

ORIGINAL ARTICLE

The impact of emotional intelligence on auditor judgment

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This study seeks to identify emotional intelligence (EI) as a key factor in dealing with emotions and pressures in an audit context. In this paper, we focus on how EI may influence the relation between job pressures (i.e., time budget pressure and client pressure) and auditors' judgment. Specifically, we investigate the moderating effect of EI on auditors' third-person assessments of an auditor's actions when subject to internal and external pressures. The results suggest that the moderating influence of EI can effectively reduce auditors' tendency to engage in dysfunctional behavior and improve audit quality. Further, moderation analysis suggests that EI is a significant mechanism that moderates the effects of different types of pressure on auditors' judgments.

KEYWORDS

affect, auditor judgment, audit pressures, audit quality, China, client pressure, emotional intelligence, time budget pressure

1 | INTRODUCTION

Recent changes in regulation and audit processes that require new and varying forms of auditor judgment (International Auditing and Assurance Standards Board [IAASB], 2009) underscore the importance of identifying and understanding the unobservable elements that influence audit quality, such as interpersonal affect (Trotman, 2011). Emotion may interact with other variables to influence auditors' judgments and decisions. This study investigates emotional intelligence (EI), the ability to perceive and manage one's own and others' emotions, as a key factor in dealing with pressures in an audit context. Specifically, we extend prior research by investigating the moderating effect of EI on auditor judgments of a hypothetical case wherein an auditor is subject to internal and external pressures.

Mayer and Salovey (1997, p. 10) define EI as "the ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion, and regulate emotion in the self and others." Auditors' judgments may be negatively influenced by interpersonal affect (emotional responses arising from interactions between auditors and clients). Prior research indicates that EI is a predictor of job performance and plays a large role in relieving job stress (Nikolaou & Tsaousis, 2002). Akers and Porter (2003, p. 65) state that "EI skills are critical for the success of the accounting profession." Therefore, it is critical for auditors to recognize and manage their affective reactions when dealing with clients (Bhattacharjee, Moreno, & Riley, 2012). Moreover, Cianci and Bierstaker (2009) acknowledge the need

for auditors to manage their emotions and suggest that future research explores ways in which auditors can be trained to manage their emotions.

Job-related pressures play a significant role in the accounting profession. Prior research indicates that both time budget pressure (e.g., Coram, Ng, & Woodliff, 2003; 2004; McNair, 1991) and client pressure (e.g., Hackenbrack & Nelson, 1996; Moreno & Bhattacharjee, 2003) negatively influence audit judgment. There is a need to improve our understanding of how to mitigate the ill effects of these pressures, such as dysfunctional auditor behaviors and decreased audit quality (Hartmann & Maas, 2010). Therefore, one purpose of this study is to address a gap in the literature by investigating the effect of EI on auditor judgment under various pressures. In particular, we focus on how EI influences the relationship between auditor judgment and two prevalent forms of job pressures: time budget pressure (internal pressure) and client pressure (external pressure).

Owing to widespread concern in recent years regarding suspicious accounting practices and dysfunctional audit behaviors in China, Liu and Zhang (2008) argued that time pressure in an auditing context is an increasingly important environmental factor that warrants additional research. Chinese auditors may be especially sensitive to pressures from individuals viewed as superiors due to the high degree of power distance in China (Hofstede, 1993; Zhuang, Thomas, & Miller, 2005).¹ Therefore, we conducted an experiment using 173 staff and senior auditors working at auditing firms in China to investigate our research questions.² This participant group facilitated an investigation

of factors which influence dysfunctional auditor behaviors and EI as a potential moderator that can mitigate such behaviors to improve audit quality.

The experimental task presented auditors with a hypothetical scenario involving a questionable accounts receivable transaction with the presence and absence of time budget pressure and client pressure manipulated between participants. In order to reduce social desirability bias,³ participants were asked in the third person to indicate the material misstatement risk associated with the transaction and the likelihood of further investigation. Participants' EI was measured with a 16-item scale (Jordan & Lawrence, 2009), and their professional skepticism was measured with a five-item scale (Hurttt, 2010).

As hypothesized, the results revealed judgment patterns that varied between participants with high and low EI. Specifically, EI moderated the relations between job pressures and auditor judgments. Auditors with high EI made more conservative judgments than did auditors with low EI when exposed to multiple job pressures. That is, high EI participants were more likely to recognize the importance of investigating the questionable transaction further when both internal and external pressures existed. Supplemental analyses indicated that professional skepticism is significantly related to the level of EI, suggesting that auditors with high EI are more skeptical than auditors with low EI.

The results of this study are important for several reasons. First, prior research has raised the question of whether EI impacts auditors' judgment and decision-making (Bhattacharjee et al., 2012). Recent accounting studies have argued that EI is a critical skill that allows accountants to have better job performance in decision-making, teamwork, and client relations (Daff, de Lange, & Jackling, 2012). This study provides empirical evidence supporting these assertions of the importance of EI for professional accountants. Additionally, the current study provides evidence confirming the critical role of EI in mitigating the joint effects of time budget pressure and client pressure on auditor judgments. These results suggest that EI training programs may be a valuable way to improve auditors' judgments.

In the remainder of the paper, we first discuss prior literature and develop the hypotheses. We then describe the research design and report the results of the analyses. Finally, the paper concludes with a discussion of implications, limitations, and suggestions for future research.

2 | LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

2.1 | Audit pressures

A significant body of evidence suggests that audit pressures can lead to dysfunctional behavior. According to DeZoort and Lord (1997), pressure serves as an antecedent to individual stress responses and influences outcomes by providing situational incentives for a specific judgment or decision. Thus, pressure is a major dimension of occupational stress (Larson, 2004). This study investigated the effects of two types of pressure: time budget pressure and client pressure.

2.1.1 | Time budget pressure

Time budget pressure is "a chronic, pervasive type of pressure that arises from limitations on the resources allocable to perform a task" (DeZoort & Lord, 1997, p. 53). It occurs when auditors are assigned limited hours to complete audit procedures. As meeting time budgets is a critical element of auditors' performance evaluations, time budget pressure is a major factor affecting auditors' behavior in both developed and developing countries (Shapeero, Koh, & Killough, 2003). Participants in an Australian auditor experiment in Coram et al. (2003) admitted accepting questionable audit evidence to speed audit testing under time budget pressure. In a subsequent study, Coram et al. (2004) indicated that, in addition to accepting questionable evidence, auditors under high time budget pressure failed to test all items in a selected sample when the level of misstatement risk was low.

Similar results were found in a study with Malaysian auditors where time budget pressures led lower-rank auditors to engage in dysfunctional behavior (Paino, Ismail, & Smith, 2010). Time budget pressure is also of particular interest in China. Liu and Zhang (2008) conducted an experiment to investigate the effects of time pressure and accountability on audit judgment performance and found a negative relation between audit effectiveness and time pressure.

2.1.2 | Client pressure

Client pressure refers to "the pressure to yield or the perceived pressure to yield to a client's wishes or influence, whether appropriate or not" (DeZoort & Lord, 1997, p.47). Pressures arising from auditors' conflicting incentives may lead to dysfunctional audit behaviors, such as acceptance of clients' aggressive financial reporting, which impairs audit quality. Lower-rank auditors are especially susceptible to client pressures because they are less experienced and are subject to performance evaluations that emphasize both cost control and a good relationship with the client (Moreno & Bhattacharjee, 2003). Moreover, increased client pressure decreases the size of audit adjustments proposed by auditors (Hatfield, Jackson, & Vandervelde, 2011).

Overall, previous research has indicated that client-based incentives and pressures can compromise auditor judgment. In a survey of experienced auditors in China, Chow, Ho, and Mo (2006) identified different pressures and factors that influenced auditors' risk assessment. Many of the pressures identified were consistent with research from developed economies; these pressures include clients' incentives to manage earnings (e.g., management being under unusual pressures to meet profitability targets), the existence of complex transactions that are difficult to audit, and weak corporate governance. Lin and Fraser (2008) found that Chinese auditors were more likely to perceive client pressure in conflict situations than were auditors from the UK when facing audit market competition.

2.2 | Affect and emotions

Affect is a broad term, referring to emotions, feelings, and moods (Fiske & Taylor, 1991). Emotions are "organized responses, crossing the boundaries of many psychological subsystems, including the physiological, cognitive, motivational, and experiential system" (Salovey & Mayer, 1990, p. 186). Based on a review of the role of affect in organizational behavior, Barsade and Gibson (2007) concluded that affect,

including employees' moods and emotions, positively correlated with important organizational outcomes, such as performance, decision-making, conflict resolution behavior, and leadership.

Prior studies in the accounting literature have also examined the role of affect on decision-making. Bhattacharjee and Moreno (2002) found that negative affective client information significantly influenced less-experienced auditors' judgments. As there is a significant negative relationship between the emotional reaction to occupational stress and job performance on public accountants' performance, it is crucial to reduce negative emotional reactions and the cognitive role of occupational stress among public accountants. Another study also recognized the influence of interpersonal affective reaction to clients on lower-rank auditors' judgments, which induced inappropriate workpaper documentation (Bhattacharjee et al., 2012).

Overall, prior research indicates that affect can negatively influence a variety of audit judgments, decisions, and behaviors. Thus, it is necessary for future research to explore ways in which auditors can be trained to manage their emotions. One important variable that may allow auditors to handle or reduce emotional pressure is emotion-focused coping (e.g., self-awareness) (DeZoort & Lord, 1997). Further, Bhattacharjee et al. (2012) advocated emotional competence training, because it is important for accounting professionals to understand and manage their emotions. However, there is scant literature in behavioral accounting research exploring how to influence affect. EI shows promise as a potential mitigating factor to address this issue by managing emotions (Barsade & Gibson, 2007).

2.3 | Emotional intelligence

EI has received considerable attention for more than two decades in a variety of disciplines, including management, organizational behavior, and psychology. In the early 1990s, Salovey and Mayer (1990, p. 189) initially defined EI as "the subset of social intelligence that involves the ability to monitor one's own and others' feelings and emotions, to discriminate among them and to use this information to guide one's thinking and actions." Based on this construction, a mental ability model of EI was developed (Mayer & Salovey, 1997). This model includes four components: (1) awareness of one's own and others' emotion; (2) emotional facilitation; (3) emotional understanding; and (4) management of one's own and others' emotions.

High EI employees are likely to identify and regulate their emotions, which enables them to cope with job-related stress (Mayer & Salovey, 1997). Thus, EI can ameliorate negative stress outcomes, and it is critical for effective job performance. Nikolaou and Tsaousis (2002) surveyed more than 200 health professionals and found that individuals with high EI exhibited less stress, more organizational loyalty, and higher commitment than those with low EI. Further, EI training serves as a mechanism that allows employees to effectively decrease their occupational stress. Because auditors interact with client management extensively during the audit process, auditing is a job with strong EI implications. These interactions are critical, not only to the successful completion of the current audit engagement, but also for future engagements. For example, auditors have incentives to retain large clients and to explore potential business opportunities with current clients (Moreno & Bhattacharjee, 2003). Indeed, EI skills

could facilitate employees' ability to cope with occupational stressors (Jordan, Ashkanasy, & Härtel, 2002; Nikolaou & Tsaousis, 2002).

The effects of EI on job performance are important to accounting practitioners for two reasons. First, since EI has a positive influence on job performance, it is rational to conclude that there is a link between EI and auditor decision-making. Second, EI-related programs could improve hiring and training processes in the accounting field. Daff et al. (2012) asserted that accounting employers should strongly value EI skills, as they promote high job performance in the areas of strategic decision-making, client relations, leadership, and teamwork. Despite this increasing emphasis on EI in practice, there is a paucity of empirical research investigating the role of EI in accounting decision-making. Thus, this study examined whether EI would have a positive effect on auditor judgment when auditors experience pressure in auditing contexts.

Prior studies (e.g., Coram et al., 2003, 2004) demonstrated that time budget pressure results in less conservative judgments, and that these quality-threatening effects compromise audit quality. Similarly, client-based incentives and pressures can negatively affect auditor judgment. We tested whether high EI auditors can effectively evaluate situational pressures, such that they make appropriately conservative judgments. Prior research defined auditor conservatism as the "auditor's preference for income-decreasing accounting choices" (Kim, Chung, & Firth, 2003, p. 327; Cahan & Zhang, 2006). When there is doubt, the client will have to make downward adjustments required by the conservative auditor (Lu & Sapra, 2009). Moreover, auditors tend to use conservative auditing (i.e., perform substantial procedures) to avoid litigation risks (Chen, Lam, Smieliauskas, & Ye, 2016). Litigation concerns lead auditors to be more objective and skeptical (Johnstone, 2000). Auditors' litigation risks help balance the tradeoff between experience and client relations, which leads to significantly more conservative judgments.

Both *International Standards on Auditing No. 500* (IAASB, 2009) and *Auditing Standards for the Chinese Certified Public Accountants No. 1301* (Chinese Institute of Certified Public Accountants [CICPA], 2006) require auditors to obtain sufficient appropriate audit evidence to provide a reasonable basis for their opinions. The standards indicate that auditors should assess the risk of material misstatement and determine what further audit procedures are warranted. With the increase of risk level, auditors should conduct further substantive procedures. When asked to evaluate a hypothetical scenario, we expect high EI auditors to assess higher misstatement risk and be more willing to investigate further in the presence of high levels of pressure (client incentive and time budget pressure) compared with low EI auditors. Figure 1 provides a graphical representation of the proposed model of the relation between the constructs investigated in this study, and we propose the following hypotheses:

Hypothesis 1. When time budget pressure increases from low to high, the increase in assessments of misstatement risk and willingness to investigate further will be greater for high EI auditors than for low EI auditors.

Hypothesis 2. When client pressure increases from low to high, the increase in assessments of

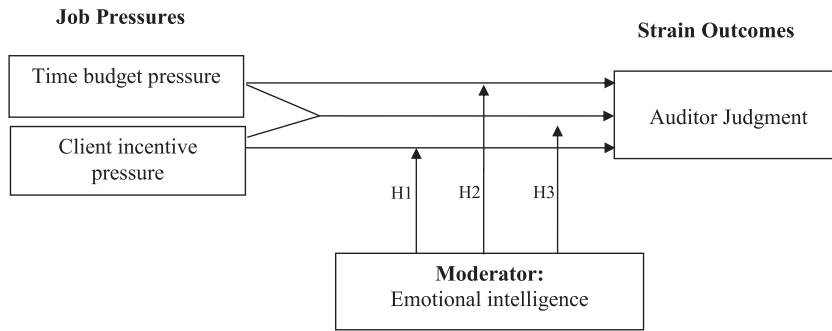


FIGURE 1 Research model. Theoretical model adapted from DeZoort and Lord (1997)

misstatement risk and willingness to investigate further will be greater for high EI auditors than for low EI auditors.

Moreover, prior research has consistently demonstrated a negative relation between EI and job stress, and a positive association between EI and job performance. Thus, it is logical to assume that EI will reduce auditors' tendency to engage in dysfunctional behavior promoted by pressures and result in improved audit quality. We expect high EI auditors to be more effective than low EI auditors in evaluating scenarios where both time budget pressure and client pressure are present, resulting in more conservative judgments. Specifically, high EI auditors will indicate a greater likelihood of further investigation and provide higher assessments of misstatement risk when there is high client pressure and time budget pressure than will low EI auditors. Thus, we propose the following hypothesis:

Hypothesis 3. The marginal effect of additional pressure on assessments of misstatement risk and willingness to investigate further is less for high EI auditors than for low EI auditors.

3 | RESEARCH DESIGN

3.1 | Experimental design

This study adopted a $2 \times 2 \times 2$ experimental design. Two independent variables, time budget pressure (low versus high) and client pressure (low versus high), were manipulated between participants. The third independent variable, EI, was measured. Participants were randomly assigned to one of the four conditions. The participants were provided with general study instructions and a research instrument (case materials). Additionally, participants were asked to complete both the 16-item EI scale from Jordan and Lawrence (2009) and the Hurtt (2010) professional skepticism scale (five items). Participants answered manipulation check questions and provided demographic information at the end of the experiment. The back-translation method was used for translating the experimental instrument into Mandarin Chinese.

3.2 | The task

The research instrument was based on instruments used in prior studies of time budget pressure (Coram et al., 2004; Gundry & Liyanarachchi, 2007) and client pressure (Robertson, 2010). The

instrument consisted of two parts. Part 1 provided background information about the client, including general information and a summary of financial information. This information was the same for all versions of the instrument.

The experimental case introduced information about Xiaolin, a staff auditor assigned to work on an audit of GTL, a technology client. The case mentions that this is Xiaolin's first time working on the audit of GTL. Xiaolin has been asked to perform substantive testing for the accounts receivable audit. The next part of the case (part 2) contains a discussion of the time budget for the audit and client incentive manipulations. Xiaolin discovers that there is no sales report documenting one of GTL's electronic product sales.⁴ The accounts receivable in question is a total of \$1,200,000, which represents a decrease of 6¢ of earnings per share (EPS). Upon approaching GTL's management, Xiaolin is told that the documentation has been misplaced, but management can vouch for the fact that the transaction has been correctly recorded. To verify this, Xiaolin would have to contact an overseas customer. Xiaolin knows contacting this customer would take a considerable amount of time.

3.3 | Dependent variables

If self-report questions are asked in the first person, the tendency is for participants to present themselves in the best possible light. This is known as social desirability bias. Using third-person responses is an effective method of mitigating the influence of social desirability bias in an experimental setting (Cohen, Pant, & Sharp, 2001; Fisher, 1993; Kaplan, Pope, & Samuels, 2011). Therefore, similar to Coram et al. (2004) and Robertson (2010), participants were asked to indicate the likelihood that Xiaolin would further investigate the accounts receivable transaction. Participants' judgments were measured on a scale from 1 to 7, where 1 is extremely unlikely and 7 is extremely likely. Participants were also asked to assess the level of material misstatement risk they thought Xiaolin would associate with the accounts receivable testing (response scale from 1 to 7, where 1 is extremely low, and 7 is extremely high).

3.4 | Independent variables

3.4.1 | Time budget pressure

Time budget pressure was manipulated by describing characteristics of the audit resulting in "high time budget pressure" or "low time budget pressure" (Coram et al., 2004; Gundry & Liyanarachchi, 2007). In the

high time budget pressure condition, the client renegotiated audit fees, and the audit partner decided to reduce the audit fees and budgeted hours. As a result, the total audit budgeted hours were cut by approximately 20%. Moreover, the high time budget pressure case states that the auditor, Xiaolin, has reached the end of his time budget for this section of the audit, and that he is meeting the manager in charge of the audit to finalize this section. To verify the accounts receivable transaction in question, Xiaolin would have to ask the manager for more time. Xiaolin knows that the manager has denied extensions of time in other areas of the audit due to time budget constraints.

In the low time budget pressure condition, the audit partner in charge decided to charge the same audit fee as last year, and he has allocated the same number of hours to the audit that were budgeted last year. Further, the case states that Xiaolin is meeting the manager in charge of the audit to discuss this accounts receivable section of the audit. Xiaolin may have to ask the manager for more time to verify the transaction. Xiaolin knows that the manager has granted extensions of time in other areas of the audit as the time budget is relatively flexible.

3.4.2 | Client pressure

Consistent with Robertson (2010), client pressure was manipulated at low and high levels by using both a corporate (meeting the EPS forecast) and personal (receiving a bonus) incentive. In the case, the client executives' bonuses were dependent on whether the company met or exceeded its EPS forecast. In the high-incentive pressure condition, if the receivable in question was written off, then the company would miss its EPS forecast, and the client's executives would not receive a bonus. In the low-incentive pressure condition, the company would meet its EPS forecast, and the executives would receive a bonus even if the accounting receivable in question was written off.

3.4.3 | Manipulation checks

Participants answered two manipulation check questions to determine whether they attended to the details of the case. First, participants indicated the impact of writing off the entire accounts receivable in question based on the client's ability to meet the consensus analysts' EPS forecast. Participants selected either "exceed" or "miss" the analyst forecast. The second manipulation check question concerned the level of time budget pressure in the case. Participants indicated whether or not the audit partner decided to cut the total audit budget hours by approximately 20%.

3.5 | Moderating measured variable: Emotional intelligence

EI was measured using the 16-item version of the Workgroup Emotional Intelligence Profile (WEIP) scale (Jordan & Lawrence, 2009). This scale measures four distinct components of EI: awareness of one's own emotions, management of one's emotions, awareness of others' emotions, and management of others' emotions. Some examples of EI items include: "I can explain the emotions I feel to team members," and "I respect the opinion of team members, even if I think they are wrong." We used the median EI score as a cut-off point to identify

the level of EI for each participant in the study.⁵ Participants who scored at or above the median were classified as high EI. Those scoring below the median were classified as low EI.

4 | RESULTS

4.1 | Participants

The final instrument was distributed to 200 staff accountants and audit seniors employed at auditing firms in eastern China.⁶ This participant group was selected for two important reasons. First, the current study focuses on auditors in China, which fits the task requirement. The study facilitated an investigation of a potential moderator that can mitigate dysfunctional auditor behaviors. Second, staff accountants and audit seniors were selected as participants to provide the best match between participants and the task of interest. Staff and senior auditors tend to interact with the lower levels of the client's management when conducting inquiries during the audit and are therefore likely to be influenced by client pressures (Bennett & Hatfield, 2013).

Of the 200 participants, 11 did not complete the instrument, and 16 failed one or both of the manipulation check questions. Thus, the final sample retained for the analysis consisted of 173 participant responses. Participants were also asked to rate how tight Xiaolin considered the time budgets to be (time budget pressure) and GTL's incentive to misstate the sale (client pressure). They responded on seven-point Likert-type scales ranging from 1 being extremely low to 7 being extremely high. Participants correctly indicated a higher mean pressure in the high time budget pressure treatment (mean 5.44, $SD=0.94$) than in the low pressure treatment (mean 3.25, $SD=1.07$; $t=14.42$, $p \leq .001$). In addition, participants reported a mean client pressure level of 5.33 ($SD=1.13$) in the high client pressure treatment and 4.26 ($SD=1.32$) in the low client pressure treatment ($t=5.72$, $p \leq .001$). Thus, the manipulations effectively induced perceptions of time budget and client pressure.

Of the 173 participants included in the analyses, 52% were female, and the mean age was 26 years. Of the retained participants, 80% were employed by Big-4 or other international accounting firms. All participants reported completing either 4-year undergraduate or master's degrees. Participants' mean professional experience was 2.28 years (range 0.5–4.5 years). In addition, 135 participants (78%) were certified by CICPA, 6 participants (3.5%) held other accounting professional certifications in China, and the remaining 32 participants (18.5%) reported no certifications. Participants indicated that time budgets were attainable with effort in their organizations (mean response of 5.42, range 4–7 out of a seven-point scale) and that it was imperative for them to meet these time budgets (mean response of 5.63, range 5–7). Finally, participants indicated a high level of job stress in their organizations (mean response of 5.85, range 5–7).

The mean EI score was 64.1, and the median was 59.0 (out of a maximum total score of 112).⁷ The 88 participants who had scores at or above the median were classified as "high" EI, while the 85 participants who scored below the median were classified as "low" EI for the analysis.^{8,9} The t -tests indicated that there were no significant

differences of EI across treatment groups.¹⁰ Table 1 presents participants' demographic data.

4.2 | Tests of hypotheses

The effects of the independent variables on the dependent variables were analyzed with a multivariate generalized linear model.¹¹ The following equation is estimated:

$$AJ_i = \rho_0 + \rho_1 TB + \rho_2 CP + \rho_3 EI + \rho_4 TB \times EI + \rho_5 CP \times EI + \rho_6 TB \times CP + \rho_7 TB \times CP \times EI + \varepsilon_i \quad (1)$$

where *AJ* is auditor judgment: (1) the likelihood of investigating the accounts receivable transaction further measured with a seven-point Likert scale ranging from 1 (extremely unlikely) to 7 (extremely likely), and (2) assessments of the level of material misstatement risk associated with the accounts receivable testing measured with a seven-point Likert scale ranging from 1 (extremely low risk) to 7 (extremely high risk); *TB* is time budget pressure: dichotomous independent variable equal to 0 if time budget pressure is low or 1 if time budget pressure is high; *CP* is client pressure: dichotomous independent variable equal to 0 if client pressure is low or 1 if client pressure is high; *EI* is emotional intelligence: dichotomous independent variable equal to 0 if EI is low or 1 if EI is high.

Moderation analysis was used to test the hypotheses in this study. According to Frazier, Tix, and Barron (2004, p. 116), "moderators address 'when' or 'for whom' a variable most strongly predicts or causes an outcome variable." A moderator changes the direction or strength of the relation between a predictor and an outcome. This study tested whether EI moderates the relation between pressure and auditor judgment. Thus, EI was expected to mitigate the effects of pressure on auditor judgment (H1–H3). Moderated multivariate analysis is used to estimate interaction effects (Aguinis & Gottfredson, 2010). The moderation analysis included the independent variables, time budget pressure, client incentive pressure and EI, the dependent

TABLE 1 Demographic information

Descriptive characteristic	Auditors (n = 173)	%
Female	90	52.0
Mean age (range)	26.09 (24–29)	
Highest degree completed		
Undergraduate degree	135	78.0
Master degree	38	22.0
Certifications		
CICPA (Chinese CPA)	135	78.0
Certified senior management accountant	2	1.2
Certified junior management accountant	4	2.3
No certification reported	32	18.5
Auditing experience (years)		
Mean (SD)	2.28 (1.04)	
Employer		
Big-4/international firm	139	80.3
Non-Big-4/national firm	30	17.3
No response	4	2.4

TABLE 2 Multivariate tests of analysis of auditor judgments^a

Sources of variation	Value ^b	df	F	p
Time budget pressure (<i>TB</i>) ^c	0.745	2	28.101	<.001
Client pressure (<i>CP</i>) ^d	0.452	2	99.593	<.001
<i>EI</i> ^e	0.318	2	175.825	<.001
<i>TB</i> × <i>CP</i>	0.936	2	5.632	.004
<i>TB</i> × <i>EI</i>	0.945	2	4.754	.010
<i>CP</i> × <i>EI</i>	0.636	2	46.999	<.001
<i>TB</i> × <i>CP</i> × <i>EI</i>	0.887	2	10.472	<.001

^aParticipants were asked to (1) indicate the likelihood of investigating the accounts receivable transaction further using a seven-point Likert scale, where 1 is extremely unlikely and 7 is extremely likely, and (2) assess the level of material misstatement risk associated with the accounts receivable testing using a seven-point Likert scale where 1 is extremely low risk and 7 is extremely high risk.

^bWilks's lambda.

^cDichotomous independent variable equal to 0 if time budget pressure is low or 1 if time budget pressure is high.

^dDichotomous independent variable equal to 0 if client pressure is low or 1 if client pressure is high.

^eDichotomous independent variable equal to 0 if EI is low or 1 if EI is high.

TABLE 3 Between-subjects results from multivariate analysis of auditor judgments

Sources of variation	SS	df	F	p
(A) Dependent variable: likelihood of further investigation ^a (n = 173, R ² = .775, adj. R ² = .766)				
Time budget pressure (<i>TB</i>) ^b	12.586	1	24.689	<.001
Client pressure (<i>CP</i>) ^c	48.700	1	95.530	<.001
<i>EI</i> ^d	141.044	1	276.671	<.001
<i>TB</i> × <i>CP</i>	5.648	1	11.080	<.001
<i>TB</i> × <i>EI</i>	4.722	1	9.263	.003
<i>CP</i> × <i>EI</i>	23.232	1	45.572	<.001
<i>TB</i> × <i>CP</i> × <i>EI</i>	1.011	1	1.984	.161
Error	84.115	165		
(B) Dependent variable: Assessments of material misstatement risk ^e (n = 173, R ² = .722, adj. R ² = .710)				
Time budget pressure (<i>TB</i>) ^b	19.757	1	36.225	<.001
Client pressure (<i>CP</i>) ^c	65.756	1	120.567	<.001
<i>EI</i> ^d	55.281	1	101.360	<.001
<i>TB</i> × <i>CP</i>	0.318	1	0.582	.446
<i>TB</i> × <i>EI</i>	0.340	1	0.623	.431
<i>CP</i> × <i>EI</i>	30.769	1	56.417	<.001
<i>TB</i> × <i>CP</i> × <i>EI</i>	10.881	1	19.950	<.001
Error	89.990	165		

^aParticipants were asked to indicate the likelihood of investigating the accounts receivable transaction further using a seven-point Likert scale, where 1 is extremely unlikely and 7 is extremely likely.

^bDichotomous independent variable equal to 0 if time budget pressure is low or 1 if time budget pressure is high.

^cDichotomous independent variable equal to 0 if client pressure is low or 1 if client pressure is high.

^dDichotomous independent variable equal to 0 if EI is low or 1 if EI is high.

^eParticipants were asked to assess the level of material misstatement risk associated with the accounts receivable testing using a seven-point Likert scale, where 1 is extremely low risk and 7 is extremely high risk.

TABLE 4 Cell means and tests of simple main effects for likelihood of investigating further^a

Time budget pressure ^b	Client pressure ^c		Test of simple effects
	Low	High	
(A) Cell means (SD) for auditors with low EI^d (TB × CP)			
Low	2.450 (0.605) n = 20	3.313 (0.656) n = 24	t = - 4.497 p < . 001
High	3.190 (0.750) n = 21	3.000 (0.858) n = 20	t = 0.758 p = . 453
Test of simple effects	t = - 3.470 p = . 001	t = 1.368 p = . 179	
(B) Cell means (SD) for auditors with high EI (TB × CP)			
Low	3.367 (0.611) n = 15 ^e	5.417 (0.776) n = 24	t = - 8.676 p < . 001
High	4.471 (0.800) n = 17	6.094 (0.641) n = 32	t = - 7.739 p < . 001
Test of simple effects	t = - 4.340 p < . 001	t = - 3.576 p = . 001	

^aParticipants were asked to indicate the likelihood of investigating the accounts receivable transaction further using a seven-point Likert scale, where 1 is extremely unlikely and 7 is extremely likely.

^bDichotomous independent variable equal to 0 if time budget pressure is low or 1 if time budget pressure is high.

^cDichotomous independent variable equal to 0 if client pressure is low or 1 if client pressure is high.

^dDichotomous independent variable equal to 0 if EI is low or 1 if EI is high.

^eA Levene test indicates that the error variance of the dependent variable is equal across groups ($F = 1.843, p = . 142$).

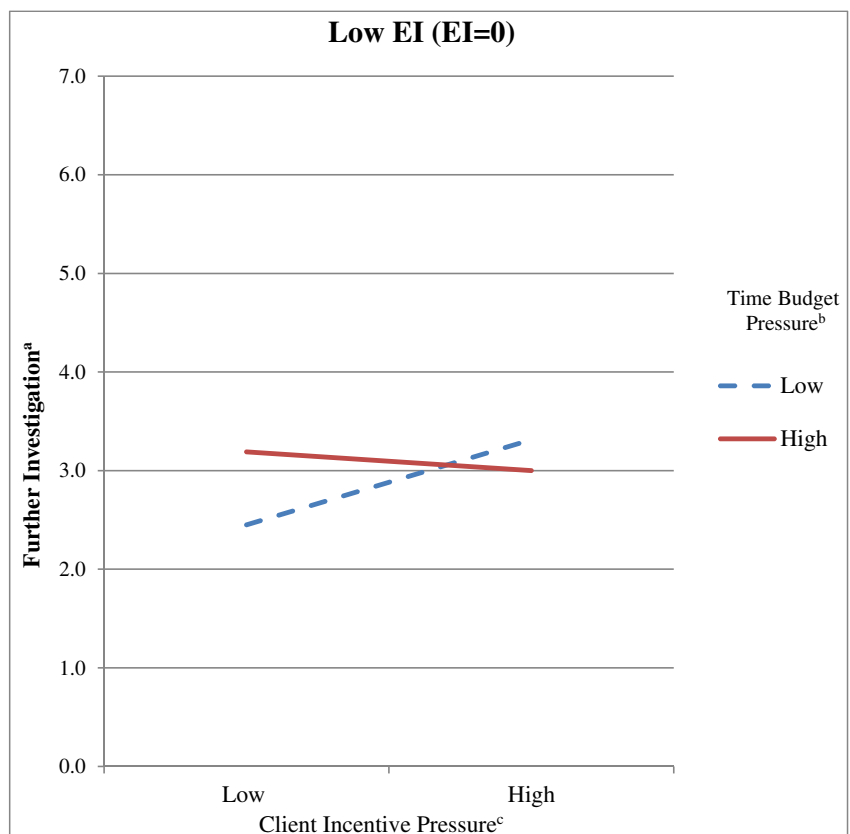


FIGURE 2 Interaction of client incentive pressure and time budget pressure on auditors' assessment of the likelihood of additional investigation [Colour figure can be viewed at wileyonlinelibrary.com]

^a Auditors indicated the likelihood that additional time and effort that would be spent to further investigate this questionable transaction. Participants responded using a seven point scale anchored by "extremely unlikely" (1) and "extremely likely" (7).. See Table 8 for the ANCOVA results.

^b Time budget pressure was manipulated between subjects at two levels: low and high.

^c Client incentive pressure was manipulated between subjects at two levels: low and high.

variable, and control variables. The interaction terms between EI and the other independent variables were used to test for moderation.

Table 2 reports the results from the multivariate tests. The multivariate tests indicated significant main effects of time budget pressure ($F = 28.101, p \leq .001$), client pressure ($F = 99.593, p \leq .001$), and EI ($F = 175.825, p \leq .001$). The multivariate results also indicated significant two-way interactions between time budget pressure and client pressure ($F = 5.632, p = .004$), time budget pressure and EI ($F = 4.754, p = .010$), and client pressure and EI ($F = 46.999, p \leq .001$). Further, the multivariate tests indicated a significant three-way interaction among the three independent variables ($F = 10.472, p \leq .001$). Table 3 reports the results of the univariate between-subjects effects for each dependent variable.

4.2.1 | Likelihood of investigating further

The between-subjects results for the likelihood of investigating further revealed significant ($p < 0.01$) main effects and two-way interactions for the independent variables (see Table 3A). Consistent with H1 and H2, we observed significant interactions between time budget pressure and EI ($F = 9.263, p = .003$) and client pressure and EI ($F = 45.572, p < .001$). However, we did not observe a statistically significant three-way interaction of the variables for the likelihood of further investigation as predicted in H3 ($F = 1.984, p = .161$).

According to Kirk (1995), tests of simple main effects can be used to explain a three-way interaction. In our study, the three-way interaction can be better understood by testing the effects of client and time pressures for individuals with high EI separately from individuals with low EI. A simple main effects analysis of differences in the cell means (time budget pressure \times client pressure) is reported in Table 4 for low EI auditors (Table 4A) and high EI auditors (Table 4B). This presentation of the data facilitates an understanding of how high EI and low EI auditors differed in their responses to time budget pressure and client pressure. When time budget pressure is low, both low EI and high EI auditors indicated a significantly ($p < .001$) higher likelihood of further investigation for high client pressure than low client pressure. However, when time budget pressure is high, this difference was only observed for high EI auditors. Similarly, when client pressure is low, both low and high EI auditors indicated a significantly ($p < .001$) higher likelihood of further investigation for high time budget pressure than for low time budget pressure. However, when client pressure is high, the increased likelihood of further investigation for high time budget pressure was only observed for high EI auditors (see Figures 2 and 3).

4.2.2 | Material misstatement risk

The between-subjects results for auditors' assessments of material misstatement risk revealed significant ($p < 0.01$) main effects for the

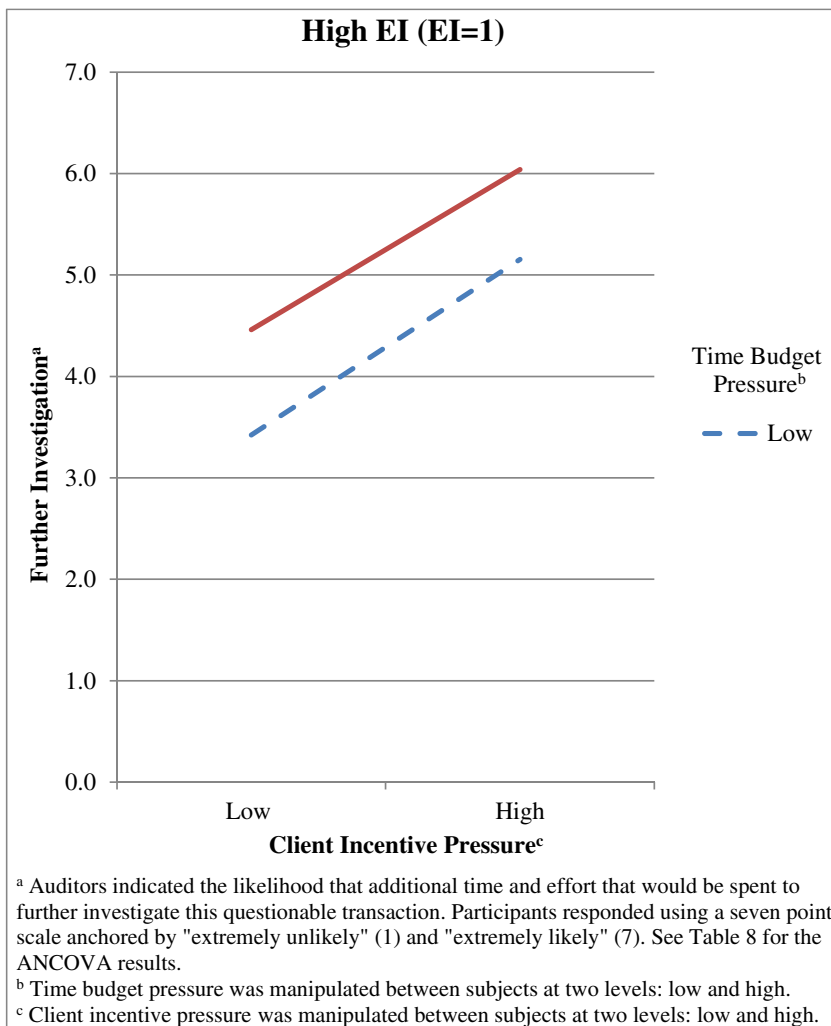


FIGURE 3 Interaction of client incentive pressure and time budget pressure on auditors' assessment of the likelihood of additional investigation [Colour figure can be viewed at wileyonlinelibrary.com]

TABLE 5 Cell means and tests of simple main effects for assessments of misstatement risk^a

Time budget pressure ^b	Client pressure ^c		Test of simple effects
	Low	High	
(A) Cell means (SD) for auditors with low EI^d (TB × CP)			
Low	2.750 (0.639) n = 20	3.750 (0.737) n = 24	t = - 4.757 p < . 001
High	3.952 (1.071) n = 21	3.750 (0.639) n = 20	t = 0.730 p = . 470
Test of simple effects	t = - 4.337 p < . 001	t = 0.000 p = 1.000	
(B) Cell means (SD) for auditors with high EI (TB × CP)			
Low	3.467 (0.640) n = 15 ^e	5.167 (0.761) n = 24	t = - 7.195 p < . 001
High	3.824 (0.809) n = 17	6.375 (0.554) n = 32	t = - 13.042 p < . 001
Test of simple effects	t = - 1.371 p = . 181	t = - 6.882 p < . 001	

^aParticipants were asked to indicate the level of material misstatement risk associated with the accounts receivable testing using a seven-point Likert scale, where 1 is extremely low risk and 7 is extremely high risk.

^bDichotomous independent variable equal to 0 if time budget pressure is low or 1 if time budget pressure is high.

^cDichotomous independent variable equal to 0 if client pressure is low or 1 if client pressure is high.

^dDichotomous independent variable equal to 0 if EI is low or 1 if EI is high.

^eA Levene test indicates that the error variance of the dependent variable is equal across groups ($F = 0.187, p = . 905$).

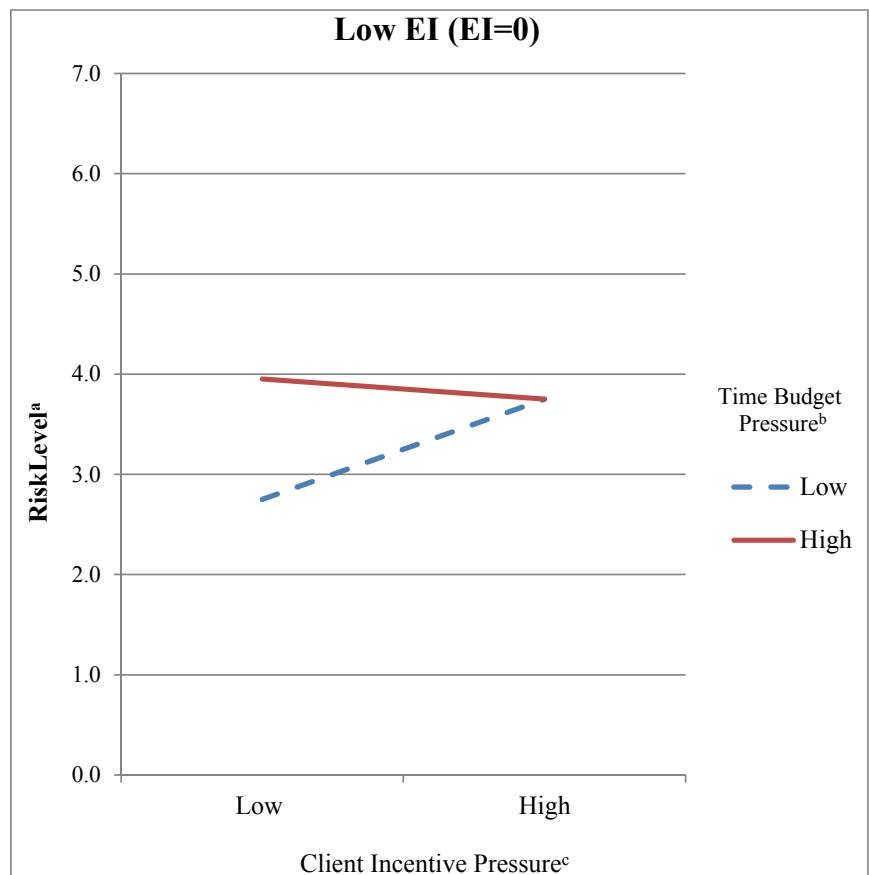


FIGURE 4 Interaction of client incentive pressure and time budget pressure on auditors' assessment of risk level [Colour figure can be viewed at wileyonlinelibrary.com]

^a Auditors indicated the level of material misstatement risk they think will be associated with this account receivable transaction. Participants responded using a seven point scale anchored by "extremely unlikely" (1) and "extremely likely" (7). See Table 5 for the ANCOVA results.

^b Time budget pressure was manipulated between subjects at two levels: low and high.

^c Client incentive pressure was manipulated between subjects at two levels: low and high.

independent variables, the interaction of client pressure and EI, and the three-way interaction of the independent variables (see Table 3 B). Inconsistent with H1, there was not a significant two-way interaction between time budget pressure and EI ($F = 0.623, p = .431$). Consistent with H2, we observed a significant interaction between client pressure and EI ($F = 56.417, p < .001$). Finally, consistent with H3, we observed a statistically significant three-way interaction of time budget pressure, client pressure, and EI ($F = 19.950, p < .001$).

Similar to Table 4, a simple main effects analysis of differences in the cell means (time budget pressure \times client pressure) is reported in Table 5 for low EI auditors (Table 5A) and high EI auditors (Table 5B). When time budget pressure is low, both low EI and high EI auditors indicated a significantly ($p < .001$) higher assessment of material misstatement risk for high client pressure than for low client pressure. However, when time budget pressure is high, this difference was only observed for high EI auditors. When client pressure is low, only low EI auditors indicated a significantly ($p < .001$) higher assessment of risk for high time budget pressure than for low time budget pressure. However, when client pressure is high, only high EI auditors indicated a significantly ($p < .001$) higher assessment of risk for high time budget pressure than for low time budget pressure (see Figures 4 and 5).

In summary, the results suggest that high EI auditors responded to higher levels of multiple pressures by increasing their plans for further

investigation and their assessments of misstatement risk. Thus, high EI auditors exhibited the greatest likelihood of further investigation and the highest assessments of misstatement risk when there is high client pressure and high time budget pressure. However, low EI auditor participants did not differ significantly in their plans for further investigation or assessments of misstatement risk when there are multiple pressures compared with when there is only a single pressure. These results suggest that, in general, high EI auditors are likely to be able to respond to multiple pressures more appropriately than low EI auditors are (Figure 6).¹²

4.3 | Supplemental analysis of professional skepticism

Professional skepticism has been defined as “an attitude that includes a questioning mind and a critical assessment of audit evidence” (American Institute of Certified Public Accountants [AICPA], 1998, AU230.7). Professional skepticism is critical in mitigating aggressive reporting by management (Kadous, 2000), because “the skeptical auditor is less influenced by the beliefs or persuasion attempts of others” (Hurt, 2010, p. 155). Further, positive-mood individuals are likely to be less skeptical than are neutral- and negative-mood individuals (Chung, Cohen, & Monroe, 2008). We investigated the relation

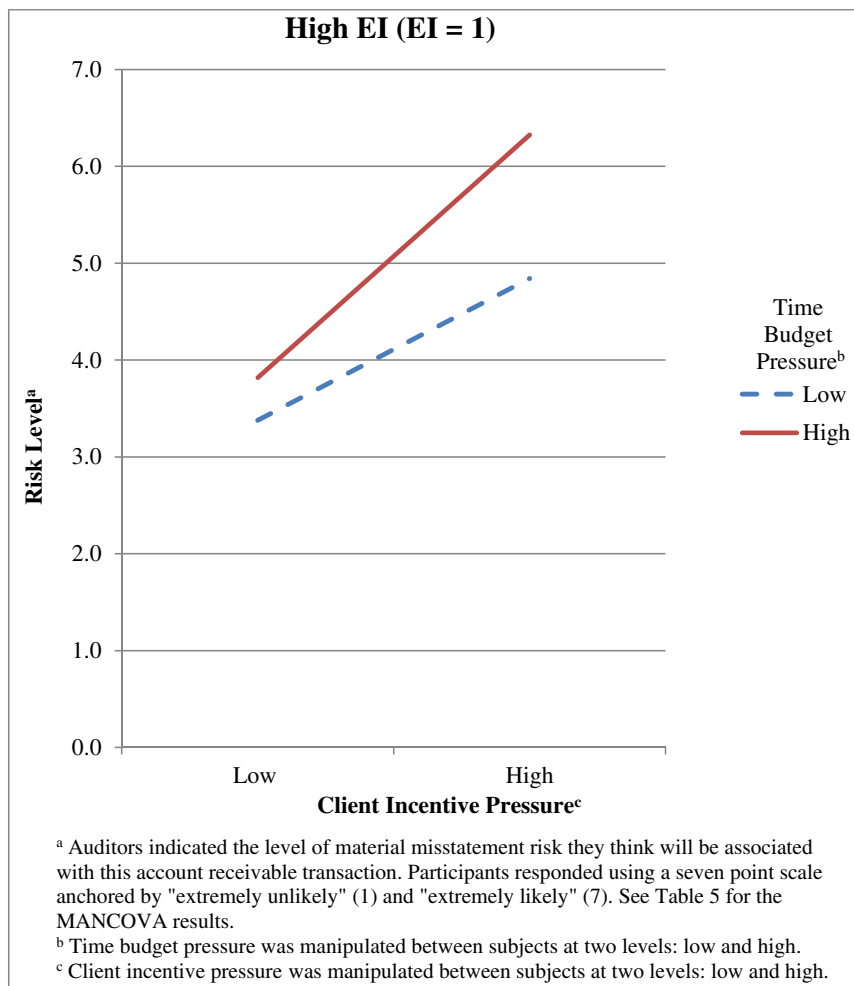


FIGURE 5 Interaction of client incentive pressure and time budget pressure on auditors' assessment of risk level [Colour figure can be viewed at wileyonlinelibrary.com]

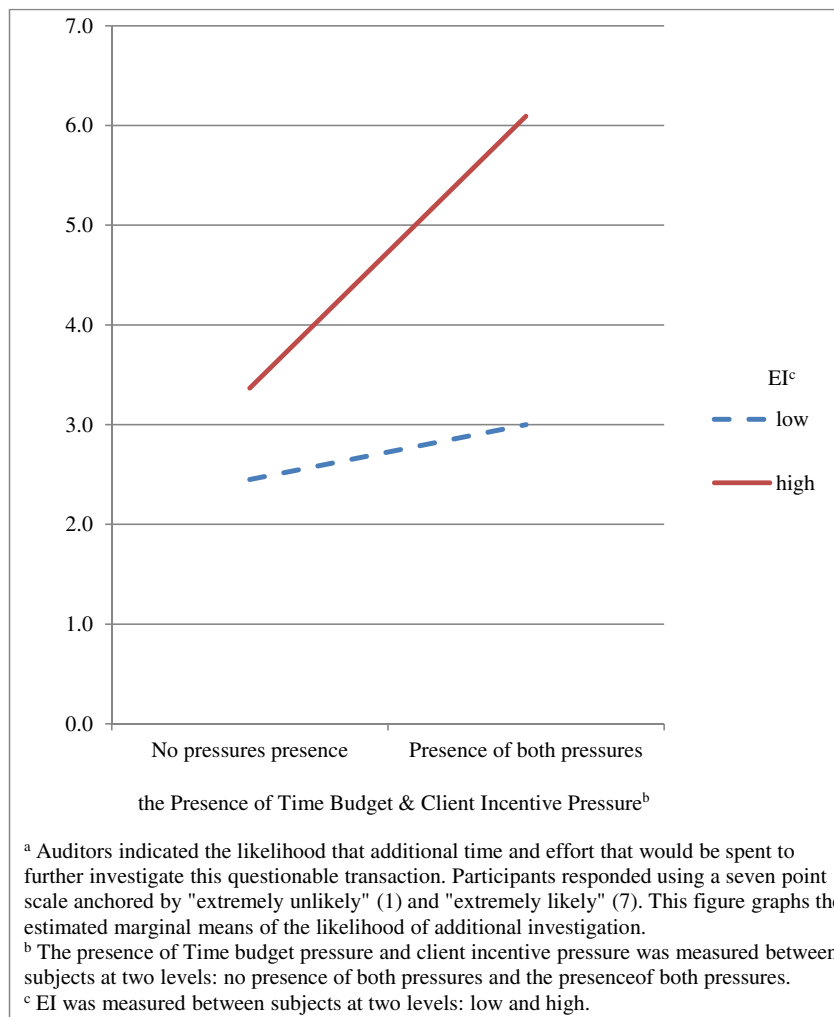


FIGURE 6 Interaction of pressures presence and EI on auditors' assessment of the likelihood of additional investigation [Colour figure can be viewed at wileyonlinelibrary.com]

between professional skepticism and the independent variables in our setting as supplementary analysis.

Based on Hurtt (2010) and Robertson (2010), participants responded to a professional skepticism scale that included the following five items:

1. "I often question things that clients tell me."
2. "I require proof that my clients' statements are true."
3. "I am cautious when evaluating information obtained from clients."
4. "Clients are generally honest (reverse item)."
5. "I tend to trust what clients tell me (reverse item)."

The items were measured on seven-point Likert-type scales, ranging from 1 (strongly disagree) to 7 (strongly agree). The professional skepticism score is the mean of these five items, with a higher score indicating greater skepticism.

Participants' mean (median) level of professional skepticism was 4.28 (4.00), $SD = 1.27$. Interestingly, we found a high, significant correlation between EI and professional skepticism scores ($r = .78$; $\alpha < .001$, two-tailed). The mean professional skepticism scores were

significantly different across the two levels of EI. Specifically, the high EI group had a higher mean professional skepticism score than did the low EI group (mean professional skepticism was 5.22 in high EI group versus 3.32 in low EI group; $t = 14.998$, $p \leq .001$). As EI and professional skepticism are highly correlated, we ran an alternative analysis of the effects of our independent variables on the dependent variables using median-split professional skepticism rather than EI in our model.

An untabulated multivariate generalized linear model indicated significant main effects of time budget pressure ($F = 17.185$, $p \leq .001$), client pressure ($F = 51.497$, $p \leq .001$), and professional skepticism ($F = 43.586$, $p \leq .001$). The multivariate results indicated insignificant two-way interactions between time budget pressure and client pressure ($F = 2.017$, $p = .136$) and time budget pressure and professional skepticism ($F = 0.384$, $p = .682$). However, the two-way interaction between client pressure and professional skepticism ($F = 7.261$, $p \leq .001$) and the three-way interaction among the three independent variables ($F = 4.604$, $p = .011$) were significant. These results provided preliminary evidence that there were some differences in the pattern of interactions observed when professional skepticism was used compared with the primary results with EI.

Tests of between-subjects effects revealed significant ($p \leq .001$) main effects of time budget pressure, client pressure, and professional

skepticism for both dependent variables (likelihood of further investigation and assessments of misstatement risk). For the likelihood of further investigation, the between-subjects results indicated marginally significant two-way interactions between time budget pressure and client pressure ($F = 2.938, p = .088$) and client pressure and professional skepticism ($F = 3.764, p = .054$). The two-way interaction between time budget pressure and professional skepticism ($F = 0.641, p = .425$) and the three-way interaction among the three independent variables ($F = 0.003, p = .957$) were insignificant.

For the risk assessment dependent variable, the between-subjects results indicated insignificant two-way interactions between time budget pressure and client pressure ($F = 0.013, p = .909$) and time budget pressure and professional skepticism ($F = 0.004, p = .950$). However, the two-way interaction between client pressure and professional skepticism ($F = 14.591, p < .001$) and the three-way interaction among the three independent variables ($F = 7.298, p = .008$) were significant. Thus, although some of the results were similar, compared with the interactions between EI and the pressure variables (see Tables 4 and 5), the interactions between professional skepticism and the pressure variables were less significant.

5 | CONCLUSIONS

Auditing is often a stressful occupation with unique features that can exacerbate work pressure (Fisher, 2001). For example, demands to complete tasks within specified time periods during the busy season can have adverse consequences on auditing professionals' judgment. Further, auditors must interact with client management throughout the audit process, and this interaction can cause job stress (Fisher, 2001; Nelson & Tan, 2005). This stress is the result of the requirement for the auditor to remain independent and skeptical while simultaneously developing and maintaining a good relationship with the client (Nelson, 2009).

Prior accounting research has recognized the importance of the impact of emotions on accounting professionals' decision-making processes. Recent accounting studies highlight the importance of EI on accountants' job performance related to decision-making, teamwork, and client relations (Cook, Bay, Myburgh, & Njoroge, 2011; Daff et al., 2012).

This study used an experiment to investigate the effect of EI on Chinese auditors' judgments under different types of pressure. It extended the extant literature by simultaneously incorporating different types of pressure and examining the effect of EI on auditors' judgments. The results suggest that EI is critically important in understanding the impact of pressure on auditors' judgments. Different behavior patterns were found between auditors with high EI and low EI. As expected, high EI auditors exhibited more conservative judgments than did low EI auditors across treatments. Low EI auditors were more likely to investigate the questionable accounts receivable transaction further and assess a higher level of misstatement risk when they experienced high client pressure and low time budget pressure. However, when low EI auditors experienced high pressure (of either type), they failed to respond to variations in a second type of pressure. Thus, there was no significant difference in the observed likelihood of

investigating further or assessments of risk between low EI auditors who experienced one pressure type and low EI auditors who experienced both pressure types. However, high EI auditors' judgments increased in conservatism as pressures increased. High EI auditors were most likely to investigate the questionable transaction further and assess the highest misstatement risk when both pressures were present. These results suggest that, in general, high EI auditors are likely to be able to respond to multiple pressures more appropriately than are low EI auditors are.

The results of this study have implications for researchers, practitioners, and regulators. From the research standpoint, this study provides evidence of the joint and unique effects of organizational and environmental pressures on auditor judgments, building upon prior research on the individual effects of different pressures. It also underscores the importance of understanding EI's effect on judgment and decision-making in the accounting profession. Understanding the role of EI in mitigating auditors' pressure and influencing judgment and decision-making is important to public accounting firms' practices concerning recruiting, training, and promotion decisions. Prior research has indicated that training activities can improve EI (e.g., Jonker, 2009; Moriarty & Buckley, 2003; Slaski & Cartwright, 2003). Accordingly, EI training could help auditors recognize and deal with the various affective reactions they may experience when dealing with clients (Bhattacharjee et al., 2012). Thus, this study suggests that accounting firms are wise to consider investments in developing training programs to improve employees' EI. As pressures lead to dysfunctional auditor behaviors and impair audit quality, specific strategies such as EI training could raise auditors' awareness of judgment biases and mitigate the quality-threatening effects of these pressures.

This study is subject to limitations. Like most experimental studies, generalizability is a limitation of this study. Moreover, the self-report questionnaire was used to obtain respondents' EI scores. Thus, common method variance is a concern, as it may result in biased estimated relationships (Spector, 1987). Further, the dependent variables were measured by asking participants what they thought the hypothetical auditor would do in the case presented. While the use of third-person questions is a way to reduce social desirability bias in self-report questionnaires (Fisher, 1993), it may also lead to some noise in examining the relation between the dependent variables and a participant's individual characteristics (i.e., EI and professional skepticism). While the time pressure conditions were adopted from a prior study, the high time pressure manipulation indicated that, owing to reduced audit fees, the audit partner decided to reduce budgeted hours. Further, the manager had denied extensions of time in other areas of the audit due to time budget constraints. The intent of this manipulation was to provide participants with a practical scenario where time pressure was clearly an issue. However, the inclusion of multiple factors in the manipulation (i.e., reduced hours and manager unwillingness to grant extensions) limited our ability to clearly determine what aspect of the manipulation is driving the observed results. It is possible that one factor may drive the results more than the other. Thus, our results should be interpreted with these limitations in mind.

In addition, participants were auditing professionals in China. It is possible that the independent variables investigated in this study might

have been different in their impact on Chinese auditors' judgments compared with auditors in other locations. However, prior studies of accounting professionals in other cultures have concluded that both time budget pressure and client pressure increase auditor propensity to make unethical decisions (Robertson, 2010). Thus, it is reasonable to expect the hypothesized relations to hold with auditors in other countries. Moreover, limited background financial information was provided for the participants, and this may have limited their ability to make informed decisions. Most notably, the case provided documentation in the form of the sales report. The case did not provide detailed information about other potentially important documents, such as a shipping invoice from the accounting department. In practice, more information would be provided, enabling auditors to make more informed decisions.

Finally, another limitation concerns the use of the median split to create the two EI subgroups (high versus low EI groups). Creating a categorical variable from a continuous measure lowers statistical power, and "decreases the sensitivity of the measurement instrument" (Angelidis & Ibrahim, 2011, p. 117). In this study, two independent variables were manipulated at low and high levels. For consistency, we used a median split to separate low and high EI groups, which is consistent with procedures used in prior research to analyze measured trait variables.

There are several avenues for future research. This study demonstrates that EI has a moderating effect on auditor judgment under two types of pressure. Future research could examine the effects of EI on judgment and decision-making in other contexts. For example, future research could extend this study into social influence settings. The potential moderation effect of EI under social pressures and incentives would be of interest for future studies. Further, the current study only focused on staff and senior auditors. Future research could investigate whether EI similarly influences decision-making of auditors at higher ranks, such as managers and partners. More experienced auditors may react to job pressures differently, and EI may play a different role in their judgments. Moreover, future research may wish to explore whether cultural differences, as well as other factors, such as individual personality, will impact the role of EI in an accounting setting.

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ENDNOTES

- ¹ Power distance is defined by Hofstede (1993, p. 89) as "the degree of inequality among people which the population of a country considers as normal."
- ² The convergence between Chinese Standards and International Standards on Auditing (ISA) was completed in 2010 (Haw, 2008). ISA standards are intended to enhance audit quality and public confidence in the global auditing and assurance profession.
- ³ Prior research has confirmed that individuals have a tendency to portray themselves favorably by underestimating (overestimating) the likelihood they would perform an undesirable (desirable) action (Chung & Monroe, 2003; Kaplan et al., 2011). Phrasing questions in the third

person is a method used to reduce the impact of social desirability bias on self-reported data (Fisher, 1993).

- ⁴ The sales report is a supporting documentation (customer order) provided by a sales department (Gundry & Liyanarachchi, 2007).
- ⁵ The median split is a common method used in previous studies (Angelidis & Ibrahim, 2011; Marques & Azevedo-Pereira, 2009).
- ⁶ One of us contacted several professionals either working at or with access to accounting firms in China. The instruments were distributed and collected by these professionals at accounting firms in June and July of 2012.
- ⁷ Cronbach's alpha coefficients for all four dimensions of EI were above 0.90 in our study.
- ⁸ Consistent with procedures reported in prior studies (e.g., Angelidis & Ibrahim, 2011; Marques & Azevedo-Pereira, 2009), we conducted a sensitivity analysis of high and low EI classifications by ignoring the respondents with EI scores within a range of 5% of the median score (2.95 points). Specifically, we considered only the 166 respondents who scored above 61.95 or under 56.05 on EI. The results of this sensitivity analysis were consistent with the main analysis reported in Table 2 in terms of direction of the coefficients and statistical significance.
- ⁹ A two-step cluster analysis was also performed as sensitivity analysis by using the mean value for the 16 items (Bailey & Sawers, 2012), resulting in two significantly different groups ($t = 27.681, p < .001$): high EI (mean 5.49, $SD = 0.604$) and low EI (mean 3.07, $SD = 0.529$). The results of this sensitivity analysis indicated that the two groups were significantly different in the assessment of likelihood of further investigation (mean 3.142 low EI group versus 5.582 high EI group, $t = 17.682, p < .001$) and risk misstatement (mean 3.594 low EI group versus 5.478 high EI group, $t = 11.818, p < .001$).
- ¹⁰ High versus low time budget pressure groups: $t = 0.977, p = .33$. High versus low client pressure groups: $t = 1.583, p = .115$.
- ¹¹ In additional analyses, all demographic variables were examined for inclusion as control variables. Audit experience was found to be significantly correlated with the dependent variable (Pearson $R = -.176, p = .021$). Including audit experience as a covariate in the model did not change the significance or direction of the effects of the independent variables.
- ¹² In order to more clearly explain the moderating role of EI, we also conducted the additional analyses by collapsing the time budget pressure and client incentive pressure cells such that we investigated a 2×2 , where one variable manipulation represents the presence of pressure (neither client pressure nor time budget pressure present versus both client pressure and time budget pressure present) and the other variable represents EI (high EI versus low EI). The results were consistent with our primary results, except the likelihood of further investigation became significant. As shown in Figure 6, the effects of EI on high pressure situations were significantly stronger when both client pressure and time budget pressure were present.

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