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The Effect of Auditor Quality to Professional Skepticism and its Relationship to Audit Quality

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Abstract:

Purpose: The aim of research is to investigate the relationship between auditor quality to professional skepticism, and relationship between auditor quality and professional skepticism to audit quality.

Methodology: The analysis method to test the causal effect of Auditor Quality to Profesional Skepticism and Audit Quality. The population in this research is the auditor in Audit Board of the Republic of Indonesia (BPK) in South Sulawesi province using questionnaire. The analysis tool used in this research is Partial Least Square (PLS)

Finding: Auditor Quality has significantly direct effect to the Professional Skepticism, Professional Skepticism has significantly direct effect to the Audit Quality, Auditor Quality has no direct effect to Audit Quality, but Auditor Quality has indirect effect to Audit Quality with mediation of Professional Skepticism.

Originality: Originality for this paper shows as: conduct a research about professional skepticism public sector in governmental sector in producing the audit quality, especially in South Sulawesi province in Indonesia; this research retests the research result from Aranya and Amernic (1981), Carcello et al (1992), Behn et al (1997), Copley (1998), Brown and Raghunandan (1995), Beasley et al (2001), Chiu (2003), Suraida (2005), Lowensohn et al. (2007), Novianti (2007), Varelius (2009); the researcher use model combination (design) method of sequential explanatory or based on evidentiary sequence from Creswell 2009, quantitative research (by instrument using questionnaire).

Keywords: auditor quality, professional skepticism, audit quality

A. Introduction

Research on audit quality in the business sector has emerged because the auditor's profession has been the focus of society in recent years, from Enron (2001), Worldcom (2002), to Adelphia (2002) cases in America. Similarly in Indonesia, Telkom's case (2003) makes the credibility of auditors increasingly questionable. Public confidence in government accountants is declining due to media scrutiny that questioned the quality of the audit, as some government agencies that received Unqualified Opinion (WTP) opinion were still found to be corrupt in the agency.

Research on audit quality is done Carcello et al. (1992) that provides information about audit quality attributes by including those who prepare financial statements and users of financial statements as part of the audit quality attribute, while Behn et al. (1997) conducted a similar study to see whether quality attributes have a direct effect on client satisfaction, Behn et al (1997) found only 6 attributes of 12 attributes studied by Carcello et al. (1992) which has a positive effect on client satisfaction. Widagdo et al. (2002) conducted research on quality audit attributes by the public accounting firm that has an effect on client satisfaction. The results show that there are 7 attributes of audit quality that influence.

Another study conducted by Lowensohn et al. (2007) states that auditor industry specialization affects audit quality, Schelker (2009) states that auditor competence through auditor expertise has an effect on audit quality, while Brown and Raghunandan (1995) mention that audit quality in public sector is lower than audit quality in the private sector, low quality of public sector audit due to low litigation risk. To improve the quality of audits in the public sector, the auditor must have the courage to reveal the actual facts. The actual disclosure of facts especially related to finance greatly facilitates the achievement of audit quality, such as Copley (1998) quality audit studies have a positive effect on the disclosure of financial statements in the public sector.

An efficient auditor must possess certain general qualities besides statutory qualification, so that he can carry out his work efficiently and smoothly. The qualities of an auditor as classified below. Professional Qualification i.e., Statutory Qualification. Professional Qualities i.e., Personal Qualification. Personal Qualities i.e., General Qualities. The auditor quality is measured by ethics, commitment, independent, competence, and experience.

A study conducted by the SEC (Securities and Exchange Commission) states that one of the causes of failure of auditors to detect fraud is the low skeptical level of auditor professionals, of 45 fraud cases studied 24 (60%) of which occurred because the auditor did not apply the skeptical level professionals mamadai (Beasley et al, 2001). From some of the descriptions above shows how important professional and whistleblower skeptics to reveal a cheating.

Kee and Knox's (1970) stated that professional skepticism is influenced by several factors and one of them is ethical bias. While Carpenter et al (2002) states that auditors lacking professional skepticism will lead to decreased audit quality. Chang and Leung (2006) argue that the skepticism and public confidence in the accounting profession is strongly influenced by the professionalism and ethical behavior of the accounting profession itself. Organizational commitment is a condition in which employees are very interested in the goals, values and objectives of the organization. Organizational commitment shows a power of a person in identifying his involvement in an organizational part (Mowday et al 1979).

According to Lord and DeZoort (2001) that auditors with high professional commitment will behave in harmony with the public interest and will not undermine their professionalism. Conversely auditors with low professional commitment will have the potential to behave dysfunctional (eg, prioritizing client interests). Thus a highly committed auditor will maintain professional skepticism in order to produce better audit quality.

Trisaningsih's research (2007) indicates that auditors who only understand good governance but in the implementation of the audit do not enforce its independence it will not affect its performance. The auditor (accountant) who is not independent of his client, then his opinion will not provide any additional (Mautz and Sharaf, 1993). The independent auditor is not only obliged to maintain the facts (in facts) but the auditor should avoid the circumstances that may cause other parties to doubt his independence attitude resulting in his professional skepticism is questionable in producing audit quality.

The results of Bonner's (1990) study indicate that knowledge of task-specific aids the performance of experienced auditors through selection and weighting of evidence only when determining analytical risk. Choo and Trotman (1991) provide empirical evidence that experienced auditors find more unusual items (atypical) than

inexperienced auditors. Another study of professional skeptics investigated by Suraida (2005) proves that ethics, competence, audit experience, and audit risk have a positive effect on professional skepticism, this research is conducted in Public Accounting Firm.

Lowensohn et al (2007) said the auditor specialization is positively related to audit quality. Brown and Raghunandan (1995) studies suggest that audit quality in the public sector is lower than audit quality in the private sector. Low quality audit in the public sector due to low litigation risk.

Based on the background above, the aim of research is to investigate the relationship between auditor quality to professional skepticism, and relationship between auditor quality and professional skepticism to audit quality. Originality for this paper shows as: conduct a research about professional skepticism public sector in governmental sector in producing the audit quality, especially in South Sulawesi province in Indonesia; this research retests the research result from Aranya and Amernic (1981), Carcello et al (1992), Behn et al (1997), Copley (1998), Brown and Raghunandan (1995), Beasley et al (2001), Chiu (2003), Suraida (2005), Lowensohn et al. (2007), Novianti (2007), Varelius (2009); the researcher use model combination (design) method of sequential explanatory or based on evidentiary sequence from Creswell 2009, quantitative research (by instrument using questionnaire).

B. Theoretical Background

An efficient auditor must possess certain general qualities besides statutory qualification, so that he can carry out his work efficiently and smoothly. The qualities of an auditor as classified below. Professional Qualification i.e., Statutory Qualification. Professional Qualities i.e., Personal Qualification. Personal Qualities i.e., General Qualities.

Professional Qualification | Statutory Qualification of an Auditor. In the case of sole trading concern and partnership the law has not prescribed any qualification for an auditor. However in the case of auditors of joint stock companies, the auditor must be a Chartered Accountant within the meaning of Chartered Accountant Act, 1949. He must pass Chartered Accountant (C.A) examination conducted by the Institute of Chartered Accountants of India (ICAI). To be entitled to practice, a chartered accountant should obtain a certificate of practice from the council of the ICAI on payment of a prescribed annual fee.

Professional Qualities | Personal Qualification of an Auditor. The professional qualities required for auditors are many and are of varied in nature. They are required for the successful performance of audit work. They are as follows: 1. The auditor must have a complete and thorough knowledge of the principles, theory and practice of accountancy. The auditor must be familiar with the different system of accounting and their aspects. He must be well versed with the all branches of accounting. He should be aware of the latest developments in the field of accounting. 2. He should have a thorough knowledge in various legislation regulating business such as Companies Act, the Indian Partnership Act, Banking and Insurance Act, Sale of Goods Act, Foreign Exchange Management Act, the Indian Contract Act, etc. 3. The auditor should have a thorough knowledge of the techniques of auditing. He should be fully aware of new changes and developments in the principles and practice of auditing. 4. The auditor must be familiar with the computer accounting and other automatic machine devices used in the office. 5. In addition to the knowledge of commercial laws, an auditor should have a thorough knowledge of the various provisions relating to income tax

wealth tax, VAT, gift tax, etc. 6. The auditor should be familiar with the principles of economics and economic laws because a business has to work, within some specific economic laws and social environment and its influence is visible into business. 7. The auditor should have knowledge in statistics and mathematics, which will help him to deal with complicated problems. 8. He must study important judgements in audit cases, which will help him to define the duties, responsibilities, and liabilities of an auditor. 9. An auditor should have a good knowledge in business organization and financial administration, and industrial management. 10. The auditor should have knowledge on the technical details of business under audit.

Personal Qualities | General Qualities of an Auditor. Individual qualities are the essential monitors of a successful auditor. The personal qualities that are needed for an auditor are as follows: 1. Honesty: An auditor must be honest in his work if he has to carry out his duties successfully. He has to maintain a good moral standard. 2. Tactful: The auditor should be tactful in dealing with the client's staff. 3. Ability to Work Hard: The auditor must have a painstaking attitude and willingness to work hard. 4. Impartial: The auditor should not be influenced by any bias in discharging his duties. He should be impartial. 5. Cautious and Vigilant: An auditor must be vigilant in his work. He should always proceed with his eyes open and be alert. 6. Methodical: He must perform his duties methodically, and should be thorough, and complete in his work. 7. Ability to Trace out Facts and Figures: Auditor should possess a realistic attitude towards his work. He should be able to trace out facts and figures. 8. Always Inquisitive: The auditor should not be suspicious. He should always be inquisitive. He should not adopt an attitude of suspicion. 9. Courage: The auditor should be bold enough to discharge his duties. He should not certify which he doubts to be genuine. 10. Ability to Maintain Secrets: The auditor should have the ability to maintain secrets and should not disclose the secrets of his client to anybody. 11. Ability to Communicate: An auditor must have the ability to prepare audit report correctly and forcefully, precisely, concisely, and clearly. 12. Common Sense: An auditor should possess a good common sense. The auditor should have a full share of the most valuable commodity – common sense. But common sense is normally very much uncommon in man.

In this study, the auditor quality is measured by ethics, commitment, independence, competence, and experience.

1. Ethics as a thought and moral considerations provide the basis for a person or a community to perform an action. So far then ethics provides guidelines for a person or a community to be able to determine either bad or good of an action (Cohen et al. (2001))
2. Commitment is a condition in which the employees are very interested in objectives, values, and goals of the organization. Organizational commitment shows a power of a person in identifying his/her participation in an organizational part (Mowday in Vandenberg, 1992). The studies of Sider et al (2001) and Fernando et al. (2005) from the result of their research also provide the same conclusion that organizational commitment has a positive influence towards the performance.
3. Independence means a mental attitude that is free from an influence, not controlled by another party, and does not depend on other parties. Independence also means honesty from the auditor himself in considering a fact and there is a consideration of objective impartially in formulates and sets his/her statement. Arens et al (2003) defines independence as: "A member in public practice shall be independent in the

- performance a professional service as require by standards promulgated by bodies designated by a council”.
4. Competency is the professional expertise owned by the auditor as the result of formal education, participation in training, symposium seminar, and etc. Auditor’s competency is measured through the number of diploma/certificate owned by the auditor and the number of the auditor’s participation in trainings, seminars, or symposiums.
 5. Experience can be obtained directly through experience or practice, or it can be obtained from indirect experience such as reading. Robbins (2003) said: “Experience may be accrued directly through observation or practice, or it may be accrued indirectly, as through reading”. Auditor experience will be growing with the increasing of audit experience, discussion about audit with colleagues, oversight, review from the senior accountant.

Auditor professional skepticism is an attitude in conducting an audit, and then the first thing to discuss is the human attitude. Eagly and Chaiken (1993) in *The Handbook of Attitudes* (2005) defines attitude as “a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor”. It is not much different from another psychologist (Siegel and Marconi, 1989) who also define attitude as someone’s response as the result of the evaluation of the captured objects such as people, objects, ideas, or certain situations. This response can be favorable or unfavorable; it also can be the degree of positive affect or the degree of negative affect. Professional skepticism need to be owned by an auditor especially when he gets and evaluates the audit’s proof. Auditor should not just assume that the management is not honest, but an auditor also should not just assume that management is fully honest (IAI, 2000, SA no 230; AICPA, 2002, AU 230). The statement is almost the same with the statement in ISA No. 200 (IFAC, 2004) which state that an auditor should plan and conduct audit with professional skepticism attitude, by admitting that there is a possibility of misstatement in the financial statement.

Audit quality is a management tool to evaluate, confirm, or verify the activity that relate to the quality and an independent and systematic testing to determine whether the quality activity related to the company’s result in accordance with the planned rules and whether the rules have been applied effectively and appropriate to achieve the goals generated by the company. The adequate measurement of audit quality lies on the behavior of the Public Accountant in conducting audit. At the Office of Public Accountant, the criteria that is established as a quality and adequate audit is the obedience and professional attitude from the auditor to obey the applied rules and the audit program that has been determined through the audit procedure in it. Meanwhile, the attributes of audit quality developed by Carcello et al. (1992) include: 1) The experience of audit team and KAP in investigating client’s financial statement; 2) The understanding towards the client’s industry; 3) Responsive on client’s needs; 4) The competency of audit team member towards the accountancy principles and examination norm; 5) The attitude of independence in all matters of individual audit team and KAP; 6) The audit team member as a careful group; 7) KAP has a strong commitment towards quality; 8) The involvement of KAP leader in conducting audit; 9) The realization of field audit; 10) The involvement of the audit committee prior to, during, and after audit; 11) The high standard of ethics from the audit team member; 12) Maintain the skeptic attitude from the audit team member.

C. Material and Method

The analysis method to test the causal effect of Auditor Quality to Professional Skepticism and Audit Quality. The population in this research is the auditor in Audit Board of the Republic of Indonesia (BPK) in South Sulawesi province using questionnaire. The conceptual framework of research are presented in Figure 1 below:

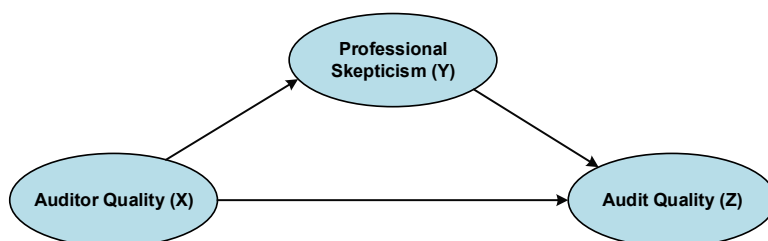


Figure 1. Conceptual Framework

The analysis tool used in this research is Partial Least Square (PLS) using the WarpPLS Program, with 3 variables, Auditor Quality as exogenous variable, professional skepticism as intervening variable, and audit quality as endogenous variable. All variables included in this research are unobservable, and is formed by several indicators (as observable variable) by reflective indicators. In this study, the auditor quality (X) is measured by ethics (X1), commitment (X2), independent (X3), competence (X4), and experience (X5), the Professional Skepticism (Y) is measured by doubts auditor to audit evidence (Y1) and immediate confirmation (Y2), the audit quality (Z) is measured by guidelines for field work (Z1), good response to the need of clients (Z2), the involvement of leader (Z3), and auditor work (Z4).

The hypothesis in this research is to investigate the relationship between auditor quality to professional skepticism, and audit quality. This research also investigate the mediating effect of Professional Skepticism on the effect of Auditor Quality to Audit Quality. According Kenny (2011) who studied the mediating or intervening variable testing according to testing for mediating variable is not sufficient only if based on an analysis model that involves mediating variables. The results of this analysis indicate that a variable as a mediating variable, but not necessarily true. The hypothesis is accepted if the Critical Ratio (CR) value of more than 1.96 and P-value less than 0.05 (with an error rate of 5%).

D. Result and Discussion

D1. Validity and Reliability of Instrument

The result of the first stage of the research is the test of the research instruments. Table 1 below presents the results of validity and reliability tests of the instruments of the sample.

Table 1. Validity and Reliability Tests

No	Variable	Indicator	Validity Result			Reliability Result
			Item 1	Item 2	Item 3	
1	X	X1	0.649	0.591	0.642	0.772
		X2	0.601	0.643	0.779	
		X3	0.560	0.526	0.658	
		X4	0.619	0.557	0.620	
		X5	0.674	0.736	0.782	
2	Y	Y1	0.560	0.603	0.716	0.883

		Y2	0.697	0.761	0.692	
4	Z	Z1	0.628	0.573	0.674	0.859
		Z2	0.602	0.580	0.548	
		Z3	0.762	0.508	0.533	
		Z4	0.665	0.784	0.591	

The results of validity and reliability tests on Table 1 show the correlation value > 0.3 , state that all of the items are valid and the results of reliability test showed a Cronbach alpha value > 0.6 , state that all of the variables are reliable. Thus, the instruments are valid and reliable.

D2. Goodness of Fit Model

The model in this research is said to be fit if supported by empirical data. As known, structural model's Goodness of Fit on PLS analysis in the form of predictive value-relevance (Q2), computed based on the R^2 value of each endogenous variables. The result of of Predictive-relevance (Q2) is 0.7733 or 77.33%. That is, the model can explain the performance phenomena at 77.33%, while the remaining 22.67% is explained by other unexplained variables. This show that the $Q2 > 75\%$ indicate the model is fit and suitable for further analysis.

D3. Assumption of The Model

The third part of analysis is assumption testing. Before presenting the feasible results, the linearity assumption test using Ramsey Reset Test (Fernandes, *et al.*, 2015). Table 2 below presents the test and linearity assumption are met. The normality assumption is not needed in the analysis of the approach used PLS given based bootstrap.

Table 2. Linearity Assumptions Test

No	Effect	Result of Ramsey Rest Test	Conclusion
1	Auditor Quality (X) to Professional Skepticism (Y)	P-value = 0.001 < 0.05	Linear
2	Auditor Quality (X) to Audit Quality (Z)	P-value = 0.001 < 0.05	Linear
3	Professional Skepticism (Y) to Audit Quality (Z)	P-value = 0.001 < 0.05	Linear

D4. Hypothesis Testing

In the final part of the analysis is the interpretation of structural models. Coefficient of structural model is stating the magnitude relationship between the variables. There is significant influence between variables, if the value of P-value of < 0.05 . In the PLS are two influences that direct effect (direct effect), as well as indirect effect (mediation effect). The results of the analysis are summarized in Table 3.

Table 3. Final PLS Result

No	Relationship	Coeff	CR	P-value
Direct Effect				
1	Auditor Quality (X) to Professional Skepticism (Y)	0.432	3.596	0.001*
2	Auditor Quality (X) to Audit Quality (Z)	0.131	1.092	0.275 ^{ns}
3	Professional Skepticism (Y) to Audit Quality (Z)	0.573	4.778	0.001*
Indirect Effect				
4	Auditor Quality (X) to Professional Skepticism (Y) to Audit Quality (Z)	0.247	3.093	0.002*

* CR > 1.96 and P-value < 0.05 indicates a significant effect

^{ns} CR < 1.96 and P-value > 0.05 indicates a not significant effect

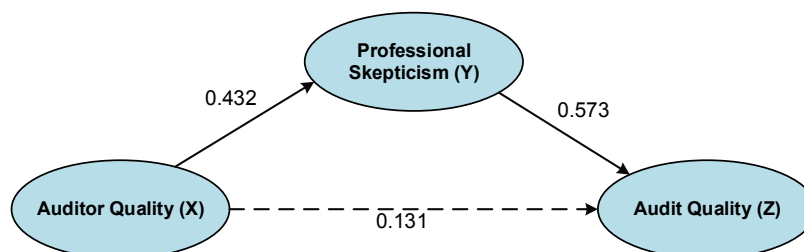


Figure 4. Structural Model Test: Direct Effect

The straight line expressed significant influence, and dotted lines declared non significant influence

Table 3 and Figure 4 presents the results of the structural model test. The results show that from 3 hypotheses of direct effect, there is 1 hypothesis rejected, while the others were accepted. Auditor Quality (X) has significantly direct effect to the Professional Skepticism (Y). The higher value of Auditor Quality (X), influence the higher value of Professional Skepticism (Y). Professional Skepticism (Y) has significantly direct effect to the Audit Quality (Z). The higher value of Professional Skepticism (Y), influence the higher value of Audit Quality (Z). In other hand, the Auditor Quality (X) has no direct effect to Audit Quality (Z).

The results of the Mediation Effect of Professional Skepticism (Y) in relationship between Auditor Quality (X) to Audit Quality (Z) as presented in table above show that the coefficient of the mediation effect of Service Quality (M1) in relationship between Auditor Quality (X) to Audit Quality (Z) is 0.0247, CR 3.093 > 1.96, P-value 0.002 < 0.05, it indicates that the Professional Skepticism (Y) is a mediating variable between the effect of Auditor Quality (X) to Audit Quality (Z). The coefficient for the positive-marked mediating effect indicates that the higher value of Auditor Quality (X), influence the higher value of Professional Skepticism (Y) and its indirectly influence the higher value of Audit Quality (Z).

D4. Discussion

Findings of this study are shown in (1) Auditor Quality has significantly direct effect to the Professional Skepticism, (2) Professional Skepticism has significantly direct effect to the Audit Quality, (3) Auditor Quality has no direct effect to Audit

Quality, but Auditor Quality has indirect effect to Audit Quality with mediation of Professional Skepticism.

The result of this research supports the Stewardship Theory in which there is a strong relationship between the organization success with the principal's satisfaction and Goal Setting Theory about the employee awareness towards the achievement of organizational goals. The auditor of Audit Board of the Republic of Indonesia acts on the principal interest in investigating the auditor. The auditor of Audit Board of the Republic of Indonesia auditor quality already implemented its professional skepticism as an attitude that include the thought that always ask and evaluate critically the audit proof. This research is inline with Kee dan Knox's (1970). Chang et al. (2006), Carpenter et al. (2002), Beasley et al. (2001). Yurniawati's (2004) research said that auditor quality as factor has a positive and significant relationship with the auditor professional skepticism. A professional accountant should obey the rule of his standard quality of auditor in every his attitude because it can also affect to the quality of service they give (Arrens and Loebbecke, 2008). While research Carcello et al (1992), Behn et al (1997), Widagdo (2002), in their research said that the attribute of audit quality, ethics, has no influence to the client's satisfaction.

The higher professional skepticism (Y), it affects to the high value of audit quality (Z). This result as support there search from Carpenter et al. (2002) that state auditor with less professional skepticism attitude causing a decrease of audit quality. Beasley et al. (2001) see that the low level of auditor professional skepticism causes the failure in detecting the fraud. Professional skepticism absolutely has been done by the auditor of Audit Board of the Republic of Indonesia. In performing investigation, audit has been adhered to State Audit Standards (SKPN 2007) and ethics code to obtain the audit quality. If the investigated client provides a proof, the auditor does not believe it directly but compare between what should be and what is or refers to the investigation attribute (1) condition or criteria, (2) result, and (3) cause. In SPAP (Public Accountants Professional Standards, 2001) state that auditor professional skepticism is an attitude that covers the thought that always ask and evaluate critically towards the audit proof.

Limitation of this research is, BPK Institutions that is used as research object is only the BPK located in South Sulawesi Province Alone. Also respondents that involved in this study is majority educated, it can be seen from the amount that reached 71% of the entire respondents. This shows that the selected respondents in this study had a high enough level of education, which is enough to understand the contents of the questionnaire given.

F. Conclusions and Recommendations

The conclusion of this study are (1) Auditor Quality has significantly direct effect to the Professional Skepticism, (2) Professional Skepticism has significantly direct effect to the Audit Quality, (3) Auditor Quality has no direct effect to Audit Quality, but Auditor Quality has indirect effect to Audit Quality with mediation of Professional Skepticism.

Based on the research conclusion, some suggestions are recommended as follows: (1) It is suggested for the next research to develop the research object to external auditor in other province or develop the research object in the government intern auditor. (2) This research use ethics variable, commitment variable, independence variable, competency variable and experience variable as independent variable, in the next research the variable can be developed or among those variable can be developed

theoretically to be moderating variable or intervening variable. (3) This research use professional skepticism variable and audit quality as dependent variable, in the next research it can be developed or replaced by another variable.

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