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THE INFLUENCE OF AUDITOR IDENTITY ON AUDITOR DECISION-MAKING AND AUDIT QUALITY WITH A LITERATURE REVIEW APPROACH

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Abstract

This paper examines the influence of identity on decision-making and audit quality with a literature review approach, as well as integrating agency theory as the main analytical framework. Agency theory explains the relationship between the principal and the agent, where the auditor acts as an agent representing the interests of the stakeholders in the financial statements. This study identifies that aspects of auditor professional identity, such as competence, independence, ethics, and motivation, play an important role in influencing auditors' decisions during the audit process. In the context of agency theory, the identity of the auditor can be seen as a factor that affects the reliability and objectivity of the information conveyed to the principal. In addition, work environment and time pressures are also reviewed as external factors that can affect audit quality. The results of the study show that improving understanding of auditors' professional identities and the interaction between these variables can help improve audit quality, as well as build public trust in financial statements. Thus, this paper recommends strengthening the professional identity of auditors through continuing education and policies that support integrity, for the creation of accountable and trusted audit practices.
Keywords: auditor identity, audit decision-making, audit quality

INTRODUCTION

Audit quality is one of the main foundations in ensuring transparency and accountability of financial statements. In this context, decision-making by auditors plays a very important role in determining the integrity and reliability of reported financial information. Various studies show that the quality of audits is not only influenced by technical or procedural aspects, but also by the professional identity of the auditor himself. The identity includes elements such as competence, independence, ethics, motivation, and environmental pressures inherent in auditors as individuals and as part of an institution.

Professional competence is a fundamental aspect of auditors' identity that has a direct impact on their ability to carry out audit tasks thoroughly and accurately. Auditors who have high competence will be more careful in assessing audit evidence, understanding the complexity of financial transactions, and detecting indications of fraud or material misrepresentation. In his research, (Architect, 2013) emphasizing that competence has a significant influence on audit quality, because competent auditors are able to apply technical knowledge and skills effectively in the process of auditing financial statements. This shows that improving auditor competence must be a top priority for Public Accounting Firms (KAP) and accounting professional supervisory institutions.

Independence reflects the auditor's ability to be objective and impartial in evaluating audit evidence and presenting findings. An independent auditor will not be affected by pressure from clients or personal interests that may obscure his or her professional judgment. (Architect, 2013) It also found that independence plays an important role in maintaining audit quality, especially when auditors are faced with situations of conflict of interest or external pressure. However, the reality on the ground shows that auditor independence is often threatened by factors such as long-term relationships with clients, pressure from company management, or even compensation in the form of high audit fees.

Time budget pressure is one of the biggest challenges in the modern world of auditing. In situations where auditors are constrained by strict audit completion times and deadlines, they tend to reduce audit procedures or take shortcuts that can reduce audit effectiveness. (Architect, 2013) explains that high time pressure has the potential to degrade audit quality because auditors may not have enough time to thoroughly identify risks and execute adequate audit procedures. This creates a professional dilemma for auditors, where they must balance between time efficiency and commitment to high audit standards.

Ethics and motivation are also an inseparable part of the auditor's professional identity which affects the quality of the decisions they make. (M Mariana, L Liza, SW Ramadana, R Rahmaniar, 2024) states that strong audit ethics as well as high intrinsic motivation positively influence the strategic decisions of internal auditors. In this context, auditors who uphold professional ethics will be more likely to make decisions in accordance with the principles of accountability and social responsibility. Motivation, whether derived from internal drives such as job satisfaction and professional commitment, as well as external motivations such as awards and recognition, has also been shown to increase auditors' dedication in carrying out their duties as a whole. (Eksandy, A., & Milasari, 2019) found that the quality of internal auditors has a significant effect on the quality of profits, especially in companies that have a high level of environmental disclosure. These findings show that when internal auditors have good capacity, they are able to detect profit management practices and provide objective recommendations to improve reporting transparency. The interaction between internal auditor factors and organizational conditions is key in creating an effective supervisory system for the financial reporting process.

Competence, independence, time pressure, ethics, and motivation are not stand-alone aspects, but interact with each other and form the auditor's framework of thinking and behavior in dealing with the dynamics of the audit environment. Therefore, a deep understanding of the influence of identity on decision-making and audit quality is important, not only for auditors, but also for stakeholders such as regulators, company management, and the broader public who rely on reliable financial information. Further research and policy implementation that support strengthening the professional identity of auditors need to be encouraged to create a more accountable and trustworthy audit environment in the future.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

This theory was developed by Jensen and Meckling (1976). Agency theory states that there is a potential conflict of interest between the principal and the agent due to the difference in objectives and the existence of information asymmetry. In the context of audits, the auditor acts as an independent third party to verify the financial statements prepared by the management (agent), in the interest of the owner (principal). Auditors' personal, social, and professional identities can affect their independence and objectivity. If the auditor has a social or cultural proximity to the client, then the potential for bias increases, so the quality of the audit can decrease. Agency theory sees that agents (auditors) can be encouraged to act according to their personal or social group interests, not the interests of the principal (users of financial statements).(Putri & Triandi, 2020)

A strong identity of a particular group can cause the auditor to ignore evidence that contradicts his or her perception. This can lead to less objective decision-making, especially in an audit situation full of uncertainty. Identity can affect the extent to which the agent (auditor) conveys information transparently to the principal. If there are identity interests (e.g. ethnicity, professional group, personal proximity), the auditor may be reluctant to report negative findings.(Maulita & Suryono, 2018)

RESEARCH METHODS

This research is a qualitative research with a Literature Review approach. This approach is used to examine and synthesize various results of previous research on the influence of identity on auditor decision-making and audit quality. The purpose of the researcher using literature review is to develop a theoretical and empirical understanding of how the identity of the auditor affects the decision-making process and the quality of the audit. Describe research trends and key findings in the last two decades. Provide a scientific basis for further research as well as policy and practice recommendations in the field of auditing. Researchers can identify patterns, themes, and research gaps from existing scientific sources.

The data used in this study are secondary data obtained from the scientific literature. Data sources include scientific journals, proceedings, academic books, and reliable articles available in online databases such as Google Scholar, ScienceDirect. The criteria in the writing are discussing the topic of auditor identity, decision-making in audits, or audit quality. Written in Indonesian or English and Available in full-text version.

RESULTS AND DISCUSSION

The Influence of Auditor Competence on Decision Making in the Audit Process

Competence is one of the most essential aspects that an auditor must have in carrying out his duties professionally. In the context of auditing, competence reflects the auditor's technical ability, knowledge, skills, and professional attitude in carrying out audit procedures effectively. A competent auditor is expected to be able to understand audit standards, assess risks objectively, and draw conclusions based on relevant evidence. Competencies not only include cognitive aspects, but also reflect auditors' capacity to respond to transaction complexity and the dynamics of the ever-evolving business environment (Haryanto, N. O., & Susilawati, 2018).

In the auditing standards that apply internationally and nationally, competence is identified as one of the important prerequisites for the implementation of quality audits. The dimensions of competency according to the Public Accountant Professional Standard (SPAP) include formal education, continuous training, practical experience, and an understanding of applicable accounting regulations and principles. In addition, non-technical aspects such as communication skills, critical thinking skills, and moral integrity are also considered as part of influential competencies in the audit process. Auditors are not only required to understand theories, but also be able to implement them appropriately in complex audit situations (Tjun, L. T., Marpaung, E. I., & Setiawan, 2012).

Competence plays a strategic role in the auditor's decision-making process, especially in the risk assessment stage, audit planning, and evaluation of findings. Auditors who have high competence tend to be more thorough in analyzing data, able to identify significant risk areas, and choose the most appropriate audit procedures. These decisions greatly determine the effectiveness of audits because they have a direct impact on the accuracy of the audit opinions given. When auditors are less competent, the likelihood of misassessing evidence, failing to recognize risks, or failing to respond to anomalies in financial statements increases, which can ultimately degrade the overall quality of audits (Scott, 2024).

Empirical research has shown a significant relationship between the level of auditor competence and the quality of decisions taken in the audit process. (Haryanto, N. O., & Susilawati, 2018) Found that the competence of internal auditors contributes positively to improving audit quality through more accurate and efficient decision-making. Auditors who have a deep understanding of internal control systems and audit procedures are able to assess the suitability of financial statements more objectively and comprehensively. Similar research by (Scott, 2024) It also supports these findings by showing that competence, along with experience and motivation, has a significant impact on auditors' decisions in determining the level of materiality, audit risk, and in selecting testing procedures.

(Tjun, L. T., Marpaung, E. I., & Setiawan, 2012) In his research, it was stated that auditors who have a combination of strong theoretical knowledge and practical experience tend to be more confident in assessing financial information and setting relevant audit judgments. This reinforces the argument that competence is not only necessary in the early stages of an audit, but also at a time when the auditor is faced with a professional dilemma or an indication of irregularities that require an in-depth assessment. Therefore, the improvement of competencies through continuous training and professional certification is essential in forming auditors who are able to make high-quality audit decisions.

In an increasingly complex and stressful audit environment, auditors are required to continue to develop their competencies in order to adapt to changes in regulations, information technology, and stakeholder expectations. High competence not only supports the effectiveness of audits, but also increases the auditor's credibility in providing opinions that can be trusted by users of financial statements. Therefore, competence should be seen as a long-term investment in building a resilient and adaptive audit profession. Thus, it can be concluded that auditor competence has a significant and inseparable influence on the decision-making process which is the basis for high audit quality.

The Influence of Auditor Independence on Audit Quality

Independence is one of the fundamental principles in the audit profession which serves as the main foundation for maintaining the objectivity of auditors in providing opinions on financial statements. Without independence, audit results will lose credibility because the auditor can be influenced by external pressure or personal interests. In a formal definition, auditor independence refers to a mental attitude that is free from influence, which allows the auditor to conduct an objective and unbiased assessment during the audit process. Independence is also part of the code of ethics of the public accounting profession and is an important prerequisite in ensuring high audit quality (Soleha, 2017).

In practice, the independence of the auditor is divided into two main forms, namely independence in mind and independence in appearance. Independence in mind refers to the internal condition of the auditor to remain objective and not be influenced by client pressure or conflicts of interest. Meanwhile, independence in appearance is related to how external parties, including users of financial statements, view the objectivity of auditors. These two forms of independence complement each other, because while auditors may be completely neutral internally, dubious public perceptions can still undermine confidence in audit results. Therefore, maintaining the appearance of independence is just as important as maintaining an objective attitude in audit practice (Soleha, 2017).

Various factors can affect the level of independence of the auditor, both from the internal side of the auditor itself and from the external environment. Internal factors can be in the form of loyalty to clients, pressure from superiors, or reliance on audit fees. Auditors who have established long-term relationships with certain clients tend to experience decreased objectivity due to excessive proximity. Meanwhile, external factors such as pressure from the company's management, the amount of audit service rewards, and the risk of losing clients can also obscure the auditor's independent judgment. In some cases, auditors who are worried about losing an audit contract will tend to ignore negative findings or adjust opinions to please the client (Soleha, 2017) A significant disruption of independence will have a direct impact on the decline in audit quality. When the auditor is unable to maintain a neutral attitude, then it is likely that the audit results do not reflect the actual financial condition. This is certainly detrimental to financial statement users who rely on auditors' opinions as the basis for economic decision-making. Research conducted by (Soleha, 2017) shows that independence has a positive and significant influence on audit quality. Auditors who are able to maintain a professional distance from the client and resist external pressure, are more likely to produce valid, objective, and standard audit reports.

The findings are in line with the results of previous studies that stated that independent auditors are more courageous in revealing weaknesses in internal controls, giving firm recommendations, and not hesitating to give modified opinions if material discrepancies are found. In contrast, auditors whose independence is compromised tend to underreport audit findings or avoid confrontations with clients, thereby undermining the audit's function as a reliable external oversight tool. In a broader context, the disruption to independence also has the potential to degrade the reputation of the audit profession as a whole and reduce public confidence in a company's financial information.

As such, it is important for public accounting firms and professional supervisory authorities to implement policies that support auditor independence. One of them is by limiting the rotation of auditors periodically, setting the maximum limit of audit relationships with clients, and ensuring transparency in determining audit fees. These measures are necessary to create a conducive work environment for auditors to maintain their integrity and independence. Overall, independence is not just an ethical norm, but is one of the main determinants in ensuring the quality of audit results that can be trusted by all stakeholders.

The Effect of Time Budget Pressure on Auditor Objectivity and Accuracy

In an increasingly dynamic and competitive world of auditing, time efficiency is one of the main focuses in the implementation of audit work. Time budget pressure refers to a condition in which auditors are faced with limited time to complete audit work according to a predetermined deadline. This pressure can arise from a variety of sources, such as the demands of clients who expect audit results in a short period of time, strict public accounting firm (KAP) policies on work time efficiency, and limited allocation of auditor resources. When auditors feel that there is not enough time available to complete a thorough audit procedure, then pressure arises that can affect the quality of work and audit integrity (Muhshyi, 2013)

Time pressure in modern auditing practices is often a dilemma for auditors. On the one hand, auditors must meet the deadlines that have been agreed with the client, but on the other hand they are required to maintain accuracy and objectivity in the implementation of audits. In such conditions, auditors may experience conflicts between efficiency and effectiveness. (Valentino, Y., Murtanto, M., & Mayangsari, n.d.) mentioning that time budget pressures can cause auditors to cut audit procedures, reduce the number of tests, or even miss important procedures in pursuit of timely audit completion. This condition certainly endangers the objectivity of the auditor, because decisions can be made without careful consideration or sufficient evidence.

The impact of time budget pressure is very pronounced in the effectiveness of the implementation of audit procedures. When auditors feel rushed, they tend to miss important details, not enough in gathering evidence, and less in evaluating risks thoroughly. This can reduce the quality of judgement and increase the likelihood of errors in providing audit opinions. (Muhshyi, 2013) In his research, it was concluded that time pressure has a negative relationship with audit quality, especially in terms of audit accuracy and independence. Auditors who work under pressure tend to be more tolerant of minor irregularities, or even reluctant to follow up on findings that require additional time to analyze more deeply.

In a study conducted by (Priscilla, T. V., & Arsjah, 2024) Time budget pressure has proven to be a negative moderation of the relationship between the implementation of e-audit and audit quality. This means that while the use of technology such as e-audit can improve audit efficiency and accuracy, those benefits will not be optimal if auditors continue to work under high time pressure. This research shows that time pressure factors not only have an impact on the technical side of audits, but can also obscure auditors' ethical considerations, which ultimately lowers the credibility of audit results in the eyes of financial statement users.

(Valentino, Y., Murtanto, M., & Mayangsari, n.d.) states that when auditors prioritize the completion of the audit rather than the depth of the procedure, the risk of opinion inaccuracy is higher. This shows that realistic time management and audit budget allocation are very important in ensuring the quality and integrity of the audit process. Steps that can be taken include implementing realistic audit planning, time management training for auditors, and reviewing the auditor's workload. In addition, there needs to be an internal policy that encourages auditors to continue to prioritize quality and integrity, even in situations of time constraints. Thus, time pressures can be managed well without sacrificing the objectivity and rigor that are at the core of the audit profession.

The Relationship of the Auditor's Overall Professional Identity to Audit Quality

The auditor's professional identity is a multidimensional construction that includes aspects of competence, independence, ethics, motivation, and professional experience that together form the character and capabilities of an auditor in carrying out his duties. This identity is not only limited to individual attributes, but also reflects the professional integrity internalized by the auditor as part of the professional community. In the context of auditing, professional identity is an important foundation in determining the quality of the auditor's work, as it has a direct influence on attitudes, values, and decisions taken during the audit process (Hakim, A. R., & Esfandari, 2015).

Competence enables auditors to understand and apply audit procedures appropriately, independence maintains auditors' objectivity in the face of external pressures, ethics provide moral guidance in making difficult decisions, while motivation encourages auditors to carry out tasks with high dedication. When these four elements are balanced, the auditor is in an optimal position to conduct an audit effectively, objectively, and responsibly (Dewi, 2016). In practice, an imbalance in one of these aspects can decrease the overall effectiveness of the audit process.

A conceptual model that links the auditor's professional identity to audit quality emphasizes that each element of identity makes a unique contribution to the audit outcome. (Architect, 2013) It was found that the competence and independence of auditors had a significant effect on audit quality, which was characterized by the ability to detect material errors and irregularities in financial statements. The study also showed that time budget pressure can interfere with the positive influence of professional identity, demonstrating the importance of a balance between personal and work environment qualities in determining audit effectiveness. (Dewi, 2016) states that auditor ethics plays a role as a moderation variable that strengthens the relationship between work experience, competence, and independence with audit quality.

(Hakim, A. R., & Esfandari, 2015) in his research also added that emotional intelligence and *due professional care* is part of a professional identity that should not be ignored. Emotional intelligence helps auditors manage psychological distress and interact professionally with various parties, while due professional care reflects the auditor's commitment to carrying out their duties with care and responsibility. The implications of understanding professional identity on improving the quality of audits in public accounting firms (KAP) are very significant. KAP needs to realize that the development of the auditor's professional identity is a long-term investment that has an impact on the reputation of the institution and public trust in the audit reports produced. Therefore, it is necessary to make systematic efforts to improve the quality of human resources through continuous training, certification programs, involvement in the professional code of ethics, and the creation of a work culture that supports independence and integrity. In addition, it is also important for KAP to evaluate work environment factors such as time pressure, workload, and incentive structure, so as not to conflict with the formation of an ideal professional identity. Improving audit quality cannot be achieved through a procedural approach alone, but must be through the thorough and continuous strengthening of the auditor's professional identity. Therefore, the formation and development of a professional identity should be a priority in managerial strategies and human resource development policies in the audit profession.

CONCLUSION

High competence allows auditors to carry out their duties effectively, from understanding accounting systems, assessing risks, to compiling reliable audit reports. Without adequate competence, auditors run the risk of making errors in assessing evidence or ignoring important indications of irregularities. Independence has proven to be a crucial element in maintaining the objectivity of auditors. When the auditor is free from external influences, he will be better able to convey his opinion honestly and unbiasedly. This is very important in creating public trust in audit reports. However, independence is not always easy to maintain due to pressure from clients or work environment conditions that demand high efficiency. In this condition, the role of ethics becomes a moral protector for auditors in facing professional dilemmas. Professional ethics provide a framework of values that help auditors act right, even when faced with the temptation to ignore principles of integrity.

Motivation, both intrinsic and extrinsic, also contributes greatly to encouraging auditors to carry out their duties consistently and dedicatedly. Motivation that comes from within the auditor, such as satisfaction with the profession and the desire to contribute positively, has been proven to be able to improve the quality of decisions taken, especially in situations that require firmness and courage. When auditors feel rushed by time, the tendency to ignore important procedures or simplify the audit process becomes greater, thus threatening objectivity and thoroughness.

The auditor's overall professional identity is the main foundation that shapes audit quality. A combination of competence, independence, ethics, motivation, and effective time pressure management will result in auditors who are able to make decisions with high integrity. Therefore, improving audit quality cannot be separated from strengthening the professional identity of auditors, both through continuous training, the formation of a work culture that supports professional ethics, and managerial policies that provide space for auditors to act objectively and responsibly.

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