



Auditor's Competence, Auditor's Integrity and Audit Quality in the Surinamese Market

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ABSTRACT

The work of the auditor is to provide reasonable assurance regarding the financial statements. This work comes with a great responsibility towards the public mostly because of the competence and the integrity of the auditor. Examples as Enron and WorldCom are good situation where the work of the auditor was doubtful. By retrieving information from the published audited annual reports from the listed companies on the Surinamese Stock Exchange and other companies, the main claim of this study is to test the auditor's competence, the auditor's integrity, and the audit quality in Suriname. The produced evidence showed that the proxy's used for auditors' competence and auditor's integrity shows a certain relation and effect with the audit quality, but not all the proxies determine the audit quality in Suriname.

Keywords: Audit quality, Auditor's competence, Auditor's integrity, Auditor's license, Auditor's experience, Audit report

INTRODUCTION

The work of the auditor is defined as a service where an independent expert provides audit and non-audit services to various clients. The underlying message of this profession means that a company's financial statements are examined by an independent and objective individual. The main goal of this examination is to provide the users with reasonable assurance that the financial statements are audited in accordance with the accounting standards and are audited by an independent auditor, which means that the auditor gives a statement that the financial statements are free from material statements [1-3]. As mentioned, the audit provides users of reasonable assurance that is made by a professional. This professional is an independent and objective external auditor who is recognized by the needed expertise and the useful education, and the agreement to work by their profession's code of ethics. This ensures that the auditor will conduct the work with his high standards of integrity. In every manner the auditor should maintain their high standard of integrity and objectivity, where violation of this will lead to mistrust in the audit profession. Cases such as Enron and WorldCom are examples where the public confidence in the audit profession was questioned [4-6].

As mentioned earlier it can be seen that in determining the audit quality the auditor's integrity also plays an important role [5,6]. In the work of audit, integrity is seen as the main principle for the auditor not only to maintain the public trust but also for passing their judgement with regards to ethical issues [7]. This implicates that the auditor should always maintain their honesty, their

courage, and their responsibility for reporting misstatements in the financial report. By doing this the public trust will increase and the audit quality will also be increased [8].

Research defines auditor competence not only as the ability to possess the knowledge (education and experience) and the skills (expertise) that are required for a certain task but also the ability to apply the knowledge and the skills. Furthermore, the definition states that the auditor competence also requires the auditor to perform the ethical behavior in their work [2].

The basic aspects of auditor competence, which is expertise, starts with the formal education which is followed by the work experience. This means that the public auditor should not only gain general knowledge about the audit profession but also specialized technical training (the real auditors work experience). These auditors are in a continuous learning process because they must know and understand new accounting principles and new auditing standards which are established by regulatory bodies [9].

METHODOLOGY

Problem definition

The institutional body named The Suriname Chartered Accountant Institute (SCAI), is the institute established by law that monitors the audit profession in Suriname, where their main priority is to increase the auditor's independence and the audit quality in Suriname according to international standards and regulation [10]. According to the law of Suriname, the SCAI is not only

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concerned with promoting and monitoring the audit profession in Suriname but also promoting the integrity of the audit profession in Suriname.

According to the SCAI, an individual can only perform the auditor's work if such an individual successfully completed the education which is given by a recognized institute. In Suriname, an individual can practice the work of an auditor if the individual has completed the education as a Registered Accountant (RA) in the Netherlands and is registered in the NBA or if he has completed the training as a Certified Public Accountant (CPA) and is registered in the register for CPA. But in addition to these registrations, they must also register as an active member of the SCAI [10].

As mentioned earlier one of the responsibilities of the SCAI is to promote the integrity of the audit profession in Suriname. By keeping this responsibility in mind, it is interesting to conduct this study to determine to what extent the auditor's competence and auditors' integrity affects the audit quality in Suriname, because this study will contribute to the SCAI's responsibilities to promote the integrity and to improve the audit profession in Suriname perform. Secondly this study will provide users of more information in understanding the work of the auditor and the audit profession in Suriname, because this study will be the first academic study which will focus on the auditor's competence and auditor's integrity in Suriname.

Hypothesis development

Auditor's competence through education: In general, competence is seen as a correlation between knowledge, ability, skill, and work attitude, which means that an individual is seen as competent if he visibly meets all these requirements. Within the work of audit competence takes an important place, because this reflects the expertise of auditor which he gained from the knowledge and training (education) [7]. This statement indicates that an individual can only call himself a qualified auditor if he has the necessary qualifications through the appropriate education. In line with this, a qualified auditor must also have the necessary experience and training that enables him to perform the audit on the financial statements [11]. This statement is in line with the work of, where it is stated that an auditor is seen as competent when this individual has all the needed education (knowledge) and the working experience which qualifies this individual to conduct an audit in an objective and accurate manner [12]. As stated by SCAI, they acknowledge an individual as a competent auditor if they hold the title of RA or CPA [10]. **Auditor's competence through working experience:** According to the literature, experience is defined as a continuous learning process gained through formal and non-formal training. In other words, it is expressed as a process of developing an individual's behavior. In the field of audit, the working experience will form the auditor in such a way that this individual will conduct the audit in such an unbiased manner. This statement is made because the working experience will transform the auditor in such a person who will be wiser in thinking and doing his work (conducting an audit). This will result in the fact that and auditor who is an experienced auditor will produce a higher audit quality [7].

Based on the information above the following two hypotheses are stated:

H1: Auditor's education significantly affects the audit quality.

H2: Auditor's working experience significantly affects the audit quality.

Auditor's integrity: As mentioned earlier the integrity of the auditor is seen as one quality requirements for an accountant to be characterized as a good accountant. To maintain and to increase the public trust the auditor should conduct their work with objectivity, professional conduct and open to the auditee with regards to the limitations that arise with the result of the audit [7].

Research in time has shown that the auditor's integrity is an important factor in the audit process and positively affects audit quality because auditor's who carry out their duty with full honesty and are courageous, are in the position to perform the audit correctly and to provide the opinions that reflect the actual situation [13]. Based on the description above, the following hypothesis is stated:

H3: Auditor's integrity significantly effects the audit quality.

Data sample selection and research design

To conduct this study the sample is determined by companies who are listed on Surinamese Stock Exchange (SSE) and those not listed on the SSE who produces an audited financial report for the period of 2013-2019.

All the data that is needed for the operationalization of the concepts audit quality and auditor competence, and the auditor's integrity will be extracted from the audit report from the website of the company. The data regarding the auditor experience will be extracted from the organizations the auditor is enrolled (NBA register, CPA register).

Audit quality: The audit quality is the first theoretical concept that is tested in this study. For this study the operational measurement for this concept will be done by the type of the received audit opinion. As the regulatory body in Suriname has no clear definition of audit quality, this measurement gets the value of 1 if the company gets an unqualified opinion, otherwise the value will be 0 for all the other types of opinions [3,10,14,15].

Auditor license: An individual gets the RA or CPA license if he or she has successfully passed the RA or CPA examination and has the visible working experience. Based on the license and the working experience these individuals can work as independent auditors where both the RA and CPA license reflects a token of professionalism [16,17]. As seen earlier the individuals that perform the audit profession in Suriname are those who are in the possession of an RA or CPA license and are also registered as an active member of the SCAI. By registering and by being an active member of this institute, the SCAI acknowledges both the CPA's and the RA's as professionals to conduct an audit [10]. Based on this information the license of the auditor is used as first proxy to measure the auditor's competence, where this gets a value of 1 if the auditors hold a RA or CPA license otherwise 0.

Working experience: As seen earlier the professional education is not only necessary to conclude that the one performing the audit is performing this in an unbiased manner. The professional working experience as an individual auditor will increase the auditor's ability to conduct the audit objective and accurate and in an unbiased manner [18]. Based on this statement the second proxy to measure the auditor's competence is the working experience of the auditor which is measured by the number of years of auditor experience (the total number of years that an individual auditor has been practicing the work of the auditor).

Auditors integrity: As seen earlier the auditor's integrity is directly related to the transparency, honesty, and the courage of the auditor perform their duties and to express their opinion about the audit [13]. Based on this the proxy for measuring the integrity of the auditor will be the same proxy that was used in the study, where the auditor's integrity is measured by the honesty of the auditor [8]. This means that this measurement gets a value of 1, if the auditor freely reports any errors or key audit matters in the audit reports otherwise it gets a value of 0 [19].

RESULTS AND DISCUSSION

Table gives general information regarding the descriptive statistics of this research. The information in this table shows that 90% of the companies in the sample received an unqualified opinion, because the statistical evidence shows that the mean value of the variable AUDO is approaching the value of 1, which is 0.90. Secondly the information in this table also shows that 83% of the companies in the sample are audited by an RA or a CPA, because the mean value of this variable is 0.83. The result in this table also shows that the auditor's in the sample have an average of 26 years of working experience in the audit profession.

Furthermore, the information in this table also shows that the auditor's in the sample are seen as auditors with integrity. This statement is made because the mean value of this variable is approaching the value of 1, which is 0.97. This means that the auditor's freely report any error or key audit matters in the audit reports (Table 1).

Table 1: Descriptive statistics based on audit reports.

	Mean	Std. deviation	N
AUDO	0.9	0.301	140
LICENSE	0.83	0.378	140
EXP	26.06	11.256	140
HOA	0.97	0.167	140

By analyzing the statistical output in Table 2 it can be concluded

that the adjusted R^2 has a value of 0.284.

This value shows that approximately 28% of variations in the dependent variable (audit quality) are explained by the independent variables and 72% is unexplained. This result gives an indication that there are other variables which are not taken into this model that explain the variations.

This results in this table also explains that the model used in this study measures the relationship between auditor's competence, auditor's integrity and audit quality, because the F-statistics has a significant value of 19.397.

The first information that can be extracted from Table 2 is that with a significance level of 10% all the independent variables effect the dependent variable. The first independent variable (LICENSE) affects the dependent variable audit quality (-0.086). By testing this effect with a significance level of 10% ($p=0.10$) it can be concluded that the effect of the license of the auditor on the audit quality is not significant and does not support the first hypothesis. Which means that the education of the auditor does not play a big part in the quality of the audit.

Secondly it can be drawn from this table that the next independent variable, working experience of the auditor also affects the dependent variable, audit quality (0.173). This effect is also tested with a significance level of 10% ($p=0.10$). Based on the statistical evidence it can be concluded that the effect is significant because the significance level of this effect (0.030) is smaller than the value of 0.10 (p-value).

This result means that the statistical evidence supports the second hypothesis that indicates that the working experience of the auditor determines the quality of the audit.

The produced evidence also shows that the honesty of the auditor also affects the audit quality (0.478). The significance level of this effect is 0.000, which is smaller than the value of 0.10 (p-value), gives information that this effect is significant and therefore supports the third hypothesis where the auditor's integrity determines the quality of the audit (Table 2).

Table 2: Relationship coefficients between auditor's competence, auditor's integrity and audit quality.

Model	Unstandardized coefficients		Standardized coefficients		T	Sig.
	B	Std. error	Beta			
0.378	(Constant)	4.38316	0.127		0	1
0.378	LICENSE	-0.068	0.062	-0.086	-1.099	0.274
0.378	EXP	0.005	0.002	0.173	2.199	0.03
0.378	HOA	0.86	0.153	0.478	5.612	0

Note: Model expressed as: $AUDO = B_0 + B_1 * LICENSE + B_2 * EXP + B_3 * HOA + E$. The F-statistic for the model is: 19.397, $R^2: 0.300$, and the adjusted $R^2: 0.284$.

CONCLUSION

As mentioned earlier the main goal of this study was to determine to what extent the auditor's competence and integrity affects the audit quality in Suriname. By making use of operational predictors as type of audit opinion license of the auditor, working experience of the auditor and the honesty of the auditor, the main conclusion can be drawn that auditor's competence and integrity effects the audit quality in Suriname, because the results show that all the independent variables effect the dependent variable.

This main conclusion is supported by the result of the first hypothesis. This result produced information that the auditor's education (RA or CPA or any other education aid) does affect the quality of the audit, but it does not determine the quality of the audit. Furthermore, the main conclusion is also supported by the information in the result of the test of the second hypothesis. The statistical evidence gives information that the relation between the working experience of the auditor and the audit quality is significant. States that this effect is significant, which means that the working experience of the auditor (the number of years that an individual auditor has been practicing the work of the auditor) determines the quality of the audit. The last reason of the main conclusion lies in the information produced by the test of the third hypothesis. The produced statistical information states that there is a significant relationship between the auditor's integrity and the audit quality. This means that when the auditor freely reports any error or key audit matters in the audit report, it determines the audit quality.

RECOMMENDATION

Based on this study and the results it can be strongly recommended to extend this study with other operational factors for auditor's competence and auditor's integrity. The main reason why this is strongly recommended is because a lot of variations are left unexplained. By adding operational factors as ethics or code of conduct there is a possibility that the unexplained variations will be explained.

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