“Improving financial reporting standards in Vietnam’s public companies: The crucial role of audit committees”

AUTHORS	Thuy Ha Vo Hung Tran Ngoc

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Thuy Ha Vo (Vietnam), **Hung Tran Ngoc** (Vietnam)

IMPROVING FINANCIAL REPORTING STANDARDS IN VIETNAM'S PUBLIC COMPANIES: THE CRUCIAL ROLE OF AUDIT COMMITTEES

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Thuy Ha Vo, Ph.D. Candidate, School of Finance and Accounting, Industrial University of Hochiminh City, Vietnam.

Hung Tran Ngoc, Associate Professor, Head of Accounting Division, School of Finance and Accounting, Industrial University of Ho Chi Minh City Vietnam. (Corresponding author)

Abstract

Audit committees play a critical role in governance as financial disclosures are scrutinised. This study examines the effects of audit committees on the quality of financial reporting among Vietnamese listed firms, as well as how the efficacy and features of audit committees affect the accuracy, dependability, and transparency of financial reports. The study uses Partial Least Squares Structural Equation Modeling (SmartPLS) to analyse the association between audit committee features and financial report quality using a sample of 259 listed Vietnamese businesses across different industries. This approach was selected due to its capacity to manage complex systems and yield reliable outcomes. The results indicate that better financial report quality is correlated with more substantial audit committee features. In particular, it is thought that maintaining financial reporting accuracy depends heavily on audit committee members' independence and financial knowledge. Furthermore, audit committee activity, including the frequency of meetings and thoroughness of reviews, enhanced financial reporting transparency significantly. These findings suggest that companies prioritizing robust audit committee structures may experience improved investor confidence and compliance with international reporting standards. This study adds to the expanding body of literature on financial reporting standards and corporate governance, focusing on the context of emerging economies such as Vietnam.

Keywords audit committee, expertise, experience, governance, independence, quality, report, size

JEL Classification M42, M41, M48

INTRODUCTION

The accuracy of financial reporting has recently emerged as a critical component of market trust and a cornerstone of corporate governance, especially for publicly listed corporations. Vietnam, a nation at a pivotal point in its growth and global financial integration, is a prime example of its relevance. There has been a great deal of scholarly interest in Vietnam because of its distinct corporate governance environment, which presents both unique possibilities and problems, and the audit committee's capacity to enhance the accuracy, clarity, and dependability of financial reporting.

The significance of audit committees in supervising financial reporting processes and guaranteeing adherence to pertinent rules and laws has increased with the implementation of international accounting standards and corporate governance codes. Like other developing nations, Vietnam faces both possibilities and problems in meeting international standards of corporate governance and its level of financial

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reporting. The reliability and integrity of financial disclosures made by listed firms depend heavily on the efficacy of their audit committees. Audit committees considerably improve the dependability and correctness of financial accounts by supervising the financial reporting process and guaranteeing independence, competence, and timeliness.

1. LITERATURE REVIEW AND HYPOTHESES

Audit committees have garnered significant attention in corporate governance due to their pivotal role in enhancing the quality of financial reporting. These committees, especially when composed of independent and experienced members, play a critical part in ensuring transparency and accountability in financial disclosures. To improve financial reporting standards in listed corporations, the audit committee plays a critical role. There is evidence that audit committees with several independent directors improve financial reporting dramatically. To accomplish this improvement, conservative accounting methods, internal audit activities, and auditors with industry-specific experience are used (Sultana et al., 2014). Audit committees supervise the financial reporting cycle, assist in communicating with stakeholders, and endeavour to enhance the reliability of financial statements (Oussii & Taktak, 2018; Juwita, 2023). Higher financial reporting quality is correlated with the independence and experience of audit committee members, underscoring the significance of these characteristics in preserving the integrity of financial disclosures (Garcia-Blandon et al., 2018; Ghazali & Shafie, 2019).

Furthermore, the financial literacy of audit committee members is essential for enhancing the quality of financial reporting and effectively supervising financial controls (Emmanuel et al., 2014). Effective audit committees are integrated with timely financial reporting, facilitating the timely release of financial statements and improving the general quality of financial reporting (Husaini et al., 2019). Additionally, an audit committee's makeup, meeting schedule, and organizational design all have a significant impact on the level of financial reports (Shankaraiah & Amiri, 2017). Encouraging timely disclosures, maintaining member independence and competence, and monitoring the financial reporting process are all crucial to enhancing the quality of financial reports for listed companies. Audit committees contribute significantly to maintaining the reliability and integrity of the financial information that companies publish by carrying out these responsibilities efficiently.

An audit committee's efficacy plays a critical role in evaluating an organization's financial reporting standards. Several studies demonstrate how much audit committee performance and characteristics affect the quality of financial reporting (Sultana et al., 2014). Scholars stress that audit committee duties are intended to enhance the quality of accounting earnings by improving the financial reporting process (Sultana et al., 2014). Prominent audit committees are strongly linked to improved company financial reporting, especially when it comes to addressing problems like earnings management (Lin et al., 2006). Research indicates that audit committees with a wide range of experience in finance, accounting, and supervision improve the level of financial reporting (Kusnadi et al., 2015). For regulators and legislators who are concentrating on improving financial reporting procedures, an effective audit committee also has a favorable impact on the promptness of financial reporting (Oussii & Taktak, 2018). Governance regulators across the world have emphasized the significance of audit committee members' financial competence in handling the intricacies of financial reporting, as it is crucial for guaranteeing high-quality financial reporting (Ghafran & Yasmin, 2017). Furthermore, the quality of external audits and the efficacy of audit committees have a major impact on financial reporting (Zgarni et al., 2016).

Additionally, the regularity of audit committee meetings and cooperation with internal audit departments have a favorable impact on the level of financial reporting for businesses (Gebrayel et al., 2018). The efficacy of audit committees in financial reporting is improved by independent boards and particular committee attributes, highlighting the significance of these elements in guarantee-

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ing financial reporting of high standards (Song & Windram, 2004). The efficacy, impartiality, proficiency, engagement, and cooperation of audit committees are essential for enhancing the level of financial reporting inside organizations. Through the efficient performance of their duties and possession of requisite competence, audit committees greatly contribute to improving the quality of financial reporting and guaranteeing openness and integrity in financial disclosures.

Numerous studies have demonstrated the impact of an audit committee's size on its operational effectiveness. According to Lin et al. (2006), the frequency of earnings restatements was negatively correlated with the size of the audit committee; this suggests that larger committees could be better able to identify and stop financial irregularities. On the other hand, Raweh and Kamardin (2019) propose that a larger audit committee may be linked to longer timescales for audit reports, which might postpone financial disclosures. A smaller audit committee may enable more efficient communication and decision-making, improving the quality of the audit, according to Omotoye et al. (2021). Yet, they also admit that, because of their higher-level resources and further experience, larger committees may offer better governance and monitoring. Furthermore, there is a correlation between the size of an audit committee and the overall success of the company; audit committees are often more effective in larger corporations and those with major block shareholders. According to Hamdan (2020), expanding the audit committee could enhance public confidence in a company's financial statements and increase members' responsibility, underlining the subtle but significant role that committee size plays in corporate governance.

In addition, audit committee members' competence and experience are essential to their capacity to manage financial reporting systems successfully. Several research papers have investigated the significance of the knowledge and experience audit committee members hold in augmenting their operational efficacy. It has been shown that those with specialised expertise in finance and auditing are more capable of identifying the dangers connected to inadequate audits, which enhances audit integrity (Goodwin-Stewart & Kent, 2006). Laws mandating financial literacy and independence from audit committees have enhanced financial disclosures more rapidly, proving the beneficial influence of such knowledge on committee effectiveness (Sultana et al., 2014). Additionally, accounting knowledge on audit committees is associated with improved audit quality because it promotes correct evaluations and comprehensive audits of internal controls, safeguarding auditors from termination following the issuance of unfavorable conclusions (Lisic et al., 2019). According to Velte's (2018) research, audit committees that possess both financial and sustainability skills greatly improve integrated report clarity to a greater extent than committees that specialize in one area. Proficiency in accounting facilitates more productive collaboration between audit committees and auditors during the review and discussion of critical accounting policies and transactions, ultimately leading to increased audit efficacy (Zhang & Shailer, 2021). The quality of financial statements is strongly correlated with independent committees with extensive accounting and financial knowledge, underlining the crucial role that such knowledge plays in financial control (Ghafran & O'Sullivan, 2012). Furthermore, the degree of forward-looking disclosures is strongly influenced by the audit committees' size, frequency of meetings, and accounting and financial competence, highlighting the critical role that experience plays in determining reporting patterns (Rifai & Siregar, 2021). The significance of audit committee members' financial competence in guaranteeing accurate and timely financial disclosures can be seen through their critical role in improving the timeliness of financial reporting (Ehigie & Isenmilia, 2022).

Furthermore, the success of the audit committee in monitoring financial reporting procedures depends on the members' degree of autonomy. Studies have indicated some noteworthy consequences of audit committee autonomy. The committee's ability to supervise financial reporting is improved by having members not affiliated with management. This guarantees that financial reporting is done honestly and openly (Jachi & Mandongwe, 2019). Additionally, they increase the efficacy of the committee by upholding managerial responsibility and supervision, especially when they are independent of management on a personal or financial basis (Jachi & Mandongwe, 2019).

Source: The authors' synthesis of the theoretical overview

Figure 1. Overview of the research model

Independent members positively influence risk disclosure levels by striving for unbiased supervision and control over the company, leading to better risk disclosure practices (Hasibuan & Auliya, 2019). Their independence is linked to higher market valuations of firms due to their deep understanding of the firm's risk profile, which promotes effective risk management strategies (Ojeka et al., 2021). The choice of external auditors, which directly impacts the quality of the audit and the accuracy of financial reports, is another important responsibility of independent audit committee members in corporate financial reporting procedures (Pangaribuan et al., 2018).

In summary, the literature indicates that audit committees significantly contribute to the quality of financial reporting by fostering transparency, accountability, and reliability. Their composition, particularly the committee's independence, expertise, and size, plays a crucial role in ensuring high standards. Audit committees act as critical agents in upholding the integrity of corporate financial disclosures and promoting confidence among stakeholders.

This study aims to improve the quality of financial reporting in Vietnamese listed firms by analysing the audit committee's role and investigating its fundamental functions and impact on the Vietnamese environment. Because Vietnam is still an emerging market, enhancing the quality of financial reporting may make it more attractive to foreign investment.

Based on the existing body of literature examining audit committees and their influence on financial reporting quality, the following hypotheses investigate the relationship between an audit committee's efficacy, size, knowledge, and experience and the level of financial reporting.

H1: *The audit committee's effectiveness positively correlates with financial reporting quality.*

H2: *The size of the audit committee has a positive association with the audit committee's effectiveness.*

H3: *The audit committee's expertise and experience positively affect its effectiveness.*

H4: *The independence of audit committee members positively correlates with the audit committee's effectiveness.*

The research model might be built as shown in Figure 1.

2. METHODOLOGY

The study was carried out using the Partial Least Squares (PLS) route modeling technique to perform relevant analyses, demonstrating that the sample size requirements for PLS Structural Equation Modeling (SEM) are not significantly affected by the structural complexity of a model. The partial regression associations of this model are computed using Ordinary Least Squares (OLS) regression, which guarantees accuracy with a manageable-size sample. The requisite minimum sample size for the investigation was established based on Cohen's (1992) recommendations, taking into account a statistical power of 80%, a significance threshold of 5%, and a

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minimum coefficient of determination (R^2) of 0.1, leading to a determination that a minimum of 137 samples would be necessary. The study used a questionnaire as a methodological instrument to gather information on the operating state of companies listed on the Ho Chi Minh City Stock Exchange (HOSE) and the Hanoi Stock Exchange (HAX) in Vietnam. To guarantee a thorough representation, a purposefully rigorous selection procedure of samples was put in place. The authors distributed a total of 350 survey questionnaires to businesses and received 271 responses, achieving a response rate of 77.4%. After data cleaning, 259 valid questionnaires remained, providing a solid data foundation for the study. Using the SMART PLS software, the data gathered from these Vietnamese listed businesses was carefully arranged and scrutinized by applying the Structural Equation Modeling (SEM) approach. By carefully validating the relationships between the variables and determining the best alignment within the SEM framework, this methodological selection was taken to support the validity of the study findings.

Based on the survey results, the sample statistics are classified by education level into three main groups (see Table 1).

Table 1. Sample statistics by education level

Description	Frequency	Percentage %
College degree	12	4,6%
University degree	217	83,8%
Postgraduate degree	30	11,6%
Total	259	100%

Sample statistics by position consist of four main groups (see Table 2).

Table 2. Sample statistics by position

Description	Frequency	Percentage %
Senior Manager (Director/ Deputy Director)	55	21,2%
Chief Accountant/ Accounting Supervisor, General Accountant	59	22,8%
Accounting Staff	126	48,7%
Others	19	7,3%
Total	259	100%

Sample statistics by work experience are categorized into four main groups (see Table 3).

Table 3. Sample statistics by work experience

Description	Frequency	Percentage %
Less than 3 years	39	13,7%
From 3 to 10 years	59	20,7%
From 10 to 20 years	52	18,2%
More than 20 years	135	47,4%
Total	259	100%

Tables 1 to 3 present the frequency distribution and percentage of various groups categorized by qualifications, job titles, and work experience in the survey sample. A total of 259 valid survey responses were included in the analysis, ensuring diversity and representation across different levels of qualifications, job titles, and work experience within the businesses.

3. RESULTS

The results of the measurement model assessment using the SmartPLS program are outlined in Table 4. The results indicate that the outer loading coefficients of the variables observed in the study are more than 0.8 for both Cronbach's Alpha and Composite Reliability. This high degree of reliability validates the dependability of the scale used, highlighting the suitability of the observable variables and confirming their alignment with the inherent characteristics of the latent variables. Moreover, Strong convergent validity indications are shown by Average Variance Extracted (AVE) values greater than 0.6, highlighting the stability of the construct validity in the model.

The discriminant analysis of the Heterotrait-Monotrait (HTMT) ratio method reveals that all of the highest confidence values are below the threshold value of 0.85 (see Table 5). This demonstrates how the basic PLS-SEM model's latent constructs/variables guarantee discriminant validity (Hair et al., 2022).

This study employed SmartPLS 4.1.0.0 for data analysis to further investigate the connections between the factors that influence the effectiveness of the audit committee and the impact that this effectiveness has on the level of financial reporting. This methodological approach comprised bootstrapping approaches to determine the statistical significance of the route coefficients and analyz-

Table 4. Results of the reliability coefficients

Coding of variables	Cronbach's alpha	Outer Loading	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
AUDI	0.845	0.866	0.848	0.896	0.684
		0.787			
		0.852			
		0.800			
EXPE	0.793	0.848	0.799	0.878	0.707
		0.837			
		0.837			
INDE	0.851	0.823	0.859	0.899	0.691
		0.858			
		0.814			
		0.828			
QUAL	0.914	0.839	0.914	0.936	0.744
		0.865			
		0.849			
		0.847			
		0.913			
SIZE	0.800	0.832	0.800	0.882	0.714
		0.860			
		0.843			

ing multicollinearity using the Variance Inflation Factor (VIF). This thorough methodology made it possible to analyze the complex dynamics at play in a nuanced manner, which improved our comprehension of how the efficacy of the audit committee affects the level of financial reports.

Table 5. Discriminant value through HTMT

Impacting relations between variables	Heterotrait-monotrait ratio (HTMT)
EXPE ↔ AUDI	0.534
INDE ↔ AUDI	0.498
INDE ↔ EXPE	0.322
QUAL ↔ AUDI	0.803
QUAL ↔ EXPE	0.504
QUAL ↔ INDE	0.507
SIZE ↔ AUDI	0.533
SIZE ↔ EXPE	0.328
SIZE ↔ INDE	0.233
SIZE ↔ QUAL	0.537

Guided by the recommendations of Hair et al. (2022), a Variance Inflation Factor (VIF) below 3 indicates minimal concerns regarding multicollinearity. In the examination through SmartPLS 4.1.0.0, all derived VIF coefficients were below 2, suggesting a negligible likelihood of multicollinearity within the model. The results detailing the interplay among the factors under study are systematically outlined in Table 6. This approach not only adheres to established analytical standards but also ensures the reliability of our findings by affirming the statistical integrity of the model's structure.

Table 6. Results of inner VIF value

Impacting relations between variables	VIF
AUDI → QUAL	1.000
EXPE → AUDI	1.136
INDE → AUDI	1.097
SIZE → AUDI	1.094

P-values less than 0.05 indicate the influence of the independent variables AUDI, EXPE, INDE, and SIZE and their statistical significance. This implies that the analysis corroborates the hypothesis that EXPE, INDE, and SIZE positively influence AUDI (Table 7). In turn, AUDI positively impacts QUAL, all within a 95% confidence interval. This confirmation underscores the importance of these variables in shaping the study's outcomes and validates the proposed relationships with a high degree of confidence.

The model evaluating the Audit Committee's efficacy yields an adjusted R-squared (R2) value of 0.377 (see Table 8). According to this figure, 37.7% of the variability in the AUDI variable can be explained by the independent factors considered collectively. Furthermore, the adjusted R-squared value for the Financial Report Quality model

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Table 7. Results of testing the research hypotheses

Hypothesis	Impacting relations between variables	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Decision
H1	AUDI → QUAL	0.707	0.709	0.032	22.264	0.000	Accepted
H3	EXPE → AUDI	0.279	0.280	0.053	5.297	0.000	Accepted
H4	INDE → AUDI	0.293	0.294	0.045	6.517	0.000	Accepted
H2	SIZE → AUDI	0.310	0.311	0.051	6.049	0.000	Accepted

stands at 0.499, implying that the independent variable AUDI accounts for 49.9% of the variation observed in the QUAL variable. These results demonstrate the significant influence of the independent factors on the dependent variables in the investigation and offer a quantitative assessment of their impact.

Table 8. *R* square and *R* square adjusted

Coding of variables	R-square	R-square adjusted
AUDI	0.384	0.377
QUAL	0.500	0.499

4. DISCUSSION

The findings have wide-ranging consequences that highlight the complex role audit committees play in improving the accuracy of financial reporting. First, it is demonstrated that the audit committee's dimensionality increases its capacity for monitoring and the distribution of its duties, enabling a more thorough examination procedure. The size of the audit committee has a clear impact on the efficacy of its supervision and the level of financial reporting; thus, the ideal size may vary depending on the particular requirements and organizational environment. This emphasizes how careful consideration must be given to selecting the audit committee's size to guarantee efficient financial reporting and governance. This result is in line with the findings of others, such as the studies by Hamdan (2020) and Omotoye et al. (2021), which emphasize the significance of audit committee size in governance frameworks.

The importance of the members of the audit committee's experience and skills must likewise be taken into account. For tackling challenging accounting and financial reporting issues, their specialized knowledge – especially in finance and accounting – is invaluable. The committee's control of financial reporting procedures is much improved by this knowledge, supporting the integrity of the audit and maintaining accountability and openness in corporate governance. This result validates the issues raised in the literature on decentralized management, as demonstrated by Rifai and Siregar (2021) and Ehigie and Isenmilia (2022).

Furthermore, the independence of audit committee members is a key component of objectivity, guaranteeing that judgments are made free from any conflicts of interest and in the best interests of the firm and its stakeholders. For efficient monitoring, increased responsibility, and transparency in the financial reporting procedures, this independence is essential. The independent members' contribution to the dependability and integrity of financial reports emphasizes the audit committee's role in governance even more. This supports earlier studies emphasizing the value of member independence by Hasibuan and Auliya (2019) and Ojeka et al. (2021).

It is worth mentioning that the audit committee's overall efficacy, impartiality, proficiency, engagement, and cooperation are essential for improving the level of financial reporting in organizations. Audit committees significantly improve financial reporting quality, guarantee openness, and uphold the integrity of financial disclosures by carefully carrying out their duties and using their experience. This realization is consistent with past research by Ghafran and Yasmin (2017) and Oussii and Taktak (2018), demonstrating the critical function audit committees play in the governance ecosystem.

In brief, this study sheds light on the complex relationships between audit committee size, experience, independence, and overall effectiveness as they relate to improving the accuracy of financial reporting. Collectively, these elements support a strong governance structure that is essential to the quality and openness of financial disclosures made by organizations.

CONCLUSION

The purpose of this study was to examine how audit committees contribute to improving the quality of financial reporting in Vietnam's public enterprises. Through the analysis, it was found that the size, experience, independence, effectiveness, and expertise of audit committees are positively correlated with higher-quality financial reporting. These factors collectively strengthen the reliability of financial disclosures, confirming a direct relationship between a strong, independent audit committee and the accuracy of financial reports.

These findings show that the structure and function of audit committees play a crucial role in enhancing financial reporting quality. Public enterprises in Vietnam can improve their corporate governance practices by prioritizing the appointment of qualified, experienced, and impartial members to their audit committees. Such improvements would increase the transparency and reliability of financial statements, benefiting a range of stakeholders, including investors, regulators, and the public, and fostering a more accountable and financially stable business environment in Vietnam.

Therefore, this study recommends that Vietnamese policymakers and regulatory bodies implement standards and guidelines to support the formation of competent audit committees in public enterprises. Policies could include mandates on minimum committee sizes, financial expertise requirements, industry-specific experience, and strict adherence to independence principles. Additionally, the effectiveness of audit committee members – and by extension, the quality of financial reporting – could be further enhanced through continuous training and education.

This study contributes to the growing body of knowledge on financial reporting standards and corporate governance, especially in emerging economies like Vietnam. It underscores the critical role audit committees play in maintaining the integrity of financial reporting, which is vital to the overall stability of the financial system. Future research could build on this foundation by exploring the influence of cultural, economic, and regulatory factors on audit committee effectiveness in various contexts, offering deeper insights into the complexities of corporate governance.

AUTHOR CONTRIBUTIONS

Conceptualization: Hung Tran Ngoc.
Data curation: Thuy Ha Vo.
Formal analysis: Thuy Ha Vo.
Investigation: Thuy Ha Vo.
Methodology: Thuy Ha Vo.
Project administration: Thuy Ha Vo.
Resources: Thuy Ha Vo.
Software: Hung Tran Ngo.
Supervision: Hung Tran Ngo.
Validation: Hung Tran Ngo.
Visualization: Hung Tran Ngo.
Writing – review & editing: Hung Tran Ngo, Thuy Ha Vo.

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