

The Moderating Role of Supreme Audit Institutions on the Relationships Between the Municipal Audit Quality and the Audit Quality Attributes: Palestine Case

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Abstract .The purpose of this study is to investigate the impact of the Supreme Audit Institutions (SAIs) on the relationships between external audit quality and audit quality attributes: the auditors' characteristics, audit firms' attributes, and the effectiveness of municipal internal control. Data for the study was collected from secondary and primary sources. The secondary data were collected from the Palestinian SAIs' annual and the interim specialized reports from year 2011 to 2020. Moreover, the study employed the questionnaire survey to know the perception of the CPAs who licensed and in the public practice of the audit profession in Palestine on the role of the SAIs on the audit quality in the municipalities, in order to support the result of the analysis of the SAIs audit reports. The study uses SPSS Software 20 in order to analyze the collected data by the questionnaire. The study finds that the SAIs have a medium impact on the relationship between the audit quality and the effective internal control components, as well as the auditors' characteristics, but SAIs have weakness impact on the audit firm's attributes. The findings of the study may help the policymakers in the municipalities, SAIs, profession regulators, and the audit firms to consider the impact of auditing of SAIs on external audit quality in the municipalities when they decide on the audit engagement's agreement and audit process. Moreover, the study opens the doors to the academic researchers to examine effect of SAIs on the relationship between the audit quality and other audit quality attributes and use other research methods.

Key Words: Audit Quality, Auditors Characteristics, Internal Control, Audit Firms Attributes, Supreme Audit Institutions

1. Introduction

From the beginning of the 21st century, awareness of the importance of the SAIs auditing is growing, because this type of audit is examining government spending accordance of the related laws, regulations, applicable accounting framework and the approved budget, moreover it contains evaluation of the effective and the efficiency of the public sector programs [1, 2] And the World Bank in 2001 reported that most countries around the world established national audit agencies as Supreme Audit Institutions in order to be responsible for auditing government financial statements [3] and performance audit [2]. In general, SAIs normally provide all types of auditing either financial, performance and compliance audit (Johnsen, 2019). Besides of the audit of the SAIs, some of PSOs are opened to the external auditing in some countries [4]. For example, the municipalities in Palestine which are opened to the external auditing voluntary along besides the internal auditing and the auditing of the SAIs as mentioned in the Policy Paper for Developing Mechanisms for Directing and Monitoring the Work of Local Authorities in July 2011, in this paper the Palestinian Ministry of Local Government (MOLG) revealed that the external audit in the municipalities was voluntary depending on their requirements, but now it becomes recommended by the MOLG [5]. The external audit focuses on the financial statements audit which is provided by the CPA auditor who issues his opinion about the fairness of these financial statements [6] in standardized written audit report, which used in all audit engagement in either public sector or in private sector [4]. The importance of this type of audit increases in the PSOs including NGOs, because these organizations play a vital role in providing the basic services such as infrastructure (roads, bridges, public building, and parking), electricity, water and waste water, health, education, and others (Besley & Ghatak 2017; Avis, Ferraz, and Finan 2018). The significant of these services made the stakeholders of the PSOs interested in the credibility and the transparently of information reports, particularly the financial statements [9]. For example, the management, as the most important part of the stakeholders of the PSOs, has an interest in a good public perception about financial statements credibility, therefore the management always needs a credible independent auditor who provides high level of audit quality (Hay & Corderly 2018a). Also, the citizens as taxpayers in any state or city are interested in this type of audit and they perceive the importance of it, because they want to know where the money spend, and whether these money spend in an economical, efficient and effective way [1].

Most audit firms, in providing the audit service, make sure to provide a high quality of audit which reflects positively on the financial decisions, and this enable these firms to keep their current clients and to attract new clients [10], and the outcome of the audit quality will lead to more assurance that the audited financial reports are more reliable and credible with high level of the audit quality [11], and this is still an essential requirement for all stakeholders of the audit profession in the present and in the future. But till now no agreement among the practitioners, regulators, and researchers on one definition and valid measurements for the audit quality, therefore it is defined and measured in various ways (Bauer, 2015; Griffith, E. E., J. S. Hammersley, K. Kadous, 2015; Aobdia, 2016; Zhukun, Wang, &

Zhang, 2018). This returns to that the actual audit quality is unobservable before and when an audit is performed [16], also, the auditors' efforts in audit engagement also is unobservable [17].

Auditing of SAIs is provided by independent governmental agency for all PSOs [4], but this type of audit concentrates on the compliance audit, performance audit, and the follow up of the complaints in the PSOs. While, the audit of the financial statements in Palestinian LGUs is provided by the external audit firms (CPAs firms), but the FACB as SAI in Palestine required from these firms to fulfill all professional conducts and ethics which applicable to the auditing of governmental entities, and required from who is performing the governmental audit to submit to it any breach is founded in any entity under the audit. This means that there is a relationship between the SAIs and the external audit quality, but the prior studies did not examine sufficiently the effect of SAIs as moderator variable on the relationship between the external audit quality attributes and external audit quality.

The study seeks to address a gap in the literature of the audit quality in the municipalities according the perception of the CPAs in Palestine as developing country, because the most audit quality literature focuses on the external audit of private sector organizations particularly the public corporations in developed countries, but there is a lack of studies related to the audit quality in the PSOs [3], [18], [19]. In addition, the study tries to show the effect of the SAIs on the relationships among the audit quality and their factors (the auditor's characteristics, firms audit attributes and the effectiveness of the municipal internal controls).

In general, this study tries to answer this question: Do the SAIs moderate the relationship between the audit quality and the chosen audit quality factors: the auditor characteristics, the audit firm attributes, and the effectiveness of the municipal internal control? To answer this question, the study reviewed the audit quality literature in order to determine the nature of the relationship between the audit quality and the chosen audit quality factors and their dimensions, and to explore the effect of the SAIs on this relationship. Moreover, the study made reviewing the documents of the SAIs, reviewing the approved governmental audit standards, analyzing the annual and interim SAIs audit reports, and seeking of the auditors' perspective of the role of SAIs on the external audit quality in Palestinian municipalities. In addition to the enhancement of the audit quality literature in the developing countries, the result of the study may be useful for the municipalities management in hiring the suitable external auditors, the profession regulators in setting the audit standards, the audit firm management in planning of the audit engagement particularly in the assessment of the audit risk, and the SAIs management in evaluating of the new experiment of external audit in the municipalities, and in determining of the degree of reliance on the external audit reports.

2. Literature Review

There are inconsistent results in the empirical literature about the factors that affect audit quality. In this section, the audit quality attributes that affect the audit quality are reviewed with a focus on the auditors' characteristics, audit firm's attributes, and effectiveness of internal controls in the municipalities as PSOs.

2.1. PSOs Characteristics

Entities of the public sector provide general purpose financial statements to demonstrate accountability to their stakeholders particularly the superior government or the public to show how the funds used in providing service to the public beneficiaries [20]. The financial reporting system in public sector entities does not focus on the amount of profit but on the effectiveness of providing services to the public [21]. For these reasons the financial reporting system in public sector entities uses specific applicable framework for accounting specialized in the public sector accounting standards [22], these standards may differ in each country, because each country has specific conditions and distinct financial reports purposes. This study takes into account the unique environment of the public sector characteristics with expectation that the unique environment may has an effect on the audit quality and it is sharing in the determinants of the audit quality such as the structure of the governance body and how to appoint its members, laws and regulations, operation plan and related financial budget, supreme auditing institution, political pressure, hiring external auditors and determining their fees, source of revenues and governmental grants, and the superior government strategy.

2.2. Audit Quality

The main purpose of the audit process to report whether the contents of the financial statements represent fairly the financial position and the result of the operations of the firm during specific period [23]. The independent audit reports are valuable for financial statements users including the municipal stakeholders such as investors [24]. The value of audit increases if the audit process performed effectively and with high quality, but the quality of audit concept remains unclear despite the plentiful of research on it. The researchers do not reach to a uniform understanding for the audit quality, therefore they need more examinations for the variables of the audit quality which has a multidimensional concept, and depends on the view of the different stakeholders parties as the financial statements users, auditors,

profession regulators, and the society (Robert Knechel et al. 2013; Masood and Lodhi 2015). Knechel and others (2013) summarized the view of each type of the stakeholders as follows: The users of the financial statements may think that the free of the financial statements from the material errors and fraud leads to high audit quality, but the high audit quality achieved according the auditor's view when he convinced himself that all professional requirements are met, and all audit tasks are completed as the audit firm's approach, in contrast the audit firm believes that a high audit quality is occurred when it has an ability to demonstrate any claims or challenges in front of the court of law, also, a high audit quality may means the compliance with professional standards as audit profession regulators view, and it means avoidance of economic problems which threat the existence of the entity or its market according the society view. The auditor provides assurance about the audited financial statement, but the amount and level of this assurance is unobservable, therefore the measuring of the audit quality is not clear and problematic issue (Robert Knechel et al. 2013; Dickins, Johnson-Snyder, and Reisch 2018; Chadegani 2011). Alareeni (2019) mentioned that previous research has addressed in different ways many attributes and characteristics of the audit firm that affect the audit quality, so that some studies examine the effect of one attribute, whereas other studies examine the effect of several attributes on the audit quality.

Audit quality has two important attributes: competence (expertise) and independence (objectivity) [28]. Kusumawati and Syamsuddin (2018), and Watson (2019) determined that responsibility of the audit quality relied on the auditors, therefore the auditor quality is very important for achieving the audit quality, and the auditor quality is measured by auditor's independence, commitment, ethics, competence, conscientiousness, moral courage and reputation and experience, all these attributes are required by the profession and audit standards.

2.3. Auditors Characteristics

There is a consensus that auditor characteristics play significant role in determining the audit quality, and they are considered the most important determinants of audit quality [31]. Watson (2019) derived five auditor attributes which they contribute to the audit quality from DeAngelo's (1981) definition of audit quality: competence, conscientiousness, independence, moral courage and reputation. Also, Kusumawati and Syamsuddin (2018) classified the measurement of the auditor attributes five attributes: ethics, commitment, independent, competence and experience, and they mentioned many personal qualities must be met by the auditors as: honesty, tactful (diplomatic), ability to work hard, impartial, cautious and vigilant, methodical, aptitude to track down data and figures, and an insatiable curiosity, courage, ability to maintain secrets, ability to communicate, and common sense. But the competency and independency (include the ethics) of auditors are considered as inputs to the auditing process and are probable indicators of the auditor's ability to carry out a high-quality audit [27].

This paper choses auditors' ethics, independency, and competency as dimensions of auditor's characteristics. These characteristics are considered by many researchers, practitioners, and regulators as a focal point for the audit quality, and they form as basis for other attributes and factors of the audit quality.

2.4. Audit Firms Attributes

Audit firms attributes are considered as inputs of audit process, such as audit fees and audit firm size which they indicate to the audit quality [32] and they are considered the most important attributes of the audit firm, because they reflect the effect of other audit firm attributes, for example, the amount of audit fees is determined and related with the level of industry specialization, the auditor tenure, providing non-audit services, reputation, and independency. DeAngelo (1981) demonstrates that there is a positive relationship between the audit quality includes auditor opinions and the audit firm size because the large audit firm has more reputation and clients to lose by failing to report material errors or fraud which they detected in a client's records.

2.5. The Internal Control

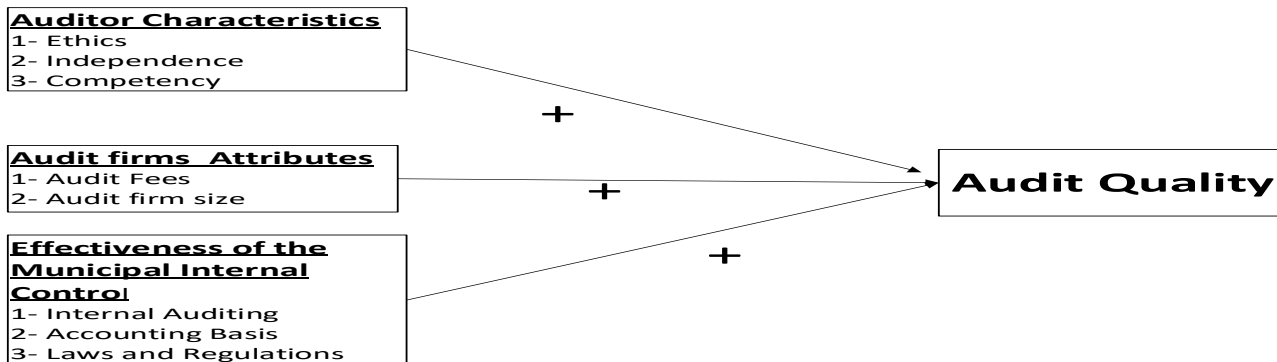
Internal control is generally characterized as management's method of providing reasonable assurance about the achievement of productive and successful operations, accurate financial reporting, and compliance with laws and regulations (Petrovits et al. 2011; Lansiluoto, Jokipii, and Eklund 2016; Younas and Kassim. 2019). Committee of Sponsoring Organizations of Treadway Commission (COSO) established and issued Internal Control-Integrated Framework in 1992, this framework includes five components, namely, control environment, control activities, risk assessment, information and communication and monitoring, the existence of these components produces an effective internal control, in addition, COSO framework states three objectives for internal control as: the effectiveness & efficiency of business, the reliability of financial report, and the compliance with applicable laws (Lansiluoto, Jokipii, and Eklund 2016; Marshall B. Romney 2018; Younas and Kassim. 2019). It is clear that the audit quality is affected by the strength degree of internal control, because the achieving of the internal control objectives supports the objective of the external audit which leads to improve the audit quality. The study examines these dimensions of the effectiveness of the internal control: internal auditing, basis of accounting, and the compliance of the applicable laws and regulations.

External auditor always relies on the work of internal audit either in private sector or in the public sector, particularly, internal auditors always conduct further audits in operating areas including fiscal receipts and expenses. (Aikins 2011).

But the accrual accounting basis has many benefits for different users which summarized by the researchers as follows: accrual accounting basis facilitates and provides more useful (relevant and reliable) information for decision makers, helps in achieving more effective and efficient public administration, provides transparency by issuing balance sheet based on the accruals, provides multiple reporting framework, enables the taxpayers and voters to access to the same information, and provides modern financial reporting and suitable for international comparison (Dewi et al. 2019; Eulner and Waldbauer 2018; IFAC, 2012; ERIN, Olayinka 2019). In addition to the above benefits, adoption of the accrual accounting basis or IPSAS reduces the corruption in PSOs and increases the financial reporting quality (Cuadrado-Ballesteros, Cito, and Bisogno 2019; ERIN, Olayinka 2019). Alareeni (2019) found evidence confirmed that the legal environment has vital impact on the audit quality in addition to the strength of auditing and accounting standards and procedures and the laws and regulations are considered as part of the internal controls of the client's operations, and they have an effect on the audit quality (Alareeni 2019). Yebba and Elder (2019) in their study found that there is an enhancement of audit quality with GAAP regulated state (Michigan), because the environment of reporting becomes stronger with these regulations, and requires specialist auditors who have practical experience in the applicable regulations. Laws and regulations which applicable to the clients do as guidance for them in how to operate their works, including hiring the external auditors and the conditions of the audit agreements and the scope of the audit process and its outcomes.

Based on the preceding discussion, it's clear that there are significant positive relationships between the chosen audit quality attributes; auditors' characteristics, audit firm's attributes and the effectiveness internal control, and the audit quality as the Figure no.1: shows.

Figure no. 1: The Relationships between the Audit quality Attributes and Audit Quality



2.6. The Supreme Audit Institutions

Supreme Audit Institutions (SAIs) are national agencies in charge of auditing government revenue and spending, whether by performance, compliance, or financial statement audits, as well as their legal mandates, reporting relationships, and the effectiveness of various governance methods, government procedures, and policies. However, the primary goal of SAIs is to oversee the management of public funds and the quality and integrity of government procedures and policies [43]. SAIs audit is examining the government spending according to related laws, regulations, applicable accounting framework and the approved budget, also it contains evaluation of the effective and the efficiency of the public sector programs [1], [2]. The auditing of SAIs is performed by independent governmental agency for all PSOs [4] which include the central government (ministries), state governments, counties, municipalities, governmental corporations, any organization owned or under supervision of the government such as hospitals, universities, and anyone uses public funds [4], [44], [45]. All public funds and their users are subject to audits in accordance with the regulations governing the budget system, financial statements, financial transactions, analyses, and other audit records and data [1]. Normally, the SAIs have unlimited authority to perform their duties efficiently, for example, the Jordanian laws offer Accounting Bureau the authority to conduct auditing without any restriction, and it submits an annual report to the legislature's authority, detailing the observations and notes made during the auditing of public-sector organizations [46].

Although SAIs are subject to parliaments, they are not part of the executive, legislative, or judicial branches of the government, but they are part of the judiciary in Greece and Portugal, while SAIs in other countries (e.g., France, Italy, and Spain) perform judicial

functions but they are not considered part of the judiciary [45]. SAIs audit and evaluate public policies and programs for the benefit of their respective parliaments, therefore, they do only as subordinators for their Parliaments, however, SAIs do not question the political goals themselves, but rather evaluate how they are being implemented by public organizations [45], [47].

The SAIs' main function is to provide independent reporting on the programs, services, and activities of users of public funds, as well as to give trustworthy assurance and assessment of the public sector's functioning in order to exercise responsible authority [1]. Therefore, the SAI's effectiveness depends on the information function which means that the SAIs conduct audits of their own activities and formulate audit conclusions and recommendations, which are not required legally to be followed. [45]. Other functions for SAIs are derived from main function and from SAIs' law and regulations: control, preventive, training and education, investigation, standardization and regulatory, Political, and advisory [43], [45], [47], [48].

In the audit reports available to users, the Supreme Audit Institutions (SAIs) attempts to give accurate, independent, and objective information, views or opinions, and conclusions based on sufficient and relevant audit evidence, also, the SAI is in charge of encouraging change, extending knowledge, and providing suggestions to improve the PSOs performance, and as a result of the audit evidence, SAIs attempt to establish facts, determine the causes and effects of irregularities, and make recommendations to auditees on how to eliminate irregularities and improve their activities [1], [47]. The tasks of the SAI can be summarized as follows: (1) The operations of the federal government, regional governments and the provinces undergo to an audit, a review of legality, and a check on the proper use of public funds, the audit process includes the audit of both the expenditures and the revenues, (2) The results of the audits are reported to the concerned parliaments and county councils, (3) It examines the accounts of the public administration and those financially responsible for the state (Acker and Bouckaert 2018; Desmedt, E., Morin, D., Pattyn, V., & Brans 2017). The effective of these tasks depending on the quality of the SAIs' auditors, therefore, Octavia, E., & Widodo (2015) found that the quality of financial statements in the PSOs has a positive significant relation with competence of the government auditors (SAI), therefore the external audit quality could be improved by having a competent auditor in SAI, because the external auditor may depend on high level quality of financial reporting, and this leads to high audit quality [50].

The Supreme Audit Institutions in Palestine. The audit of SAIs in Palestine is executed by two bodies in the municipalities: Financial & Administrative Control Bureau (FACB) and the General Department of Control and Guidance in the Ministry of Local government (MOLG). These bodies provide compliance and performance audit services to the local government units in addition to follow up the complaints.

Financial & Administrative Control Bureau (FACB). Following the establishment of the NPA in Palestine in 1993 and the establishment of many PSOs, audits of PSOs began in Palestine under presidential decree 22/1994, which was later amended by decree law 17/1995, both of which were related to the establishment of the General Audit Institution (GAI), which was later replaced by the Financial Audit and Administrative Bureau (FACB) law 15/2004. FACB is considered the supreme audit institution of Palestine, and became a constitutional organization which activities are regulated by its own law, has a budget within the general budget of Palestine and has independent legal personality and full legal capacity to assume tasks and powers prescribed in FACB law and related laws and regulations. The main purpose of FACB is the guarantee soundness and sustainability of financial and administrative activities of Palestine's three authorities (Executive, Judiciary, Legislative), disclose all forms of financial and administrative fraud or material errors, including misuse of public job, and ensure that public performance in Palestine is in compliance with effective laws' provisions, regulations, bylaws, instructions, standards, procedures and that is undertaken in reasonable, effective and efficient manner [51]. FACB accepts INTOSAI standards and international audit standards, and it committed to improving its conduct in order to comply with all INTOSAI standards [52].

In addition to individual reports on audited entities, FACB publishes quarter and annual reports containing total activities undertaken according the pre-established plan or the emergency issues. These reports are delivered to the President of Palestine, the parliament (legislative council) and council of ministers as law provisions. FACB has a statutory mandate permitting control procedures in all PSOs under audit, where financial and compliance audits are performed, but FACB has recently started conducting performance audit through a development program [51].

Act of Financial & Administrative Control Bureau NO. 15 for 2004 mentioned in article no. 3 the main objectives of the FACB as follows:

- 1-Ensuring the soundness of financial activity, and good use for the public money, in the assigned purposes to it.
- 2-The administrative inspection, to guarantee the performance efficiency, good application for the authority, and the deviation disclosure, where found.
- 3-The extent of harmony and correspondence in the financial and administrative activity with the prevalent laws, the regulations, the rules, and the resolutions.

- 4-Ensuring the transparency, the impartiality, and the obviousness of the public performance, and to reinforce the credibility and the reliability of the economic, financial, and administrative policies of the NPA.

On October 2010 FACB issued an Ordinance no. 1 for year 2010 for the adoption of Palestinian Governmental Audit Standards (PGAS) which stated in the Articles no. (4) that “the Palestinian licensed auditors by the virtue of law of practice of auditing profession must follow those standards when auditing any of entities subject to the Bureau’s mandate, and they shall disclose their compliance in the auditor’s report”. And articles no. (5) revealed that “the auditor must comply with the code of ethics adopted in the Standards when auditing entities subject to the Bureau’s mandate and their procedures”. Also, the article no. (14) mentioned that “the auditor, upon discovery of financial and regulatory violations at entities subject to the Bureau’s mandate, must notify the Bureau of these violations immediately and within a period not exceeding two weeks from the date of the discovery of the violations”. The rest articles of the Ordinance no. 1/2010 related with organizing the relationship between the external auditors and FACB and the clients [52].

General Department of Control and Guidance (GDCG). Ministry of Local Government (MOLG) established a department for the control and guidance. This department investigates and evaluates the efficiency and effectiveness of the municipalities operations and examine the extent of compliance with the general laws, regulations, policies, budgetary announcement, instructions and procedures which issued by the MOLG related with the financial and operational activities in the municipalities. In addition to that, GDCG follows up the complaints which are posed by the citizens or any interested parties. GDCG works to increase the trust and reputation in financial and administrative policies by ensuring accountability, fairness, and clarity in public results [5]. Normally the auditors of GDCG visit each LGU twice a year and issue a primary audit report to the LGU council after each visit [53]. This report focuses on the compliance audit and significant changes that occurred between two visits; in certain cases, the department goes ahead of citizen complaints, and it follows audit reports released by the FACB and external auditors [5]. This department also participates in the evaluation of procurement bids, such as the offer for appointing of external auditors and ensuring conformity with the terms of reference for external auditing [53].

From this discussion, the study explains the importance of SAI auditing in municipalities, whether done by FACB or GDCG, and how this type of audit can affect the quality of the external audit, as well as reflect the government's interference in the direction of municipalities based on the public interest theory. The public interest theory can explain most variables behavior and the relationship among the variables of the study. Because the intervention of the government aims to achieve the general benefits for all parties including the citizens through imposing many laws and regulations to enable the local governments units to achieve their goals in providing services to the community in an efficient and an effective way without corruption, and to enable the management to demonstrate the transparency and the accountability by issuing reliable and credible information to all stakeholders.

3. Developing the Hypotheses of the Study

As mentioned in earlier sections, there are positive correlations between audit quality and the characteristics of the auditor, the audit firm's attributes, and the effectiveness of municipal internal control. But the question of this study is there a moderating role of the SAIs on these relations? In order to answer this question, the study develops the study hypotheses through the examining of the effect of the SAIs in Palestine (FACB) on the relationship between the external audit quality and the chosen audit quality attributes in the municipalities. In addition to FACB’s law no 17 for year 1995, since October 2010, FACB issued and adopted the Palestinian Government Auditing Standards (PGAS) which based on the INTOSAI and the code of ethics as amended by International Standards on Auditing (ISA) [52]. PGAS focused on the auditors’ ethics and the importance of existence of an effective internal controls over the financial reporting system in the PSOs including the internal auditing, operating suitable accounting information system, and compliance with the applicable laws and the regulations. Also, MOLG approved and issued in year 2017, the Terms of Reference (ToR) for acquiring the audit services for the Palestinian municipalities. These terms stated some characteristics of auditors and audit firms, such as the auditor’s ethics, independence, competency, the size of audit team and how to select the best price of audit services. In addition, MOLG issued many regulations in order to activate the internal control over the operations of the municipalities, particularly the financial reporting system. These regulations are mentored by GDCG as another SAI for the municipalities.

PGAS and ToR – MOLG required from the auditors who perform the auditing of the municipalities to compliance with Code of Ethics, and must consider these ethics: Trust, Confidence and Credibility, Integrity, Independence, Objectivity and Impartiality, Professional Secrecy, Competence, Professional Development, Political Neutrality, Conflict of interest, and Professional Skepticism [52]. Accordingly, the study manipulates the following hypothesis:

Hypothesis 1: SAIs moderate the relationship between the auditor’s characteristics and the audit quality.

ToR–MOLG stated some audit firm’s attributes which indicate to the size and the audit fees. ToR-MOLG mentioned the number of auditors in the engagement audit team according to the LGUs classification, moreover the ToR mentioned the specialization and ranking

of the auditors in audit team for each engagement. MOLG required from the municipalities to follow the General Purchase Law in acquiring and hiring the audit firm, which focus on the less amount of audit fees. Accordingly, the study develops the following hypothesis

Hypothesis 2: SAIs moderate the relationship between the audit firm's attributes and the audit quality.

PGAS required from the auditors to study and evaluate the reliability of the client internal control, and mentioned in the section no. 3.4 that internal control should be studied and evaluated in accordance with the type of audit being conducted. For example, the internal control evaluations may aid in the preservation of assets and resources, as well as ensuring the correctness and completeness of accounting records. Moreover, the auditor must examine the degree of the compliance with applicable laws and regulations to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and significant influence on the financial statements [52]. Also, MOLG required from municipalities which classified A and B to establish internal auditing department in their organization structures in order to evaluate the efficiency and effectiveness of municipality's activities, and required from all municipalities to assign audit committee from the members of municipal council to monitor all financial activities in the municipalities. In addition, MOLG issued procedures and instructions to explain how to transfer from accounting cash basis to accrual basis, and motivated the municipalities for applying the accrual basis which leads to more reliable accounting system. Accordingly, the study develops the following hypothesis

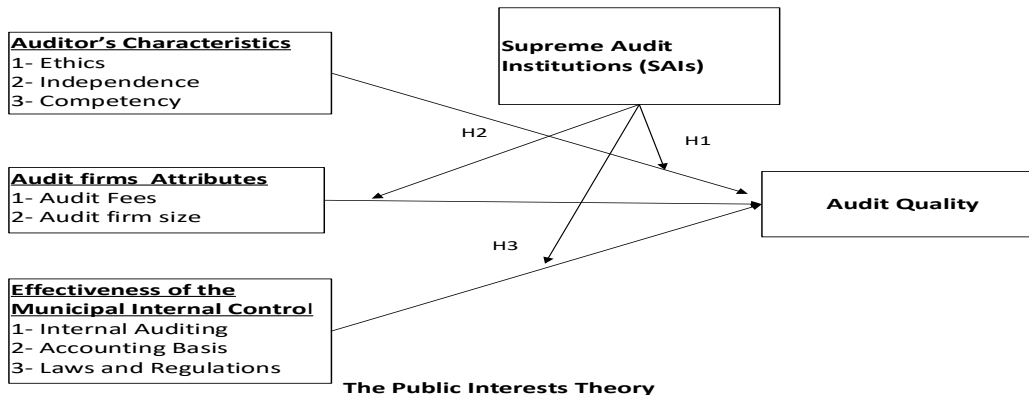
Hypothesis 3: SAIs moderate the relationship between effectiveness of the municipal internal control and the audit quality.

4. Conceptual Framework

This study develops its conceptual framework depending on its theoretical framework and on the audit quality attributes definitions as they discussed in the literature review in the preceding sections. The public interest theory is considered the main theory which can explain all the variables of the study. According this theory, the superior authorities imposes some regulations on the organizations in order to forbidden the unwanted result and to achieve specific goals, such as achieving and getting reliable and credible information from the municipalities.

The figure no.2 depicts the effect of the SAIs on the relationship between the audit quality as dependent variable and the three main audit quality attributes as independent variables according the public interest theory.

Figure No.2: The Study Conceptual Framework



5. Data collection and sample selection

Data for the study was collected using secondary and primary sources. The secondary data was hand collected from the FACB's annual reports which issued regularly in the period from 2011 to 2020 except annual report of year 2013, 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>). Also, the study examines some reports which issued by the MOLG through the GDCG auditors, but these reports are still confidential and are not available for the public regularly, but the researcher got some of them for the study purpose through personal communication with some municipalities. The primary data was collected using questionnaires, which were sent to auditors who are registered in the Palestinian Association of Certified Public Accountants (PACPA) for year 2021 in the West Bank of Palestine. The total number of external auditor is 238 as the registration list of auditors in PACPA

which was updated in 13/09/2021 including 23 auditors from Gaza Strip (GS) of Palestine, therefore, the population of the study includes 215 individual professional auditors.

5.1. Reports of SAIs

The effectiveness and strength of SAIs are influenced by the reports they issue, the impact they have on society, and their ability to combat corruption, preserve public finances, and reduce misuse of public office. The effectiveness of SAIs is determined by how quickly recommendations in these reports are implemented. It is also judged by the Legislature's ability to follow up on reports and execute the suggestions and comments contained within them. Apart from freedom and democracy, the media has an advantage when it comes to following up on these reports and bringing them to the attention of the public, which aids SAIs in achieving their objectives which helps SAIs achieve their goals: reinforcement and support to values and principles of transparency, integrity, accountability and corruption fight in their respective countries [54].

The FACB seeks a well-established professional future that will serve as the foundation for improving public performance in collaboration with all partners, in order to combat all forms of financial/administrative corruption and increase honest, transparent, and accountable management of public funds, which will support public and stakeholder confidence in the Executive's performance [55].

The FACB's audit aims to ensure that actions and procedures comply with laws, regulations, and codes, and that recommendations/suggestions are made to address existing problems in order to prevent recurrence, so that objectives are met and performance is improved without the need to look for errors. The Bureau produces reports in accordance with best international practices, particularly standards established by the International Organization of Supreme Audit Institutions (INTOSAI), ensuring that the reports produced are objective, constructive, and contribute to the stability and development of state institutions. Moreover, data and information mentioned in the reports were reached from working at the audited bodies, where professional opinion was expressed according to Palestinian government audit standards, INTOSAI standards and ARABOSAI standards, taking into account comments made as a result of audited bodies responses to FACB reports [54].

The FACB's goal is to make audit findings available to stakeholders and decision-makers, since this will increase the number of recommendations followed up on and foster audit culture at audited institutions. This is will aid in the implementation of preventative actions [55].

The Annual Reports of the FACB. The annual report of the **FACB** is published in accordance with a legislative necessity that this report be released on an annual basis, as stated in article 8 of the SAACB (FACB) Act 15/2004, which amended by decree law 18/2017 article 5 "President of the Bureau shall present reports that contain actions and observations on annual basis, or upon request, to Mr. President of State, the legislative council and council of ministers" [56]. Since the publication of reports began, and since the enactment of Law 15/2004, the FACB has released its fifteenth report online as proof of conformity with the law's terms [57]. In order to promote transparent, honest, and clear public performance, as well as increase credibility and trust in the state's financial, managerial, and economic policies, the FACB conducted general assessments of reporting impact at short-term or long-term. In this regard, the most essential recommendations were made, which identified the impact of audit reports based on the scope of each audit department in FACB which has eight departments; Economy, Social and cultural services, Infrastructure, NGOs, Security and governance, Local government, Performance audit, and Information technology [57]. But the local government department has special importance among other departments of FACB, because the average percentage of audit reports are related with the local government units reach more than 42% of total FACB reports, sometimes reach more than 50% as year 2017 where was reached 57%. Also, the percentage of the complaints received about the local government sector reached more than 29% in average.

By reviewing the FACB annual reports which are issued from year 2011 to year 2020, the table no. (1) summarizes information about the total number of annual audit reports for all sectors and departments, the number of reports are related for local government audit departments and their percentage, the total number of complaints are reached to FACB from all sectors, the number of received complaints are related with local government units and their percentage, the number of local government under the jurisdiction of the FACB, the number of the municipalities which were audited through the study period, and the percentage of respondents for the FACB notes and recommendations which are reported in the audit reports:

Table No. (1) Summary of FACB Audit Reports

The years/ Items	2011	2012	2014	2015	2016	2017	2018	2019	2020	Average
Number of report	156	123	104	118	119	123	139	125	115	125
Audit report for 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	70%	66%	72%	71%	79%	63%	79%	81%	72%	73%
Total LGUs in Palestine	435	435	435	435	441	441	441	571	571	464
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 to LGUs complaints	*	*	*	*	48%	14%	13%	17%	21%	22%
Orders of ACC	*	*	*	*	120	65	125	52	36	80
Processed Orders	*	*	*	*	112	53	74	38	31	62
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 USD	12,378,789	3,921,820	689,138	895,409	*	*	19432978	*	*	7463627
Total Financial impact in USD	22,624,116	7,828,990	4,441,470	20,316304	*	*	*	*	*	13802720
Attendance tenders	414	550	676	*	368	*	*	*	*	402

*Missed data in the origin source

The most of the FACB's reports are related with compliance audit which occupied more than 68%, 63%, and 82% in year 2018, 2019 and 2020 respectively, while the financial and performance audit occupied the rest. This is confirmed that compliance of the applicable laws and the regulations is very important in the public organizations sector and enhancing the strength of the internal control in all aspects including the financial and reporting system. Moreover, the cooperation between the FSCB and Anti-Corruption Commission (ACC) increases the efficiency and effectiveness of the notes and the recommendations of FACB, particularly when the FACB transfers the fraud cases to ACC and to corruption courts, and when the FACB investigates the fraud cases according to orders of ACC and the orders of the state president and the corruption court. Table no. (1) shows that the average fraud cases which were transferred annually by the FACB to ACC around 30 including 16 cases related to the LGUs. And the average orders of ACC which are provided to FACB for investigation and auditing reach more than 80 orders per year, and 62 orders of them are processed and transferred to ACC again. This is leading to make all entities to be awareness for any violation of the applicable laws and regulations and do all best efforts in compliance of these laws and regulations, which they require from the management of PSOs to maintain strong internal control, implement a proper accounting system, and follow the applicable accounting principles. As resulted by audit tasks, and due to failure to fully commit with laws, regulations and instructions at some local government bodies, their duties have not been undertaken effectively, efficiently and reasonably, which made revenues of local government bodies and PNA drop at 22624116, 7828990, 4441470, and 20316304 USD for the years of 2011, 2012, 2014, and 2015 respectively, but the revenues of local government units only dropped by 19432978 USD in year 2018. And the average annual financial impact of the FACB audit report was 13802720 USD including 7463627 USD in the LGUs which represents more than 54%, which means the importance of the local government units, and the degree of interests of the FACB audit in the local government sector.

The tables no. (1) shows a high level of responds rate for FACB audit reports, this rate reached around 73% in average, which interprets the usefulness of the FACB audit reports recommendations in improving the efficiency and the effectiveness of the operations of the entity including the operations of the financial reporting system. Almost the responds on the FACB audit reports confirmed that the entities will follow and apply the FACB recommendations which relates with the compliance of applicable laws and regulations which they rule the operating activities of the public entities.

The most sensitive activities of the PSOs which relating are with the process of bidding, therefore, some employees of FACB attend the bidding meetings for opening and evaluating the tenders as controller member in the tender's committee, in order to monitor the purchase procedures which must be compliance with the Palestinian Public Purchase Law and regulation. The tables no. (1) shows that FACB employees attended 414, 550, 676, and 338 bidding meetings in the years of 2011, 2012, 2014 and 2016 respectively. FACB always issues many notes and recommendations are relating to violation of the policies and the procedures of the tendering process. For examples:

- There have been instances where the offer price and the expected cost of public works tenders have been significantly different.
- There have been reports provided to technical committees that did not meet formal and objective procurement technical criteria.

The notes and the recommendations of the FACB auditing department of the local government cover all the aspects of the financial and internal control systems including the internal auditing function. Each year, FACB issues annual reports which interested with the result of the annual auditing activities. These reports include yearly many hundreds of notes and recommendations are related with the auditing of local government units, and most of these notes and recommendations are relating with compliance of the public entities with the applicable laws and the regulations. And some of these notes and the recommendations were relating with the accounting system and the internal control system, the table no. (2) summarizes the most important notes and the recommendations which they are mentioned in most FACB annual audit reports directly and indirectly and the related audit quality attributes which may affect by these notes and recommendations.

Table No. (2) General notes and recommendations of FACB reports and the audit quality attributes

#	The Notes and the Recommendations	The Audit Quality Attribute
1	Employees at certain local governments abused their power and misused funds.	Weakness of internal auditing
2	Spending can occasionally be done without all of the necessary documentations.	Weakness of internal auditing
3	Violation of the provisions of building and organization code for local authorities of 1996 in terms of taking into account licensing fees, fees of violations and granting discounts.	Failure to comply with the laws and regulations
4	Some local governments failed to implement the code of conduct for local government employees.	Failure to comply with the laws and regulations
5	Some municipal governments do not always follow academic concepts and legal procedures when hiring new employees.	Failure to comply with the laws and regulations
6	Violation of provisions of code for supplies and implementation of projects at local authorities regarding supplying, executing or servicing.	Failure to comply with the laws and regulations
7	Lack of internal control at some local government entities and lack of robust internal control system that safeguards assets.	Weakness of internal control
8	Violation of laws, regulations and ordinances that regulate budget and revenues/expenses measurement.	Failure to comply with the laws and regulations
9	Some of municipalities have no external auditors	Quality of financial statement
10	Accounts of local government entities are unreliable and raise doubts about accuracy, authenticity and occurrence because of lack of corroborating documents and regulating documentation cycle.	Accounting Basis
11	Some local government entities failed to collect fees set in applicable laws and regulations, especially fees of billboards, crafts and industries.	Failure to comply with the laws and regulations
12	Accounting software may not satisfy Some local government needs since it does not incorporate actions or assign user authorities, leaving financial statements vulnerable to loss, damage, and deletion, as well as raising doubts about their legitimacy 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 electricity tariff set by the Council of Ministers in 2017.	Failure to comply with the laws and regulation
15	Weakness in the internal supervision and audit system.	Audit quality
16	A disorder in the application of the financial system.	Accounting basis
17	The financial system's insufficient promises to local governments in terms of spending, budget planning, and document reinforcement	Weakness in Internal Auditing
18	The failure to prepare the financial position in accordance with regulations and legislation.	Accounting Basis and violation of laws and regulations
19	Weakness in audit regulations that govern spending, which resulted in weakness in availability of tight internal control system.	Internal control and internal auditing
20	Some local government units may not do proper bank reconciliations to keep track of their bank accounts	Weakness in Internal Auditing
21	Many local governments fail to manage public finances, owing to a lack of control systems and division of powers, which has resulted in cases of misappropriation, credit misuse, and public funds theft.	Weakness in the internal control system

Most above notes and recommendations focus on the internal control system and their dimensions; internal auditing accounting system (accounting basis) and the compliance of the applicable laws and regulations. FACB reveals in its annual audit for year 2018 that the majority of local entities have weak financial and accounting systems, and the application of accounting standards – on which financial reports with action findings are produced – is generally poor. And accounting software employed by some local bodies has several flaws and difficulties, making it vulnerable to change, deletion, or loss [56].

The annual audit reports of FACB include many specific notes and recommendations for specific municipalities are dealing with some audit quality attributes, for examples, the following audit notes criticize the applying of accrual accounting basis and cash basis in specific municipality in report of year 2018 as follows:

- In violation of international accounting rules, the municipality did not disclose the accounting policies used to record the grant in the financial statements, and it also did not describe the nature of the grant.

- Despite the accounting accrual concept, waste charges from past years were recognized in their (current) books in 2016.
- In the accounting system, the municipality did not record the expenses and allowance for doubtful debts for the year 2016, as accrual accounting basis requirements.
- In the balance sheet of 2016, the municipality did not make any changes to the provision for doubtful debts.
- There are some errors in recording financial transactions as some expenditures were reported on items that were not assigned to them in the budget, and no transfers between items were done.
- In other LGU, the checks and bank transfers are not dealt with on a cash basis since they are recorded in the journal on the cash receipts side but not on the bank receipts side, making it difficult to handle problems when they occur.

These notes and recommendations do as warning of all local governments units' managements to avoid them and to improve their internal controls and accounting information systems. This is leading to make enhancement of external audit quality through producing high quality financial statements which they considered as input for the external auditing process. But the other inputs of the auditing process such as the audit characteristics (auditors' ethics, competency, and independency) and the audit firm attributes (audit fees and audit firm size) are not mentioned directly and clearly in the FACB audit reports notes and recommendations, but when the FACB auditors are performing the audit process, they may consider the auditor characteristics and audit firm attributes as the provisions of the TOR of hiring of the auditor and the Palestinian governmental auditing standards which they stated these characteristics and attributes.

FACB interested more in the internal control system in the municipalities and other LGUs, because it impacts on all operations in the entity including the quality of the financial reports and the auditing process, therefore the FACB conducted special evaluation for the internal control system in all entities under its jurisdiction including the local government units in years 2007 and 2014. The evaluation of internal control aims to discover the weaknesses points in internal control of the PSOs in order to inform the management to do improvements in the internal control and the accounting systems which they are under management responsibility. The two evaluations nearly use the same components of internal controls particularly, the accounting system and the effectiveness of the internal auditing and control unit, they use different measures as the following tables show.

Table No. (3) Evaluation the Internal Control and Internal Auditing and Control Units

The Degree/Year 2007	Excellent	Good	Medium	Weak	Not Exist	Total LGUs
Internal Control System	0	2	6	14	0	22
Auditing and Control Units	1	0	0	3	18	22

Table No. (4) Evaluation of the Internal Control Elements in the LGU in year 2007

#	Element of Internal Control	Effective Rate
1	Organizational Structure	40%
2	Job Description	41%
3	Integral accounting system	67%
4	Computerized System	0
5	Development HR	41%
6	Performance Evaluation	30%
7	Separation of duties	60%
8	Effective Control Unit	9%
9	Internal Control System	40%

The sample of LGUs in the second evaluation in year 2014 includes 21 municipalities and local villages councils, while the sample of the first valuation in year 2007 include 22 different municipalities. The following table No. (5) shows the result of the second evaluation on 2014.

Table No. (5) Evaluation of the Internal Control Elements in the LGU in 2014

Element of Internal Control	High Level 80% to 100%	Medium Level 60% to 79%	Low Level Less 60%	General level
Number of LGUs	0	9	12	Low
Administrative Structure	7	10	4	Medium
Integral accounting system	10	9	2	Medium
Computerized System	6	8	7	Medium
Building Abilities	0	3	18	Low
Planning for Performance	4	9	8	Medium
Internal Control	5	8	8	Medium
Effective Control Unit	0	3	20	Low

The comparison between the result of the two evaluations reveals that effectiveness of the elements of the internal control is increased in year 2014 particularly the using of integral accounting systems and the computerized systems, but the performance of internal auditing and control units is still low despite the number of these units is increased to 11 units while it was 4 units in year 2007.

MOLG General Department for Controlling and Guiding Reports. MOLG issued and approved the Manual of Procedures for Monitoring the Work of Local Authorities which stated the audit scope for the GDCG in auditing of the affairs of the administrative, financial, engineering, technical, and projects, and audit team visits the local entity twice in year and using semi-structure form which includes many questions which they are relating to audit scope particularly, the financial aspects as the cash balances, accounting records of revenues and expenses, compliance with the budget, debts, inventories, checks, and the internal controls in the accounting system. Also, the report of the audit team must contain the question about the external audit either the audit of independent auditors or the FACB audit and the GDCG auditor asks the municipality to give him the last audited financial statements. The notes and recommendations of GDCG are more specific comprehensive, and detailed than the FACB notes and recommendations. The audit reports of GDCG are not available for the public, but the researcher collected a few reports from some municipalities, the reviewing of them reveals that most notes relate with violation of the applicable laws, regulations, policies and MOLG instructions, therefore this audit focuses on the compliance and operational audit including internal control system. Moreover, some notes are relating with the problems in application of the accounting system and the violation of the accounting principles which they ruled the recording and communicating the financial process.

Table No. (6) The Notes and the Recommendations of MOLG GDCG

#	The Notes and the Recommendations	The Audit Quality Attribute
1	Payment vouchers can be given without all of the required documentation, approvals from appropriate authorities, beneficiary signatures, dates, and some data.	Weakness of internal auditing
2	Budget and revenue/expenses measurement laws, regulations, and ordinances are being breached.	Failure to comply with the laws and regulations
3	Some of municipalities have no suitable software for accounting, and using excel of paper records without fellow the proper internal control	Internal control over accounting system
4	Accounts of local government entities are untrustworthy and raise concerns about accuracy, authenticity, and occurrence due to a lack of supporting documentation and a governing documentation cycle.	Accounting Basis
5	Violation for some procedures of store keeping, particularly the complete records, physical counting and evaluation and organization of the items.	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 satisfy the needs of some local governments, leaving financial statements subject to loss, destruction, and deletion, raising doubts about their authenticity and fairness.	Weakness in accounting Information System and Accounting basis
7	Spending cash more the limit for 50 JOD without using the current checks, and may use postpone check , this is violation for the financial regulation	Failure to comply with the laws and regulations. And weakness of internal auditing
8	Violation of income tax for the employees' salaries and the wages of the council members'	Weakness in Internal Auditing
9	Failure to create the financial statement in line with applicable requirements and laws.	Accounting Basis and violation of laws and regulations
10	There is no cash insurance coverage, and no real cash counting is done on a regular basis. Some municipal governments may not perform proper bank reconciliations in order to keep track of their bank accounts.	Weakness in Internal Auditing

5.2. The Questionnaire

The study developed a questionnaire survey according to the audit quality literature to measure the effect of SAIs on each dimension of the audit quality attributes. The questionnaire is examined by three experience academic in audit quality who gave their suggestions and recommendations which added value to the questionnaire. The questionnaire contains two sections: the first section of the survey gathered demographic information from respondents, but the second section of the questionnaire included a series of closed-ended questions 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 by using five-points Likert type scale. Also the questionnaire aims to examine the effect of the SAIs on the total audit quality in the municipalities according to the external auditors' perception by using five-points Likert type scale. The questionnaire contains 11 questions: 4 questions related with the dimensions of the auditors' characteristics of ethics, independence, and competence, 2 questions related with the dimensions of the audit firms' attributes of audit fees and the audit firm size, 3 questions related with the dimensions of the effective of the internal control, and 2 questions related with the effect of the SAIs on the total audit quality.

The professional organization (PACPA) informed its members, who totaled 215 auditors in the West Bank and were registered as CPAs in public practice records, about the study via a cover letter prepared by the authors explaining the study's purpose as well as a link through which the auditors could access the questionnaire. The information was gathered using online survey software. A total of 78 valid surveys were returned by respondents, resulting in a 36 percent effective response rate.

6. Demographic Characteristics

Demographic details of the 78 respondents are shown in Table (7). The majority of auditors who responded were over the age of 50, accounting for 59 percent of all responses. The most of the auditors that participated in this study were men (95 percent). The majority of the participants in the survey (69.2%) were ranking partners, which meant they had an average of over 15 years of auditing experience

which represent (73.1 percent). The increased proportion of men in the sample can be attributed to the participants' long average experience and high rank of job position, particularly in Palestine, so the women's participation in the public jobs is still weak and in the beginnings. Moreover, the level of education in accounting for the participants is very high: 6 have PhD degree, 30 have master, and 39 have bachelor's degree in accounting all of them are representing more than 96% of the participants, and more than 69% of the participants have experience in the auditing of the municipalities and they are familiar in the role of the SAIs in these municipalities. This means that the result of this survey may be reliable and useful in exploring the effect of the SAIs in the relationship of the audit quality and the audit quality attribute which they are chosen by this study.

Table No. (7) Demographic Characteristics

The characteristics	Frequency	Percent
The Age		
Less than 30 years old	3	3.8
30-40 years old	14	17.9
41-50 years old	15	19.2
More than 50 years old	46	59.0
Total	78	100.0
The Job Position		
CPA Partner	54	69.2
CPA Employee	16	20.5
Audit Manager	3	3.8
Senior Auditor	5	6.4
Total	78	100.0
Practical Experience		
Less than 5 years	3	3.8
6-10 years	4	5.1
11-15 years	14	17.9
More than 15 years	57	73.1
Total	78	100.0

The characteristics	Frequency	Percent
The Gender		
Male	74	94.9
Female	4	5.1
Total	78	100.0
The education		
Less than Bachelor Degree	2	2.6
Bachelor's Degree in Accounting	39	50.0
Master Degree	30	38.5
PhD Degree	6	7.7
Non-accounting degree	1	1.3
Less than Bachelor Degree	2	2.6
Total	78	100.0
Industry Experience		
Yes	54	69.2
No	24	30.8
Total	78	100.0

The respondents answered self-constructed questionnaires, 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's characteristics, audit firms' attributes, effectiveness of internal control, and audit quality, respectively as the table (8) shows.

Table No. (8) The Reliability of Respondents and the Descriptive Statistics of Mean and Std. Deviation of the Study Variables

The Variables of the study	N	Mean	Std. Deviation	Cronbach's Alpha if Item Deleted
The Effect of SAIs on Auditors Characteristics	78	3.8013	.91998	.670
The Effect of SAIs on Audit Firms 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

Also, the reliability and consistency of all questions in the survey was 0.884 based on the Cronbach Alpha, and it will not be less than 0.856 based on the Cronbach Alpha if any question is deleted as the table no. (9). This means that the result of the study may be dependable to explore if there is a relationship for the SAIs on the relationship between the audit quality and its attributes: auditors' characteristics, audit firm attributes, and the effective internal control in the municipalities.

Table No. (9) The Reliability of Respondents and the Descriptive Statistics of Mean and Std. Deviation of the Study Variables Dimensions

The Study variables Dimensions	N	Mean	Std. Deviation	Cronbach's Alpha if Item Deleted
The Effect of SAIs on Auditor Ethics	78	3.85	1.106	.856
The Effect of SAIs on Auditor Independency	78	3.85	.941	.863
The Effect of SAIs on Auditor Competency	78	3.82	1.029	.862
The Effect of SAIs on Audit Fees	78	3.50	1.016	.866
The Effect of SAIs on Audit Firm Size	78	3.01	1.000	.883
The Effect of SAIs on Internal Auditing	78	3.78	.767	.875
The Effect of SAIs on Accounting Basis	78	3.78	.847	.884
The Effect of SAIs on Compliance of Laws and Regulations	78	4.15	.704	.884
The Effect of SAIs on Audit Firm to assign Competent Auditors	78	3.69	.984	.865
The External Auditor Uses the SAIs Reports	78	3.51	.936	.886
The Effect of SAIs on the Total Audit Quality	78	4.06	.762	.880

7. The Result

The audit of SAIs is moderating the links between the audit quality and the audit quality attributes of auditors' characteristics, audit firm's attributes, and effective internal control in the municipalities, because it has an effect on the audit quality as dependent variable and has an effect on the audit quality attributes as independent variables as the descriptive analysis shows in tables no. 8 and 9. And this effect was on the different levels depending on the nature of the independent variable, as example, the respondents perceived that the effect of SAIs on the relationship between the audit quality and the effective internal control is a medium level of significant, because the mean of the respondents on the five-points Likert scale was 3.9, but the SAIs have not effect on the relationship between the audit quality and the audit firms' attributes, therefore, the mean of the respondents on the five-points Likert scale was 3.2. Whereas this effect is a little above average between the audit quality and the auditors' characteristics because the mean of the respondents on the five-points Likert scale was 3.8. Table no. (9) shows that the SAIs have weakness effect on size of the audit firm, and have slightly significant effect on the compliance of laws and regulations, whereas the rest audit quality attributes' constructs are locating in the average mean of the related audit quality mean. Moreover, the SAIs have medium effect on the total audit quality as the mean of respondents which was 4.06 on the five Likert scale, whereas the using of the reports of SAIs by the external auditor was weakness as perceived by the respondents, so the mean of the respondents was 3.5 on the five Likert scale.

The result of the questionnaire supports the result of the analysis of annual SAIs' reports for the period which started year 2011 to year 2020, which they revealed that ASIs have significant effect on the effective internal control and its dimensions through issuing many notes and recommendations about the violation of the laws and regulations, the using ineffective accounting procedures and the lake of the documentation of the financial transactions. Moreover, the SAIs mentioned many notes on weakness of the auditing and controlling department, but there is a little notes treats the external auditor characteristics and the audit firm's attributes except those regulations and instructions which they rule the audit process.

8. Conclusion and the Study Implementations

The outcome of this study offers an important insight into the moderation role of the SAIs in the relationship between the external audit quality and the audit quality attributes in the municipalities of Palestine as a developing country which has a new experiment of opening the municipalities to external auditing besides of the auditing of SAIs which may play a moderation role on the relationship between the audit quality and the attributes of audit quality as the result of this study confirmations, but the level of this role depends on the nature of audit quality attributes. Therefore, this role influences on the effective internal control more than the auditors' characteristics, but its influence on the audit firm's attributes is very weakness. A major contribution of this study is the helping of policymakers in the municipalities and the audit firms to consider the impact of auditing of SAIs on external audit quality in the municipalities when they decide on the audit engagement's agreement. As a result, 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. Also, the SAIs auditor may benefitted the external audit team through the field works and the interaction between them to exchange the experiences in the audit engagements. Moreover, the SAIs may support the external auditors in the evaluating internal control in the municipalities and motivate them to detect the violations of the applicable laws and regulations which have direct effect on the fairness of the financial statements. This study chosen only three audit quality attributes, therefore more researches are needed to examine the role of the SAIs on other audit quality attributes in the municipalities, such as the audit professional regulators, and future researchers may examine the same variables in long period by using different research methodologies such examine all audit reports of FACB either annual or specialized reports with perception of the accountants, audit committee members, and internal auditor.

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