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Does Moral Reasoning Moderate Audit Quality Determinants?

Ceacilia SRIMINDARTI^{1*}

Siti Nur Fajriah ASHOBAH²

Pancawati HARDININGSIH³

Askar YUNianto⁴

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^{1,2,3,4}Faculty of Economics and Business,
Universitas Stikubank, Semarang
Indonesia.

*Email: ceacilia@edu.unisbank.ac.id

²Email: ashobah@yahoo.com

³Email: pancawati@edu.unisbank.ac.id

⁴Email: askar@edu.unisbank.ac.id

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(* Corresponding Author)

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Abstract

The aim of this study is to analyse whether moral reasoning moderates the determinants of audit quality and examine the effects of competence, time budget pressure and moral reasoning on audit quality. The participants in this study were auditors of the Audit Board of Indonesia in Central Java. Using purposive sampling, 97 participants made up the entire studies. Data was analysed using partial least square (PLS). This study found that competence had a significant positive impact on audit quality. Time budget pressure had a negative impact on audit quality. Though, moral reasoning had no impact on audit quality. Furthermore, moral reasoning enhanced the impact of competence on audit quality. On the other hand, moral reasoning weakened the effect of time budget pressure on audit quality. The findings of this study are anticipated to advance the field of auditing science and offer guidance to Indonesia's Audit Board in order to assist its auditors in maintaining the calibre of their audit.

1. Introduction

The government has an obligation to prepare accountability reports in the form of financial statements in order to uphold the ideals of accountability and transparency for good governance. Accountability is needed to know the implementation of programs financed by state finances, the extent to which the laws and regulations are being followed, the level of savings, efficiency and effectiveness of the program. Financial statements are also a form of transparency to the public of information considered the public's right.

The government's obligation to prepare financial reports is also mandated in Law Number 17 of 2003 concerning State Finance. The financial statements will be submitted to the House of Representatives of the Republic of Indonesia as the people's representatives which has been previously examined by the Audit Board of Indonesia.

The examination of state finance by the Audit Board of Indonesia has been established since 1945 by the Constitution Article 23 Paragraph 5, which reads: "To examine the responsibility for state finances, an Audit Board of Indonesia has been established of which are stipulated by law. The House of Representative of the Republic of Indonesia is then informed of the analyzed results. The House of Representatives of the Republic of Indonesia can use the analyzed results as an indicator of the government's performance evaluation.

The Audit Board of Indonesia's result is vital because the community has indirectly given a mandate to the Audit Board of Indonesia to check whether the preparation of financial statements by the government has been carried out correctly and in accordance with applicable regulations. The results of this study also provide guidelines for the government in order to attain good government governance.

However, various cases of audit irregularities have led people to question the quality of audits conducted by auditors. One of the case of audit irregularities that surfaced to the public was the case of bribery by Audit Board of Indonesia representatives of West Java Province and Bekasi City government employees in 2010. The bribery attempt was alleged to influence the opinion of the Bekasi City government's 2009 financial statements to get the fair without Exception predicate. Public's trust in the auditor declined as a result of this case. To maintain public trust, the auditor must be able to maintain the quality of his audit because a quality audit will describe the real regional or state financial condition.

Moreover, financial audits conducted by the Audit Board of Indonesia are crucial. Therefore, the Audit Board of Indonesia auditors must adhere to the high-quality auditing standard. Audit quality is defined as an inspection process regarding procedures to ensure and improve quality and integrity. The results of the Audit Board of Indonesia's audits are used to assess the financial governance carried out by the government. In addition, law enforcement officials often use the Audit Board of Indonesia examination results as supporting evidence in cases of alleged misappropriation of state finances.

One factor that can impact audit quality is competence. Every profession requires certain competencies to perform their tasks effectively. The higher the competence possessed by an auditor, the higher the quality of the resulting audit. In their research Sukriah, Akram, and Inapty (2009), Mansouri, Pirayesh, and Salehi (2009), Arisinta (2013), Ningsih and Dyan (2013), Abbott, Daugherty, Parker, and Peters (2016), Mathur (2016) Ramlah, Syah, and Dara (2018), Duc (2021) and found that competence had a significant positive impact on audit quality. Samsi, Riduwan, and Suryono (2013) and Bolang, Sondakh, and Morasa (2013) found that competence had no impact on audit quality.

Time budget pressure is also one of the factors influencing audit quality. Time budget pressure is when the auditor is required to conduct an audit as per the planned time budget. Strict time pressure in conducting audits will make the auditor more efficient in conducting audits. There are several ways auditors deal with time pressure conditions to fulfil agreed time agreements with clients (Kurnia, 2018). Auditors conduct an audit in accordance with the allocated time, but the outcome is still optimal performance. Another way the auditor does is to violate the procedures and plans that have been determined. The auditor conducts an audit not in accordance with audit standards and reduces the accuracy and efficiency in gathering audit evidence, so that audit quality decreases. Alderman and Deitrick (1982), Bowrin and King (2010), Coram, Ng, and Woodliff (2003), Gundry and Liyanarachchi (2007), Liyanarachchi and McNamara (2007), Nirmala and Cahyonowati (2013) found that time budget pressure had a negative impact on audit quality. Meanwhile, Handoko and Pamungkas (2020) revealed that time budget pressure had no impact on audit quality.

According to Gaffikin and Lindawati (2012), moral reasoning is defined as the reasons that underlie a person in carrying out an action or justifying or criticizing an action. An audit with strong moral reasoning will be better at making audit judgment which will improve the audit's overall quality. Auditor with high moral reasoning will be more appropriate in conducting audit judgment so the quality of the resulting audit will also be better. Research by Lord and DeZoort (2001) revealed that moral reasoning had a positive impact on audit quality. However, research conducted by Januarti and Faisal (2010), Mustika, Rifai, and Herawati (2013) revealed that moral reasoning had no impact on audit quality.

By including moral reasoning variables as moderating variables, it enables researchers to make research innovative based on the phenomena and gaps of previous research. As a moderating variable, moral reasoning is a reason that underlies someone to assume whether an action is considered true. Kohlberg (1982) describes that a person's level of moral reasoning development is influenced by age, level of education and environmental conditions. These three factors can help auditors become more ethical, logical and wiser.

Based on the previous explanation, this study aims to test (1) the influence of competence on audit quality. (2) The influence of time budget pressure on audit quality. (3) The influence of moral reasoning on audit quality. (4) Whether moral reasoning moderates the influence of competence on audit quality. (5) Whether moral reasoning moderates the influence of time budget pressure on audit quality.

2. Literature Review and Hypothesis Development

Using attribution theory, this study explains the auditor's actions to maintain audit quality. Attribution theory describes whether individual actions are influenced by internal, external or a combination of both. Audit quality is a process of checking procedures to ensure and improve quality and integrity. The auditor's actions in maintaining audit quality and integrity can be determined by internal factors such as the auditor's competence and moral reasoning. Auditor behavior can also be influenced by external factors such as time budget pressure. Several factors can affect audit quality such as auditor competence, time budget pressure and moral reasoning.

According to the regulation of the head of BPKP No: PER-21/K/JF/2010 chapter 1, number 3 states that competence is the abilities and characteristics possessed by a Civil Servant in the form of knowledge, expertise and behavioural attitudes required to do their tasks. In chapter 1, number 4 states that the competence of auditors is measured by the minimum ability that the auditor must possess which includes aspects of knowledge, skills and attitudes to accomplish tasks in the functional auditor position successfully. The first general standard (SA section 210 in SPAP 2001) states that the audit must be carried out by one or more persons with enough technical expertise and auditor training. In comparison, the third general standard

(SA section 230 in SPAP, 2001) states that auditors must use their professional skills carefully and thoroughly (due professional care) in carrying out audits and preparing reports. In government audits, auditors are expected to possess and improve their abilities or expertise in auditing procedures and related matters to government such as government organizations, functions, programs and activities. The higher the competence possessed by the auditors, the more they will be able to do a good job of maintaining the audit quality. Sukriah et al. (2009), Mansouri et al. (2009), Arisinta (2013) Ningsih and Dyan (2013), Abbott et al. (2016) Mathur (2016) and Ramlah et al. (2018) found evidence that competence had a significant positive impact on audit quality.

Time budget pressure is a form of pressure experience by the auditor because the auditor must carry out his audit in accordance with the predetermined time budget. Time budget pressure can interfere with the work program of an auditor in carrying out audit tasks and in the end can affect the quality of the audit carried out. Alderman and Deitrick (1982), Bowrin and King (2010), Coram et al. (2003), Gundry and Liyanarachchi (2007), Liyanarachchi and McNamara (2007), Nirmala and Cahyonowati (2013) and Broberg, Tagesson, Argento, Gyllengahm, and Mårtensson (2017) found that time budget pressure had a negative impact on audit quality.

Moral reasoning is defined as a phenomenon intended to explain the process experienced by an individual in making an ethical decision or describe a process of developing behaviour based on individual moral judgments (cognition-judgment-action process). So, the process of moral reasoning that occurs in an individual can also be understood by examining how an individual internalizes moral standards (Gaffikin & Lindawati, 2012). The morale of the auditor will influence the auditor to agree to the pressure of social influence they face. Therefore, auditors with low levels of moral development will be more susceptible to compliance and conformity pressures. Research by Lord and DeZoort (2001) uncovered that moral reasoning had a positive and significant impact on audit quality.

Audit quality is the probability that the auditor will correctly and thoroughly identify any substantial flaws in the client's financial statements (DeAngelo, 1981). The audit process is considered good quality if the material misstatements can be detected and reported by the auditor. According to the Audit Board of Indonesia regulation no. 1 of 2007, the audit process needs to be carried out in accordance with the inspection requirements to maintain audit quality.

2.1. The Effect of Competence on Audit Quality

Competence is the professional expertise of an auditor obtained through professional examinations, formal education and participation in training, seminars and symposium (Zu'amah, 2009). An auditor must have sufficient professional skills to carry out the audit tasks collectively. According to the State Financial Examination Standards, every auditor who carries out audits must complete at least 80 hours of education every two years (bi-annually) which directly increases the auditor's professional skills in carrying out audits. This competency will assist the auditor in understanding the state management process and financial responsibility in the government area. The understanding obtained will enable the auditor to conduct an audit process better and producing better audit quality. Research by Sukriah et al. (2009), Mansouri et al. (2009), Arisinta (2013), Ningsih and Dyan (2013), Abbott et al. (2016), Mathur (2016) and Ramlah et al. (2018) revealed that competence had a positive effect on audit quality.

H1: Auditor competency has a positive impact on audit quality.

2.2. The Effect of Time Budget Pressure on Audit Quality

Handoko and Pamungkas (2020) stated that based on routine assignments, a time budget pressure is created based on the projected time required for each audit programme stage. An adequate time is required to produce good audit quality. Auditors often work within a limited time budget. Time budget pressure can make auditors experience difficulties. Auditors also see time budget pressure as psychological pressure. Sometimes, auditors feel pressure to meet the time budget to show their efficiency as auditors help to evaluate their performance. Time budget pressure also has the potential for auditors to violate audit procedures and gather inadequate evidence decreasing audit quality. Alderman and Deitrick (1982), Bowrin and King (2010), Coram et al. (2003), Gundry and Liyanarachchi (2007), Liyanarachchi and McNamara (2007), Nirmala and Cahyonowati (2013) and Broberg et al. (2017) found that time budget pressure had a negative effect on audit quality.

H2: Time budget pressure has negative effects on audit quality.

2.3. The Effect of Moral Reasoning on Audit Quality

Moral reasoning is a moral reason that underlies individuals in assessing whether an action can be said to be justified. Depending on the level of exposure to and interaction with the surrounding social environment, each person's person moral reasoning process will differ. Kohlberg (1982) explained that a person's level of moral reasoning development is influenced by age, level of education and environmental conditions. More experienced auditors will make wiser in making decisions resulting in more qualified and suitable audit judgments. Besides moral reasoning, auditors will also determined by their level of education. The higher the level of a person's education, their reasoning in solving every problem will be better resulting in a more

competent audit. Environmental conditions will also influence the moral reasoning of auditors. Auditors who live in a good environment will act in accordance with the applicable code of ethics and avoid the auditor's dysfunctional behavior that can reduce audit quality. Lenggono (2022), Lord and DeZoort (2001) revealed that moral reasoning variables positively and significantly affected audit quality.

H3: Moral reasoning has a positive impact on audit quality.

2.4. Moral Reasoning Moderates the Influence of Competence on Audit Quality

Gaffikin and Lindawati (2012) defined moral reasoning as an explanatory argument that is actually a reason intended to support a particular claim which is called a conclusion. Meanwhile, Lee and Stone (1995) described competence is a skill that the auditor explicitly uses to objectively carry out his audit duties. Competence is an essential factor in conducting an audit (Hardiningsih, Udin, Masdjojo, & Srimindarti, 2020). An auditor is always required to improve his knowledge and ability to maintain his competence (Srimindarti, Oktaviani, Hardiningsih, & Udin, 2020). At least 20 hours out of 80 hours of education that directly enhance the auditor's professional ability to carry out examinations must be completed within 1-year to 2-year period. Highly competent auditors can perform their tasks more effectively and is supported by good moral reasoning by maintaining honesty working in accordance with audit standards will produce better audit quality. Research by Samsi et al. (2013) found that auditor ethics has been proved to moderate the effect of competence on audit quality.

H4: Moral reasoning moderates the influence of competence on audit quality.

2.5. Moral Reasoning Moderates the Influence of Time Budget Pressure on Audit Quality

Moral reasoning is the process to figuring out what is good or wrong for an individual and what matters in making an ethical choice (Januarti & Faisal, 2010). Meanwhile, Gaffikin and Lindawati (2012) said that moral reasoning in an individual could be seen from how an individual internalizes moral standards. Moreover, Alderman and Deitrick (1982) defined time budget pressure as a condition where the auditor is required to complete the audit in accordance with the time agreed with the client. When the auditor does not experience tight time pressure, the auditor can carry out audit assignments according to procedures, standards and collect audit evidence adequately. Auditors who do not experience time pressure will be able to audit better. If the auditor does not experience time budget pressure and has good moral reasoning by maintaining honesty and working according to audit standards, the auditor can make a better judgments to produce a better audit quality. Research by Dewi, Kartini, and Nirwana (2021) revealed that moral reasoning moderated the impact of time budget pressure on audit quality.

H5: Moral reasoning moderates the influence of time budget pressure on audit quality.

3. Research Methodology

The population in this study was auditors of the Audit Board of Indonesia in Central Java Province Representative. The number of Audit Board of Indonesia auditors in Central Java Province Representative was 123 auditors. With a purposive sampling technique, the selected sample was 97 auditors. The sample criteria used included (1) auditors of the Audit Board of Indonesia in Central Java Province Representatives who had attended the education and training (*Diklat*) of the Functional Position of the Auditors and (2) auditors of the Audit Board of Indonesia in Central Java Province who had at least two years of experience.

Data collection was carried out by giving questionnaires to participants. The questionnaires sent was 123 questionnaires and the questionnaires that was returned and could be processed was in the amount of 97. The return rate of the questionnaire was 78.8%.

Audit quality is the compliance of the audit with the audit standard and the quality of the audit report. In this study, audit quality was measured using instruments from Sukriah et al. (2009). The instrument consists of ten questions. The instrument also used a Likert scale of 1 to 5 (from 1: strongly disagree until 5: strongly agree). In addition, competence describes the personal quality, general knowledge and special expertise owned by auditors. Competence in this study was determined using instruments adopted from Sukriah et al. (2009). The instrument consists of ten questions. The instrument also used a Likert scale of 1 to 5 (from 1: strongly disagree until 5: strongly agree).

Meanwhile, time budget pressure is a condition when the auditor is required to conduct an audit in accordance with the planned time budget. This research assessed time budget pressure using an instrument from Sukriah et al. (2009). The instrument consists of five questions to measure the value of time budget pressure using questionnaires with a Likert scale (from 1: strongly disagree until 5: strongly agree). Finally, moral reasoning is the reason that underlies a person in carrying out an action or justifying or criticizing an action. The moral reasoning instruments were adopted from Gaffikin and Lindawati (2012) and the instrument consisted of twelve questions. The instrument used a Likert scale of 1 to 5 (from 1: strongly disagree until 5: strongly agree). Before the research, questionnaires were sent to the respondents. This research had conducted a pilot study to see the reliability and validity of the research questionnaires. This study uses a Structural Equation Model (SEM) using Partial Least Square (PLS) analysis tool. Partial

Least Squares are suitable for valid and more reliable confirmatory factor analysis. This study has collected data by sending questionnaires via email and online questionnaires to respondents.

The data sets in this study were analyzed using Partial Least Square (PLS) with a moderation model based on the association as follows:

$$AQ = a + \beta_1C + \beta_2TBP + \beta_3MR + \beta_4C.MR + \beta_5TBP.MR + e$$

Where: AQ = audits quality, C = competence, TBP = time budget pressure, MR = moral reasoning.

4. Results

The description of participants include age, gender, years of experience, position, functional position and education level shown in Table 1 as follows:

Table 1. Descriptions of respondents.

Descriptions		Total	Percentage (%)
Age	25-35 years	45	46.5
	36-45 years	41	42.0
	46-56 years	11	11.5
Gender	Male	53	54.6
	Female	44	45.4
Years of Experience	2 - 5 years	19	19.6
	6 - 10 years	49	50.5
	> 10 years	29	29.9
Position	First auditor	44	45.4
	Young auditor	52	53.6
	Intermediate examiner	1	1.0
Functional position	Team leader	19	19.6
	Team member	78	80.4
Education Level	Bachelor	77	79.4
	Master	20	20.6

Based on the respondent's age, 46.5% of people aged between 25 to 35 years, 42.0% were 36 to 45 years old and the rest 11.5% were 46 to 56 years old. The data based on gender showed 54.6% men and the rest 45.4% women. Then, there were 19.6% auditors with two to five years of experience, 50.5% with six to ten years of experience and the rest 29.9% with > ten years of experience. Based on respondent's positions, there were 45.4% first auditor, 53.6% young auditor and 1.0% intermediate examiner positions. Moreover, 19.6% of respondents had a role in the functional position of the team leader supervisor and the rest 80.4%, were team members. For education, most of them were at the undergraduate level with 79.4% and the rest were at the master's level with 20.6%.

The goodness of fit model from the Average R Squared (ARS) was utilized in the model partial least square analysis to demonstrate the model's appropriateness. Table 2 demonstrates the results of the analysis. The Average Variance Inflation Factor (AVIF) and Average Path Coefficient (APC) show the multicollinearity of independent variables and their relationships.

Table 2. The goodness fit of model.

Result	P-value	Criteria	Description
APC = 0.238	P < 0.001	Good if P < 0.001	Supported
ARS = 0.307	P < 0.001	Good if P < 0.001	Supported
AVIF = 1.126		P < 5	Supported

According to Table 3, each indicator's loading factor value was greater than 0.5, the AVE value was greater than 0.5 and the composite reliability value was greater than 0.7. Therefore, all research indicators constructs have satisfied the requirements.

Table 4 shows that the Cronbach alpha values of each variable were greater than 0.6. Also, the composite reliability value was greater than 0.7. Therefore, all constructs have satisfied the requirements.

Table 5 displays that competence positively influenced audit quality with a p-value of 0.005 while time budget pressure had a negative effect on audit quality with a p-value of 0.046. Moral reasoning did not affect audit quality with a p-value of 0.165. Therefore, hypotheses 1 and 2 were accepted but hypothesis 3 was rejected. Moreover, moral reasoning moderated the influence of competence on audit quality and the influence of time budget pressure on audit quality with values of 0.011 and 0.21 (hypotheses 4 and 5 were accepted).

5. Discussion and Findings

In this study, competence has a significant impact on audit quality. This evidence indicates that the auditors of the Audit Board of Indonesia in Central Java Province Representative had sufficient competence to conduct audits properly. Auditors also had good personal qualities always considering audit standards to guide before making judgments.

Table 3. Loading factor values, AVE, and composite reliability.

Variable	Indicator	Outer Loading Factor Value	AVE	Composite Reliability
Audit Quality	AQ1	0.754	0.583	0.764
	AQ2	0.747		
	AQ3	0.587		
	AQ4	0.675		
	AQ5	0.612		
	AQ6	0.563		
	AQ7	0.537		
	AQ8	0.652		
	AQ9	0.721		
	AQ10	0.746		
Competence	C1	0.784	0.581	0.877
	C2	0.789		
	C3	0.729		
	C4	0.705		
	C5	0.718		
	C6	0.732		
	C7	0.741		
	C8	0.717		
	C9	0.753		
	C10	0.754		
Time Budget Pressure	TBP1	0.785	0.592	0.914
	TBP2	0.851		
	TBP3	0.836		
	TBP4	0.783		
	TBP5	0.671		
Moral Reasoning	MR1	0.863	0.587	0.796
	MR2	0.921		
	MR3	0.882		
	MR4	0.873		
	MR5	0.864		
	MR6	0.879		
	MR7	0.819		
	MR8	0.806		
	MR9	0.857		
	MR10	0.867		
	MR11	0.874		
	MR12	0.885		

Table 4. The results of cronbach alpha, composite reliability, and average variance extracted.

	Cut Off Value	AQ	C	TBP	MR	Note
Cronbach Alpha	> 0.6	0.798	0.783	0.821	0.872	All items meet the requirement
Composite Reliability	> 0.7	0.807	0.748	0.875	0.904	

Note: AQ = Audit Quality, C = Competence, TBP = Time Budget Pressure, MR = Morale Reasoning.

Besides, the auditor had a fairly broad general knowledge because the auditor always increased knowledge through education and training to quickly understand the client's business processes. Equipped with competence, the auditor could produce good audit quality. This finding supports attribution theory where the internal auditor factor competence could influence auditor behavior at each audit step. This study is in line with research conducted by Sukriah et al. (2009), Arisinta (2013) and Ningsih and Dyan (2013) which found that competence had a positive effect on audit quality.

Table 5. The result of hypotheses.

Hypothesis	Coefficient	P-value	Result
C	0.201	0.005	Supported
TBP	-0.092	0.046	Supported
MR	0.045	0.165	Not Supported
C*MR	0.237	0.011	Supported
TBP*MR	0.136	0.021	Supported

Note: AQ = Audit Quality, C = Competence, TBP = Time Budget Pressure, MR = Morale Reasoning.

The results also showed that time budget pressure negatively affected audit quality. When the auditor experienced time budget pressure, the auditor tended to stop the audit step before the audit was completed except weak explanations from the client and report the time to audit lower than the fact. It means that auditors did not maintain scepticism and conduct judgments professionally so audit quality was low. This study reinforces the research of [Nirmala and Cahyonowati \(2013\)](#) revealing that time budget pressure had a negative impact on audit quality. However, the analysis revealed that moral reasoning did not affect audit quality. It denotes the moral reasoning process of each auditor depending on the experience and intensity of interacting with the surrounding social environment. The auditors of the Audit Board of Indonesia were also relatively young (25-34 years old) with a percentage of 48% and this indicates that the auditor personally still tended to choose actions that brought great benefits to the auditor even though it was not in accordance with audit standards. This condition was especially evident when disclosing audit findings in the audit report so the auditor was not wise enough to make a decision. Therefore, the audit judgment was inappropriate and poor audit quality was found. The finding of this study was discovered that internal factors especially moral reasoning had no influence on auditor's behavior. This finding is also contradicts with [Lenggono \(2022\)](#) which stated that moral reasoning had a significant positive impact on audit quality and showed that the level of moral development would influence auditors to comply with their profession's code of ethics. Moreover, the analysis showed that moral reasoning moderated the influence of competence on audit quality. It indicates that the personal qualities of the Audit Board of Indonesia auditors in the Central Java region were good enough so that they could find appropriate solutions to problems faced in the field and were not subjective in making the judgments. Auditors tended to obey the code of ethics to maintain audit quality. The result of this study found that auditor's behavior was jointly influenced by internal and external factors such as competence. The results revealed that moral reasoning moderated the influence of time budget pressure on audit quality. This finding also indicates that the auditor could make moral considerations in accordance with the professional code of ethics even in situations of time budget pressure. The auditor who continues to work professionally and efficiently can manage time carefully at each stage of the audit and gather sufficient relevant evidence even in a limited time.

6. Conclusion

The results of this study indicate that (1) competence had a significant and positive impact on audit quality. The results of this study prove that the higher the competence of the auditor, the higher the quality of the audit conducted by the auditor. (2) Time budget pressure had a negative influence on audit quality. This shows that when the auditor works under time budget pressure, it will lead to lower audit quality. (3) Moral reasoning could strengthen the influence of competence on audit quality. The results of this study indicate that the higher the competence of the auditor and supported by good moral reasoning, the higher the audit quality. (4) Moral reasoning could weaken the influence of time budget pressure on audit quality. This study found that even though auditors work under time budget pressure with good moral reasoning, they can manage this pressure and maintain audit quality.

However, this research was limited only to auditors in the Financial and Development Audit Board of Indonesia in Central Java, so it could not be generalized to auditors working in public accounting firms or Financial and Development Audit Agency auditors in other provinces.

Further research can (1) increase the research area to provide a broader description of audit quality and (2) add other variables not included in this model such as independence, audit tenure or scepticism.

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