



FACTORS AFFECTING THE QUALITY OF FINANCIAL STATEMENT AUDIT AT VIETNAM COMMERCIAL BANKS

¹*Vu Phuong Thao*

¹ University of Labor and Social Affairs

ABSTRACTS :

Independent audits play an important role in ensuring quality financial reporting. When audit quality is guaranteed, independent audit will contribute to establishing credibility and trust in financial statements and in the capital market. Audit quality is therefore considered a matter of public concern and of high importance to regulatory and supervisory authorities worldwide. Given the importance of banks in the economy and the potential systemic risks associated with their operations, high-quality audits are essential to ensure accurate and timely financial reporting. transparent. However, in recent years, questions have arisen: can the role and significance of auditing still be maintained to satisfy the expectations of the public? When the reality is that serious financial scandals continuously appear at commercial banks around the world while the independent audit results of many cases are "clean", this has aroused concerns. raising doubts about the quality of financial statement auditing activities of commercial banks today. This article will focus on analyzing factors affecting the quality of financial statement audits at Vietnamese commercial banks.

Từ khóa: kiểm toán báo cáo tài chính, Ngân hàng thương mại, chất lượng kiểm toán

Introduction:

In 2008, KPMG was criticized for failing to raise concerns about the risky lending practices of UK bank HBOS regarding its financial stability and audit quality. was implemented, which eventually led to the bank's collapse and subsequent acquisition by Lloyds Banking Group. Following the scandals about KPMG's audit quality conducted at HBOS, there are a series of other scandals about the audit quality of independent auditing firms related to giving unwarranted opinions on financial statements. , like the bankruptcy of BES bank in 2014 in Portugal and CBA bank in Australia in 2018. Or most recently in March 2023, investors were shaken because US banks collapsed one after another. . The incidents happened in just a few days, first was Silvergate Capital bank, followed by Silicon Valley Bank (SVB) - the 17th largest bank in the United States, which was also closed by US regulators. Investor confidence was burned

following its sudden and stunning collapse, it was the largest bankruptcy in the United States since the 2008 financial crisis.

In Vietnam, events related to Eximbank's accumulated losses and stocks falling into the warning category are still very hot in the market. The highlight worth mentioning here is that Eximbank's auditing unit in the period 2010 - 2014 is E&Y auditing company, one of the 4 most prestigious auditing units in the world. People are skeptical about an auditing unit known as the Big-4 in the auditing field like E&Y. More serious is the fact that the State Securities Commission has issued many decisions to sanction auditing companies and auditors who have committed serious violations during the audit of financial statements in recent years. Assessing audit quality is not a simple thing, the criteria for measuring audit results can indicate the quality of audit services but do not indicate what factors make such quality achieved and the importance of it. More importantly, it does not provide a basis for improving audit quality. Therefore, only being able to thoroughly understand, master and control the factors that affect quality can help managers, auditors and auditing firms determine directions to improve audit quality. maths. To have a basis for proposing recommendations to ensure and improve the quality of financial statement audits of Vietnamese commercial banks, it is necessary to identify the factors and the level of influence of each factor. This article will help independent corporate auditors and related parties have policies and solutions suitable to practice to improve the quality of auditing financial statements of commercial banks in the current period.

2. CONTENT :

2.1. Study overview

In the world, there have been a number of studies on the quality of auditing financial statements of commercial banks, including the study of Al-Khaddash and colleagues (2013) who investigated the impact of 07 factors, including including: Internal control of banks; Size of auditing firm; Audit fee price; Auditor independence; Auditing firm reputation; The level of expertise in the field being audited, and the capacity of auditors affect the audit

quality of commercial banks in Jordan. The survey subjects of the study are auditors working for auditing firms that are auditing banks in Jordan and internal auditors working in commercial banks in Jordan. Since then, the study has provided empirical evidence on the positive correlation of four factors: Auditor capacity; Auditing firm reputation; Audit fee price, and finally the level of expertise of the auditor. Based on the research results, the authors recommend measures to improve audit quality, which are: auditors with degrees in their field of expertise and necessary work experience will affect their effectiveness. work efficiency, and solid knowledge and understanding of regulations and guidelines related to accounting and auditing positions will benefit auditors in their work, on the other hand, training and development Auditors' skills while participating in programs, and knowing how to develop them to detect violations, and trying to obtain professional certifications such as CPA... all of which will help auditors improve their skills. Improve the quality of your work and improve audit quality. Auditing firms should seek to enhance their reputation by paying attention to the appointment of honest, trustworthy and independent auditors, and at the same time maintaining an audit quality control department. maths. The reputation of auditing firms and auditors helps them expand the market and dominate the audit market share, so they are considered a measure of the quality of professional activities.

In addition, Sherolli Jr's (2016) study examines the factors that determine audit quality in the banking industry in the United States. For the banking sector, the most useful information considered more closely associated with both financial reporting quality and audit quality is earnings management (business results). In this regard, earnings management practices, especially the use of discretionary accruals, are a widely used benchmark for measuring audit quality. Earnings management appropriate to size and auditor expertise are the most used measures in the audit quality literature (Gul et al., 2009). In particular, earnings management can provide useful information about the company's equity value and earnings, which is considered a very important quality indicator for investors. externally (Penman & Sougiannis, 1998; Barth et al., 2001). The banking industry, when compared to other sectors, is characterized as being more susceptible to earnings manipulation, with bank managers tending to raise LLPs during periods of unusually high earnings to dampen earnings volatility. reported income (Greenawalt & Sinkey 1988). There are also many other studies that support the above mentioned, especially focusing on banks in the United States that suggest that LLPs are used as a tool to manipulate earnings, mainly for financial purposes. stock market destination (Scholes et al. 1990; Collins et al., 1995; Liu & Ryan, 1995; Beaver & Engel, 1996; Healy & Wahlen, 1999). Even in studies involving banks located outside the United States, the conclusions tend to be similar (Anandarajan et al. 2003, 2007; Pérez et al., 2008). Based on previous research on earnings management and more specifically with the use of discretionary accruals related to Loan Loss Provisions (LLP), Sherolli Jr (2016) identified determine audit quality. Using quantitative research methods, the author used data obtained from the Annual Financial Reports of 312 commercial banks from 2000 to 2015, available on the BANSCOPE database. The research results show that there is no statistically significant relationship with audit quality in the five hypotheses proposed by the author as follows: (H1): Audit quality at US banks is related to: Positively related to the case where the auditing firm is one of the Big-4; (H2): The importance of a bank (client) to an audit firm is negatively related to audit quality; (H3): Audit quality in US banks is positively associated with increased litigation risk for audit firms; (H4): There is a negative association between audit quality in US banks and audit industry concentration; (H5): The financial expertise of the Audit Committee has a positive influence on the audit quality of banks.

In addition, Kigen (2017) evaluated factors affecting audit quality at commercial banks listed on the Nairobi stock exchange. Data was collected from 8 commercial banks listed at the Nairobi stock exchange during the period from 2010 to 2015 on the basis of Annual Financial Reports, extracted from CMA and banking websites. . Audit tenure is used as a proxy for audit quality and independent variables include auditor size, auditor turnover, bank size, audit fees, and financial statement restatements. . The study uses descriptive statistics and regression analysis to establish the relationship between audit quality and independent variables. Analysis results show that bank size and restatement of financial statements are important factors affecting audit quality (Sig. ≤ 0.05). However, the results do not support any relationship between audit quality and audit fees, auditor size, and auditor turnover. Jamei & Kelareh (2020) examine factors affecting audit quality from the perspective of audit service users in Iranian banks. Using quantitative research methods, the author surveyed and collected data using a questionnaire with 29 variables related to audit quality determined from the perspective of consumers of these services. and divided into 3 groups. The population of this study included 123 credit managers at banks based in Iran. The results show that the auditor's ethical values have the strongest influence and the auditor's qualifications have the least influence on audit quality from the audit client's perspective.

Wang's (2020) study investigates the impact of new technology adoption on audit quality in Chinese commercial banks, exploring the use of data analytics, artificial intelligence, and automation. Automation in the audit process. Research results show that technological advances contribute positively to audit quality through improving the effectiveness and efficiency of audit procedures, enhancing risk assessment capabilities and facilitating detect fraud. The study also recommends that auditors should take advantage of technological innovations, invest in appropriate training and resources, and cooperate with banks to leverage technology to deliver good audit results. than. Yuanberg & Öhman (2021) conducted a study to examine the factors affecting audit quality at commercial banks in 18 European countries, looking from the perspective of auditors. independence in aspects such as legal framework, auditor's professional capacity and internal control system. Research results show that strict supervision by regulatory agencies, experience and professional knowledge of auditors as well as effective internal control contribute significantly to improving audit quality in Vietnam. The commercial banks. The study recommends that regulators should strengthen monitoring and enforcement mechanisms, auditors should invest in continuous professional development, and banks should strengthen their internal control systems. to improve audit quality.

3. RESEARCH METHODS :

The research uses both qualitative and quantitative methods.

Qualitative research: Conducted by synthesizing and analyzing articles, research works and documents previously published and posted in reputable

magazines and information portals in Vietnam and around the world. world to build theoretical bases, measurement scales and research models.

Quantitative research: Conducted by surveying through an online questionnaire designed on Google Form, with the support of the internship unit, sent to both domestic and international tourists through various channels. such as: Facebook, Messenger, Zalo, Twitter,... Besides, the survey was also sent via Gmail mail channel, as well as the author met directly with tourists to survey. The sample was selected using both probability and non-probability methods. After being collected and screened, data will be processed using SPSS 26 software.

4. RESEARCH RESULTS AND DISCUSSION :

According to the State Bank's report by the end of 2023, the financial and credit system includes: 04 commercial banks with over 50% of charter capital held by the State; 03 commercial banks make compulsory purchases; 01 Social Policy Bank; 01 Development Bank; 28 joint stock commercial banks; 02 joint venture banks; 09 banks with 100% foreign capital; 51 foreign bank branches; 26 finance and financial leasing companies; 01 Cooperative Bank; 1,181 People's Credit Funds and 04 microfinance organizations (Table 1).

Table 1: System of Vietnam's credit institutions

Order	Type of credit institution	2022	2023
1	State commercial banks	1	1
2	Compulsory purchasing bank	3	3
3	Social Policy Bank	1	1
4	Vietnam Development Bank	1	1
5	Joint-stock commercial bank	31	31
6	Joint-venture bank	2	2
7	Bank with 100% foreign capital	9	9
8	Foreign bank branches	50	51
9	Finance company, financial leasing	26	26
10	Cooperative Bank	1	1
11	People's Credit Fund	1.181	1.181
12	Microfinance institution	4	4

Thus, excluding state-owned commercial banks with 100% charter capital owned by the State (Agribank), the whole country currently has 31 joint stock commercial banks, with a number of branches and transaction offices. increasingly expanded. By the end of December 31, 2023, according to statistics in the audited financial reports of commercial banks, the number of branches, transaction offices, and transaction offices of joint stock commercial banks, The bank with the largest number of branches and transaction offices is BIDV (190 branches, transaction offices, 895 transaction offices), followed by Vietinbank (157 branches, transaction offices, 957 transaction offices), followed by Vietcombank (121 branches and transaction offices) and the bank with the least number of branches is PGbank (16 branches and 63 transaction offices).

Table 2: Number and structure of audit firms in the period 2019-2023

Order	Type of Business	2019		2020		2021		2022		4/2023	
		SL	%	SL	%	SL	%	SL	%	SL	%
1	Enterprise with 100% foreign investment capital	2	1,09	2	1,02	4	1,97	3	98,56	3	1,42
2	Co., Ltd	174	94,05	187	94,44	194	95,09	199	94,76	202	94,83
3	Enterprises with foreign investment capital	9	4,86	9	4,54	6	2,94	8	3,80	8	3,75

4	Total number of audit firms qualified to provide audit services	185	100	198	100	204	100	210	100	213	100
---	---	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

(Source: Department of Accounting and Auditing Supervision and Management - Ministry of Finance)

Table 2 shows that the total number of businesses qualified to provide audit services has gradually increased over the years. In 2019, the country had 185 enterprises, of which the limited liability company type was 174 enterprises, accounting for 94.05%. Enterprises with foreign investment are 9 enterprises, accounting for 4.86%. Enterprises with 100% foreign investment capital have 2 enterprises, accounting for 1.09%. As of April 2023, the total number of auditing enterprises has increased to 213, including 202 limited liability companies, 8 foreign-invested enterprises and 3 100% foreign-invested companies. The proportion of auditing firms in the form of limited liability companies remains relatively stable at 94.83%, while the proportion of auditing firms with foreign investment and enterprises with 100% foreign investment outside decreased slightly to 3.75% and 1.42% respectively.

After general research, the author has built a multiple regression model with the dependent variable Audit Quality as follows.

$$CLKT = \beta_0 + \beta_1 * DLKT + \beta_2 * NLCM + \beta_3 * CSNN + \beta_4 * TTCM + \beta_5 * QMDN + \beta_6 * DTDN + \beta_7 * PPKT + \beta_8 * DKLV + \beta_9 * KSCL + \beta_{10} * HTPL + \beta_{11} * DDNH + \beta_{12} * ALTG + \epsilon$$

In there:

$\beta_1, \beta_2 \dots$ is the regression coefficient, β_0 is the blocking coefficient, ϵ is the remainder. And independent variables:

DLKT: Auditor independence

NLCM: Professional capacity of auditors

CSNN: Level of professional expertise

DTDN: Auditing firm reputation PPKT: Auditing methods

TTCM: Standard compliance

QMDN: Size of auditing firm

DKLV: Working conditions of audit firms

KSCL: Quality control system

HTPL: Legal system

DDNH: Characteristics of commercial banks

ALTG: Time pressure

After checking the reliability of the scale of the variables in the regression model, the overall Cronbach's alpha coefficient is greater than 0.6, showing that the variables are eligible to be included in testing the model's suitability. Check multicollinearity and analyze regression models as follows:

From the regression results in Table 3, the author sets up a regression equation with a standardized beta coefficient after eliminating variables that are not eligible to be included in the model as follows.

Table 3: Linear regression results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.141	.405		-.299	.765		
DLKT	.113	.046	.116	2.431	.016	.735	1.361
NLCS	.197	.054	.345	3.661	.000	.534	1.874
TTCM	.139	.062	.110	2.244	.026	.725	1.379
QMDT	.118	.057	.100	2.067	.040	.714	1.400
PPKT	.140	.055	.130	2.543	.012	.633	1.580
DKLV	.098	.049	.103	2.010	.046	.632	1.582
DTDN	.132	.051	.125	2.619	.009	.772	1.295

ALTG	,134	,053	,134	-2,711	,007	,588	1,701
DDNH	-,181	,058	-,168	3,273	,001	,564	1,772

a. Dependent Variable: CLKT

(Source: Analysis results from SPSS26 software)

$$\text{CLKT} = 0,116*\text{DLKT} + 0,345*\text{NLCS} + 0,110*\text{TTCM} + 0,100*\text{QMDT} + 0,130*\text{PPKT} + 0,103*\text{DKLV} + 0,125*\text{DTDN} + 0,134*\text{ALTG} - 0,168*\text{DDNH}$$

The regression results also show that the factors affecting the audit quality of financial statements of Vietnamese commercial banks are as follows:

Only the variable Characteristics of Commercial Banks has a negative correlation between the factor and the quality of auditing financial statements of Vietnamese commercial banks. The regression coefficient is 0.168. This means that when the characteristics of commercial banks increase by 1 unit, the audit quality of financial statements of Vietnamese commercial banks decreases by 0.168 units.

The remaining variables are all correlated with the same quality of financial statement audit, specifically:

+ The factor Auditor's specialized capacity has a positive correlation between the factor and the quality of auditing financial statements of Vietnamese commercial banks. The regression coefficient is 0.345. This means that when the auditor's specialized capacity increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.345 units, this is a factor that has an impact. strongest.

+ Time Pressure factor, there is a positive correlation between this factor and the audit quality of financial statements of Vietnamese commercial banks. The regression coefficient is 0.134. This means that when Time Pressure increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.134 units.

+ Audit Method factor, there is a positive correlation between this factor and the audit quality of financial statements of Vietnamese commercial banks. The regression coefficient is 0.130. This means that when the Audit Method increases by 1 unit, the audit quality of financial statements of Vietnamese commercial banks increases by 0.130 units.

+ The factor Characteristics of commercial banks has a positive correlation between this factor and the audit quality of financial statements of Vietnamese commercial banks. The regression coefficient is 0.125. This means that when the Quality Control of auditing firms and legal systems increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.125 units.

+The factor Auditor independence has a positive correlation between this factor and the quality of auditing financial statements of Vietnamese commercial banks. The regression coefficient is 0.116. This means that when auditor independence increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.116 units.

+ The Standard Compliance factor has a positive correlation between this factor and the audit quality of financial statements of Vietnamese commercial banks. The regression coefficient is 0.108. This means that when Standard Compliance increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.108 units.

+ The factor Working conditions of audit firms has a positive correlation between this factor and the quality of auditing financial statements of Vietnamese commercial banks. The regression coefficient is 0.103. This means that when the working conditions of audit firms increase by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.103 units.

+ Factor Size and reputation of auditing firms have a positive correlation between this factor and the quality of auditing financial statements of Vietnamese commercial banks. The regression coefficient is 0.100. This means that when the size and reputation of an auditing firm increases by 1 unit, the quality of auditing financial statements of Vietnamese commercial banks increases by 0.100 units and this is an influential factor. at least to the audit quality of financial statements of Vietnamese commercial banks.

CONCLUDE :

The author conducted quantitative research with a sample size of 185 surveys. Using quantitative research methods, the scale was tested through Cronbach's alpha reliability assessment method and EFA exploratory factor analysis. The model is tested through correlation testing and multiple linear regression analysis. Research results show that factors have an important influence on the audit quality of financial statements of Vietnamese commercial banks, including: In-depth capacity of auditors; Characteristics of commercial banks; Time pressure; Auditing methods; Quality control of audit firms and legal systems; Auditor independence; Compliance with standards; Working conditions of audit firms; Size and reputation of the auditing firm. At the same time, the research results also show that there is no difference in assessing the audit quality of financial statements of Vietnamese commercial banks between auditors of Big-4 auditing firms and Non-Big-4.

REFERENCES :

1. Balsam, S., Krishnan, J., & Yang, J. S. (2003), "Auditor industry specialization and earnings quality", *Auditing: A Journal of Practice & Theory*, 22(2), 71-97.
2. Ball, F., Tyler, J., & Wells, P. (2015), "Is audit quality impacted by auditor relationships?", *Journal of Contemporary Accounting & Economics*, 11(2), 166-181.
3. Boon, K., McKinnon, J., & Ross, P. (2008), "Audit service quality in compulsory audit tendering: Preparer perceptions and satisfaction", *Accounting Research Journal*. 21(2), 93-122.
4. Boon, K., McKinnon, J., & Ross, P. (2007), "Factors associated with the choice of a quality auditor when audit tendering is compulsory", In

- Accounting Association of Australia and New Zealand Conference, Accounting and Finance Association of Australia and New Zealand.*
5. Bộ Tài chính (2018, 2019, 2020, 2021, 2022), *Báo cáo tổng hợp kết quả kiểm tra chất lượng dịch vụ kiểm toán của UBCKNN.*
 6. Choi, J.-H., Kim, J.-B., Qiu, A. & Zang, Y. (2007), “Auditor locality, audit quality and audit pricing”, *Working paper*, Singapore Management University, Singapore.
 7. Choi, J. H., & Doogar, R. (2005), “Auditor tenure and audit quality: evidence from goingconcern qualifications issued during 1996-2001”, *Working Paper*.
 8. Deis Jr, D. R., & Giroux, G. A. (1992), “Determinants of audit quality in the public sector”, *Accounting Review*, 462-479.
 9. Deming, W. E. (1981), “Improvement of quality and productivity through action by management”, *National Productivity Review*, 1(1), 12-22.
 10. General Accounting Office (GAO) (2003), *Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation*, Washington, DC: United States General Accounting Office.
 - a. Ghosh, A., & Moon, D. (2005), “Auditor tenure and perceptions of audit quality”, *The Accounting Review*, 80(2), 585-612.
 11. KPMG (2018), *South Africa embroiled in VBS corruption scandal*, accessed 17 April 2023, from <https://www.accountancyage.com/2018/10/14/kpmg-south-africa-embroiled-in-vbs-corruption-scandal/>
 12. Mautz, R. K., & Sharaf, H. A. (1961), “The Philosophy of Auditing”, *Madison: American Accounting Association*.
 13. Palmrose, Z. V. (1988), “1987 competitive manuscript co-winner: an analysis of auditor litigation and audit service quality”, *Accounting Review*, 63, 55-73.
 14. Pany, K., & Reckers, P. M. (1983), “Auditor independence and nonaudit services: Director views and their policy implications”, *Journal of Accounting and Public Policy*, 2(1), 43-62.
 15. Sweeney, J. (1995), “The moral expertise of auditors: An exploratory analysis”, *Research on Accounting Ethics*, 1(2), 213-234.
 16. Liu, C. C., & Ryan, S. G. (1995), “The effect of bank loan portfolio composition on the market reaction to and anticipation of loan loss provisions”, *Journal of Accounting Research*, 33(1), 77-94.
 17. Verrecchia, R. E. (1983), “Discretionary disclosure”, *Journal of Accounting and Economics*, 5, 179-194.