

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

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UNIVERSITI SAINS ISLAM MALAYSIA

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SUPREME AUDIT INSTITUTIONS**

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AUTHOR DECLARATION

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

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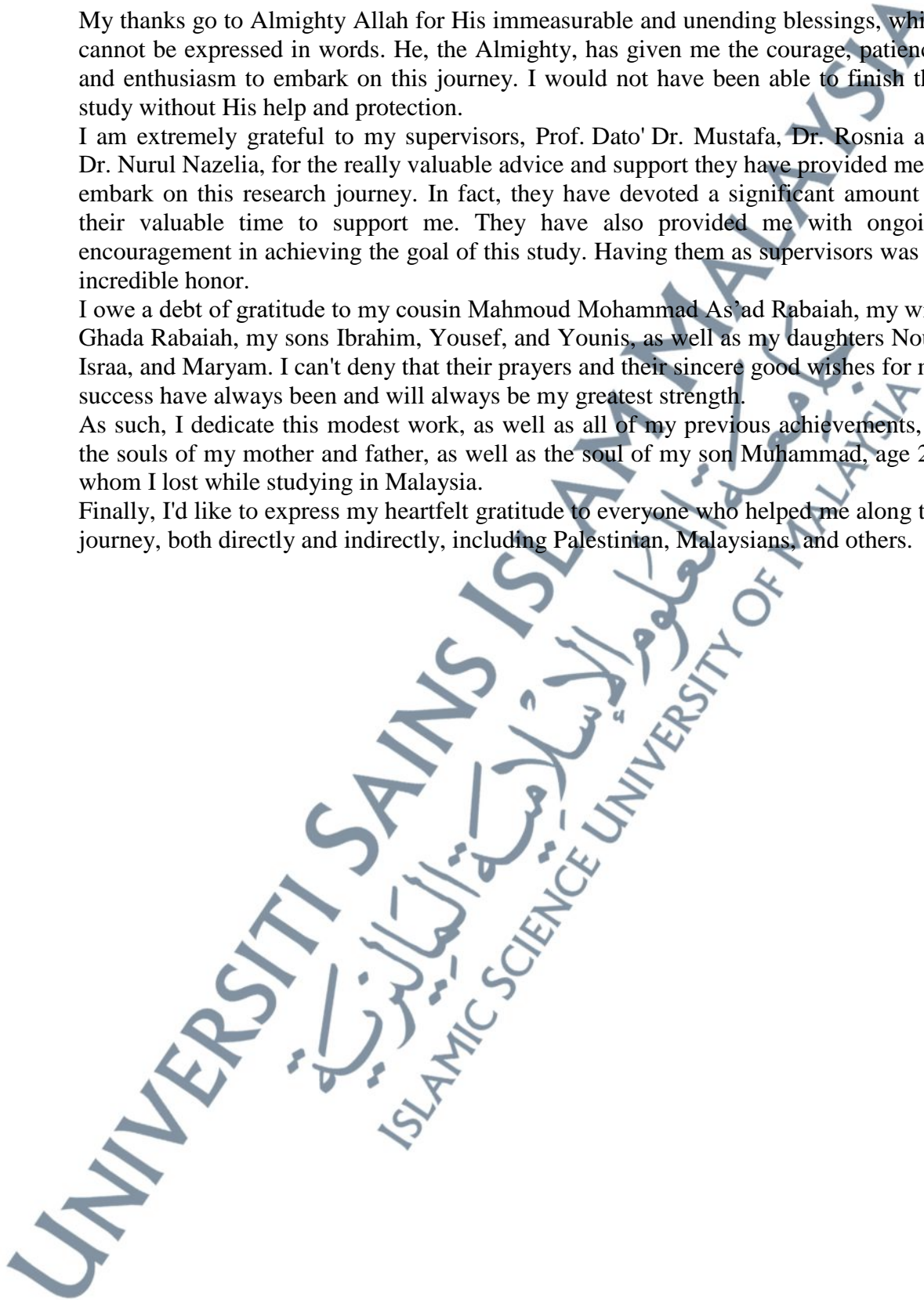
My thanks go to Almighty Allah for His immeasurable and unending blessings, which cannot be expressed in words. He, the Almighty, has given me the courage, patience, and enthusiasm to embark on this journey. I would not have been able to finish this study without His help and protection.

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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 سلبي على أثر خصائص مؤسسة التدقيق على جودة 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.

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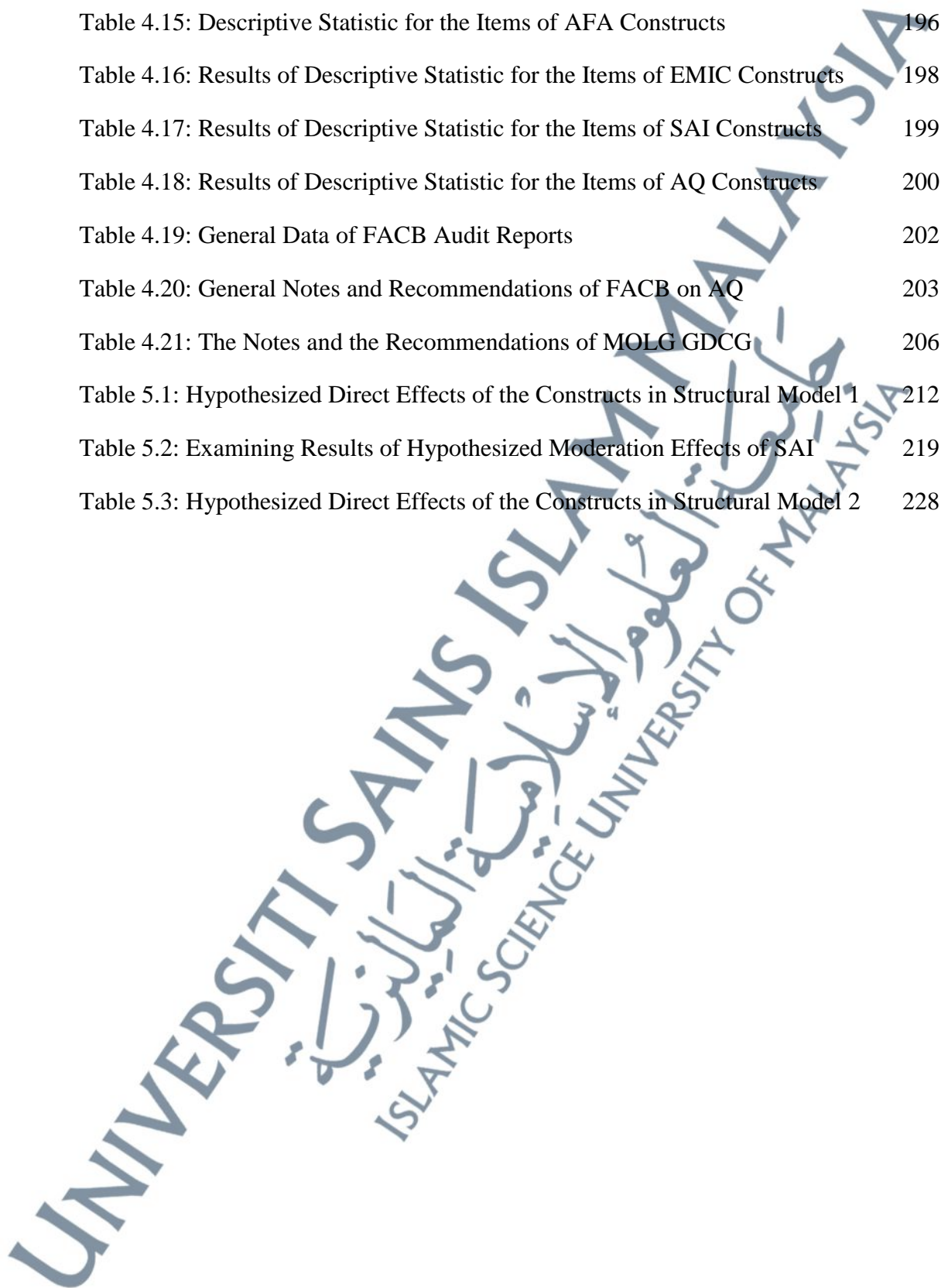
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LIST OF ABBREVIATIONS

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

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