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TÁC ĐỘNG CỦA KIỂM TOÁN ĐỘC LẬP VÀ ĐẶC ĐIỂM BAN KIỂM SOÁT ĐẾN CHẤT LƯỢNG BÁO CÁO TÀI CHÍNH Ở CÁC DOANH NGHIỆP NIÊM YẾT TẠI VIỆT NAM

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Tóm tắt

Trong nền kinh tế thị trường phát triển hiện nay, chất lượng báo cáo tài chính là một trong những vấn đề được quan tâm nhằm cải thiện hiệu quả đầu tư và hỗ trợ các bên liên quan trong chức năng giám sát tài chính ở các doanh nghiệp niêm yết tại Việt Nam. Kiểm toán độc lập (KTĐL) và Ban kiểm soát (BKS) được xem là các tuyến phòng vệ rủi ro cao nhất trong cơ chế quản trị, nhằm hạn chế hành vi thao túng lợi nhuận của các nhà quản lý. Dựa trên nghiên cứu thực nghiệm 603 doanh nghiệp phi tài chính được niêm yết trên 2 sàn chứng khoán HNX và HOSE trong giai đoạn 2010-2021, nghiên cứu đã chỉ ra mối quan hệ lần lượt giữa KTĐL và đặc điểm BKS tới chất lượng BCTC. Cụ thể, các yếu tố bao gồm quy mô, giới tính và thâm niên của BKS càng cao (lớn) thì chất lượng BCTC càng tốt. Bên cạnh đó, việc lựa chọn đơn vị kiểm toán độc lập thuộc Big 4 cũng giúp cải thiện chất lượng BCTC. Kết quả nghiên cứu đưa ra khuyến nghị nhằm kiểm soát sát sao các tiêu chí đáp ứng của BKS đối với doanh nghiệp, gợi ý về lựa chọn đơn vị kiểm toán độc lập, đồng thời khuyến nghị các chính sách về định hướng quốc tế hóa các chuẩn mực kế toán đối với cơ quan Nhà nước.

Từ khóa: quản trị công ty, kiểm toán độc lập, ban kiểm soát, chất lượng báo cáo tài chính, Việt

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IMPACT OF SUPERVISORY BOARD CHARACTERISTICS AND INDEPENDENT AUDIT ON FINANCIAL REPORTING QUALITY: EVIDENCE FROM VIETNAM

Abstract

In the developed market economy, the quality of financial statements is one of the issues of concern to improve investment efficiency and support States in the financial managerial function in listed enterprises in Vietnam. Independent Audit and Supervisory Board are considered the highest risk defense lines in the governance mechanism, in order to limit earnings management. Based on an empirical study of 603 non-financial enterprises listed on Hanoi Stock Exchange (HNX) and Ho Chi Minh Stock Exchange (HOSE) in the period of 2010-2021, the study has shown the association of independent audit, supervisory board and financial reporting quality. Specifically, supervisory board' characteristics including size, gender and tenure of the supervisors are positively correlated to financial reporting quality. In addition, the selection of an independent audit, i.e. Big 4, also helps improve the quality of financial statements. The results suggest the coordination of internal and external control in monitoring the corporate financial accounting process

Keywords: corporate governance, independent audit, supervisory board, financial reporting quality, Vietnam

1. Introduction

The quality of financial statements has received more public attention after a series of financial scandals at the beginning of the 21st century from leading companies in the world declaring bankruptcy after the manager's profit manipulation was exposed such as Enron, Worldcom, etc. In Vietnam market, along with the development of investment activities, the number of businesses undergoing a decrease in profit continues to account for an overwhelming proportion (about 60%) (State Securities Commission of Vietnam, 2023). An unstable business situation is a risk for corporate managers to take actions to adjust financial statements to achieve economic goals, improve the value of the company, and attract market investment.

In the context of globalization, improving the quality of financial statements is extremely necessary because it is a useful source of information to evaluate the actual financial performance of enterprises. The improvement of the quality of financial reporting information aims to improve investment efficiency for individual and institutional investors and is the basis for the State and related parties to perform the financial supervision function to ensure the economic interests of management entities. In addition, the improved quality of financial statements contributes to creating a healthy business environment in which the interests of stakeholders are also strengthened. The raising concern of improving financial quality calls for the effectiveness of coordination between independent audit and supervisory boards in ensuring the truthfulness of financial reports.

Although there have been many researches in the world, i.e. Piot et al. (2007), Rainsbury et al. (2009), Abbott et al. (2016), have conducted analysis on the results of the combination of internal and external resources in the improvement of financial statements; however, not many research articles in Vietnam market have thoroughly explored this topic compared to the number that has been

published abroad. Firstly, our study evaluates alternative accrual-based models for estimating financial reporting quality including Jones model, adjusted Jones model, and performance-matching model. Secondly, previous research papers have mostly focused on analyzing the impact of the executive apparatus of enterprises, i.e. Board of Directors, General Directors on the quality of financial statements, our study selects a focused study on the effective corporate governance model, specifically the coordination of Independent Audit and Supervisory Board is the subject to pay attention to, to analyze the impact on the efficiency of financial statements

2. Theoretical framework

2.1. The role of supervisory board and independent audit in the corporate governance mechanism

Corporate governance is also an issue of interest in studies on improving the quality of financial reporting during financial crises (Erkens et al., 2012). Based on the agency theory, in joint-stock companies, a conflict of interest exists between executives and corporate shareholders' interests. Accordingly, managers will seek to optimize their personal interests or adjust the information in the financial statements to achieve the targets set by the business. In addition, the problem of asymmetric information also causes difficulties in business management. Managers are expected to have more useful information because they are directly involved in the process of running the business and deliberately do not disclose information that will be detrimental to them. Therefore, listed firms are subject to extremely strict management from State agencies. Specifically, the way and efficiency of enterprises operate must comply with strict legal regulations, especially in the aspect of transparent disclosure of financial statements. Therefore, in order to monitor the day-to-day business activities of the executives, specifically for the board of directors and the board of directors, the Vietnam Enterprise Law 2020 has required the establishment of a supervisory board and related provisions to supervise managers' activities through internal audit resources.

On the one hand, in terms of Supervisory Board, Law on Enterprise 2022 stipulates the supervision function of (i) the current status of business activities and financial status of the company; (ii) The level of compliance with internal audit regulations, risk prevention, and management regulations, reporting regulations, and other internal governance regulations of the company; (iii) legality, systematic and truthfulness in accounting, bookkeeping, contents of financial statements, appendices, and related documents; [...]. In the model "4 Lines of Enterprise Risk Defense" (IIA, 2013; BIS, 2015), Supervisory Board is the subject of the "third line of defense"; which, according to the International Accreditation Forum (IAF), the "third line of defense" will provide assurance about the effectiveness of the controls applied when operating a business. (BIS, 2015), Supervisory Board is the subject of the "third line of defense"; which, according to the International Accreditation Forum (IAF), the "third line of defense" will provide assurance about the effectiveness of the controls applied when operating a business.

On the other hand, an Independent Audit helps minimize conflicts of interest between managers and owners (Jensen and Meckling, 1976; Xiao et al., 2004). Researchers have published the following conclusions about large-scale auditing firms: (i) Perform audits more effectively because they have a better reputation (DeAngelo, 1981). Large audit firms often carry more reputations than small ones, so reputation costs for small firms are significantly lower than for large audit firms (Hogan, 2003). 1997). Based on the capital theory, because there is greater credibility for larger auditing firms, audit

firms with great reputations are often considered as having higher credibility and financial reports are more precise (Teoh and Wong, 1993; Lennox, 1999). (ii) Audit quality is reflected in the quantity and level of implementation of audit procedures by auditors and audit firms with many resources - this means that audit quality belongs to the large-scale auditing firms (Dopuch and Simunic, 1982); (iii) There is a higher compliance and quality of disclosed information in large-scale non-Big 5 auditing firms when compared to large-scale non-Big 5 audit firms. smaller (Krishnan and Schauer, 2000).

In general, the coordination of the supervisory board and independent audit is considered as the last 2 lines of defense in the "4 Lines of Enterprise Risk Defense" fully complemented by the Bank for International Settlements (BIS) and the Institute of Internal Auditors (IIA), which help improve internal and external control to ensure the quality of financial statements of enterprise

2.2. Hypotheses Development

Independent Audit and Financial Reporting Quality

According to DeAngelo (1981), reputable audit firms, such as the Big 4, perform better audits because they need to maintain their good reputation by issuing accurate financial reports. Additionally, large audit firms like the Big 4 have more resources and personnel to conduct thorough audit procedures (Dopuch and Simunic, 1982).

H1: Companies audited by the Big 4 have a positive association with financial reporting quality.

Supervisory Board Size and Financial Reporting Quality

Xie et al. (2003) and Peasnell et al. (2001) noted that larger supervisory boards can minimize earnings management and improve financial reporting quality. Research has shown that a large supervisory board with diverse expertise, fields, and work experiences can provide multidimensional perspectives, comprehensively solve conflicts, and limit cases of individual manipulation or imposition of opinions on the board.

H2: The size of the supervisory board is positively associated with financial reporting quality.

Proportion of Female Members and Financial Reporting Quality

Women on supervisory boards with responsibilities for management and supervision to better regulate earnings management practices in enterprises, ensuring and enhancing the accuracy of financial reporting (Faccio et al., 2016). Sabatier (2015) noted that women tend to pay more attention to business and financial aspects, thereby creating a more multi-dimensional and careful consideration in the process of monitoring the quality of financial reporting.

H3: The proportion of female members on the supervisory board is positively associated with financial reporting quality.

Average Tenure of Supervisory Board Members and Financial Reporting Quality

Members with longer average seniority have higher independence and better efficiency in their work, helping to accumulate more experience in curbing fraudulent behavior in financial reporting, which negatively affects profit management behavior (Beasley, 1996).

H4: Supervisory boards with higher average tenure are positively associated with financial reporting quality.

Audit and Accounting Expertise and Financial Reporting Quality

DeZoort and Salterio (2001) have shown that supervisory board members specializing in finance and accounting help to focus on the structure and quality of financial reports while also resolving conflicts between business management and independent auditing. They also have an advantage in understanding audit processes and focusing on the quality of the content of financial reports rather than just the form.

H5: The supervisory board members' audit and accounting expertise is positively associated with financial reporting quality.

Supervisory Board Members' Independence and Financial Reporting Quality

Companies engaging in financial statement fraud had fewer independent members than industry benchmarks (Beasley et al., 1996). Zain et al. (2006) found that supervisory boards made up only of independent (or outside) directors will be more productive and are likely to request a wider range of internal audit procedures and activities, which will strengthen internal controls and increase the efficiency of the internal audit function.

H6: Supervisory board members' independence is positively associated with financial reporting quality.

3. Research method

3.1. Sample data

Our research data contains non-financial companies listed on Hanoi Stock Exchange (HNX) and Ho Chi Minh Stock Exchange (HOSE) in the stable period from 2010 to 2021. Data about the selection of independent audit, characteristics of the supervisory board, and ownership structure is hand-collected from annual report on Vietstock; data about the financial position of business is retrieved from Finnpro. In terms of data processing, we exclude inappropriate observations including: (1) financial institutions such as banks, and insurance companies, etc as the records of financial reporting are complicated, (2) abnormal outliers whose values range less than 1% or greater than 99%; (3) observations do not have complete data. Our final data includes 3,630 observations of 630 firms in 11 years (between 2010 and 2021).

3.2. Regression model

3.2.1. Measure of financial reporting quality

Given that accounting earnings are the most widely used measures of financial reporting quality, a vast body of research on empirical financial accounting has focused on factors that affect earnings management (Becker et al., 1998; Francis et al., 2004). The incentives of earnings management decrease the quality of financial reporting. In terms of earnings management, accruals earnings management can have a negative impact than real earnings management because the management of accrued profits can be more easily adjusted and receive less attention from stakeholders than cash flow, therefore, businesses can take advantage of accrual management to manipulate financial statements (Choi and Pae, 2011).

Our paper evaluates alternative accrual-based models for detecting earnings management. Abnormal accruals are measured based on prominent models including the Jones Model (Jones,

1991), the adjusted Jones Model (Dechow et al., 1995), and the Performance-matching model (Kothari et al., 2005). Financial reporting quality are calculated by estimating the negative sign of absolute fitted value ($-\left|\varepsilon_{ij,t}\right|$) of 3 following models:

(1) The Jones Model (Jones, 1991)

$$\frac{TA_{ij,t}}{Asset_{ij,t-1}} = \beta_0 + \alpha_1 \frac{1}{Asset_{ij,t-1}} + \alpha_2 \frac{\Delta Rev_{ij,t}}{Asset_{ij,t-1}} + \alpha_3 \frac{PPE_{ij,t}}{Asset_{ij,t-1}} + \varepsilon_{ij,t} \quad (1)$$

(2) The adjusted Jones Model (Dechow et al., 1995)

$$\frac{TA_{ij,t}}{Asset_{ij,t-1}} = \beta_0 + \alpha_1 \frac{1}{Asset_{ij,t-1}} + \alpha_2 \frac{\Delta Rev_{ij,t} - \Delta Rec_{ij,t}}{Asset_{ij,t-1}} + \alpha_3 \frac{PPE_{ij,t}}{Asset_{ij,t-1}} + \varepsilon_{ij,t} \quad (2)$$

(3) The Performance-matching model (Kothari et al., 2005)

$$\frac{TA_{ij,t}}{Asset_{ij,t-1}} = \beta_0 + \alpha_1 \frac{1}{Asset_{ij,t-1}} + \alpha_2 \frac{\Delta Rev_{ij,t} - \Delta Rec_{ij,t}}{Asset_{ij,t-1}} + \alpha_3 \frac{PPE_{ij,t}}{Asset_{ij,t-1}} + \alpha_4 ROA_{ij,t} + \varepsilon_{ij,t} \quad (3)$$

where **FRQ**: financial reporting quality; **TA**: total accruals (measured by change in net operating profit and cash operating expenses); **ij,t**: company *i* in *j* industry; **t,t-1**: fiscal year *t* and *t-1*; **Asset**: total firm' assets; **ΔRev**: difference in net sales in year *t* and net sales in year *t-1*; **ΔRec**: difference in receivables in year *t* from receivables in year *t-1*; **PPE**: gross cost of fixed assets; **ROA**: return by lagged total assets

3.2.2. Corporate governance: independent audit and supervisory board

We examine the association between FRQ and external auditors by using the dummy variable AUBIG4, which is defined as 1 if enterprises are audited by Big4, and 0 otherwise. Moreover, consistent with prior research, the authors have reviewed and selected the most characteristic features of the supervisory board and referred to the features prescribed by law in the Law on Enterprises 2020 including: SBSIZE is the size of the supervisory board, measured by the total members in supervisory board; SBGEN is the proportion of females in SB, SBTEN is the average seniority of the supervisory board, measured by logarithm of average tenure of members in SB; SBEXP is the proportion of SB members with finance and accounting expertise; SBIDP is the independence of SB members, defined as 1 if the proportion of outside supervisors is greater than 51%, and 0 otherwise

3.2.3. Control variables

Previous study indicates that firm characteristics are useful predictors for earnings management. We control the financial characteristics of businesses: CFOA is the cash flows from operating activities deflated by average total assets; LNSIZE is the natural logarithm of total firm's assets; ROA is the rate of return on lagged total assets; LEV is financial leverage, measured by total debts by total assets; GROWTH is sales growth, measured by the change in sales revenue between year *t* and *t-1* divided by total sales revenue in year *t*. Moreover, we expect an association between the ownership structure of firms and financial reporting quality. Specifically, the higher the ownership ratio of the Board of Directors (OWN_MNG) and state ownership (OWN_STA), means that the quality of financial statements is improved in a positive way as the interests between managers and owners are

expectedly minimized (Jensen and Meckling, 1976). Given that earnings management differs over time and across industries, we also control the year and industry effects with dummy variables.

In general, our regression model can be written as:

$$FRQ_{ij,t} = \beta_0 + \beta_1 AUBIG4_{ij,t} + \beta_2 SBSIZE_{ij,t} + \beta_3 SBTEN_{ij,t} + \beta_4 SBGEN_{ij,t} + \beta_5 SBEXP_{ij,t} + \beta_6 SBIDP_{ij,t} + \beta_7 CONTROL_{ij,t} + \varepsilon_{ij,t}$$

Table 1. Sources and description of study variables

Variables	Description	Expected sign	Research source
<i>Dependent variables</i>			
FRQ1	Negative sign of abnormal accruals calculated based on Jones model		Jones (1991)
FRQ2	Negative sign of abnormal accruals calculated based on adjusted Jones model		Dechow et al. (1995)
FRQ3	Negative sign of abnormal accruals calculated based on performance-matching model		Kothari et al. (2005)
<i>Independent variables</i>			
AUBIG4	The selection of independent audit (indicator variable coded 1 if the auditor is a Big 5 audit firm, and 0 otherwise)	+	Francis et al. (1999); Gallery et al. (2008), Komal et al. (2021)
SBSIZE	The size of supervisory board (measured by total number of supervisors)	+	Abbott et al. (2004); Lin and Hwang (2010); Diem et al. (2021)
SBTEN	The seniority of supervisory board (measured by logarithm of average tenure of supervisors)	+	Chtourou et al. (2001), Yang and Krishnan (2005), Xiong (2016)

Variables	Description	Expected sign	Research source
SBGEN	The proportion of females in supervisory board (measured by the percentage of female supervisors)	+	Gul et al. (2009); Gaviouis et al. (2012); Jizi and Nehme (2017)
SBIDP	The independence of supervisory board (indicator variable coded 1 if the percentage of outside supervisors is greater than 51%, and 0 otherwise)	+	Beasley (1996); Klein (2002); Lin and Hwang (2010)
SBEXP	The expertise of supervisory board (the proportion of supervisors with finance and accounting expertise)	+	Dahya et al. (1996); Agrawal and Chadha (2015)
<i>Control variables</i>			
CFOA	Cash flows from operating activities deflated by average total assets	+/-	Dechow et al. (1995), Chen et al. (2007), Cho and Chung (2022)
LNSIZE	Natural logarithm of total firm's assets	+	Mardessi and Fourati (2020), Chen et al. (2007), Watts and Zimmerman (1986)
ROA	Return on lagged total assets	+	Chen et al. (2007), Cho and Chung (2022)
LEV	Financial leverage (measured by total debts by total assets)	+/-	Chen (2007), Tan (2009), Li et al. (2021)
GROWTH	Sales growth (measured by the change in sales revenue between year t and t-1 divided by total sales revenue in year t)	-	Yang (2005), Kusumaningtyas (2019)
OWN_STA	The proportion of State's ownership (measured by the total shares hold by States by the total holding shares)	+	Alves (2012), Kazemian and Sanusi (2015)

Variables	Description	Expected sign	Research source
OWN_MN G	The proportion of Board of Directors's ownership (measured by the total shares hold by Board of Directors by the total holding shares)	+	Alves (2012), Kazemian và Sanusi (2015)

Source: Synthesized by the author (2023)

4. Results and discussion

4.1. Results

4.1.1. Descriptive statistics

Table 2: Descriptive statistics of dependent variables

Variable	Obs	Mean	Std.Dev	Min	Max
FRQ1	3.630	-0,086	0,073	-0,649	0
FRQ2	3.630	-0,087	0,075	-0,647	0
FRQ3	3.630	-0,087	0,075	-0,642	0

Source: The authors (2023)

Statistics describing the dependent variables of the three models are shown in detail through table 4.1. In particular, FRQ1, FRQ2 and FRQ3 are dependent variables representing the opposite levels of profit management through abnormal accruals. In general, the minimum and the maximum value of these variables are approximately equal. This shows consistency in terms of results in all three ways of determining variable value depending on measuring the quality of financial report quality through limiting profit management behavior. The data showed that there was no huge difference between the mean in these variables, with FRQ1 recording the highest mean value of -0.086 and FRQ2, FRQ3 recording a lower mean value of -0.087. Comparing with other research results in the world, such as Feng Chen and Ole-Kristian Hope (2011) recorded values from -0.1 to -0.047, we find that the financial report quality of Vietnam is much lower than the general level of emerging markets in the world.

Table 3: Descriptive statistics of independent and control variables

Variable	Obs	Mean	Std.Dev.	Min	Max
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AUBIG4	3.630	0,208	0,406	0	1
SBSIZE	3.630	3,003	0,321	3	5
SBTEN	3.630	7,060	4,3378	0	38
SBGEN	3.630	0,463	0,317	0	1
SBEXP	3.630	0,271	0,310	0	1
SBIDP	3.630	0,166	0,372	0	1
ROA	3.630	0,164	0,153	0	0,734
CFOA	3.630	0,055	0,131	-0,688	0,704
LEV	3.630	0,090	0,128	0	0,787
GROWTH	3.630	0,167	1,211	-0,953	48,802
LNSIZE	3.630	27,154	1,332	23,708	31,264
OWN_MNG	3.630	0,0634	0,112	0	0,854
OWN_STA	3.630	0,167	0,238	0	0,830

Source: The authors (2023)

4.1.2. Model testing

To test whether the model exists multicollinearity, the study calculated the Variance Inflation Factor (VIF). The results obtained show that in model testing with dependent variables FRQ1, FRQ2, FRQ3, the average VIF coefficients have a value of 1.16 and no outlier data value exceeds 2 (Appendix 1). This is consistent with the Gujarati (2011) study, where the VIF coefficient of variables in the model should have values less than 2. We conclude that multicollinearity does not occur in the three choice models. Breusch–Pagan–Godfrey test is then conducted to check the existence of heteroskedasticity (Appendix 2). All three tests show that Prob > chi2 = 0.000 is less than 5% significance level, therefore, the model is affected by heteroskedasticity. The results of Wooldridge test showed that the Prob > F values of the three models are less than 5% significance level, so the model also occurs autocorrelation (Appendix 3). The correlation matrix is shown in the Appendix 4.

The tests conducted showed that the model had two defects: heteroskedasticity and autocorrelation. To overcome the two phenomena simultaneously, the Feasible Generalized Least Square (FGLS) estimation method is selected. FGLS estimation should be chosen to deal with heteroskedasticity or autocorrelation in a model using tabular data (Wooldridge, 2002).

4.1.3. Regression results

The tests conducted showed that the model had two defects: heteroskedasticity and autocorrelation. To overcome the two phenomena simultaneously, the Feasible Generalized Least Square (FGLS) estimation method is selected (Wooldridge, 2002). Our research used the Feasible Generalized Least Square (FGLS) estimation method to estimate the regression model and analyze the results (Table 4).

Table 4: Regression results using the Feasible Generalized Least Square (FGLS) estimation method

Variable name	(1) FRQ1	(2) FRQ2	(3) FRQ3
AUBIG4	0,00629* (0,00336)	0,00632* (0,00344)	0,00687** (0,00346)
SBSIZE	0,00738** (0,00375)	0,00662* (0,00384)	0,00668* (0,00386)
SBTEN	0,00499** (0,00247)	0,00390 (0,00253)	0,00485* (0,00254)
SBGEN	0,00734* (0,00389)	0,00822** (0,00398)	0,0100** (0,00400)
SBEXP	-0,00159 (0,00423)	-0,00178 (0,00433)	-0,000115 (0,00435)
SBIDP	0,00130 (0,00335)	0,000726 (0,00343)	-0,00145 (0,00345)

ROA	0,00505 (0,00902)	-0,00870 (0,00924)	-0,00709 (0,00928)
CFOA	0,0311*** (0,00988)	0,0354*** (0,0101)	0,0409*** (0,0102)
LNSIZE	0,00278** (0,00121)	0,00286** (0,00124)	0,00288** (0,00125)
LEV	0,00768 (0,0110)	0,00355 (0,0112)	0,00440 (0,0113)
GROWTH	-0,00102 (0,000992)	-0,00169* (0,00102)	-0,00215** (0,00102)
OWN_MNG	0,0280** (0,0118)	0,0287** (0,0120)	0,0237* (0,0121)
OWN_STA	0,0160*** (0,00562)	0,0154*** (0,00576)	0,0130** (0,00579)
Constant	-0,222*** (0,0342)	-0,221*** (0,0350)	-0,225*** (0,0352)
<i>Observations</i>	3.630	3.630	3.630
<i>Fixed year</i>	Yes	Yes	Yes
<i>Fixed industry</i>	Yes	Yes	Yes

Robust standard errors in parentheses

**** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

Source: The authors (2023)

Results of regression of independent variables

The results of the research on the impact of independent audits on the financial reporting quality show that the selection of the Big 4 independent auditor (AUBIG4) has a positive impact on the financial reporting quality across all three models measuring the financial reporting quality and is significant at the level of 5% and 10%. As independent audit firms, Big 4 independent auditors need to ensure their reputation by being honest in audit activities which can enhance the transparency, honesty and quality of the financial reporting quality (Arioglu, 2019; Francis and Wang, 2008). This result is similar to Becker et al. (1998), Cho and Chung (2022)

For the research results on the characteristics of the supervisory board to the financial reporting quality, table 4.5 shows that among the 5 independent variables included in the model of the characteristics of the supervisory board, there are 3 statistically significant variables: the size of the supervisory board (SBSIZE), The percentage of female members in the supervisory board (SBGEN), the average tenure of supervisory board members (SBTEN).

The regression results show the positive relationship between the number of members in the supervisory board and the financial reporting quality in all three models according to 3 measures. The SBSIZE variable was statistically significant at 5% in model (1) and significant at 10% for two models (2) and (3). The result shows that the larger the size of the supervisory board can enhance the financial reporting quality. In Vietnamese enterprises, the supervisory board is considered an effective monitoring mechanism for managers to minimize fraudulent acts in financial reports because the supervisory board plays the highest role in the "Four lines of risk defense " proposed by IIA (2013), at the same time, the supervisory board must comply with the supervisory functions in the Law on Enterprise 2020.

The percentage of female members on the supervisory board (SBGEN) was statistically significant at 10% for model (1) and significant at 5% for two models (2) and (3). The regression coefficient in all three models show a positive sign indicating the presence of female controllers in the supervisory board to improve the quality of financial report. This result further supports theories about the role of females in corporate management systems as women tend to be more cautious in overseeing financial reports and more neutral than men in making ethical decisions in their behavior, thereby improving the supervision activities of female controllers and the financial reporting quality. The synergistic impact of the proportion of female members on the supervisory board on the financial reporting quality shown by the study is similar to Halpern (2000), Gul et al. (2007), Li et al. (2021).

The average tenure of members of the supervisory board (SBTEN) positively affects the financial reporting quality with a significance level of 5% for the model (1) and significance at 10% for the model (3). This shows that the more experience working as a controller, the more it will mitigate the earnings management, or in other words, increase the financial reporting quality. The tenure of controllers contributes to improving their specific knowledge of their work, equipping them with the ability to solve complex procedures of stakeholders, thereby improving the quality of information on financial report of enterprises. The results coincide with Kosnik (1990), Yang and Krishnan (2005). As can be seen, the longer a member of the supervisory board has been active as a controller of the company activities, the more they will have an understanding of the company's activities and therefore have a basis to protect the interests of shareholders and improve the performance of the company

better thanks to their supervision (Kosnik, 1990; Hermalin and Weisbach, 1991). However, the above arguments differ from the model results (2) measured by Dechow et al. (1995) because the results show that there is insufficient evidence to conclude that the tenure of the supervisory board has a positive impact on the financial reporting quality.

In addition, the study also examined the influence of the percentage of members of the supervisory board with accounting and financial expertise (SBEXP) and the percentage of independent supervisory board members (SBIDP) on the financial reporting quality. However, the research have not found a significant relationship to conclude the influence of these two independent variables on the transparency of financial report in all three measures FRQ1, FRQ2, FRQ3. This means that the H5 and H6 hypotheses are not accepted. Empirical results cannot prove that members of the supervisory board with expertise in finance and accounting will reduce the financial reporting quality. This coincides with empirical results from research by Carcello et al. (2008), Sun et al. (2011), Sun et al. (2014). The reason for this difference is that the disclosure of the background of accounting and financial expertise of controllers in Vietnam is voluntary and there is no specific declaration standard on qualification and certificate requirements. Therefore, the authors' use of the results collected in the listed financial report is also affected. The research also found no empirical evidence demonstrating a mutually beneficial relationship between the independence of the supervisory board and the financial reporting quality. This result is consistent with Kusnadi et al. (2016).

Results of regression of control variables

The control variables the authors put into the regression model are divided into two groups (1) The group of control variables about the financial position of the enterprise includes: profitability (ROA), enterprise size (LNSIZE), cash flow from operating activities (CFOA), financial leverage (LEV) and sales revenue growth rate (GROWTH); (2) The group of control variables on ownership of enterprises includes: State ownership (OWN_STA) and ownership of the board of directors (OWN_MNG). Of the 7 control variables in these 2 groups, 5 were statistically significant, specifically:

For the control variable group of the financial position of the enterprise, the enterprise size variable (LNSIZE) is positive and significant at 5% in all 3 models corresponding to 3 financial reporting quality measures. The attention of the market will be on large-scale companies, so to increase transparency in financial reporting, large companies tend to properly declare actual profits in financial report and managers also tend to minimize fraudulent behavior through their financial report. The results coincide with studies by Mardessi and Fourati (2020), Chen et al. (2007), Watts and Zimmerman (1986). The cash flow from operating activities (CFOA) is positive, significant at 1% in all 3 models. This means that the greater the ability to generate money from the internal operations of the business, the less the managers of that company have to adjust the information in the financial report, because they have met the needs of debt repayment, dividends to shareholders or increased investment. The results prove that the larger the cash flow from business activities, the quality of financial report will also improve. This coincides with studies by Dechow et al. (1995), Chen et al. (2007), Lobo and Zhou (2006), Cho and Chung (2022). The GROWTH variable shows the inverse relationship between the growth rate of sales revenue and the financial reporting quality in models (2) and (3), when revenue grows, the financial reporting quality decreases. This can be

explained that when revenue increases, it means increased costs and customer receivables, if not good management easily leads to bad debt, resulting in reduced profits. The change in working capital is also a risk for managers to manipulate profits in case of bad governance, thereby reducing the financial reporting quality.

The impact of corporate ownership on financial reporting quality is reflected in two control variables OWN_STA and OWN_MNG. Both state ownership (OWN_STA) and board ownership (OWN_MNG) variables have a positive impact on the financial reporting quality across all three measurement models. The OWN_MNG variable is significant at 5% for models (1) and (2) and significant at 10% for models (3). This shows that the higher the ownership ratio of the board of directors, the better the financial reporting quality because at this time the ownership and management functions mentioned in the "Agency theory" almost coincide (Kazemian and Sanusi, 2015). State ownership (OWN_STA) has a significant impact on the financial reporting quality through positive regression coefficients and statistical significance levels of 1% and 5%. Enterprises with high state ownership often tend to report more transparently in financial reports because the state often wants to strictly control financial report.

4.2. Discussion

One of the main concerns and desires of investors is to get accurate information about financial information in the market, especially through the preparation of financial reports. Regarding the preparation of financial reports, accounting practices in general and the desire of investors are that "financial reports must be reliable". This facilitates stakeholders in making decisions about the allocation of resources to the business (Dáhtbayaz et al., 2018). The fundamental theories have also shown the great impact of the financial reporting quality on the business results of enterprises, so enterprises need to prepare many policies to improve the financial reporting quality to promptly address and eliminate opportunities and motivations leading to the act of misreporting information in the financial reports of managers. Businesses often have many fraudulent ways in financial reports to hide the eyes of shareholders such as raising virtual capital and issuing "junk" stocks and bonds,... This comes from the separation of management and ownership. The enterprise exists a close connection between shareholders, the board of directors, the Board of Directors and the Board of Directors. The supervisory board is elected by the General Meeting of Shareholders for the purpose of supervising the Board of Directors, Director or General Director in the management and administration of the company, appraising the completeness, legality and truthfulness of business situation statements, financial reports. Therefore, the supervisory board represents the remote observation and control of shareholders, helping to ensure and maximize shareholder benefits in the enterprise. The Board of Shareholders needs to consider the characteristics of the supervisory board to make a decision on the appropriate supervisory board structure. In addition to focusing on internal audit resources through the supervisory board supervision activities, enterprises need to focus on the EIA aspect in the effective management model so that they can promptly detect and control, minimize arising risks, avoid dishonest or erroneous financial information and reporting. Enterprises should choose reputable and quality EIA units to ensure that information on financial reports is audited transparently and clearly, serving the interests of stakeholders. Big 4 EIA companies including E&Y, Deloitte, KPMG and PwC are considered to have higher reliability, even bringing intangible benefits to businesses because the common view of financial report users is that reports issued by member

firms of large foreign auditing firms are of higher quality. However, the proportion of companies listed on the stock market choosing Big 4 as the EIA is still low, because in Vietnam, there exist mainly small and medium enterprises, so they are quite concerned about audit costs. Enterprises need to have a long-term orientation in choosing EIA because in the long term, investors often appreciate and place more trust in businesses that have been audited by the Big 4 for a long time.

The results of the study have shown the impact of independent audits and supervisory board characteristics on the financial reporting quality, however, due to some limitations on many aspects of information published in the market, the process of collecting and processing data has been somewhat difficult. More specifically, the dataset used in the study paper is secondary data, which the authors collected from annual reports of listed companies from 2010 to 2021. Thus, the authenticity of the data is only relative. In addition, because each enterprise has its own information collection standards for reports, leading to inconsistency in the collected data samples, reducing the number of samples for analysis of the research topic.

In addition, the research paper lacks comprehensiveness on the impact of the supervisory board and EIA of all enterprises on the Vietnamese stock market because the analysis data sample is only collected from companies listed on two stock exchanges, HOSE and HNX.

In addition, the characteristics of the supervisory board studied in the article are generally not enough to fully and practically generalize the impact of the supervisory board on the financial reporting quality in listed enterprises of Vietnam. Specifically, in terms of the professional aspect of the supervisory board, most of the data samples collected only stop at degrees with the field of economics in general, not classified by majors in finance, accounting and auditing. This made it difficult for the authors to determine the qualifications of each supervisory board member, leading to a decrease in the reliability of the scale of measurement of professional variables of the research topic.

5. Conclusion

By quantitative method, OLS regression based on the Feasible Generalized Least Squares (FGLS) method, the results of the study show that factors related to external auditors and Supervisory Board characteristics have certain impacts on the quality of financial report of enterprises. However, an enterprise cannot always satisfy all the best conditions for improving the quality of financial report at the request of investors and shareholders, so enterprises should have appropriate policies on the structure of financial statements and the selection of an independent audit unit to ensure the quality of financial statements information in stakeholder eyes.

Enterprises should focus on retaining controllers with seniority, experience, compliance with the provisions of the Law on Enterprise and pay attention to the aspect of social responsibility in the process of operation. In addition, the Government and authorities also need to complete and make amendments in the laws to encourage the presence of female controllers in the Supervisory Board, as well as take measures to deter enterprises that do not have an appropriate Supervisory Board structure as prescribed by law when there are not enough members in the Supervisory Board.

Besides, to adapt with the trend of global integration and quickly access to the international market, in the coming time, companies and enterprises listed on the Vietnam stock exchange should also consider using and referring to the development orientations of large corporations to apply to

their companies to complete the apparatus, respond to governance standards and international practices.

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