

The role of professional ethics and emotional intelligence on auditor decision making

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Abstract

Purpose: This study investigates the impact of professional ethics and emotional intelligence on auditor decision-making within public accounting firms in Central Jakarta.

Methods: This research is an associative study that utilizes quantitative data from questionnaires distributed to 100 respondents. Decision-making was analyzed using multiple linear regression.

Findings: The results indicate that both professional ethics and emotional intelligence significantly influence audit decision-making at public accounting firms in Central Jakarta.

Practical Implications: This research highlights the importance of integrating professional ethics and emotional intelligence into auditors' decision-making processes. Public accounting firms in Central Jakarta are recommended to develop training programs to enhance these two areas, which will improve decision quality, increase client trust, and bolster auditors' ability to manage pressure, ultimately leading to more accurate and transparent audits.

Keywords: Professional Ethics, Emotional Intelligence, Auditor Decision Making

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Abstrak

Tujuan: penelitian ini bertujuan untuk mengetahui pengaruh antara etika profesi dan kecerdasan emosional terhadap pengambilan keputusan auditor pada kantor akuntan publik yang berlokasi di Jakarta Pusat.

Metode: Penelitian ini adalah studi asosiatif yang menggunakan data kuantitatif dari kuesioner dengan 100 responden sebagai sampel. Pengambilan keputusan dianalisis menggunakan regresi linier berganda.

Temuan: Hasil penelitian menunjukkan bahwa etika profesi dan kecerdasan emosional memiliki pengaruh terhadap pengambilan keputusan audit di kantor akuntan publik di Jakarta Pusat.

Implikasi Praktis: Penelitian ini menekankan pentingnya integrasi etika profesi dan kecerdasan emosional dalam pengambilan keputusan auditor. Kantor akuntan publik di Jakarta Pusat disarankan untuk mengembangkan program pelatihan yang memperkuat kedua aspek ini, yang akan meningkatkan kualitas keputusan, kepercayaan klien, dan kemampuan auditor menghadapi tekanan, sehingga menghasilkan audit yang lebih akurat dan transparan.

Kata Kunci: Etika profesi, kecerdasan emosional, pengambilan keputusan auditor.

1. Introduction

The audit process involves examining a company's financial statements. This process is essential, particularly for external parties. An audit assures the company that its records comply with applicable standards. Additionally, the audit serves as a foundation for decision-making for various stakeholders who rely on this information. The audit report also reflects the auditor's credibility in producing accurate assessments. The alignment between the audit findings and the information gathered determines this level of credibility. Audits are essential for ensuring financial data's reliability, accuracy, and completeness, which is crucial for stakeholders, including investors, regulators, and management, to make informed decisions (Chen, 2023; Ng, 2024).

However, despite the importance of the audit report in reflecting an auditor's credibility, some auditors fail to adhere to ethical standards, leading to poor decision-making. This issue was highlighted in the case involving the Public Accounting Firm Tanubrata, Sutanto, Fahmi, Bambang & Partners, along with Public Accountant Kasner Sirumapea, who conducted an audit for PT Garuda Indonesia (Okezone.com, 2019). Due to errors in their audit decision-making, both public accounting firms faced license suspensions imposed by the Financial Services Authority (OJK). This case demonstrates that decision-making mistakes can have significant repercussions for auditors.

The audit decision is a structured process determining the appropriate audit report to issue under specific conditions (Arens et al., 2017). This decision represents the final step in the audit process, assessing whether the audit results comply with applicable standards. A notable example is the case of PT Garuda Indonesia, where two auditors

from the Public Accounting Firm Tanubrata, Sutanto, Fahmi, Bambang & Rekan and Public Accountant Kasner Sirumapea faced license suspensions for violating professional ethics due to a lack of transparency in the financial statements they presented. This case underscores the critical nature of audit decisions and their significant impact on various stakeholders.

Two main factors heavily influence the audit decision-making process. First, internal factors pertain to the auditor's ethical behavior throughout the audit. Second, external factors include pressures from clients, auditors, and their family environments. Ethics serve as norms that guide the audit process and shape auditor decisions. Auditors often face influences from parties interested in benefitting from the audit results. Suppose such interests sway their decisions. In that case, there is a risk that they will not adhere to the code of ethics, potentially leading to decisions that do not accurately reflect reality. Given this context, auditors must maintain an independent attitude and transparency. This approach ensures that their decisions are based on actual circumstances. The PT Garuda Indonesia case revisits the importance of auditors upholding professional ethics to ensure their decision-making aligns appropriately with real-world situations.

Auditors frequently encounter ethical dilemmas that require them to balance professional standards with client pressures. The ethical decision-making process in these situations is influenced by various factors, including the auditor's level of professional experience, the firm's size, and the organization's overall ethical culture. These elements collectively shape how auditors tackle and resolve ethical challenges, ensuring their decisions align with professional integrity and client expectations (Rokhshi et al., 2024; Sweeney et al., 2013).

Emotional intelligence (EI) is the ability to recognize and manage one's emotions while also understanding the feelings of others. It plays a significant role in decision-making. Individuals with high emotional intelligence are generally more effective decision-makers because they can regulate their emotions and understand the emotional states of those around them. This capability allows them to evaluate situations more thoroughly and make informed choices. (Sharma et al., 2023; Yilmaz, 2023). Hence, EI plays a crucial role in ethical decision-making. Individuals with high EI can better understand the ethical implications of their actions, allowing them to make effective and ethically sound decisions that align with moral principles and professional standards (Baranidharan & Dhakshayani, 2024; Mesmer-Magnus et al., 2008).

When professionals, such as auditors, encounter pressures from both internal and external sources, they may lose focus, resulting in incorrect decisions. An illustrative instance is the COVID-19 pandemic, which led to increased remote working arrangements. This shift heightened frustration and emotional strain for auditors conducting independent audits. In such challenging circumstances, emotional intelligence becomes crucial as it enhances the auditor's ability to make sound decisions amid various pressures. Both emotional intelligence (EI) and professional ethics are essential for effective decision-making in auditing. EI helps auditors manage emotional and job-related pressures, allowing them to remain composed and clear-minded in high-

stakes situations. Concurrently, a strong ethical foundation ensures that their decisions adhere to professional standards and societal expectations, fostering trust and credibility in auditing (Sweeney et al., 2013).

2. Theoretical background

Audit

Research by Arens et al. (2017) indicates that auditing involves collecting and evaluating evidence to determine and report how well the obtained information aligns with established criteria. This auditing process is integral to a company's operations, as it aims to provide an opinion on the reliability of financial statements. Tambun (2020) further asserts that stakeholders often prefer audited financial statements because the audit process assures them that the reports comply with applicable accounting standards and are free from fraud. As a result, this motivates auditors to produce high-quality audit reports that are valuable to all parties interested in the company's financial information.

Audit decision making

According to Arens et al., the auditor's decision-making process is systematically organized, allowing auditors to determine which audit report is appropriate to publish based on specific conditions (Arens et al., 2017). This decision represents the auditor's final assessment regarding the financial statements under review. Specifically, the decision is articulated as an opinion that reflects the degree of reasonableness of the financial statements presented by the company. Generally, the more reasonable and accurate the presentation of the financial statements, the more favorable the auditor's opinion is likely to be. On the contrary, the auditor must issue an unfavorable opinion if the financial statements reveal questionable or incorrect elements. Such a negative assessment can significantly influence the decisions made by users of the financial statements, underscoring the critical nature of the auditor's role in maintaining financial integrity (Astari & Suputra, 2019).

Professional ethics

Ethics serve as essential guidelines that direct the audit process, as highlighted by Susanti et al. (2021). Ethics can be understood in various ways. For example, Azis (2021) describes it as a code that all parties must respect. Siregar (2016) notes that ethics relate to actions determining whether a deed is commendable. Researchers define ethics as a framework that outlines the morality of actions taken by individuals. In auditing, ethics are expressed as a code of conduct that auditors must adhere to during each audit assignment. This code includes various rules that govern auditors' ethical behavior as they carry out their responsibilities. It was designed to regulate and guide auditors, promoting a high-quality audit environment (Siregar, 2016).

Emotional intelligence

Emotional intelligence refers to an individual's ability to manage their emotions effectively, as defined by Wuwung (2020). Expanding on this concept, Mayer (as cited in Supriyadi, 2018) describes emotional intelligence as a set of mental abilities that enable individuals to recognize, understand, and regulate their own emotions and comprehend and respond to the emotions of others. Research indicates that emotional intelligence involves understanding others and effectively managing one's emotional responses. In interpersonal interactions, emotions often arise from individual dynamics, leading to feelings such as happiness, pleasure, anger, resentment, and disappointment. These emotions are dynamic and can evolve. The energy frequently influences the emotional tone of an interaction, which affects the emotional states of others involved (Agussalim et al., 2020).

3. Methods

Sample and procedures

The population for this study included all auditors from 52 public accounting firms in Central Jakarta. A volunteer sampling method was used to collect data, allowing 100 auditors to participate by completing questionnaires for analysis (Ismail, 2018). The study employed primary data from literature reviews, which provided theoretical support and questionnaires to gather participants' responses. A Likert scale was utilized to systematically measure respondents' agreement levels (Riyanto & Hatmawan, 2020).

Data analysis techniques

In this study, the analysis method used to draw conclusions was to use the multiple linear regression method. The following is a regression model proposed in this study.

$$Y = a + bPEP + \beta KE + e$$

4. Result and dicussion

Based on the test results in Table 1, the R-squared value is 0.903, indicating that the combined implementation of professional ethics and emotional intelligence significantly influences audit decision-making by 90.3%. The remaining 9.7% is attributed to factors not addressed in this study. These findings emphasize that both independent variables substantially impact the dependent variable, demonstrating their strong predictive ability in audit decision-making. The test results presented in Table 1 indicate that the significance value for implementing professional ethics is 0.000, which is below the established threshold of 0.05. This finding demonstrates that professional ethics significantly influence audit decision-making in Public Accounting Firms located in Central Jakarta. Moreover, the coefficient for the implementation of professional ethics is 0.358. This result suggests that a one-unit increase in the implementation of professional ethics – while keeping emotional intelligence constant – will lead to a 0.358 increase in audit decision-making. Hence, it highlights professional ethics' positive and significant impact on decision-making.

Tabel 1.
Regression results

	coeff	t-value	Sig.
(Constant)	-,047	-,034	,973
Professional ethics	,358	3,867	,000
Emotional Intelligence	,678	7,403	,000
Adjusted R Square	,901		

Source: SPSS 25.0 Test Results

Table 2 further reveals that the significance value for the emotional intelligence variable is also 0.000, below the 0.05 threshold. This result confirms that emotional intelligence significantly influences audit decision-making in Public Accounting Firms in Central Jakarta. The coefficient for emotional intelligence, as shown in Table 1, is 0.678, indicating that a one-unit increase in emotional intelligence—while keeping professional ethics constant—will result in a 0.678 increase in audit decision-making. These findings emphasize emotional intelligence's strong and positive contribution to the audit decision-making process.

Discussion

The application of professional ethics plays a significant role in audit decision-making within public accounting firms in Central Jakarta, as indicated by a significance value of 0.000 and a coefficient of 0.358. This data illustrates the positive impact that professional ethics have on audit decisions. Ethics are vital in the audit process since various stakeholders often influence auditors. Auditors must uphold their independence and transparency to maintain objectivity and integrity, making decisions based solely on factual evidence.

The practical implications of this finding highlight the need for firms to prioritize ethics training programs and establish clear guidelines to promote ethical behavior among auditors. Additionally, firms should implement strong oversight mechanisms to ensure compliance with ethical standards, enhancing audit outcomes' credibility and reliability.

Similarly, emotional intelligence positively and significantly affects audit decision-making, with a significance value of 0.000 and a coefficient of 0.678. Emotional intelligence allows auditors to recognize and manage their emotions, which is crucial for handling pressures from external parties. This study confirms that effective emotional regulation improves the accuracy and reliability of audit decisions, ensuring they are free from undue influences and align with professional standards.

The practical implications of this finding suggest that firms should invest in emotional intelligence training to help auditors develop skills for emotional regulation and stress management. Furthermore, creating a supportive work environment that encourages open communication and promotes emotional well-being can enhance auditors' ability to navigate complex and high-pressure situations, ultimately leading to improved decision-making.

5. Conclusion

Based on the test results presented in the previous chapter, the researcher concluded that professional ethics positively influences audit decision-making in public accounting firms in Central Jakarta. Professionals often face influence from various stakeholders regarding the results of an audit when making decisions. Furthermore, the study found that emotional intelligence also plays a significant role in audit decision-making. When internal and external parties pressure auditors, they may lose focus, leading to inappropriate decisions. Thus, the study confirms the interconnection between the application of professional ethics and emotional intelligence in the audit decision-making process, highlighting the importance of ensuring that auditors make accurate and reliable decisions.

There are several limitations in this study. First, this study is limited to public accounting firms in Central Jakarta, so the results may not be generalizable to other regions or different contexts. Second, the measurement of professional ethics and emotional intelligence is subjective and depends on the participants' perceptions, which may affect the accuracy of the data. Third, this study did not consider other factors affecting audit decision-making, such as time pressure and organizational culture. Therefore, for future research, expanding to include more diverse locations and considering additional factors that may affect the audit decision-making process is necessary. Thus, this study confirms the relationship between the application of professional ethics and emotional intelligence in the audit decision-making process and emphasizes the importance of ensuring that auditors make accurate and reliable decisions.

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