (SAI).



Source: Smart PLS3

Figure 5.4: Effect of ACH on AQ at Low and High Level of SAI

The two lines in Figure 5.4 indicate a positive relationship between Auditor Characteristics (ACH) and Audit Quality (AQ). The two lines were not parallel, implying the presence of a moderation effect. However, the relationship was steeper and thus greater for high level of Supreme Audit Institutions (SAI) compare to the low level. As a result, it is possible to conclude that the Supreme Audit Institutions (SAI) moderates the relationship between Auditor Characteristics (ACH) and Audit Quality (AQ). It implies that the positive impact of Auditor Characteristics (ACH) on Audit Quality (AQ) is stronger at higher levels of Supreme Audit Institutions (SAI).

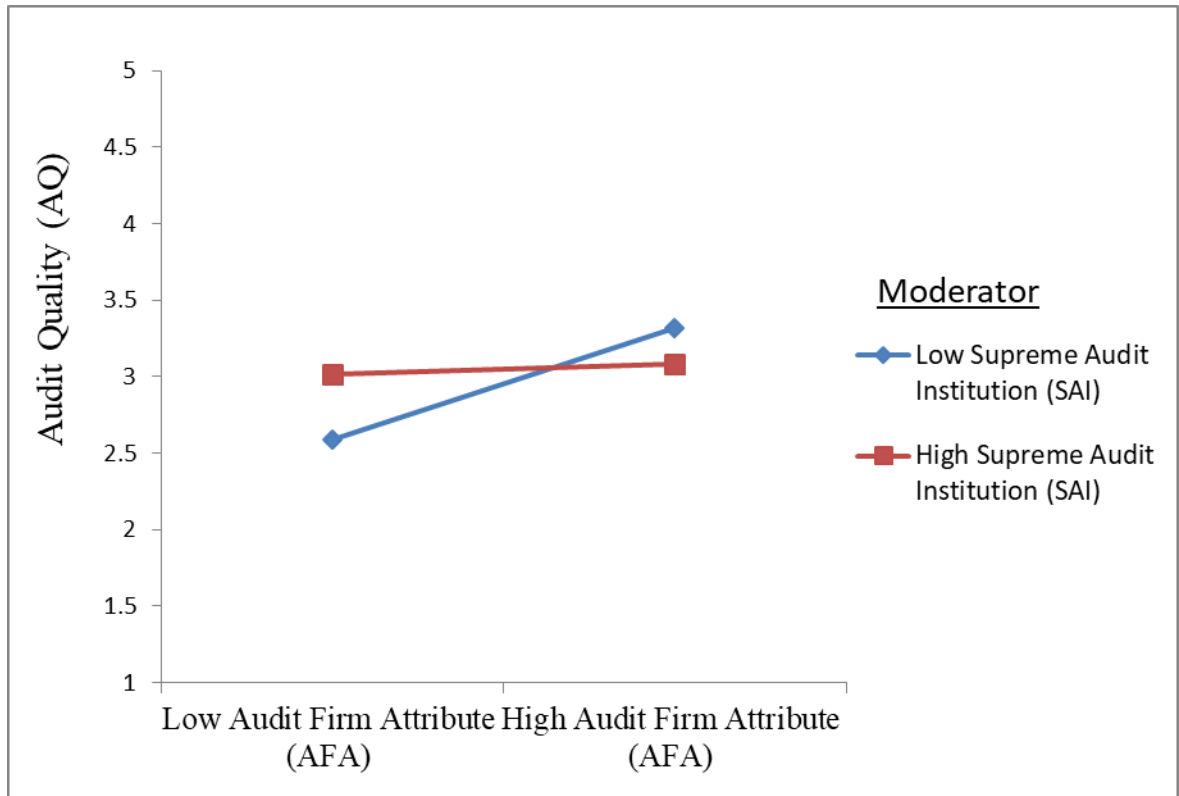
This result consistent with the findings of an examination of the annual audit reports of the Palestinian SAIs (FACB and GDCG), in which they did not mention direct notes and recommendations about the auditor characteristics in municipalities, but because all external auditor hiring processes are subject to FACB auditing,

municipalities will be more commitment with the ToR of hiring external auditors. In addition, FACB issued audit standards for auditors who audit public sector organizations; these standards outlined some of the auditors' characteristics and behaviors. Furthermore, the SAIs may assist external auditors in evaluating internal control in the municipalities and motivating them to detect violations of applicable laws and regulations that have a direct impact on the financial statements' fairness. Therefore, the SAIs encourage the municipalities to hire high qualities auditors who increases the audit quality in these municipalities.

5.2.2.2 The Moderating Role of SAIs between the Audit Firm Attributes and Audit Quality

As shown in the Table 5.2, the moderation effect of Supreme Audit Institutions (SAI) on the relationship between Audit Firm Attributes (AFA) and Audit Quality (AQ) was statistically significant, and there were no intervals straddling a 0, because the t-value is greater than 1.645 and the p-value is less than the standard significant level of 0.05 (coefficient path = -0.167; t- value = 2.735; p-value = 0.006). The f^2 value was 0.065, indicating small effect size. The VIF was 2.256, less than threshold of 5 and demonstrated free from collinearity. Thus, H4b (H4b: Supreme Audit Institutions moderates the relationship between Audit Firm Attributes and Audit Quality) was supported; $\beta = -0.167$, 95%LL-CI = -0.254, 95%UL-CI = -0.004, $t > 1.645$, $p < 0.01$, $VIF < 5$, $f^2 = 0.065$.

Figure 5.5 shows the line chart effect of Audit Firm Attributes (AFA) on Audit Quality (AQ) at low and high level of Supreme Audit Institution (SAI).



Source: Smart PLS3

Figure 5.5: Effect AFA on AQ at Low and High Level of SAI

As shown in Figure 5.5, the two lines indicated a positive relationship between Audit Firm Attributes (AFA) and Audit Quality (AQ). The two lines were not parallel which implied the existing of moderation effect. The relationship, however, was steeper and thus greater for the low level of Supreme Audit Institutions (SAI) when compared to the high level. Hence, it could be concluded that Supreme Audit Institutions (SAI) negatively moderates the relationship between Audit Firm Attributes (AFA) and Audit Quality (AQ). It means the positive effect of Audit Firm Attributes (AFA) on Audit Quality (AQ) is stronger for lower level of Supreme Audit Institutions (SAI).

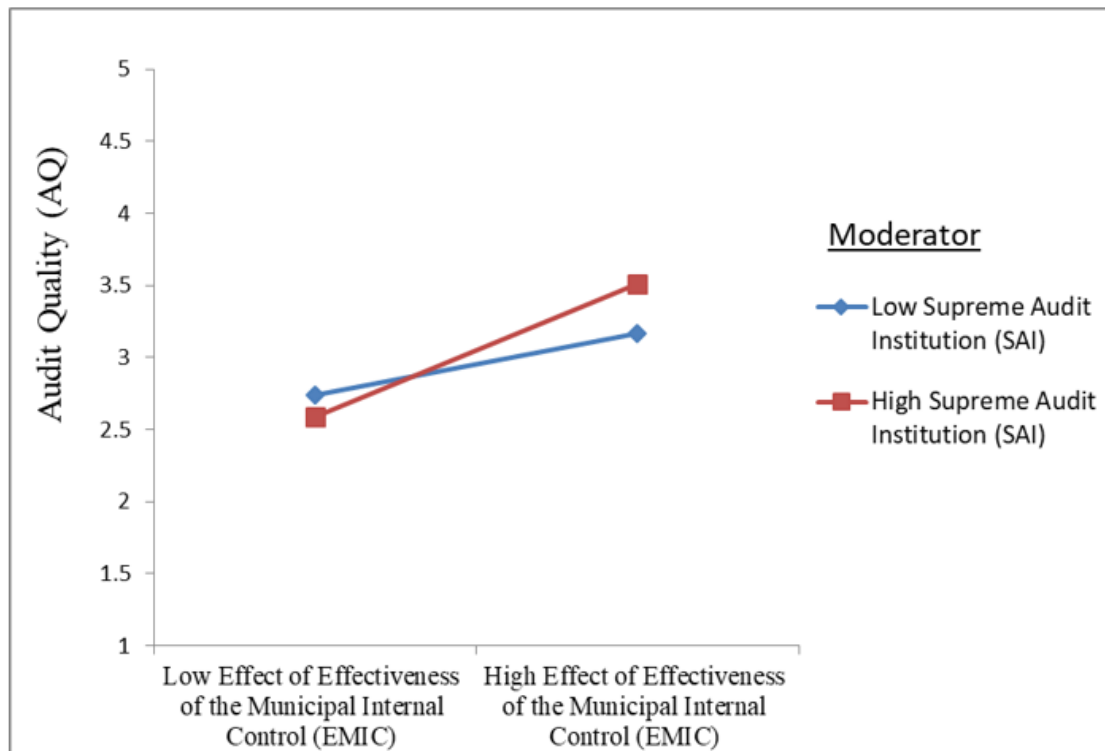
This finding is consistent with the findings of an examination of the annual audit reports of the Palestinian SAIs (FACB and GDCG), which did not include any recommendations or notes about the audit firm attributes, such as audit fees or audit

firm size. As previously stated, all external auditor hiring processes are subject to FACB auditing. As a result, municipalities will be more compliant with the ToR of hiring external auditors, which states the size of the audit team but not the audit firm size. Also, the audit fees always stated by bidding procedures which are control by specific laws and regulations, these procedures lead to the least audit fees which may affected on the auditors' efforts and decreased the audit quality. Also, the external auditor may use the audit reports of the SAIs as audit evidence and helping him in evaluating the audit risk and the effectiveness of the internal control in the municipalities. This is leading to make the cost of auditing more reasonable and at minimum level. Therefore, SAIs affect negatively on the relationship between the audit quality and audit firm attributes.

5.2.2.3 The Moderating Role of SAIs between the Effectiveness of Municipal Internal Control and Audit Quality

As shown in Table 5.2, although there was an interval straddling a 0, the effect of Supreme Audit Institutions (SAI) interaction with Effectiveness of Municipal Internal Control (EMIC) on Audit Quality (AQ) is statistically significant because of having t-value above 1.645 and p-value below the standard significant level of 0.05 (coefficient path = 0.121; t-value = 2.057; p-value = 0.038). The f^2 value was 0.029, indicating small effect size. The VIF was 2.500, less than threshold of 5 and demonstrated free from collinearity. Thus, H4c (H4c: Supreme Audit Institutions moderates the relationship between Effectiveness of the Municipal Internal Control and Audit Quality) was supported; $\beta = 0.121$, 95%LL-CI = -0.015, 95%UL-CI = 0.217, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.029$.

Figure 5.6 shows the line chart effect of Effectiveness of Municipal Internal Control (EMIC) on Audit Quality (AQ) at low and high level of Supreme Audit Institutions (SAI).



Source: Smart PLS3

Figure 5.6: Effect of EMIC on AQ at Low and High Level of SAI

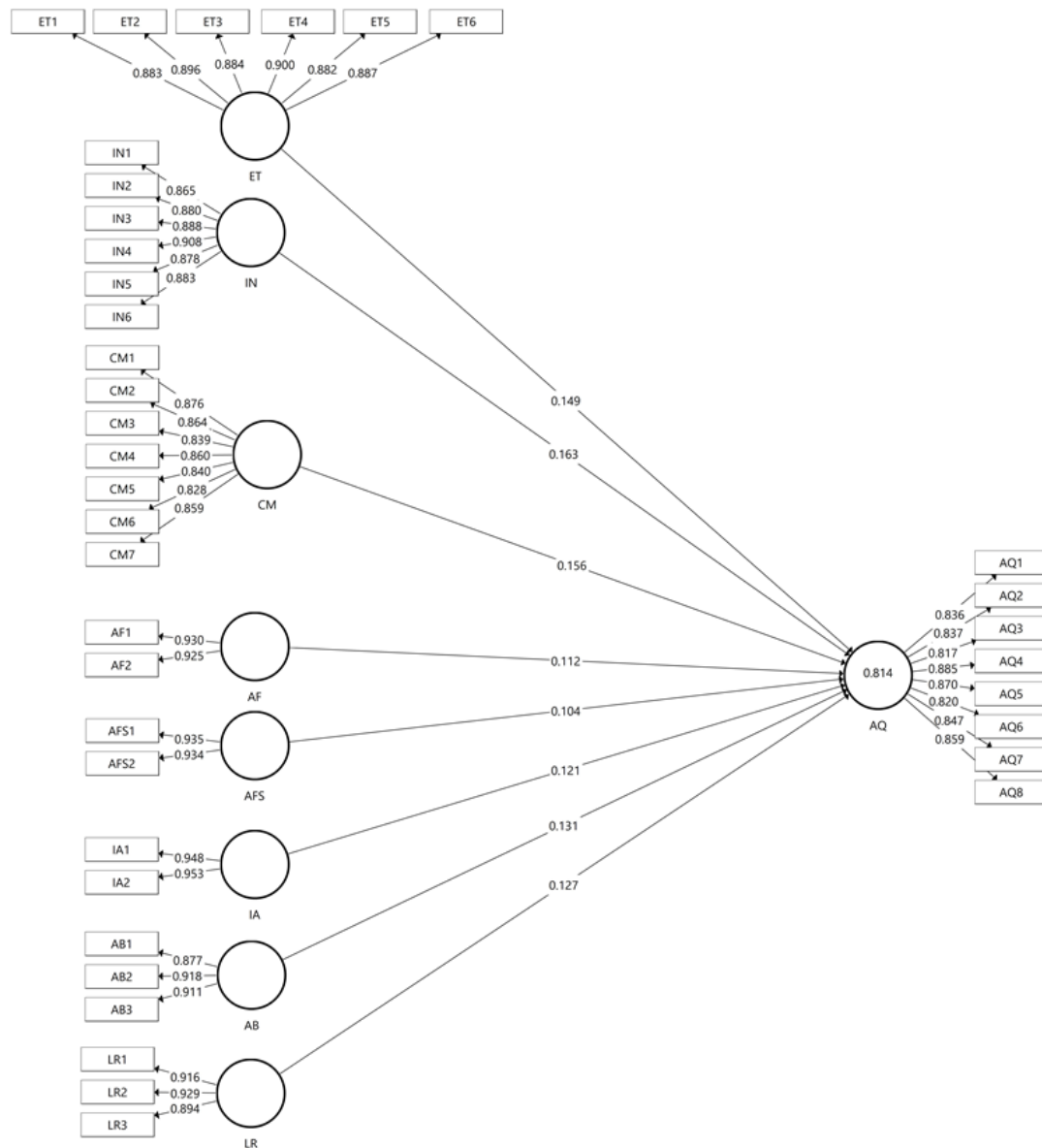
As shown in Figure 5.6, the two lines indicated a positive relationship between Effectiveness of Municipal Internal Control (EMIC) and Audit Quality (AQ). The two lines were not parallel which implied the existing of moderation effect. However, the relationship was steeper and thus greater for high level of Supreme Audit Institutions (SAI) compare to the low level. Hence, it could be concluded that Supreme Audit Institutions (SAI) positively moderates the relationship between the Effectiveness of Municipal Internal Control (EMIC) and Audit Quality (AQ). It means the positive effect of Effectiveness of Municipal Internal Control (EMIC) on Audit Quality (AQ) is stronger for higher level of Supreme Audit Institutions (SAI). This result is

consistent with the findings of an examination of the annual audit reports of the Palestinian SAIs (FACB and GDCG), in which they mentioned many recommendations and notes related to effective internal control and the main factors of internal control, including internal auditing, accounting bases (the foundation of the accounting system), and compliance with applicable laws and regulations, directly or indirectly. This means that by strengthening internal control and its determinants, such as internal auditing, accounting bases, and compliance with relevant laws and regulations, the audit of SAIs in municipalities enhances the audit quality.

5.2.3 Examining Direct Effect Hypotheses - Structural Model 2

The structural model investigated the direct causal effects of Ethics (ET), Independence (IN), Competency (CM), Audit Fees (AF), Audit Firm Size (AFS), Internal Auditing (IA), Accounting Basis (AB), and Laws and Regulation (LR) as independent variables on Audit Quality (AQ) as dependent variable were investigated in this study hypotheses (H1a, H1b, H1c, H2a, H2b, H3a, H3b and H3c respectively).

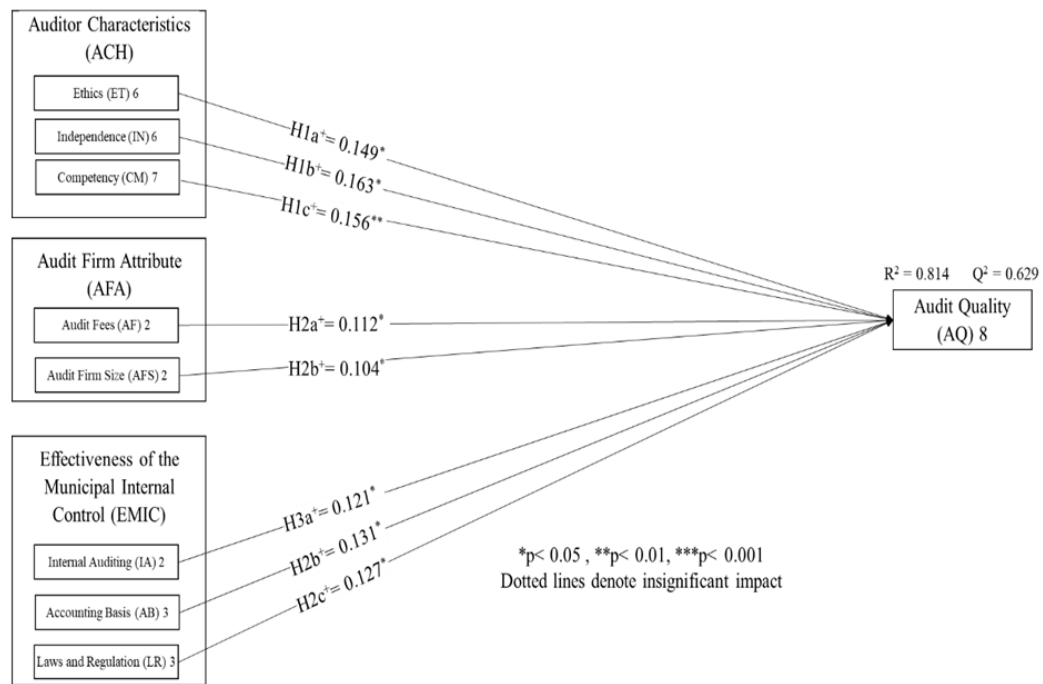
The structural model for testing the direct effects of the hypothesized variables in structural model 2 as the SmartPLS 3 model is portrayed in Figure 5.7 and Appendix 10.



Source: Smart PLS3

Figure 5.7: Structural Model 2 – Causal Effects – Path Coefficients

The structural model for testing the direct effects of the hypothesized variables in structural model 2 is summarized in Figure 5.8



Source: Author

Figure 5.8: Results of the Structural Model 2

The R^2 value for Audit Quality (AQ) was 0.814, which was higher than the Chin, (1998) cut off value of 0.19. The value of Q^2 for Audit Quality (AQ) was 0.629, which is far greater than zero and refers to the model's predictive relevance, as suggested by Chin (2010). The model's goodness of fit (GOF) was 0.764, which is quite high. The SRMR was 0.036, which was less than the 0.08 threshold. The RMS_{theta} value was 0.127, within the acceptable range of 0.1 and 0.14.

The estimated coefficient parameters are then used to test the hypothesized direct effects of the variables addressed in Table 2.1.

Table 5.3 displays the path coefficients and results of examining hypothesized direct effects in structural model 2.

Table 5.3: Hypothesized Direct Effects of the Constructs in Structural Model 2

Path	Std Beta	Std Deviation	t-value	p-value	95% LL-CI	95% UL-CI	f ²	VIF	Hypothesis Result
ET→AQ	0.149*	0.064	2.456	0.020	0.032	0.281	0.027	4.457	H1.a ⁺ : Supported
IN→AQ	0.163*	0.070	2.293	0.019	0.025	0.300	0.033	4.313	H1.b ⁺ : Supported
CM→AQ	0.156*	0.058	2.731	0.007	0.042	0.279	0.035	3.755	H1.c ⁺ : Supported
AF→AQ	0.112*	0.055	2.116	0.044	0.002	0.218	0.026	2.599	H2.a ⁺ : Supported
AFS→AQ	0.104*	0.052	2.976	0.045	0.005	0.200	0.022	2.584	H2.b ⁺ : Supported
IA→AQ	0.121*	0.051	2.294	0.018	0.019	0.216	0.027	2.919	H3.a ⁺ : Supported
AB→AQ	0.131*	0.063	2.019	0.039	0.007	0.254	0.022	4.229	H3.b ⁺ : Supported
LR→AQ	0.127*	0.056	2.297	0.023	0.015	0.236	0.028	3.161	H3.c ⁺ : Supported

*p< 0.05 , **p< 0.01, ***p< 0.001

Source: Smart PLS3

As shown in Table 5.3, all paths were statistically significant as their p-values were below the standard significance level of 0.05 and t-values above the threshold of 1.645. Thus, the direct effect hypotheses H1a, H1b, H1c, H2a, H2b, H3a, H3b and H3c were supported. The following sections discuss the results of path analysis in relation to the direct effect hypotheses in structural model 2:

5.2.3.1 The Relationship Between the Auditor Ethics and the Audit Quality

According to Table 5.3, the t-value and p-value of Ethics (ET) in predicting Audit Quality (AQ) were 2.456 and 0.020, respectively. It means that the chance of getting a t-value as large as 2.456 in absolute value is 0.020. In other words, the regression weight for Ethics (ET) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.032, and upper level of 0.281. The standard path coefficient was

0.149, indicating that the relationship was positive. It means that for every one standard deviation increase in Ethics, Audit Quality (AQ) increases by 0.149 standard deviations. Furthermore, f^2 value was 0.027, indicating that the effect size of 0.027 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Ethics in predicting Audit Quality (AQ) was 4.457, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H1a (H1a: Ethics (ET) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.149$, 95%LL-CI = 0.032, 95%UL-CI = 0.281, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.027$.

The significant positive relationship indicates that auditor ethics is critical to increasing the level of audit quality. In other words, the commitment of external of auditors with the audit team individual's Ethics has increased audit quality in the municipalities. This result is consistent with previous studies (Lord and DeZoort 2001; Blay et al., 2019; ALBeksh, 2016; Knechel et al., 2013; Haeridistia and Agustin, 2019; Christensen et al., 2016). According to the Public Interest Theory, the MOLG required from the auditor to registered in the audit professional regulators and has good reputation as mentioned in the ToR of hiring external auditors in the municipalities.

As a result, it is recommended that the profession regulator establish procedures to increase compliance with general ethics and international accounting ethics standards, and that municipalities implement some procedures to hire a high-profile audit firm with ethical audit teams.

5.2.3.2 The Relationship Between the Auditor Independence and the Audit Quality

According to Table 5.3, the t-value and p-value of Independence (IN) in predicting Audit Quality (AQ) were 2.293 and 0.019, respectively. It means that the chance of getting a t-value as large as 2.293 in absolute value is 0.019. In other words, the regression weight for Independence (IN) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.025, and upper level of 0.300. The standard path coefficient was 0.1632, indicating that the relationship was positive. It means that for every one standard deviation increase in Independence (IN), Audit Quality (AQ) increases by 0.1632 standard deviations. Furthermore, f^2 value was 0.033, indicating that the effect size of 0.033 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Ethics in predicting Audit Quality (AQ) was 4.313, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H1b (H1b: Independence (IN) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.1632$, 95%LL-CI = 0.025, 95%UL-CI = 0.300, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.033$.

The significant positive relationship indicates that auditor independence is critical to increasing the level of audit quality. In other words, the commitment of external auditors with independence either for the audit firm or audit team individuals has increased audit quality in the municipalities. This result is consistent with previous studies (Ismail et al., 2019; Kyriakou & Dimitras, 2018a; Hardies et al., 2016; Hardies et al. 2016; Junaidi et al., 2016; Knechel, 2016; Octavia and Widodo 2015; and Bouhawia et al., 2015; Elder et al., 2015; Francis, 2011; Francis, 2004; Ruiz-

Barbadillo et al., 2004; Ashbaugh et al., 2003). According to the Public Interest Theory, the MOLG required independence auditors for the municipalities in order to achieve high audit quality.

As a result, it is suggested that profession regulators establish guidelines and standards for auditor independence and determine which services the auditor can provide to his client.

5.2.3.3 The Relationship Between the Auditor Competence and the Audit Quality

According to Table 5.3, the t-value and p-value of Competency (CM) in predicting Audit Quality (AQ) were 2.731 and 0.007, respectively. It means that the chance of getting a t-value as large as 2.731 in absolute value is 0.007. In other words, the regression weight for Competency (CM) in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.042, and upper level of 0.279. The standard path coefficient was 0.156, indicating that the relationship was positive. It means that for every one standard deviation increase in Competence, Audit Quality (AQ) increases by 0.156 standard deviations. Furthermore, f^2 value was 0.035, indicating that the effect size of 0.035 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Competence in predicting Audit Quality (AQ) was 3.755, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H1c (H1c: Competency (CM) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.156$, 95%LL-CI = 0.042, 95%UL-CI = 0.279, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.035$.

The significant positive relationship indicates that auditor competence is critical to increasing the level of AQ. In other words, the commitment of external auditors to continuous education, understanding the client industry, and gaining experience in auditing and accounting-related fields has increased audit quality. This result is consistent with previous studies (Ismail et al., 2019; Kyriakou & Dimitras, 2018a; Hardies et al. 2016; Junaidi et al., 2016; Knechel, 2016; Octavia and Widodo 2015; and Bouhawia et al., 2015; Elder et al., 2015). According to the Public Interest Theory, the MOLG required some qualities must be met in the audit firm and audit team to be eligible for external auditing in the municipalities.

It is advised that as a result, profession regulators adopt the procedures and policies necessary to guarantee the presence of qualified auditors. Furthermore, municipalities need to hire people who have expertise in auditing public sector organizations, particularly municipalities.

5.2.3.4 The Relationship Between the Audit Fees and the Audit Quality

According to Table 5.3, the t-value and p-value of Audit Fees (AF) in predicting Audit Quality (AQ) were 2.116 and 0.044, respectively. It means that the chance of getting a t-value as large as 2.116 in absolute value is 0.044. In other words, the regression weight for 0.044 in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.002, and upper level of 0.218. The standard path coefficient was 0.112, indicating that the relationship was positive. It means that for every one standard deviation increase in Audit Fees, Audit Quality (AQ) increases by 0.112 standard deviations. Furthermore, f^2 value was 0.026, indicating that the effect size of 0.026 on Audit Quality (AQ) was

small effect size. The findings also revealed that the VIF of Audit Fees in predicting Audit Quality (AQ) was 2.599, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H2a (H2a: Audit Fees (AF) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.112$, 95%LL-CI = 0.002, 95%UL-CI = 0.218, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.026$.

The significant positive relationship indicates that the amount of the audit fees almost reflects the auditor efforts in auditing process. The more efforts in the audit process, the better the quality of the audit. This result is consistent with previous studies (Yebba & Elder, 2019; Hardies et al., 2015; DeFond & Zhang, 2014; Carson et al., 2013; Francis & Yu, 2009; Geiger & Rama, 2003). This finding is also supported by the Public Interests Theory, which proposes that municipal management must follow Law of Public Purchase when hiring and determining the auditor fees, particularly the municipalities compliance with the tendering or quotation processes. Accordingly, it is advised that municipalities first evaluate the technical aspects of the audit offers before evaluating the financial offers in order to determine which auditor is best suited to provide high audit quality at affordable audit fees.

5.2.3.5 The Relationship Between the Audit Firm size and the Audit Quality

According to Table 5.3, the t-value and p-value of Audit Firm Size (AFS) in predicting Audit Quality (AQ) were 2.976 and 0.045, respectively. It means that the chance of getting a t-value as large as 2.976 in absolute value is 0.045. In other words, the regression weight for 0.045 in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.005, and

upper level of 0.200. The standard path coefficient was 0.104, indicating that the relationship was positive. It means that for every one standard deviation increase in Audit Firm Size (AFS), Audit Quality (AQ) increases by 0.104 standard deviations. Furthermore, f^2 value was 0.022, indicating that the effect size of 0.022 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Audit Firm Size (AFS) in predicting Audit Quality (AQ) was 2.584, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H2b (H2b: Audit Firm Size (AFS) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.104$, 95%LL-CI = 0.005, 95%UL-CI = 0.200, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.022$.

The significant positive relationship indicates that larger audit firm size (AFS) equals higher audit quality. Because a large company always has more experienced staff in many fields and many alternatives to meet the audit quality requirements. This result is consistent with previous studies, Alareeni (2019) reported that many past studies confirmed the positive connection between audit firm size and audit quality. This conclusion is also supported by the Theory of Public Interests, which contends that municipal management must adhere to laws and regulations requiring a minimum number of auditors with various specialties in the audit team in accordance with the classification of the municipality.

As a result, it is recommended that municipalities hire audit firms that have a sufficient number of auditors with diverse experience in a variety of areas.

5.2.3.6 The Relationship Between the Internal Audit and the Audit Quality

According to Table 5.3, the t-value and p-value of Internal Auditing (IA) in predicting Audit Quality (AQ) were 2.294 and 0.018, respectively. It means that the

chance of getting a t-value as large as 2.294 in absolute value is 0.018. In other words, the regression weight for 0.018 in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.019, and upper level of 0.2161. The standard path coefficient was 0.121, indicating that the relationship was positive. It means that for every one standard deviation increase in Internal Auditing, Audit Quality (AQ) increases by 0.121 standard deviations. Furthermore, f^2 value was 0.027, indicating that the effect size of 0.027 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Internal Auditing in predicting Audit Quality (AQ) was 2.599, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H3a (H3a: Internal Auditing (IA) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.121$, 95%LL-CI = 0.019, 95%UL-CI = 0.2161, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.027$.

The significant positive relationship indicates that existence of internal auditing in the municipality leads to increase the level of audit quality. This result is consistent with previous studies (Sari et al., 2019; DeFond & Zhang, 2014).

. This finding is also supported by the Public Interests Theory, which proposes that municipal management in the large municipality as class (A) must establish a separate audit department for internal auditing, and other classes of municipalities are recommended by MOLG to hire internal auditors, and all municipalities must establish audit committee in the governance council.

As a result, it is recommended the municipalities to hire experienced auditors, and implement training programs to make them more qualified in internal audit, and it

recommended the external auditors to cooperate with the internal auditors in order to facilitate the auditing process in the municipality.

5.2.3.7 The Relationship Between the Accounting Basis and the Audit Quality

According to Table 5.3, the t-value and p-value of Accounting Basis (AB) in predicting Audit Quality (AQ) were 2.019 and 0.039, respectively. It means that the chance of getting a t-value as large as 2.019 in absolute value is 0.039. In other words, the regression weight for 0.039 in the prediction of Audit Quality (AQ) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.015, and upper level of 0.236. The standard path coefficient was 0.131, indicating that the relationship was positive. It means that for every one standard deviation increase in Accounting Basis (AB), Audit Quality (AQ) increases by 0.131 standard deviations. Furthermore, f^2 value was 0.026, indicating that the effect size of 0.022 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Accounting Basis (AB) in predicting Audit Quality (AQ) was 4.229, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H3b (H3b: Accounting Basis (AB) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.131$, 95%LL-CI = 0.015, 95%UL-CI = 0.236, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.022$.

The significant positive relationship indicates that the transferring from using the cash accounting basis will increase the audit quality in the municipalities. In other words, the accountant and internal auditor in the municipalities perceived that the accounting basis affects the audit quality, particularly when the municipality moved to use the accrual accounting basis. This result is consistent with previous studies

(Ademola et al., 2020; Cuadrado-Ballesteros et al., 2019; DeFond & Zhang, 2014) This finding is also supported by Public Interests Theory and the Theory of Stakeholders. When MOLG requires municipalities to issue financial reports on an accrual basis, these reports can meet the needs of the various stakeholders.

As a result, municipalities are advised to use accrual accounting in order to issue relevant financial statements to all stakeholders in the municipalities.

5.2.3.8 The Relationship Between the Laws and Regulations and the Audit Quality

According to Table 5.3, the t-value and p-value of Laws and Regulations (LR) in predicting Audit Quality (AQ) were 2.297 and 0.023, respectively. It means that the chance of getting a t-value as large as 2.297 in absolute value is 0.023. In other words, the regression weight for 0.023 in the prediction of Laws and Regulations (LR) is significantly different from zero at the 0.05 level of p-value. Furthermore, the confidence intervals bias corrected 95% did not show any intervals straddling a 0, lower level of 0.015, and upper level of 0.236. The standard path coefficient was 0.127, indicating that the relationship was positive. It means that for every one standard deviation increase in Laws and Regulations, Audit Quality (AQ) increases by 0.127 standard deviations. Furthermore, f^2 value was 0.028, indicating that the effect size of 0.028 on Audit Quality (AQ) was small effect size. The findings also revealed that the VIF of Audit Fees in predicting Audit Quality (AQ) was 3.161, which was less than the 5 threshold and demonstrated free from collinearity.

These results demonstrated that H3c (H3c: Laws and Regulations (LR) has significant positive effect on Audit Quality (AQ)) is supported; $\beta = 0.127$, 95%LL-CI = 0.015, 95%UL-CI = 0.236, $t > 1.645$, $p < 0.05$, $VIF < 5$, $f^2 = 0.028$.

The significant positive relationship indicates that the existence and compliance with the applicable laws and regulations increase the audit quality. This result is consistent with previous studies (Yebba and Elder 2019; Brusca et al., 2015). This finding is also supported by of Public Interests Theory, which proposes that municipal management must follow the applicable laws and regulations that ruled all activities in the municipalities.

As a result, it is advised that municipalities comply with all applicable laws and regulations and conduct ongoing monitoring of them. Moreover, it is advised that the regulators of the audit profession and the municipalities make revising and updating all applicable laws and regulations to be more effective.

5.3 Summary of Chapter Five

Two structural models were created in order to examine 11 hypothesized direct effects and 3 hypothesized moderation effects. These were carried out by using SmPLS 3.0 to perform a path analysis and testing the significance of the path coefficients for each proposed path.

According to the findings, all the 11 direct effect hypotheses put forward were supported. But the auditor characteristics was the most important factor in predicting Audit Quality. Also, the results of the moderation analysis, the effects of the Auditor Characteristics and the Effectiveness of Municipal Internal Control on the Audit Quality were stronger at higher levels of Supreme Audit Institutions, while the effect of the Audit Firm Attributes was stronger at lower levels of Supreme Audit Institutions. In other words, the effect of Audit Firm Attributes on Audit Quality was negatively moderated by Supreme Audit Institutions, while the positive effects of Auditor Characteristics and Effectiveness of Municipal Internal Control were

positively moderated by SAI. As a result, all three of the proposed moderation effect hypotheses were confirmed.

CHAPTER 6

CONCLUSION

6.1 Introduction

This chapter gives an overview of the entire study, discusses the conclusions that explain respondents' perceptions of the various research variables, and emphasizes the findings' implications for theoretical and methodological literature. The chapter also explains how audit quality in Palestinian municipalities is directly impacted by auditor characteristics, audit firm attributes, and effectiveness of municipal internal control. Furthermore, the moderation effect of Supreme Audit Institutions on the relationship between the audit quality and its determinants which they selected by this study. Besides that, the chapter explains the direct effect of selected dimensions of audit quality determinants, such as auditor Ethics, Independence, Competence, Audit Fees, Audit Firm Size, Internal Auditing, Accounting Basis, and the Laws and Regulations, on Audit Quality. This chapter discusses the limitations and make recommendations for future researchers in this field, and presents the final conclusion of the study.

6.2 The Main Finding of the Study

The current study's main goal is to provide evidence on the determinants of audit quality in Palestinian municipalities. The discussions and findings of the analysis were reported in Chapters Four and Five, are summarized in the following subsections.

6.2.1 The Auditor Characteristics and Audit Quality

The researcher had developed the first hypothesis of the study and three supporting hypotheses with regard to the first research question and to fulfill the first objective of this study regarding the influences of auditor characteristics and its dimensions, Ethics, Independence, and Competence, on the audit quality. H1: Auditor Characteristics (ACH) has significant positive effect on Audit Quality (AQ). The relationship between ACH and AQ was found to be significant and positive. The positive relationship indicates that the increase in the level of ACH in the audit team in audit engagement of the municipalities in terms of auditor ethics, independence, and competence will result in an increase in the level of AQ. Therefore, the results support the study hypotheses (H1a, H1b, H1c) and confirm positive relationships between the selected dimensions of ACH and the AQ. For example, the auditor ethics such as high reputation, honesty, and integrity has increased AQ in municipalities. Independence of auditor in mind and appearance will increase the AQ by increasing the trustworthiness of the users with the audited financial statements, also, the high level of education, knowledge, experience of auditor increases the AQ.

6.2.2 The Audit Firm Attributes and Audit Quality

The researcher had developed the second hypothesis of the study and two supporting hypotheses with regard to the second research question and to fulfill the second objective of this study regarding the influences of audit firm attributes and its dimensions, audit fees, and audit firm size on the audit quality. H2: Audit Firm Attributes (AFA) has significant positive effect on Audit Quality (AQ). The relationship between AFA and AQ was found a small positive correlation which indicates that AFA is something that increases the level of AQ. The positive

relationship indicates that the increase in the level of AFA in terms of Audit Fees (AF) and the Audit Firm Size (AFS) will result in an increase in the level of AQ. Therefore, the results support the study hypotheses (H2a and H2b) and confirm positive relationships between the selected dimensions of AFA and the AQ. For example, AF may reflect the amount of auditors' efforts in the audit engagement which increase the AQ in municipalities. Also, the AFS reflects the variety experienced auditors in many fields and more responsible auditors which increases the AQ in the municipality.

6.2.3 The Effectiveness of Municipal Internal Control and Audit Quality

The researcher had developed the third hypothesis of the study and three supporting hypotheses with regard to the third research question and to fulfill the third objective of this study regarding the influences of effectiveness of municipal internal control in the municipalities and its dimensions, internal auditing, accounting basis, and laws and regulations on the audit quality. H3: Effectiveness of the Municipal Internal Control (EMIC) has significant positive effect on Audit Quality (AQ). The relationship between EMIC and AQ was found a small positive correlation which indicates that EMIC is something that increases the level of AQ. The positive relationship indicates that the increase in the level of EMIC in terms of IA, AB, and LR will result in an increase in the level of AQ. Therefore, the results support the study hypotheses (H3a, H3b, and H3c) and confirm positive relationships between the selected dimensions of EMIC and the AQ. For example, the existence and more effective IA increase the compliance with established criteria and lead to more efficient business operations including issuing reliable financial statements, and IA can make the external auditing more efficient particularly, when there is a cooperation between the external auditors and internal auditors, and the external auditor can use

the reports of internal audit as audit evidence according to the auditing standards. The accounting basis is considered the foundation the accounting records, therefore, the nature of the accounting basis affecting the reliability and the relevancy of financial reports which considered the inputs of the auditing process, therefore, the audit quality will increase if the accounting basis was effective and efficient. As a result, shifting from cash accounting to accrual accounting will improve audit quality in municipalities because accrual accounting is more efficient and produces more comprehensive and useful financial reports. Also, the existence of effective applicable laws and regulations, as well as greater compliance with these laws and regulations, will improve audit quality in municipalities, because misstatements, whether errors or fraud, will be at a minimum, allowing the external auditor to detect any misstatements in the financial statements and report to the appropriate level of supervision on the municipality.

6.2.4 The Moderating Role of SAIs on the audit quality

The results of the study which related to fourth research question about the moderation role of the supreme audit institutions on the relationship between the audit quality and its determinants of auditors' characteristics, audit firms' attributes and effectiveness of municipal internal control. Also, the result of the study related to the fourth objective and related three hypotheses as the following:

H4a: Supreme Audit Institutions (SAI) moderates the relationship between Audit Quality (AQ) and Auditor Characteristics (ACH). The result of the study shows that the moderation effect of the SAIs on the relationship between the AQ and the ACH is positive effect, because the SAIs affect indirectly on the ACH through controlling the ToR of audit services which required specific characteristics in

candidate auditors, and monitoring the process of tendering of acquiring audit services.

H4b: Supreme Audit Institutions (SAI) moderates the relationship between Audit Quality (AQ) and Audit Firm Attributes (AFA). The study result shows that the moderation effect of the SAIs on the relationship between the AQ and the AFA is negative effect, because the SAIs monitor the process of tendering of acquiring audit services that heavily depending on the audit price competitiveness. This leads to reducing audit fees to their minimum, and this matter does not encourage the auditor to exercise the required professional care, which reflects negatively on the quality of the audit.

H4c: Supreme Audit Institutions (SAI) moderates the relationship between the Audit Quality (AQ) and the Effectiveness of Municipal Internal Control (EMIC) in the municipality. The result of the study shows that the moderation effect of the SAIs on the relationship between the AQ and EMIC is significant and positive effect, because SAIs focus on compliance auditing, which examines the extent of the compliance of the municipalities with applicable laws and regulations, and current regulations encourage municipalities to use accrual accounting rather than cash basis. SAIs also typically suggest to the relevant parties some improvements to the laws and regulations in force by reviewing them at the level of updating these laws and regulations as well as how to comply with them, which leads to making municipal internal controls more effective, which increases the quality of auditing, and this means that SAIs positively affect the relationship between the AQ and the EMIC.

6.3 Contributions of the Study

The current study provides data on the factors of audit quality in municipalities by establishing a complete framework of audit quality. This framework applied the public interest theory to analyze the positive direct correlations between audit quality and chosen factors and their dimensions, which can influence the degree of audit quality in municipalities. Furthermore, this study takes into account the moderating influence of supreme audit institutions on the relationships between audit quality and its factors. According to the previous audit quality studies presented in Chapter 2, this study distinguishes itself by introducing new aspects connected to audit quality, such as the dimensions of the effectiveness of internal control in developing countries' municipalities.

In addition to the audit quality literatures, this study makes theoretical, methodological, and Managerial contributions as discussed in the following subsections.

6.3.1 Literature Contributions

This study may provide some contribution to the audit quality literature as follows:

First, in order to measure audit quality and provide a comprehensive model for audit quality in municipalities, the study collected valuable data from Palestinian municipalities that opened officially to external auditing in 2011 in addition to SAIs. According to the researcher's knowledge, this is the first study to look into audit quality in Palestinian municipalities as perceived by accountants and internal auditors who are involved in and familiar with the audit process, inputs, outputs, outcomes, and the context of the audit quality environment.

Second, the study enhanced the audit quality literature by investigating new aspects of audit quality such as the effectiveness of municipal internal control with its dimensions of the internal auditing, the accounting basis, and the applicable laws and regulations for the municipalities and their environment. These components may have been examined separately in previous studies, but to the best of the researcher's knowledge, no prior study examined them as audit quality factors in the municipalities.

Third, the public interest theory is used in this study as the main theory to explain the relationship among the variables of the study including the moderating role of the SAIs on the relationship between the audit quality and its determinants which they are chosen to be in the study model. According to the best of the researcher's knowledge, this is the first study used the Public Interests theory as main theory to explain all components of the study model.

6.3.2 Theoretical Contributions

The study's uniqueness stems from the development of a comprehensive theoretical framework that investigates the most important determinants of high audit quality in municipalities. This study yielded several theoretical contributions, which are described below:

First, the Public Interests Theory is used first time to explain the relationships between audit quality as a dependent variable and selected audit quality factors in municipalities as public sector organizations in Palestine. These organizations are frequently audited by governmental bodies, as is in the most developing countries in the region, but in Palestine, municipalities are opened to external auditing by MOLG who encourages the municipalities to issue yearly audited financial statements in order

to be credible for government and the foreign donors who provide grants to municipalities. Therefore, most municipalities entered in audit engagement with external auditors according to the study's findings which show that 96% of respondents had experience with external auditing in the last four years. This intervention by the government (MOLG) is the core of the Public Interest Theory. This study as best knowledge of the researcher is first study employs the Public Interest Theory as part of the suggested conceptual framework of auditing quality in the municipalities.

Second, the findings of the study confirmed and validated the using of the Public Interest Theory. For example, the study shows that 47.8 % of all respondents mentioned that their municipalities have internal auditing department. Also, the study shows that 33.9% of the respondents use the accrual basis and 23.7% of them use the modified accrual basis and mixed accounting bases. The increasing of establishment of internal auditing departments in the municipalities, and transition from the cash basis to the accrual accounting reflects the intervention of the government according to the Public Interest Theory.

Third, the Public Interests Theory can explain the effect of the SAIs on the audit quality in the municipalities, because the using of the SAIs auditing in the municipalities represents the governmental intervention to strengthen the internal control factors including the internal auditing, accounting basis and reliable accounting information system, and the compliance with the applicable laws and regulations. The study shows that most municipalities have experience with SAIs auditing which reached to 92% among the respondents. Moreover, the study shows that the SAIs moderate positively the relationship between the audit quality and the auditor's characteristics and the effectiveness of municipal internal controls, but

negatively moderate the relationship between the audit quality and the audit firm's attributes.

6.3.3 Methodological Contributions

This study has implications for research methodology by assessing the independent variables, moderator variable, and their impact on the audit quality as dependent variable. The measurements of these variables were found to have good validity and reliability in organizational research. This study contributes to the methodology by validating these measurements in a different context.

The measurements for the independent and dependent variables in this study, which total 39 items, were adapted from pertinent prior studies. Because these instruments and their items were used in other nations, strict test procedures were required to ensure that they were suitable for use in the Palestinian context through the validation of these items. However, the remaining 11 moderator variable measures were tested in the pilot study using SPSS, and the validity test of the 11 items showed that the application was valid and reliable within the parameters of the study. In addition to these measurements the study reviews the annual reports of SAIs in Palestine which they related to the municipalities in order to support of result of perception of the effect of the SAIs role on the relationship between the audit quality and its determinants; auditor's characteristics, audit firm attributes, and the effectiveness of municipal internal control in the Palestinian municipalities. As a result, this study examines the effect of the moderator role of SAIs on the relationship between audit quality and its determinants using both secondary and primary data.

Also, the study used the Smart PLS 3 software in statistical analysis of the result of the questionnaire, according to Hair et al., (2017) who encouraged social sciences

researchers to use Smart PLS 3 because it is a newer, more powerful, and often more flexible statistical method, and estimates data with little or no bias.

6.3.4 Managerial Contributions

According to result of the study which depicted all relations among the study variables, several practical contributions can be useful for several parties as follows:

First, the study can help the audit profession regulators in developing a comprehensive audit quality framework for the public sector, including the audit quality factors that were chosen, as well as looking at other new audit quality attributes.

Second, the study will be helpful for the management of the PSOs and the governance bodies in evaluating the audit bids and thus choose the best professional auditors who can provide high audit quality. Because this study provides a comprehensive model for the quality of the audit services by focusing on the inputs of the audit process.

Third, audit firms may refer to perspectives of accountants and internal auditors as a basis to enhance their audit efficiency. When this perception is known to audit firms, it assists them in developing effective strategies to satisfy your clients, allowing audit firms to differentiate their promotion and service provision strategies, and improve their audit service quality, allowing them to retain the clients and strengthen their market position.

Fourth, because the study suggested a comprehensive framework for audit quality while considering the municipalities environment, it will assist the municipal regulator (MOLG) in reviewing its regulations related to the appointment of external auditors and the issuance of audited financial statements. Furthermore, the study may

benefit the government and legislative parties in reviewing and imposing internal audit laws and regulations; adopting relevant accounting basis; and expanding the activities of the SAIs in all Palestinian municipalities.

Fifth, this study related to case of opening the municipalities to external auditing in Palestine; this is a new case in Arab countries or may in the Middle East region. The findings of this study may help other decision makers in these countries in evaluating this case and take actions to implement some findings of this study, particularly the use of accrual accounting basis instead of cash basis and enhancing the role of internal auditing in the municipalities.

Sixth, policymakers in municipalities and audit firms become more aware of the audit process's input and output when deciding on the terms of the audit engagement, and they can use the findings of this study to reach a fair audit agreement that takes in its considering the technical issues and the amount of proper audit fees. Furthermore, the policymakers learn about the role of SAIs in the quality of external auditing and how they can influence the audit process. The external auditor, for example, may use the SAIs' reports as audit evidence and indicators in assessing audit risk and the effectiveness of internal control in municipalities. As a result, auditing fees will become more affordable and minimal.

6.4 Limitations and Suggestions for Future Research

This study has some limitations, as always when doing research, which should be considered when interpreting the findings. These limitations provide a few opportunities for future research to consider:

First, to the best of the researcher's knowledge, this study is limited because of the lack of studies related to external auditing quality factors in the municipalities in

developing countries, particularly the role of SAIs on the audit quality. It is the first study conducted in Palestine and the Middle East region on examination of the effect of effectiveness of municipal internal control and the effect of moderating role of SAIs on the external audit quality in the municipalities. As a result, more research is needed to confirm the findings of this study.

Secondly, it must be acknowledged that there are constraints on what can be inferred from a perceptual-based survey because respondents' subjectivity may make it difficult for them to provide unbiased feedback. This might happen, for instance, if a respondent chooses to support his interests by providing a specific response.

Third, this study is limited in that it considers specific determinants of auditor characteristics. Because auditor characteristics are the most important predictor of external audit quality, other determinants such as auditor courage, gender, or other characteristics should be considered in future studies. In addition, future research could look at other aspects of audit firm attributes and the effectiveness of municipal internal control, such as work overload, artificial intelligence, technology level, and audit firm culture.

Finally, this study examined only one factor as a moderator of the relationship between the independent variable and the dependent variable in the study model, but other factors, such as public election of governance bodies, political, economic, and environmental factors, may act as moderators on these relationships. Future research could look into these factors and how they affect audit quality in municipalities.

6.5 Recommendations

Following the audit quality literature review and empirical study findings, the following recommendations may be appropriate to solve problems in improving audit quality in public sector organizations, specifically Palestinian municipalities:

First, the study recommends the Palestinian Audit Profession Council and the Palestinian Association of Certified Public Accountants to add the IPSAS and related educational material to the Profession Exam requirements, and require specific auditing training courses from who want to provide audit services to PSOs, particularly municipalities.

Second, MOLG is advised to revise and update the terms of reference (ToR) for hiring external auditors for local government units (LGUs) to include all audit quality factors discussed in this study, particularly the auditor characteristics, which must be consider in any audit team designated to conduct municipal auditing. Furthermore, the revision of the ToR must include how to evaluate the technical offer, as well as the audit period, auditor tenner, and other assurance services that the external auditors may provide.

Third, municipal management is advised to get from all candidates for auditing the municipality a technical offer prior to the financial offer for assessment. This makes it possible for the municipality to choose external auditors who are qualified and capable of producing high-quality audits without having to base its decision to accept an audit offer primarily on audit fees.

Fourth, audit firms are advised to use the findings of this study to evaluate their policies and procedures in order to meet the requirements of audit quality as perceived by accountants and internal auditors who are always involved and active in the evaluation of audit bidding and the audit firms who participate in audit bids.

Five, legislative parties are encouraged to conduct a thorough review of municipal laws and regulations in order to bring them more in line with recent changes in accounting principles and audit processes, such as using the accrual accounting basis and mandating the municipalities to issue audited financial statements yearly during specific period.

Sixth, municipalities' managements are recommended to employ competent internal auditors and conduct training courses for them to be expertise with environment of the municipality, cooperative with the external auditors and SAIs auditors, and to be able to provide consulting services to management of the municipality.

Finally, SAIs are advised to obtain audited financial statements and other external audit reports in order to minimize their efforts, to motivate municipalities to hire competent auditors, and to encourage and monitor the external auditors to be committed with the ToR of audit service.

6.6 Concluding

The study related to the audit quality that is provided by audit firms in order to understand the most influential factors that raise and improve the audit quality in the municipalities. The research found three factors and their dimensions that have direct significant positive relationships influencing the audit quality: auditor characteristics with dimensions of ethics, independence, and competence; audit firm attributes with dimensions of audit fees and audit firm size; and the effectiveness of municipal internal control with dimensions of internal auditing, accounting basis, and applicable laws and regulations. Furthermore, in order to conduct a more thorough investigation, one moderator variable, supreme audit institutions, was considered in this study. The

findings revealed that supreme audit institutions moderate positively the relationship between auditor characteristics and audit quality, as well as the relationship between the effectiveness of municipal internal control and audit quality, but moderate negatively the relationship between audit firm attributes and audit quality.

To the best of researcher's knowledge, this study is one of the few studies conducted in developing countries especially in the Arab countries with a focus on the quality of external auditing in the municipalities to examine factors that have impact on improvements and prediction of the audit quality in the municipalities. Therefore, this study contributed to an expanding research stream on the audit quality by adding the Palestinian municipalities' accountants and the internal auditors' perspective. Thus, decision and policy makers in Palestine particularly Ministry of Local Government as regulators of municipalities, and the Palestinian Association of Certified Public Accountants and the Auditing Profession Council as regulators of the audit profession have to consider the findings of this research for evaluating and improving the audit quality in the public sector organizations particularly the municipalities.

REFERENCES

- Abbott, L. J., Daugherty, B., Parker, S., & Peters, G. F. (2016). Internal Audit Quality and Financial Reporting Quality: The Joint Importance of Independence and Competence. *Journal of Accounting Research*, 54(1), 3–40. <https://doi.org/10.1111/1475-679X.12099>
- Abi, S., Pituringsih, E., & Husnan, L. H. (2018). Determinant of regional financial management accountability and its consequences to the stakeholder Trust: A study at regional government in Dompu, Indonesia. *International Journal of Economics, Commerce and Management United Kingdom*, VI(2), 230–247. <http://ijecm.co.uk/>
- Abimbola, O., Kolawole, A., & Olufunke, A. (2017). Impact of International Public Sector Accounting Standards (IPSAS) Adoption on Financial Accountability in Selected Local Governments of Oyo State, Nigeria. *Asian Journal of Economics, Business and Accounting*, 3(2), 1–9. <https://doi.org/10.9734/ajeba/2017/33866>
- Abushamsieh, K., Hernsandez, A., & Rodriguez, D. (2013). the Transparency of Government Financial Information Systems in Arab Countries : Evidence. *Journal of Accounting, Business & Management*, 20(2), 99–112.
- Acharya, A. S., Prakash, A., Saxena, P., & Nigam, A. (2013). Sampling: why and how of it? *Indian Journal of Medical Specialities*, 4(2). <https://doi.org/10.7713/ijms.2013.0032>
- Acker, W. Van, & Bouckaert, G. (2018). The impact of supreme audit institutions and ombudsmen in Belgium and The Netherlands. *Financial Acc & Man*, June 2018, 55–71. <https://doi.org/10.1111/faam.12182>
- Ademola, A. O., Ben-Caleb, E., Madugba, J. U., Adegboyegun, A. E., & Eluyela, F. D. (2020). International Public Sector Accounting Standards (IPSAS) Adoption and Implementation in Nigerian Public Sector. *International Journal of Financial Research*, 11(1), 434. <https://doi.org/10.5430/ijfr.v11n1p434>
- Ahmaro, I. H. (2014). Controlling the Financial Performance of Jordanian Municipalities by Improving Financial Regulations An Analytical Study. *Journal of Business Studies Quarterly*, 6(2), 67–84.
- Ahmed, D. M., & Al-Kake, F. (2019). Application of Accrual Basis in the Public Sector and its Role in Providing Useful Information Exploratory Study of a Sample of Academic Specialists in the Kurdistan Region of Iraq. *Qalaai Zanist Scientific Journal*, 4(1). <https://doi.org/10.25212/lfu.qzj.4.1.25>
- Aiken, L. S., & West, S. G. (1991). *Multiple regression: Testing and interpreting interactions*: Sage.

- Aikins, S. K. (2011). An examination of government internal audits' role in improving financial performance. *Public Finance and Management*, 11(4), 306. <http://search.ebscohost.com/login.aspx?direct=true&db=edsgao&AN=edsgcl.303756232&lang=tr&site=eds-live&authtype=ip,uid>
- Al-Dhubaibi, A. A. S. (2020). Auditors' responsibility for fraud detection: Views of auditors, preparers, and users of financial statements in Saudi Arabia. *Accounting*, 6(2020), 279–290. <https://doi.org/10.5267/j.ac.2020.2.007>
- Alareeni, B. A. (2019). The associations between audit firm attributes and audit quality-specific indicators: A meta-analysis. *Managerial Auditing Journal*, 34(1), 6–43. <https://doi.org/10.1108/MAJ-05-2017-1559>
- AlBeksh, H. M. (2016). Compliance of auditors to ethics and rules of professional conduct and its impact on audit quality. *Imperial Journal of Interdisciplinary Research*, 1(12).
- Albuhaici, E. . m. (2013). Evaluating the Reality of Accounting Information System in the Gaza Strip Municipalities: a Field Study. *Islamic University for Economic and Administration Journal*, 21(1), 79–98.
- Aldhizer III, George R., John R. Miller, and J. F. M. (1995). "Common attributes of quality audits." *Journal of Accountancy*, 179(1).
- Alhababsah, S. (2019). Ownership structure and audit quality: An empirical analysis considering ownership types in Jordan. *Journal of International Accounting, Auditing and Taxation*, 35, 71–84. <https://doi.org/10.1016/j.intaccaudtax.2019.05.006>
- Ali, S. and Aulia, M. (2015). Audit firm size, auditor industry specialization and audit quality: an empirical study of Indonesian state-owned enterprises. *Research Journal of Finance and Accounting*, 6(22), 1–14.
- Ali, Z. M., Mail, R., & Amirul, S. M. (2019). The Mediation Effect of Clients' Satisfaction Between Audit Quality and Auditor Retention of Small and Medium Enterprises (SMES). *International Journal of Accounting, Finance and Business (IJAFB)*, 4(17), 53–65.
- Allen, A., & Woodland, A. (2010). Education requirements, audit fees, and audit quality. *Auditing: A Journal of Practice & Theory*, 29(2), 1–25. <https://doi.org/10.2308/aud.2010.29.2.1>
- Alqudah, H. M., Amran, N. A., & Hassan, H. (2019). Extrinsic Factors Influencing Internal Auditors' Effectiveness in Jordanian Public Sector. *Review of European Studies*, 11(2), 67. <https://doi.org/10.5539/res.v11n2p67>
- Alvarez, S. A., & Sachs, S. (2023). Where do stakeholders come from? *Academy of Management Review*, 48(2), 187–202.

- Alvin A. Arens, Randal J. Elder, M., & S. (2017). *Auditing and assurance services* (16th ed.).
- Analoui, F., & Samour, A. (2012). Strategic management: the case of NGOs in Palestine. *Management Research Review*, 35(6), 473–489.
- Anggriawan, F. T., & Yudianto, I. (2018). Factors Affecting Information Quality of Local Government Financial Statement of West Bandung District, West Java Province, Indonesia. *Journal of Accounting Auditing and Business*, 1(1), 34. <https://doi.org/10.24198/jaab.v1i1.15652>
- Asare, T. (2009). Internal auditing in the public sector: Promoting good governance and performance improvement. *International Journal on Governmental Financial Management*, 9(1), 15–28.
- Ashbaugh, H., LaFond, R., & Mayhew, B. W. (2003). Do Nonaudit Services Compromise Auditor Independence? Further Evidence. *The Accounting Review*, 78(3), 611–639.
- Ashbaugh, H., & Mayhew, B. W. (2003). 8-1 Ashbaugh et al 2003 TAR.pdf. *THE ACCOUNTING REVIEW*, 78(3), 611–639.
- Avis, E., Ferraz, C., & Finan, F. (2018). Do government audits reduce corruption? Estimating the impacts of exposing corrupt politicians. *Journal of Political Economy*, 126(5), 1912–1964. <https://doi.org/10.1086/699209>
- Axén, L., Tagesson, T., Shcherbinin, D., Custovic, A., & Ojdanic, A. (2019). Does municipal ownership affect audit fees? *Journal of Management and Governance*, 23(3), 693–713. <https://doi.org/10.1007/s10997-018-9438-4>
- Bagozzi, R. P., & Yi, Y. (1988). On the evaluation of structural equation models. *Journal of the Academy of Marketing Science*, 16(1), 74–94. <https://doi.org/10.1007/BF02723327>
- Bala, H. (2019). A Conceptual Framework for the Mediating Effect of Audit Quality on the Relationship Between Audit Committee Attributes and Financial Reporting Quality. *DLSU Business & Economics Review*, 29(1), 85–92.
- Ball, F., Tyler, J., & Wells, P. (2015). Is audit quality impacted by auditor relationships? *Journal of Contemporary Accounting and Economics*, 11(2), 166–181. <https://doi.org/10.1016/j.jcae.2015.05.002>
- Ballas, A. A., & Tsoukas, H. (2004). Measuring nothing: The case of the greek national health system. *Human Relations*, 57(6), 661–690. <https://doi.org/10.1177/0018726704044951>
- Barn, M. Z. (2023). Does Auditor Experience , Auditor Work Stress , And Time Budget Pressure Affect Audit Quality? *International Journal of Human Behavior Management*, 1(1), 1–24.

- Barr-Pulliam, D., Eulerich, M., & Ratzinger-Sakel, N. (2024). The effect of the internal audit function's perceived assurance versus advisory purpose on the external auditor's reliance decision. *Managerial Auditing Journal*. <https://doi.org/DOI: 10.1108/MAJ-08-2023-4021>
- Beattie, V., S. Fearnley, and T. H. (2012). Perceptions of factors affecting audit quality in the post-SOX U.K. regulatory environment. *Accounting and Business Research*, 1–26.
- Behn, B. K., Carcello, J. V., Hermanson, D. R., & Hermanson, R. H. (1999). Client Satisfaction and Big 6 Audit Fees. *Contemporary Accounting Research*, 16(4), 587–608. <https://doi.org/https://doi.org/10.1111/j.1911-3846.1999.tb00597.x>
- Behn, B. K., Carcello, J. V., Hermanson, D. R., & Hermanson, R. H. (1997). The determinants of audit client satisfaction among clients of Big 6 firms. *Accounting Horizons*, 11(1), 7–24. <https://doi.org/10.1111/j.1911-3846.1999.tb00597.x>
- Bell, T.B., M. Causholli, and W. R. K. (2015). Audit firm tenure, non-audit services, and internal assessments of audit quality. *Journal of Accounting Research*, 53(3), 461–509. <https://doi.org/10.1111/1475-679X.12078>.This
- Besley, T., & Ghatak, M. (2017). Public–private partnerships for the provision of public goods: Theory and an application to NGOs. *Research in Economics*, 71(2), 356–371. <https://doi.org/10.1016/j.rie.2017.04.005>
- Blay, A. D., Gooden, E. S., Mellon, M. J., & Stevens, D. E. (2019). Can Social Norm Activation Improve Audit Quality? Evidence from an Experimental Audit Market. *Journal of Business Ethics*, 156(2), 513–530. <https://doi.org/10.1007/s10551-017-3561-z>
- Boakai, J. R., & Phon, S. (2020). *The Perceived Need for Audit and Audit Quality in the Public Sector : A Study of Public Corporations in Liberia*.
- Boex, J. (2010). Localizing the MDGs: Unlocking the potential of the local public sector to engage in development and poverty reduction. *IDG Working Paper No. 2010-04*, 19.
- Bojkovska, K., Dimitrova, J., & Janceva, A. (2019). The functioning of the State Audit in the Republic of North Macedonia and the Republic of Montenegro. *Journal of Economics*, 4.
- Boon, K., McKinnon, J., & Ross, P. (2008). Audit service quality in compulsory audit tendering Preparer perceptions and satisfaction. *Accounting Research Journal*, 21(2), 93–122. <https://doi.org/10.1108/10309610810905917>
- Bouhawia, M. S., Irianto, G., & Baridwan, Z. (2015). The Effect of Working Experience, Integrity, Competence, and Organizational Commitment on Audit

- Quality (Survey State Owned Companies in Libya). *Journal of Economics and Finance*, 6(4), 60–67.
- Bovaird, T., & Löffler, E. (2003). Evaluating the quality of public governance: Indicators, models and methodologies. *International Review of Administrative Sciences*, 69(3), 313–328. <https://doi.org/10.1177/0020852303693002>
- Brown, C. E. (2012). Applied multivariate statistics in geohydrology and related sciences. *Springer Science & Business Media Brusca*.
- Brusca, I., Caperchione, E., Cohen, S., & Rossi, F. M. (2015). *Public Sector Accounting and Auditing in Europe: The Challenge of Harmonization*. Palgrave Macmillan. <https://doi.org/10.1057/9781137461346>
- Brusca, I., Caperchione, E., Cohen, S., & Rossi, F. M. (2018). IPSAS, EPSAS and other Challenges in European Public Sector Accounting and Auditing. *The Palgrave Handbook of Public Administration and Management in Europe*, 165–185. https://doi.org/https://doi.org/10.1057/978-1-137-55269-3_8
- Brusca, I., Cohen, S., Caruana, J., Caperchione, E., & Rossi, F. M. (2019). Financial Sustainability of Public Sector Entities: The Relevance of Accounting Frameworks. In *Palgrave Macmillan*. <https://doi.org/10.1007/978-3-030-06037-4>
- Butcher, K., Harrison, G., & Ross, P. (2013). Perceptions of Audit Service Quality and Auditor Retention. *International Journal of Auditing*, 17(1), 54–74. <https://doi.org/10.1111/j.1099-1123.2012.00457.x>
- Cagle, C., & Pridgen, A. (2015). Accountability in County Governments: Is Auditor Type Related to Audit Quality? *Journal of Leadership, Accountability and Ethics*, 12(1), 79–93.
- Cain, M. K., Zhang, Z. and Yuan, K. H. (2018). Univariate and multivariate skewness and kurtosis for measuring nonnormality: Prevalence, influence and estimation. *Behavior Research Methods*, 49(5), 1716–1735. <https://doi.org/10.3758/s13428-016-0814-1>
- Carcello, J.V., Hermanson, R.H. and McGrath, N. T. (1992). Audit quality attributes: The perceptions of audit partners, preparers, and financial statement users. *Auditing*, 11(1), 1–15.
- Carini, C., Giacomini, D., & Teodori, C. (2018). Accounting Reform in Italy and Perceptions on the Local Government Consolidated Report. *International Journal of Public Administration*, 42(3), 195–204. <https://doi.org/10.1080/01900692.2017.1423500>
- Carrington, T., Vakkuri, J., Reichborn-kjennerud, K., Jeppesen, K. K., & Taro, K. (2019). Supreme audit institutions in a high-impact context: A comparative

- analysis of performance audit in four Nordic countries. *Financial Accountability & Management*, 35(2), 158–181. <https://doi.org/10.1111/faam.12188>
- Carson, E., Fargher, N. L., Geiger, M. A., Lennox, C. S., Raghunandan, K., & Willekens, M. (2013). Audit reporting for going-concern uncertainty: A research synthesis. *Auditing. A Journal of Practice and Theory*, 32(Supplement 1), 353–384. <https://doi.org/10.2308/ajpt-50324>
- Carte, T. A., & Russell, C. J. (2003). In pursuit of moderation: Nine common errors and their solutions. *MIS Quarterly: Management Information Systems*, 27(3), 479–501. <https://doi.org/10.2307/30036541>
- Chadegani, A. A. (2011). Review of studies on audit quality in Asia. *NTU Management Review*, 27(1), 312–317. <https://doi.org/10.6226/NTUMR.2016.AUG.25104-004>
- Chalmers, K., Hay, D., & Khlif, H. (2019). Internal control in accounting research: A review. *Journal of Accounting Literature*, 42, 80–103. <https://doi.org/10.1016/j.acclit.2018.03.002>
- Chang, K.C., Leung, C.C. and Yew, W. W. (2007). Standard anti-tuberculosis treatment and hepatotoxicity: do dosing schedules matter? *European Respiratory Society*, 29, 347–351.
- Chang, Y. T., Chen, H., Cheng, R. K., & Chi, W. (2019). The impact of internal audit attributes on the effectiveness of internal control over operations and compliance. *Journal of Contemporary Accounting & Economics*, 15(1), 1–19. <https://doi.org/10.1016/j.jcae.2018.11.002>
- Chi, H. Y., & Chin, C. L. (2011). Firm versus partner measures of auditor industry expertise and effects on auditor quality. *Auditing*, 30(2), 201–229. <https://doi.org/10.2308/ajpt-50004>
- Chin, C. L., & Chi, H. Y. (2009). Reducing restatements with increased industry expertise. *Contemporary Accounting Research*, 26(3), 729–765.
- Chin, W.W. Marcolin, B.L. and Newsted, P. R. (1996). A PLS Latent Variable modelling approach for measuring interaction effects: Results from a Monte-Carlo Simulation study and Voice mail emotion/adoption study. In *Proceedings of the 17th International Confe.*
- Chin, W. W. (1998). The partial least squares approach to structural equation modelling. *Modern Methods for Business Research*, 295(2), 295–336.
- Chin, W. W. (2010). *How to write up and report PLS analyses Handbook of partial least squares : Springer.*
- Chin, Wynne W. (1998). Commentary: Issues and opinion on structural equation modeling. *MIS Quarterly*, 22(1), vii–xvi.

- Chiu, S. C., Chien, C. C., & Lin, H. C. (2017). Audit quality following the Public Company Accounting Oversight Board's operation. *Corporate Governance (Bingley)*, 17(5), 927–946. <https://doi.org/10.1108/CG-02-2017-0026>
- Christensen, B. E., Glover, S. M., Omer, T. C., & Shelley, M. K. (2016). Understanding Audit Quality: Insights from Audit Professionals and Investors. *Contemporary Accounting Research*, 33(4), 1648–1684. <https://doi.org/10.1111/1911-3846.12212>
- Christensen, J. G. (2010). Public interest regulation reconsidered: From capture to credible commitment. *Regulation at the Age of Crisis' ECPR Regulatory Governance Standing Group, 3rd Biennial Conference, U*, 1–40.
- Christiaens, J., & Reyniers, B. (2010). Impact of IPSAS on Reforming Governmental Financial Information Systems: A Comparative Study. *International Review of Administrative Sciences*, 76(3), 537–554.
- Christophe, Manes-Rossi, F., Aversano, N., & van Cauwenberge, P. (2015). The effect of IPSAS on reforming governmental financial reporting: An International Comparison. *International Review of Administrative Sciences*, 81(1), 158–177. <https://doi.org/10.1177/0020852314546580>
- Chui, L., Kim, O., & Pike, B. J. (2020). The Effect of Audit Duality on Audit Quality. *Journal of International Accounting Research*, 14(2), 0000–0000. <https://doi.org/10.2308/jiar-19-523>
- CIPFA, & IFAC. (2014). *International Framework: Good Governance in the Public Sector*.
- Clark, R., Dolan, L. R., & Zeitz, A. O. (2023). Accountable to Whom? Public Opinion of Aid Conditionality in Recipient Countries. *Political Economy of International Organizations*, 15.
- Coffman, D. L., & Maccallum, R. C. (2005). Using parcels to convert path analysis models into latent variable models. *Multivariate Behavioral Research*, 40(2), 235–259.
- Cohen, S.B. and Wheelwright, S. (2004). The empathy quotient: an investigation of adults with asperger syndrome or high functioning autism, and normal sex differences. *Journal OfAutism and Developmental Disorders*, 34(2).
- Cohen, J. (1992). Statistical power analysis. Current directions in psychological science. *Psychological Bulletin*, 1(3), 98–101. <https://doi.org/10.1038/141613a0>
- Cohen, S., Leventis, S., & Cohen, S. and Leventis, S. (2013). Effects of municipal, auditing and political factors on audit delay. *Accounting Forum*, 37(1), 40–53. <https://doi.org/10.1016/j.accfor.2012.04.002>

- Cohen, S., Manes Rossi, F., Caperchione, E., & Brusca, I. (2019). Local government administration systems and local government accounting information needs: is there a mismatch? *International Review of Administrative Sciences*, 85(4), 708–725. <https://doi.org/10.1177/0020852317748732>
- Converse, P. D., Wolfe, E. W., Huang, X., & Oswald, F. L. (2008). Response rates for mixed-mode surveys using mail and e-mail/Web. *American Journal of Evaluation*, 29(1), 99–107. <https://doi.org/10.1177/1098214007313228>
- Copley, P. A. (1991). The association between municipal disclosure practices and audit quality. *Journal of Accounting and Public Policy*, 10(4), 245–266. [https://doi.org/10.1016/0278-4254\(91\)90001-Z](https://doi.org/10.1016/0278-4254(91)90001-Z)
- Cordery, C. J., & Hay, D. (2018). Supreme audit institutions and public value : Demonstrating relevance. *Financial Acc & Man*, May 2017, 1–15. <https://doi.org/10.1111/faam.12185>
- Cuadrado-Ballesteros, B., Cito, F., & Bisogno, M. (2019). The role of public-sector accounting in controlling corruption: an assessment of Organisation for Economic Co-operation and Development countries. *International Review of Administrative Sciences*, 0(0), 1–20. <https://doi.org/10.1177/0020852318819756>
- Cummings, J. (2020). Education Journal Special Issue : President. *Information Systems Education Journal*, 18(2), 1–12.
- Davis, D. (1995). “*Contracts for public sector audits in New Zealand.*” unpublished Master of Business Studies thesis, Massey University, New Zealand.
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–200. <https://doi.org/10.21608/ejchem.2010.1261>
- DeFond, M. L., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2–3), 275–326. <https://doi.org/10.1016/j.jacceco.2014.09.002>
- Deis, D.R., Giroux, G. . (1992). Determinants of audit quality in the public sector. *The Accounting Review*, 67(3), 462–479.
- Den Hertog, J. A. (1999). General theories of regulation. In *Economic Institute/ CLAV, Utrecht University*. <http://encyclo.findlaw.com/index.html>
- Desmedt, E., Morin, D., Pattyn, V., & Brans, M. (2017). Impact of performance audit on the administration: A Belgian study. *Managerial Auditing Journal*, 32(3), 251–275. <https://doi.org/10.1108/MAJ-04-2016-1368>
- Dewi, N. F., Ferdous Azam, S. M., & Yusoff, S. K. M. (2019). Factors influencing the information quality of local government financial statement and financial accountability. *Management Science Letters*, 9(9), 1373–1384. <https://doi.org/10.5267/j.msl.2019.5.013>

- Diamantopoulos, A. and Siguaw, J. A. (2006). Formative versus reflective indicators in organizational measure development: a comparison and empirical illustration. *British Journal of Management*, 17(4), 263–282. <https://doi.org/10.1111/j.1467-8551.2006.00500.x>.
- Dickins, D., Johnson-Snyder, A. J., & Reisch, J. T. (2018). Selecting an auditor for Bradco using indicators of audit quality. *Journal of Accounting Education*, 45(2018), 32–44. <https://doi.org/10.1016/j.jaccedu.2018.07.001>
- Dimitrova, J., & Paneva, N. (2019). Internal audit in the public sector in Republic of Macedonia. *Journal of Economics*, 35, 52–59.
- Dobrowolski, Zbysław. (2020). The supreme audit insitutions readiness to uncertainty*. *Entrepreneurship and Sustainability Issues*, 8(1), 513–525. [https://doi.org/10.9770/jesi.2020.8.1\(36\)](https://doi.org/10.9770/jesi.2020.8.1(36))
- Dobrowolski, Zbysław, & Sułkowski, Ł. (2020). Competitive Role of Supreme Audit Institutions in Building Trustworthiness for Customers Łukasz. *35th IBIMA Conference: 1-2 April 2020, Seville, Spain Zbysław, April*.
- Donatella, P., Haraldsson, M., & Tagesson, T. (2019). Do audit firm and audit costs/fees influence earnings management in Swedish municipalities? *International Review of Administrative Sciences*, 85(4), 673–691. <https://doi.org/10.1177/0020852317748730>
- Duff, A. (2004). Auditqual: Dimensions of audit quality. In *Edinburgh: Institute of Chartered Accountants of Scotland*.
- Dwyer, P. D., & Wilson, E. R. (1989). An empirical investigation of factors affecting the timeliness of reporting by municipalities. *Journal of Accounting and Public Policy*, 8(1), 29–55. [https://doi.org/10.1016/0278-4254\(89\)90010-0](https://doi.org/10.1016/0278-4254(89)90010-0)
- Edmonds, Christopher T., Ryan D. Leece, Beth Y. Vermeer, and T. E. V. (2020). The Information Value of Qualified and Adverse Audit Reports: Evidence from the Municipal Sector. *Auditing*, 39(1), 21–41. <https://doi.org/10.2308/ajpt-52564>
- Elder, R. J., Lowensohn, S., & Reck, J. L. (2015). Audit Firm Rotation, Auditor Specialization, and Audit Quality in the Municipal Audit Context. *Journal of Governmental & Nonprofit Accounting*, 4(1), 73–100. <https://doi.org/10.2308/ogna-51188>
- Emett, S. A., Pickerd, J. S., Summers, S. L., & Wood, D. A. (2012). Which Bad Apple Spoils the Batch? An Examination of How Entry-Level Employees Respond to Tone at the Top vis-à-vis Tone at the Bottom. *SSRN Electronic Journal*, 27(1), 79–98. <https://doi.org/10.2139/ssrn.2008932>
- Ermasova, N., Clark, D., Nguyen, L., & Ermasov, S. (2018). Russian Public Sector Employees' Reasoning of Ethical Behavior: An Empirical Study. *International*

- Journal of Public Administration*, 41(5–6), 357–376.
<https://doi.org/10.1080/01900692.2017.1423329>
- Eulner, V., & Waldbauer, G. (2018). New development: Cash versus accrual accounting for the public sector—EPSAS. *Public Money and Management*, 0962, 1–4. <https://doi.org/10.1080/09540962.2018.1444560>
- FACB. (2010). *Palestinian Government Auditing Standards*.
- FACB. (2014). State Audit & Administrative Control Bureau Annual Report for 2014. In FACB. <https://www.saacb.ps/en/SAACBinBrief.aspx>
- FACB. (2017). *FACB Stratology Plan from 2017 to 2021*. [https://www.saacb.ps/Plans/SAACB_Strategic_Plan\(2017-2021\).pdf](https://www.saacb.ps/Plans/SAACB_Strategic_Plan(2017-2021).pdf)
- FACB. (2018). *State Audit & Administrative Control Bereau Annual Report 2018*. <https://saacb.ps/BruRpts/RPT-2018-en.pdf>
- FACB. (2019). *Anual Report of FACB 2019-Palestine*. <https://www.saacb.ps/BruRpts/RPT2019AR.pdf>
- FACB. (2021). *State Audit Administrative Control Bureau Overview*. FACB. <https://www.saacb.ps/en/SAACBinBrief.aspx>
- FACB. (2022). *State Audit & Administrative Control Bereau Annual Report 2022*. <https://www.saacb.ps/BruRpts/RPTSAACB2022.pdf>
- Fornell, C. and Larcker, D. F. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*, 18(1), 39–50.
- Francis, J. R., & Yu, M. D. (2009). Big 4 office size and audit quality. *The Accounting Review*, 84(5), 1521–1552.
- Francis, J. R. (2004). What do we know about audit quality? *British Accounting Review*, 36(4), 345–368. <https://doi.org/10.1016/j.bar.2004.09.003>
- Francis, J. R. (2011). A Framework for Understanding and Researching Audit Quality. *Auditting: A Journal of Practice & Theory*, 30(2), 125–152. <https://doi.org/10.2308/ajpt-50006>
- Franke, G., & Sarstedt, M. (2019). Heuristics versus statistics in discriminant validity testing: a comparison of four procedures. *Internet Research*, 29(3), 430–447.
- Gamayuni, R. R. (2019). the Initial Implementation of Accrual Based Accounting, the Effect on Performance and Financial Reporting Quality At Local Governments in Indonesia. *Ekspansi: Jurnal Ekonomi, Keuangan, Perbankan Dan Akuntansi*, 11(1), 13. <https://doi.org/10.35313/ekspansi.v11i1.1326>

- Gaynor, L.M., A.S. Kelton, M. Mercer, and T. L. Y. (2016). Understanding the relation between financial reporting quality and audit quality. *A Journal of Practice & Theory*, 35(4), 1–22.
- Geiger, M. A., & Rama, D. V. (2003). Audit fees, nonaudit fees, and auditor reporting on stressed companies. *Auditing: A Journal of Practice and Theory*, 22, 53–69.
- Geisser, S. (1975). The predictive sample reuse method with applications. *Journal of the American Statistical Association*, 70(350), 320–328.
- Ghebremichael, A. A. (2018). Determinants of audit service quality perceptions of supervisory directors in Dutch corporations. *Contemporary Management Research*, 14(1), 53–84. <https://doi.org/10.7903/cmr.18037>
- Giroux, G., & McLelland, A. J. (2003). Governance structures and accounting at large municipalities. *Journal of Accounting and Public Policy*, 22(3), 203–230. [https://doi.org/10.1016/S0278-4254\(03\)00020-6](https://doi.org/10.1016/S0278-4254(03)00020-6)
- Gonthier, N., Géraldine, B., & Hottegindre Sandrine, F. (2016). Audit Quality Perception: Beyond the ‘Role-Perception Gap’. In *International Journal of Auditing* (Vol. 3, Issue 2). <https://doi.org/10.1111/ijau.12066>
- Goodwin, J. (2004). A comparison of internal audit in the private and public sectors. *Managerial Auditing Journal*, 19(5), 640–650. <https://doi.org/10.1108/02686900410537766>
- Greenwood, M., & Zhan, R. (2019). Audit Adjustments and Public Sector Audit Quality. *Abacus*, 55(3), 511–534. <https://doi.org/10.1111/abac.12165>
- Grossi, G., & Thomasson, A. (2015). Bridging the accountability gap in hybrid organizations: The case of Copenhagen Malmö Port. *International Review of Administrative Sciences*, 81(3), 604–620. <https://doi.org/10.1177/0020852314548151>
- Gustavson, M., & Sundström, A. (2018). Organizing the Audit Society: Does Good Auditing Generate Less Public Sector Corruption? *Administration and Society*, 50(10), 1508–1532. <https://doi.org/10.1177/0095399716674306>
- Habib, A. (2013). A meta-analysis of the determinants of modified audit opinion decisions. *Managerial Auditing Journal*, 28(3), 184–216. <https://doi.org/10.1108/02686901311304349>
- Haeridistia, N., & Agustin. (2019). The effect of independence, professional ethics & auditor experience on audit quality. *International Journal of Scientific and Technology Research*, 8(2), 24–27.
- Hair, . F., Thomas, G., Hult, M., Ringle, C. M., & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modeling* (2nd ed). Sage.

- Hair, E., Halle, T., Terry-Humen, E., Lavelle, B., & Calkins, J. (2006). Children's school readiness in the ECLS-K: Predictions to academic, health, and social outcomes in first grade. *Early Childhood Research Quarterly*, 21(4), 431–454.
- Hair, J. F., Hult, G. T. M., Ringle, C. M., Sarstedt, M., & Thiele, K. O. (2017). Mirror, mirror on the wall: a comparative evaluation of composite-based structural equation modeling methods. *Journal of the Academy of Marketing Science*, 45.
- Hair, J. F., Risher, J. J., Sarstedt, M., & Ringle, C. M. (2019). When to use and how to report the results of PLS-SEM. *European Business Review*, 31(1), 2–24. <https://doi.org/10.1108/EBR-11-2018-0203>
- Hair, J. F. Jr., Anderson, R. E., Tatham, R. L. and Black, W. C. (1998). *Multivariate Data Analysis* (5th ed.). Prentice-Hall.
- Hair, J. F., Sarstedt, M., Matthews, L. M., & Ringle, C. M. (2016). Identifying and treating unobserved heterogeneity with FIMIX-PLS: part I – method. *European Business Review*, 28(1), 63–76. <https://doi.org/10.1108/EBR-09-2015-0094>
- Hair, J. F. et al. (2016). *Multivariate Data Analysis* (7th edn). Pearson.
- Hair, Joe F., Ringle, C. M., & Sarstedt, M. (2011). PLS-SEM: Indeed a silver bullet. *Journal of Marketing Theory and Practice*, 19(2), 139–152. <https://doi.org/10.2753/MTP1069-6679190202>
- Hair, Joseph F., Sarstedt, M., Hopkins, L., & G. Kuppelwieser, V. (2014). Partial least squares structural equation modeling (PLS-SEM). *European Business Review*, 26(2), 106–121. <https://doi.org/10.1108/EBR-10-2013-0128>
- Hair Jr., J. F., Matthews, L. M., Matthews, R. L., & Sarstedt, M. (2017). PLS-SEM or CB-SEM: updated guidelines on which method to use. *International Journal of Multivariate Data Analysis*, 1(2), 107. <https://doi.org/10.1504/ijmda.2017.10008574>
- Hajjawi, O. (2012). Management Accounting Practice in Palestine: An Empirical Evidence Omar. *European Journal of Economics, Finance and Administrative Sciences*, 49, 28–40. <http://www.scopus.com/inward/record.url?eid=2-s2.0-84863875338&partnerID=tZOtx3y1>
- Hantke-Domas, M. (2003). The public interest theory of regulation: Non-existence or misinterpretation? *European Journal of Law and Economics*, 15(2), 165–194. <https://doi.org/10.1023/A:1021814416688>
- Hardies, Kris, Diane Breesch, and J. B. (2015). The female audit fee premium. *Auditing: A Journal of Practice & Theory*, 34(4), 171–195.
- Hardies, K., Breesch, D., & Branson, J. (2016). Do (Fe)Male Auditors Impair Audit Quality? Evidence from Going-Concern Opinions. *European Accounting Review*, 25(1), 7–34. <https://doi.org/10.1080/09638180.2014.921445>

- Harris, E. E., Tate, S. L., & Zimmerman, A. B. (2019). Does Hiring a Local Industry Specialist Auditor Matter to Nonprofit Organizations? *Nonprofit and Voluntary Sector Quarterly*, 48(3), 633–664. <https://doi.org/10.1177/0899764018784752>
- Hassan, Y. M. (2016). Determinants of audit report lag: evidence from Palestine. *Journal of Accounting in Emerging Economies*, 6(1), 13–32. <https://doi.org/10.1108/jaee-05-2013-0024>
- Hawkins, D. M. (1980). *Identification of outliers. Vol. 11. London: Chapman and Hall, 1980.*
- Hay, D., & Cordery, C. (2018). The value of public sector audit: Literature and history. *Journal of Accounting Literature*, 40(November 2016), 1–15. <https://doi.org/10.1016/j.acclit.2017.11.001>
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A New Criterion for Assessing Discriminant Validity in Variance-based Structural Equation Modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135. <https://doi.org/10.1007/s11747-014-0403-8>
- Henseler, J., Ringle, C. M., & Sinkovics, R. R. (2009). *The use of partial least squares path modeling in international marketing. In New challenges to international marketing. Emerald Group Publishing Limited..*
- Henseler, J., Dijkstra, T. K., Sarstedt, M., Ringle, C. M., Diamantopoulos, A., Straub, D. W., Ketchen, D. J., Hair, J. F., Hult, G. T. M., & Calantone, R. J. (2014). Common Beliefs and Reality About PLS: Comments on Rönkkö and Evermann (2013). *Organizational Research Methods*, 17(2), 182–209. <https://doi.org/10.1177/1094428114526928>
- Henseler, J., & Sarstedt, M. (2013). Goodness-of-fit indices for partial least squares path modeling. *Computational Statistics*, 28(2), 565–580. <https://doi.org/10.1007/s00180-012-0317-1>
- Herda, D. N., & Martin, K. A. (2016). The effects of auditor experience and professional commitment on acceptance of underreporting time: A moderated mediation analysis. *Current Issues in Auditing*, 10(2), A14–A27. <https://doi.org/10.2308/ciia-51479>
- HO, R. (2006). *Handbook of Univariate and Multivariate Data Analysis and Interpretation with SPSS* (1st ed.). Chapman and Hall/CRC. <https://doi.org/https://doi.org/10.1201/9781420011111>
- Hogan, C. E., & Jeter, D. C. (1999). Industry specialization by auditors. & Theory, 18(1), 1-17. *Auditing: A Journal of Practice*, 18(1), 1–17.
- Holm, C., & Zaman, M. (2012). Regulating audit quality: Restoring trust and legitimacy. *Accounting Forum*, 36(1), 51–61. <https://doi.org/10.1016/j.accfor.2011.11.004>

- Hoyle, R. H. (1995). *The structural equation modeling approach: Basic concepts and fundamental issues*.
- Hu, L. T., & Bentler, P. M. (1998). Fit indices in covariance structure modeling: Sensitivity to underparameterized model misspecification. *Psychological Methods*, 3(4).
- Humphrey, C. (2008). Auditing research: A review across the disciplinary divide. In *Accounting, Auditing and Accountability Journal* (Vol. 21, Issue 2). <https://doi.org/10.1108/09513570810854392>
- Hussein, F. E., & Hanefah, M. M. (2013). Overview of Surrogates to Measure Audit Quality. *International Journal of Business and Management*, 8(17), 84–91. <https://doi.org/10.5539/ijbm.v8n17p84>
- ICAS. (2020). *The Power of One Moral Courage-ICAS Code of Ethics*. https://www.icas.com/__data/assets/pdf_file/0008/564461/MORAL-COURAGE_FINAL.pdf
- IFAC, I. (2018). *International Ethics Standards Board for Accountants (IESBA), International Code of Ethics for Professional Accountants, 2018 edition*. <https://www.ethicsboard.org/iesba-code>
- IFAC Public Sector Committee. (2001). *Governance in the public sector: a governing body perspective*.
- International Federation of Accountants. (2012). *Public sector financial management transparency and accountability: the use of international public sector accounting standards*.
- Ismail, A. H., Merejok, N. binti M., Dangi, M. R. M., & Saad, S. (2019). Does audit quality matters in Malaysian public sector auditing? *International Journal of Financial Research*, 7(1), 102–116. <https://doi.org/10.5430/ijfr.v10n3p203>
- Ismail, I., Haron, H., Ibrahim, D. N., & Isa, S. M. (2006). Service quality, client satisfaction and loyalty towards audit firms: Perceptions of Malaysian public listed companies. *Managerial Auditing Journal*, 21(7), 738–756. <https://doi.org/10.1108/02686900610680521>
- Ives, M., Johnson, L., Razek, J. R., and Hosch, G. A. (2004). *Introduction to Governmental and Not-for-profit Accounting* (5ed ed.). Pearson Prentice Hall. <https://doi.org/10987654321>
- Jacobs, K. (2012). Making Sense of Social Practice: Theoretical Pluralism in Public Sector Accounting Research. *Financial Accountability & Management*, 28(1), 1–25. <https://doi.org/10.1111/j.1468-0408.2011.00534.x>

- Janse van Rensburg, J. O., & Coetzee, P. (2016). Internal audit public sector capability: A case study. *Journal of Public Affairs*, 16(2), 181–191. <https://doi.org/10.1002/pa.1574>
- Jensen, Michael C., and W. H. M. (1976). . “Theory of the firm: Managerial behavior, agency costs and ownership structure.” 3.4 (1976): 305-360. *Journal of Financial Economics*, 3(4), 305–360. <https://doi.org/10.1177/0018726718812602>
- Jeppesen, K. K., Carrington, T., Catasús, B., Johnsen, Å., Reichborn-Kjennerud, K., & Vakkuri, J. (2017). The Strategic Options of Supreme Audit Institutions: The Case of Four Nordic Countries. *Financial Accountability and Management*, 33(2), 146–170. <https://doi.org/10.1111/faam.12118>
- Johnsen, Å. (2019). Public sector audit in contemporary society: A short review and introduction. *Financial Accountability and Management*, 35(2), 121–127. <https://doi.org/10.1111/faam.12191>
- Jonnergård, K., Stafssudd, A., & Elg, U. (2010). Performance evaluations as gender barriers in professional organizations: A study of auditing firms. *Gender, Work & Organization*, 17(6), 721–747.
- Junaidi, Hartono, J., Suwardi, E., Miharjo, S., & Hartadi, B. (2016). Does auditor rotation increase auditor independence? *Gadjah Mada International Journal of Business*, 18(3), 315–336. <https://doi.org/10.22146/gamaijb.16988>
- Kaplan, S., E. O'Donnell, & B. Arel. (2008). The influence of auditor experience on the persuasiveness of information provided by management. *Auditing: A Journal of Practice and Theory*, 27(1), 67–84.
- Kaya, D., & Koch, M. (2015). Countries' adoption of the international financial reporting standard for small and medium-sized entities (IFRS for SMEs): Early empirical evidence. *Accounting and Business Research*, 45(1), 93–120.
- Khalid, M. A., Alam, M. M., & Said, J. (2016). Empirical assessment of good governance in the public sector of Malaysia. *Economics and Sociology*, 9(4), 289–304. <https://doi.org/10.14254/2071-789X.2016/9-4/18>
- Khelil, Imen, Khaled Hussainey, and H. N. (2016). Audit Committee-Internal Audit Interaction and Moral Courage. *Managerial Auditing Journal*, 1–33.
- Khurram Ashfaq, Adil Riaz, S. I. (2023). Non-Audit Services and Audit Quality: Moderating Role of Audit Partner Attributes. *Contemporary Issues in Social Sciences and Management Practices (CISSMP)*, 2(1), 1–10.
- Kline, R. B. (2005). *Principles and practice of structural equation modeling* (2nd ed.). The Guilford Press.

- Kline, R. B. (2010). *Principles and practice of structural equation modeling*. The Guilford Press.
- Kline, Rex B. (2015). Response to Leslie Hayduk's review of principles and practice of structural equation modeling, 1 4th edition. *Canadian Studies in Population*, 45(3–4), 188–195. <https://doi.org/10.25336/csp29418>
- Knechel, W. R. (2016). Audit Quality and Regulation. *International Journal of Auditing*, 20(3), 215–223. <https://doi.org/10.1111/ijau.12077>
- Kock, N., & Lynn, G. S. (2012). Lateral collinearity and misleading results in variance-based SEM: An illustration and recommendations. *Journal of the Association for Information Systems*, 13(7), 546–580.
- Kock, N. (2015). Common method bias in PLS-SEM: A full collinearity assessment approach. *International Journal of E-Collaboration*, 11(4), 1–10.
- Kurtenbach, J. M., & Roberts, R. W. (1994). Public sector research in accounting: a review and synthesis. *Journal of Public Budgeting, Accounting & Financial Management*, 6(2), 216–253. <https://doi.org/10.1108/jpbafm-06-02-1994-b003>
- Kusumawati, A., & Syamsuddin, S. (2018). The effect of auditor quality to professional skepticism and its relationship to audit quality. *International Journal of Law and Management*, 60(4), 998–1008. <https://doi.org/10.1108/IJLMA-03-2017-0062>
- KV, M., & Mardia, K. V. (1970). Measures of multivariate skewness and kurtosis with applications. *Biometrika*, 57(3), 519–530.
- Kyriakou, M. I., & Dimitras, A. I. (2018a). BIG4 or Non-BIG4 Auditors: Their Impact on Audit Quality during the Global Financial Crisis. *Theoretical Economics Letters*, 08(05), 909–917. <https://doi.org/10.4236/tel.2018.85064>
- Kyriakou, M. I., & Dimitras, A. I. (2018b). Impact of auditor tenure on audit quality: European Evidence. *Investment Management and Financial Innovations*, 15(1), 374–386. [https://doi.org/10.21511/imfi.15\(1\).2018.31](https://doi.org/10.21511/imfi.15(1).2018.31)
- La Porta, R., Lopez-De-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1–2), 3–27. [https://doi.org/10.1016/s0304-405x\(00\)00065-9](https://doi.org/10.1016/s0304-405x(00)00065-9)
- Lai, T. T. T., & Pham, D. H. (2020). The quality of audit services: An assessment from FDI clients in Vietnam. *Accounting*, 6(6), 1071–1076. <https://doi.org/10.5267/j.ac.2020.7.012>
- Lämsiluoto, A., Jokipii, A., & Eklund, T. (2016). Internal control effectiveness – a clustering approach. *Managerial Auditing Journal*, 31(1), 5–34. <https://doi.org/10.1108/MAJ-08-2013-0910>

- Lonsdale, J. (2000). Developments in value-for-money audit methods: Impacts and implications. *International Review of Administrative Sciences*, 66(1), 73–89. <https://doi.org/10.1177/0020852300661007>
- Lord, A.T. and DeZoort, F. T. (2001). The impact of commitment and moral reasoning on auditors' responses to social influence pressure. *Accounting, Organizations and Society*, 26(3), 215–235.
- Lowensohn, S., Johnson, L. E., Elder, R. J., & Davies, S. P. (2007). Auditor specialization, perceived audit quality, and audit fees in the local government audit market. *Journal of Accounting and Public Policy*, 26(6), 705–732. <https://doi.org/10.1016/j.jaccpubpol.2007.10.004>
- Mackenzie, S.B., Podsakoff, P.M., Podsakoff, N. P. (2011). *Linked references are available on JSTOR for this article: construct measurement and validation procedures in MIS and behavioral resear.*
- Makris, M. (2006). Political authority, expertise and government bureaucracies. *Public Choice*, 127(3–4), 275–292. <https://doi.org/10.1007/s11127-006-0866-3>
- Maldonado, I., Pinho, C., & Lobo, C. A. (2019). Determinant factors of external audit opinion modification in Portuguese municipalities. *Conference on Information Systems and Technologies (CISTI) 19, 2019-June(June), 19–22.* <https://doi.org/10.23919/CISTI.2019.8760694>
- Mardia, K. V. (1974). Applications of some measures of multivariate skewness and kurtosis in testing normality and robustness studies. . *The Indian Journal of Statistics*, 36, 115–128.
- Marsely, M. (2020). Does Audit Quality Affect Client Satisfaction of Non Profit Organization in Indonesia? *Advances in Economics, Business and Management Research*, 136(Ambec 2019), 118–122. <https://doi.org/10.2991/aebmr.k.200415.023>
- Marshall Romney, Steinbart, P., & Romney M. and Steinbart P. (2018). *Accounting Information System* (14ed ed.). Pearson.
- Masood, A., & Lodhi, R. N. (2015). Factors Affecting the Success of Government Audits: A Case Study of Pakistan. *Universal Journal of Management*, 3(2), 52–62. <https://doi.org/10.13189/ujm.2015.030202>
- Mattei, G., Grossi, G., & Guthrie A.M, J. (2021). Exploring past, present and future trends in public sector auditing research: a literature review. In *Meditari Accountancy Research* (Vol. 29, Issue 7). <https://doi.org/10.1108/MEDAR-09-2020-1008>
- Matuleviciene, M., & Stravinskiene, J. (2015). The importance of stakeholders for corporate reputation. *Engineering Economics*, 26(1), 75–83. <https://doi.org/10.5755/j01.ee.26.1.6921>

- Mazza, T., & Azzali, S. (2015). Effects of Internal Audit Quality on the Severity and Persistence of Controls Deficiencies. *International Journal of Auditing*, 19(3), 148–165. <https://doi.org/10.1111/ijau.12044>
- McGowan, M. M. M., Chan, S. H., Yurova, Y. V., Liu, C., & Wong, R. M. K. (2018). The Influence of Institutional Regulatory Pressure on Nonprofit Hospital Audit Quality. *Journal of Governmental & Nonprofit Accounting*, 7(1), 1–23. <https://doi.org/10.2308/ogna-52327>
- McLelland, A. J., & Giroux, G. (2000). An empirical analysis of auditor report timing by large municipalities. *Journal of Accounting and Public Policy*, 19(3), 263–281. [https://doi.org/10.1016/S0278-4254\(00\)00011-9](https://doi.org/10.1016/S0278-4254(00)00011-9)
- Minutti-Meza, M. (2013). Does auditor industry specialization improve audit quality? *Journal of Accounting Research*, 51(4), 779–817.
- Mir, M., & Sutiyono, W. (2013). Public Sector Financial Management Reform: A Case Study of Local Government Agencies in Indonesia. *Australasian Accounting, Business and Finance Journal*, 7(4), 97–117. <https://doi.org/10.14453/aabfj.v7i4.7>
- Mnif Sellami, Y., & Gafsi, Y. (2019). Institutional and Economic Factors Affecting the Adoption of International Public Sector Accounting Standards. *International Journal of Public Administration*, 42(2), 119–131. <https://doi.org/10.1080/01900692.2017.1405444>
- Mohamed Alteer, A., Bin Yahya, S., & Harashid Haron, M. (2013). Auditors' Personal Values and Ethical Judgement At Different Levels of Ethical Climate: a Conceptual Link. *Journal of Asian Scientific Research*, 3(8), 862–875. <https://doi.org/10.5923/c.economics.201301.20>
- MOLG. (2011). *Policy Paper for Developing Mechanisms for Directing and Monitoring the Work of Local Authorities*. <https://www.molg.pna.ps/uploads/userfiles/file/pdfs/PolicyPaper18-7-final.pdf>
- MOLG. (2013). *Annual Report 2013*. <https://www.molg.pna.ps/uploads/userfiles/file/pdfs/annual2014-2.indd.pdf>. <https://www.molg.pna.ps/ar/categories/6/#>
- MOLG. (2020). *Annual Performance Report 2020*. <https://www.molg.pna.ps/ar/categories/6/#>
- MOLG. (2021). *Budgetary Announcement*. <https://budgets.molg.pna.ps/Advertisement/Preview#>.
- Municipality, R. (2018). *Organization Structure of Ramallah Municipality 2018*. https://www.ramallah.ps/ar_page.aspx?id=Fp4td3a2981842149aFp4td3

- Mustapha, M., & Ahmad, A. C. (2011). Agency theory and managerial ownership: Evidence from Malaysia. *Managerial Auditing Journal*, 26(5), 419–436. <https://doi.org/10.1108/02686901111129571>
- Neil J. Salkind. (2012). *Exploring Rrsearch* (8th ed.). Pearson Education, Inc.
- Nemec, J. (2015). Public Policy in the Czech Republic. *Central European Journal of Public Policy*, 9(1), 8–48.
- Ngah, A. H., Thurasamy, R., Aziz, N. A., Ali, H., & Khan, M. I. (2019). Modelling the adoption of halal warehousing services among halal pharmaceutical and cosmetic manufacturers. *Journal of Sustainability Science and Management*, 14(6), 103–116. <https://doi.org/jssm.umt.edu.my/wp-content/uploads/sites/51/2020/05/9.14.6pdf.pdf>
- Ngah, A.H., Gabarre, S., Eneizan, B. and Asri, N. (2020). Mediated and moderated model of the willingness to pay for halal transportation. *Journal of Islamic Marketing*.
- Nunnally, J. C., & Bernstein, I. H. (1994). *Psychometric theory* (3rd ed.). McGraw-Hill.
- Octavia, E., & Widodo, N. R. (2015). The effect of competence and independence of auditors on the audit qualit. *Research Journal of Finance and Accounting*, 6(3), 189–194.
- Office, F. and L. (2020). Regulation of the employees of LGUs No. 1 for year 2020. *The Palestinian Official Gazette*, 165. mjr.lab.pna.pds
- Olsson, U. H., Foss, T., Troye, S. V., & Howell, R. D. (2000). The performance of ML, GLS, and WLS estimation in structural equation modeling under conditions of misspecification and nonnormality. *Structural Equation Modeling*, 7(4), 557–595.
- Omar Elmasry, M., & Bakri, N. (2019). Behaviors of Transformational Leadership in Promoting Good Governance at the Palestinian Public Sector. *International Journal of Organizational Leadership*, 8(1), 1–12. <https://doi.org/10.33844/ijol.2019.60265>
- Omer, T. C., Sharp, N. Y., & Wang, D. (2016). The Impact of Religion on the Going Concern Reporting Decisions of Local Audit Offices. *Journal of Business Ethics*, 149(4), 811–831. <https://doi.org/10.1007/s10551-016-3045-6>
- Oppenheim, A. N. (1966). *Questionnaire Design and Attitude Measurement*. Heineman. Ouda.
- Pandit, G. M. (1999). Clients' perceptions of their incumbent auditors and their loyalty to the audit firms: An empirical study. *The Mid-Atlantic Journal of Business*, 35(4), 171.

- Parsimin, F. A., Haron, H., Jamil, N. N., & Ramli, N. M. (2023). Accounting Ethics Education on Ethical Behaviour of Accounting Graduates in Malaysia. *The Journal of Muamalat and Islamic Finance Research*, 20(1), 54–72.
- Petrovits, C., Shakespeare, C., & Shih, A. (2011). The causes and consequences of internal control problems in nonprofit organizations. *Accounting Review*, 86(1), 325–357. <https://doi.org/10.2308/accr.00000012>
- Pickerd, J. S., S. L. Summers, and D. A. W. (2015). An examination of how entry-level staff auditors respond to tone at the top vis-a-vis tone at the bottom. *Behavioral Research in Accounting*, 27(1), 79–98.
- Pilcher, R., Gilchrist, D., Singh, H., & Singh, I. (2013). The interface between internal and external audit in the Australian public sector. *Australian Accounting Review*, 23(4), 330–340. <https://doi.org/10.1111/auar.12032>
- Piot, C. (2010). Agency costs and audit quality: evidence from France. *European Accounting Review*, October 2013, 37–41.
- Podsakoff, P. M. et al. (2003). Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies. *Journal of Applied Psychology*, 88(5), 879–903. <https://doi.org/10.1037/0021-9010.88.5.879>
- Podsakoff, P. M., MacKenzie, S. B., & Podsakoff, N. P. (2012). Sources of method bias in social science research and recommendations on how to control it. *Annual Review of Psychology*, 63, 539–569. <https://doi.org/10.1146/annurev-psych-120710-100452>
- Posner, R. A. (1974). Theories of economic regulation. *The Bell Journal of Economics and Management Science*, 5(2), 335–358.
- Qafishe, M. M. (2018). Ethics of the Legal Profession in Palestine. *Fordham International Law Journal*, 42(2), 552. <https://doi.org/10.2307/3474445>
- Rabaiah, H. I. A., Hanefah, M. M., Masruki, R., & Jamil, N. N. (2022). The Moderating Role of Supreme Audit Institutions on the Relationships Between the Municipal Audit Quality and the Audit Quality Attributes: Palestine Case. *In International Conference on Business and Technology*, 816–844.
- Ramayah, T. J. F. H., Cheah, J., Chuah, F., Ting, H., & Memon, M. A. (2018). Partial least squares structural equation modeling (PLS-SEM) using smartPLS 3.0. An updated guide and practical guide to statistical analysis. In 2 (Ed.), *Pearson* (2nd ed). Pearson.
- Rashman, L., Withers, E., & Hartley, J. (2009). Organizational learning and knowledge in public service organizations: A systematic review of the literature. *International Journal of Management Reviews*, 11(4), 463–494. <https://doi.org/10.1111/j.1468-2370.2009.00257.x>

- Raymond, A. R., & Désiré, I. T. (2019). Evaluation of the Impact of the External Audit in the Functioning of Health Public Institutions “Cases of the General Hospitals of Reference of Kabondo and Makiso/Kisangani of 2011 and 2014.” *Asian Journal of Economics, Business and Accounting*, 11(1), 1–10. <https://doi.org/10.9734/ajeba/2019/v11i130116>
- Reginato, E., Fadda, I., & Paglietti, P. (2016). The Influence of Resistance to Change on Public-Sector Reform Implementation: The Case of Italian Municipalities’ Internal Control System. *International Journal of Public Administration*, 39(12), 989–999. <https://doi.org/10.1080/01900692.2015.1068325>
- Reheul, A. M., Van Caneghem, T., Van den Bogaerd, M., & Verbruggen, S. (2017). Auditor gender, experience and reporting in nonprofit organizations. *Managerial Auditing Journal*, 32(6), 550–577. <https://doi.org/10.1108/MAJ-01-2016-1296>
- Rezaee, Z., Abernathy, J., Causholli, M., Michas, P. N., Roush, P. B., Rowe, S., & Velury, U. K. (2016). Comments of the auditing standards committee of the auditing section of the american accounting association on PCAOB concept release on audit quality indicators, no. 2015-005, july 1, 2015. *Current Issues in Auditing*, 10(1), C11–C27. <https://doi.org/10.2308/ciia-51316>
- Risheq, O., Tamimi, T., Adwan, R., & Nuseibah, M. (2023). Depoliticised humanitarianism: critiquing the effectiveness of international aid for the Bedouin communities in the Jerusalem periphery. *Development in Practice*, 33(5), 1–12. <https://doi.org/10.1080/09614524.2023.2215968>
- Robert Knechel, W., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. K. (2013). Audit quality: Insights from the academic literature. *Auditing: A Journal of Practice & Theory* (AAA), 32(SUPPL.1), 385–421. <https://doi.org/10.2308/ajpt-50350>
- Rosa, C. P., & Morote, R. P. (2016). The audit report as an instrument for accountability in local governments: a proposal for Spanish municipalities. *International Review of Administrative Sciences*, 82(3), 536–558. <https://doi.org/10.1177/0020852314566000>
- Rossi, F. M., Cohen, S., Caperchione, E., & Brusca, I. (2016). Harmonizing public sector accounting in Europe: thinking out of the box. *Public Money and Management*, 36(3), 189–196. <https://doi.org/10.1080/09540962.2016.1133976>
- Rua, O. L., & Alves, H. (2020). Linking municipal Best Value and market performance: the Portuguese experience. *Public Money and Management*, 40(2), 113–121. <https://doi.org/10.1080/09540962.2019.1651036>
- Rubin, M. A. (1988). Municipal audit fee determinants (1988): 219-236. *Accounting Review*, 63(2), 219–236.

- Ruiz-Barbadillo, E., N. Gómez-Aguilar, C. D. F.-B. and M. A. G.-B. (2004). Audit quality and the going-concern decision-making process: Spanish Evidence. *European Accounting Review*, 13, 597–622.
- Ruiz-Barbadillo, E., Gómez-Aguilar, N., De Fuentes-Barberá, C., & García-Benau, M. A. (2004). Audit quality and the going-concern decision-making process: Spanish evidence. *European Accounting Review*, 13(4), 597–620. <https://doi.org/10.1080/0963818042000216820>
- Rustom, S. R. (2018). *Quantifiable Model for Assessing Gaza Municipalities ' Development Projects towards MDLF Quality Requirement*.
- Sabri, N. R. (2010). Supporting Palestinian Local Government Reform in the Financial Aspects. Available at SSRN 2123274, 1–31. <https://doi.org/10.2139/ssrn.2123274>
- Sabri, N. R., & Jaber, R. (2010). Financial Analysis of Palestinian Local Government. *International Journal of Business and Globalisation*, 5(2), 211–224.
- Saeed, A., Zafar, M. W., Manita, R., & Zahid, N. (2024). The role of audit quality in waste management behavior. *International Review of Economics and Finance*, 89(February 2023), 1203–1216. <https://doi.org/10.1016/j.iref.2023.08.019>
- Saleh, A., & Bista, K. (2017). Examining factors impacting online survey response rates in educational research: perceptions of graduate students. *Journal of MultiDisciplinary Evaluation*, 13(29), 63–74. https://journals.sfu.ca/jmde/index.php/jmde_1/article/view/487/439
- Salehi, M., Fakhri Mahmoudi, M. R., & Daemi Gah, A. (2019). A meta-analysis approach for determinants of effective factors on audit quality: Evidence from emerging market. *Journal of Accounting in Emerging Economies*, 9(2), 287–312. <https://doi.org/10.1108/JAEE-03-2018-0025>
- Saputra, W. (2015). The Impact Of Auditor ' s Independence On Audit Quality : A Theoretical Approach. *International Journal of Scientific & Technology Research*, 4(12, DECEMBER 2015), 348–353.
- Sari, M. (2018). The Effect of the Government of Internal Control System on the Quality of Financial Statements in the Coal Regency Village Office. *Accounting*, 134–144.
- Sari, R. P., Hastuti, S., & Tannar, O. (2019). Audit Quality Based on Internal Audit Capability Model (IACM) and Gender as Mediating Variabel in the Public Sector. *Journal of Economics, Business, and Government Challenges*, 2(1), 22–38. <https://doi.org/10.33005/ebgc.v2i1.61>
- Sarstedt, M., Hair, J. F., Ringle, C. M., Thiele, K. O., & Gudergan, S. P. (2016). Estimation issues with PLS and CBSEM: Where the bias lies! *Journal of*

- Sarstedt, M., Ringle, C. M., & Hair, J. F. (2020). Handbook of Market Research. In *Handbook of Market Research* (Issue July). <https://doi.org/10.1007/978-3-319-05542-8>
- Sawalqa, F. Al. (2014). External Audit Services Quality and Client Satisfaction: Evidence from Jordan. *Research Journal of Finance and Accounting*, 5(12), 223–236.
- Schroeder, Mary S., Ira Solomon, and D. V. (1986). Audit Quality-the Perceptions of Audit-Committee Chairpersons and Audit Partners. *AUDITING-A JOURNAL OF PRACTICE & THEORY*, 5(2), 86–94.
- Sekaran, U., & Roger, B. (2003). *Research methods for business: A skill building approach* (4th ed.). John Wiley and Sons Inc.
- Setyaningrum, D., Siswantoro, D., & Darmastuti, D. (2020). Factors affecting the usefulness of governments' financial statements in Indonesia. *International Journal of Innovation, Creativity and Change*, 12(4), 117–134.
- Simnett, R. (1996). The effect of information selection, information processing and task complexity on predictive accuracy of auditors. *Accounting, Organizations and Society*, 21(7), 699–719.
- Singh, A., Singh, H., Sultana, N., & Evans, J. (2019). Independent and joint effects of audit partner tenure and non-audit fees on audit quality. *Journal of Contemporary Accounting and Economics*, 15(2), 186–205. <https://doi.org/10.1016/j.jcae.2019.04.005>
- Smith, M., Omar, N. H., Sayd Idris, S. I. Z., & Baharuddin, I. (2005). Auditors' perception of fraud risk indicators. Malaysian evidence. *Managerial Auditing Journal*, 20(1), 73–85. <https://doi.org/10.1108/02686900510570713>
- Spanou, C. (2008). State reform in Greece: Responding to old and new challenges. *International Journal of Public Sector Management*, 21(2), 150–173. <https://doi.org/10.1108/09513550810855645>
- Stašová, L. H. (2019). The Scope of Control of the Supreme Audit Office in the Slovak Republic and in the Other Visegrad Four Countries. *Society and Economy*, 41, 245–262. <https://doi.org/10.1556/204.2019.006>
- Stewart, D. & Klein, S. (2016). The use of theory in research. *International Journal of Clinical Pharmacy*, 38(3).
- Stone, M. (1974). Cross-validatory choice and assessment of statistical predictions. *Journal of the Royal Statistical Society. Series B (Methodological)*, 111–147.

- Střelec, L., & Stehlík, M. (2017). Robust testing for normality of error terms with presence of autocorrelation and conditional heteroscedasticity. *AIP Conference Proceedings*, 1798(January). <https://doi.org/10.1063/1.4972747>
- Sundgren, S., & Svanström, T. (2014). Auditor-in-charge characteristics and going-concern reporting. *Contemporary Accounting Research*, 31(2), 531–550.
- Sweeney, B., Arnold, D., & Pierce, B. (2010). The impact of perceived ethical culture of the firm and demographic variables on auditors' ethical evaluation and intention to act decisions. *Journal of Business Ethics*, 93(4), 531–551. <https://doi.org/10.1007/s10551-009-0237-3>
- Tabachnick, B., & Fidell, L. (2007). *Multivariate analysis of variance and covariance. Using multivariate statistics*. Boston: Allyn & Bacon.
- Takiah, M. I., Mohd. Mohid, R., & Hashanah, I. (2010). The relationship between audit client satisfaction and audit quality attributes : Case of Malaysian Listed Companies. *International Journal of Economics and Management*, 4(1), 155–180.
- Tenenhaus, M., Vinzi, V. E., Chatelin, Y. M., & Lauro, C. (2005). PLS path modeling. *Computational Statistics and Data Analysis*, 48(1), 159–205. <https://doi.org/10.1016/j.csda.2004.03.005>
- Troupin, S., Put, V., Weets, K., & Bouckaert, G. (2010). Public auditing systems: from trends to choices. *6th Transatlantic Dialogue Conference*, 1–25.
- UNDP. (2009). *Update of Diagnostic Report for the Local Governance System in the Occupied Palestinian territory* (Issue June). https://www.molg.pna.ps/uploads/userfiles/file/pdfs/DiagnosticReportonLocalGovernanceintheoPt_2009.pdf
- Velte, P. (2023). The impact of external auditors on firms' financial restatements: a review of archival studies and implications for future research. *Management Review Quarterly*, 73(3), 959–985. <https://doi.org/10.1007/s11301-022-00264-x>
- Visser, M., & Van der Togt, K. (2016). Learning in Public Sector Organizations: A Theory of Action Approach. *Public Organization Review*, 16(2), 235–249. <https://doi.org/10.1007/s11115-015-0303-5>
- Vu, D. A., & Hung, N. X. (2023). Factors Influencing the Auditor Independence and Affects to Audit Quality of Supreme Audit Institution of Vietnam. *International Journal of Professional Business Review*, 8(5), e02197. <https://doi.org/10.26668/businessreview/2023.v8i5.2197>
- Warming-Rasmussen, B., & Jensen, L. (1998). “Quality dimensions in external audit services-An external user perspective.” *European Accounting Review*, 7(1), 65–82.

- Watson, H. (2019). A Grounded Theory of Reconstructing Public Sector Audit. In *Nrl.Northumbria.Ac.Uk* (Issue August). <https://doi.org/10.1108/17410391111097438>
- Wetzels, M., Odekerken-Schröder, G., & Van Oppen, C. (2009). Using PLS Path Modeling for Assessing Hierarchical Construct Models: Guidelines and Empirical Illustration Service Design for Innovation View project. *MIS Quarterly*, 33(1, March 2009), 177–195. <https://www.researchgate.net/publication/228754673>
- Woodhouse, D. (2003). Quality improvement through quality audit. *Quality in Higher Education*, 9(2), 133–139.
- World Bank. (2020). *The Quality of Audits by Supreme Audit Institutions: A Review of Compliance with International Standards of Supreme Audit Institutions*.
- Wu, B., Li, A., & Zhang, W. (2024). Clients' strategic change and auditor behavior: Evidence from audit adjustments and audit fees. *Advances in Accounting*, 64(100721).
- Yamamoto, K., & Kim, M. J. (2019). Stakeholders' approach on government auditing in the supreme audit institutions of Japan and Korea. *Financial Acc & Man*, 35(3), 217–232. <https://doi.org/10.1111/faam.12187>
- Yebba, A. A., & Elder, R. J. (2019). The Effects of State-Level GAAP Regulation on Municipal Audit Markets, Reporting Quality, and Audit Fees. *Journal of Governmental & Nonprofit Accounting*, 8(1), 36–74. <https://doi.org/10.2308/ogna-52541>
- Younas, M. A., & Kassim., A. A. M. (2019). Essentiality of internal control in Audit process. *International Journal of Business and Applied Social Science (IJBASS)*, 5(11), 1–6. <https://doi.org/10.33642/ijbass.v5n11p1>
- Yuniarti, R. (2011). Audit Quality and Audit Firm Size. *Journal Of Global Management*, 2(1), 1–13. https://mules.ydir.org/audit/midyear/04midyear/dc_presentations/DC Presentations - Simunic.doc
- Zedan, K., Daas, G., & Awwad, Y. (2020). Municipal bonds as a tool for financing capital investment in local government units in Palestine. *Investment Management and Financial Innovations*, 17(1), 213–226. [https://doi.org/10.21511/imfi.17\(1\).2020.19](https://doi.org/10.21511/imfi.17(1).2020.19)
- Ziegenfuss, D. E. (2001). 2001. Ziegenfuss. the Role of Control Environment in Reducing Local Government Fraud. *Journal of Public Budgeting, Accounting & Financial Management*, 13(3), 312–324.
- Zimmerman, J. L. (1977). The Municipal Accounting Maze: An Analysis of Political Incentives. *Journal of Accounting Research*, 15, 107–144. <https://doi.org/10.2307/2490637>

Zuarub, H. S., & Abaalal, M. B. (2015). The Extent of Compliance of External Auditor with Ethics and Code of Professional Conduct in Gaza. *TIUG Journal of Economics and Business*, 24(2), 1–23.

APPENDICES

Appendix 1: Research Questionnaire (English version)



Research Tittle

Factors Affecting the Audit Quality in the Municipalities of Palestine: Moderating Role of Supreme Audit Institutions

Thank you for completing this survey questionnaire. This research is part of the PhD research of **Husni Ibrahim Rabaiah**, who is a student in Islam Science University of Malaysia.

This survey takes approximately 15-20 minutes to complete. Please consider each question carefully and ensure you answer every question, as your view is important to success of this research, and in particular, in distinguishing factors that are important to you in factors of audit quality. This study provides a proposal for measuring the quality of the audit through factors that lead to improve the audit quality.

All responses are anonymous and will be used for research purposes only. Result from the survey will only be presented in aggregate form.

If you wish to enquire about the survey or if you need any assistance in completing the survey, please contact **Husni Ibrahim Rabaiah** at the Islamic Science University of Malaysia in at the faculty of Economic and Muamalat, Department of Accounting or Email husnirabaiah@gmail.com , Mobile: 00970599774233 or WhatsApp 0097056774233.

Section 1: The accounting department staff characteristics and the audit process in the municipalities

Instruction: The following questions ask about the characteristics of the Accounting Department staff and the audit process in the municipality. Please select one answer only at for each of the following statements to describe the information about yourself and your municipality.

A- The Characteristics Traits

1- Occupation

☐ Accountant ☐ Senior Accountant ☐ Accounting Department Head ☐ Internal Auditor

2- Gender

☐ Male ☐ Female

3- Age

☐ Less than 30 years old ☐ 30-40 years old ☐ 41-50 years old ☐ More than 50 years old

4- Academic Qualification in Accounting

☐ Less than Bachelor Degree ☐ Bachelor's Degree or equivalent
☐ Master Degree ☐ PhD Degree ☐ Bachelor's Degree in other field

5- Years of the accounting experience

☐ Less than 5 years ☐ 5-10 years ☐ 11-15 years ☐ More than 15 years

B- Audit Process in the Municipality

1- Municipality Name_____ Optional

2- Municipality Classification

☐ Class A+ ☐ Class A ☐ Class B ☐ Class C ☐ Class D

3- Average Audit Fees in USD

☐ Less than 2000 ☐ From 2001 to 4000 ☐ From 4001 to 6000 ☐ More than 6000 ☐ I do not know

4- Accounting Basis Used

☐ Cash Basis ☐ Accrual Basis ☐ Modified Accrual Basis ☐ Mix as the type of budget

5- Number of the External Audit Team Individuals

☐ Two auditors ☐ Three auditors ☐ Four auditors ☐ Five auditors or more

6- Number of Internal Auditing Staff

☐ None ☐ one employee ☐ Two employees ☐ Three employees or more

7- The Last Year the Audited Financial Statements were Issued

☐ 2018 ☐ 2019 ☐ 2020 ☐ 2021 ☐ Never Audited

8- The type of the last auditor's report

☐ Standard Unmodified ☐ Unmodified with Emphasis Matter ☐ Qualified Opinion ☐ Adverse Opinion ☐ Disclaimer ☐ No audit in the municipality

9- The Last Year the Municipality was Audited by the Supreme Audit Institutions (FACB or MOLG GDCG).

☐ 2019 ☐ 2020 ☐ 2021 ☐ 2022 ☐ Never audited

Section 2: The Attributes of Audit Quality Factors

Below is a list of attributes that may influence audit quality. These attributes are related with auditors, audit firm and the municipality's internal control. Assume that you have been asked to evaluate audit quality. Please tick only one answer for each of the following statements, the extent to which you agree or disagree (as scale from 1 to 5) that each attribute will impact on your evaluation of audit quality.

#	The Attributes	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
1	The overall reputation of the audit firm is positive.					
2	The audit team members as a group always exercised due care throughout the engagement.					
3	The audit firm has strict guidelines on the procedures that must be completed before signing the audit report.					
4	The audit firm actively encourages staff members to take courses and attend seminars in fields where the firm has major clients.					
5	The senior auditors supervise junior auditors.					

#	The Attributes	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
6	The engagement's auditors are held to maintain high ethical standards.					
7	The audit firm has a skeptic's mindset, not a client advocate's mindset.					
8	The amount of the audit fee from the municipality is not higher when compared to the total revenue of the audit firm.					
9	The audit firm and individual audit team members never participated in any conduct that might impair their independence.					
10	The audit firm does not provide non-audit consultancy services to the municipality.					
11	The audit firm has a high audit staff turnover rate.					
12	Members of the audit team are cycled off the audit on a regular basis.					
13	The audit team assigned to the audit engagement (partner, manager, and supervisor) is familiar with the municipalities.					
14	Other municipalities are audit clients of the auditor that is conducting the audit.					
15	The auditors assigned to the engagement have extensive understanding of accounting and auditing standards, as well as professional certifications such as the CPA.					
16	The audit team members as a whole have a good understanding of the municipality's operations.					
17	In completing the audit, the audit company makes considerable use of computers and statistical methodologies.					
18	Each audit area has a strict time budget that the audit firm wants its auditors to stick to.					

#	The Attributes	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
19	The total number of hours spent on the audit by the audit team (from the beginning of field work to the audit report date).					
20	The amount of audit fees that is paid has an effect on the audit quality.					
21	The amount of audit fees is related to the auditor efforts in the audit engagement.					
22	The number of professionals in the audit team is important on achieving of the audit quality.					
23	The legal form of audit firm and its size affect the audit quality					
24	The efficiency and effectively of internal auditing function in the municipality.					
25	External auditors work closely with internal auditors.					
26	The transferring from cash basis to accrual basis improves the relevancy and the reliability of the financial statements.					
27	The using of accrual basis instead of cash basis in recording the financial transactions affects the audit quality.					
28	Accrual basis requires the auditor to increase his efforts in the auditing process.					
29	The existence of appropriate laws and regulations increases the audit quality.					
30	The commitment of the municipality with the laws and regulations enhances the audit quality.					
31	The commitment of the auditors with investigation of client's adherence with the applicable laws and regulation increases the audit quality.					

Section 3: The effect of the SAIs on the quality of the external audit

Below is a list of items related with the effect of SAIs audit on the quality of the main factors of audit quality. Assume that you have been asked to evaluate the effect of SAIs on the relationship between the audit quality and the audit quality attributes. Please tick only one answer for each of the following statements according your opinion about the extent to which you agree or disagree that each item will impact on your evaluation.

#	The Item	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
32	The SAIs audit affects the municipal administration in order to choose a good reputation auditor with a high professional ethics.					
33	The SAIs audit affects the municipal administration in order to choose an independent auditor either in his mind and appearance.					
34	The SAIs audit affects the municipal administration in order to choose a high professional competence auditor.					
35	The SAIs audit affects the municipal administration in order to choose an audit firm whose audit fees are reasonable and fair.					
36	The SAIs audit affects the municipal administration in order to choose a large-size audit firm such as the Big 4.					
37	The SAIs audit affects the municipal administration in order to establish an internal audit unit in the municipality, and works to					

#	The Item	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
	increase its efficiency and effectiveness.					
38	The SAI's audit affects the municipal administration in order to adopt the accrual basis of accounting.					
39	The SAI's audit affects the municipal administration in order to comply with the applicable laws and regulations.					
40	The SAI's audit influences on the audit firm to appoint a highly qualified and professional audit team.					
41	The audit team always relies on the reports and findings of the SAI's audit in the audit engagement process.					
42	The SAI's audit supports and increases the quality of the external audit in general.					

Section 4: The Statements Related with Audit Service Quality

Below is a list of statements related with the audit service quality. Assume that you have been asked to evaluate the audit service quality. Please select only one answer for each of the following statements, the extent to which you agree or disagree that each statement is true.

	Statements Related with Audit Service Quality	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
43	Audit quality detects and reports the material misstatements in the client financial statements.					
44	Audit quality detects and reports the material weakness of internal control system.					

	Statements Related with Audit Service Quality	SDA (1)	DA (2)	NT (3)	A (4)	SA (5)
45	The audit firm agrees to complete the audit by a deadline stipulated by the client.					
46	The repetitive meetings and communications of audit team with the with the municipality council and the audit committee increase the audit quality.					
47	The repetitive meetings and communications of audit team with the mayor and the directors of the municipality increase the audit quality.					
48	Throughout the year, the audit firm keeps municipality management informed about accounting and financial reporting developments that have an impact on the municipality.					
49	During the audit, the audit engagement partner and manager conduct numerous visits to the municipality.					
50	The auditor adds benefits to the municipality by generating useful improvement ideas.					
Thank you very much for your participation						

Appendix 2: Research Questionnaire (Arabic version)



استبانة بحثية

عنوان البحث

العوامل المؤثرة في جودة التدقيق في بلديات فلسطين: والدور المعدل للأجهزة العليا

للمراقبة المالية والإدارية

هذا البحث جزء من بحث دكتوراة للباحث حسني إبراهيم ربيعة ، طالب في جامعة العلوم الإسلامية الماليزية.

يستغرق هذا الاستطلاع حوالي 15-20 دقيقة لإكماله. يرجى قراءة كل سؤال بعناية والتأكد من الإجابة على كل سؤال حيث أن رأيك مهم لنجاح هذا البحث ، وعلى وجه الخصوص، في التمييز بين العوامل التي تهتمك في عوامل جودة التدقيق.

تقدم هذه الدراسة مقترحاً لقياس جودة التدقيق من خلال دراسة العوامل التي تؤدي إلى تحسين جودة التدقيق.

جميع الردود مجهولة المصدر وسيتم استخدامها لأغراض البحث فقط، حيث سيتم عرض نتيجة هذا الاستبيان بشكل إجمالي.

إذا كنت ترغب في الاستفسار عن الاستبيان أو إذا كنت بحاجة إلى أي مساعدة في الإجابة عن أي سؤال، فيرجى الاتصال بالباحث مباشرة حسني إبراهيم ربيعة من خلال جوال رقم 0599774233 أو تطبيق واتساب رقم 00970569774233 أو بريد الكتروني

husnirabaiah@gmail.com

استبانة البحث

القسم 1 : البيانات الشخصية وعملية تدقيق البلدية

الأسئلة التالية تدور حول بيانات موظفي قسم المحاسبة وعملية التدقيق في البلدية. يرجى اختيار إجابة واحدة فقط لكل من العبارات التالية:

ا- البيانات الشخصية

1- الوظيفة

☐ محاسب ☐ محاسب رئيسي ☐ مدير الحسابات/ مسؤول عن اصدار التقارير المالية ☐ مدقق داخلي

2- الجنس

☐ ذكر ☐ انثى

3- العمر

☐ اقل من 30 سنة ☐ من 30 الى 40 سنة ☐ من 41 الى 50 سنة ☐ اكثر من 50 سنة

4- المؤهلات العلمية في المحاسبة

☐ اقل من بكالوريوس ☐ بكالوريوس ☐ ماجستير ☐ دكتورة ☐ بكالوريوس في غير المحاسبة

5- سنوات الخبرة في المحاسبة

☐ اقل من 5 سنوات ☐ من 5 الى 10 سنوات ☐ من 11 الى 15 سنة ☐ اكثر من 15 سنة

ب- بيانات عملية التدقيق في البلدية

1- اسم البلدية اختياري

2- تصنيف البلدية

☐ فئة A كبرى ☐ فئة A ☐ فئة B ☐ فئة C ☐ فئة D

3- معدل رسوم التدقيق السنوي

- ☐ اقل من 2000 دولار ☐ من 2001 الى 4000 دولار ☐ أكثر من 6000 دولار ☐ لا اعرف

4- الاساس المحاسبي المستخدم في البلدية

- ☐ الاساس النقدي ☐ اساس الاستحقاق ☐ اساس الاستحقاق المعدل ☐ اكثر من اساس محاسبي بما يناسب نوع الموازنة

5- عدد افراد فريق التدقيق الخارجي من المهنيين

- ☐ اثنين من الموظفين ☐ ثلاثة موظفين ☐ اربعة موظفين ☐ خمسة موظفين او أكثر

6- عدد الموظفين في التدقيق الداخلي

- ☐ لا يوجد ☐ موظف واحد ☐ موظفين اثنين ☐ ثلاثة موظفين فاكتر

7- اخر سنة تم اصدار بيانات مالية مدققة للبلدية

- ☐ 2018 ☐ 2019 ☐ 2020 ☐ 2021 ☐ لم يتم اصدار بيانات مالية مدققة

8- ما هو نوع تقرير التدقيق الذي اصدره المدقق القانوني للبلدية للسنة الاخيرة التي تم تدقيقها - الاجابة عن هذا السؤال ليست اجبارية

- ☐ تقرير نظيف/غير معدل ☐ تقرير غير معدل مع فقرة توكيدية ☐ تقرير معدل متحفظ ☐ تقرير معاكس/البيانات غير عادلة ☐ تقرير الامتناع عن ابداء الراي ☐ البلدية لا تدقق حساباتها

9- اخر سنة قام ديوان الرقابة المالية والادارية او دائرة الرقابة والتوجيه في الحكم المحلي بالتدقيق في البلدية

- ☐ 2019 ☐ 2020 ☐ 2021 ☐ 2022 ☐ لم يتم التدقيق

القسم الثاني: سمات عوامل جودة التدقيق

فيما يلي قائمة بالسمات التي قد تؤثر على جودة التدقيق. ترتبط هذه السمات بمدققي الحسابات ومؤسسة ومكتب التدقيق ونظام الرقابة الداخلية في البلدية. افترض أنه قد طلب منك تقييم جودة التدقيق في البلدية التي تعمل بها من خلال تحديد درجة موافقتك على مدى قدرة كل سمة من السمات التالية على زيادة جودة التدقيق الخارجي اي بمعنى زيادة قدرة التدقيق على اكتشاف الازطاء في البيانات المالية والافصاح عنها.

#	سمات عوامل جودة التدقيق	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
1	السمعة الايجابية العامة لمكتب التدقيق					
2	جميع افراد فريق التدقيق يظهرون العناية المهنية المطلوبة خلال مهمة التدقيق.					
3	لدى مكتب التدقيق تعليمات صارمة يلتزم بها في انجاز عملية التدقيق حتى الوصول الى اصدار تقرير التدقيق.					
4	تشجيع مكتب التدقيق المدققين الذين يعملون فيه على اخذ دورات علمية وحضور ورش العمل التي تنمي معرفتهم في فهم أنشطة عملهم.					
5	يحرص مدراء التدقيق والمدققون ذوي الكفاءة العالية على الاشراف على موظفي التدقيق الاقل خبرة.					
6	التزام فريق التدقيق بمعايير وقواعد أخلاقية عالية.					
7	مكتب التدقيق لديه عقلية المتشكك، وليس عقلية المدافع عن العميل.					
8	اتعاب التدقيق التي تدفعها البلدية لمكتب التدقيق ليست عالية بالنسبة لأجمالي إيراداته من زبائنه الآخرين.					
9	لم يسبق ان مارس مكتب التدقيق وأفراد فريق التدقيق أي سلوك يخل باستقلاليتهم الفعلية او الظاهرية عند اتصالاتك معهم.					
10	عدم قيام مكتب التدقيق بتقديم خدمات استشارية غير التدقيق للبلدية.					
11	ارتفاع معدل التغير في موظفي مكتب التدقيق.					
12	تغيير افراد فريق التدقيق على أساس منتظم في كل مهمة تدقيق.					
13	افراد فريق التدقيق بما فيهم الشريك، والمدير، والمشرّف لديهم خبرة كافية بتدقيق البلديات.					
14	يقوم فريق تدقيق بلديتكم بتدقيق بلديات اخرى.					
15	لدى فريق التدقيق فهم واسع النطاق لمعايير المحاسبة والتدقيق بالإضافة الى حصولهم على الشهادات المهنية مثل CPA.					
16	لدى فريق التدقيق بشكل عام فهم واسع لأنشطة البلدية التشغيلية.					
17	يستخدم مكتب التدقيق بشكل كبير أجهزة الكمبيوتر والتقنيات الإحصائية في انجاز عملية التدقيق.					
18	مكتب التدقيق يحدد خطة زمنية لكل نشاط من أنشطة التدقيق ويلزم بها فريق التدقيق.					
19	ارتفاع مجموع ساعات العمل التي يقضيها فريق التدقيق في عملية التدقيق من البداية وحتى كتابة تقرير التدقيق.					
20	ارتفاع قيمة أتعاب التدقيق السنوية التي تدفعها البلدية تؤثر على جودة التدقيق.					
21	مبلغ أتعاب التدقيق يتناسب مع جهود المدقق المبذولة في مهمة التدقيق.					
22	عدد المهنيين في فريق التدقيق مهم في تحقيق جودة التدقيق.					
23	يؤثر الشكل القانوني (مؤسسة فردية او شركة محلية او دولية) لمكتب التدقيق وحجمه على جودة التدقيق.					
24	كفاءة وفعالية التدقيق الداخلي في البلدية.					
25	يتعاون فريق التدقيق الخارجي مع التدقيق الداخلي في البلدية بشكل وثيق.					
26	الانتقال من الأساس النقدي إلى أساس الاستحقاق يزيد من ملائمة وموثوقية البيانات المالية.					

27	استخدام اساس الاستحقاق المحاسبي بدلا عن الاساس النقدي في تسجيل العمليات المالية يؤثر في جودة التدقيق.				
28	يتطلب أساس الاستحقاق من المدقق زيادة جهوده في عملية المراجعة.				
29	وجود القوانين والانظمة المناسبة يزيد من جودة التدقيق.				
30	التزام البلدية بالقوانين والانظمة يعزز من جودة التدقيق.				
31	إن التزام المدققين بفحص مدى التزام البلدية بالقوانين والانظمة المعمول بها يزيد من جودة التدقيق.				

القسم الثالث: اثر تدقيق الاجهزة العليا على جودة التدقيق الخارجي

فيما يلي قائمة بالبنود المتعلقة بتأثير تدقيق وتوصيات ديوان الرقابة المالية والادارية والدائرة العامة للرقابة والتوجيه في وزارة الحكم المحلي (تدقيق الاجهزة العليا) على العلاقة بين جودة التدقيق الخارجي والعوامل والمحددات التي تؤثر ايجابيا على جودة التدقيق الخارجي، يرجى تحديد اجابة واحدة فقط تشير بها إلى أي مدى توافق على صحة العبارات التالية:

#	البند	موافق بشدة	غير موافق بشدة	موافق	محايد	موافق بشدة
32	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل اختبار مدقق يتحلى بالأخلاق المهنية والسمعة الطيبة.					
33	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل اختبار مدقق مستقل عنها جوهرا وشكلا.					
34	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل اختبار مدقق ذا كفاءة مهنية عالية.					
35	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل اختبار مؤسسة تدقيق تكون اتعاب واجرة تدقيقها عادلة للطرفين.					
36	يؤثر تدقيق الاجهزة العليا على ادارة البلدية لاختبار مؤسسة تدقيق كبيرة الحجم خاصة شركات التدقيق الدولية.					
37	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل انشاء وحدة تدقيق داخلي في البلدية، ويعمل على زيادة كفاءتها وفعاليتها.					
38	يؤثر تدقيق الاجهزة العليا على ادارة البلدية من اجل تبني اساس الاستحقاق المحاسبي.					
39	تدقيق الاجهزة العليا يؤثر على ادارة البلدية من اجل الالتزام بالقوانين والانظمة التي تنظم اعمالها.					
40	تدقيق الاجهزة العليا يؤثر على مؤسسة التدقيق لتقوم بتعيين فريق تدقيق مهني وذا كفاءة عالية.					
41	مؤسسة التدقيق تعتمد على تقارير ونتائج التدقيق الاجهزة العليا في عملية التدقيق التي تقوم بها.					
42	تدقيق الاجهزة العليا يدعم ويزيد من جودة التدقيق الخارجي بشكل عام.					

القسم الرابع : تقييم جودة خدمة التدقيق الخارجي

فيما يلي قائمة بالسمات المتعلقة بزيادة جودة خدمة التدقيق الخارجي. يرجى منك تقييم تأثير هذه السمات على جودة خدمة التدقيق من خلال تحديد اجابة واحد فقط والتي يشير إلى أي مدى توافق على صحة العبارات التالي:

#	السمة	غير موافق بشدة	غير موافق	محايد	موافق	موافق بشدة
43	قدرة المدقق على اكتشاف الأخطاء الهامة والعش في البيانات المالية للبلدية والتبليغ عنها في تقارير التدقيق يزيد من جودة التدقيق.					
44	قدرة المدقق على اكتشاف نقاط الضعف في نظام الرقابة الداخلية والتبليغ عنها للجهات المعنية في البلدية يزيد من جودة التدقيق.					
45	قيام مكتب التدقيق بإكمال التدقيق في الموعد النهائي الذي حددته البلدية يزيد من جودة التدقيق.					
46	لقاءات واتصالات فريق التدقيق بشكل متكرر مع المجلس البلدي او لجنة التدقيق التابعة له يزيد من جودة التدقيق.					
47	لقاءات واتصالات فريق التدقيق مع رئيس البلدية ومدراء الدوائر بشكل متكرر يزيد من جودة التدقيق.					
48	قيام مكتب التدقيق بشكل مستمر بإبلاغ إدارة البلدية عن التطورات الجديدة في علم المحاسبة والتقارير المالية يزيد من جودة التدقيق.					
49	قيام المدقق القانوني الشريك في مكتب التدقيق أو مدير التدقيق بزيارة البلدية والمشاركة في عملية التدقيق يزيد من جودة التدقيق.					
50	قيام المدقق بطرح افكار وتوصيات مفيدة تحسن من اداء البلدية تزيد من جودة التدقيق.					

شكرا جزيلا على مشاركتكم

Appendix 3: Questionnaire Validation Tool



Research Tittle

Factors Affecting the Audit Quality in the Municipalities of Palestine: Moderating Role of Supreme Audit Institutions

**Dear Validator,
Academic Experts**

This tool requests your assessment of the validity of the questionnaire that will be used to collect the data for the investigation of Factors Affecting the Audit Quality in the Municipalities of Palestine. Please select only one option when providing your honest evaluation based on the following criteria, and you can provide your comments and suggestions as supplementary information to the form.

#	The Criteria	The code of criteria
1	Item is not representative and understandable	1
2	Item needs major revisions to be representative and understandable	2
3	I am unable to evaluate this item.	3
4	Item needs minor revisions to be representative and understandable	4
5	Item is full representative and understanding	5

Thank you very much for your cooperation

PhD Candidate:

Husni Ibrahim Rabaiah

Islamic Science University of Malaysia

Faculty of Economic and Muamalat - Department of Accounting

Email husnirabaiah@gmail.com , Mobile: 00970599774233 or WhatsApp 0097056774233.

BACKGROUND INFORMATION FOR ACADEMIC VALIDATORS

1- Gender

☐ Male

☐ Female

2- Age

☐ Less than 30 years old

☐ 30-40 years old

☐ 41-50 years old

☐ More than 50 years old

3- Academic Qualification

4- ☐ PhD Degree ☐ Master Degree ☐ Bachelor's Degree or equivalent

5- Highest Academic Rank

☐ Professor

☐ Associate Professor

☐ Assistant Professor

☐ Lecturer

6- Years of the accounting experience

☐ Less than 5years

☐ 5-10 years

☐ 11-15 years

☐ More than 15 years

Please, provide any comments or suggestions in terms of demographic information of the respondents and the audit processes in the municipalities.

Section 1: The accounting department staff characteristics and the audit process in the municipalities

Instruction: The following questions ask about the characteristics of the Accounting Department staff and the audit process in the municipality. Please select one answer only at for each of the following statements to describe the information about yourself and your municipality.

C- The Characteristics Traits

7- Occupation

☐ Accountant

☐ Senior Accountant

☐ Accounting Department Head

☐ Internal Auditor

8- Gender

☐ Male

☐ Female

9- Age

☐ Less than 30 years old ☐ 30-40 years old ☐ 41-50 years old ☐ More than 50 years old

10- Academic Qualification in Accounting

☐ Less than Bachelor Degree ☐ Bachelor's Degree or equivalent
☐ Master Degree ☐ PhD Degree ☐ Bachelor's Degree in other field

11- Years of the accounting experience

☐ Less than 5 years ☐ 5-10 years ☐ 11-15 years ☐ More than 15 years

D- Audit Process in the Municipality

10- Municipality Name_____ Optional

11- Municipality Classification

☐ Class A+ ☐ Class A ☐ Class B ☐ Class C ☐ Class D

12- Average Audit Fees in USD

☐ Less than 2000 ☐ From 2001 to 4000 ☐ From 4001 to 6000 ☐ More than 6000 ☐ I do not know

13- Accounting Basis Used

☐ Cash Basis ☐ Accrual Basis ☐ Modified Accrual Basis ☐ Mix as the type of budget

14- Number of the External Audit Team Individuals

☐ Two auditors ☐ Three auditors ☐ Four auditors ☐ Five auditors or more

15- Number of Internal Auditing Staff

☐ None ☐ one employee ☐ Two employees ☐ Three employees or more

16- The Last Year the Audited Financial Statements were Issued

☐ 2018 ☐ 2019 ☐ 2020 ☐ 2021 ☐ Never Audited

17- The type of the last auditor's report

☐ Standard Unmodified ☐ Unmodified with Emphasis Matter ☐ Qualified
Opinion ☐ Adverse Opinion ☐ Disclaimer ☐ No audit in the municipality

18- The Last Year the Municipality was Audited by the Supreme Audit Institutions (FACB or MOLG GDCG).

☐ 2019 ☐ 2020 ☐ 2021 ☐ 2022 ☐ Never
audited

Section 2: The Attributes of Audit Quality Factors

A list of characteristics that could affect audit quality is provided below. These qualities are connected to the internal controls of the municipality, the audit firm, and the auditors. Please rate the following items, which may have an impact on the audit quality, using the corresponding grading scale (from 1 to 5) by choosing the appropriate code from the table below. Additionally, if you have any feedback or suggestions, please email them to me with the note reference listed next to each item.

#	The Attributes	1	2	3	4	5	Your Note Reference
1	The overall reputation of the audit firm is positive.						
2	The audit team members as a group always exercised due care throughout the engagement.						
3	The audit firm has strict guidelines on the procedures that must be completed before signing the audit report.						
4	The audit firm actively encourages staff members to take courses and attend seminars in fields where the firm has major clients.						
5	The senior auditors supervise junior auditor.						
6	The engagement's auditors are held to maintain high ethical standards.						
7	The audit firm has a skeptic's mindset, not a client advocate's mindset.						

8	The amount of the audit fee from the municipality is not higher when compared to the total revenue of the audit firm.						
9	The audit firm and individual audit team members never participated in any conduct that might impair their independence.						
10	The audit firm does not provide non-audit consultancy services to the municipality.						
11	The audit firm has a high audit staff turnover rate.						
12	Members of the audit team are cycled off the audit on a regular basis.						
13	The audit team assigned to the audit engagement (partner, manager, and supervisor) is familiar with the municipalities.						
14	Other municipalities are audit clients of the auditor that is conducting the audit.						
15	The auditors assigned to the engagement have extensive understanding of accounting and auditing standards, as well as professional certifications such as the CPA.						
16	The audit team members as a whole have a good understanding of the municipality's operations.						
17	In completing the audit, the audit company makes considerable use of computers and statistical methodologies.						
18	Each audit area has a strict time budget that the audit firm wants its auditors to stick to.						
19	The total number of hours spent on the audit by the audit team (from the beginning of field work to the audit report date).						
20	The amount of audit fees that is paid has an effect on the audit quality.						
21	The amount of audit fees is related to the auditor efforts in the audit engagement.						
22	The number of professionals in the audit team is important on achieving of the audit quality.						
23	The legal form of audit firm and its size affect the audit quality.						
24	The efficiency and effectively of internal auditing function in the municipality.						
25	External auditors work closely with internal auditors.						
26	The transferring from cash basis to accrual basis improves the relevancy and the reliability of the financial statements.						

27	The using of accrual basis instead of cash basis in recording the financial transactions affects the audit quality.						
28	Accrual basis requires the auditor to increase his efforts in the auditing process.						
29	The existence of appropriate laws and regulations increases the audit quality.						
30	The commitment of the municipality with the laws and regulations enhances the audit quality.						
31	The commitment of the auditors with investigation of client's adherence with the applicable laws and regulation increases the audit quality.						

Section 3: The effect of the SAIs on the quality of the external audit

Below is a list of items related with the effect of SAIs audit on the quality of the main factors of audit quality. Please rate the following items, which may have an impact on the audit quality, using the corresponding grading scale (from 1 to 5) by choosing the appropriate code from the table below. Additionally, if you have any feedback or suggestions, please email them to me with the note reference listed next to each item.

#	The Item	1	2	3	4	5	Your Note Reference
32	The SAIs audit affects the municipal administration in order to choose a good reputation auditor with a high professional ethics.						
33	The SAIs audit affects the municipal administration in order to choose an independent auditor either in his mind and appearance.						
34	The SAIs audit affects the municipal administration in order to choose a high professional competence auditor.						
35	The SAIs audit affects the municipal administration in order to choose an audit firm whose audit fees are reasonable and fair.						
36	The SAIs audit affects the municipal administration in order to choose a large-						

	size audit firm such as the Big 4.						
37	The SAI's audit affects the municipal administration in order to establish an internal audit unit in the municipality, and works to increase its efficiency and effectiveness						
38	The SAI's audit affects the municipal administration in order to adopt the accrual basis of accounting.						
39	The SAI's audit affects the municipal administration in order to comply with the applicable laws and regulations						
40	The SAI's audit influences on the audit firm to appoint a highly qualified and professional audit team.						
41	The audit team always relies on the reports and findings of the SAI's audit in the audit engagement process.						
42	The SAI's audit supports and increases the quality of the external audit in general.						

Section 4: The Statements Related with Audit Service Quality

Below is a list of statements related with the audit service quality. Assume that you have been asked to evaluate the audit service quality. Please rate the following items, which may have an impact on the audit quality, using the corresponding grading scale (from 1 to 5) by choosing the appropriate code from the table below. Additionally, if you have any feedback or suggestions, please email them to me with the note reference listed next to each item.

	Statements Related with Audit Service Quality	1	2	3	4	5	Your Note Reference
43	Audit quality detects and reports the material misstatements in the client financial statements.						
44	Audit quality detects and reports the material weakness of internal control system.						
45	The audit firm agrees to complete the audit by a deadline stipulated by the client.						

46	The repetitive meetings and communications of audit team with the with the municipality council and the audit committee increase the audit quality.						
47	The repetitive meetings and communications of audit team with the mayor and the directors of the municipality increase the audit quality.						
48	Throughout the year, the audit firm keeps municipality management informed about accounting and financial reporting developments that have an impact on the municipality.						
49	During the audit, the audit engagement partner and manager conduct numerous visits to the municipality.						
50	The auditor adds benefits to the municipality by generating useful improvement ideas.						

Note: the same form (except the demographic characteristics of academic experts) sent to seven professional experts in the municipalities of main cities, and the joint services.

Appendix 4: Content Validity Index (CVI)

Table A: ACH Items as Rated by Experts for Content Validity Expert

Items	Academic Experts				Professional Experts							CVI	
	EXP 1	EXP 2	EXP 3	EXP 4	EXP5	EXP6	EXP 7	EXP 8	EXP 9	EXP 10	EXP 11		
ET1	5	4	5	5	5	4	4	5	5	5	5	11/11	100%
ET2	4	4	5	4	4	2	2	4	4	5	5	9/11	81.8%
ET3	4	4	4	5	5	5	4	1	4	5	5	10/11	90.9%
ET4	4	4	1	1	4	5	4	1	4	4	5	8/11	72.7%
ET5	5	5	4	5	4	5	4	1	4	4	4	10/11	90.9%
ET6	4	4	4	2	5	5	4	5	4	5	5	10/11	90.9%
IN1	5	5	5	4	4	4	4	5	4	5	2	10/11	90.9%
IN2	4	5	2	5	4	4	4	5	4	4	1	9/11	81.8%
IN3	5	4	2	4	4	4	4	5	4	4	4	10/11	90.9%
IN4	5	5	4	5	4	5	2	5	2	2	4	8/11	72.7%
IN5	5	5	5	4	4	5	2	5	2	2	1	7/11	63.6%
IN6	2	4	5	4	4	5	4	5	4	2	4	9/11	81.8%
CM1	5	4	4	4	4	4	2	5	4	4	4	10/11	90.9%
CM2	5	5	5	5	5	5	4	5	4	4	5	11/11	100%
CM3	5	4	5	4	4	2	4	5	4	4	5	10/11	90.9%
CM4	5	4	4	4	4	4	4	5	4	4	5	11/11	100%
CM5	4	2	4	5	4	5	4	5	4	4	2	9/11	81.8%
CM6	4	5	4	4	2	4	4	5	4	4	4	10/11	90.9%
CM7	4	2	4	5	4	4	4	5	4	2	5	9/11	81.8%

Table B: AFA Items as Rated by Experts for Content Validity Expert

Items	Academic Experts				Professional Experts							CVI	
	EXP 1	EXP 2	EXP3	EXP 4	EXP 5	EXP 6	EXP 7	EXP 8	EXP 9	EXP 10	EXP 11		
AF1	5	5	5	5	4	4	2	5	4	2	4	9/11	81.8%
AF2	4	5	4	4	4	4	5	5	5	4	4	11/11	100%
AFS1	5	4	4	5	5	5	4	5	5	5	5	11/11	100%
AFS2	4	4	4	4	2	4	2	5	4	4	2	8/11	72.7%

Table C: EMIC Items as Rated by Experts for Content Validity Expert

Items	Academic Experts				Professional Experts							CVI	
	EXP 1	EXP 2	EXP3	EXP 4	EXP 5	EXP 6	EXP 7	EXP 8	EXP 9	EXP 10	EXP 11		
IC1	4	5	5	4	4	5	5	5	5	4	4	11/11	100%
IC2	4	5	4	4	4	4	4	5	5	5	4	11/11	100%
AB1	4	5	4	4	5	5	4	5	4	2	5	10/11	90.9%
AB2	4	5	4	4	4	5	2	5	4	4	5	10/11	90.9%
AB3	4	5	4	4	5	5	4	5	4	4	5	11/11	100%
LR1	4	5	4	4	5	5	4	4	4	4	4	11/11	100%
LR2	4	5	4	4	4	5	5	5	4	4	4	11/11	100%
LR3	4	5	4	4	4	5	5	5	4	5	4	11/11	100%

Table D: SAI Items as Rated by Experts for Content Validity Expert

Items	Academic Experts				Professional Experts							CVI	
	EXP 1	EXP 2	EXP 3	EXP 4	EXP 5	EXP 6	EXP 7	EXP 8	EXP 9	EXP 10	EXP 11		
SAI1	5	4	5	5	4	5	5	5	4	4	4	11/11	100%
SAI2	5	4	4	5	4	4	5	5	2	4	4	10/11	90.9%
SAI3	4	4	4	4	2	5	5	5	2	4	4	9/11	81.8%
SAI4	5	4	4	5	4	2	5	5	2	4	2	8/11	72.7%
SAI5	4	4	4	4	2	5	5	5	2	2	2	7/11	63.6%
SAI6	5	5	2	4	4	2	5	5	4	4	4	9/11	81.8%
SAI7	5	5	5	2	4	4	2	5	2	4	4	8/11	72.7%
SAI8	4	5	4	5	4	5	4	5	4	5	4	11/11	100%
SAI9	4	4	4	4	4	2	4	5	4	2	4	9/11	81.8%
SAI10	5	4	5	5	5	4	2	5	4	4	4	10/11	90.9%
SAI11	5	4	4	5	5	5	4	5	4	4	4	11/11	100%

Table E: AQ Items as Rated by Experts for Content Validity Expert

Items	Academic Experts				Professional Experts							CVI	
	EXP 1	EXP 2	EXP 3	EXP 4	EXP 5	EXP 6	EXP 7	EXP 8	EXP 9	EXP 10	EXP 11		
AQ1	5	5	5	5	5	5	4	5	4	4	4	11/11	100%
AQ2	4	5	5	4	5	5	4	5	4	4	4	11/11	100%
AQ3	4	4	4	4	2	5	2	5	4	4	4	9/11	81.8%
AQ4	5	4	4	5	5	4	4	5	4	4	4	11/11	100%
AQ5	4	5	4	5	4	5	5	5	4	2	4	10/11	90.9%
AQ6	4	4	4	5	4	4	4	5	5	5	4	11/11	100%
AQ7	4	5	4	5	4	5	4	5	5	4	4	11/11	100%
AQ8	4	5	5	5	4	5	5	5	4	4	2	10/11	90.9%

Appendix 5: Common Method Bias (Harman's single-factor test)

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	23.238	46.476	46.476	23.238	46.476	46.476
2	7.975	15.951	62.427			
3	2.300	4.600	67.026			
4	1.185	2.370	69.396			
5	1.102	2.203	71.600			
6	.944	1.888	73.487			
7	.869	1.738	75.225			
8	.811	1.621	76.847			
9	.705	1.410	78.257			
10	.626	1.252	79.509			
11	.573	1.147	80.656			
12	.517	1.034	81.690			
13	.491	.983	82.673			
14	.465	.930	83.602			
15	.439	.878	84.480			
16	.430	.860	85.340			
17	.420	.839	86.179			
18	.404	.809	86.988			
19	.381	.762	87.750			
20	.360	.719	88.469			
21	.350	.699	89.168			
22	.339	.678	89.847			
23	.324	.648	90.495			
24	.303	.605	91.100			
25	.296	.593	91.693			
26	.289	.579	92.271			
27	.267	.534	92.806			
28	.261	.521	93.327			
29	.244	.489	93.816			
30	.240	.481	94.297			
31	.225	.451	94.747			
32	.214	.427	95.174			
33	.209	.417	95.592			
34	.200	.400	95.992			
35	.187	.375	96.367			
36	.182	.364	96.731			
37	.170	.339	97.070			
38	.161	.322	97.392			
39	.153	.307	97.698			
40	.147	.293	97.992			
41	.137	.275	98.266			
42	.124	.248	98.514			
43	.116	.233	98.747			
44	.109	.217	98.964			
45	.103	.206	99.170			
46	.097	.194	99.364			
47	.088	.177	99.541			
48	.084	.168	99.709			
49	.078	.156	99.865			
50	.067	.135	100.000			

Extraction Method: Principal Component Analysis.

Source: Smart PLS 3

Appendix 6: Cross-Loading of all Items and 1st Order Constructs

This table represents the results of cross loadings of the indicators to assess the discriminant validity of all Items and 1st order constructs.

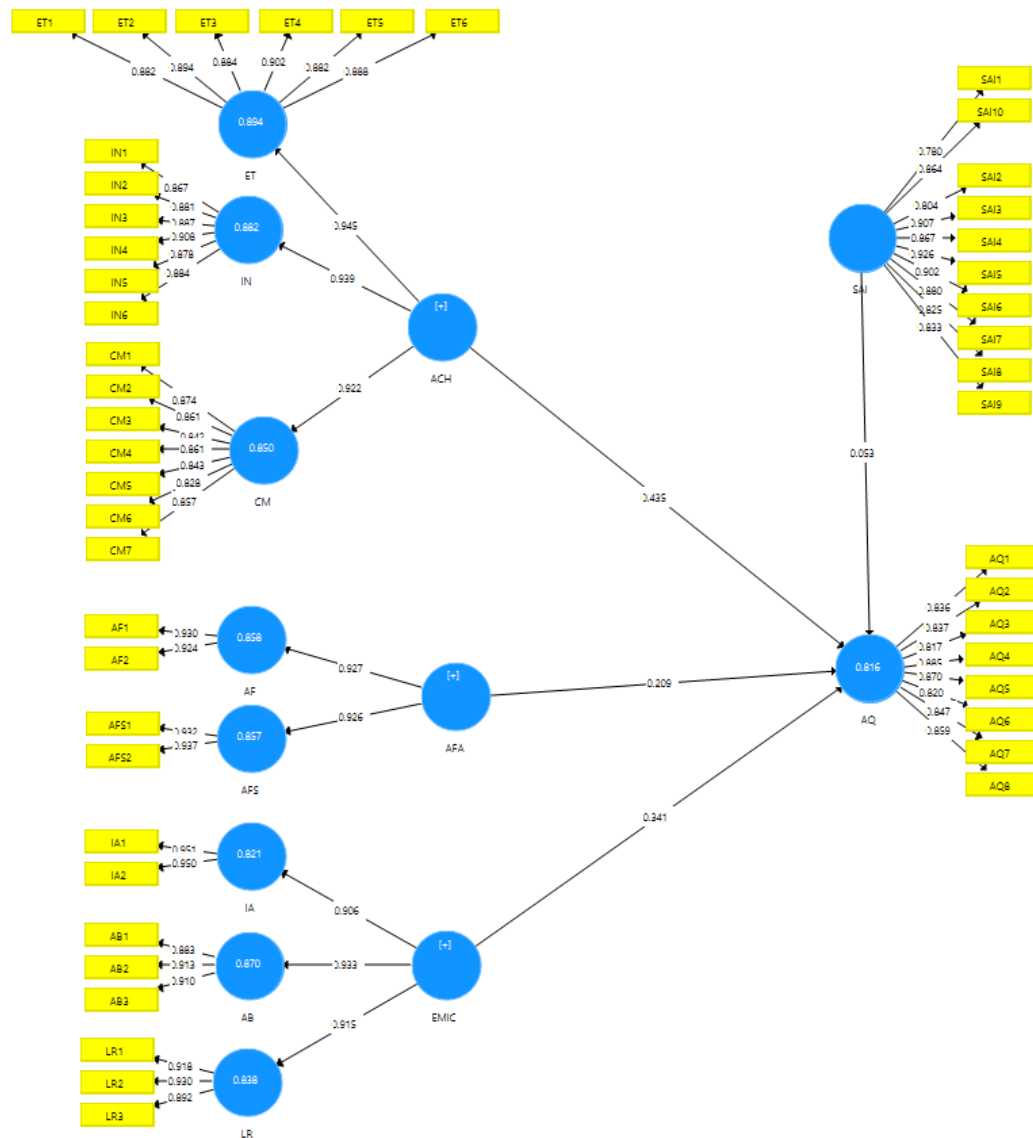
Table A: Results of Cross Loading Criterion

	AB	ACH	AF	AFA	AFS	AQ	CM	EMIC	ET	IA	IN	LR	SAI
AB	1.000	0.735	0.698	0.752	0.694	0.796	0.714	0.933	0.668	0.772	0.681	0.793	0.067
AB1	0.883	0.636	0.620	0.688	0.654	0.677	0.627	0.833	0.575	0.705	0.582	0.697	0.031
AB2	0.913	0.666	0.626	0.651	0.580	0.746	0.646	0.834	0.595	0.676	0.628	0.707	0.089
AB3	0.910	0.687	0.643	0.694	0.641	0.733	0.659	0.856	0.638	0.706	0.633	0.741	0.065
AF	0.698	0.663	1.000	0.926	0.715	0.721	0.646	0.702	0.618	0.597	0.597	0.635	-0.015
AF1	0.646	0.601	0.930	0.875	0.693	0.680	0.594	0.653	0.559	0.558	0.534	0.592	0.007
AF2	0.649	0.629	0.924	0.842	0.633	0.657	0.605	0.648	0.587	0.548	0.573	0.586	-0.035
AFS	0.693	0.641	0.716	0.926	1.000	0.711	0.633	0.709	0.594	0.647	0.573	0.610	-0.008
AFS1	0.654	0.588	0.641	0.850	0.932	0.667	0.573	0.678	0.550	0.621	0.528	0.588	0.037
AFS2	0.641	0.609	0.696	0.880	0.937	0.663	0.609	0.648	0.559	0.589	0.542	0.551	-0.050
AQ1	0.678	0.668	0.635	0.659	0.585	0.836	0.650	0.712	0.599	0.644	0.627	0.637	0.161
AQ2	0.666	0.724	0.586	0.628	0.577	0.837	0.682	0.716	0.665	0.661	0.683	0.647	0.038
AQ3	0.631	0.657	0.602	0.636	0.577	0.817	0.604	0.649	0.638	0.549	0.602	0.608	0.085
AQ4	0.739	0.708	0.605	0.681	0.656	0.885	0.680	0.745	0.657	0.641	0.650	0.673	0.025
AQ5	0.692	0.732	0.620	0.661	0.605	0.870	0.703	0.711	0.666	0.608	0.685	0.657	0.097
AQ6	0.651	0.699	0.595	0.641	0.593	0.820	0.646	0.670	0.647	0.607	0.668	0.584	0.081
AQ7	0.670	0.766	0.640	0.679	0.618	0.847	0.719	0.701	0.710	0.611	0.722	0.648	0.107
AQ8	0.669	0.743	0.604	0.653	0.605	0.859	0.704	0.723	0.696	0.649	0.685	0.672	0.058
CM	0.714	0.921	0.646	0.690	0.633	0.796	1.000	0.731	0.802	0.623	0.785	0.674	-0.020
CM1	0.651	0.825	0.581	0.622	0.572	0.728	0.874	0.655	0.727	0.523	0.717	0.628	0.035
CM2	0.660	0.812	0.588	0.641	0.599	0.729	0.861	0.669	0.730	0.549	0.690	0.630	0.029
CM3	0.566	0.789	0.531	0.566	0.517	0.638	0.842	0.573	0.680	0.491	0.698	0.519	-0.066
CM4	0.580	0.790	0.585	0.601	0.528	0.691	0.861	0.604	0.670	0.545	0.690	0.539	-0.072
CM5	0.557	0.759	0.498	0.545	0.511	0.629	0.843	0.586	0.650	0.520	0.638	0.535	0.005
CM6	0.598	0.741	0.523	0.569	0.531	0.636	0.828	0.624	0.650	0.537	0.599	0.579	-0.058
CM7	0.645	0.779	0.545	0.572	0.515	0.695	0.857	0.649	0.677	0.552	0.655	0.587	0.006
ET	0.668	0.945	0.617	0.654	0.593	0.780	0.803	0.678	1.000	0.576	0.849	0.620	0.121
ET1	0.620	0.828	0.559	0.600	0.552	0.687	0.703	0.621	0.882	0.553	0.743	0.535	0.182
ET2	0.609	0.859	0.586	0.621	0.564	0.736	0.750	0.621	0.894	0.523	0.765	0.575	0.117
ET3	0.571	0.835	0.542	0.566	0.505	0.691	0.715	0.578	0.884	0.466	0.742	0.553	0.089
ET4	0.579	0.850	0.542	0.579	0.530	0.675	0.714	0.583	0.902	0.497	0.771	0.528	0.100
ET5	0.574	0.820	0.537	0.554	0.488	0.690	0.672	0.597	0.882	0.505	0.746	0.564	0.086
ET6	0.611	0.846	0.524	0.566	0.524	0.678	0.723	0.614	0.888	0.530	0.760	0.549	0.078
IA	0.771	0.651	0.597	0.672	0.647	0.735	0.623	0.906	0.577	1.000	0.629	0.728	0.061
IA1	0.738	0.611	0.553	0.632	0.617	0.681	0.586	0.862	0.531	0.951	0.598	0.690	0.040
IA2	0.728	0.627	0.581	0.645	0.613	0.715	0.598	0.861	0.565	0.950	0.599	0.694	0.075
IN	0.681	0.939	0.597	0.631	0.572	0.787	0.786	0.711	0.849	0.629	1.000	0.647	0.056
IN1	0.599	0.826	0.496	0.536	0.497	0.673	0.723	0.622	0.730	0.555	0.867	0.558	0.035
IN2	0.637	0.856	0.533	0.581	0.542	0.707	0.739	0.648	0.781	0.593	0.881	0.554	0.028
IN3	0.598	0.827	0.595	0.603	0.522	0.714	0.680	0.639	0.755	0.570	0.887	0.591	-0.002
IN4	0.621	0.845	0.537	0.573	0.525	0.714	0.694	0.659	0.770	0.596	0.908	0.597	0.085
IN5	0.557	0.804	0.488	0.518	0.471	0.684	0.659	0.578	0.719	0.485	0.878	0.551	0.070

	AB	ACH	AF	AFA	AFS	AQ	CM	EMIC	ET	IA	IN	LR	SAI
IN6	0.599	0.822	0.513	0.535	0.478	0.679	0.674	0.623	0.746	0.536	0.884	0.583	0.083
LR	0.793	0.693	0.635	0.673	0.611	0.758	0.675	0.915	0.621	0.728	0.648	1.000	0.042
LR1	0.751	0.625	0.608	0.624	0.547	0.698	0.602	0.859	0.556	0.703	0.596	0.918	0.050
LR2	0.701	0.628	0.555	0.591	0.539	0.677	0.619	0.825	0.562	0.644	0.580	0.930	0.028
LR3	0.719	0.642	0.577	0.626	0.583	0.698	0.625	0.823	0.579	0.646	0.597	0.892	0.038
SAI1	-0.002	-0.016	-0.084	-0.069	-0.043	-0.018	-0.080	-0.023	0.049	-0.006	-0.014	-0.055	0.780
SAI10	0.039	0.013	-0.046	-0.045	-0.038	0.053	-0.056	0.031	0.064	0.028	0.030	0.016	0.864
SAI2	-0.025	-0.075	-0.125	-0.126	-0.108	-0.033	-0.150	-0.036	0.007	-0.035	-0.068	-0.038	0.804
SAI3	0.071	0.059	0.047	0.025	0.000	0.081	-0.018	0.068	0.130	0.056	0.053	0.061	0.907
SAI4	0.039	0.028	-0.055	-0.061	-0.058	0.036	-0.037	0.033	0.095	0.035	0.020	0.017	0.867
SAI5	0.065	0.028	-0.058	-0.030	0.003	0.088	-0.049	0.056	0.099	0.052	0.026	0.037	0.926
SAI6	0.052	0.055	-0.035	-0.021	-0.004	0.066	-0.014	0.038	0.121	0.049	0.047	0.002	0.902
SAI7	0.029	0.036	-0.034	-0.044	-0.048	0.070	-0.025	0.023	0.080	0.024	0.046	0.012	0.880
SAI8	-0.024	-0.028	-0.043	-0.052	-0.053	0.005	-0.098	-0.014	0.030	0.006	-0.009	-0.020	0.825
SAI9	0.019	0.026	-0.038	-0.061	-0.074	-0.013	-0.067	-0.009	0.106	-0.031	0.033	-0.012	0.833

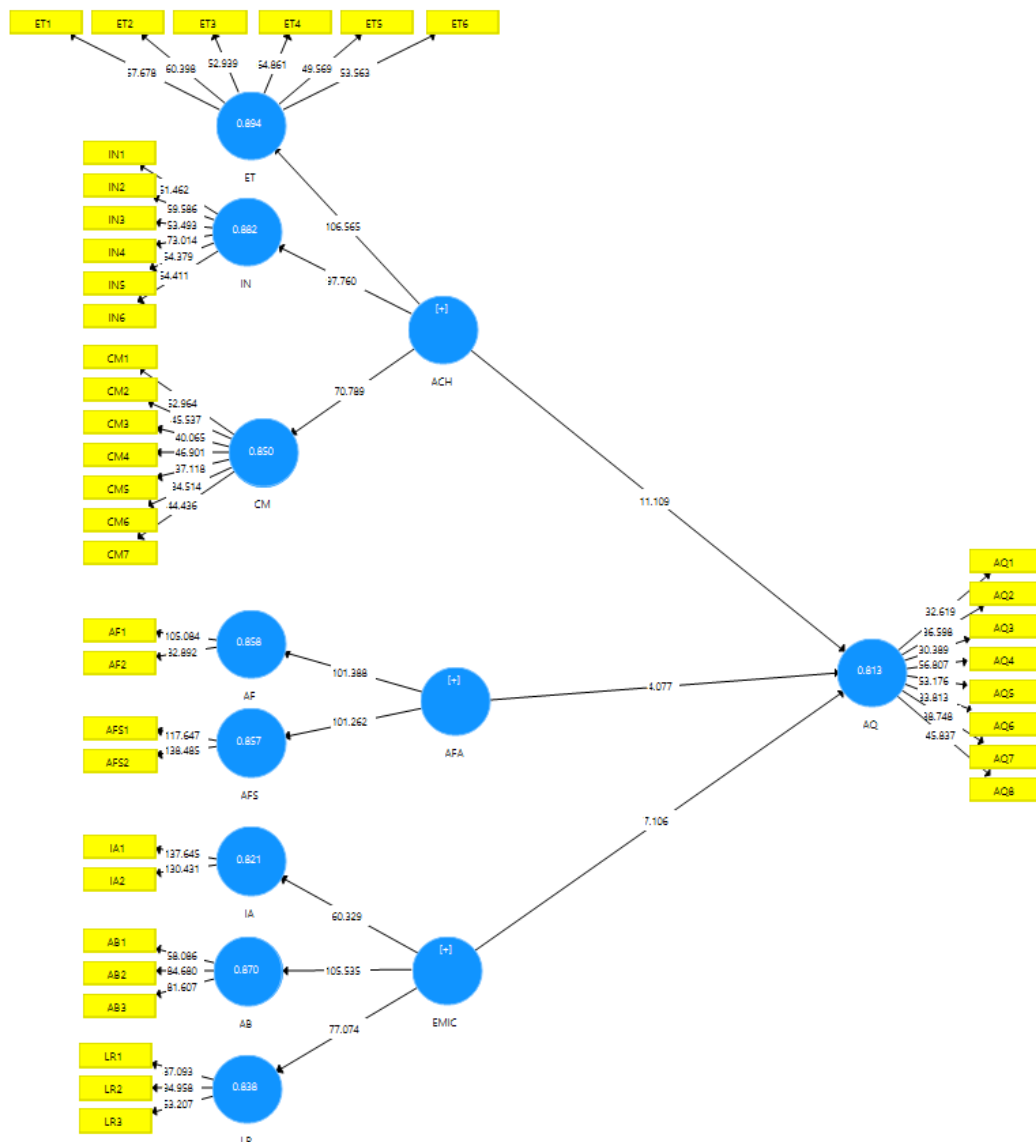
Source: Smart PLS 3

Appendix 7: Smart PLS Modified Measurement Model 1



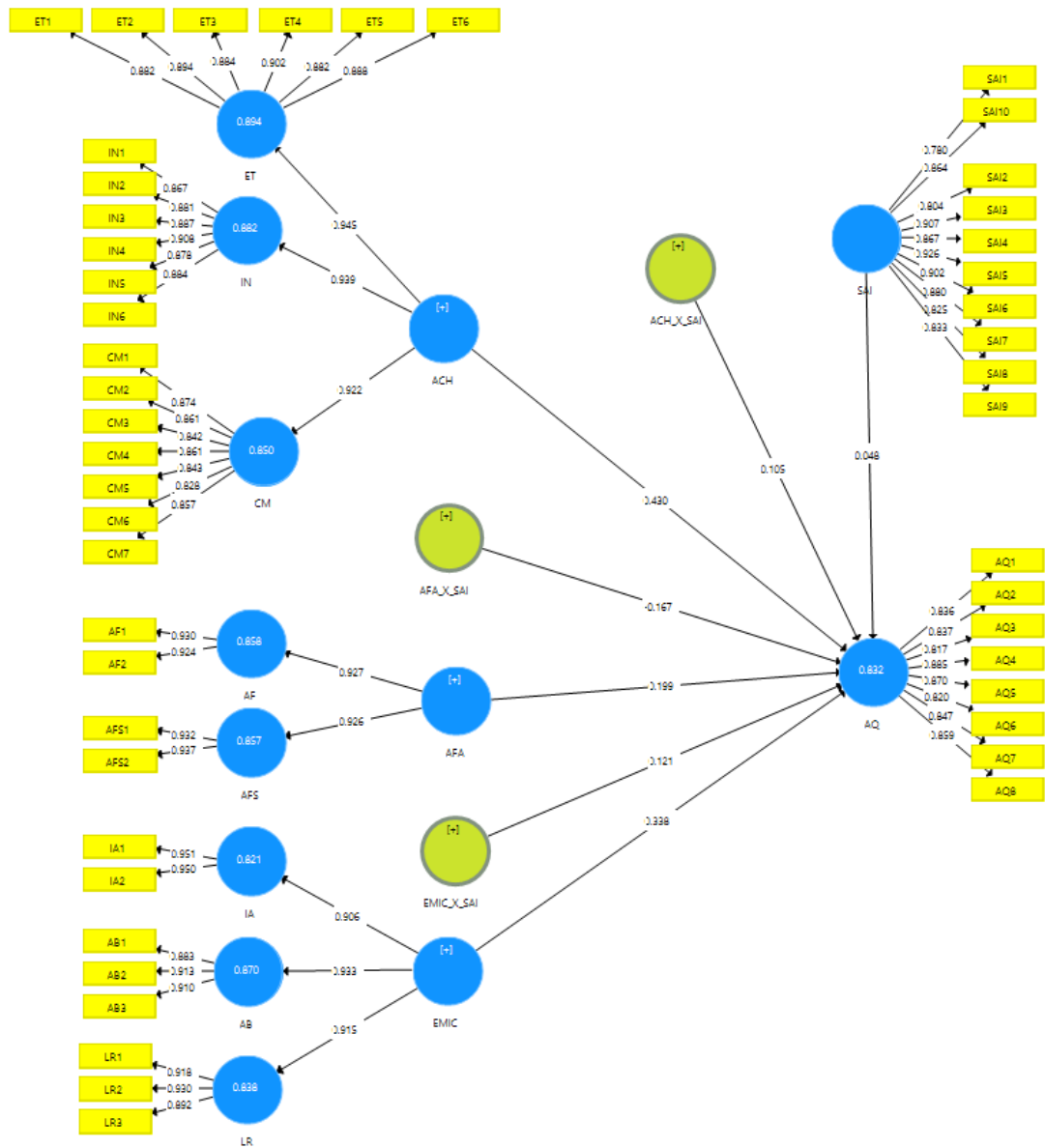
Source: Smart PLS3

Appendix 8: Smart PLS Structural Model 1 – Causal Effects – t-value



Source: Smart PLS3

Appendix 9: Smart PLS Structural Model 1 – Moderation Effects



Source: Smart PLS3

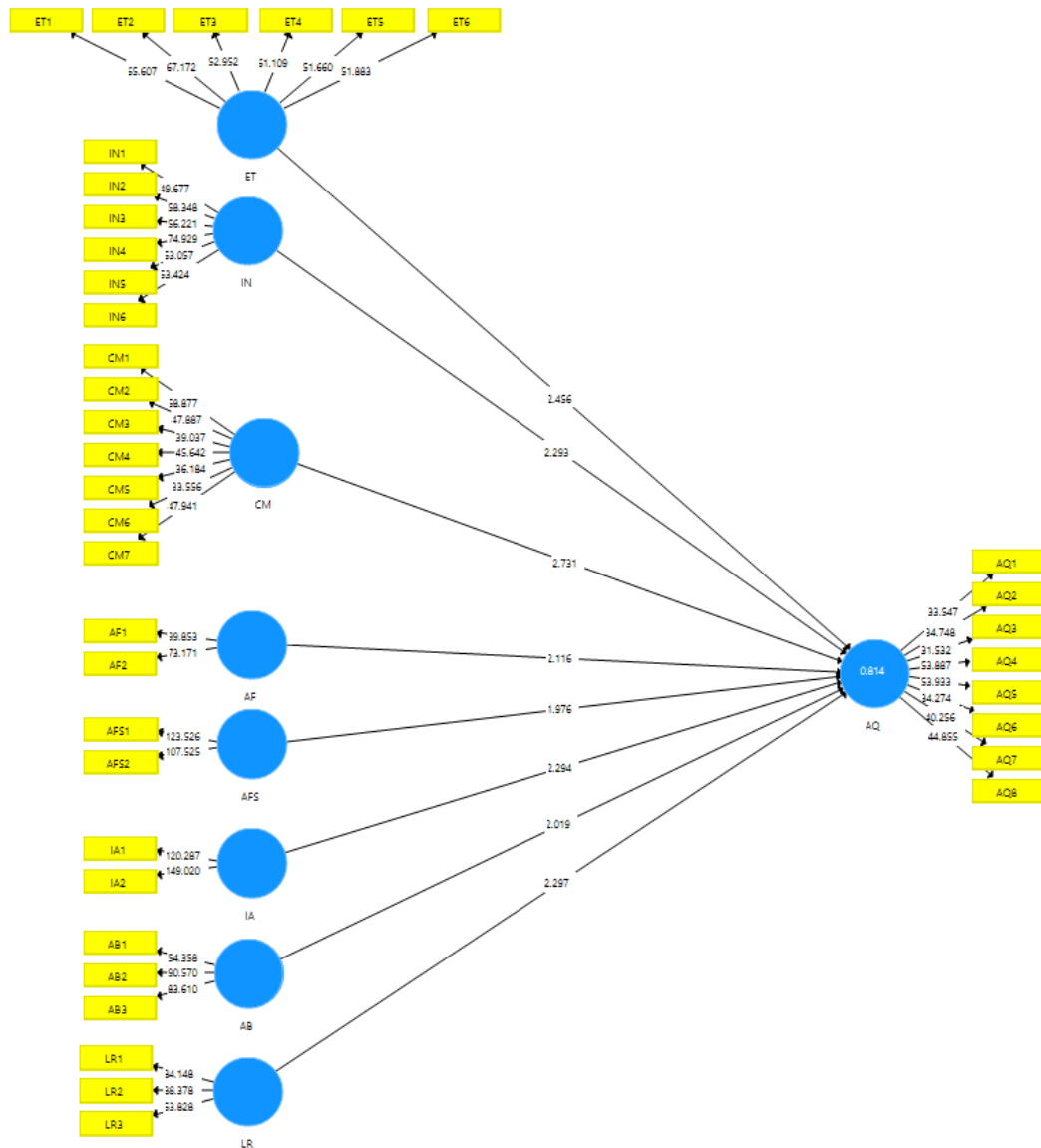
Figure A: Structural Model 1 – Moderation Effects – Path Coefficients



Source: Smart PLS3

Figure B: Structural Model 1 – Moderation Effects – T-values

Appendix 10: Smart PLS Structural Model 2 – Causal Effects – t-values



Source: Smart PLS3