Al-Buhuts e-Journal
On Line ISSN : 2442-823X
Print ISSN : 1907-0977
Volume 22 No. 1, June 2026

Audit Quality and Mitigation of Investors' Cognitive Bias: A Systematic Review Based on Signaling and Agency Theory

Good Samudro Aji Luhur
University of Surabaya
bagus.samudroal@gmail.com

Abstract

The Efficient Market Hypothesis assumes that investors process available information rationally. However, behavioral finance research challenges this assumption, demonstrating that investment decisions are influenced by overconfidence, herding, and cognitive dissonance. Audit quality may serve as an external governance mechanism to reduce these biases, yet the relationships between specific audit attributes and bias-reduction mechanisms remain fragmented in existing literature. This study examines how audit quality mitigates investor cognitive biases by integrating Signaling Theory, Agency Theory, and Behavioral Finance, focusing on auditor reputation, audit fees, industry specialization, audit tenure, and Key Audit Matters (KAM) transparency. A Systematic Literature Review adapted from PRISMA 2020 (Page et al., 2021) was conducted using Scopus, Web of Science, Emerald Insight, ScienceDirect, and SINTA-indexed journals, covering publications from 2015 to 2025. Iterative keyword searches and citation snowballing identified 33 eligible studies for thematic synthesis. The findings indicate that audit quality is associated with reduced herding, weaker transmission of managerial overconfidence to investors, and lower cognitive dissonance through three mechanisms: (1) greater information precision, reducing reliance on social signals; (2) auditor monitoring, constraining overly optimistic managerial projections; and (3) KAM disclosure, providing verified risk information. These relationships are more consistent for information precision and monitoring than for audit fees, where findings remain mixed.This study positions audit quality as a behavioral governance mechanism beyond regulatory compliance and proposes an integrated framework linking audit attributes to investor cognitive biases. The framework informs KAM disclosure policies and retail investor evaluation while identifying areas requiring further empirical testing.

Keywords: Audit Quality; Behavioral Finance; Cognitive Bias; Herding Behavior; Key Audit Matters; Investor Behavior.

A. INTRODUCTION

Retail investor participation in the Indonesian capital market has grown rapidly in recent years.*Single Investor Identification*(SID) surpassed 20 million by mid-December 2025, up 34.8 percent from 14,871,639 SID the previous year. More than half of new investors are under 30 years old (KSEI, 2025). This growth goes hand in hand with stock price volatility that often does not match changes in the

issuer's fundamentals. Price phenomena triggered by rumors and posts on social media are increasingly exposed. In late 2025, for example, shares of PT Diamond Citra Propertindo Tbk (DADA) were widely discussed by retail investors after news circulated that the issuer's office was actually just a grocery store. This viral discovery triggered anxiety among investors who had already invested funds based on sentiment without fundamental verification (Bloomberg Businessweek Indonesia, 2025). Meanwhile, audited financial statements, as an objective reference, are often overlooked by novice investors. This situation places the quality of information, and the quality of audits as its guardian, in a crucial position to be observed: to what extent is a credible audit capable of restraining the pace of investment decisions driven by sentiment rather than fundamental analysis.

The assumption of investor rationality that underlies the Efficient Market Hypothesis becomes increasingly difficult to maintain when confronted with empirical evidence from*behavioral finance*. Instead of processing all available information objectively, investors tend to rely on cognitive shortcuts (*heuristic*) which, while speeding up decision-making, opens up room for systematic biases such as*overconfidence*, *herding*, and cognitive dissonance (Koma & Jatiningsih, 2024; Nardi*et al.*,2022). These three biases are not mutually exclusive; each can reinforce the other and drive market anomalies, from price bubbles to sudden corrections. This pattern has been observed repeatedly in capital market history, from the dot-com bubble to the 2008 crisis. In both cases, the combination*overconfidence* And *herding*mutually reinforcing, investors continue to convince themselves that "this time is different" even though warning signs are clearly visible (Prabhakar & Varma, 2025). The question then is no longer whether investors are acting rationally, but rather what external mechanisms can limit the impact of such irrationality.

Independent auditors occupy a strategic position in answering this question. As the party that verifies financial reports before they are consumed by the public, auditors essentially reduce information asymmetry between management and investors (Hastuti*et al.*,2025). However, the audit's ability to serve as a buffer against bias is not automatic; it depends on the quality of the audit itself, namely the extent to which the auditor is truly competent, independent, and skeptical in carrying out their duties. Interviews with professional investors indicate that they assess audit quality not simply by adherence to standards (GAAS), but by the quality of the audit team actually handling their company, their experience, industry-specific expertise, and the team's own capabilities (Christensen, Glover, Omer, & Shelley, 2016). When

audit quality is low, financial reports lose their signaling power and investors revert to relying on unverified sources of information. Conversely, a high-quality audit has the potential to serve as a reference point that dampens the influence of psychological bias, a potential that is theoretically plausible but has not been systematically mapped within a single framework.

Unfortunately, the literature addressing these two sides of the issue still follows separate paths. Behavioral accounting research generally measures the consequences of audit quality through technical proxies, such as earnings management, cost of capital, or earnings forecast accuracy (Nardi*et al.*,2022), and rarely links it explicitly to how investors psychologically process those signals. On the other hand, the literature*behavioral finance*many have identified types of investor bias and their triggers, but tend to treat information quality as a control variable, not as an intervention mechanism whose attributes can be analyzed individually (De Klerk*et al.*,2025). Several studies have indeed touched on the relationship between audits and investor behavior, but they generally focus on a single type of bias or audit attribute. Consequently, there is no comprehensive picture of which audit attributes are effective for a particular bias, such as the auditor's reputation for*herding*compared to KAM transparency for cognitive dissonance. This gap is what this study attempts to fill: integrating both bodies of literature to answer how audit quality mechanisms mitigate investors' cognitive biases, and whether different audit attributes, reputation, and*Big Four*, industrial specialization,*audit fee*, *tenure*, and KAM transparency, have different effects on different types of bias.

This study synthesizes the literature for the 2015–2025 period through a Systematic Literature Review approach, with Signal Theory, Agency Theory, and*behavioral finance*as an interpretive framework. Its distinction from previous studies lies in its unit of analysis: not audit quality or investor bias in isolation, but rather the mapping of specific audit attributes to specific bias mechanisms. The SLR approach was chosen because it allows for systematic and traceable exploration of research patterns and gaps, something that is difficult to achieve through conventional narrative reviews. Theoretically, this research is expected to enrich the Signaling Theory framework by considering the non-rational side of signal reception by investors; practically, the results of this synthesis are intended to help retail investors and regulators understand which audit attributes are most relevant to consider in the context of bias mitigation.

B. LITERATUR REVIEW

Cognitive Bias in Investment Decisions

*Behavioral finance*It starts from the simple recognition that investors are not emotionless data-processing machines, but rather human beings with distinct cognitive limitations. This discipline bridges psychology and economics to explain why decisions in the capital market often deviate from the predictions of rational models (Koma & Jatiningsih, 2024).

*Overconfidence*Bias arises when investors overestimate the accuracy of their own knowledge or predictions, usually in two forms:*miscalibration*, namely the belief that personal estimates are more precise than reality, and*better-than-average effect*, namely the assumption that one's abilities exceed those of other investors in general (Nabeshima*et al.*,2025). The consequences are quite real: overconfident investors tend to over-transact, thus being eroded by transaction costs, take unmeasured risks, and underestimate risk signals in financial reports (Lunardi*et al.*,2021), a pattern that is often exacerbated by*self-attribution bias*, claiming success as the fruit of one's own abilities, but blaming failure on external factors.

*Herding behavior*occurs when investors follow the decisions of other investors and ignore their own fundamental analysis, especially in conditions of high uncertainty and information asymmetry (Swart & Ndlovu, 2025). Social pressure, fear of being left behind (*fear of missing out*), and the desire for conformity is the main trigger. In conditions of severe information asymmetry,*herding*which is intentional, pure imitation without any basis of analysis, is more dominant than*spurious herding*, namely similar reactions which are actually driven by the same fundamentals (Ge*et al.*,2023). This behavior, in turn, triggers volatility that no longer reflects real economic conditions and has the potential to form a fragile asset bubble.

Cognitive dissonance, a concept introduced by Festinger (1957), describes the psychological discomfort that arises when a person holds two conflicting beliefs, or when new facts disprove old beliefs. In the context of investing, this condition often arises when the performance of a stock declines or when negative news about an issuer circulates; to alleviate this discomfort, investors tend to*selective exposure*(avoid bad news) or*biased interpretation*(considering bad news as temporary). This pattern also underlies*disposition effect*, namely the tendency to hold on to losing stocks for too long and delay revising investment strategies; experimental evidence even shows that increasing the level of dissonance

investors feel, for example by asking them to repeat their initial purchase rationale, measurably increases it.*disposition effect*This confirms cognitive dissonance as one of its main determinants (Chang, Solomon, & Westerfield, 2016).

Two other biases that are no less relevant are*anchoring*, namely excessive reliance on initial information such as historical purchase prices even though it is no longer relevant, and*representativeness*, namely the assessment of opportunities based on similarities with past patterns without considering the underlying probability (*base rate neglect*) (Arikan, 2018). Both prevent investors from responding objectively to new audit information.

Audit Quality in a Modern Perspective

DeAngelo (1981) classically defined audit quality as the probability that the auditor will both discover and report material misstatements in a client's financial statements. This definition has evolved with increasing business complexity, and in more recent studies, audit quality is understood as a multidimensional concept encompassing input, process, and output dimensions.

In the input dimension, auditor competence, technical expertise, industry understanding, and mastery of audit technology are key determinants (Boyle, 2024). Independence complements competence as an ethical foundation, ensuring there are no conflicts of interest that compromise objectivity; an independent auditor has the courage to challenge management assertions and resist pressure to manipulate reports (De Klerk*et al.,* 2025). *Audit fee*is often used as an additional proxy: higher fees generally reflect greater audit effort and involvement of senior auditors, although this relationship is not always linear and is still debated in the contemporary literature (Ge*et al.*, 2023). *Audit tenure*instead shows an ambivalent influence,*tenure*that is too short limits the auditor's understanding of the client's risks, while*tenure*Too long a period without partner rotation risks eroding independence; some studies show that individual partner rotation is more effective in maintaining this balance than audit firm rotation (Montenegro*et al.*, 2023).

In the process dimension, professional skepticism is a key marker of quality: auditors do not simply verify evidence mechanically, but actively seek evidence that has the potential to refute management assertions (Krida & Pontjoharyo, 2024). Utilization*big data analytics*and artificial intelligence allows testing of entire populations of data, not just samples, thereby increasing the precision of anomaly

detection. On the output dimension, audit quality is no longer adequately represented by a binary qualified/adverse opinion; ISA 701 requires disclosure*Key Audit Matters*which explains the most significant audit risk areas, thereby opening up some of the "black box" of the audit process to investors and other stakeholders (Haider*et al.*,2025; Wang & Wu, 2024).

Theoretical Integration

The three theories underlying this research complement each other in explaining how audit quality interacts with investors' cognitive biases. Signaling Theory (*signaling theory*) explains how companies as signal senders try to overcome information asymmetry towards investors as signal recipients (Visedsun*et al.*,2025); high-quality audits serve as a credible signal because they are expensive and difficult for low-quality companies to imitate, leaving room for investors to rely on them.*heuristic*narrows as the clarity of information increases.

Agency Theory (*agency theory*) positions audit as a function*monitoring*which limits the opportunistic behavior of management (Rajabalizadeh, 2023). When management has a tendency*overconfidence*reflected in aggressive profit projections, auditors act as filters before the information reaches the public, thus limiting the transmission of excessive optimism from management to investors.

Meanwhile, the cognitive dissonance framework explains the effects of audit disclosure on investors: when auditors disclose material matters or issue modified opinions, this third-party verified information creates a difficult-to-avoid factual confrontation, forcing investors to revise erroneous beliefs and accelerating price adjustments toward fundamental values. Empirical evidence supports this logic: modified audit opinions have been shown to reduce information asymmetry in the stock market (Abad, Sánchez-Ballesta, & Yagüe, 2017), and the market reaction to the initial modified audit opinion is statistically significant and negatively correlated with cumulative abnormal returns, suggesting that investors actually revise their expectations once confronted with the verified information, rather than ignoring it (Chen, Su, & Zhao, 2000).

C. RESEARCH METHODS

This research is a secondary research that uses the method*Systematic Literature Review*(SLR) with a qualitative synthesis approach (*qualitative evidence synthesis*), not primary qualitative research. The

process of collecting and selecting literature is carried out in stages and iteratively, not as a single data collection (*single formal export*) from the database, while still adhering to the principles of transparency and systematic selection initiated by PRISMA 2020 (Page*et al.*,2021). The consequences of this stepwise approach are further explained in the Study Selection and Limitations sections.

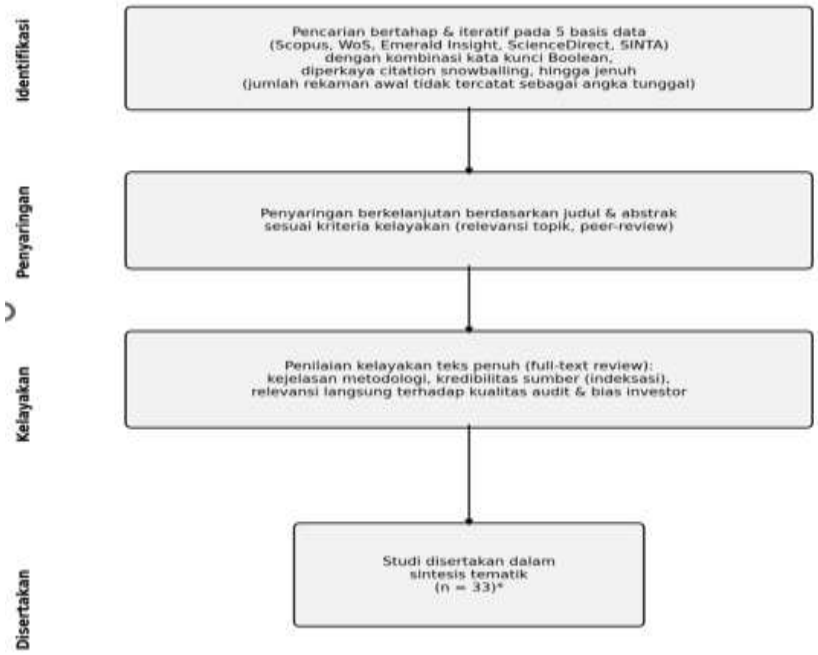
A literature search was conducted in five academic databases: Scopus, Web of Science, Emerald Insight, ScienceDirect, and SINTA, the latter chosen specifically to capture the research context in Indonesia. Keywords were arranged in Boolean combinations, including ("*Audit Quality*" OR "Auditor Reputation" OR "*Key Audit Matters*") AND ("*Cognitive Bias*" OR "*Behavioral Finance*" OR "Investor Behavior" OR "*Herding Behavior*" OR "*Overconfidence*"). The search was limited to articles published between 2015 and 2025 to maintain relevance to the development of modern auditing standards (including ISA 701) and the dynamics of contemporary capital markets, and was limited to articles in English and Indonesian. Unlike conventional SLRs that perform a single formal search and export all records at once, the search in this study was conducted in stages: the above keyword combinations were run repeatedly over the time period of manuscript preparation, enriched with citation searches (*citation snowballing*) from key articles found in the initial stage, until the search is considered saturated (no new relevant articles are found).

Inclusion criteria include: (1) journal articles that have gone through the review process.*peer review*; (2) empirical or conceptual studies that explicitly discuss audit quality, investor behavior, or information mechanisms in capital markets; (3) articles available in English or Indonesian and with full text accessible. Exclusion criteria include: non-academic articles, proceedings without a process*peer review*, editorials or opinions without supporting data, and studies that discuss auditing or investor behavior separately without a clear conceptual link to the two topics.

The selection process adapts the step-by-step logic of PRISMA 2020 (Page*et al.*,2021), identification, screening, full-text eligibility assessment, and determination of included articles, were conducted iteratively, following the nature of a stepwise search, rather than as a single export of records from databases whose numbers are recorded at a single point in time. Therefore, the number of records in the initial identification and screening stages is not available as a single, accurately reportable figure, and this study does not present such counts to avoid giving the impression of quantitative precision that the stepwise search process lacks. What can be accurately reported is the final result of the process: after

selection based on the eligibility criteria in the previous subsection was consistently applied throughout the search process, 33 articles were included in the thematic synthesis. The flow of the selection process (rather than a conventional quantitative PRISMA diagram) is presented in Figure 1 to maintain transparency of the stages.

Figure 1. Study Selection Flow (Adapted from PRISMA Logic 2020)



**The diagram adapts the four-stage structure of PRISMA 2020 (Page et al., 2021), but does not include record counts in the identification and screening stages because the search was conducted in an iterative manner, and therefore the initial number of records was not recorded as a single, accurate number to report. The number in the 'Included' stage (n = 33) is reported as is because it is the final result that can be calculated with certainty from the bibliography of this study. This limitation of quantitative reporting is discussed further in the Limitations and Future Research section.*

Quality assessment of each article that passes the stage*full-text review*was conducted by considering the clarity of the methodology, the credibility of the publication sources, and the direct relevance to the research focus, in order to minimize selection bias and ensure that the synthesis is built from studies that have sufficient theoretical or empirical contributions.

Synthesis was carried out through thematic analysis following the approach of Braun and Clarke (2006), including six stages: (1) repeated reading of all selected articles to obtain data similarities; (2) initial coding (*initial coding*) to findings relevant to audit quality and cognitive bias; (3) grouping codes into temporary themes based on the type of bias (*herding*, *overconfidence*, cognitive dissonance) and relevant audit attributes; (4) reviewing themes to ensure internal consistency; (5) naming and defining the final themes; and (6) developing a synthesis narrative. Interpretation of the themes formed was then linked to Signaling Theory, Agency Theory, and*behavioral finance*as a framework to explain the mechanisms behind each pattern found, so that the results of the thematic analysis do not stop at description but are interpreted within an integrated theoretical framework.

D. RESULTS AND DISCUSSION

A synthesis of 33 selected articles shows that audit quality contributes to reducing three forms of investor irrationality,*herding behavior*, *overconfidence*bias, and cognitive dissonance, through different pathways. Before describing each pathway, the following conceptual framework summarizes how audit quality attributes are linked to the mechanisms and types of bias they mitigate.

Table 1 summarizes the relationships between audit quality attributes, their underlying theoretical mechanisms, and the types of investor cognitive biases they mitigate, as a conceptual framework that serves as a reference for the discussion in the following subsections.

Table 1. Conceptual Model of the Relationship between Audit Quality and Investor Bias Mitigation

Audit Quality Attributes	Theoretical Mechanism	Mitigated Bias	Strength of Evidence*
Precision & credibility of information (general audit)	Signaling Theory: credible signals lower information search costs.	*Herding behavior*	Consistent (7 of 33 articles discuss*herding*explicitly)
***Monitoring*& professional skepticism**	Agency Theory: auditors filter management optimism before it reaches the public	*Overconfidence*(managerial transmission)	Consistent (5 of 33 articles discuss*overconfidence*explicitly)
KAM Transparency (ISA 701)	Third party verified fact confrontation	Cognitive dissonance	Moderate (4 of 33 articles provide direct/contextual

			evidence for this pathway, see notes)
Reputation*Big Four*/ industrial specialization	Reputation signals, litigation risks prompt caution	*Herding*, *overconfidence*(partial)	Diverse (5 of 33 articles; market context influences direction of findings, see discussion)
Audit fee	Audit effort proxy (*audit effort*)	*Herding* (indirect)	Debated (2 of 33 articles; relationship is not always linear, see discussion)

**The proportion figures in the Strength of Evidence column are calculated from the titles and abstracts of 33 articles in the authors' bibliography. For the cognitive dissonance pathway, no studies in this corpus directly test the relationship between audit quality and investor cognitive dissonance specifically, but Chang, Solomon, and Westerfield (2016) provide direct empirical evidence that cognitive dissonance influences investor holding behavior in losing stocks (outside of the audit context), while Abad et al. (2017), Chen et al. (2000), and Hoang et al. (2023) provide contextual evidence that audit disclosures force investor belief revisions; this combination forms the basis for the "Moderate" category, rather than full direct evidence; these limitations are further elaborated in the Limitations and Future Research section.*

Audit Quality and Herding Behavior

*Herding*These include the most persistent market anomalies, particularly in emerging markets. The market structures in Indonesia, China, and other Asian regions, dominated by retail investors, make them relatively more susceptible to sentiment and rumors (Warokka*et al.*,2025), so that the quality of public information becomes a key factor explaining the intensity of*herding*in the market. A consistent pattern emerged in 7 of the 33 articles discussing this topic: the lower the quality of available information, the more investors tend to rely on social signals from other investors; conversely, high precision and credibility of public information weakens this behavior.*herding*, including among institutional investors such as mutual fund managers (Ge*et al.*, 2023; Zhang*et al.*,2025). This finding is supported by evidence that social trust (*social trust*) which is higher in an area suppresses behavior*herding*institutional investors. This effect is largely channeled through improved audit quality, particularly in audits conducted by

accounting firms.*Big Four*. This confirms that the audit quality path is towards a decline.*herding*not just a correlation, but a traceable mechanism (Wang & Zhang, 2024).

*Audit fee*is often used as an indicator of audit quality in these studies, with the argument that*fee*higher reflects greater audit effort and tighter oversight (Ge*et al.*,2023). It should be noted that this relationship is not always linear: some studies have found that*audit fee*very high levels may also indicate high client complexity or risk, not simply better audit quality, so the reading*audit fee*as a proxy for quality needs to be done carefully and taking into account the client's industry context (Ge*et al.*,2023). When financial statements have been verified through a credible audit process, investors gain easier access to reliable fundamental information. The incentive to ignore personal analysis and follow the crowd is reduced. Conversely, in companies with low audit quality, high information uncertainty prompts investors to seek alternative signals from the actions of other investors. This pattern is consistent with the finding that investors rely on the quality of the audit team, rather than simply formal compliance status, as a proxy for information credibility (Christensen*et al.*, 2016).

Auditor affiliation also shapes investor perceptions.*Big Four*is generally associated with higher standards and greater reputational-litigation risk, thus encouraging caution in audit performance (Boyle, 2024), and evidence from institutional investors suggests that the suppressive effect of audit quality on*herding*it is indeed stronger if it is channeled through auditors*Big Four*compared to non-auditors*Big Four*(Wang & Zhang, 2024). However, findings regarding the effects*Big Four* to *herding*are not entirely uniform. A number of studies find clear effects, particularly in markets with weaker governance. In markets with tight regulatory oversight, differences between auditors*Big Four*and non-*Big Four*towards behavior*herding*Investors are not always significant (Wijaya, 2020). These mixed findings suggest that auditor reputation is likely conditional on the market governance context, rather than a universally applicable effect, an important nuance not to overgeneralize.

In the Indonesian context, where financial literacy remains variable and the participation of novice retail investors is rapidly increasing, the role of audits as a signal of credibility becomes increasingly relevant. Several studies show*herding*In the Indonesian market, rumors and statements by public figures on social media are often triggered (Koma & Jatiningsih, 2024), and a strong and transparent audit opinion has the potential to act as a fact-checker that breaks the chain of rumors. Similar patterns have

been reported in other emerging markets such as Egypt and Kenya (Swart & Ndlovu, 2025), although studies from the Indonesian context specifically addressing this mechanism are still limited.

Audit Quality and*Overconfidence Bias*

*Overconfidence*investors are often rooted in the illusion of knowledge and the illusion of control, which can be exacerbated by*overconfidence*at the managerial level. Overconfident managers tend to do*overinvestment*and presenting unrealistic profit projections (Rajabalizadeh, 2023); without a quality audit, this bias has the potential to be transmitted directly to the market through financial reports and create false optimism among investors.

Audit quality mitigates this bias primarily through the function*monitoring*and professional skepticism: independent and competent auditors challenge management's assumptions, encourage recognition*impairment*, *write-down*assets, and revisions to overly optimistic estimates, and investors themselves view auditors who are conservative in these situations positively, including when auditors issue warnings.*going concern*which is indeed reasonable (Christensen*et al.*,2016). The relationship between*audit tenure*and the quality of reporting at this point appears to be non-linear,*tenure*that is too short limits the auditor's understanding of the client's risks, while*tenure*too long without partner rotation risks eroding independence (Montenegro*et al.*,2023). Evidence from PCAOB oversight data supports this nuance: mandatory audit partner rotation has been shown to increase professional skepticism and encourage more conservative accounting estimates, although these benefits need to be weighed against the loss of client-specific knowledge accumulated over a longer engagement period (Gipper, Hail, & Leuz, 2021). With appropriate partner rotation, the combination of industry specialization and*tenure*Optimal reporting tends to produce more conservative reports, thereby helping to dampen investor euphoria.

Audit Quality and Cognitive Dissonance

Audit process based on principles*trust but verify*Not only does it serve as technical verification, but it also offers a kind of cognitive model for investors in forming judgments. By disclosing estimation uncertainty in the KAM as stipulated in ISA 701, auditors implicitly indicate that accounting numbers are not absolute facts, but rather the result of estimates that contain certain risks and uncertainties.

Evidence from the Chinese market suggests that the higher the diversity (information entropy) of KAM disclosures, the higher the perceived audit quality. This effect is relatively small because some disclosures are*redundant*(Lin, 2023). This awareness encourages investors to recalibrate their own confidence levels, potentially reducing*miscalibration*bias (Nabeshima*et al.*, 2025).

KAM disclosure also reduces information ambiguity by explicitly identifying the most significant audit risk areas, eliminating the need for investors to guess where the company's key risks lie. This clarity narrows the gray area investors often use to rationalize their biases (Haider*et al.*,2025). Experimental evidence suggests that investor reactions to KAM are contextual: KAM disclosure tends to decrease investment interest when the disclosed risks are financial, but can actually increase investment interest when the disclosed risks are non-financial and relevant to investors' broader risk assessments (Hoang*et al.*,2023). This contextual pattern is consistent with the logic of cognitive dissonance: KAM does not automatically correct investors' beliefs in one direction, but rather depends on how the discrepancy between expectations and new information is judged relevant by investors. This finding complements more direct evidence from outside the audit context. Chang, Solomon, and Westerfield (2016), as discussed earlier, empirically demonstrate that cognitive dissonance drives investors' holding of loss-making assets. Thus, this research corpus has two layers of evidence for the cognitive dissonance pathway: one testing cognitive dissonance directly on general investor behavior, and the other testing investors' contextual reactions to audit disclosures. Furthermore, high-quality auditors are more likely to detect and report problems.*going concern*or internal control weaknesses; negative information validated by independent auditors carries a much higher credibility weight than market rumors, forcing investors to face reality and take corrective action.

The development of AI-based audit technology and*big data analytics*opens up additional avenues for mitigating this bias. Full population-based audits significantly improve anomaly detection while potentially reducing the auditor's own cognitive biases, such as*anchoring*on historical figures (Theodorakopoulos*et al.*,2025; Applicable*et al.*,2018), although evidence regarding its direct effect on investor perceptions, compared to its effect on the quality of the report itself, is still relatively limited and requires further research.

Theoretical Implications of the Findings

The three patterns above indicate that Signaling Theory needs to be supplemented with considerations regarding how audit signals are psychologically received by investors, not just how the signals are sent by the company. Signal strength (*signal strength*) does not automatically penetrate investors' cognitive bias filters if the acceptance mechanisms, for example through KAM transparency, are not strengthened. Thus, the main theoretical contribution of this research is to position audit quality in a new light. Audit quality is not merely a signaling variable in Signaling Theory, nor is it merely a function of*monitoring*in Agency Theory, but rather a mechanism that operates simultaneously on both the sending and receiving sides of signals. Different types of bias require different audit attributes as mitigation pathways, as summarized in Table 1.

E. CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

Conclusion

This literature synthesis shows that audit quality plays a significant role in the psychological architecture of capital markets, although this role is conditional and dependent on the audit attributes involved. Audit quality is not simply a technical variable for regulatory compliance, but has the potential to function as a*financial behavioral*which bridges the gap between noisy information and more rational investment decisions. Through a combination of technical competence,*monitoring*strict compliance and transparency of reporting, particularly through KAM, quality audits can serve as a mechanism*debiasing*external to investors: holding back the pace*herding*baseless, limiting the spread*overconfidence*from managers to the market, and encourages the resolution of cognitive dissonance through the confrontation of verified facts. It should be emphasized that the strength of each of these mechanisms is not uniform, the information precision mechanism and*monitoring*shows a relatively consistent pattern across the studies*review*, while attribute effects such as*audit fee*and reputation*Big Four*still remains a matter of debate and appears to depend more on the market context and the quality of local governance.

Theoretically, this study enriches the literature by integrating*behavioral finance*into the auditing domain through a conceptual model that maps specific audit attributes to specific bias mechanisms. These

findings confirm that the Signaling Theory model would be more comprehensive if it also considered the psychological aspects of signal reception by investors, not just the signal delivery by companies.

Limitations

This study has limitations that need to be disclosed transparently. The literature search process was conducted incrementally and iteratively throughout the manuscript preparation period, rather than as a single, formal export of the database at a single point in time; consequently, the number of records in the initial identification and screening stage cannot be reported as a single, accurate number, as is typical for quantitative PRISMA flowcharts. Furthermore, the strength of evidence classification for each bias mechanism (Table 1) was calculated based on the titles and abstracts of the 33 included articles, rather than from a full-text reading of each study's findings, so the reported proportions are indicative. Finally, support for the cognitive dissonance pathway comes from two types of evidence that are not entirely equivalent. Direct evidence on cognitive dissonance in investor behavior (Chang, Solomon, & Westerfield, 2016) comes from a general investment context. Meanwhile, evidence from an audit context (Abad*et al.,* 2017; Chen*et al.*,2000; Hoang*et al.*,(2023) demonstrated investor belief revisions due to audit disclosures, without explicitly examining the cognitive dissonance mechanism itself. Studies combining the two in a single research design are lacking in this corpus and represent a gap to be filled.

Suggestion

For investors, especially retail investors and students, audit quality research should be part of fundamental investment analysis. The analysis should not stop at net income figures, but also examine who verified those figures: the auditor's reputation, fairness, and the company's financial performance.*audit fee*, alliance time (*tenure*), and the depth of KAM disclosure. These indicators still need to be read contextually, not as absolute rules that apply in all market conditions.

For regulators such as the Financial Services Authority and accounting standard setters, the audit report transparency agenda, including more detailed and specific KAM disclosures, is not of a*boilerplate*, deserves to be continuously encouraged. Supervision of auditor independence, including fairness*audit fee*and partner rotation remain relevant as part of efforts to protect retail investors from the trap of their own psychological biases. For auditors, these findings confirm that their role goes beyond simply

verifying numbers; continued investment in audit technology, staff competency enhancement, and awareness of auditors' own cognitive biases remain crucial for audit products to be truly objective and serve as credible signals to the market.

For future research, it is recommended to conduct quantitative empirical studies that test the direct correlation between composite audit quality scores and proxies of investor bias behavior, for example the level of*herding*measured through dispersion*return*or abnormal trading volume, particularly on the Indonesia Stock Exchange, using the latest data following the implementation of the KAM standard. Experimental laboratory studies are also needed to test how variations in audit report presentation formats, such as interactive data visualization versus conventional narrative text, directly affect investors' risk perceptions and cognitive biases, as well as directly test the audit-cognitive dissonance relationship, which has only been theoretically derived in this study.

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