






“Audit committee and financial reporting quality in an emerging market: Evidence from regulatory reform in Vietnam”

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AUDIT COMMITTEE AND FINANCIAL REPORTING QUALITY IN AN EMERGING MARKET: EVIDENCE FROM REGULATORY REFORM IN VIETNAM

Abstract

In developing economies with weak institutional enforcement, the dependability of financial reporting remains a significant issue for investors and regulators. This study examines the relationship between audit committee attributes and the quality of financial reporting among non-financial publicly listed companies in Vietnam, an emerging economy where the Vietnamese government officially established audit committees as a new governance structure through Enterprise Law No. 59/2020/QH14, which replaces the mostly ceremonial Supervisory Board model. A balanced panel dataset comprising 455 firm-year observations from companies listed on the Ho Chi Minh Stock Exchange and Hanoi Stock Exchange between 2018 and 2022 is utilized. A binary logistic regression model is employed to assess whether the presence and effectiveness of audit committees improve financial reporting quality, indicated by the receipt of unqualified audit opinions and the timely disclosure of financial statements. The results show a strong positive link between having an audit committee and the quality of financial reporting (odds ratio = 23.415, $p < 0.001$). This means that companies with a formal audit committee are about 23 times more likely to have better reporting quality. In addition, the chairperson's professional expertise (odds ratio = 1.477, $p < 0.05$) and the frequency of audit committee meetings (odds ratio = 1.156, $p < 0.05$) both have a big effect on better reporting outcomes. These findings suggest that governance effectiveness, rather than mere formal adoption, is the primary determinant of reporting quality in weak institutional environments.

Keywords

transparency, governance, oversight, disclosure, opportunism, asymmetry

JEL Classification

M41, M42, G34

INTRODUCTION

The reliability of financial reporting is a cornerstone of efficient capital market functioning. For investors and capital providers, financial statements represent the primary channel through which firms communicate their economic performance and financial position, and the quality of such disclosures directly shapes the efficiency of resource allocation across the economy. In developed markets, strong legal frameworks, active securities regulators, and deep analyst communities provide multiple layers of institutional discipline that collectively sustain financial reporting credibility (Leuz & Wysocki, 2016; Ball, 2001). In transitional and emerging economies, however, these external mechanisms are considerably weaker. Information asymmetry between insiders and outside investors is more severe, legal enforcement is inconsistent, and minority shareholder protection remains limited – conditions that collectively amplify the scope for managerial opportunism and the distortion of financial disclosures (Leuz et al., 2003; Claessens & Yurtoglu, 2013). Understanding which internal gover-



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nance mechanisms can effectively compensate for these institutional deficiencies is therefore a question of both theoretical importance and practical urgency.

Vietnam presents a particularly instructive setting for examining this question. Despite rapid capital market growth over recent decades, Vietnam's corporate governance framework has historically been characterized by weak enforcement, low investor protection, and concentrated ownership structures that disadvantage minority shareholders (Nguyen et al., 2024; Dang et al., 2017). Prior to the 2020 reform, listed companies operated under a two-tier governance structure in which the Supervisory Board held formal oversight responsibility over the Board of Directors. However, the absence of clear legal guidance on the scope and methods of this oversight role rendered the Supervisory Board largely ineffective in practice – a body that, as documented in the comparative governance literature, appeared to exist in form rather than in substance (Bui & Nuno, 2008; World Bank, 2006). Empirical studies of Vietnamese-listed firms further confirm that most governance mechanisms during this period – including supervisory structures – had no significant effect on firm performance or reporting outcomes, suggesting that formal compliance without genuine authority yielded limited governance benefits (Bich & Uyen, 2019). The promulgation of Enterprise Law No. 59/2020/QH14, effective from January 2021 (National Assembly of Vietnam, 2020), marked a decisive policy response to this structural weakness by formally authorizing listed companies to replace the Supervisory Board with an Audit Committee – a subcommittee of the board composed of non-executive members with specified professional qualifications, modeled on international corporate governance standards. This reform represents the most significant restructuring of Vietnam's corporate governance architecture in the modern era and raises a fundamental scientific problem: whether a formally mandated governance reform translates into genuine improvements in financial reporting quality, or whether firms adopt the new structure in a merely symbolic manner that leaves the underlying information environment effectively unchanged.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The present study is grounded in three complementary theoretical frameworks. Agency theory, as formalized by Jensen and Meckling (1976), posits that information asymmetry between managers and shareholders creates incentives for managerial opportunism, including the manipulation of financial statements for private gain. Within this framework, the audit committee serves as a key internal governance mechanism that reduces agency costs by providing independent oversight of the financial reporting process and the external audit function (Fama & Jensen, 1983; DeZoort et al., 2002). Signaling theory, introduced by Spence (1978), complements this view by arguing that the voluntary or mandatory establishment of a well-structured audit committee conveys credible information to the market about a firm's commitment to transparency and sound governance. In environments where institutional enforcement is weak, such signals are particularly valuable in re-

ducing information asymmetry for investors and capital providers (Rajpurohit & Rijwani, 2022; Raimo et al., 2021). Resource dependence theory further extends the framework by emphasizing that audit committee members serve as a source of specialized human capital – in accounting, auditing, law, or finance – that enhances the board's capacity to challenge management and identify reporting irregularities (Pfeffer & Salancik, 1978; DeZoort et al., 2002). Together, these perspectives converge on the proposition that audit committee effectiveness depends not on formal existence alone, but on the substantive expertise and diligence the committee brings to its oversight function.

Financial reporting quality refers to the degree to which financial statements faithfully represent the economic substance of a firm's transactions, providing decision-useful information to stakeholders (IASB, 2018). High-quality reporting reduces information asymmetry between firms and capital providers, facilitates efficient resource allocation, and strengthens market confidence (Healy & Palepu, 2001; Ball, 2001). These properties are

especially critical in emerging economies, where inadequate institutional enforcement and opaque information environments amplify the need for dependable financial disclosures (Leuz & Wysocki, 2016; Nguyen et al., 2024). The measurement of financial reporting quality is itself contested in the empirical literature. Accrual-based proxies such as the Jones (1991) model are widely adopted in developed markets but are less reliable in settings where accounting standard enforcement is weak (Leuz et al., 2003; Francis, 2004). Outcome-based measures – particularly the receipt of unqualified audit opinions and the timeliness of financial statement disclosure – are therefore considered more appropriate proxies for reporting credibility in transitional economies (Pucheta-Martínez & De Fuentes, 2007; Chen et al., 2011; Zaid Alkilani et al., 2019). Consistent with this approach, the present study conceptualizes financial reporting quality along four dimensions derived from the IASB Conceptual Framework: faithful representation, completeness, timeliness, and understandability and compliance (Beest et al., 2009; Jonas & Blanchet, 2000).

A substantial body of empirical research from developed markets documents the positive influence of audit committee attributes on reporting and audit outcomes. Klein (2002) establishes the benchmark finding that independent audit committees with broad oversight authority are associated with significantly lower abnormal accruals. Krishnan (2005) shows that audit committees with greater financial expertise correlate with higher internal control quality and lower audit risk, and DeFond et al. (2005) document positive market reactions to the appointment of financial experts – reflecting investor recognition of expertise as a credible governance signal. Badolato et al. (2014) introduce an important qualification: the effectiveness of expertise depends on the relative status and authority of audit committee members relative to management, such that technical knowledge without commensurate standing may produce muted results. Regarding the effectiveness of audit committee chairs specifically, DeZoort and Salterio (2001) demonstrate that chairs with specialized accounting or auditing knowledge are more effective at challenging management's reporting judgments, and Alomair and Al Naim (2025) confirm that this expertise effect is amplified in weaker insti-

tutional environments, where professional competence substitutes for external governance checks that are otherwise unavailable. In audit committee diligence, Xie et al. (2003) find that more active committees – measured by annual meeting frequency – are associated with lower discretionary accruals and improved reporting quality. Bédard and Gendron (2010) synthesize this literature by conceptualizing audit committee effectiveness as the joint product of structural attributes and operational practices – a framework consistent with Turley and Zaman's (2004) review-based conclusion that there is no automatic relationship between AC structural characteristics and governance outcomes, and one that directly informs the variable selection adopted in this study.

Evidence from emerging markets is more mixed, however, reflecting the mediating role of institutional context. Claessens and Yurtoglu (2013) survey the corporate governance literature across emerging economies and conclude that the effectiveness of any governance mechanism is conditioned by the strength of legal enforcement, ownership concentration, and the quality of regulatory frameworks. In weak institutional settings, firms may adopt audit committees as a form of symbolic compliance – establishing committees that exist on paper but lack genuine authority or operational engagement – a phenomenon grounded in the institutional theory concept of decoupling (Meyer & Rowan, 1977; Turley & Zaman, 2004). When this occurs, formal audit committee adoption yields no measurable improvement in reporting quality. Alomair and Al Naim (2025) provide supportive evidence that diligent audit committees in emerging economies significantly improve audit quality even after controlling for auditor reputation, suggesting that operational engagement rather than structural existence is the key differentiator. Yet other studies report null or ambiguous results: the broader audit committee literature suggests that meeting frequency alone may not improve reporting quality when committee expertise is absent, implying that governance attributes may need to work in combination to produce measurable effects (Xie et al., 2003; Bédard & Gendron, 2010). Research from Vietnam remains limited to the pre-reform period and focuses primarily on board composition and ownership structure (Aguilera et al., 2008; Dang et al., 2017), without examin-

ing how the newly mandated audit committee model introduced under Enterprise Law No. 59/2020/QH14 affects financial reporting outcomes. This study fills that gap by investigating whether audit committee adoption and substantive effectiveness – measured by the chairperson’s professional expertise and meeting frequency – are associated with higher financial reporting quality in Vietnam across the critical transition period of 2018–2022, when firms were shifting from a largely ceremonial Supervisory Board model to a committee-based oversight architecture (Bui & Nunoi, 2008; World Bank, 2006).

Thus, this study pursues three interrelated objectives. First, it examines whether the formal establishment of an audit committee – as mandated by Enterprise Law No. 59/2020/QH14 – is associated with higher financial reporting quality among non-financial listed firms in Vietnam. Second, it investigates whether the professional expertise of the audit committee chairperson contributes independently to reporting quality improvements. Third, it assesses whether the frequency of audit committee meetings enhances financial reporting outcomes. Together, these objectives seek to determine whether substantive committee engagement drives governance reform effectiveness in a transitional economy rather than mere structural compliance.

Based on the theoretical reasoning and empirical evidence reviewed above, this study formulates three hypotheses:

- H1: The presence of an audit committee is positively associated with financial reporting quality.*
- H2: The professional expertise of the audit committee chairperson is positively associated with financial reporting quality.*
- H3: The frequency of audit committee meetings is positively associated with financial reporting quality.*

2. METHODS

This study adopts a quantitative research design employing a binary logistic regression model to test the proposed hypotheses. The empirical set-

ting is Vietnam, a transitional economy that formally authorized listed companies to replace the traditional supervisory board with an audit committee under Enterprise Law No. 59/2020/QH14, effective from January 2021. This regulatory change provides a quasi-natural experiment to examine whether audit committee adoption and effectiveness translate into measurable improvements in financial reporting quality within a weak institutional environment.

The sample comprises non-financial firms listed on the Ho Chi Minh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX) over the period 2018–2022. Financial institutions are excluded due to their distinct regulatory frameworks, mandatory disclosure requirements, and specialized accounting standards, which render them non-comparable with industrial and commercial firms. Firm-level data are collected from audited annual financial statements, audit opinions, annual reports, and corporate governance disclosures published on official stock exchange portals and companies’ websites. The initial dataset comprises 580 firm-year observations from 116 listed companies that had established an audit committee by the end of 2022. After excluding observations with missing data on key variables and firms newly listed in 2022 with insufficient historical data, the final sample is a balanced panel of 455 firm-year observations across 91 firms over five years.

The dependent variable, financial reporting quality (FRQ), is measured as a binary indicator equal to one if a firm both receives an unqualified audit opinion and files its annual financial statements by the regulatory deadline, and zero otherwise. This composite measure captures the dual dimensions of reporting credibility and timely disclosure, both of which are identified as appropriate outcome-based proxies for FRQ in emerging market settings where accrual-based measures are less reliable (Francis, 2004; Chen et al., 2011).

The key explanatory variables are operationalized as follows. The audit committee (AC) is a dummy variable equal to one if a firm has formally established an AC in a given year and zero otherwise, capturing the governance adoption effect (Klein, 2002; Dang et al., 2017). Audit committee chairperson expertise (EXP) is a dummy variable equal

to one if the audit committee chairperson has a professional background in accounting, auditing, finance, business administration, or law, and zero otherwise, reflecting the expertise dimension of committee effectiveness (DeFond et al., 2005; Krishnan, 2005). Audit committee meeting frequency (MEET) is a count variable measuring the number of audit committee meetings held during the fiscal year, serving as a proxy for monitoring diligence and engagement intensity (Xie et al., 2003; Krishnamoorthy et al., 2002). Two control variables are included to account for firm-level heterogeneity. Big 4 auditor (BIG4) is a dummy variable equal to one if the firm engages a Big 4 audit firm, controlling for the quality-enhancing role of reputational external auditors (Francis, 2004; Brown & Caylor, 2006). Firm size (SIZE) is measured as the natural logarithm of total assets, controlling for the greater regulatory scrutiny and public visibility that incentivize larger firms to maintain higher reporting standards (Watts & Zimmerman, 1986). Table 1 provides a summary of all variable definitions and measurement sources.

Given the binary nature of the dependent variable, a binary logistic regression model is employed to estimate the relationship between audit committee characteristics and financial reporting quality. The empirical model is specified as follows:

$$\begin{aligned} & \ln\left(\frac{P(FRQ=1)}{1-P(FRQ=1)}\right) \\ &= \beta_0 + \beta_1 \cdot AC + \beta_2 \cdot EXP + \beta_3 \cdot MEET \\ &+ \beta_4 \cdot BIG4 + \beta_5 \cdot SIZE + \varepsilon, \end{aligned} \quad (1)$$

where the left-hand side represents the log-odds of achieving high FRQ, β_0 is the intercept, β_1 through β_5 are the estimated coefficients for each explanatory and control variable, and ε is the error term. The model is estimated using maximum likelihood. Standard diagnostic procedures are conducted, including variance inflation factor (VIF) analysis to check for multicollinearity, goodness-of-fit tests, and classification accuracy assessment to evaluate overall model performance.

3. RESULTS

Table 2 presents the descriptive statistics for the 455 firm-year observations in the final sample. The mean value of FRQ is 0.767, indicating that approximately 76.7% of sample firm years achieve high reporting quality – receiving unqualified audit opinions and filing financial statements within the regulatory deadline – while a non-negligible 23.3% fail to meet at least one of these criteria. In terms of governance variables, 66.8% of observations indicate the presence of an AC, demonstrating the gradual implementation of the new governance structure at the firm level following the 2021 reform. EXP shows moderate variation, with 52.5% of chairpersons holding relevant professional backgrounds. The number of MEET per year ranges from 0 to 15, with an average of 2.15. This shows that the intensity of monitoring varies a lot across the sample. Among control variables, 51.2% of firms engage a BIG4, and SIZE, measured as the natural logarithm of total assets, ranges from 10.887 to 14.411 with a mean of 12.500.

Table 1. Variable definitions and measurements

Variable	Symbol	Measurement	Source
Financial reporting quality	FRQ	Binary: 1 if unqualified audit opinion and timely filing; 0 otherwise	Francis (2004); Chen et al. (2011)
Audit committee presence	AC	Binary: 1 if audit committee established; 0 otherwise	Klein (2002); Dang et al. (2017)
Audit committee chairperson's expertise	EXP	Binary: 1 if a chair holds a background in accounting, auditing, finance, law, or business administration; 0 otherwise	DeFond et al. (2005); Krishnan (2005)
Audit committee meeting frequency	MEET	Count: number of audit committee meetings during fiscal year	Xie et al. (2003); Krishnamoorthy et al. (2002)
Big 4 auditor	BIG4	Binary: 1 if Big 4 auditor engaged; 0 otherwise	Francis (2004); Brown & Caylor (2006)
Firm size	SIZE	Natural logarithm of total assets	Watts & Zimmerman (1986)

Table 2. Descriptive statistics

Variable	N	Min	Max	Mean
FRQ	455	0.00	1.00	0.767
AC	455	0.00	1.00	0.668
EXP	455	0.00	1.00	0.525
MEET	455	0.00	15.00	2.149
BIG4	455	0.00	1.00	0.512
SIZE	455	10.887	14.411	12.500

Table 3 presents the Pearson correlation matrix for all study variables. FRQ is positively correlated with AC ($r = 0.539$), EXP ($r = 0.424$), and MEET ($r = 0.363$), providing preliminary bivariate evidence consistent with all three hypotheses. Among the independent variables, the highest correlation is observed between AC and EXP ($r = 0.741$), which is expected given that firms with formally established audit committees are more likely to appoint qualified chairpersons. All other inter-variable correlations are below 0.75, and variance inflation factor (VIF) diagnostics – with a maximum VIF of 2.31 – confirm that multicollinearity does not pose a concern for the regression estimates.

Table 3. Pearson correlation matrix

Variable	FRQ	AC	EXP	MEET	BIG4	SIZE
FRQ	1.000					
AC	0.539	1.000				
EXP	0.424	0.741	1.000			
MEET	0.363	0.701	0.510	1.000		
BIG4	0.190	0.003	0.076	0.096	1.000	
SIZE	0.195	0.080	0.125	0.129	0.551	1.000

Table 4 presents the binary logistic regression results. The overall model is statistically significant (LR $\chi^2(5) = 156.73$, $p < 0.001$), with a Pseudo R² of 0.317, indicating a strong explanatory fit. The coefficient on AC is positive and highly significant (Odds Ratio = 23.415, $p < 0.001$), indicating that firms with a formally established AC are approximately 23 times more likely to achieve high FRQ relative to firms without one, after controlling for all other factors. This result provides strong support for H1. The coefficient on EXP is positive and statistically significant (Odds Ratio = 1.477, $p < 0.05$), supporting H2. Firms whose AC chairperson holds a relevant professional background are associated with a meaningfully higher probability of achieving high FRQ, consistent with the resource dependence argument that technical expertise enhances the committee's capacity

to scrutinize financial statements and challenge management judgments. The coefficient on MEET is positive and statistically significant (Odds Ratio = 1.156, $p < 0.05$), supporting H3. Each additional AC meeting per year is associated with a higher probability of achieving high FRQ, reflecting the role of meeting frequency as a proxy for monitoring diligence and substantive engagement. Among the control variables, BIG4 is positive and highly significant (Odds Ratio = 2.988, $p < 0.001$), consistent with prior evidence that reputable external auditors enhance audit credibility (Francis, 2004). SIZE is also positive and significant (Odds Ratio = 1.472, $p < 0.05$), indicating that larger firms – subject to greater regulatory scrutiny – are more likely to achieve high reporting quality.

Table 4. Logistic regression results

FRQ	Odds Ratio	Std. Err.	z	P> z	[95% Conf. Interval]	
AC	23.415***	13.757	5.37	0.000	7.402	74.068
EXP	1.477*	0.105	3.71	0.028	0.566	3.856
MEET	1.156*	0.051	2.82	0.015	0.705	1.065
BIG4	2.988**	0.996	3.28	0.000	1.554	5.744
SIZE	1.472*	0.346	1.99	0.048	0.907	2.390
_cons	0.0036***	0.010	1.87	0.001	0.000	1.303

Note: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$.

An additional analysis examines the practical magnitude of the AC effect using predicted probability estimation. Holding all other variables at their mean values, the baseline probability of achieving high FRQ in the absence of an AC is assumed at 10%. Upon AC establishment, the predicted probability increases to 36.53%, representing an absolute increase of 26.53 percentage points. This marginal effect – derived from the odds ratio of 23.415 – illustrates the substantive governance impact of AC adoption beyond its statistical significance, and reinforces the interpretation that the 2020 reform generated meaningful improvements in financial reporting outcomes at the firm level.

Table 5 shows that the empirical evidence supports all three hypotheses. The presence of an audit committee (H1) exerts the strongest influence on financial reporting quality, followed by chair-

Table 5. Hypothesis testing outcomes based on logistic regression results

Hypothesis	Prediction	Odds Ratio	p-value	Outcome
H1: AC → FRQ	Positive	23.415	< 0.001	Supported
H2: EXP → FRQ	Positive	1.477	< 0.05	Supported
H3: MEET → FRQ	Positive	1.156	< 0.05	Supported

person expertise (H2) and meeting frequency (H3). These results confirm that both structural adoption and substantive operational engagement are significant determinants of reporting quality in the Vietnamese post-reform context.

4. DISCUSSION

The results of this study provide consistent and robust evidence that both the formal adoption and the substantive effectiveness of audit committees are positively associated with financial reporting quality in an emerging market context, with findings that extend and qualify the existing literature in several important respects.

The strong positive association between AC presence and FRQ – reflected in an odds ratio of 23.415, the largest coefficient in the model – is broadly consistent with the established developed market literature documenting lower earnings management and higher audit quality in firms with active ACs (Klein, 2002; Krishnan, 2005; Badolato et al., 2014). However, this magnitude substantially surpasses typical estimates from developed market studies and warrants careful interpretation. Rather than indicating that Vietnamese ACs are intrinsically more powerful than their counterparts elsewhere, the large coefficient reflects the scale of the institutional transition that AC adoption represents in this context. The predicted probability analysis further demonstrates this point: with all other variables held constant, the baseline probability of attaining high FRQ without an AC is estimated at 10%; following the establishment of an AC, this probability rises to 36.53%, reflecting a net increase of 26.53 percentage points. This magnitude is consistent with the signaling function articulated by Spence (1978): in environments where governance credibility is chronically low and information asymmetry is high, the formal establishment of a credible oversight structure conveys a particularly powerful signal to auditors, investors, and regulators. Prior to the 2020 reform, Vietnamese listed firms operated under a Supervisory Board model widely regarded

as ceremonial rather than substantive (Bui & Nunoi, 2008; World Bank, 2006). The shift to an AC structure – with its associated requirements for non-executive membership, professional expertise, and active engagement – constitutes a qualitative step change in governance architecture that the coefficient plausibly captures.

Importantly, the findings demonstrate that AC presence alone is insufficient to drive reporting improvements. The significant and positive effects of chairperson expertise (EXP, Odds Ratio = 1.477, $p < 0.05$) and meeting frequency (MEET, Odds Ratio = 1.156, $p < 0.05$) confirm that substantive governance capacity – not merely the structural existence of a committee – is the critical determinant of reporting quality improvement. This distinction between symbolic and substantive adoption, rooted in the institutional theory concept of decoupling (Meyer & Rowan, 1977), is critical for interpreting the Vietnamese evidence and for resolving the mixed findings reported across prior emerging market studies. Many studies documenting insignificant or weak AC effects in developing countries likely capture settings where ACs exist on paper but operate without genuine authority, expertise, or engagement – a scenario that the present results suggest yields negligible benefit for reporting quality. The Vietnamese post-reform context thus provides direct empirical support for the argument that governance reform effectiveness is conditioned by implementation quality at the firm level, not by regulatory mandate alone.

The role of chairperson expertise warrants particular attention. Consistent with DeFond et al. (2005) and DeZoort and Salterio (2001), the results confirm that AC members with professional backgrounds in accounting, auditing, finance, or law bring human capital resources that meaningfully enhance the committee's capacity to scrutinize financial statements, identify irregularities, and challenge management's reporting judgments. From a resource dependence perspective (Pfeffer & Salancik, 1978), the chairperson functions as a critical governance resource whose expertise partially compensates for

the limited external enforcement mechanisms that characterize Vietnam's institutional environment. This expertise effect seems to be stronger in Vietnam than in other developed markets. This finding is consistent with the broader governance literature suggesting that professional competence becomes more critical in weaker institutional settings, where internal expertise substitutes for external governance checks that are otherwise unavailable (Claessens & Yurtoglu, 2013; Alomair & Al Naim, 2025). This has an important implication: in contexts where regulatory enforcement cannot be relied upon as a primary discipline mechanism, the human capital embodied in key governance actors becomes a first-order determinant of governance outcomes.

The positive association between meeting frequency and FRQ reinforces the interpretation that active, engaged ACs – rather than structurally compliant but operationally passive ones – drive governance outcomes. While the evidence on meeting frequency in developed markets is mixed (Xie et al., 2003), the positive association observed here is consistent with the broader emerging market governance literature, which similarly documents that active and engaged audit committees produce better oversight outcomes than structurally compliant but operationally passive ones (Alomair & Al Naim, 2025). In Vietnam's institutional context, frequent meetings serve a dual purpose: they facilitate substantive oversight by allowing AC members to remain informed about evolving audit issues and internal control findings, and they signal to external stakeholders – including auditors and regulators – that the committee is genuinely engaged rather than nominally compliant. In environments where the institutional credibility of governance structures cannot be assumed, this behavioral signal carries weight that structural attributes alone cannot convey.

The positive and significant Big 4 coefficient (Odds Ratio = 2.988, $p < 0.001$) further supports the view that internal and external governance mechanisms function as complements rather than substitutes in this setting (Aguilera et al., 2008; Francis, 2004). In weak institutional environments where no single mechanism can fully discipline managerial discretion, the joint operation of credible internal oversight through the AC and credible external scrutiny through reputable auditors appears to produce better reporting out-

comes than either mechanism alone. The positive SIZE effect (Odds Ratio = 1.472, $p < 0.05$) is consistent with the political cost hypothesis (Watts & Zimmerman, 1986): larger firms face greater public visibility and regulatory attention, creating stronger incentives to maintain high reporting standards.

From a broader theoretical perspective, these findings contribute to the literature on agency problem mitigation in the absence of strong external enforcement in three ways. First, they provide direct firm-level evidence that mandatory governance reforms in transitional economies can generate genuine improvements in financial transparency – but only when adoption is substantive rather than symbolic. Second, they demonstrate empirically that the expertise and diligence of internal governance actors serve as viable, if partial, substitutes for absent external enforcement – extending Alomair and Al Naim's (2025) institutional moderation argument to the specific context of a state-socialist transitional economy. Third, by documenting that observable AC characteristics predict FRQ outcomes in the post-reform period, the study establishes that publicly available governance disclosures carry information value for investors and analysts operating in environments with elevated information risk.

Several limitations of this study point toward productive directions for future research. The FRQ measure, while appropriate for the Vietnamese institutional context, captures only two outcome-based dimensions of reporting quality – audit opinion type and disclosure timeliness. Future studies should explore accrual-based measures or financial restatement data as data availability in Vietnam improves over time. The single-country focus, while providing a rich policy-relevant institutional setting, limits generalizability; comparative cross-country research across emerging economies undergoing comparable governance transitions would enrich understanding of how institutional context shapes the governance-reporting quality relationship. Future research may also examine additional AC attributes – including formal independence ratios, gender diversity, and the interaction between AC oversight and internal audit function quality – to develop a more complete account of what makes audit committees substantively effective in emerging market settings.

CONCLUSION

This study provides empirical evidence that audit committee adoption and effectiveness are positively associated with financial reporting quality among listed firms in Vietnam during the governance transition period of 2018–2022. All three hypotheses are supported: firms with an established audit committee are approximately 23 times more likely to achieve high reporting quality, while chairperson expertise and meeting frequency each contribute independently to better reporting outcomes – confirming that substantive governance capacity, not merely formal adoption, is the decisive factor. These findings demonstrate that mandatory governance reforms in emerging economies can generate genuine improvements in financial transparency, but only when accompanied by real investment in committee competence and operational engagement at the firm level. For regulators, the results support establishing minimum expertise and activity standards for audit committees; for investors, observable committee characteristics serve as reliable signals of reporting credibility and lower information risk. Future research should extend this work using accrual-based FRQ measures, examine additional AC attributes such as gender diversity and independence ratios, and broaden the analysis to comparative cross-country settings to assess the generalizability of findings across diverse institutional environments.

AUTHOR CONTRIBUTIONS

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AI USAGE DISCLOSURE

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