



Audit Firm Rotation and Audit Report Lag; Statistical Evidence from Suriname

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ABSTRACT

Over time, different relation has been performed and tested in the research field of the audit profession. Some examples of the research in this profession, which are conducted in countries like China and USA is the research in auditor's independence, audit quality. This research studies the relationship between the audit firm rotation and the audit report lag in Suriname. By making use of data from the listed companies on the Surinamese Stock Exchange and particularly from companies who had publicly published their audited financial statements, this study uses measurements as audit firm rotation, audit tenure and audit firm size and audit report lag. Based on the results, the findings shows that there is a certain relationship between the audit firm rotation and the audit report lag in Suriname. The results showed statistical evidence that the measurements, audit firm rotation, audit tenure and audit firm size effects the audit report lag significantly in Suriname.

Keywords: Audit characteristics; Audit report lag; Audit firm rotation; Audit tenure; Audit firm size; Audit report date

INTRODUCTION

The usefulness of the financial statements has increased over the past years. Different stakeholders make use of audited financial statements for decision making such as investment and other business decisions [1]. According to the Financial Accounting Standard Board (1980), FASB [1], these audited financial statements should be complied to the criteria, relevance, verifiability, and free from bias and quantifiable, before it is useful for decision makers. To fulfill these criteria, it is important that the financial information (audited financial statements) is produced in a timely manner. The main advantage of producing financial statements on a timely basis is that it is reducing information asymmetry on the capital market, because as seen in the work of Enofe et al. [2], timelessness reduces the chances of being frauded as the financial information is equally distributed among all potential investors and users of the information. Because the capital market and the users of the financial information are relying so much on the information that is presented in the financial statements, it is the accountability of the auditor that the timeliness of the delivery of the financial statements should be improved. Therefore, regulatory bodies such as FASB and the Security and Exchange Commission, (SEC) are showing constantly interest in issues regarding timeliness of financial reporting and the audit firm rotation [1-3]. Another reason why the concept of audit firm rotation and timeliness of

financial reporting became interesting for regulatory bodies is because of the corporate collapses of companies such as WorldCom and Enron where their business failure was directly related to the audit failure [4].

Where different developed countries have already introduced the aspect of audit firm rotation, other developed and less developed countries are still debating on the introduction of audit firm rotation [2]. Different groups of stakeholders have been debating on the issues of audit firm rotation and audit report lag, where in this issue some stakeholders argue that with the presence of audit firm rotation, the duration of the audit, will increase. But on the contrary these same stakeholders' group states that the audit firm rotation will enhance the independence of the auditor [5]. Stakeholders also argue that a long client relationship with the same auditor will decrease the audit quality, because the familiarity threat. The main consequence of this threat is that the timeliness of financial reporting will be in jeopardy [6].

The other group of stakeholders is arguing against the audit firm rotation, stating that when the tenure is short, which means that if there is an audit firm rotation, the Audit Report Lag (ARL) is expected to be longer. This is because of the unfamiliarity of the auditor with the client's business and financial systems, which effects the auditor's efficiency and effectiveness to perform the audit adequately and in a timely manner [7,8].

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LITERATURE REVIEW

Problem definition

Suriname is located at the north coast of South America and its normally characterized as a Dutch colony. Geographically this country is one of the smallest countries of South America and is part of the Caribbean region, more. Specifically, the Guiana Plateau [9,10].

Until mid-2017 there was no specific legal obligation or regulation regarding the financial reporting in Suriname. By the end of the year 2017 Suriname passed the first form of regulation regarding the financial reporting. According to this regulation companies are obliged to prepare their annual report in accordance with the International Financial Reporting Standards (IFRS FULL for large companies) or the International Financial Reporting Standards for Small and Medium Entities (IFRS SME) [11]. Furthermore, this regulation states that the companies should prepare and accept their financial statement within a period of 6 months after the fiscal year end. In addition to this the companies are obliged to publicly present their financial statement within a period of 5 to 8 days after the acceptance of the financial statements by the annual shareholders meeting.

The regulatory body for monitoring those who are practicing the work of the audit in Suriname is known as the Suriname Chartered Accountant Institute (SCAI), which is established by law in mid-2018. To monitor the work of the auditors and to develop this profession in Suriname in accordance with international standards and regulation, this institute is in a continuous process of establishing good relationship with the Netherlands Institute of Chartered Accountants (NBA) and is also an active member of the Institute of Chartered Accountants of the Caribbean (ICAC). In addition to the relationship with the NBA and the membership of ICAC, the SCAI is preparing to become a member of the International Federation of Accountants (IFAC) [12]. As mentioned earlier the objective of the SCAI is to monitor and to develop the audit profession in Suriname. This means that this institute is also responsible for action to increase the integrity of the audit profession. This indicates that this institute is primarily responsible for creating regulation to ensure the proper functioning of the audit profession in Suriname. One of the first one of the first rules that this institute has made is that all RA's (Register Accountants) or CPA's (Certified Public Accountants) may perform the work of an auditor in Suriname [12]. However, the opposite of this is that this institute has not developed any regulations regarding, mandatory audit rotation at partner or firm level, audit tenure and audit quality which leaves a grey area for auditors and audit firms to perform their duties according to the law [12].

Research testing the relationship between audit characteristics and audit quality has mainly been conducted in regions such as Asia and South/Latin America, with a focus on the relationship between audit fees and audit quality [13]. Before the study took place in regions such as Asia and South/Latin America, a study was carried out by Alleyne (2002) [14], in which one characteristic of the accountant, the independence of the accountant, was tested in an environment such as Barbados. The main reason why this preliminary investigation is in line with studies such as those of Moraes and Martinez can be found in the fact that the preliminary investigation makes a statement about the independence of the accountant, with the argumentation indicating that the independence of the accountant can be influenced by human

behavior [15]. Based on the previous studies, it can be concluded that insufficient or no research has been done in the field of audit in countries such as Suriname.

It is interesting to conduct this research because this research can contribute to closing the gap that exists between research done in the field of audit and the audit profession in Suriname. The aim of this study is therefore to determine to what extent the audit firm rotation influences (affects) the audit reporting lag in Suriname. Besides the fact that this research will provide information to fill the existing gap, there are several reasons why this research should be conducted. First, the study will greatly contribute to understanding the audit profession in a small undeveloped country like Suriname, as no previous studies have been conducted in the audit field that are more specific regarding the audit report lag. Second, this research can help institutional bodies, such as the SCAI, to structure the audit profession regarding audit report lag. And third, with the information contained in this study, will contribute to the academic education system and other stakeholders. Finally, the research will contribute to existing research being done in countries where there are similarities with Suriname, such as Barbados and other less developed countries in other regions.

Hypothesis development

Audit Report Lag (ARL): Based on the literature of Lee et al. [8] ARL can be defined as the period between the end of the company fiscal year and the date on the audit report, which refers to the duration of the audit completion. According to Habib et al. [7] the audit report delay is set in three stages. The first stage is the time between the actual date of the end of the fiscal year and the date of the preliminary reports by the capital market, which is also known as the preliminary lag. The second stage is the time between the date of the end of the fiscal year and the date indicated on the audit report, which is also known as the auditor signature lag. The last stage is known as the total lag which indicates the time between the end of the fiscal year and the date of the publication or disclosure of the financial statements.

Audit firm rotation: The concept of introducing the audit firm rotation was introduced by regulators to solve issues that occurred when a company hires the same auditor every year. The most important issue is the fact of familiarity, this indicates that the auditors get too close to the management of the company which leads to personal and professional ties. The direct effect of this threat is that the objectivity of the auditor may be in jeopardy. The purpose of the audit firm rotation is set for organizations to change audit from time to time. This will increase the objectivity of the auditor [2]. Proponents of audit firm rotation strongly recommend that there should be an audit firm rotation. But the main consequence of this rotation is that it affects the ARL in such a way that it will increase, which means the audit firm will spend more time completing the audit. The opponents of the audit firm rotation also state the rotation will increase the ARL because the newly rotated auditor does not have enough client-specific information [5,7,8]. Based on the information above the first hypothesis is developed:

H1: Audit firm rotation significantly affect audit report lag.

Audit tenure: Research defines audit tenure as the period that an audit client has the same auditor or audit firm. Furthermore, Johnson et al. [16], splits the audit tenure into short tenure when the client has the same audit firm for 2-3 years, medium tenure when the period is 4-8 years, and long tenure when there is a

period of more than 8 years. The research also states that there is a relationship between the audit tenure and the audit report lag, in such a way that a long audit tenure shortens the audit report lag [8]. The short tenure explains that there is a new auditor in charge of the audit, which means that this new auditor will spend more time in understanding the clients business and the client financial system, but when the tenure is long this indicates that the same auditor is in charge of the audit and will spend less time in understanding the clients business and the client's financial systems [5,7,8]. Based on the information above the second hypothesis is developed:

H2: The audit tenure significantly affects the audit report lag.

Audit firm size: As mentioned by Enofe et al. [2] earlier the timeliness of financial reporting plays an important role in decision making. To increase this importance, the audit clients will hire audit firms that have a good reputation, normally known as the Big 4 auditors (KPMG, EY, PWC, Deloitte), because these audit firms have bigger branches, and their audit staffing is much more than smaller audit firms. This indicates that when the audit clients hire big audit firms to perform their audits, they tend to deliver their audit report on time [17]. Based on the information above the third hypothesis is developed:

H3: The audit firm size significantly affects the audit report lag.

RESULTS

Data and sample selection and research design

To conduct this study the sample will contain the companies that are listed on the Suriname Stock Exchange (SSE) and those who are not listed on the SSE, which produces an audited financial report for the period of 2013-2019.

To retrieve the needed data for the variables the audit report lag, audit firm rotation, audit tenure, and the audit firm size. Each audit report will be downloaded from the website of the company.

Audit report lag

As mentioned by Lee et al. [8] the Audit Report Lag (ARL) is describing as the time it takes to complete the audit of the financial statements. This indicates that the ARL can be defined as the number of days that are between the actual date of end of the company's fiscal year and the date on the independent auditor's report. Based on this information the proxy for measuring the ARL in this research will be the same proxy that was used by Lee et al. [8] and Habib and Bhuiyan (2011) [7], which is numbered by of the calendar days from fiscal year-end to date of the auditor's report.

Audit firm rotation

The idea behind audit firm rotation is that audit clients must change audit firms after a certain period, despite the auditee's ability to stay with the same audit firm (Said, 2014) [18]. Looking at the regulations of the SCAI it can be concluded that there is no regulation regarding the audit firm rotation in Suriname, which also means that there is no such thing as mandatory audit rotation in Suriname (DNA, 2018) [12]. Based on this information the proxy for measuring the concept of audit firm rotation will be the same proxy that is used in the study of Kim et al. [19] which is a dummy variable, where it gets a value of 1 if there is audit firm rotation and 0 otherwise.

Audit tenure

Rahima and Angoes (2014) [20] define audit tenure as the period of

the engagement time (contract time) that exists between the audit firm and the same audit client. According to the SCAI there is regulation for the audit tenure in Suriname [12]. Based on this information the proxy for measuring audit tenure in this study is the same that is used in the study of Siregar et al. [4], which is the length of time the Public Accounting Firm has been the auditor of a company (number of years).

Audit firm size

The next theoretical concept in this study is the audit firm size. Regarding the audit firm size the SCAI does not distinguish between big auditors and non-big auditors [12]. For this research, the proxy for measuring the audit firm size will be adapted from existing research where the measurement is done by the type of auditor (big 4 or not), where the audit firm gets a value of 1 if it is a big 4 audit firm otherwise it gets a value of 0 [21-24]. Based on the information above, the following research model will be used to test the relation:

$$\text{AUDLAG} = \beta_0 + \beta_1 \text{AUDFMR} + \beta_2 \text{AUDTEN} + \beta_3 \text{AUDSIZE} + E$$

Where:

AUDLAG=Audit Report Lag; measured by the number of the calendar days from the fiscal year-end to the date of the audit report

AUDFMR=Audit Firm Rotation; dummy variable, the value of 1 if there is a rotation otherwise 0

AUDTEN=Audit Tenure; the period the company has the same audit firm

AUDSIZE=Audit Firm Size; dummy variable where Big 4=1, otherwise=0

E=Error term

DISCUSSION

Table 1 gives an overview of the descriptive statistics, where it can be concluded that the audit report lag had a mean value of 139.46 with minimum and maximum values of 34 and 358 days respectively. This indicates that it takes the audit firms, minimum of 34 days, and a maximum of 358 days to complete an audit and to publish the audit report. But on average it takes the audit firm 139 days to complete the audit and to publish the audit report. The mean value of audit firm rotation is 0.04 with a minimum 0 and a maximum of 1. This indicates that the companies have the same audit firm for their audit each year. The audit tenure has a mean value of 3.59, with a minimum of 1 and a maximum of 7. This means that the average engagement time between an audit firm and an auditee is 3.5 years. The minimum engagement time is 1 year, and the maximum tenure is 7 years. The last variable, audit firm size stands at the mean value of 0.17 implying that most of the companies hire non-big 4 auditors the conduct their audit.

Table 1: Descriptive statistics.

	N	Minimum	Maximum	Mean
AUDLAG	98	34	358	139.46
AUDFMR	98	0	1	0.04
AUDTEN	98	1	7	3.59
AUDSIZE	98	0	1	0.17

From the information that is presented in Table 2 can be concluded

that the adjusted R² has a value of 0.157, this means that over 15% of variations in the dependent variable (audit report lag) are explained by the independent variables and 75% is unexplained, which indicates that there are other variables that explain the variations. The F-statistics has a value of 7.0224. This indicates that this model is significant, and it measures the relationship between the audit report lag and audit firm rotation.

Table 2 also presents the coefficients for the model where the audit report lag, which is measured by the number of the calendar days from the fiscal year-end to the date of the audit report as the dependent variable. From the information in the table, it can be concluded that all the independent variables show a relationship or an effect on the dependent variable, where this effect is significant at a level of 0.10.

As mentioned earlier, the statically evidence showed that the independent variable affects the dependent variable, and based on the significance level, this is effect is significant. From the results that are presented in Table 2, it can be concluded that audit firm rotation affects the audit report lag (0.315). This effect is tested with a significance level of 10% ($p=0.10$). Based on this significance level it can be concluded that this effect is significant and does support the first hypothesis, which indicates that the audit firm rotation does play a big part in the duration of the audit and the completion of the audit.

From the evidence presented in Table 2 it can also be concluded that the effect between audit tenure and the audit report lag is 0.328, this value means that the auditor tenure affects the audit report lag. The statistical test produced evidence that this effect is significant ($p=0.10$). This significance level of 0.001 is smaller than the p-value which means that this evidence does support the second hypothesis. This means that the audit tenure also plays a big part in determining the duration and the completion of the audit.

More evidence in Table 2 states that the audit firm size affects the audit report lag (-0.187). This effect is tested with a significance value of 0.052 which is smaller than the p-value of 0.10, where the evidence shows that this effect is significant and does support the third hypothesis. This means that audit firm size also determines the duration and the completion of the audit.

Table 2: Coefficients.

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	99.883	14.661		6.813	0
1 AUDFMR	108.549	33.725	0.315	3.219	0.002
AUDTEN	11.412	3.393	0.328	3.363	0.001
AUDSIZE	-33.688	17.153	-0.187	-1.964	0.052

The model is expressed as: $AUDLAG = \beta_0 + \beta_1 AUDFMR + \beta_2 AUDTEN + \beta_3 AUDSIZE + E$. The F-statistic for the model is: 7.024, R²: 0.18, and the adjusted R²: 0.157.

CONCLUSION

As mentioned earlier the aim of this study is to determine to what extent the audit firm rotation affects the audit report lag in

Suriname. Suggested by the prior literature this study used some operational factors as predictors for the relationship with the audit report lag, these factors were, audit firm rotation, audit tenure, and audit firm size.

The main conclusion from this study is that the audit firm rotation affects the audit report lag significantly in Suriname. This means that the variables audit firm rotation, audit tenure, and the audit firm size determines the audit report lag in Suriname.

The first reason for this conclusion is because of the evidence provided for the first hypotheses which states that audit firm rotation has an effect on audit report lag. The provided statistical evidence indicates that this effect is significant and does support the first hypothesis, where there is statistical evidence that predicts that the audit report lag is decided by the rotation of the audit firm.

The second reason for the conclusion is because of the evidence for the second hypothesis, where audit tenure also affects the audit report lag. Based on the statistical evidence it can be concluded that this effect is significant and does support the second hypothesis, which predicts that the audit report lag is decided by the audit tenure.

The third reason for this conclusion is seen in the statistical evidence for the last hypothesis, where the audit firm size affects the audit report lag. The statistical evidence indicates that this effect is also significant and does support the last hypothesis, which indicates that there is also evidence that predicts that the length of the audit is decided by the size of the audit firm.

Overall, it can be concluded that the auditor firm rotation does affect the audit report lag in Suriname, where his effect is statistically significant which implies that this relationship is a strong relation.

RECOMMENDATIONS

As seen in this study and the conclusion it can be recommended to conduct this study by making use of other factors of audit firm rotation so that there can be information whether these factors could affect the audit report lag in Suriname.

Another recommendation is that this study can be conducted with other characteristics of the audit profession is Suriname. In this context it can interesting to look at the relation between factors like audit fee, gender, auditor specialization and the audit report lag in Suriname.

At last, the study can be used as a form of prior research to conduct further research to define and to set standards for certain audit characteristics in Suriname, such as, audit firm rotations and audit tenure and audit firm size.

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