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**ANTON DE KOM UNIVERSITY OF SURINAME**  
**FACULTY OF SOCIAL SCIENCES**

**Determinants of auditor independence: factors influencing auditor  
independence in Suriname**

In partial fulfilment of the requirements for the degree of Master of Science in Accountancy

Department: Economics

Field of study: Master Accountancy

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Paramaribo, April 2021

## **Preface**

To complete the master study in Accounting, Auditing and Control at the Anton De Kom University in Suriname, it is required to write a thesis. The subject of this thesis is about the Determinants of auditor independence: factors influencing auditor independence in Suriname. Writing this thesis has not been possible without the support of my supervisor, co-readers and family.

Firstly, I would like to thank my supervisor S. Faria MSc. and co-reader V. Ramdin MSc. for their guidance, support and valuable feedback. Secondly, I would also like to thank Drs. A Sheoratan RA and Drs R. Dwarka for making this master's program possible for students who want to continue their studies and achieve a certain career in their life. Further, I also would like to thank my parents for their support, motivation and empowerment and finally I want to thank two very important persons in my life, my husband and my son who always stood by me, supported me and made me believe that I can achieve this goal.

Paramaribo, April 2021

Xaveira Sajoe

## **Abstract**

The objective of this study is to examine whether the determinants of auditor independence influence the independence of auditor in Suriname. The determinants of auditor independence have to do with the factors that can influence the auditor independence. In this study the influence of 4 factors on auditor independence will be examined. These are gender of the auditor, audit firm size, audit partner rotation and the audit committee. These factors will be used as the variables which are used for the operationalization of the concept "determinants of auditor independence". Furthermore the factors audit partner rotation and audit committee are based on the auditor perceptions on these factors. Also auditor independence is operationalized through the perception of the auditor about auditor's independence. To examine this association, a sample is drawn of 45 auditors who work in audit firms in Suriname. To collect data, this thesis uses web-based questionnaires sent to auditors in Suriname who work in audit firms. These questionnaires have been distributed to nine audit firms of Suriname. To measure the variables gender, audit firm size, audit partner rotation and audit committee an explanatory study is carried out based on a deductive approach with quantitative research. The findings of this study indicate that there is a negative association between the independent variables (gender, audit firm size, audit partner rotation and audit committee) and the dependent variable (auditor independence). The negative association between the size of an audit firm, audit partner rotation, audit committee and the independence of an auditor indicates that an increase in these independent variables leads to a lower independence of an auditor. As for the independent variable gender the results indicates that there is no gender differences among the auditors in Suriname in terms of their independence. Although the findings are not what is expected, these findings may be useful for further investigators, standard-makers, auditors, as it can be a starting point for such a research and that this research can help to stimulate research within the audit industry in Suriname.

**Key words:** Auditor Independence, Gender, Audit Firm Size, Audit partner rotation, Audit Committee

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## **1. Introduction**

### **1.1 Background information**

Auditor Independence forms the basis of the accounting profession and depends on the strength and status of the profession (Chia-Ah et al. 2010). The trust of the public in companies' accounting figures is highly dependent on audited financial statements and accounting reports as they form the basis for financial markets participants to take decisions (Chia-Ah et al. 2010). This means that when auditors do their work, they must always be objective. Auditor independence demonstrates objectivity and builds the confidence of those who depend on their services (Chia-Ah et al. 2010). Since independence is of greatest importance to the accounting profession, the rules associated with it must remain relevant, effective and fair in any business environment (Chia-Ah et al. 2010). In the study of Lee et al. 2012 they stated that auditor independence is defined as the reliability of the financial statements and the independence to which they relate, which means that auditors must remain objective and skeptical (questionable mind) to ensure that the criteria for accuracy and honesty are related (Chia Ah et al. 2010).

Since the introduction of the "audit" concept, there has been a strong need for a review of the financial statements of companies by an independent external auditor (Huyghe, 2017). Since investors, creditors and other shareholders rely on a company's financial condition and performance, it is very important that their published financial reports are reliable (Huyghe, 2017). This is good for both the safety and the profitability of the shareholders' investments (Huyghe, 2017).

When it comes to a financial audit, it is therefore important to give an independent and objective opinion because the information presented in the financial statements must reflect the company's actual financial figures (Huyghe, 2017). Therefore, the confidence of the auditor is very important in this uncertain and complex world. Since trust is important to the auditor, it is necessary to explain the key concepts surrounding the term audit and then focus on the concept of auditor independence (Huyghe, 2017).



## 1.2 Problem definition and research question

The concept of independence is fundamental to an audit (Wines, 2012). Independence from the auditor helps ensure quality controls and helps users of financial statements rely on the financial reporting process (Salawu, 2017). Many current professional statements specify a general test of the auditor's independence based on what a reasonable and informed third party would find acceptable (Wines, 2012). Studies of independence have generally sought to examine perceptions of an auditor's independence in specific and varied situations. While it is nearly impossible to determine the cause and it is difficult to identify obvious implications, there have been many studies that have attempted to examine different factors that could potentially affect the independence of auditors and various groups of interested parties have been surveyed (Lovisa & Waqas, 2020). Such as the study Alexander & Hay (2013), where they indicate that high audit fee levels, gender, audit firm size and joint provision of non-audit services and audit services have a negative effect on auditor independence, because these factors may have increased the risk of economic bonding and the risk of self-review which leads to more chances of frauds and scandals to take place. In the study of Albeksh (2017,) they indicated that audit partner rotation and a cooling-off period have a positive effect on independence of the auditor, because audit partner rotation prevent the risk of familiarity and cooling-off periods prevent the risk of self-interest. Another study uses the same factor as Albaksh (2017) and that is the study of Omondi (2017. Omondi, (2017) found that audit partner rotation has a bigger influence on the independence of an auditor than firm size has. Additionally auditors do not get to develop their personal relationships with their clients and everything maintained professionally (Chia-Ah et al. 2010; Tahinakis & Nicolaou, 2004; Omondi, 2017). What affects the independence in an auditor can vary between different countries (Lovisa & Waqas, 2020). The differences could be cultural as well as regional due to different laws. What and how factors affect the independence of an auditor can also vary between different stakeholders, which means that the perceptions of factors influencing auditor independence can differ across stakeholders (Chukwumerije, 2012). The study by Halim et al. (2018) also investigates factors influencing the independence of auditors. And one of the factors is gender. In the research of Halim et al. (2018) it was found that gender has no influence with regards to the independence of the auditor. In terms of independence, there is no differences between male and female auditors. This lack of gender differences may be

caused by work-related socialization, similar training and also the professional standards that may eliminate differences between male and female auditors (Halim et al. 2018).

Looking at the previous scandals such as Enron and the respective acts that arose from that situation, it is stated that the auditor's independence is key to any audit process and is the sole representation of the audit firm's legitimacy (Chia-Ah et al. 2010). These recent corporate scandals, many of which are attributed to weak corporate governance structures, have brought into attention the need for examining and understanding the different aspects of corporate governance and its relationship to the organizational bodies which are responsible for the monitoring processes, such as the audit committee (Drogalas et al. 2016). A quick look at the corporate governance guidelines set by this recent corporate collapse suggests an important expected role for the audit committee (Adelopo, 2010). The study of Adelopo (2010) examined the relationship between corporate governance and the independence of the auditor, a study of audit committee in U.K. Adelopo (2010) stated that the relationship between audit committee and auditor independence are very important, because audit committee is the only board committee directly charged with ensuring the quality of control and reporting in the organization at board level. Specifically, this study analyzes audit committees as part of corporate governance. Moreover, another factor which may have different outcomes regarding the auditor independence is the audit firm size of the auditor. There has not been enough research on how audit firm size is relevant to auditor independence, for example, Omondi, (2017) states that this can be attributed to the reason that big audit firms offer non-audit services. This may expose the audit firm to the risk of compromising their auditor independence at the expense of other services that can be provided to the clients (Omondi, 2017). These can contradict the popular results that have indicated that larger audit firms are often considered able to resist pressures from management (i.e. higher auditor's independence).

As indicated in several studies, there are several factors that can affect the auditor's independence. In this study the influence of 4 factors on auditor independence will be examined. These are gender of the auditor, audit firm size, audit partner rotation and the audit committee. These factors will be used as the variables which are used for the operationalization of the concept "determinants of auditor independence" (Bakar et al. 2009). And as many as there are, this thesis will only focus on four determinants of auditor independence. In the study of Bakar et

al. (2009) the factors gender and audit partner rotation are not included as factors of auditor independence, but these determinants are included in other prior research as factors that can influence auditor independence, these will be included in this research as determinants of auditor independence.

### **The development of the Surinamese Audit profession**

As for the development with regard to the auditors in Suriname, a law has been accepted in 2018. This law is called Suriname Chartered Accountants Institute. There is an organization called Suriname Chartered Accountants Institute (SCAI), in which all auditors are associated according to the Law Suriname Chartered Accountants Institute in article 28 paragraph 1. This law was introduced to establish and regulate professional rules and standards for accountants in Suriname and promote and protect the importance and functioning of the Institute and of the profession of accountants in Suriname (Suriname Chartered Institute Act, 2018). This Law also specifies the tasks and objectives of SCAI. The objectives of this institute are to promote proper professional practice by accountants in Suriname and to promote the common interests of these members (Suriname Chartered Institute Act, 2018). Some of the tasks of this institute are to establish and regulate professional rules and standards for accountants in Suriname, to promote and increase the knowledge, skills and competence of the members and to promote, promote and protect the importance and functioning of the Institute and of the profession of accountants in Suriname (Suriname Chartered Institute Act, 2018). Since there is limited empirical evidence about the influence of these factors on the independence of auditors in Suriname, it is interesting to investigate this phenomenon in Suriname. The debate about the factors influencing the independence of the auditor continues and also the effects of reduced auditor independence on user confidence. This result may contribute to a better understanding of the auditor independence in Suriname and may provide recent evidence for Surinamese auditors to improve their professional practices. Limited research has been done on the independence of auditors in Suriname, so it is believed that this study may help the accounting firms in Suriname to better understand the factors influencing the independence of auditors. Because as long as there are companies who do business, and want to grow their business, there is a need for investment and to do those investments, investors, banks (lenders) must be able to rely on the financial statements of the company. Therefore this study will add to the users of financial statements' or

public's understanding of the independence of Surinamese auditors. In the sense that they can understand which of these factors influence the independence of auditors. When analyzing financial statements they can take these factors into account. Also the accounting association in Suriname (Institute of Chartered Accountants) can benefit from this study in the sense that they can use the findings of this study to optimize the auditing profession standards in Suriname. In this way also accounting scandals can be prevented in Suriname. Therefore, this research is carried out to fill the gap by investigating the determinants of auditor independence that influence the independence of external auditors in Suriname.

To examine whether these factors influence the independence of external auditors in Suriname, the following research question is formulated:

***“Do the determinants of auditor independence influence the independence of external auditors in Suriname?”***

To answer this research question the following sub questions are formulated:

1. What relevant accounting theories are related to auditor independence?
2. What is the meaning of audit/auditor independence and why is this so important for auditors and users of financial statements?
3. What type of auditor independence can be distinguished?
4. How is the accounting profession regulated in Suriname?
5. How is it with the development of corporate governance in Suriname?
6. Is there a significant association between the factors gender, audit firm size, audit partner rotation, audit committee and auditor independence?

### **1.3 Relevance of the problem definition**

As there have been many scandals all over the world and this has also been indicated in previous studies, it can be concluded that the independence of auditors has become a major issue.

However, there is limited empirical evidence about the influence of important factors on the independence of auditors in Suriname. This thesis aims to investigate the four factors that can influence the independence of the auditor. Auditor independence is a constantly important topic for the profession today, so the results of this study will give a clear concept of auditor

independence in Suriname and will provide recent evidence on this topic to enhance the practices of the auditing profession in Suriname. Furthermore the accounting profession has been regulated since 2018, by the Surinamese law. The findings of this study can also contribute to the improvement of the accounting regulation in Suriname

#### **1.4 Methodology**

The aim of this research is to investigate the observation of the determinants of auditor independence that can influence the independence of auditors in Suriname. An explanatory study is carried out based on a deductive approach with quantitative research. The type of research in this thesis is based on quantitative research, because the observations collected are encoded in numerical values. And in order to make a good conclusion on the observations of the theoretical concepts in question, a statistical analysis is also performed. Therefore, the relationship between the factors and the independence of the auditor can be statistically investigated and analyzed based on the data collected. The target group of the investigation are the auditors who work for accountancy organizations in Suriname and who perform audit services for firms or organizations in Suriname. In order to be able to draw a conclusion about the population, the sample statistics were chosen to be used in the study. The focus is only on auditors in the accountancy organizations. Therefore, the intended respondents or units of analysis for the study are the individual external auditors, consisting of the junior -, middle- and senior auditors, supervisor and also the certified public accountants of the Suriname accounting firms, because of their knowledge of audit areas and they are personally involved in the audit procedures. The method to collect the data of this thesis is done through a questionnaire and this is done through google forms and emailed to the auditors of Suriname. The answers of the auditors are then automatically saved via this web and afterwards when closing the questionnaire, these data and answers are downloaded in an excel spreadsheet. These are then copied for further data analysis and placed in the statistics program SPSS.

#### **1.5 Limitations**

It is important to indicate the limitations of this thesis so that readers know what direction this research is headed. This thesis used individual auditors and not audit firms. And the word auditor

used in this thesis refers to external auditors and not internal auditors. In other words, this study only used external auditors. This is because the duties for external and internal auditors are different from each other. For example, Chia Ah et al. (2010) have indicated that the external auditors have the main responsibility to express an opinion on the financial statements, while the internal auditors concentrate on confirming the operational effectiveness of the various internal business processes of a company. While both types of auditors must be independent, the degree of independence is far too strong and required for external auditors (Chia Ah et al. (2010). This research is specifically applied in a Surinamese context and therefore the findings may or may not apply to other countries according to different regulatory frameworks. In addition, the scope of this review was clearly limited to one group (i.e. external auditors) and that it considers only the perceptions of the external auditors, meaning that the perceptions of other related parties, including audit clients and other stakeholders, with regard to auditor independence, were not evaluated. This thesis also focuses on the independence in appearance instead of independence in fact, because Security Exchange Council (SEC) believes that an auditor cannot be considered independent if a reasonable investor, knowing all relevant facts and circumstances, would conclude that the auditor is incapable of making an objective and impartial judgment (Colbert et al. 2008). Therefore, the SEC considers the independence in appearance as a necessary element of the auditor's independence. Based on previous studies (Bakar et al. 2009 and Beattie et al. 1999) the independence in fact is also unobservable.

## 1.6 Structure of the thesis

### **Chapter Two – Auditor independence and Accounting profession in Suriname**

After the introduction of research overview, relevant theories for auditor independence and the four factors (gender, firm size, audit partner rotation and audit committee) are discussed. Furthermore this chapter gives an answer to the following sub questions: *What relevant accounting theories are related to auditor independence? What is the meaning of audit/auditor independence and why is this so important for auditors and users of financial statements? What type of auditor independence can be distinguished? How is the accounting profession regulated in Suriname? How is it with the development of corporate governance in Suriname?*



### **Chapter Three – Literature review**

This chapter discusses the analysis of previous research which contributes to the examination of the relation between the four factors (gender, firm size, audit partner rotation and audit committee) and auditor independence. In this chapter the similarities and differences of previous studies' findings are described. Finally a summary of this analysis is added.



### **Chapter Four – Hypothesis development**

This chapter contains the development of the hypotheses that are tested in order to answer the research question. These hypotheses are developed and based on the prior studies discussed in chapter 3.



### **Chapter Five – Research Design**

This chapter elaborates on the research design of this study, where the methodology to carry out this research is described. Hereby the variables of interest to measure the theoretical concepts and estimation models are mapped. Additionally the sample selection method and sample size are discussed.



### **Chapter Six – Data Analyses and results**

The results of the statistical analyses such as descriptive statistics and regression analyses are discussed. The sub question and additional research question: “*Do the determinants of auditor independence influence the independence of external auditors in Suriname?*” is answered based on these analyses.



### **Chapter Seven – Analysis of the study findings and previous research**

The results of chapter 6 are analyzed and compared to prior research findings in this chapter. Through this analysis, the conclusions with regard to the research question are drawn.



### **Chapter Eight – Discussion, Conclusion and implications**

Summarizes and concludes the study by presenting the main findings and contributions of this study taking into account the limitations. In addition this chapter ends with suggestions for future research areas with regard to this topic.

The next chapter describes the literature of relevant accounting theories and the theoretical concepts related to this study.



## **2. Auditor independence**

### **2.1 Introduction**

This chapter gives a brief literature overview of audit and auditor independence and therefore answers the following sub questions: What relevant accounting theories are related to auditor independence? What is the meaning of audit/auditor independence and why is this so important for auditors and users of financial statements? What type of auditor independence can be distinguished? How is the accounting profession regulated in Suriname? How is it with the development of corporate governance in Suriname? The second paragraph will provide explanation of which theories are related to auditor independence and why. Furthermore this chapter discusses the meaning of financial audit and the auditor's independence in general. The next paragraph discusses the development of corporate governance in Suriname, followed by the next paragraph which discusses how the accounting profession regulated in Suriname. Finally the last chapter ends with a summary of this chapter.

### **2.2 Theories related to auditor independence**

The accounting theories which are related to auditor independence are discussed in this paragraph are:

1. The agency theory
2. Stakeholder theory
3. Institutional theory

These three theories are discussed because they explain best what the motivations are and why they are related to auditor independence.

#### **2.2.1 Agency theory**

One of the best known theories in auditing is agency theory. This concerns the agent and the client of a company, where the agent is the management and the client the owner of the company (Jensen & Meckling, 1976). The client provides the financing, but has no experience to run the business and therefore hires a professional and experienced manager who can lead the day-to-

day operations of the company (Peter Okah, 2013). There is always a problem between these two, known as the agency problem, which can arise when the principal (investors) does not intend to take an active role in the management of the company and also when the manager instead uses the incentives to maximize its own interest (Peter Okah, 2013). When an investment in a company is made by an external investor, managers have theoretically an incentive to take over the wealth thereby creating an agency problem (Peter Okah, 2013). An independent external auditor is therefore engaged in the interest of management and also in the interest of third parties (Peter Okah, 2013). In order to prevent the agent from turning away from the principal's interest and to resolve the potential problem of moral hazard, the principal must establish incentives, such as stock option, to align the agent's action with that of the principal (Jensen & Meckling, 1976). Besides, the principal must inevitably incur some monitoring costs to limit the agent's deviation from the principal's interest (Jensen & Meckling, 1976). According to Ross (1973) the agency theory is the essence of audit service that can bring about the maximum benefit to both the agent and the principals. According to Ross (1973) this audit will lead to:

- A cost-effective monitoring device,
- Reduces information asymmetries by adding credibility to financial statements
- Has an important role in a setting where ownership and management of the firm is separated & in the relationship between managers and creditors.
- Reduces risk for investors. Auditing gives a positive signal effect.

This theory can also be used to explain the independence of auditors based on their audit reports to third parties (Peter Okah, 2013). If an auditor is able to identify a material misstatement or other irregularity such as a violation of the accounting standard (illegal acts) or fraud in the company's financial statements and is willing to report this to qualify his audit reports against the wishes of the auditor audit client, therefore the auditor has maintained independence in this conflict between the auditor (client) and the audit client (agent) (Peter Okah, 2013).

### **2.2.2 Stakeholder theory**

The Stakeholder theory mainly consists of acting in the stakeholder's best interest which in this case would be the client that the auditors have to conduct an audit on (Deegan & Underman, 2011). The ethical branch of stakeholder theory says that all stakeholders (client) have the same right and the power of the stakeholder are not relevant (Deegan & Underman, 2011). Since the

society have the right to get information about if the organization has fulfilled their responsibilities, the financial report and audit report are addressed to the whole society and the auditor has to be independent from all perspectives. Clients are needed for the survival of the audit firm and the independence of the auditor is important for the survival of the client, since the trustworthiness of the clients' financial report are affected by the independence in appearance (Holland & Lane, 2012). It is therefore important for the auditor to avoid act in a way that affect how the other stakeholders perceive their independence, no matter how powerful that stakeholder is (Lovisa & Waqas, 2020). Also, the client should also avoid acting in a manner that they believes will affect the auditor's independence and the reliability of the financial statements (Deegan & Unerman, 2011). Since audit firms need clients to survive, the clients can be seen as a powerful stakeholders for the audit firm and the managerial branch of stakeholder theory can also be relevant. The leadership explains that organizations can prioritize more powerful stakeholders and for audit firms there may be a risk that the expectations of clients who pay a high relative fee, for example, are prioritized and compromise the auditor's independence (Deegan & Unerman, 2011; Holland & Lane, 2012). An auditor is expected to be free from any external or internal influence which may affect their opinion about the state of affairs of his client's business (Holland & Lane, 2012). The auditor must be independent and also appear independent to clients on whom they report, allowing this thesis to make use of stakeholder theory.

### **2.2.3 Institutional theory**

Institutional theory addresses the unstoppable issues of social structure (Peter Okah, 2013). It takes into account the development of certain structures, including rules, norms, schedules and routines, which have been established as authoritative guidelines for social behavior (Peter Okah, 2013). It examines how these components are formed, assembled, adopted, and fitted across territories and time; and how they reduces and may not apply to the environment (Peter Okah, 2013). The increasing studies of institutions by scholars were based on the different ways in which organizational structures have been affected by norms, share beliefs and rules (Peter Okah, 2013). This has made it easier to understand the essence of institutions and the ways they influence organizations (Peter Okah, 2013). Meyer & Rowan (1977), presented that, the rationality norms in institutions leads to the formation of many formal organizations. Any

organization operating in particular institutions has to respect the institutional requirements and is backed by authoritative agents or by effective surveillance systems and sanctions (Meyer & Rowan, 1977). For example, according to the European Economic Community (EEC) Eighth Company Law Directive, member states have the discretionary power to determine the conditions of independence for a statutory auditor (Meyer & Rowan, 1977). Whereas in the US, the Securities and Exchange Commission needed auditors have listed US parent companies to abide to SEC regulations to insure the independence of the auditors (Meyer & Rowan, 1977). Lots of these types of institutional systems have come and gone over time, each providing a different regulatory framework to guide social behavior, most of which were designed to punish defaulters to correct their actions (Peter Okah, 2013). Therefore, the changes to the standard international rules and regulations that govern the accounting and auditing professions are intended to maintain the persistence and integrity of independent action to prevent deterioration or decline of these professions (Peter Okah, 2013). These standards have been implemented in different ways in different organizations and institutions across territorial boundaries to meet the social and behavioral standards of each specific entity, which therefore affect the way the auditor conducts audits in a particular institution or environment (Peter Okah, 2013). For example, the Code of Ethics of the American Institute of Certified Public Accountants (AICPA) was modified to maintain auditors' independence in the auditing profession with respect to the provision of NAS like tax-related services to their audit clients (Peter Okah, 2013).

### **2.3 The meaning of Financial Audit**

Audits at the time were designed to make sure that the statement of income and expenditure transactions was reported correctly and to ensure correctness and regulatory agreement and the absence of fraud (Lee et al. 2012). Rusmanto (2001) defined the nature and the purpose of audit as: *“An independent, objective and expert examination of a set of financial statements of an entity, together with all necessary supporting information. The purpose of this is to make an informed and credible judgment and to indicate this in a written report. The financial statements must also give a true and fair view of the financial position and progress of the organization in accordance with generally acceptable accounting principles”* (Rusmanto, 2001).

While numerous definitions of auditing have been proposed, the most popular definition of auditing can be found in the American Accounting Committee's report, entitled A Statement of Basic Auditing concepts (ASOBAC), which defines auditing as:

*“A standardized method for objectively collecting and evaluating evidence related to explanations of economic actions and events to determine the degree of consistency between those statements and to recognize the standards and communicate the results to interested users” (Richiute, 2001).*

The definitions show that auditing is a systematic process with a logically structured and scientific set of steps and procedures (Rusmanto, 2001). In obtaining and evaluating evidence, the audit should be acted objectively without bias. Statements of economic actions and events refer to economic matters of organization being audited (Rusmanto, 2001). In order to decide whether these statements of the auditors are in agreement with standard audit criteria, it is stated that all audited financial statements must be understood by all users and that a common language and set of accounting standards must be applied (Rusmanto, 2001). The final task of the auditor is to report the results to the users who are interested. The auditor expresses his opinion and makes a written report, which is communicated, to the shareholders, creditors and other relevant parties (Rusmanto, 2001).

## **2.4 Auditor independence**

Rusmanto (2001) has indicated that when it comes to the independence of the auditor, the auditor should report any violation. In accordance with DeAngelo (1981), a lack of auditor independence is also explained as "an auditor's decisions conflict with his or her beliefs regarding the statements of a policy." He further points out that a lack of independence is also understood as "an auditor's decisions are inconsistent with his or her beliefs regarding the statements of a policy." Lee et al. (2012) explain that the incorrect application of an accounting rule does not affect the auditor's independence, but reduces "auditor competence". They also indicate that an auditor's independence is compromised if the auditor fails an audit. An audit error occurs when the auditor makes a reporting decision that is contrary to his professional judgment (Lee et al. (2012). In contrast to this line of thought, which does not require the client to be complicit in the auditor's failure to report a violation, according to Amake et al. (2012), the auditor's

independence means the lack of conspiracy between the auditors. Manager of the client's office ". Chia-Ah et al (2010) defined auditor independence as the ability of the auditor to examine the financial statements and circumstances of a client from an unbiased perspective. Auditor independence is an internally manifested attitude as well as a characteristic perceived by third parties (John & Chukwumerije 2012). Auditor independence is critical to the accounting profession and the ability of its members to offer investors objective opinions and reports (John & Chukwumerije (2012). As John & Chukwumerije (2012) explained, the opinions issued by auditors are only useful if the auditor is independent of the client in fact and in appearance. Auditors are expected to issue opinions on the fair presentation of financial statements of their clients (Bakar et al. 2009). As further clarified by Bakar et al. (2009) this task is complicated by the fact that audit clients directly compensate auditors and because of this, regulators use standards of conduct to promote objective reports for the users of financial statements. However, despite its importance to the profession and the users of financial data, auditor independence can be a complex and intangible value (Bakar et al. 2009).

## **2.5 The different types of Auditor independence**

Independence is often called the foundation of auditing (Rusmanto 2001). Without this information, audited financial statements will be biased and useless (Rusmanto 2001). However, there is no uniformity in the definition of the concept of independence (Rusmanto 2001). There are many definitions of independence, it depends on who defines it, and different people will define independence differently.

DeAngelo (1981) himself defines the auditor's independence as "an unbiased mental attitude when making decisions about audit work and financial reporting". While Bazerman (1997) define the auditor's independence as the absence of collusion between the auditor and the client firm's manager. He also argues that an auditor should not be easily disturbed by other parties because the auditor should serve all parties and not care for a particular party.

Mautz (1972) identified three dimensions of independence:

1. *Programming Independence*: Freedom of control or too much influence in the choice of control techniques and procedures and the scope of their application. This requires that the auditor has the freedom to develop his own program, both in terms of the steps to be

taken and the amount of work to be performed, within the general limits of the engagement.

2. *Investigative Independence*: Freedom of control or too much influence in the selection of areas, activities, personal relationships and management policies to be investigated. This requires that no legitimate source of information must be closed to the auditor.
3. *Report Independence*: Freedom of control or too much influence in publishing of facts revealed by the investigation or in making recommendations or opinions as a result of the investigation. The relationship between the auditor and the client is nicely reflected in the following: "You tell us what to do and we will tell you what we can write in our report; you tell us what you want us to say in our report and we will tell you what we have to do".

The auditor's independence is divided into fact and appearance. Independence in fact refers to the actual goals of the relationship between companies and their clients; while independence in appearance is defined as the subjective state of the relationship as perceived by client and third party (Lee et al. 2012). Today, people agree that the decline in auditor independence is a critical ethical value in the accounting profession (Lee et al. 2012).

In the literature, most studies of auditor's independence relate to perceived independence rather than independence in fact (Bazerman 1997). The following issues relate to perceived independence that has been extensively studied: provision of Management Advisory Services (MAS), competition between audit firms, size of audit firms, partner rotation of audit engagement, nature of any conflict, existence or otherwise of an audit committee and the financial state of the client (Bazerman 1997). Among these issues, MAS has been most researched in the perceived area of independence.

As Mautz (1972) argued, perceived independence has become a concern of the researchers and in fact independence has not been included. Researchers such as Bazerman (1997) have also supported Mautz (1972), arguing that perceived independence was more of a concern for the public than actual independence, making the next assertion that the trustworthiness eventually is based on appreciation and not of the fact of independence.

## **2.6 The necessity for the independence of an auditor**

Since business activities has been developed in society, accounting has become an important part of economic life (Rusmanto, 2001). Initially, accounting was needed by the business owner in order to know about business activities and to be able to control these (Rusmanto, 2001). As the complexity of the business increased, accounting has evolved and the government has required the publication of financial statements used by management, shareholders, creditors, government and other relevant parties (Rusmanto, 2001). Therefore, an independent review is required to ensure reliable information for all users of financial statements (Rusmanto, 2001).

Financial statements will be reliable sources of information for managers, lenders, potential creditors, investors, employees and other users when audited by an independent auditor (Amake et al. 2012). Amake et al. (2012) and Bakar et al. (2009) argue that the need for an independent auditor is attributed to the following conditions: conflict of interest, consequence, complexity and remote location. A discussion of this issue follows.

An explanation for the need for an independent auditor can be found in the agency's theory, where the owners of the companies, known as the principals, who give the responsibility of business decisions to another party, the agent who is usually the manager / director (Rusmanto 2001). A company's financial statements are prepared by managers, who report their own performance. The owners must assess the agent's performance (Rusmanto 2001). However, the owner still wants his business performance to look good in the eyes of financial statement users.

On the other hand, users of financial statements need an accurate and objective summary of the company's financial position. This circumstance shows that the objective of the users of annual accounts is different from the management objectives. A conflict of interest may therefore arise in this respect. As a result, the user of financial statements requires assurance from an independent auditor who has no interests. According to Amake et al. (2012), there are two sources for the conflict. First, the financial statements prepared by management may consist of biased information to fulfill their own interests (Amake et al. 2012). Second, the biased information may be unintentional (Amake et al. 2012). They say that to solve this problem, independent auditors are therefore obliged to report whether the annual accounts are correct.



The second reason why an independent auditor is needed is because of the consequences of errors. According to Chen et al. (2005), consequences refers to the importance to the user who made the decision, relating to the financial statements. This factor recognizes that the communication process from the origination to the user of financial statements will normally result in providing information that will assist the user in making decisions (Chen et al. 2005). For example, if there are errors in management's financial statements, the user of those financial statements may experience a significant loss according to Chen et al. (2005). To avoid this business risk, the user of the financial statements must be able to confirm that the financial statements are reliable (Chen et al. 2005). The independent auditor should provide this confirmation to improve the decision-making process. The third reason for the need for an independent auditor is complexity (Rusmanto, 2001). In modern society, business activities are very complicated, especially economic transactions and accounting systems (Rusmanto, 2001). Consequently, management is more likely to experience errors in the reporting process, and as a result, there is a growing need for the financial statement user to ensure that the financial statements are examined by a qualified independent auditor (Lee et al. 2012 & Rusmanto 2001). This condition clearly requires the existence of an independent auditor.

Another reason why an independent auditor is needed is remote location. According to Carry & Simnett (2006) the user of a financial statement cannot access directly (due to time constraints, physical remoteness, institutional or financial constraints) to the source of information he / she receives in the financial statements. Therefore, they stated that the financial statement user authorizes an independent auditor to audit the information in the financial statements. As discussed above, financial statements become more useful and reliable to all parties when audited by an independent auditor. Accordingly, an independent audit is a must as it lends credibility to audited financial statements.

## **2.7 The development of corporate governance in Suriname**

According to Drogalas et al. 2016, corporate governance defines the relationships between management, ownership and other stakeholders of the organization and sets business objectives. Owolabi & Dada, (2011) have stated that corporate governance consists of two different concepts. First, the long-term (strategic) concept, which relates to the relationship and

communication between managers and shareholders in order to achieve a productive cooperation. Second, the financial concept that describes the relationship between the two parties, which is based on structures, rules and regulations, to achieve a high level of disclosure and transparency in financial statements and thus mutual trust in their transactions (Owolabi & Dada, 2011). The audit committee is a sub-committee of the board of directors that plays a very important role in corporate governance by overseeing the activities of managers with regard to financial disclosure (Drogalas et al. 2016). First of all, the audit committee should assist the board of directors in matters related to governance, in particular financial reporting (Drogalas et al. 2016). The audit committee should also facilitate communication and cooperation between the board of directors and the external auditors, while ensuring the independence of the external auditors in their audit work (Owolabi & Dada, 2011). In addition, the audit committee must strengthen the validity of financial disclosure and ensure transparency in financial reporting. Finally, it aims to strengthen the position of external directors by improving the relationship and communication between external directors, directors, managers and auditors of the company (Owolabi & Dada, 2011). Regarding the independence of the audit committee, it was suggested that it is influenced by the corporate governance structure, given the management-oriented nature of the audit committee's controls (Drogalas et al. 2016).

In general, corporate governance means the system within which a company is managed and controlled. It is the interaction between people, resources and procedures that ensure that the company works effectively and efficiently and achieves the set goals as much as possible (Diekman, 2017). On September 3, 2017, pr. Dr. Peter Diekman RA wrote a short article on a website in one of the newspapers of Suriname. In it, he gave a brief explanation of corporate governance in Suriname. He also indicated that corporate governance concerns the behavior of people in companies, both in the private and public sector (Diekman, 2017). The law in Suriname offers a lot of freedom when it comes to the question of what is and is not allowed in the behavior of companies. The most important legal provisions with regard to the conduct of companies are laid down in the Commercial Code and the Civil Code (Diekman, 2017). The development of corporate governance is characterized by setting up the codes of conduct (Diekman, 2017). A development of this is manifest in Suriname. A few years ago, the Central Bank of Suriname (CBvS) issued a code of conduct for banks. In this way the CBvS sets out its principles for good corporate governance and best practice provisions. In addition, some

companies, including banks, have developed their own code and published it on their website. Corporate governance is therefore a theme in Suriname (Diekman, 2017).

## **2.8 The regulation of the accounting profession and financial reporting in Suriname**

Suriname is known for its bio, ethnic and cultural diversity. This diversity is well reflected in the way the public and private sectors are structured and organized. Our small open economy is growing at above-average growth rates, but is facing major challenges. On November 17, 2017, pr. Diekman RA wrote a short article on one of the websites of the Surinamese newspapers about the Law on Financial Statements that was adopted in Suriname on September 24, 2017. Here he indicates that this law can be seen as a milestone in the structuring of the financial-economic infrastructure. For a long time there was no regulatory framework for financial reporting. The intention was to include regulations in this area in the Surinamese New Civil Code, in the second book, Corporate Law (Diekman, 2017). The new law emphasizes financial responsibility in the form of financial statements, but of course it is much more than that (Diekman, 2017). The law does not specify what should be included in the management report. It is only stated that the management report may not conflict with the annual accounts. In addition, the management report must contain information on events of particular importance (Diekman, 2017). A year later, on October 18, 2018, the Act Suriname Chartered Accountants Institute was adopted. This law is intended to regulate the professional practice of accountants in Suriname in order to guarantee the integrity and ethical professional practice, as well as the quality of the promotion of the service, so that association can also be found with (international) professional organizations for accountants; - it is desirable to lay down rules with regard to the accountancy profession and the professional organization of accountants (Wet Suriname Chartered Accountants Institute, 2018). Diekman (2017) have also stated that there is still a lot to do in Suriname when it comes to the further professionalization of the accountancy profession. The requirement of the quality of control must be monitored. This is to ensure that society can be confident that the audit is truly a quality standard and that the legal firm's accountability has been carefully checked (Diekman, 2017).

## **2.9 Summary**

In this chapter an overview is given about different accounting theories which are related to the concepts of this thesis. The agency theory provides the theoretical basis to support the position of

auditor independence by passing over the information asymmetry between client and agent. For the second theory discussed in this study, stakeholder theory indicates that an auditor is expected to be free from any external or internal influence that could influence his opinion of the affairs of his client's business. The auditor must be independent and also appear independent to the clients on whom they report, so that the stakeholder theory can be used here. For the last theory discussed in this study, the institutional theory, where any organization operating in particular institutions has to respect the institutional requirements and is backed by authoritative agents or by effective surveillance systems and sanctions. Institutional theory deals with the unstoppable issues related to social structure. The remainder of this chapter provides an overview of the meaning of auditing, the development of corporate governance in Suriname and there is also briefly discussed about the regulation of the accounting profession and financial reporting in Suriname, as well as the 2 new laws that have been introduced, including the Annual Accounts Act and Suriname Chartered Accountants Institute Act. The following chapter will discuss the four factors that can influence auditors' independence that has been chosen for this thesis and the associated hypotheses to test whether these have a positive impact on the auditor independence. The next chapter provides an overview of the previous research on auditor independence and the four factors that can influence auditor independence, which will also be used as input for the hypothesis development of this research.

### **3. Literature Review**

#### **3.1 Introduction**

In this chapter an overview is given about previous studies with regard to the independence of auditors between gender, audit firm size, audit partner rotation and audit committee. By giving an overview of the different previous studies, insight is gained about the way the researchers carried out their studies in terms of their hypotheses, samples, measurements and findings. Also the differences en similarities with regard to their research methodology and findings are discussed. These previous accounting empirical studies are used as the basis to examine the association between the independent variables (gender, audit firm size, audit partner rotation and audit committee) and the dependent variable, auditor independence. The last paragraph, which is paragraph four, gives a summary and critical reflection of the studies discussed.

#### **3.2 Determinants of auditor independence**

There are previous studies done about different factors influencing the independence of auditors. One of the studies are that of Bakar et al. (2009). Bakar et al. (2009) did a research by exploring the determinants of auditor independence perceived by Malaysian accountants using a self-administrated questionnaires. In the study of Baker et al. (2009), the determinants of auditor independence are defined as factors that can potentially have an impact on the auditor independence. The factors that has been used by Bakar et al. (2009) are size of audit fees, size of audit firm, tenure, provision of management advisory service and finally audit committee. Their sample consist of 72 completed questionnaires of the accountants in Malaysia using the 7 Likert's scale. Their findings indicated that the size of audit fees, tenure and the provision of management advisory have a negative relationship with the independence of the auditor. And the size of an audit firm and the existence of an audit committee have a positive relationship. Another study examining factors on the independence of an auditor is done by Salawu (2017). In this study, they examined the factors that may influence auditor independence in listed companies in Nigeria. In this study of Salawu (2017) they used the generalized method of movements (GMM). Their sample consisted of 65 auditors from the 194 companies in Nigeria (Salawu, 2017). These 194 companies consisted of savings banks, mortgage banks and non-

financial companies. The study by Salawu (2017) used secondary data and there were sources from the audited financial reports of these sample companies and the Nigerian Stock Exchange Fact Book between the 2006-2013 periods. The data was analyzed using descriptive statistics and a common movement method. The investigation found that the companies, audit term, profitability, leverage and inventory receivable had a negative significant impact, which could affect the auditor's independence (Salawu, 2017). Moreover, this study by Salawu (2017) concluded that the size of the offices has a positive influence on the independence of the auditors in Nigeria.

There have also been other studies examining the independence of auditors. One of them is the research done by John & Chukwumerije (2012). This study by John & Chukwumerije has also conducted a study in Nigeria, in which they also examining factors that could influence the independence of the auditor. But their method was different. They used a questionnaire using the Likert-Skale. John & Chukwumerije (2012) research had a sample of 150 registered auditors in 15 audit firms in Lagos. The analysis was performed using descriptive statistics and chi-square when testing the hypothesis (John & Chukwumerije, 2012). Their findings indicate that each of the factors, namely the size of the audit firm, competition in the audit market, the mandate of the audit firm, the level of audit fees and non-audit services, has a significant relationship with the auditor's independence (John & Chukwumerije, 2012). A study conducted by Albeksh (2017) research on factors affecting the independence of the external auditor within the auditing profession. They did a research about how factors affecting the independence of the external auditor in the auditing profession (Albeksh, 2017). This study has used different approaches such as, the historical approach, inductive approach and descriptive approach to find out if there are any impact that the factors have on the independence of the external auditor (Albeksh, 2017). The findings of the study has different results and one of them is that the auditing standards and professional behavior are the most impact factor on the independence of the audit (Albeksh, 2017). Ali & Nesrine (2015) did a study of how factors affecting auditors' independence in Tunisia: the perceptions of financial analysts. Their sample consist of 54 financial analysts using a questionnaire (Ali & Nesrine, 2015). The findings of this study concluded that the principal threats to independence are, provision of non-audit services and existence of personal and financial relationships (Ali & Nesrine, 2015). This thesis will focused only on four factors that

can influence the independence of an auditor and these are gender, audit firm size, audit partner rotation and the functioning of an audit committee.

### **3.3 The factors gender, audit firm size, auditor partner rotation and audit committee and the auditor independence**

This paragraph presents the literature on the factors gender, audit firm size, audit partner rotation and audit committee that influence auditor independence as researched by other researchers. As stated before, these factors are the independent variables of this study, so this paragraph will specifically describe previous research on the influence of these factors on auditor independence.

#### **3.3.1 Gender**

The first factor is gender, because several studies have appointed gender as a main cause for different behavior between male and female and having totally different perspectives and approach to situations (Lovisa & Waqas, 2020). Lovisa & Waqas (2020) examined factors that are affecting how clients perceive the auditor independence in Sweden. The questionnaire was sent to a total of 228 companies (Lovisa & Waqas, 2020). A systematic sample is used, since the sample is systematically chosen from a list (Lovisa & Waqas, 2020). Systematic sampling is a probability sampling, which has the advantage of making it possible to generalize the findings on the whole population (Lovisa & Waqas, 2020). Gender was one of the factors that have been chosen for this study (Lovisa & Waqas, 2020). Their findings show that gender has a p-value of 0,860, which means that gender does not have a significant contribution to the model (Lovisa & Waqas, 2020). In contrast with the study of Gold et al. (2009), this study did a research about the influence of client gender and auditor gender on auditors' judgments for a sample size of 81 auditors in Big 4 firms. The study of Gold et al. (2009) investigates the extent to which auditor gender and client gender affect auditors' judgments during the auditor-client inquiry process. Finally, the results of their research showed that female auditors were more influenced than male auditor, because male auditors may be more persuasive and more willing to satisfy the client than female auditors (Gold et al. 2009). There is a study that also examined the factors influencing independence of auditors in Malaysia. This is the study of Halim et al. (2018). Halim et al. (2018) used a questionnaire that was used to measure the level of auditor independence and

factors influencing the independence such as gender, knowledge, position level, experience and also firm size. The questionnaires were distributed during May to July 2018 to a total of 255 audit firms (Halim et al. 2018). The multiple regression results showed that the position level and experience to be statistically significant in determining the level of auditor independence (Halim et al. 2018). Gender, knowledge and firm size have no significant relationship with auditor independence (Halim et al. 2018). These researchers stated that as for gender, past research has shown mixed results and the study of Halim et al. (2018) proves that there is no gender differences among Malaysian auditors in terms of the independence of auditors. Consistent with the study of Lovisa & Waqas (2020), the study of Halim et al. (2018) shows evidence that the factor gender have no positive influence on the independence of auditors.

### **3.3.2 Audit firm Size**

Alexander & Hay (2013), carried out a study to test the effects of audit firm size on audit quality in the Belgian market for a sample size of 1302 companies. For audit size, they considered some indexed such as the auditor's market share, the number of the clients for an audit firm, the number of partners of the audit firm, the total assets and total operating profit for an audit firm (Alexander & Hay, 2013). Finally, the results of their research showed that there is no significant relationship between audit quality and audit firm size (Alexander & Hay, 2013).

Similarly, Al-Thuneibat et al. (2011) did a study on the effect of audit partner rotation and audit firm size on auditor independence in Jordan; the authors use the quadratic form approach with some modifications. The population of this study includes all firms in which stock is publicly traded on the Amman Stock Exchange throughout the years (2002-2006), whereby their sample consist of 278 firms (Al-Thuneibat et al. 2011). The findings revealed that audit partner rotation affects adversely auditor independence while firm size had no positive influence on auditor independence (Al-Thuneibat et al. 2011).

In contrast of a study carried out by Tahinakis & Nicolaou (2004) in Greece they examine the perceived effects of the size of audit firm, provision of management advisory services, competition between audit firms and auditor's partner rotation on the risk that independence of a certified auditor may become impaired. This study used a questionnaire based on a five point likert skale (Tahinakis & Nicolaou, 2004). The survey instrument was mailed to all 315 certified auditors. However, the study found out that each factor examined has a positive influence on the



certified auditor's professional independence and the importance of this influence will increase, as the capital market grows and there is a constant need to supply reliable information (Tahinakis & Nicolaou, 2004). The study of Omondi (2017) sought to establish the determinants of auditor's independence in Kenya. The study employed a cross-sectional descriptive study with a sample size of 214 audit firms and the target population in the study were practicing accountants in Kenya (Omondi, 2017). Primary data was collected using a semi-structured questionnaire and the data analyzed through statistical Software (SPSS) versions 22 through ordinal regression analysis to present the findings (Omondi, 2017). Consistent with the study of Tahinakis & Nicolaou (2004) this study shows that there is a significant relationship between audit firm size and auditor independence.

### **3.3.3 Audit partner rotation**

In a study by Chia-Ah et al. (2010), who purpose was to examine whether extended audit partner rotation can affect auditor independence. The study targeted a sample of 1,250 Swedish auditors through online questionnaire (Chia-Ah et al. 2010). The findings did not reveal any strong relationship between audit partner rotation and auditor independence (Chia-Ah et al. 2010). The study explored audit partner rotation among auditors in Sweden, a developed nation which has stronger regulations than developing countries such as Kenya (Chia-Ah et al. 2010).

In contrast with the study of Tahinakis & Nicolaou (2004), this study carried out in Greek and sought to examine the perceived effects of audit partner rotation on auditor independence. The study found out that increased audit partner rotation is a major determinant of auditor independence in Greek (Tahinakis & Nicolaou, 2004). The study concluded that there is a significant relationship between audit partner rotation and auditor independence of small audit firms (Tahinakis & Nicolaou, 2004). The focus of the study was on small audit firms thus leaving medium and large audit firms. This makes it necessary to have more studies on all auditors (Tahinakis & Nicolaou, 2004).

The study by Omondi (2017) investigated which factors can be identified that can positively or negatively influence the independence of auditors in Kenya. This study has a sample of 214 audit firms (Omondi, 2017). The study sought to find out the relationship between audit partner rotation and auditor independence (Omondi, 2017). This was tested by correlation analysis tests, with the results of the study indicating that there is a significant relationship between audit

partner rotation and auditor independence (Omondi, 2017). Both the studies of Tahinakis & Nicolaou (2004) and Omondi (2017) have concluded that audit partner rotation have a positive influence of the independence of auditor.

In contrast with the study of Ouyang & Wan (2013), they conducted a study that was carried out in the USA, to establish the effect of audit partner rotation on auditor independence. The empirical evidence in this study suggests that firms with lengthy audit partner rotation, particularly those with audit partner rotation longer than ten years, are more likely to backdate (Ouyang & Wan, 2013). However, the detrimental effect of long audit partner rotation on audit quality only exists in clients with small firm size (Ouyang & Wan, 2013). Most of the large audit firms can undertake large company audits effectively, with the aid of research facilities, superior technologies, and better-experienced employees (Ouyang & Wan, 2013). This study has the same conclusion as the study of Chia-Ah et al. (2010), where the findings did not reveal any strong relationship between audit partner rotation and auditor independence.

#### **3.3.4 Audit Committee**

In a study by Sori et al. (2006) which attempted to establish the relationship between audit committee and auditor's independence. The study looked at five component of audit committee: active audit committee, compulsory audit committee reports, audit committee approves audit fees, audit committee reviews audit fees, audit committee comprised of a majority independent and non-executive directors, to auditor independence (Sori et al. 2006). The sample consist of 87 loan officers (Sori et al. 2006). The study revealed that the majority of the respondents agreed that auditor independence would be safeguarded by the presence of an active audit committee, if it was compulsory to include an audit committee report in the annual report, if the audit committee was responsible for approving and reviewing audit fees, and if the majority of audit committee members were independent and non-executive (Sori et al. 2006).

Zhang et al. (2007) investigated the relation between audit committee quality, auditor independence, and the disclosure of internal control weaknesses after the enactment of the Sarbanes-Oxley Act. The study established that there is a significant relationship between audit committee quality, auditor independence, and internal control weaknesses (Zhang et al. 2007). The study concluded that firms are more likely to identify their internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting

financial skills and non-accounting financial expertise (Zhang et al. 2007). The findings of Sori et al. (2006) are similar as the study and Zhang et al. (2007), where there is a significance relationship between audit committee and auditor independence. In contrast with the studies of Sori et al. (2006), Zhang et al. (2007), the study of Omondi (2017) examined factors influencing auditor's independence in Kenya, whereby one of them is audit committee. The study employed a cross-sectional descriptive study with a sample size of 214 audit firms and the target population in the study were practicing accountants in Kenya (Omondi, 2017). From the results of the research, it revealed that there is no a significant relationship between audit committee and auditor independence. A study in Barbados done by Alleyne & Devonish (2006) also did a study by investigating the perceptions of auditor independence between auditors and users. They used a self-administrated survey by using the five Likert Scale and their sample consists of 66 auditors and 148 users. The factors that they used in their study are factors relating to the size and closeness of Barbadian society, lengthy tenure and being a sole audit practitioner, small audit firm, provision of non-audit services (NAS) and the existence of audit committee (Alleyne & Devenish, 2006). The study concluded that only the existence of audit committee enhance the perception of the independence of auditor in Barbados (Alleyne & Devinish, 2006). Alleyne & Devenish (2006) have also stated that their research will be a great contribution to other small developing countries. Another study of audit committee on the independence of auditor have been done by Adelopo (2010). This study examined the relationship between corporate governance and the independence of the auditor, a study of audit committee in U.K. This research has used secondary data from the annual reports of companies listed on the London Stock Exchang. Adelopo (2010) used the annual reports as a source for measuring audit committee using the frequency meetings of audit committee that has stated in these annual reports. The reason for this is because making use of this data is economical, appropriate and fair. Furthermore, it is stated that the issues of corporate governance, the independence of the auditor, the function of the audit committee are very sensitive and access to the right people is very difficult. The findings show that there is a relationship between audit committee and auditor independence.

### 3.4 Summary and some critical reflection

In the paragraphs above previous research about auditor independence and the independent variables (gender, audit firm size, audit partner rotation and audit committee) is discussed. Different studies have been conducted on factors influencing the auditor independence. There is evidence found that gender, audit firm size, audit partner rotation and audit committee have a positive influence on auditor independence (Gold et al. 2009; Tahinakis & Nicolaou, 2004; Omondi, 2017; Zhang et al. 2007). Most of the previous studies uses the method of questionnaires, because questionnaires provide a relatively, quick and efficient way of obtaining large amounts of information from a large sample of people (Gold et al. 2009; Tahinakis & Nicolaou, 2004; Omondi, 2017; Zhang et al. 2007).. Questionnaires can be an effective means of measuring the behavior, attitudes, preferences, opinions and, intentions of relatively large numbers of subjects quickly than other (Gold et al. 2009; Tahinakis & Nicolaou, 2004; Omondi, 2017; Zhang et al. 2007). The association between the factors and the auditor independence are examined from the same perspective. But there have also been previous studies where they have the opposite result. Results where gender, audit firm size, audit partner rotation and audit committee adversely affect the auditor's independence (Lovisa & Waqas, 2020; Alexander & Hay, 2013; Chia-Ah et al. 2010; Sori et al. 2006). These studies are analyzed by discussing the similarities and differences between them. It is important that relevant studies about this topic exist to show that there is research done about the association between these variables (Gold et al. 2009; Tahinakis & Nicolaou, 2004; Omondi, 2017; Zhang et al. 2007). Some of these articles dealt with situations in other countries of the world such as Nigeria, Kenya, Malaysia, USA and Sweden, which makes it a bit difficult to actually apply such information in a Surinamese context. Suriname is a small country, and there are not that many audit firms compared to these countries. The inferences of previous research about this association can be used as a basis for the predictions of this research. This research examines the association between gender, audit firm size, audit partner rotation, audit committee and the independence of an auditor. These previous studies not only have these factors in their research that affect the independence of the auditor, but other factors have also been taken into account in their research. As the study by Omondi (2017), not only has audit firm size as a factor that influences the independence of an auditor, but other factors such as audit partner rotation and audit committee have also been

included. There have been many studies examining different factors that may influence the auditor's independence. And from these studies, it may not be the case that all the factors, they have included in their study, have a positive influence on the independence of the auditor (Omondi, 2017; Salawu, 2017; John & Chukwumerije, 2012). Although these studies have examined several factors that influence auditor independence, and each study has different outcomes for all of these factors, which makes it more interesting of what the outcome might be for this study.

Some of the studies which have been discussed used questionnaires in their research, such as open ended questionnaires (Lovisa & Waqas, 2020; Tahinakis & Nicolaou, 2004; Omondi, 2017). These previous studies have stated that open-ended questionnaires are introduced in their research, because the answers can vary between the respondents and it was difficult to use multiple choice or Likert scale (Lovisa & Waqas, 2020; Tahinakis & Nicolaou, 2004; Omondi, 2017). An advantage of open-ended questions is that the respondent has the freedom to answer what best suites them and describes the reality for the respondent, but a disadvantage is that open-ended questions require more from the respondent and can therefore reduce the willingness to answer the questionnaire. A disadvantage of the open-ended questionnaire is that it will be difficult for the researcher to analyze and interpret all data. This is due to the fact that with an open-ended questionnaire anything can be expected and these respondents do not always have the same opinion. Their answers to the questions may differ and their opinions may also differ. This makes it a little bit difficult for the researcher to find out and interpret all this data in order to make a good statement about the results. To overcome this shortcoming, this study does not make use of open-ended questionnaires.

The brief summary of the different subjects and findings of the studies elaborated on in this chapter is presented in appendix A.

The next chapter elaborates on the hypotheses based on the prior studies discussed in this chapter.

## **4. Hypothesis Development**

### **4.1 Introduction**

This chapter elaborates on the hypotheses with regard to the determinants of auditor independence, which have to do with the four factors (gender, audit firm size, audit partner rotation and audit committee) that can have an impact on the independence of auditors. Four hypotheses are developed to outline the associations which will be examined for this research. At the end of the chapter, a conceptual framework is suggested to provide an understandable overview of the association between the chosen concepts.

### **4.2 Gender**

#### *Hypothesis 1*

The first hypothesis concerns the association between the difference in gender and auditor independence. The study of Halim et al. (2018) and Lovisa & Waqas (2020) examined this association, but also included other factors such as position level, experience of the auditor, audit fee and audit client relationship. Furthermore the study of Halim et al. (2018) found that there is no evidence about a positive association between gender and auditor independence. The reason for this is that there is no differences between male and female auditors. This lack of gender differences may be caused by work-related socialization, similar training and also the professional standards that may eliminate differences between male and female auditors (Halim et al. 2018). Consistent with Halim et al. (2018), Lovisa & Waqas (2020) used the positivistic approach, which means that it is assumed that the reality is objective, and the reality can therefore be observed using measures and found out that gender has a p-value of 0,860, which means that gender does not have a significant relationship with auditor independence. The reason for this is that they have stated that when it comes to the independence of the auditor there are no differences between male and female. Both these studies have concluded that there is no positive influence of gender on the auditor independence. But in the study of Fumagalli et al. (2010) concludes otherwise. This study examined the role of gender, education (general education and health education) and religious belief (Catholic and non-Catholic) on auditor independence by

testing 50 auditor men and 50 auditor women (Fumagalli et al. 2010). Data were collected using survey questionnaire. The sections require respondents to choose the appropriate response from the 5-point Likert scale from one (strongly disagree) to five (strongly agree) Fumagalli et al. (2010). The responses derived from the questionnaires are coded, entered and analyzed by using the SPSS statistical package (Fumagalli et al. 2010). Furthermore this study found out that gender had a highly positively influence on auditor independence and the findings suggest that there are differences between man and woman when it comes to the independence of the auditor (Fumagalli et al. 2010). Women are taken as better understanding, friendlier, more selfless, concerned about others and emotionally expressive than men (Fumagalli et al. 2010). Men, on the other hand, are more autonomous, and assertive and instrumentally qualified (Fumagalli et al. 2010). Based on the accounting profession, auditing is still very gender-specific in favor of men in society (Fumagalli et al. 2010). There is also a growing argument that, in some circles, female auditors naturally tend to be more thorough and attentive to details and could be more reliable and honest (Fumagalli et al. 2010). These gender differences can also have an impact on power management, economic decision-making, leadership (Halim et al. 2018). This can provide validation for the effects of gender in the context of auditing and audit research. As stated earlier in chapter one, no studies have yet been conducted on this phenomenon and in Suriname no regulations have yet been written about gender with regard of the independence of an auditor. That is why this research tend to examined whether there is a positive association between gender difference and auditor independence in Suriname. Therefore the first hypothesis is formulated:

***H1: There is a positive association between gender differences and external auditor independence in Suriname***

### **4.3 Audit Firm Size**

#### *Hypothesis 2*

The second hypothesis concerns the association between audit firm size and auditor independence. The study of Al-Thuneibat et al. (2011) analyze the effect of the length of the audit firm-client relationship and the size of the audit firm on auditor independence in Jordan. The study of Al-Thuneibat et al. (2011) shows that, audit firm partner rotation affects the auditor

independence adversely (negatively). Auditor independence deteriorates, when audit firm partner rotation is extended as a result of the growth in the magnitude of discretionary accruals (Al-Thuneibat et al. 2011). Meanwhile, data analysis did reveal that the audit firm size has no significant impact on the on auditor independence (Al-Thuneibat et al. 2011). Al-Thuneibat et al. (2011) have also stated that if auditor independence and audit quality are to be enhanced, the audit firm should be rotated in order to open the door for new auditors to investigate the client with greater scrutiny and due care.

In contrast Omondi (2017) examined the association between the same concepts, but from the study results, it was established that firm size was negatively correlated with auditor independence (Omondi, 2017). This can be attributed to the reason that big audit firms offer other non-audit services (Omondi, 2017). These findings contradict the popular results that have indicated that larger audit firms are often considered abler to resist pressures from management (i.e. higher auditor's independence) (Omondi (2017)). This is proven by almost all of the empirical studies that attempted to find the relationship between audit firm size and auditor's independence, whereby they found that there is a positive relationship between these two concepts (Omondi, 2017). This study of Omondi (2017) is almost similar to the study of Tahinakis & Nicolaou (2004), except that they also examine other factors related to auditor independence than just the size of audit firms. They examined the size of audit firm, provision of management advisory services, competition between audit firms and auditor's partner rotation on the risk that independence of a certified auditor may become impaired (Tahinakis & Nicolaou, 2004). With regard to the audit firm factor, they have found that smaller audit firms are more likely to lose the independence of certified auditor than larger audit firms, secondly, the large audit firms increase the independence of the certified auditor (Tahinakis & Nicolaou, 2004). A large audit firm tends to be less dependent on a given client than a smaller firm because the associated fees usually constitute a smaller proportion of the audit firm's total resources (Tahinakis & Nicolaou, 2004). Certain characteristics inherent in small audit practices may increase the danger of impairment, e.g., the nature of the typical small firm client or the tendency toward a more personal mode of service and close relationships with the client (Tahinakis & Nicolaou, 2004). Audit firm size may also interact with the level of competition in the audit environment. Because of its smaller revenue base, a small firm may not be able to withstand the effects of competition as well as a larger firm (Tahinakis & Nicolaou, 2004). It is usually at a



disadvantage because of (1) the prestige associated with larger firms, and (2) the superior financial resources available to larger firms (Omondi, 2017). As stated earlier in chapter one, no studies have yet been conducted on this phenomenon and in Suriname no regulations have yet been written about size of an audit firm with regard of the independence of an auditor. That is why this study wants to examine the size of audit firms as a factor that could positively influence the independence of the auditor. Hence the following hypothesis is formulated:

***H2: There is a positive association between audit firm size and external auditor independence in Suriname***

#### **4.4 Audit partner rotation**

##### *Hypothesis 3*

Extensive audits have received much criticism from regulators, congressional bodies, academics and the press (Chia-Ah et al. 2010). This is because most supporters believe that with a long partner rotation such as regulatory authorities, the auditor's independence and thus audit quality will be compromised (Chia-Ah et al. 2010). They believe that when the auditors have extended their audit period, the auditors tend to gradually join with management's wishes and are therefore no longer independent (Chia-Ah et al. 2010). This is similar with the study of Ouyang & Wan (2013). They conducted a study in the U.S. about the relationship between audit partner rotation and auditor independence (Ouyang & Wan, 2013). They have measured audit partner rotation as the length of the auditor-client relationship as of the fiscal year-end in the financial statements (Ouyang & Wan, 2013). Ouyang & Wan (2013) have indicated that a long audit period is positively related to the likelihood of some form of accounting fraud. In which they conclude that this can have a negative influence on the independence of the auditor (Ouyang & Wan, 2013). But the results of the study of Omondi (2017) differs from the studies of Chia-Ah et al. (2010 and Ouyang & Wan (2013). This also examines which factors can influence the auditor's independence. One of the factors in the research was audit partner rotation. Primary data was collected using a semi-structured questionnaire and the data analyzed through statistical software (SPSS) versions 22 through ordinal regression analysis to present the findings (Omondi, 2017). From the results of the research, it revealed that there is a significant relationship between audit partner rotation, audit firm size and auditor independence (Omondi, 2017). Because the auditors

and their clients have a trust and pleasant business partnership, the commitment to their clients increases and also their intention to continue (Omondi, 2017). These results can increase the independence of the auditor (Omondi, 2017). Consistent with the study of Omondi (2017), this study examines whether auditor partner rotation has influence on the independence of the Surinamese auditors. Long lasting association of the auditor with the same client can lead to independence problems. Another aspect that has been indicated is that the auditor's work becomes increasingly routine when he has a longer audit duration (Omondi, 2017). Long audit partner rotation cause the audit work to become routine, which affects the competence of the auditor (Omondi, 2017). This is because working with the same client for extended periods makes the auditor more dependent on the work of previous years, resulting in a repeat of the audits of previous years without new perspectives (Omondi, 2017). However, in a case where the auditors have to be rotated, which means an elimination of extended audit terms and thus shorter terms of office, the auditors bring 'new insights' that require an in-depth review of the previous years' audit work (Omondi, 2017). As stated earlier in chapter one, no studies have yet been conducted on this phenomenon and in Suriname no regulations have yet been written about the audit partner rotation with regard of the independence of an auditor. That is why in this research it is expected that audit partner rotation have a positive influence on auditor independence. Therefore the third hypothesis is:

***H3: There is a positive association between audit partner rotation and auditor independence in Suriname***

#### **4.5 Audit Committee**

##### *Hypothesis 4*

The last hypothesis concern the association between the functioning of audit committee and auditor independence. In the study of Omondi (2017), this study is based on internal factors influencing external auditor independence, whereby one of them is audit committee. The research findings conclude that audit committee does not influence auditor independence in Kenya. In any case, these findings should be explained on the basis of the auditors 'experience related to the study, with the majority of them having less than five years' work experience and thus not having enough experience in auditing in small businesses (Omondi, 2017). The outcome

of this survey indicates that the respondents did not know how important an audit committee is, especially when it comes to being able to read, analyze and interpret the financial statements, so that they can effectively carry out their profession as a committee (Omondi, 2017). A study done by Adelopo (2010) have stated that there is a strong relationship between audit committee and auditor independence. This study focuses on the role of the audit committee by strengthening the independence of the accountant in the context of corporate governance and the accounting profession (Adelopo, 2010). According to Adelopo (2010) audit committees would be an important governance mechanisms that would protect the interests of the shareholders and ensure transparent reporting and improve audit quality. The purpose of an audit committee is to strengthen the audit function within a company and that it therefore protects both directors and shareholders (Zhang et al. 2007). The study by Zhang et al. (2007) investigate the relation between audit committee qualities, auditor independence. They first started with a sample of companies that are very weak in internal control and matched these companies based on industry, size and achievements with a sample of other companies where their internal control is not weak (Zhang et al. 2007). The results from their conditional logit analyses suggest that there is a positive association between audit committee and auditor independence (Zhang et al. 2007). This is similar to the study by Sori et al. (2006) where they examine the impact of five issues on the audit committee, such as active audit committee, mandatory audit committee reports, audit committee approves audit fees, the fees of the audit are reviewed by the committee, the audit committee, which consists of the majority and not of executive directors, to the independence of the auditor. The interview survey confirmed the questionnaire survey's findings that the presence of an audit committee could safeguard auditor independence, whereby there is a positive association (Sori et al. 2006). Which means that it can be concluded that there is a positive association between audit committee and the auditor independence. The same as in the study by Zhang et al. (2007) and Sori et al. (2006), this thesis examined whether the audit committee influences the independence of the auditor in Suriname. According to previous researchers, there are different definitions for the client's audit committee: (1) it is a subcommittee of the main board (2) it consists of a majority of non-executive directors (3) it plays a role in the assessment of the financial reporting process, communicates with auditors and reviews internal controls (Zhang et al. 2007). An audit committee is more likely to support the auditor than management in audit disputes and that the level of support is consistent among the members of the audit

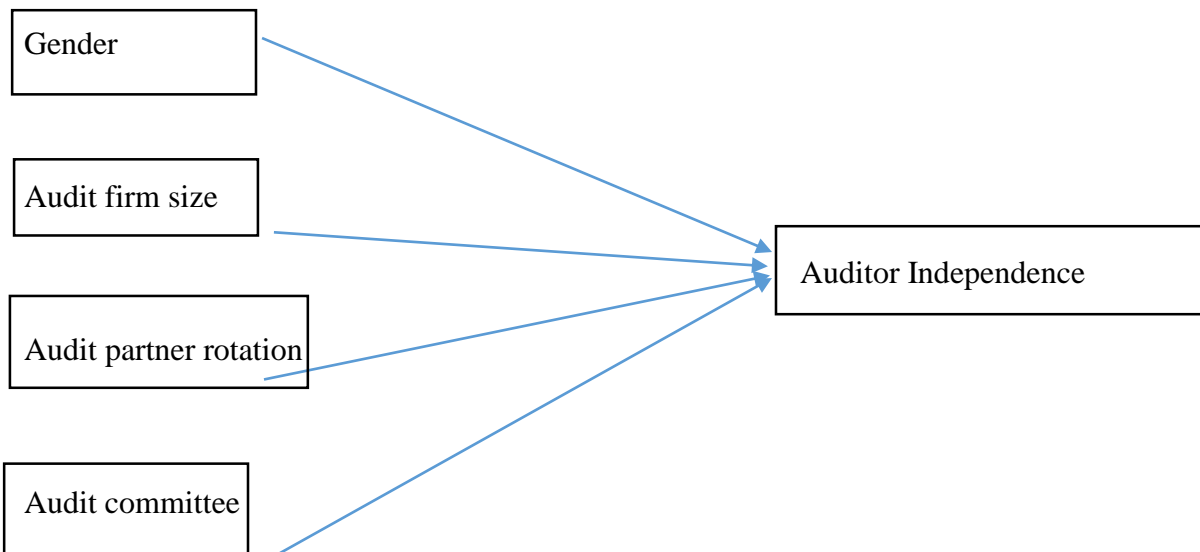
committee, regardless of whether the member has a full-time or part-time position as business managers, academics and retired partners of CPA companies (Sori et al. 2006). Hence, having an audit committee is beneficial as it can increase the auditor's independence. It is also stated earlier in chapter one, no studies have yet been conducted on this phenomenon and in Suriname no regulations have yet been written about the functioning of an audit committee with regard of the independence of an auditor. That is why for this research it is expected that there is a positive association between the functioning of the audit committee and auditor independence. Therefore the fourth hypothesis is:

***H4: There is a positive association between the functioning of the audit committee and external auditor independence in Suriname***

#### **4.6 Proposed Conceptual Framework**

The association between the determinants of auditor independence and auditor independence is exemplified in Figure 3.1.

Figure 3.1: The determinants of auditor independence influencing Auditor Independence



Adapted from: Lee, R. Y., Ko, S. J., Koh, H. S., Lim, K. L., & Quek, V. C. (2012). *An investigation into big 4 auditing companies in Malaysia: factors that affect auditor independence* (Doctoral dissertation, UTAR)

## **4.7 Summary**

This chapter provides an overview of the hypothesis that will be tested for this thesis. Hypothesis 1 refers to the association between gender differences and auditor independence. Hypothesis 2 refers to the association between firm size and auditor independence. Hypothesis 3 refers to the association between audit partner rotation and auditor independence and the last hypothesis refers to the association between the functioning of audit committee and auditor independence. The next paragraph shows the proposed conceptual framework of the association between the concepts that lead to the determination of hypotheses. The chapter hereafter discusses the research design of this thesis.

## **5. Research Design**

### **5.1 Introduction**

In this chapter of this thesis, the methodology of the research is discussed. First in paragraph 2 the research type of this study will be discussed. Secondly, in paragraph 3 the measurements of the independent and dependent variables will be discussed. Based on the hypotheses discussed in chapter 4, the regression models to test these hypothesis are discussed in paragraph 4. The data and sample selection method are described in paragraph 5. In addition the Libby box that gives an overview of the operationalization of the concepts are discussed in this chapter. The last paragraph of this chapter ends with a summary.

### **5.2 Research Design**

In general, research methods can be categorized as: quantitative and qualitative.

Qualitative research has to do with the examination and interpretation of observations which are not numeric with the objective to discover the meanings and models of relationships. An example is the field research and this research type is based on the observation of a social aspect in its natural setting. Furthermore this type of research gives the possibility to observe the social phenomenon as complete as possible and gives researchers the opportunity to get a deeply and fully understanding of social aspects. The data analysis of qualitative research is nonnumeric (Babbie, 2010).

Quantitative research on the other side is based on the representing and processing of observations numerically with the objective to describe and explain relationships between social aspects. In quantitative research data is always quantified and coded in numbers (e.g. the age of people and the sex of people). It is also possible to carry out statistical analysis for quantitative data and make inferences about the distribution of observations or relations between observations (Babbie, 2010).

A big difference between these two research types is that qualitative research is more subjective, because the researcher gathers data from a specific or identifiable individual or organization to examine the individual or organization. While quantitative research is more objective because it

is easier to conceal the identification of the research subjects when collecting and processing the data (Babbie 2010).

The research type of this thesis is based on quantitative research, because the gathered observations are coded into numerical values and also statistical analyses are carried out to draw conclusions about the observations of the theoretical concepts in question. Therefore, the relationship between the factors and the independence of the auditor can be statistically investigated and analyzed based on the data collected. Since this study aims to explain the association between different factors and independence of the auditor, it has an explanatory aim.

### **5.3 Measurement of the dependent and independent variables**

In this paragraph, the measurements of the variables that is used in this study are discussed. The independent variables are gender, audit firm size, audit partner rotation, audit committee and the dependent variable is auditor independence.

#### **5.3.1 Gender**

Women are taken as better understanding, friendlier, more selfless, concerned about others and emotionally expressive (Halim et al. 2018) than men. Men, on the other hand, are more autonomous, and assertive and instrumentally qualified (Halim et al. 2018). Men and women always have different opinions and as this thesis focuses on the independence of the auditor, it is important to consider both genders and also to consider what they think about the independence of the auditor. For the analysis, the concept is measured by the variable gender is coded as 1=male and 2=Female.

#### **5.3.2 Audit firm size**

The audited entity's size can, normally, be assessed from its financial statements, such as total assets, sales, and market value of equity (Dang et al. 2018). The financial statements of the audit firm and the number of its employees are indicators of the auditor's size. Another indicator of the audit firm's size is the number of its clients (Omondi 2017). Because it is very difficult to get these financial statements from the audit firms in Suriname, this thesis shall focus on the total

employees of the audit firms. The total of employees shall determine by whether the company is a small, medium or large audit firm.

The respondents are asked about how many employees work in the audit firm in which they work, and this will give information about whether the audit firm is a small, medium or large audit firm. This question is open-ended. The size of an audit firm is similar with the studies of Omondi (2017) and Tahinakis & Nicolaou (2004). The answers are categorized in three categories, 1 is small audit firm, 2 is medium audit firm and 3 is large audit firm. So this concept is measured by the variable firm size, which is categorized in three categories. In this research, companies with 0 to 49 employees are defined as "small companies" and companies with 50 to 249 employees are "medium sized companies". And companies with more than 249 employees are defined as large companies (Omondi, 2017 and Tahinakis & Nicolaou, 2004).

<b>Category of the audit firm size</b>	<b>Number of employees</b>
Small audit firms	0-49
Medium audit firms	50-249
Large audit firms	249 >

### **5.3.3 Audit Partner Rotation**

The responsibility for determining how long an audit period should be, rests with the regulators, who in most cases work with the government (Lee et al. 2012). For example, in the US, audit periods are set at 5 years only for audit partners according to a provision in the SOX Act in effect after the collapse of Enron (Lee et al. 2012). Lee et al. (2012) indicated that when an auditor has a longer audit duration with a client, the work of the auditor becomes increasingly routine, which affects the independent of the auditor. This makes the accountant more dependent on the work of previous years, resulting in a repeat of the audits of previous years without new perspectives (Lee et al. 2012). That's why for this study five statements were used from the study of Lee et al. (2012). From these statements it can be concluded that the auditor's independence can in fact be improved and enhanced by rotating audit partner. The five statements are presented in appendix B, table 5.1. The respondents answer the statements on a five-point Likert scale, where 1 is strongly disagree and 5 is strongly agree. This measure is used as one variable in the analysis of



the influence of audit partner rotation on auditor independence and is called Audit Partner Rotation.

#### **5.3.4 Audit committee**

Omondi (2017) indicated that the independence of the auditor would be assured if there is a properly functioning audit committee. With a properly functioning audit committee, fraud can be prevented and the quality of the annual accounts can also be increased and delivered on time (Omondi, 2017). Because there is not yet a measure for audit committee in Suriname, six statements were used to capture audit committee of this study. Because based on these statements by Omondi (2017), an audit committee must take an active role in overseeing the companies accounting and financial reporting policies and practices and they should be comprised of strong, independent persons. These six statements are viewed from the auditor's point of view regarding the functionality of an audit committee. The six statements are presented in appendix B, table 5.2. The respondents answer the statements on a five-point Likert scale, where 1 is strongly disagree and 5 is strongly agree. This measure is used as one variable in the analysis of the influence of the functioning of audit committee on auditor independence and is called Audit Committee.

#### **5.3.5 Auditor Independence**

To some extent, independence is still questionable for the audit profession. This is because independence is undoubtedly the selling point of audit services, which want to provide investors and other users of financial information with an independent opinion on the financial reports (Lee et al. 2012). The ability of an external auditor is to perform the audit work with integrity and impartiality (Omondi, 2017). It is the ability to withstand pressure from management's influence when conducting an audit or providing audit-related services so that the auditor's professional integrity is not compromised (Omondi, 2017). Omondi, (2017) measured auditor independence using three statements about the perceptions of auditor independence, in the questionnaire and the respondent answers this based on a Likert scale. This study is inspired by this way to measure auditor independence and has added a new statements to measure auditor independence (Lee et al. 2012). Independence will be measured by four statements. The four

statements are presented in appendix B, table 5.3. The respondents answer the statements on a five-point Likert scale, where 1 is strongly disagree and 5 is strongly agree. This measure is used as one variable and is called Auditor Independence.

## 5.4 Regression models and Libby boxes

This paragraph gives an overview of the regression model which is used to test the formulated hypotheses. This regression model refers to the 4 hypotheses discussed in chapter 4. In addition also an overview is given about the Libby box that refers to hypothesis 1, 2, 3 and 4.

### 5.4.1 Regression model

#### Regression model:

$$\text{AUDIND} = \beta_0 + \beta_1 \text{GENDER} + \beta_2 \text{AUDFIRM SIZE} + \beta_3 \text{AUDPAR} + \beta_4 \text{AUDCOMMITTEE} + E$$

Where:

GENDER = Nominal variable, 1= gender is male and female is 2

AUDFIRMSIZE = the size of the firm, which is an ordinal variable and measures how many employees the audit firm has (small = 1, medium = 2, large = 3)

AUDPAR = Ordinal variable based on categories (strongly disagree = 1, disagree = 2, neutral = 3, agree = 4 and strongly agree = 5)

AUDCOMMITTEE = Ordinal variable based on categories (strongly disagree = 1, disagree = 2, neutral = 3, agree = 4 and strongly agree = 5)

AUDIND = Ordinal variable based on categories (strongly disagree = 1, disagree = 2, neutral = 3, agree = 4 and strongly agree = 5)

E = error term

This regression model refers to the four hypothesis and to test these hypothesis the multiple linear regression analysis is used, where AUDIND is the dependent variable and gender, audit firm size, audit partner rotation and audit committee are the independent variables. It is expected that when the independent variables increases, the independence of the auditor also increases.

### 5.4.2. Libby boxes

In order to provide an overview of the conceptual relation examined, it is important to construct a predictive validity framework. This predictive validity framework is also known as Libby Boxes (Libby 1981). How the conceptual research design is carried out is reflected in the Libby Boxes. Libby Boxes are used in order for a study to be efficient and effective through the use of internal, external, and construct validity (Libby et al. 2002). The Libby Boxes contains four links and boxes which consist of the measured variables, the independent variable and dependent variable. The four links illustrate the internal and external validity and also the relation between variables. The Libby Box in this research are presented in appendix C figures 5.1.

Appendix C, figure 5.1 presents the Libby box for the four hypothesis, where the first link (link 1) reflects the causal relation between the concepts determinants of auditor independence and auditor independence. Link 2 en 3 captures the operationalization's or measurements of the independent variables, whereby for gender is male = 1 and female = 2 and the three other independent variables (firm size, audit partner rotation and audit committee) the Likert Scale is used. The operationalization of auditor independence is based on the Likert Scale. Link 4 reflects the causal relation between the measurements of the X and the Y variables.

The internal validity addresses the relation of independent and dependent variables, and it must be ensured that the observed results are from the impact of independent variable to dependent variable (Libby et al. 2002). In other words, internal validity can be achieved through testing the conceptual theories by examining relation between independent and dependent variable (Libby et al. 2002). In the fourth link the internal validity is presented. The data is usually used from primary and secondary data. Primary data is the type of data collected by researchers directly from main sources, as for the secondary data, this data has been assembled from the primary source and made readily available for researchers to use for their own research (Babbie, 2010). The primary data is obtained from a survey distributed to the audit firms in Suriname, while for this thesis no secondary data was used. Regarding the external validity, which is reflected in the first link, relates to whether the results can be generalized to other measurement methods, time periods or either the samples observed (Libby et al. 2002). This research focuses on the external auditors who work in audit firms. Since it focuses only on one country, therefore the research

result cannot be generalized to other countries, yet it can still be applied to other countries that have similar characteristics as Suriname.

## **5.5 Sample selection**

In addition empirical research is done by choosing a sample of audit firms in Suriname. As already discussed in the introduction of this thesis, only the auditors who work for audit organizations in Suriname and who perform or consult the audit for other firms or organizations are chosen for this study.

The sample is based on the 9 audit firms in Suriname. From these audit firms, at least 5 respondents per audit firm will be interviewed, so the sample of this study will consist of 45 respondents. This can ensure that the sample method will have a significant effect on the outcome of the survey response. The focus is only on external auditors in the audit organizations because they are involved in auditing the “financial statements of companies in Suriname”. Therefore, the intended respondent or unit of analysis for the study is the individual auditor, consisting of the junior -, middle- and senior auditors, supervisor and also the Certified public accountants of the Suriname audit firms, because of their knowledge of audit areas. This is similar to the study of Lee et al. (2012), where they only focus on the external auditors in Malaysia. Furthermore they are personally involved in the audit procedures. According to Lee et al. (2012), the target population is explained as those people, events or records that contain the desired information that can answer the measurement question. It is difficult to indicate exactly what the population of auditors (junior-, middle-, senior auditors, including CPA’s) is in number, because not all audit firms in Suriname want to disclose how many auditors are employed in their company. But to complete the survey for this thesis, 9 audit firms has been contacted via mail and telephone.

Consistent with the study of Cha-Ah et al. (2010) this study also used an online close-ended survey with questions concerning the dependent variable auditor independence and the four factors as independent variables. This study measured the dependent and independent variables separately. The questionnaire was sent via email using google forms to all the 9 audit firms in. The original and translated questionnaire can be found in appendix B. Respondents do not have

to email their answers with their personal email accounts, but the answers are stored in an online spreadsheet that can be consult. These responses are automatically saved online and can then be downloaded to a spreadsheet. These questionnaires were then coded according to each variable in an excel spread sheet. The coding for the variable gender is 1 is for male and 2 for female, the coding for the variable firm size is 1 for small audit firms, 2 for medium audit firms and 3 for large audit firms. The coding for the variables audit partner rotation, audit committee and auditor independence are the 5 Likert Scale, whereby for 1 is strongly disagree, for 2 is disagree, for 3 is neutral, for 4 is agree and for 5 is strongly agree. When all the variables have been coded, the scores are totaled for each case and then divided by number of cases to get average score for each measure. This excel spread sheet is then copied to the statistics program, SPSS, for analysis. To analyze the correlation between the variables, Pearson's correlation test is done. A multiple regression analysis is used to analyze the relationship between the dependent and independent variables. There are also issues of confidentiality and anonymity in data collection through a web-based survey. When answering the questionnaire of this thesis, the respondents were first informed that their answers are confidential and that their identity will not be disclosed here. This is important to get a higher response rate. Using a questionnaire via the web is very convenient at first and there are no costs involved. While if this questionnaire had to be brought to the auditor in person, there would be costs involved such as fuel. And by meeting them in person, the auditors should make time for this. While questionnaires via web are convenient, because they can fill in the questionnaire anytime especially in their free time. This study has been aligned with Chai-Ah et al. (2012) that the acceptance of a web-based survey is now greater than it was a few years ago, and a relatively higher response rate can now be expected compared to a few years ago.

## **5.6 Summary**

In this chapter of this thesis, the research design is discussed. In the research design, the measurements of the variables used in this study are described. These are gender, audit firm size, audit partner rotation, audit committee and auditor independence. Gender is measured by the sex, whereby for male = 1 and female = 2. For firm size, it is measured based on how many personnel work in the audit firm. Audit partner rotation, audit committee and the auditor independence are

measured by a 5-point Likert Scale. The sample and data selection method of this study are also discussed. The initial sample consisted of 45 external auditors in Suriname.

After discussing the research design, the data and sample selection method are also discussed. Furthermore the statistical program (Statistical Package for Social Sciences) which will be used for the statistical analyses is also discussed in this chapter. In the next chapter the results of statistical analyses are presented and analyzed.

## 6. Data Analyses and results

This chapter answers the main research question: “*Do the determinants of auditor independence influence the independence of external auditors in Suriname?*” After analyzing the collected data in the Statistical Package for Social Science (SPSS) version 25.0 software, the results or findings of this study are presented in this chapter. The collected data is based on a response of 18 respondents from nine accounting firms in Suriname. The first paragraph begins with a descriptive statistics of the dependent and independent variables. Paragraph two provides the results of the multiple regression and also the multicollinearity and autocorrelation are tested for the hypothesis. Pearson’s correlation tests are discussed in paragraph 3 based on the formulated hypotheses. Finally, paragraph 4 closes this chapter with a summary of the overall results.

### 6.1 Descriptive Statistics

This paragraph describes the descriptive statistics of the dependent and the independent variables

	N	Minimum	Maximum	Mean	Std. Deviation
Gender	18	1	2	1.61	.502
Audit Firm Size	18	2	1	1.39	.502
Audit Partner Rotation	18	2.00	4.00	2.9111	.86561
Audit Committee	18	2.00	4.00	3.4630	.68732
Auditor Independence	18	3.00	5.00	4.1389	.57023
Valid N (listwise)	18				

In Table 6.1, mean value for the variable gender is 1.61. As a result the table shows that more women have participated with this survey than men. The mean of the variable firm size is 1.39, which means more smaller audit firm have participated. The mean of the variable audit rotation is 2.911, which means that most of the respondents don’t really agree with the statement or are neutral. The mean of the variable audit committee is 3.4630, which means that most of the respondents have a neutral attitude towards the independence of the auditor. The mean of the variable auditor independence is 4.1389, which means that most of the respondents agree with the statements.

## 6.2 Regression Results of the hypothesis

Regression analysis is carried out to test hypothesis 1, 2, 3 and 4. The results of these regression analysis is presented in this paragraph. Along with the regression analysis the Pearson's correlation test, multicollinearity and autocorrelation tests will be carried out to test whether independent variables are strongly correlated with each other or if residues are correlated with each other.

### 6.2.1 Multiple Regression Analysis

Multiple regressions analysis is done for the hypotheses. The adjusted R square, significance of the model and the variables, tolerance and VIF will be presented in the tables below. The adjusted R square shows to what extent the independent variables in the regression model explain the variances in the dependent variable (Omondi, 2017). The Sig. of the table shows the significance for the model and the significance of the contribution of the variable. If the significance is lower than 0.05 it means that the model or variable are statistically significant. The standardized beta will also be presented, which shows the contribution of each variable. The variable with the highest beta makes the strongest unique contribution on explaining the dependent variable (Omondi, 2017).

Table 6.2 Model Summary

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig.	
1	.331 <sup>a</sup>	.110	-.164	.615	.110	.401	4	13	.804	2.125
a. Predictors: (Constant), Audit Committee, Gender, Audit partner rotation, Audit Firm Size										
b. Dependent Variable: Auditor Independence										



As seen in the table above, the adjusted R square is negative 16.4 percent, which means that the model explains 16.4 percent of the variances of auditor independence. The model has a p-value of 0.804 which is higher than 0.05 and is therefore not significant. Since the model is not significant it is not relevant to further examine the significance of each variable in the model.

Table 6.3: Coefficients

Coefficients <sup>a</sup>											
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	5.170	2.160		2.394	.032					
	Gender	.259	.301	.228	.861	.405	.251	.232	.225	.979	1.021
	Audit Firm Size	-.303	.461	-.266	-.657	.523	-.097	-.179	-.172	.416	2.404
	Audit Partner Rotation	-.155	.205	-.235	-.753	.465	-.158	-.205	-.197	.705	1.418
	Audit Committee	-.167	.337	-.201	-.495	.629	.051	-.136	-.129	.415	2.408

a. Dependent Variable: Auditor Independence

The equation above indicates there is no significant relationship between the independent variables (gender, audit firm size, audit partner rotation, audit committee) and the dependent variable (auditor independence). The p-value of all the independent variables are higher than 0.05 (0.405>0.05, 0.523>0.05, 0.465>0.05 and 0.629>0.05) which means that the independent variables do not have a significant contribution to the model.

For the association between the independent variable and the dependent variable auditor independence, the results are:

- **Gender:** There is no significant relation between the difference in gender and the auditor of independence (p-value = 0.405). And the coefficient of this variable is positive ( $\beta=0.259$ ). This indicates that when there is an increase in gender differences, the independence of an auditor also increases by 0.259.

- **Audit Firm Size:** There is no significant relation between firm size and the auditor of independence (p-value = 0.523). Also the coefficient of this variable is negative ( $\beta=0.303$ ). This indicates that when there is an increase in audit firm size, the independence of an auditor decreases by 0.303.
- **Audit partner rotation:** There is no significant relation between audit partner rotation and the auditor of independence (p-value = 0.465). Also the coefficient of this variable is negative ( $\beta=0.155$ ). This indicates that when there is an increase in audit partner rotation, the independence of an auditor decreases by 0.155.
- **Audit committee:** There is no significant relation between audit committee and the auditor of independence (p-value = 0.629). Also the coefficient of this variable is negative ( $\beta=0.167$ ). This indicates that when there is an increase in audit committee, the independence of an auditor decreases by 0.167.

Table 6.4: ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.607	4	.152	.401	.804 <sup>b</sup>
	Residual	4.920	13	.378		
	Total	5.528	17			
a. Dependent Variable: Auditor Independence						
b. Predictors: (Constant), Gender, Audit Firm Size, Audit partner rotation, Audit Committee						

The variance analysis test (ANOVA) is presented in table 6.4. This table shows that the overall model is not significant with an F-value of 0.401 and p-value of 0.804. This means that the overall regression model does not predicts the outcome variable auditor independence.

### 6.2.2 Multicollinearity and autocorrelation

Tolerance and VIF are measures of multicollinearity. If a tolerance value is small and less than 0.1 it indicates a high correlation between the independent variables. There should not be a

correlation between the variables, because then the trustworthiness of the model will be low (Omondi, 2017). A VIF value above 10 indicates a strong multicollinearity (Omondi, 2017)

A collinearity test is performed to determine if the independent variables are strongly correlated with each other. Based on the VIF and Tolerance measures, it is determined whether the independent variables are correlated with each other. The VIF measures whether an independent variable is strongly correlated with other independent variable in the model. The VIF-value may not exceed 10 and the Tolerance must be greater than 0.2 (Omondi, 2017). In the case of the collinearity test, the VIF values are below 10 and the Tolerance values are greater than 0.2. This means that the independent variables are not highly correlated with each other and there is no sign of collinearity in this regression model.

The Durban-Watson test is used to determine if there is any sign of autocorrelation in the model. The result of this test is presented in table 6.2. There is autocorrelation in the model when residuals are correlated with each other. According to Field (2009) the value of the Durban-Watson test varies between 0 and 4. There is no autocorrelation because the value is 2. The Durbin-Watson value in Table 6.2 is 2.125 and is greater than 1, indicating that the residues should not be correlated with each other. This means there is no sign of autocorrelation and the multicollinearity test has also shown that there is no correlation between independent variables. It can be concluded that this model is not significant.

### **6.3 Pearson's correlation results**

The Pearson correlation results are presented in table 6.5. The Pearson correlation test measures the relation between the variables. With the correlation coefficient  $r$  it is measured whether the relation is correlated. The criterium for coefficient is  $-1 < r < 1$ . In addition, this coefficient interpret the strength and direction of the relationship. If  $r$  is equal to zero, there is no relation between the variables (Lee et al. 2012).

Table 6.5 presents the correlation between the dependent and independent variables. The focus is on the variables of interest from regression model. In this table there is only 1 correlation and

that is between audit firm size and the audit committee. In addition, only this correlation is discussed.

The variable audit firm size is negatively correlated with the variable audit committee ( $r = -0.667$ ). Also this correlation is significant ( $p\text{-value} = 0.003$ ) but not strong. This means that if audit firm size increase, the audit committee decreases.

#### **6.4 Summary**

In this chapter the results and analysis of the tested hypotheses for this thesis are discussed. To test these hypotheses, descriptive statistics and multiple regression- and variance analyses are carried out. The results of the regression analyses have shown that the model has a  $p$ -value which is higher than 0.05 and is therefore not significant. Other statistical analyzes such as the collinearity tests and Durban-Watson tests are performed to investigate whether the independent variables in the models are highly correlated and if these remaining dependent variables are correlated with each other. The collinearity analyses have shown that the independent variables in the models are not correlated and the Durban-Watson tests have also shown that the residuals are not correlated with each other. Finally the Pearson's correlation is done and there is only one correlation between the variables firm size and the functioning of the audit committee. The variable audit firm size is negatively correlated with the variable audit committee. In the final chapter, discussion, conclusion and implications of this thesis will be presented.

## **7. Analyses of the study findings and previous research**

### **7.1 Introduction**

This chapter discusses the analyses of the differences and similarities between the main findings of study and that of previous research. The results in chapter 6 are based on the findings of this chapter. In the second paragraph the differences and similarities are discussed for the hypothesis. The last paragraph gives a summary of this chapter.

### **7.2 The differences and similarities hypothesis 1**

When it comes to the association between the difference in gender and auditor independence, in the study of Fumagalli et al. (2010) they also examined the role of gender by testing 50 auditor men and 50 auditor women, while this study only have 18 respondents including 11 women and 7 man. The collecting of the data and the methodology are almost similar, but in the study of Fumagalli et al. (2010) found out that gender had a highly positively influence on auditor independence and the findings suggest that there are differences between man and woman when it comes to the independence of the auditor. As for this study the results are otherwise. There are not much studies done on the association between the difference in gender and auditor independence. With regard to the findings of the first hypothesis there are no direct similarities with the findings of this prior study.

In the study of Halim et al. (2018) found that there is no evidence about a positive association between the difference in gender and auditor independence. The reason for this is that there is no differences between male and female auditors (Halim et al. 2018). This lack of gender differences may be caused by work-related socialization, similar training and also the professional standards that may eliminate differences between male and female auditors (Halim et al. 2018). The finding of the first hypothesis of this thesis which show that there is a no positive associations between the difference in gender and auditor impence and whereby this hypothesis have been rejected can be compared with the findings of the study of Halim et al. (2010).

### **7.3 The differences and similarities hypothesis 2**

Although the previous studies did not use the same measurements as this study on audit firm size, a comparison will be made. The result of these studies will then be examined in comparison with this study. For the associations between audit firm size and auditor independence, the findings differ from the study of Omondi (2017). They examined the association between the same variables, but from the study results, it was established that there is a statistical relationship between audit firm size and auditor independence (Omondi, 2017). Almost all empirical studies that have tried to find the relationship between the size of an accounting firm and the independence of the accountant prove that there is a positive relationship between them (Omondi 2017). This study of Omondi (2017) is almost similar as the study of Tahinakis & Nicolaou (2004), except that they also examine other factors related to auditor independence than just the size of audit firms.

The findings of this study is similar with the study of Al-Thuneibat et al. (2011). Al-Thuneibat et al. (2011) did a study on the effect of audit partner rotation and audit firm size on auditor independence in Jordan. The findings revealed that audit partner rotation affects adversely on auditor independence while audit firm size had no positive influence on auditor independence (Al-Thuneibat et al. 2011).

### **7.4 The differences and similarities hypothesis 3**

The study of the third hypothesis cannot be compared with the studies of Tahinakis & Nicolaou (2004) and Omondi (2017). Both studies have concluded that audit partner rotation have a positive influence of the independence of auditor. In Greece, a study was conducted by Tahinakis & Nicolai (2004) on the perceived effects of partner rotation on the independence of auditors and the study by Omondi (2017) examined which factors are identified that positively affect the independence of the auditor or negatively in Kenya.

The findings of this study, regarding the audit partner rotation, are similar to the findings of Chia-Ah et al. (2010) and Ouyang & Wan (2013). These prior studies examined whether audit partner rotation can affect auditor independence. Both prior studies found out that there is no strong relationship between audit partner rotation and auditor independence.

## **7.5 The differences and similarities hypothesis 4**

For the associations between the functioning of audit committee and auditor independence, the findings differ from the studies of Sori et al. (2006) and Zhang et al. (2007). The study by Zhang et al. (2007) investigate the relation between audit committee qualities and auditor independence. This can be compared to the study by Sori et al. (2006) where they examine the impact of five issues on the audit committee, such as active audit committee, mandatory audit committee reports, audit committee approves audit fees, audit committee estimate audit fees, audit committee containing the majority of independent and non-majority executive directors, on the independence of the auditor. The studies Zhang et al. (2007) and Sori et al. (2006) found that there is a positive relationship between the audit committee and the auditor's independence, but the finding of this study concludes that there is no positive relationship between the functioning of an audit committee and the independence of the auditor.

The result of the study of Omondi (2017) is similar with this study, whereby that there is no positive association between the functioning of an audit committee and auditor independence. In the study of Omondi (2017), this study is based on internal factors influencing external auditor independence, whereby one of them is audit committee. The research findings of Omondi (2017) conclude that there is no positive association between audit committee and auditor independence in Kenya.

## **7.3 Summary**

This chapter elaborates on the differences and similarities between this study and previous research. Comparisons can be made, even though the same variables are not examined in one previous study. Of all those previous studies, at least one of the variables has been included in this study, so that a comparison can be made and ultimately it concerns the same variable that is being examined.

Previous studies have made a combination of other variables for their research and this research has a different combination. The findings focus on the differences and similarities between the association of the specific variables and auditor independence.

## 8. Conclusions

Based on the results and analyzes of the hypotheses tested in the previous chapter, a conclusion will be drawn that will answer the main research question and additional research questions.

Section 1 deals with the research questions and the formulated hypotheses together and draws a conclusion based on the findings. Section 2 and 3 discusses the limitations of this study and the last section discusses suggestions for future research.

### 8.1 General conclusion

The objective of this study is to examine whether the determinants of the auditor independence namely gender, audit firm size, audit partner rotation and the functioning of the audit committee influenced the independence of auditor in Suriname. To examine this influence, the following main research question is formulated:

***“Do the determinants of auditor independence influence the independence of external auditors in Suriname?”***

Based on the four hypotheses the results indicate that all of these four hypotheses have been rejected. A reason why all these four hypotheses have not been accepted is because the sample size is very small. The research method that is used in this thesis was based on a quantitative method. The data was collected using surveys sent to auditors in Suriname, who work in audit firms. Nine audit firms in Suriname have been contacted. Of all the auditors who work at these audit firms, only 18 completed the survey. The intention was to get at least 45 auditors from these 9 audit firms, so at least 5 auditors per audit firm. The questions in the survey were intended for all auditors who work for such an audit firm. From junior-, middle-, senior auditors to the partner of the audit organization. A sample of 5 auditors per audit firm has been drawn. Furthermore the population of the total number of auditors in Suriname is unknown. Of course the more respondents, the better, but these companies do not want to disclose this information. After so many reminders it was unfortunately not possible to achieve the maximum number of auditors in Suriname. The Pearson Correlation Analysis and Regression Analysis, have showed that there is no significant association between the independent variables (gender, firm size, audit



partner rotation and the functioning of the audit committee) and the dependent variable auditor independence. This means that H1, H2, H3 and H4 were not supported. That reason behind that can be related to the very low response of the auditors on the survey of this study. There also could be several reasons such as:

1. Most auditors must first obtain permission from the company they work for. As a result, they are very careful when it comes to answering a questionnaire and especially a questionnaire with a somewhat sensitive topic like auditor independence
2. Secondly, it may also be that the period that the questionnaire was sent to the audit firms, they indicated that they were very busy with their audit. The period that the questionnaire was distributed to the audit firms was between June and September 2020. As a result, they did not have time to answer the questionnaire.
3. As for the third one, Suriname is a small country and it is not yet at that level where companies are willingly releasing of providing internal information to third parties. They should really be convinced that providing the data will cause no harm or damage to the organization.

Furthermore, it can also be stated that this study can also make a contribution, although the results are not what was expected. Such as, this research can still be considered as a starting point for such an investigation and can further help to stimulate other research within the audit industry in Suriname. And perhaps based on the results and conclusion cited by this study, this could also be an incentive for auditors in Suriname to change their attitude when it comes to studies conducted by students. Where they can participate more so that a judgment can still be made.

The result of this study contradicts the empirical research because of the response that is very low in relation to target population. It can be concluded that if the response was high and thus many more respondents took part in this study, the result would be different or would be better from what it is now. The external validity would be better and also better conclusions could be drawn about the population. It can be also be concluded that the factors gender, firm size, audit partner rotation and audit committee do not influence the independence of auditors in Suriname positively, therefore no positive significant association has been found. Some research

limitations or shortcomings may have caused the result. In the next paragraph the research limitations and future suggestions for future research are discussed.

## **8.2 Research limitations**

As already mentioned, this study has some limitations. First, it can be indicated that the respondents who received this survey are very small, because most respondents do not want to answer the questionnaires. And because they also assume that they are not obligated to answer this questionnaire. As a result, the results of this thesis are not what they should be and the expected respondents are less. Most of the respondents did not want to fill out these questionnaires, because confidential information can publically be declared and this can also bring serious consequences for the organization where they work. Secondly, by gathering these data via web-based questionnaires, it can also have other shortcomings, such as the questionnaire can also be completed by a respondent who has no experience yet. These auditors have not yet gained experience in the work area. Hence, this also became one of the study's shortcomings. Another reason why the response was also very low is that the survey was conducted at the same period where most accounting firms were very busy with their audit, which means that we may have received very few responses despite sending several reminders throughout the month. These limitations may have affected the usefulness and generalizability of this study. However, they can serve as basis for consideration for future research, the findings may not be representative of the auditors in Suriname because of the small response, which is of course very unfortunate.

## **8.3 Suggestions for future research**

Other researchers who are planning to conduct these type of research are advised to try to create their own questionnaire and use it to increase the number of respondents. The underlying idea is that the questions, in addition to being answered by an authorized respondent, can also be answered by the questions. As a result, it can also ensure that the time in which the questionnaires are answered can also be shorter, because it can generally take longer for questions via the web and more time will be needed to answer these questions. Future studies should attempt for a larger sample size than this study for representativeness of the auditors in

Suriname. That is the population is known. Furthermore, this study involves the use of questionnaire survey only. Future studies may try to take various method, such as the interviews or case study questions, to better evaluate the factors that influence the professional judgment of auditors. Last but not least, regarding the relevance for Suriname, this is a starting point for such a study. And as far as auditors in Suriname are concerned, this is not the response that was expected. It is time for the auditors in Suriname to stimulate research within the audit industry. This will only help to improve their audit profession standards and deliver more qualitative audits, which will result in users of financial statements relying more on their judgments.

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## Appendix A Overview of previous academic literature

<b>Salawu (2017)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Factors influencing auditor independence among listed companies in Nigeria	With a sample of 65 firms out of the 194 listed on the Nigeria Stock Exchange between the periods of 2006 to 2013	Generalized method of movements (GMM) approach	The study revealed that Big4, audit tenure, profitability, leverage and inventory account receivable had negative significant impact, which can impair auditor independence. Furthermore, size of the firms and loss had positive influence on auditor independence in Nigeria.
<b>John and Chukwumerije (2012)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Factors affecting auditor's independence in Nigeria	Sampling 150 chartered accountants in 15 audit firms in Lagos, by random sampling	The study employed survey research design and data were collected using Likert-rated questionnaire	Their finding shows that each of the factors of size of audit firm, audit market competition, audit firm tenure, size of audit fees and non-audit services has

			significant relationship with auditor's independence
<b>Halim et al. (2018)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Factors Influencing Independence of Auditors in Malaysia	This study used representative sampling of 110 Malaysian auditor between May to July 2018. A total of 55 usable responses were received.	A questionnaire was used to measure the level of these concepts using a 5 point Likert scale	Their findings shows that judgment of auditors gender, knowledge and firm size have no significant relationship with auditor independence.
<b>Ratna et al. (2020)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
The Effect of Experience, Independence, and Gender on Auditor Professional Skepticisms with Professional Ethics as Moderating	The sample is determined by convenience sampling technique, as many as 83 auditor	The writer used questionnaires. The method of analyzing data was descriptive analysis and multiple regression analysis with IBM SPSS version 21 application.	Their findings shows that the experience of auditors, gender, and professional ethics have a significant effect on auditor independence.
<b>Chia-Ah et al. (2010)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Examine whether extended audit partner rotation can	sample of 1,250 Swedish auditors	A questionnaire was used to measure the level of these	The findings did not reveal any strong relationship between

affect auditor independence.		concepts using a 5 point Likert scale	audit partner rotation and auditor independence.
<b>Tahinakis &amp; Nicolaou (2004)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Examine the perceived effects of audit tenure on auditor independence	Sample of 315 certified auditors	A questionnaire was used to measure the level of these concepts using a 5 point Likert scale	The study found out that increased audit tenure is a major determinant of auditor independence in Greek.
<b>Carry &amp; Simnett (2006)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
The relationship between auditor independence and non-audit services, audit firm tenure, audit partner tenure and alumni affiliation.	A sample size of fifty (50) companies of the 199 listed equities was selected using the simple random sampling technique	Cross sectional data gathered from annual reports of selected quoted companies was used for this study	Findings reveal that there is a negative relationship between auditor tenure and audit quality though the variable was not significant.
<b>Sori et al. (2009)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Examines the perception of bankers on contribution of audit committees towards external auditor independence	A sample size of 87 loan officers	A questionnaire was used to measure the level of these concepts using a 5 point Likert scale	Majority (72%) of the loan officers interviewed believed that audit committees should present their reports as part of the company's financial

in public listed companies			statement, which is consistent with the findings from the questionnaire survey
<b>Zhang et al. (2007)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
The relation between audit committee, auditor independence, and the disclosure of internal control weaknesses after the enactment of the Sarbanes-Oxley Act	Sample of 208 firms with material internal control weaknesses. Financial information were retrieved from 2004 COMPUSTAT.	A survey was used based on a interview	Their findings indicate that a relation exists between audit committee, auditor independence, and internal control weaknesses
<b>Omondi (2017)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Factors influencing auditors independence in Kenya	214 audit firms who are practicing accountants in Kenya.	A questionnaire was used to measure the level of these concepts using a 5 point Likert scale	The findings indicates that there is a significant relationship between audit firm size, audit tenure and auditor independence. But there is no significant relationship between audit committee and auditor independence
<b>Lovisa &amp; Waqas (2020)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
Factors that are affecting how clients	Sample of 228 companies in Sweden	a quantitative approach has been	The findings indicates that gender

perceive the auditor independence in Sweden.		chosen and data was gathered through a questionnaire using a 5 point Likert Scale	does not affect auditor independence in Sweden
<b>Al-Thuneibat et al. (2011)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
To analyze the effect of the length of the audit firm-client relationship and the size of the audit firm on auditor independence in Jordan.	Sample of 188 audit firms in Jordan	The authors use the quadratic form approach with some modifications	Audit firm size has no significant impact on the correlation between audit firm tenure and auditor independence.
<b>Bakar et al. (2009)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>
To explore the determinants of auditor independence as perceived by Malaysian accountants	Sample 72 and 2 of completed and incomplete questionnaires were received	A questionnaire was used to measure the level of these factors using a 7 point Likert scale	Factors including the size of an audit firm and the existence of an audit committee are perceived by Malaysian accountants as having positive relationship with auditor independence.
<b>Alleyne &amp; Devenish (2006)</b>			
<b>Study</b>	<b>Sample</b>	<b>Methodology</b>	<b>Findings</b>

<p>Investigates the perceptions of auditor independence (PAI) between auditors and users in Barbados</p>	<p>The sample included 66 auditors and 148 users</p>	<p>A questionnaire was used to measure the level of these factors using a 5 point Likert scale</p>	<p>Auditor independence was perceived to be enhanced by the existence of audit committees, rotation of audit partners, risks to auditor arising from poor quality, regulatory rights and requirements surrounding auditor change and an auditor's right to attend and be heard at the company's annual general meetings.e.</p>
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## Appendix B Measurement tables of the dependent and independent variables

Table 5.1: The Five Measures for Audit Partner Rotation

No.	Audit Partner Rotation's Sample Items
1.	Auditor independence in fact could be enhanced by a faster partner rotation requirement
2.	The auditor's appearance may be improved by a faster partner rotation requirement for audit assignments.
3.	Investor confidence can be improved by decreasing the audit partner engagement years to for example less than 5years.
4.	Independence in fact can be improved by continuing the cool down period from 2 years to 5 years before an audit assignment partner can rotate back to a client.
5.	Independence in appearance could be improved by increasing the cooling off period from 2 years to 5 years before an audit assignment partner can rotate back to a client.

Table 5.2: The Six Measures for the functioning of the Audit Committee

No.	Audit Committee's Sample Items
1.	My client's audit committee discusses the performance of the audit with us and any problems arising from the audit.
2.	My client's audit committee discusses the meaning and significance of the audited financial statements with us.
3.	My client's audit committee discusses the scope and timing of audit work with us.
4.	My client's audit committee reviews auditors internal control evaluation and recommendations.
5.	My client's audit committee reviews management's response to auditors' internal control recommendations.
6.	My client's audit committee intervenes in disputes between management and auditors.

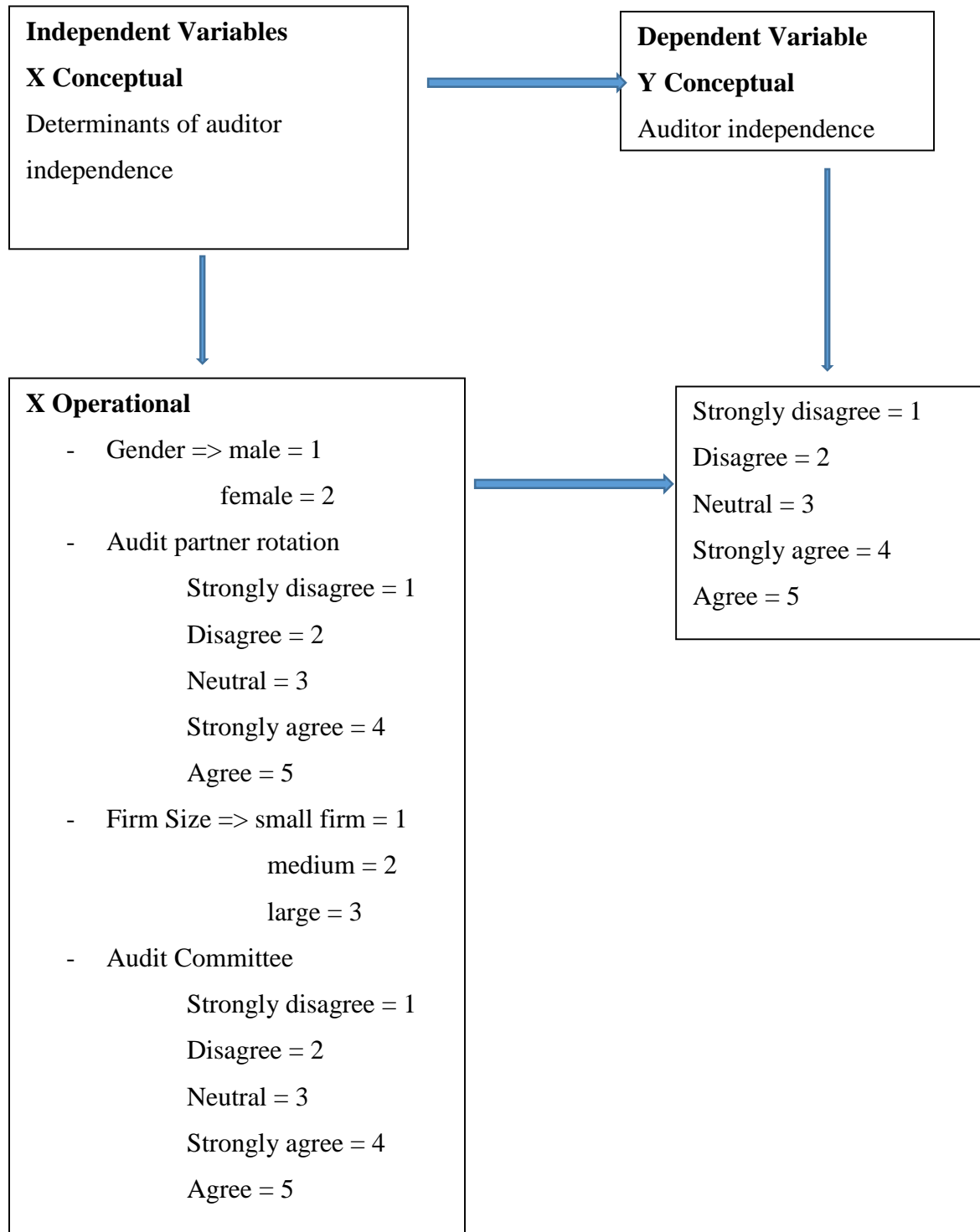
Table 5.3: The four Measures for Auditor Independence

<b>No.</b>	<b>Auditor Independence's Sample Items</b>
1	The role of an external accountant is to be a public watchdog.
2.	Current audit standards are very high.
3.	Since external auditors cannot monitor every customer transaction, they must rely on the sampling and testing of relationships when conducting an audit.
4.	Another important role of accountant is to be an insurer against losses of majority shareholders.



## Appendix C Libby Boxes

Figure 5.1



**Appendix D Correlations and tables of demographic profiles**

<b>Table 6.5 Correlations</b>						
		Gender	Audit Firm Size	Audit partner rotation	Audit Committee	Auditor Independence
Gender	Pearson Correlation	1	-.065	-.111	.098	.251
	Sig. (2-tailed)		.798	.660	.699	.314
	Sum of Squares and Cross-products	4.278	-.278	-.822	.574	1.222
	Covariance	.252	-.016	-.048	.034	.072
	N	18	18	18	18	18
Audit Firm Size	Pearson Correlation	-.065	1	-.214	-.667**	-.097
	Sig. (2-tailed)	.798		.394	.003	.701
	Sum of Squares and Cross-products	-.278	4.278	-1.578	-3.907	-.472
	Covariance	-.016	.252	-.093	-.230	-.028
	N	18	18	18	18	18
Audit partner rotation	Pearson Correlation	-.111	-.214	1	-.223	-.158
	Sig. (2-tailed)	.660	.394		.373	.531
	Sum of Squares and Cross-products	-.822	-1.578	12.738	-2.259	-1.328
	Covariance	-.048	-.093	.749	-.133	-.078
	N	18	18	18	18	18
Audit Committee	Pearson Correlation	.098	-.667**	-.223	1	.051
	Sig. (2-tailed)	.699	.003	.373		.839
	Sum of Squares and Cross-products	.574	-3.907	-2.259	8.031	.343

	Covariance	.034	-.230	-.133	.472	.020
	N	18	18	18	18	18
Auditor Independence	Pearson Correlation	.251	-.097	-.158	.051	1
	Sig. (2-tailed)	.314	.701	.531	.839	
	Sum of Squares and Cross-products	1.222	-.472	-1.328	.343	5.528
	Covariance	.072	-.028	-.078	.020	.325
	N	18	18	18	18	18

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 6.6 Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	11	61.1	61.1	61.1
	Male	7	38.9	38.9	100.0
	Total	18	100.0	100.0	

Table 6.7 Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 30 years old	4	22.2	22.2	22.2
	31 – 40 years old	8	44.4	44.4	66.6
	41 – 50 years old	5	27.8	27.8	94.4
	Above 50 years old	1	5.6	5.6	100.0
	Total	18	100.0	100.0	

Table 6.8 Highest education level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HBO/Bachelor	4	22.2	22.2	22.2
	MBA/Master	14	77.8	77.8	100.0
	Total	18	100.0	100.0	

<b>Table 6.9 Length of services</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3 years	3	16.7	16.7	16.7
	3 – 6 years	3	16.7	16.7	33.4
	7 – 10 years	7	38.9	38.9	72.3
	Above 10 years	5	27.8	27.8	100.0
	Total	18	100.0	100.0	

<b>Table 6.10 Firm Size</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Medium	7	38.9	38.9	38.9
	Small	11	61.1	61.1	100.0
	Total	18	100.0	100.0	

## Appendix C Questionnaires

Dear respondent,

I am a Final year Master student of the Accounting, Audit & Control master program from the Anton De Kom University of Suriname. I am doing a research on the topic “*Factors influencing Auditors independence in Suriname*”. As part of my master thesis, I am undertaking a survey to seek professional opinions and views on the factors that affect Auditor’s Independence in Suriname. I would be grateful if you could kindly spare a few minutes to answer the following questions. All the information gathered will be kept strictly confidential and used solely for academic purpose only. Your contribution is much appreciated. Thank you in advance for your participation.

### Instructions:

- 1) There are TWO (2) sections in this questionnaire. Please answer ALL questions in BOTH sections.
- 2) Completion of this form will take you approximately 10 to 15 minutes or less

### Section A: Demographic Profile

Please select for each of the following:

A1. Gender:

- Male
- Female

A2. Age:

- Below 30 years old
- 31 – 40 years old
-

41 – 50 years old

Above 50 years old

A3. Highest education completed:

HBO/Bachelor

MBA/Master

Doctoral/PHD

Other: \_\_\_\_\_

A4. Length of services:

Less than 3 years

3 – 6 years

7 – 10 years

Above 10 years

A5. The total number of employees in the company is.....

**Section B: Please answer to each statement using (1) = strongly disagree; (2) = disagree; (3) = neutral; (4) = agree and (5) = strongly agree]**

**Audit partner rotation**

B1. Auditor independence in fact could be enhanced by a faster partner rotation requirement

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

B2. The auditor's appearance may be improved by a faster partner rotation requirement for audit assignments.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B3. Investor confidence can be improved by decreasing the audit partner engagement years to for example less than 5years.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B4. Independence in fact can be improved by continuing the cool down period from 2 years to 5 years before an audit assignment partner can rotate back to a client.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B5. Independence in appearance could be improved by increasing the cooling off period from 2 years to 5 years before an audit assignment partner can rotate back to a client.

- Strongly Disagree

- Disagree
- Neutral
- Agree
- Strongly Agree

**Audit committee**

B6. My client's audit committee discusses the performance of the audit with us and any problems arising from the audit.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B7. My client's audit committee discusses the meaning and significance of the audited financial statements with us.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B8. My client's audit committee discusses the scope and timing of audit work with us.

- Strongly Disagree
- Disagree
- Neutral



Agree

Strongly Agree

B9. My client's audit committee reviews auditors internal control evaluation and recommendations.

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

B10. My client's audit committee reviews management's response to auditors' internal control recommendations.

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

B11. My client's audit committee intervenes in disputes between management and auditors.

Strongly Disagree

Disagree

Neutral

Agree

Strongly Agree

## Auditor Independence

B12. The role of an external accountant is to be a public watchdog.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B13. Current audit standards are very high.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B14. Since external auditors cannot monitor every customer transaction, they must rely on the sampling and testing of relationships when conducting an audit.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

B15. Another important role of accountant is to be an insurer against losses of majority shareholders.

- Strongly Disagree

- Disagree
- Neutral
- Agree
- Strongly Agree

*Thank you for your time, opinion and comments.*

*~ The End ~*