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# IS THE SUCCESS OF THE AUDIT DETERMINED BY THE AUDITOR'S EMOTIONAL INTELLIGENCE?

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Auditor, Audit Quality, Emotional Intelligence, Structural Equation Model, Public Accounting Firm.

## ABSTRACT

The success or failure of the audit activities carried out by the auditor is known as audit quality. An audit is considered qualified if it is carried out in accordance with applicable auditing standards or regulations. There are several factors that can affect audit quality and one of them is emotional intelligence which will be the independent variable in this study. This study was conducted to test and analyze the influence of emotional intelligence on audit quality at the Public Accounting Firm in Bandung. The data used in this study are primary data obtained from distributing questionnaires to 48 partners of the Public Accounting Firm as respondents who participated in filling out the questionnaire. Data analysis in this study used a structural equation model - PLS. The results showed that emotional intelligence has a significant effect on audit quality.

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**Introduction.** The company will perform managerial functions to achieve the predetermined vision and mission (Kusuma *et al*, 2013). Evaluation (audit) is a strategy that can be used to achieve this managerial function (Halim, 2015). To fulfill the evaluation, a public accountant (auditor) who is an independent third party is needed to evaluate the financial statement report (Darono and Febrian, 2018).

The role of independent auditors is very significant to achieve public accountability and transparency (Junaidi and Nurdiono, 2016). Madura (2007) states that to ensure that financial reports are accurate and following general business accounting standards, there is a need for an independent auditor's role. Evaluation by independent auditors has a direct influence on public trust and the reliability of the company's financial statements, this is because the information that has been audited by independent auditors considered more reliable (Hall and Singeltone, 2007).

However, some auditors were found to agree with misleading financial reports (Madura, 2007). Therefore, there have been several cases related to this matter, such as the failure of the financial report audit conducted by Public Accounting Firm Purwantono, Suherman, and Surja which are affiliated with Ernst & Young's (EY) in Indonesia (Modesti, 2017). One other case is the case of SNP Finance with Delloite Indonesia, because the public accounting firm is deemed not to audit company reports with proper procedures. (Hafas, 2018). The occurring audit failure case affects the decline in audit quality of an auditor (Tritchler, 2014). Audit quality consists of accurate information that is reported by the auditor based on auditing standards and information of any accounting standards violation in the company financial statements. An increase in public trust, a healthy investment climate, and a transparent economy developed through the improvement of audit quality. The increased skill and working capability of each auditor will result in an efficient and quality audit.

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By understanding client's business, adhering to the auditing fundamentals and ethical standards, have the ability to show professional skepticism, to identify problems when conducting audits, to perform audit work based on adequate experience and being properly supervised by partners and managers, auditors will be able to contribute positively to the audit quality arising from the expertise and personal qualities of public accounting firms and auditor staff. Accuracy and thoroughness in carrying out audits and in preparing audit reports greatly determine audit service quality. One of the abilities needed to carry out an audit is emotional intelligence. Emotional intelligence is the ability to recognize and control one's own emotions in determining appropriate actions when interacting in a work environment. An auditor also needs to have this ability, which is considered no less important than intellectual ability. Auditor sensitivity is very important in dealing with related parties in the surrounding environment. During the audit process, the ability to be aware of indications such as changes in appearance, facial expressions, or opinions can be a guide for the auditor.

Several researchers have researched the effect of emotional ability on audit quality. From the results of previous research, according to Syamsuriana *et al* (2019), emotional intelligence has a positive and significant effect on audit quality. A similar thing was found in research by Kusuma and Sukirman (2017) by examining the role of independence in moderating the effect of emotional intelligence and auditor experience on audit quality, it was found that emotional intelligence had a significant positive effect on audit quality. Menne *et al* (2019) investigated the influence of spiritual variables, intellectual abilities, and emotional abilities on audit quality at the Public Accounting Firm in Makassar City, with the results of the investigation that emotional ability has a positive and significant effect on audit quality.

Based on the background and phenomena described above, researchers are interested in confirming previous studies on the effect of emotional intelligence on audit quality. To reinforce the researcher's interest, the purpose of this study was to determine how much emotional intelligence variables affect audit quality.

#### **Research Framework.**

#### **Emotional Intelligence Affects Audit Quality.**

Emotional Intelligence is a person's ability to understand one's or others emotions, understand the meaning of the emotions that come out, and organize one's emotions based on the model of cascading (Robbins and Judge, 2014). This emotional intelligence affects the auditor's work because emotional intelligence is needed to identify, interpret, and respond to daily work. Auditors should pay attention to their own emotions and moods, work effectively against clients, motivate themselves and their co-workers, be patient when facing obstacles, control their own emotions, and not easily stressed by the pressures at work either due to work deadlines or facing unpredictable conditions (Murdock, 2019).

According to Junaidi and Nurdiono (2016), the quality of audit services is defined as the market-assessed probability of how the auditor will find violations in the client's accounting system and report such violations. Violations are found depending on auditor technology capabilities, audit procedures used on certain audits, the number of sampling, and others. The probability to discover of a particular violation is measured based on the independence of the auditor to the particular client. Arrunada (2000) stated the ability of auditors to conduct a thorough examination and detect errors or anomalies and willingness to give an objective opinion to the audited company will determine the quality of the audit.

The next research is on "The Influence of Due Professional Care, Accountability, and Emotional Intelligence on Audit Quality with Reward as Moderation" conducted by Vidyantari and Saputra (2018) aims to empirically test that rewards moderate and strengthen the influence of due professional care, accountability, and emotional intelligence on audit quality. This shows that the due professional care, accountability, and emotional intelligence of an auditor is getting better and supported by the appropriate rewarding resulting in better audit quality. Kusuma and Sukirman's findings (2017) showed that emotional intelligence has a significant positive effect on the quality of audits. This research concludes that auditors who have a good level of emotional intelligence and experience will facilitate the audit process, which will result in good audit quality as well.

In another study, Yang *et al* (2017) identified emotional intelligence (EI) as a key factor in dealing with emotions and pressures in the context of audits. This study shows that the influence of EI moderation can effectively reduce auditors' tendency to engage in dysfunctional behavior and improve the quality of audits. Hasanuddin and Sjahrudin (2017) empirically tested the influence of emotional and spiritual intelligence on the spirit of work and auditor performance. This research shows that emotional intelligence has a positive and significant effect on the spirit of work. The results of some of the previous studies above, support researchers in confirming the influence of emotional intelligence on the quality of audits.

Adopting research conducted by Putri and Wirawati (2020), this study aims to find out how intellectual/emotional/spiritual intelligence, independence, and Tri Hita Karana culture affect the auditor's performance at the Public Accounting Firm in Bali. This research contributed to the literature because it considers Tri Hita Karana as a factor that affects auditor performance. According to Herliansyah *et al* (2013), the purpose of the research conducted was to test the influence of knowledge structure and professionalism on the quality of audits with emotional intelligence as intervening variables. The results of this study showed that emotional intelligence has a significant positive effect on the quality of audits.

Based on the objectives of the above research and frame of mind and previous research, the hypothesis is formulated as follows:

H1: Emotional intelligence affects the quality of audits.

**Research Method.** In this research, the object of research focuses on the quality of audits attached to public accounting firms and the emotional intelligence inherent in partners in public accounting firms. The population of this study is 59 partners of public accounting firms in Bandung-Indonesia. The sampling process used in this study is non probability sampling with purposive sampling method. The criteria used in purposive sampling is judgment sampling. While the samples used in this study were 48 partners of Public Accounting Firm in Bandung. The instruments used in this study were questionnaires given directly to respondents. The total questionnaires distributed amounted to 59 questionnaires in the period February 2020 to May 2020. From 59 (100%) questionnaires distributed only 48 (81.36%) acceptable and can be processed.

**Results and Discussion.**

The profile of respondents who participated in this study is shown in Table 1 below:

Table 1 Sample Description Statistic

Description	Frequency	Percentage
<u>Gender:</u>		
Male	20	41,7%
Female	28	58,3%
Total	48	100%
<u>Last Education:</u>		
S1 (Bachelor Degree)	43	89,6%
S2 (Master Degree)	5	10,4%
S3 (Doctoral Degree)	-	-
Total	48	100%
<u>Period of Work</u>		
1– 5 years	19	39,6%
5– 10 years	21	43,8%
>10 years	8	16,7%
Total	48	100%

Source: Primary data processed, 2020

**Validity and Reliability Test Results**

In this study, researchers explored the analysis of confirmatory factors to determine the valid items in each latent variable namely emotional intelligence and audit quality. To detect this, an AVE (Average Variant Extracted) value is used. The AVE value is said to be valid if it is greater than 0.5 and the result of the AVE value for each latent variable in this study is valid and can be seen in table 2 below:

Table 2 AVE value of emotional intelligence and audit quality

<i>Variable</i>	<i>Dimension</i>	<i>AVE Value</i>	<i>Loading factor value</i>
Emotional Intelligence	DEI1	0,770	0,849
	DEI2		0,845
	DEI3		0,892
	DEI4		0,873
	DEI5		0,926
Audit Quality	DAQ1	0,717	0,829
	DAQ2		0,902
	DAQ3		0,896
	DAQ4		0,865
	DAQ5		0,728

Source: Primary data processed, 2020

To perform a reliability test, a valid dimension is tested to obtain a Cronbach Alpha value. According to Ghozali [2008], a valid dimension is said to be reliable if the Cronbach Alpha for the dimension group is higher than 0.7.

Table 3. Cronbach Alpha Value

Variable	Dimension	Cronbach Alpha
Emotional Intelligence	DEI1, DEI2, DEI3, DEI4, DEI5	0,925
Audit Quality	DAQ1, DAQ2, DAQ3, DAQ4, DAQ5	0,900

Source: Primary data processed, 2020

**Structural Model Testing**

Structural model testing is carried out using the R Square value as the basis of measurement. Below are the results of structural model testing shown in table 4.

Table 4

Path	Coefficient	t. statistic	p-value	R <sup>2</sup>
EI – AQ	0,684	7,602	0,000	0,468

Table 4 shows that emotional intelligence has an effect of 0.468% on audit quality by looking at R2 values because it shows a strong predictive strength. In table 4, there can also be seen the coefficient of emotional intelligence pathway to audit quality marked positive with probability value of < 0.05. This means that emotional intelligence has a significant effect on the quality of audits (hypotheses supported). To follow up the results of the study, interviews were conducted to several auditors at the Public Accounting Firm in Bandung.

From the results of the interview, it is known that auditors are not fully aware of their abilities, strengths, and weaknesses because they do not clearly understand the audit procedures carried out but have been asked to conduct audits without any discussion with colleagues or superiors. In addition, making the audit results must be reclassified and represented at the time of the audit the following year. Auditors have also not been able to manage the constraints in his emotions. Auditors have the term "peak season and low season" concerning audits conducted. Peak season leaves auditors overloaded. This causes increasing stress levels and high emotional constraints that also result in a decrease in the quality of audits to complete all audit procedures promptly. The results of the interview also showed auditors encounter companies with incomplete data, which affects the auditor's motivation in supporting the quality of audits. Incomplete and irregular data will slow down the completion of the audit because at the time the auditor asks, the company must first organize the data especially if the company has a large number of transaction then it will consume a lot of time. Concerning relationships with clients, auditors often behave as if looking for client errors. So clients often do not provide the data needed by auditors. Therefore, auditors need to build a good relationship with the client, so that there is sense of trust from the client towards the auditor. The increase in auditor's emotional intelligence will be in line with the implementation of quality audits. The higher the emotional intelligence that auditors have at KAP in Bandung, it will influence the quality of audits. This statement is supported by the results of research conducted by Herliansyah et al, (2013), Putri and Wirawati, (2020), Kusuma and Sukirman, (2017).

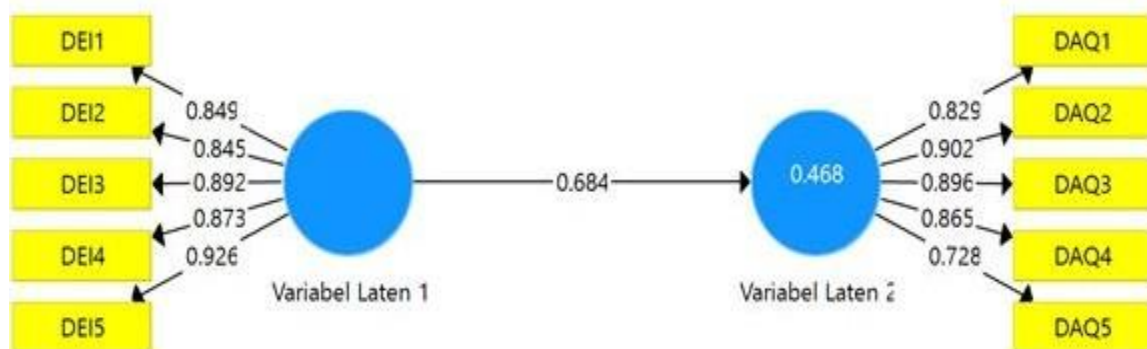


Fig. 1. Full Model Path Diagram

**Conclusions.** The emotional ability affects the improvement of audit quality variables but the effect is not yet maximal. This is in line with the phenomenon that occurred in KAP Purwantono, Suherman, and Surja who are affiliated with EY in Indonesia on the case of PT. Hanson International Tbk (MYRX) and the phenomenon occurred at the Deloitte Public Accounting firm when conducting an audit of PT. Sunprima Nusantara Financing (SNP Finance). There has been a long close relationship between the senior personal (audit team managers) and audited companies with respect to audit alliances thus they cannot control and manage their emotions and behaviors.

**Suggestions.** The emotional ability affects the quality of audits. By increasing emotional ability, auditors can improve the audit quality of a Public Accounting Firm. Improving the emotional ability of auditors can be done by building awareness, motivation, and participation of auditors through meetings and activities together so that auditors can have attention, caring attitudes, and good communication between fellow auditors. And also, when doing the work auditors becomes not quickly bored and not easily stressed. Thus, it is expected that auditors are increasingly aware of their role in the Public Accounting Firm and are motivated to participate actively in supporting the improvement of audit quality.

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