

**DETERMINANTS AFFECTING THE QUALITY OF AUDITING FINANCIAL STATEMENTS: A CASE OF INDEPENDENT AUDITING COMPANIES IN HO CHI MINH CITY**

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**ABSTRACT:** *Results of auditing financial statements are one of the important bases to help investors make appropriate and financial decisions. This requires that the audited financial statements must improve the quality, especially ensure the truthfulness and accurately reflect the business situation of the enterprises. Therefore, the objective of this study is to explore the determinants affecting the quality of auditing financial statements of independent auditing companies in Ho Chi Minh City (HCMC). The researchers surveyed 450 customers using the auditing financial statements of independent auditing companies in HCMC. They answered 15 questions and 425 samples processed. The data collected from December 2018 to January 2019 in HCM. Simple random sampling technique. The data analyzed Cronbach's Alpha and the exploratory factor analysis (EFA), which used for Structural Equation Modelling (SEM) technique. Customers' responses measured through an adapted questionnaire on a 5-point Likert scale. Finally, the findings of the paper have three factors affecting the quality of auditing financial statements of independent auditing companies in HCMC with significance level 0.01.*

**KEYWORDS:** Auditing, finance, financial statements and auditing quality.

## INTRODUCTION

Auditing financial statements plays an extremely important role in corporate governance as well as resolving conflicts of interest between the Board of Directors and the shareholders... at joint stock companies. The objective of auditing results will be the basis for evaluating the management level of the Board of Directors, determining salaries and bonuses for the management team. Besides, auditing financial statements is also a management control tool of shareholders to prevent fraud, concealment and reporting of accounting data. Information on audited financial statements of enterprises, especially for listed companies on the stock market is also a basis for investors to consider and make investment decisions. However, according to recent testing results, the number of approved auditing firms listed companies plummeted. According to the Vietnam Association of Certified Public Accountants (VACPA) in 2018, only 9 companies were inspected, in which no auditing company was approved to audit listed companies. The results showed that the auditing quality of these companies is not high. This may lead to companies that are accepted to audit listed companies that will be subjective and their audit quality reduced. Therefore, improving the quality of audited financial statements of listed companies, public companies, as well as improving the quality of financial information at enterprises' listing registration is one of the tasks very important to promote deployment in the coming time. The goal of paper is to find out determinants affecting the quality of auditing financial statements of independent auditing companies in HCMC.

## LITERATURE REVIEW

### **The quality of auditing financial statements (QA)**

Audit quality is the ability to detect and report material misstatements in the audited financial statements. Financial statements are an important source of information for investors to assess the financial status of enterprises, to serve investment decisions. Investors should be assured that they are provided with honest and reliable information about the financial situation of the business. Besides, the quality of auditing financial statements is to ensure the reliability of information published by public companies (Brown, V.L., Gissel, J.L., Neely, D.G, 2016). Besides, the Securities Law has regulations on annual financial statements of public companies audited. However, the quality of financial reports of companies has many outstanding issues, many cases of financial statements have been audited but there are still errors and falsification of financial information. Mainly, this is causing disadvantages for investors, many investors made wrong decisions according to the information that enterprises announced in financial statements, including audited financial statements (Febrianto, R., Dini, F., Audina, D., Yuskar, Y., and Juita, V, 2017).

There are many different perspectives on the quality of auditing financial statements in enterprises, however, it can be understood that auditing financial statements in enterprises is considered a special type of service, but Its final product is the result of corporate audit performance through financial reports (Gonzalez-Diaz, B., Garcia-Fernandez, R., LopezDiaz, A, 2015). Finally, auditing financial statements based on satisfying customer needs: According to Vietnam Auditing Standard No. 220 (VSA 220) and International Auditing Standard No. 220 (ISA 220), "Auditing quality is the level of satisfaction in calculation. objectively and reliably in the audit opinion of auditing service users and satisfied with the desire to get comments to improve the effectiveness of financial and accounting management of audited units with predetermined time and appropriate fees (Francis, J.R., Michas, P.N, 2013).

### **Occupational quality (OQ)**

Auditor is a person and one of the factors determining quality of auditing. Auditor must have high qualifications, professional competence, good moral qualities, comply with independent, objective, upright, prudent and confidential standards, especially with practical experience in the auditing field (Gonzalez-Diaz, B., Garcia-Fernandez, R., LopezDiaz, A, 2015). Auditor is reflected in the credibility and trust of the people concerned with the audit and audit activities. All work has a comprehensive ethical code of conduct and be subject to examination by congressional agencies, public appreciation for correctness and examination (Husam Al-Khaddash, 2013). Besides, the researchers interview experts and group discussions for this scale showing that all experts believe that this factor has a great influencing on the quality of auditing financial statements of independent auditing companies in HCMC. Research results showed that the observed variables of this scale including OQ1: Staffs' knowledge and skills are basically trained in major of accounting, auditing, finance and tax. OQ2: Staffs have international practicing certificate and practicing certificate in Vietnam. OQ3: Staffs have annually updated knowledge and attracting talent about auditing and OQ4: Company has the programs experienced in practicum both auditing knowledge and skills for staffs. The above mentioned occupational quality, the researchers have hypothesis following:

*Hypothesis H1: Occupational quality has a positive impact on the quality of auditing financial statements of independent auditing companies in HCMC.*

### **Quality control system (QCS)**

Quality control system of most enterprises have developed policies and procedures according to each element of the quality control system in accordance with the Vietnam quality control standard No. 1 (VSQC1); A process for conducting financial report audits has been developed. However, the implementation of operation in practice limited. Many contents are not fully compliant with regulations and procedures (Khasharmeh, H., & Desoky, A.M, 2018). Specifically, some enterprises disseminate the content of the control regulations inadequately to all employees or leave no evidence of the dissemination of these regulations. Besides, the researchers interview experts and group discussions for this scale showing that all experts believe that this factor has a great influencing on the quality of auditing financial statements of independent auditing companies in HCMC. Research results showed that the observed variables of this scale including QCS1: Company has commitment ensure the quality before each audit. QCS2: Company has pay attention to the customer acceptance and satisfaction. QCS3: Company has the role of the independent monitor in the audit AND QCS4: Company has the process of quality control not only internal and external control system. The above mentioned quality control system, the researchers have hypothesis following:

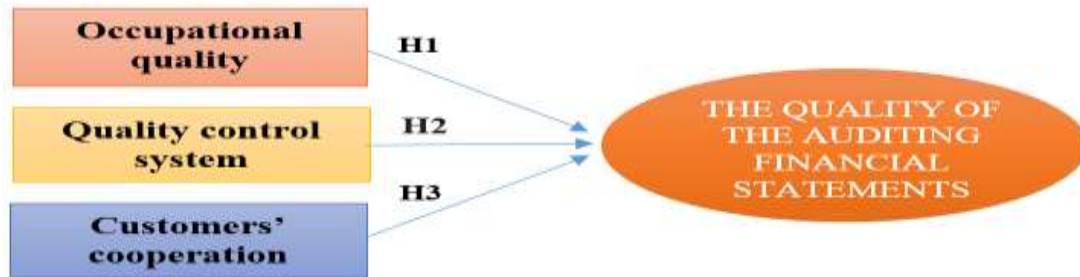
*Hypothesis H2: Quality control system has a positive impact on the quality of auditing financial statements of independent auditing companies in HCMC.*

### **Customers' cooperation (CC)**

In independent auditing activities, the responsibilities of auditors, customers' cooperation and auditing firms are very important for organizations and individuals to use auditing results (Wang, C., Dou, H, 2015). Users of auditing results must be ensured that Auditor's comments and customers' cooperation information on financial statements (audited financial statements) are audited truthfully, reasonably, objectively and reliably (Yan, H., Xie, S, 2016). This guarantee is only possible when the audit is carried out on the basis of compliance with professional standards (Nattawut Tontiset, 2018). Besides, the researchers interview experts and group discussions for this scale showing that all experts believe that this factor has a great influencing on the quality of auditing financial statements of independent auditing companies in HCMC. Research results showed that the observed variables of this scale including CC1: Customers provide accurate information and no relatives. CC2: The cooperation of the authorities and professional associations is still loose. CC3: Customers have not been able to promote their importance and responsibility in preparing and presenting honest and reasonable financial statements and CC4: Customer should have a time and cost estimate for the audit, low cost to low quality audit. The above mentioned customers' cooperation, the researchers have hypothesis following:

*Hypothesis H3: Customers' cooperation has a positive impact on the quality of auditing financial statements of independent auditing companies in HCMC.*

*Research model for factors affecting the quality of auditing financial statements of independent auditing companies in HCMC.*

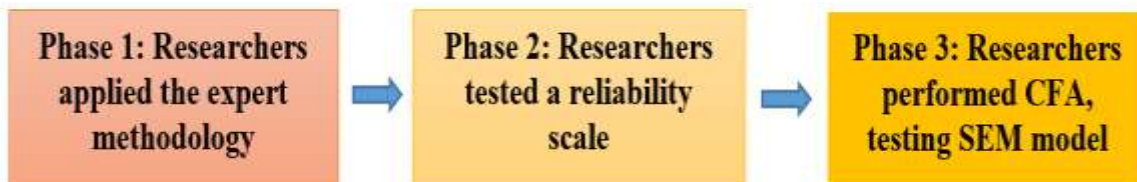


(Source: Researchers proposed)

**FIGURE 1: RESEARCH MODEL FOR FACTORS AFFECTING THE QUALITY OF AUDITING FINANCIAL STATEMENTS OF INDEPENDENT AUDITING COMPANIES IN HCMC**

## METHODS OF RESEARCH

The research process for factors affecting the quality of auditing financial statements of independent auditing companies in HCMC having three phases following.



(Source: Researchers proposed)

**FIGURE 2: RESEARCH PROCESS FOR FACTORS AFFECTING THE QUALITY OF AUDITING FINANCIAL STATEMENTS OF INDEPENDENT AUDITING COMPANIES IN HCMC**

Phase 1: Researchers applied the expert methodology and based on 30 experts' consultation about auditing financial statements and based 30 lecturers training in accounting and auditing fields as group discussions are to improve the scale and design of the questionnaire. The results of surveying 30 experts and 30 lecturers who agreed that factors affecting the quality of auditing financial statements of independent auditing companies in HCMC. Researchers created a list of possible factors gathered from the literature reviews as mentioned in the above studies (Hair, B.B., & Anderson, 2010).

Phase 2: Researchers tested a reliability scale with Cronbach's Alpha coefficient and exploratory factor analysis. Completed questionnaires are from independent auditing companies in HCMC and having 25 minutes to finish the survey. There are 450 customers using the auditing financial statements of independent auditing companies in HCMC. They answered 15 questions and 425 samples processed and surveyed by hard copy distributed among 10.000 customers. All data collected from the questionnaire are coded, processed by SPSS 20.0 and Amos. Any

observational variables with a total correlation coefficient greater than 0.3 and Cronbach's Alpha coefficient greater than 0.6 would ensure reliability of the scale. This method is based on the Eigenvalue, the appropriate factorial analysis and the observed variables in the whole which are correlated when Average Variance Extracted is  $> 50\%$ , the KMO coefficient is within 0.5 to 1, Sig coefficient  $\leq 5\%$ , the loading factors of all observed variables are  $> 0.5$ . In addition, the researchers testing scale reliability with Cronbach's alpha coefficient and exploratory factor analyses (EFA) were performed. Finally, multiple linear regression used (Hair, Anderson, Tatham, & Black, 1998).

Phase 3: Researchers performed CFA and model testing with Structural Equation Modelling (SEM) analysis. The purpose of CFA helps to clarify: (1) Unilaterality, (2) Reliability of scale, (3) Convergence value, and (4) Difference value. A research model is considered relevant to market data if Chi-square testing is P-value  $> 5\%$ ;  $CMIN / df \leq 2$ , some cases  $CMIN/df$  may be  $\leq 3$  or  $< 5$  (Hair, Anderson, Tatham, & Black, 1998);  $GFI, TLI, CFI \geq 0.9$ . However, according to recent researcher's opinion, GFI is still acceptable when it is greater than 0.8;  $RMSEA \leq 0.08$ . Apart from the above criteria, the test results must also ensure the synthetic reliability  $> 0.6$ ; Average Variance Extracted must be greater than 0.5 (Hair, B.B., & Anderson, 2010).

## RESEARCH RESULTS

### The scale reliability tests for factors affecting the quality of auditing financial statements of independent auditing companies in HCMC

**TABLE 1: THE SCALE RELIABILITY TESTS FOR FACTORS AFFECTING THE QUALITY OF AUDITING FINANCIAL STATEMENTS OF INDEPENDENT AUDITING COMPANIES IN HCMC**

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
OQ1	9.4014	8.067	.826	.918
OQ2	9.4736	7.754	.860	.906
OQ3	9.6466	7.535	.785	.933
OQ4	9.5264	7.411	.906	.891
<b>Cronbach's Alpha for occupational quality (OQ)</b>				<b>0.903</b>
QCS1	10.3606	6.520	.827	.863
QCS2	10.2764	6.403	.807	.870
QCS3	10.3822	6.584	.744	.893
QCS4	10.4183	6.678	.771	.883
<b>Cronbach's Alpha for quality control system (QCS)</b>				<b>0.933</b>
CC1	8.8918	4.044	.779	.823
CC2	8.0673	3.432	.758	.818
CC3	8.8125	3.830	.698	.842
CC4	8.0865	3.366	.699	.849
<b>Cronbach's Alpha for customers' cooperation (CC)</b>				<b>0.871</b>
QA1	6.2260	3.515	.851	.888
QA2	6.2067	3.485	.852	.887
QA3	6.2067	3.629	.837	.899
<b>Cronbach's Alpha for the quality of auditing financial statements (QA)</b>				<b>0.926</b>

(Source: The researcher's collecting data and SPSS 20.0)

Table 1 showed that all of 15 variables surveyed Corrected Item-Total Correlation greater than 0.3 and Cronbach's Alpha if Item deleted greater than 0.6 and Cronbach's Alpha is very reliability. Such observations make it eligible for the survey variables after testing scale. This showed that data was suitable and reliability for researching.

**TABLE 2: KMO AND BARTLETT'S TEST**

<b>KMO and Bartlett's Test</b>									
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.						.850			
Bartlett's Test of Sphericity						Approx. Chi-Square		5597.349	
						df		105	
						Sig.		.000	
<b>Total Variance Explained</b>									
Com.	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings <sup>a</sup>		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total		
1	6.899	45.994	45.994	6.899	45.994	45.994	4.728		
2	2.339	15.590	61.585	2.339	15.590	61.585	5.079		
3	1.616	10.772	72.357	1.616	10.772	72.357	4.323		
4	1.277	8.514	80.871	1.277	8.514	80.871	4.779		
5	.637	4.249	85.120						
6	.561	3.739	88.860						
7	.361	2.408	91.267						
8	.264	1.757	93.024						
9	.195	1.300	94.324						
10	.191	1.275	95.599						
11	.168	1.117	96.716						
12	.148	.988	97.704						
13	.134	.891	98.596						
14	.117	.780	99.375						
15	.094	.625	100.000						

(Source: The researcher's collecting data and SPSS 20.0)

Table 2 showed that Kaiser-Meyer-Olkin (KMO) Test is a measure of how suited your data is for Factor Analysis. The test measures sampling adequacy for each variable in the model and for the complete model. The statistic is a measure of the proportion of variance among variables that might be common variance. The lower the proportion, the more suited your data is to Factor Analysis. KMO returns values between 0 and 1. A rule of thumb for interpreting the statistic. In this study, KMO values between 0.8 and 1 indicate the sampling is adequate.

Table 2 showed that there were four components in Total Variance Explained following: occupational quality (OQ), quality control system (QCS), customers' cooperation (CC) and auditing financial statements (QA).

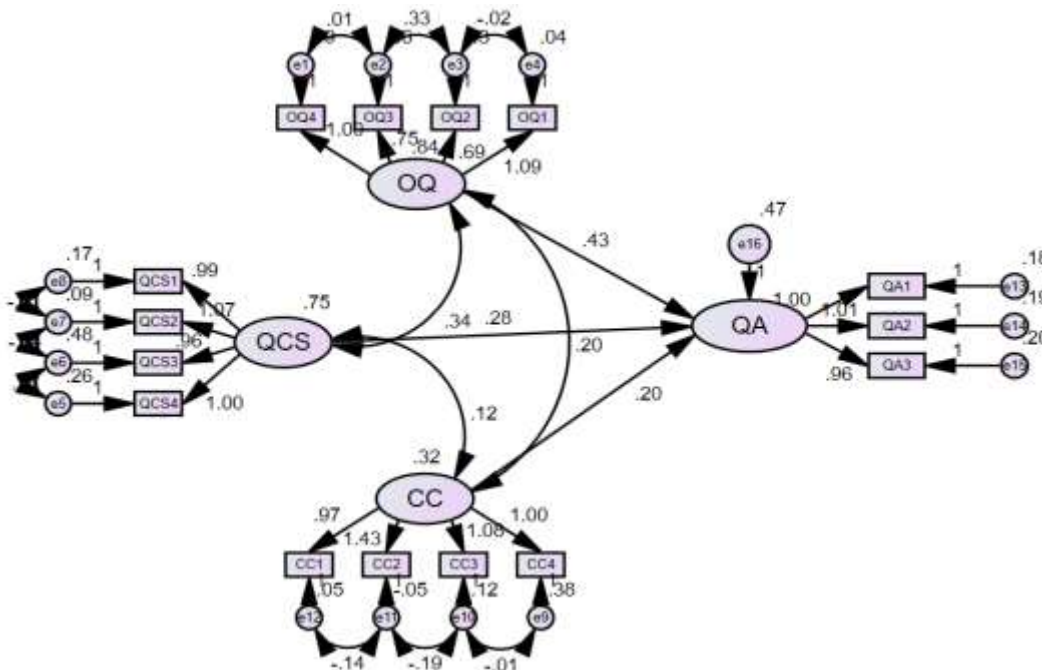
**TABLE 3: COEFFICIENTS FROM STRUCTURAL EQUATION MODELLING (SEM)**

Relationships			Coefficient	Standardized Coefficient	S.E	C.R.	p	Conclusion
QA	<---	OQ	.433	.401	.055	7.832	***	H1: Supported
QA	<---	CC	.199	.125	.063	3.144	.002	H3: Supported
QA	<---	QCS	.284	.275	.050	5.718	***	H2: Supported

Note: \*\*\* Significant at 1 percent (All t-tests are one-tailed)

(Source: The researchers' collecting data, SPSS 20.0 and Amos)

Table 3 showed that column "Sig" < 0.01 with significance level 0.01 and column "Conclusion" H1: supported; H2: supported; H3: supported. This showed that three factors affecting the quality of auditing financial statements of independent auditing companies in HCMC with significance level 0.01. Three factors including: (1) Occupational quality (OQ), (2) Quality control system (QCS) and customers' cooperation (CC). Table 2 showed that this study is to find out occupational quality ( $\beta = 0.401$ ) affected the strongest impact in three factors with significance level 0.01.



(Source: The researchers' collecting data, SPSS 20.0 and Amos)

**FIGURE 3: THE STRUCTURAL MODEL SHOWING THE STRUCTURAL LINKAGE BETWEEN OQ, QCS, CC AND QA**

Figure 3 showed that all of occupational quality (OQ), quality control system (QCS) and customers' cooperation (CC) affecting the quality of auditing financial statements of independent auditing companies in HCMC with significance level 0.01. Besides, occupational quality (OQ) has four items, quality control system (QCS) has four items and customers' cooperation (CC) has four items.

Chi-square = 263.378; df = 75; p = 0.000; Chi-square/df = 3.512; GFI = 0.929; TLI = 0.953; CFI = 0.966; RMSEA = 0.077.

**CONCLUSIONS & MANAGERIAL IMPLICATIONS****Conclusions**

Auditing service is a service that receives the attention and trust of the public and investors. Auditing results are economic and financial information which are certified by the auditors with sufficient capacity and independence in accordance with the provisions of the law. Listed organizations that are of public interest, the quality of auditing financial statements is very important information, if it is not correct, it will seriously affect public confidence. Therefore, the quality of auditing is the basis, the goal of all tasks that auditors performed, so auditors must work within the framework of professional standards. Research results showed this study found three factors affecting the quality of auditing financial statements of independent auditing companies in HCMC with significance level 0.01. Besides, standardized coefficient of occupational quality ( $\beta = 0.401$ ), standardized coefficient of quality control system ( $\beta = 0.275$ ) and standardized coefficient of customers' cooperation ( $\beta = 0.125$ ). This study is to find out occupational quality ( $\beta = 0.401$ ) affected strongest in three factors with significance level 0.01. The researchers had managerial implications policymaker of Vietnam continued to improve the quality of auditing financial statements of independent auditing companies following.

**Managerial implications**

Based on above mentioned results and along with the development of the economy, auditing quality has become an indispensable service in ensuring publicity and transparency of financial information of enterprises. However, in order to have good quality of audit services, ensure transparency and benefits for investors and others. The researchers had managerial implications flowing: (1) Mechanisms and policies related to auditing that have been issued quite clearly but still need to continue to complete research in the direction of transparency, completeness, synchronization and approach. Besides, international standards have an accurate basis to determine and assess whether the audit is of quality. Improving regularly organize dissemination, propaganda, exchange, policy, experience through checking the quality of annual auditing services for practicing auditors and auditing firms to real policies. Strengthen the inspection, control and strict handling of violations of auditing firms that have not performed well their obligations so that they are aware of their responsibilities. (2) Government regularly monitor, inspect and supervise the implementation of recommendations after auditing of



auditing firms and practicing auditors. Strengthening handling of violations through auditing service quality according to competence or transferring competent agencies to handle according to law... Government create good conditions for the market of accounting and auditing services to develop. Besides, Government has good conditions improve the role of the Professional Association in organizing training, updating knowledge, providing professional advice, quality control, providing support tools for members to improve quality and experience. This is thereby contributing to improving the quality of audit services. Government strengthens the information and propaganda for enterprises to understand professional technical services that is a reliable companion with enterprises in the development process, advising enterprises to implement the provisions of law, maximizing benefits, support to protect enterprises in disputes with agencies and communities, promote businesses to develop sustainably. (3) Improving the management capacity of activities of the Vietnam Association of Accountants. The Association ensures the best advice and support for members and accountants, protects the legitimate rights of members, propagates and promotes members and supports to improve the quality and value of technical services. Strengthening the training and improvement of qualifications for accountants and technical staff, developing training programs for accountants, organizing regular training courses and accountant exams, notes both knowledge of management, law, expertise and foreign languages, ensuring access to training standards of the Association of Southeast Asian Accountants and the international Accounting Federation. Government needs to have a roadmap to transfer these things to professional organizations for implementation. Government should continue strengthening the inspection and supervision of technical services market, checking organizations and individuals showing signs of economic improper regulations, creating a fair and fair competitive environment in the field of technical services market. Government should continue supporting to improve the legal framework for the market of technical services, reform administrative procedures towards reducing administrative procedures for enterprises and accountants... Finally, auditing quality control will increase the reliability of audit results. Therefore, along with promoting self-control activities of independent auditing companies, Government management agencies must also strengthen the control of audit quality of auditing companies even more, especially the company is approved to audit financial statements of listed companies on the stock market.

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