

CHAPTER I

INTRODUCTION

A. Background

Economic changes during the pandemic have a significant impact on the growth and development of a company. The speed and short period of environmental change make it difficult for companies to anticipate failures (Kuswanto, 2013). Companies that want to survive and be more advanced in such conditions need to develop new strategies and pay attention to their financial statements. The company's financial performance can be measured by analyzing and evaluating financial statements. The information on the financial position and financial performance can be used as a basis for predicting future financial position and performance.

The information of financial statement provides an overview of the company's financial condition and performance in one period. According to Statement of Financial Accounting Standards (PSAK 1, 2019) issued by Indonesian Institute of Accountants (IAI), indicates that its financial statements include a balance sheet, income statement, equity report, cash flow statement, and notes to financial statements. This financial report is important for the consideration of the decisions of many parties. Accountants often provide subjective views and have close relationships with their clients. It creates financial statement distrust that are needed by the information users, for that an independent and objective third party is needed.

An auditor is a person who has the authority to review and verify the accuracy of financial records, provide judgment in decision-making, and ensure that they do not violate applicable laws. The users of financial statements expect that the financial statements audited by the auditors are free from material misstatement, can be trusted, and are in accordance with auditing standards applied in Indonesia. An auditor has the main task to carrying out an audit and present an opinion on the financial statements of a company that has guidelines for applicable regulations and based on his education, experience, and training with an objective and impartial attitude. Therefore, this is in accordance with what is explained in Q.S Al-Anfal verse 27 below:

تَعْلَمُونَ وَأَنْتُمْ أَمَانَاتِكُمْ وَتَخُونُوا وَالرَّسُولَ اللَّهُ تَخُونُوا لَا آمَنُوا الَّذِينَ آيُّهَا يَا

Which means: "O you who believe, do not betray Allah and the Messenger (Muhammad) and (also) do not betray the mandates entrusted to you, while you know".

The meaning of the above verse is that when performing a job or a responsibility that has been given and entrusted, it should be done honestly and fairly. Thus, the tasks and work carried out remain transparent, free, professional, independent, and far from acts of fraud.

In an audit of financial statements, the auditor must interact and establish professional relationships not only with management but also with the board of commissioners and audit committee, internal audit, and shareholders. During the audit process, the auditor must frequently

communicate and interact with the management to obtain the necessary evidence and usually the auditor will request a collection of confidential company data. The attitude of the auditor requires objective assessment during the examination. However, auditors may experience bottlenecks that result in a lack of consensus on performance and result in a decrease in the quality of the reported audit (Pertiwi an Budiarta, 2017). This happens because, in the audit process, the auditor can be influenced by several things that affect the judgment of the auditor. According to Zhang et al (2019), an auditor's basic responsibility for enhancing audit quality is judgment and decision-making.

Audit judgment is the perception in response to the financial statement information gathered, coupled with the auditor's factors that serve as the basis for his or her assessment (Grenier et al., 2015). It is the auditor's policy in determining an opinion regarding the audit result. Judgment refers to the cognitive aspects of the decision-making process and reflects changes in evaluations, opinions, and attitudes. Audit judgment can be concluded as an auditor's point of view in evaluating the financial statements by being influenced by certain factors or information that may not be supported so there is a need for follow-up through the auditor's considerations. This audit judgment can be formed by indicators of materiality level, audit risk level, and entity viability. The level of materiality is often illustrated by the example of a statement stating that the auditor should assign control risk for a balance. The survival of the company is stated in the form of a statement

giving a judgment based on the ability of the auditor in terms of evaluating financial statements. Therefore, the role of the auditor is very important for the company so that it can be trusted and relied on as a basis for decision-making.

For example, Enron Corporation is a company whose management does window dressing and manipulates financial statement numbers to make its performance look brilliant. Arthur Andersen is a public accounting firm involved in high-level financial engineering processes. Andersen audited and testified about Enron's generally accepted accounting principles (GAAP) compliant financial statements (Kompas, 2021). Another case that indicates weak audit judgment, as reported by CNBC Indonesia, public accountant firms (KAP) Tanubrata, Sutanto, Fahmi, Bambang & Partners, which are allied with the KAP of BDO International, audited Garuda Indonesia but, did not implement a quality control system for checking Garuda Indonesia's financial statements in 2018. In Kompas (2022), another phenomenon was reported. The audit board of republic Indonesia (BPK) representing West Java is suspected of accepting bribes from the Bogor Regent with a total value of Rp. 1.9 billion to condition the results of the 2021 regional government financial report audit. This bribery case has a related objective of granting an unqualified opinion by the West Java Representative BPK to disguise the deviation. From the Enron case to the West Java representative BPK auditor, it is found that there are several

factors that influence audit judgment, namely ego depletion, work stress, emotional intelligence, and auditor work experience.

Ego depletion is a brief condition in which early self-control processes such as regulating one's environment and oneself, decision-making, and initiating actions will impair later self-control abilities (Mursita et al., 2019). The condition of individuals experiencing ego depletion will reduce their capacity. Thus, the quality of their psychological and physical conditions will decrease. Individuals who experience ego depletion have shown an attitude of giving up easily when they have a task to complete, agreeing more easily with other people's opinions, and having difficulty in concentrating (Undarwati et al., 2017). According to Mursita et al. (2019), a series of studies investigating conditions related to ego depletion confirms that it positively or negatively affects sleep quality and interpersonal conflict with industry-specific experiences as moderators. The results showed that ego depletion associated with sleep quality had a negative effect and interpersonal conflict gave a positive result. This shows that the auditor feels influenced in making decisions by several factors. However, in this study, ego depletion will be used as a mediating or intervening factor between work stress and emotional intelligence on audit judgment and decision-making. In other words, work stress and emotional intelligence are one of the factors that can affect ego depletion and also auditor judgment and decision-making. Ego depletion is an effective mediator variable for auditor judgment and decision-making. However, it is still necessary to

prove the effect of work stress and emotional intelligence and whether the influence is greater if it is carried out directly or indirectly. Therefore, the purpose of adding this ego depletion is to ensure the role of these variables on the dependent variable. This is important because human psychology is not solely influenced by one variable.

The auditor is one of the jobs that are prone to high-level stress. According to Manocha et al. (2011), stress has been linked to hyperarousal physiology, negative cognition, and negative mood and has been associated with physical and mental health problems. This is influenced by pressure and the work environment. The pressure that exceeds acceptance will result in psychological effects on individuals. Stress that has a negative impact on performance is known as burnout. Burnout is a term that was first expressed as a representation of a psychological stress syndrome, which shows a negative response due to work pressure. Burnout which arises among individuals who work with other people occurs from emotional exhaustion, depersonalization, and decreased job performance. There is a correlation between employee stress and a decline in work performance, absenteeism, and the propensity to sustain workplace injuries (Schuller, 1980). In simple terms, stress has the potential to encourage or interfere with work performance, depending on the level of stress. Stress at a certain level can motivate a person to improve performance and complete his work. High-level stress can have a negative impact on the auditor which is detrimental to the company. These negative impacts affect creativity, productivity,

motivation, health status, physical state, and ineffective decision-making. Previous research has demonstrated that excessive stress can affect individual skills in dealing with the environment, then interfere with the implementation of activities in their work and prevent them from optimally performing their duties. Thus, it results in unfulfilled job satisfaction (Suartana & Dewi, 2020). Other studies have reached different results, Sasuwe et al. (2018), proving that job stress does not have a significant effect on job satisfaction.

Emotional intelligence is the ability to recognize and manage emotions and use those emotions to direct actions and thoughts. Emotional intelligence has the goal to acknowledge and appreciate the feelings of oneself and others and to respond to them appropriately. An auditor needs to control his emotions because with good emotional intelligence, the auditor is expected to act decisively and be able to make good decisions even when under pressure. People who have emotional intelligence can understand the perspectives or views of others and are able to develop trustworthy relationships. Human emotions are basically in the area of hidden instincts and emotional sensations which, if recognized and respected, emotional intelligence will provide a deeper and more complete understanding of oneself and others. Without emotional intelligence, a person will not be able to use their cognitive abilities to their maximum potential. Fauzan (2017) confirm that emotional intelligence and spiritual intelligence positively impact audit quality. Iswandi (2016) show that

emotional intelligence and spiritual intelligence have no effect on audit quality, but intellectual intelligence has a positive effect on audit quality. Therefore, based on previous research, there was an inconsistency between one researcher and another, indicating that emotional influences decisions made by auditors.

Auditors who have longer work experience will experience less conflict and ethical dilemmas than auditors who have short work experience. The results of previous research regarding the effect of work experience on the accuracy of giving decisions show that work experience has an influence on audit opinions because auditors who have quite a lot of experience provide more appropriate opinions (Pertiwi & Budiarta, 2017). Taylor and Tood (1995) as cited in Hasnanto (2019), argue that an experienced person has a more detailed, complete, and sophisticated way of thinking compared to someone who is not experienced. Work experience shows the type of work that has been done and to do a better job. The wider the work experience an individual has, the more skillful he is in doing the job and the more perfect the pattern of thinking and attitude of acting he has to achieve the goals that have been set. Auditor work experience is related to the expertise of an auditor. Therefore, auditor work experience in this research is a moderating variable

This research is a replication of the previous research conducted by Mursita et al. (2019), entitled “Ego Depletion and Its Effect on Auditors Judgment and Decision-Making Quality”. The difference from previous

studies is that previous studies examined the factors of interpersonal conflict and sleep quality affecting ego depletion with industry-specific experience as a moderator. Previous research also did not provide a specific explanation of stress and emotions that affect auditor decision-making. In some previous studies, there were also only a few that linked stress (Chen et al., 2006; Spielberger & Sarason, 2014; Wemm & Wulfert, 2017; Kesimli et al., 2018; Phillips-Wren & Adya, 2020), emotional intelligence (Goleman, 2016, 2011; Pinatik, 2021; Ran et al., 2022; Salovey & Mayer, 1989; Yang et al., 2017, 2018), to ego depletion and also to judgment and decision-making quality, while this study will examine the stress level and emotional intelligence factors on judgment and decision-making quality with ego depletion as an intervention and auditor work experience as a moderator. Thus, the title of this research is **"The Influence of Work Stress and Emotional Intelligence on Auditor Judgment and Decision Making (JDM) Quality (A Study on a Public Accountant Firm in the Special Region of Yogyakarta and Central Java)".**

B. Research Scope

This study aims to examine the factors that influence an auditor's judgment and decision-making (JDM). This study focuses on ego depletion, work stress, and emotional intelligence as indicators that affect JDM quality.

C. Research Question

Based on the background of the problems, several research questions as are formulated as follows:

1. Does work stress have a significant positive effect on ego depletion?
2. Does work stress have a significant negative effect on auditor's judgment and decision-making quality?
3. Does ego depletion intervene the relationship between work stress and auditor's judgment and decision-making quality?
4. Does emotional intelligence have a significant negative effect on ego depletion?
5. Does emotional intelligence have a significant positive effect on auditor's judgment and decision-making quality?
6. Does ego depletion intervene with the relationship of emotional intelligence to auditor's judgment and decision-making quality?
7. Does ego depletion have a significant negative effect on auditor's judgment and decision-making quality?
8. Does the auditor's work experience moderate the relationship between ego depletion and auditor's judgment and decision-making quality?

D. Research Objectives

Based on the above formulation, the objectives of the research are as follows:

1. To find empirical evidence regarding the effect of work stress on ego depletion

2. To find empirical evidence related to the effect of work stress on auditor's JDM quality
3. To find empirical evidence related to the effect of job stress on auditor's JDM quality with ego depletion as an intervening
4. To find empirical evidence regarding the influence of emotional intelligence on ego depletion
5. To find empirical evidence about the effect of emotional intelligence on auditor's JDM quality
6. To find empirical evidence related to the effect of emotional intelligence on auditor's JDM quality with ego depletion as an intervening
7. To obtain empirical evidence regarding the effect of ego depletion on auditor's JDM quality
8. To obtain empirical evidence on whether the work experience of auditors can moderate ego depletion in auditor's JDM quality

E. Research Benefits

This research is expected to be useful for future researchers and other interested parties. The following are the expected benefits of this research:

1. Theoretical Benefits

This research is expected to provide a growing knowledge of the factors that influence auditor's judgment and decision-making. Especially on the influence of involvement of the influence of ego

depletion, work stress, emotional intelligence, and working audit experience. This research also provides new information that is expected to contribute to further research.

2. Practice Benefits

Practically, this research is expected to be used as a reference to improve auditor's judgment and decision-making quality. This research is also expected to provide input for auditors to control stress, emotional intelligence, and improve their work experience as auditors. This research is also expected to increase public trust in auditors in carrying out audits and in making decisions. This research is also expected to be literature material for further research and the development of university libraries.