EMOTIONAL INTELLEGENCE AND AUDIT QUALITY

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Abstract

The purpose of this study is to examine the effect of the knowledge structure and professionalism on audit quality with emotional intelligence as an intervening variable. This study is a survey on the public accounting firm in South Jakarta. The population in this study is the auditor who works in public accounting firm in South Jakarta. The sample is taken by using a random sampling method. Questionnaires had been distributed to 100 auditors, but only 95 questionnaires were returned. SEM (Structural Equation Modeling) with LISREL 8.7 program was used to analyze the data. The results show that emotional intelligence significantly has the positive effect on audit quality. In contrast, we find that neither knowledge structure nor professionalism has significant effect on audit quality. We also find that neither knowledge structure nor professionalism has significant effect on emotional intelligence.

Keywords: Knowledge structure, Professionalism, Emotional intelligence, Audit quality

1. Introduction

One of the benefits of public accounting services is to provide an accurate and reliable information for decision-making purposes. Audited financial statements by a public accountant are more trustworthy than unaudited financial statements.

Great reliance from the use of audited financial statements and other services provided by the public accountant is what ultimately require public accountant to pay attention to its audit quality. The questions arise from the public about the audit quality due to the occurrence of many scandals involving public accountant both abroad and within the country. Since the disclosure of the case of Enron, Xerox, WorldCom, Kimia Farma, Lippo Bank, there were critics from government and other interested parties about audit quality. These criticisms are giving a signal that indicates a dissatisfaction with the quality of audit services provided by the public accountant profession. The pressures arise from public to oversee the work of public accountants
and there were demands for improving the quality of public accounting audit. Enron, large companies engaged in energy trading, is known in manipulating the financial statements to record profit of $600 million when the company suffered losses. Manipulation is done in order to benefit the company's stock remains attractive to investors. Similar accounting scandals also occurred in the case of WorldCom, the second largest computer service companies in the USA, company's internal accountants have recorded a fatal amount of U.S. $3.9 billion expenditure as revenue.

In Indonesia there are cases of Kimia Farma and Lippo Bank that has involved firms that had been believed to have a high quality audit. The case originated from the detection of manipulation in the financial statements. Based on Bapepam (Indonesian SEC) investigation, noted that the firm that audits the Kimia Farma's financial statements has followed applicable audit standards, but failed to detect the fraud. In addition, the firm is also proven to help the management to commit fraud. (Tempo Interactive, October 3, 2002)

This study aims to obtain empirical evidence of the influence of knowledge structure and professionalism on audit quality with emotional intelligence as an intervening variable. Specifically research questions are as follows:
1. Does knowledge structure affect audit quality?
2. Does knowledge structure affect the emotional intelligence?
3. Does professionalism affect audit quality?
4. Does professionalism affect emotional intelligence?
5. Does emotional intelligence affect audit quality?

2. Literature Review and Hypothesis

Cognitive Theory

Kerch and Krutchfield (1983) in Maryani and Ludigo (2001), says that attitude is a state in man that moves to action, accompanying people with certain feelings in response to objects that are formed on the basis of the experiences. Attitude in a person would be a hue or color of the person's behavior.

Behavior theory can explain auditors performance which is measured by accountability and professionalism. The auditor with high accountability and high professionalism, will contribute to a better audit quality.
Audit Quality

De Angelo (1981) defines audit quality as the probability that the auditor will find and report violations of the accounting system with the knowledge and expertise of the auditor while reporting violations depend on the auditor's encouragement to disclose violation. This encouragement will depend on the auditors independence.

Emotional Intelligence

Salovey and Mayer in Stein and Book (2002) defines emotional intelligence as the ability to recognize, reach and evoke feelings in order to assist thought, to understand the feelings and its meaning, and a sense of control in a manner that fosters intellectual emotion.

According to Hartini, Machrus, Suminar, and Handoyono (2001) emotional intelligence is as emotional skills that include the ability to recognize emotions themselves and others, distinguish types of emotions and use them to control their own thoughts and behavior.

Prior Research

Choo and Trotman (1991) examined the relationship between knowledge structure and auditors decision. They found that more experienced auditors find items that are not common compared to inexperienced auditors.

Deis and Giroux (1996) found that audit duration, audit period, auditor's experience and review of the third party are a determinant of audit quality. Hidayat (2011) revealed that the auditor accountability factors, motivation and social obligations, have positive and significant impact on the quality of individual auditors.

Faisal, Nariyah, Yahya (2012) examined the effect of competence, independence, and professionalism on audit quality with emotional intelligence as a moderating variable, the results show that the competence, independence, and professionalism jointly have a significant positive effect on audit quality but only the competence has affect positively the audit quality.

The Effect of Knowledge Structure on Audit Quality

Ashton et al (1988, 108) states that the role of knowledge structure is highly relevant in the audit because knowledge is developed by the auditor through experience and previous knowledge of the client's situation so that it can influence auditors perceptions about the statement and the need to collect
and interpret evidence of a statement. Highly educated auditors, which are obtained through a process of education, will have a broader view about various things. This leads to our first hypothesis:

H1: Knowledge structure has a positive effect on audit quality.

The Effect of knowledge Structure on Emotional Intelligence

Previous experience and knowledge gained through the educational process. In the educational process auditors gain emotional knowledge which is the ability to understand the emotions of self and others, managing emotions and can express emotions appropriately so it can adapt to the environment encountered. This leads to our second hypothesis:

H2: Knowledge structure has a positive effect on emotional intelligence.

The Effect of professionalism on Audit Quality

Dies and Giroux (1992) states that in the strength of the conflict, the client can press the auditor to violate professional standards. A healthy client's financial condition can be used as a tool to suppress the auditor by changing the auditor. Dedication on profession is reflected from auditors dedication on professionalism by using the knowledge and skills possessed. Work is defined as a destination, not just as a means to an end. This leads to our third hypothesis:

H3: Professionalism has a positive effect on audit quality

The Effect of Professionalism on Emotional Intelligence

Professionalism is a quality, attitude and responsible behavior that should be owned by those who perform certain professions with the expertise and skills. In fact in doing his job, on the one hand the auditor must consider the credibility and profession ethics, but the other hand auditor must also face pressure from clients in a variety of decision-making. If the auditor is not able to resist pressure from clients such as personal stress, emotional or financial stress, the competence and professionalism in which they are already possessed has been reduced and it can affect the quality of the audit. Dealing with various pressure, public accountants should have a control or emotional intelligence in themselves.

H4: Professionalism has a positive effect on emotional intelligence
The Effect of Emotional Intelligence on Audit Quality

Patton (1998) suggests emotional intelligence as the ability to know the emotions effectively to achieve the goals, and build productive relationships and can achieve success. An auditor should have the emotional intelligence to be able to deal with various pressures from clients in a variety of decision-making that can affect the quality of the audit..

H5 : Emotional intelligence has a positive effect on Audit Quality

3. Research Method and Data

Our research is a causal research. Variables in this study are knowledge structure and professionalism as independent variables, while the dependent variable is audit quality, and emotional intelligence as an intervening variables.

This study is measured using an instrument developed by the researchers based on the definition. Knowledge structure's instrument consists of 5 indicators (remember, predict, explain, formulate opinions, experience and knowledge). Professionalism instrument consists of 7 indicators (quality, attitude and responsible behavior, and independent). Emotional intelligence Instrument comprises 5 indicators of emotional intelligence (self-control, motivation, and empathy). Instrument comprises six indicators of audit quality (skill, integrity, objectivity, and independent).

Population and Research Sample

Population of this research is the firm auditors working in South Jakarta area. Respondents in this study are public accountants in public accounting firm where he runs the audit. The sample is taken by using simple random sampling. Sample is taking directly from a population of 83 Public Accounting Firm (KAP) in South Jakarta area at random, KAP is willing to assist in this study were 10 KAP.

Data Analysis

Researchers used statistical analysis with the help of Structural Equation Modeling (SEM), to measure the effect of the independent variables and the dependent variable to test the hypothesis. This analysis is used to accept or reject the hypothesis. The statistical analyzes used were descriptive statistics, test data quality (validity and reliability), and analysis of Structural Equation Modeling (SEM).
4. Results and Analysis

A. Respondent Characteristics

<table>
<thead>
<tr>
<th>Description of Respondents</th>
<th>Akuntan Publik (n = 95)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>49 (51.6%)</td>
</tr>
<tr>
<td>- Male</td>
<td>46 (48.4%)</td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>- &lt; 26 year old</td>
<td>64 (67.4%)</td>
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<tr>
<td>- 26 – 35 year old</td>
<td>23 (24.2%)</td>
</tr>
<tr>
<td>- 36 – 45 year old</td>
<td>8 (8.4%)</td>
</tr>
<tr>
<td>Working age</td>
<td></td>
</tr>
<tr>
<td>- &lt; 2 year</td>
<td>50 (52.6%)</td>
</tr>
<tr>
<td>- 2 – 4 year</td>
<td>38 (40%)</td>
</tr>
<tr>
<td>- 5 – 6 year</td>
<td>4 (4.2%)</td>
</tr>
<tr>
<td>- 7 – 10 year</td>
<td>3 (3.2%)</td>
</tr>
<tr>
<td>Position</td>
<td></td>
</tr>
<tr>
<td>- Junior</td>
<td>49 (51.6%)</td>
</tr>
<tr>
<td>- Senior</td>
<td>4 (4.2%)</td>
</tr>
<tr>
<td>- Manager</td>
<td>3 (3.2%)</td>
</tr>
<tr>
<td>- Partner</td>
<td>1 (1.0%)</td>
</tr>
</tbody>
</table>

B. Validity and Reliability Test

Validity test results show that the structure of knowledge, professionalism, quality audit and emotional intelligence are valid. Based on the reliability test results concluded that the instrument for each variable research is reliable, because the Cronbach's alpha values of all variables in the test has a value > 0.60.

C. Hypothesis Test Results

a. The Effect of Knowledge Structure on Audit Quality

The results of this research note t value 0.065 <1.96 is not significant at the 5% alpha. Thus the first hypothesis stating a positive effect on the structure of the knowledge audit quality is not acceptable, there is no significant effect of knowledge structure level on audit quality because the auditor does not have a good knowledge of the structure and the lack of experience that does not produce good quality audit.
Results of this study do not support the results of research conducted by Choo and Trotman (1991) which mentions the relationship between the knowledge structure and auditors decision. Decisions made by experienced auditors will produce a good quality of audit reports.

b. The Effect of Knowledge Structure on Emotional Intelligence

The results demonstrated the value of $t = 1.48 < 1.96$ is not significant at the 5% alpha. Thus the second hypothesis is not accepted, then the level of knowledge structure of an auditor does not significantly influence their emotional intelligence because the auditor does not have the ability to understand the emotional intelligence.

c. The Effect of professionalism on Audit Quality

The results indicated the value of $t = 0.13 < 1.96$ is not significant at the 5% alpha. Thus the third hypothesis is not accepted, then the level of professionalism of an auditor does not have a significant effect on the audit quality because auditors do not have a good quality profession so auditor does not produce good quality audit. This is consistent with Faisal, Nariyah, and M. Rizal (2012) which states professionalism has no effect on audit quality.

d. The Effect of professionalism on Emotional Intelligence

The results showed $t = 1.54 < 1.96$ is not significant at the 5% alpha. Thus the fourth hypothesis is not accepted, then the level of professionalism of an auditor does not significantly influence their emotional intelligence because the auditor can not control his emotional intelligence while doing his profession. The results are inconsistent with Wahyudi (2006) which proves the influence of professionalism components simultaneously which includes devotion to the profession, social obligations, self-reliance, confidence in the profession, and the relationships among peers on the materiality level of financial statements examination.

e. The Effect of Emotional Intelligence on Audit Quality

Results of this study demonstrate the value of $159.02 \gt 1.96$ is significant at the 5% alpha. Thus the fifth hypothesis is received, there is a significant effect of emotional intelligence on audit quality. This is consistent with the results of research conducted Huda (2007) states that
emotional intelligence and spiritual intelligence influence on the performance of auditors resulting in a qualified audit report.

5. Conclusion

The results reveal that emotional intelligence significantly has the positive effect on audit quality. In contrast, we find that neither knowledge structure nor professionalism has significant effect on audit quality. We also find that neither knowledge structure nor professionalism has significant effect on emotional intelligence.