

Factors affecting the auditor independence in financial statements audit in Vietnam

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ABSTRACT

Financial information that meets the user's requirements must be accurate, sufficient, timely and reliable. Consequently, national laws and international auditing standards require the auditor to provide confidence in the audited financial information. To achieve this, the auditor independence must be ensured. The objective of this study is to identify factors affecting the auditor independence in financial statements audit in Vietnam. The identified factors are audit tenure; the provision of non-audit services; economic dependence; employment with audit clients; competition within the external audit market; the risk to the auditor from the provision of poor-quality audit services, and the disclosure of financial relations. Data of the study were collected through a survey of auditor, audit firms and users of financial statements such as managers, investors, accountants, etc. The findings are the basis for proposing recommendations to more enhance the auditor independence and audit quality in financial statements in VietNam.

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1. Introduction

Financial information that meets the needs of the user must be accurate, sufficient, timely and reliable. Consequently, national laws and international auditing standards require the auditor to provide confidence in the audited financial information. For an audit to be successful requires a lot of factors, in which audit quality can be considered as the most important factor. Auditors are the ones who directly verify and express opinions about the financial statements and they must have professional expertise and skills, must ensure compliance with the requirements of professional ethics (objective, integrity, independently and confidentially) to ensure that they have discovered misstatements in the financial statements and disclosed all of them. Thus, if competence may be a necessary condition, independence is taken into account a sufficient condition to make sure about audit quality. The capacity allows auditors to be ready to detect material errors within the financial statements while the independence will make sure that the auditor publishes (reports) these errors within the audit report. In 1991, independent audit was born in Vietnam. Up to now, a comparatively complete set of regulations, standards and related systems have been formed. However, in auditing activities, the audited financial statements of some companies still have errors, causing great impacts on investors, banks, etc. As of July 2020, Vietnam has 311 auditing firms with approximately 1,500 licensed auditors (published on the web: www.mof.gov.vn). Additionally to Big Four companies and large audit firms, there are also lots of small audit firms, so the audit quality is restricted. According to The summary report on audit service quality inspection of auditing firms of VietNam association of certified public accountants (VACPA), 2015 – 2019, there are about 20% of audit firms that assessed per annum as unsatisfactory (published on the web: www.mof.gov.vn). These companies have not fully complied with the present Vietnamese auditing standards and have not complied with professional ethics during which the auditor's independence wasn't

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ensured within the audit process (such as not performing well the rotation of auditors; didn't sign a commitment on independence with customers before auditing). Therefore, this study was carried to research auditor independence, specifically analyzing factors affecting auditor independence in financial statements audit. The research findings are considered because of the basis for proposing recommendations to ensure auditor independence and improve the quality of financial statements audit in Vietnam.

2. Literature review

In general, the concept of independence is understood as being objective, not dependent on external factors when making a decision or a certain opinion. However, the concept of independence is also understood differently when there are differences in culture, society, politics or field of activity. There are many different views on the auditor independence such as the ability to report the auditor's findings (DeAngelo, 1981a); objective attitude when performing audit and reporting (Bartlett, 1993); state of mind (AICPA, 1992) or freely perform work within authority without being under pressure from anyone (ISB, 2000) and other definitions. So, the auditor independence is the impartial and objective attitude of the auditor when performing the audit and announcing the audit report, reflected in both the auditor's thoughts and the perception of the auditor and the user of the financial statements, audit reports. Auditor independence has been assessed based on two aspects, that is, in fact and appearance. Independence in fact is a state of thinking that allows auditors to perform audits with objectivity, honesty and skepticism while independence in appearance requires avoiding situations that may cause users of the audit reports to suspect that the auditor may give an unbiased opinion. So, in fact, auditors need to be independent of any client they provide audit services and must show to third parties that the auditor can maintain impartiality in judgment and resist pressure from managers at client companies (Chrystelle, 2016). If the auditor isn't seen to be independent, users will have less confidence within the financial statements, and therefore the auditor's opinion on the company's financial statements is going to be of no value (Firth, 1980). Thus, the credibility of auditors depends not only in facts but also, even as importantly, on the perception of independence. Both actual also as perceived auditor independence are critical elements within the maintenance of public confidence in the auditing profession (Pany & Reckers, 1980).

Table 1

The variables used in the study

Variables name	The scale	Code	Bases for selecting variables
Audit tenure (TK)	Rotation of auditors (more than 3 years)	TK1	Shockley, 1981; Beattie et al., 1999; Sinnett, 2004; Abu Bakar et al., 2005; Al-Ajmi et al., 2011; Dart, 2011; Omri & Akrimi, 2015; Nguyen & Ha, 2015
	Rotation of audit partners (more than 3 years)	TK2	
	Rotation of audit firms (more than 5 years)	TK3	
The provision of non-audit services (DV)	Auditing firms provides accounting, tax advisory, internal audit and financial services to audit clients	DV1	Reckers & Stagliano, 1981; McKinley et al., 1985; Beattie et al., 1999; Abu Bakar et al., 2005; Alleyne et al., 2006; Salehi, 2009; Al-Ajmi et al., 2011; Omri & Akrimi, 2015; Nguyen & Ha, 2015; Twaha et al., 2017
	Provision of executive search and appointment services by incumbent auditor	DV2	
	Non-audit services from incumbent \geq 50% audit fee	DV3	
	Non-audit services from incumbent \geq 25% audit fee	DV4	
Economic dependence (P)	Income of partner depends on the retention of a specific client	P1	Beattie et al., 1999; Craswella et al., 2002; Alleyne et al., 2006; Omri & Akrimi, 2015; Nguyen & Ha, 2015; Twaha et al., 2017
	Income from one client 10% of total revenues of the firm	P2	
Employment with audit clients (QH)	The rank of the ex-auditor who accepts employment with a client firm	QH1	Imhoff, 1978; Koh & Mahathevan, 1993; Parlin & Bartlett, 1994; Iyer & Raghunandan, 2003
	The time lapse between auditing and working for a client firm (under 3 years)	QH2	
	The time lapse between auditing and working for a client firm (over 3 years)	QH3	
Competition within the external audit market (CT)	Competition among audit firms	CT1	DeAngelo, 1981; Shockley, 1981; McKinley et al., 1985; Abu Bakar et al., 2005; Alleyne et al., 2006; Al-Ajmi et al., 2011; Omri & Akrimi, 2015; Nguyen & Ha, 2015; Twaha et al., 2017
	Auditor's desire not to lose status by losing key client	CT2	
	Audit-fee discounting and low-balling (price pressure)	CT3	
	Budget pressures imposed by audit firm on staff	CT4	
	Being a Big Four international firm or an international firm	CT5	
The risk to the auditor from the provision of poor - quality audit services (RR)	Small, local audit firm	CT6	Teoh & Lim, 1996; Beattie et al., 1999; Abu Bakar et al., 2005; Alleyne et al., 2006; Al-Ajmi et al., 2011; Nguyen & Ha, 2015; Twaha et al., 2017
	Risk to auditor of disciplinary action by professional body	RR1	
	Risk to auditor of loss of practicing certificate	RR2	
	Risk of damage to reputation of auditors from public scandals	RR3	
The disclosure of financial relations (CK)	Risk of litigation against auditor	RR4	Beattie et al., 1999; Alleyne et al., 2006; Alajmi et al., 2011; Omri & Akrimi, 2015; Nguyen & Ha, 2015; Twaha et al., 2017
	Disclosure of non-audit service	CK1	
	Disclosure of audit fees	CK2	
The auditor independence (DL)	Disclosure of non-audit fees	CK3	IFAC, 2001; The Independent Auditing Law of VietNam, 2011; Beckett, 2013; The Standard of Professional Conduct for Accountants and Auditors of VietNam, 2015
	Auditor has not familiarity involved with the client firm	DL1	
	Auditor has not financial interest in client	DL2	
	Professional independence when auditing	DL3	
	Auditors have certification of the independence when auditing	DL4	

Source: Compiled by author

In Vietnam, independence is provided for in the Standard of Professional Conduct for Accountants and Auditors (2015) and Law in Independent Auditing (2011). Independence requires auditors when giving their opinions to be independent in fact and independence in appearance. The independence in appearance mainly stems from the professional ethics of the auditor while independence in fact is shown mainly through: financial; familiar; professional expertise. There have been many studies on the factors affecting auditor independence. Most of the studies on the auditor independence focused upon identifying the factors which potentially influence independence, and assessing their impact upon the independence in appearance since independence in fact is unobservable (e.g. Imhoff, Jr, 1978; Firth, 1980; Shockley, 1981; Dykxhoorn & Sinning, 1982; Bartlett, 1993; Abu Bakar et al., 2005; Law et al., 2008; Omri & Akrimi, 2015). Some studies also show the difference in perceptions and views of different groups of subjects: auditors, accountants, credit officers, loans, investors, etc. about these impact factors (Reckers & Stagliano, 1981; Beattie et al., 1999; Alleyne et al., 2006; Al-Ajmi & Saudagaran, 2011; Nguyen & Ha, 2015). Based on the previous studies, we present the results of our investigation on variables used for the survey. Table 1 presents details of the variables.

3. Research Methodology

3.1. Sample and data collection method

The survey subjects of this study are auditors and auditing firms in Hanoi such as AASC, A & C, AFC, Hung Vuong, etc. and users of financial statements in banks, export companies, trade companies, services companies, etc. The data collection is done through survey questionnaires. The questionnaire included Likert-type items (ranging from 1= “strongly disagree” to 5 = “strongly agree”) to measure 7 independent variables and the auditor independence – dependent variable. Based on the study of Hair et al. (2011), the minimum sample size is calculated: $5 \times$ the total observed variables. For multivariate regression analysis, based on Tabachnick & Fidell (2007), the minimum sample size to achieve is calculated using the formula: $50 + 8 \times m$ (m : number of independent variables). Thus, the minimum sample size guaranteed for the study is 145 in accordance with the requirements set out and ensures the representativeness of the whole. The study used a random sampling method to select the sample. The total number of votes issued via email and google docs in the study was 180, and the number of valid votes was 163 (accounting for 90,5%).

3.2. Data analysis method

In order to test the scale models and assess the model's suitability in practice, as well as analyze the impact of factors affecting the auditor independence in Vietnam, the research uses the Exploratory factor analysis (EFA) and regression analysis.

4. Results and discussion

4.1. The demographic characteristics

Of the surveyed subjects, the percentage of auditors was 57.7%, while the users of financial statements were 42.3%. The age of the respondent is from 30 to 50 years old so that the knowledge and experience needed for the occupation. The auditors have a higher level of experience in auditing and accounting, with 26 members of the CPA, ACCA; while users have only 5 members of ACCA.

4.2. Analysis the factors affecting the auditor independence

Firstly, the study analyzed the reliability of the scales in the model by Cronbach's alpha coefficient. Nonconforming variables excluded from the scales are variables with a correlation coefficient of the total and/or have Cronbach's Alpha if Item Deleted is greater than the Cronbach's Alpha value of the scale. So, the variable QH3 was deleted because the total correlation coefficient = 0.218 < 0.3. The value of other variables in the scales is highly reliable with the total correlation coefficient > 0.3 and Cronbach's Alpha coefficient ≥ 0.7 . Thus, the items measuring the variables are considered acceptable and the instruments are accepted for the reliability test. After that, the research team checked whether the data are full conditions for analysis by KMO and Bartlett's tests or not. The scale is accepted when $0.5 \leq \text{KMO} \leq 1$; Sig coefficient. = 0.000 of the Bartlett test indicates that observed variables are statistically significant; The total extracted variance is $\geq 50\%$ and the factor load factor ≥ 0.5 proves the appropriate reliability for factor analysis.

- For independent variables

Table 2

KMO and Bartlett's Test (2th time)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.800
Bartlett's Test of Sphericity	Approx. Chi-Square	1537.547
	df	253
	Sig.	.000

Source: Analysis results from the author's research data

The results in Table 2 show that the KMO coefficient equal to $0.5 < 0.800 < 1.0$ proves the conformity of the EFA model; Bartlett test value is significant for Sig. = 0.000 indicates that the observed variables are correlated with respect to the total number of observations.

Table 3
Total Variance Explained (2th time)

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.959	25.907	25.907	5.959	25.907	25.907	3.785	16.455	16.455
2	2.467	10.728	36.635	2.467	10.728	36.635	2.570	11.175	27.629
3	2.107	9.159	45.794	2.107	9.159	45.794	2.312	10.053	37.682
4	1.735	7.543	53.337	1.735	7.543	53.337	2.189	9.519	47.201
5	1.640	7.131	60.468	1.640	7.131	60.468	2.131	9.266	56.467
6	1.206	5.245	65.713	1.206	5.245	65.713	1.663	7.229	63.696
7	1.085	4.716	70.429	1.085	4.716	70.429	1.549	6.733	70.429
8	.741	3.223	73.652						
9	.627	2.728	76.380						
10	.597	2.598	78.977						
11	.572	2.487	81.464						
12	.539	2.344	83.808						
13	.473	2.055	85.863						
14	.437	1.900	87.764						
15	.419	1.821	89.585						
16	.417	1.811	91.396						
17	.388	1.688	93.084						
18	.335	1.458	94.542						
19	.300	1.303	95.845						
20	.268	1.164	97.009						
21	.247	1.073	98.082						
22	.225	.978	99.060						
23	.216	.940	100.000						

Source: Analysis results from the author's research data

Then, performed the analysis of variance extracted of factors. Table 3 shows that the total variance extracted with the cumulative variance value of the factors is 70.429% > 50% meeting the standard that means 70.429% of the variation of the data set is explained by 7 factors. The variable DV4 was excluded from the model due to this variable being uploaded by both factors (not guaranteed convergence and discrimination).

Table 4
Rotated Component Matrix^a (2th time)

	Component						
	1	2	3	4	5	6	7
CT4	.794						
CT3	.766						
CT6	.765						
CT5	.755						
CT2	.719						
CT1	.622						
RR3		.808					
RR2		.782					
RR4		.781					
RR1		.743					
TK2			.863				
TK1			.826				
TK3			.774				
CK2				.840			
CK3				.840			
CK1				.823			
DV3					.841		
DV2					.838		
DV1					.730		
P1						.862	
P2						.797	
QH1							.874
QH2							.760

Source: Analysis results from the author's research data

The results in Table 4 by using the rotation matrix show that there are 7 groups of factors drawn, including:

The first group of factors is named the group of factors: "Competition within the external audit market (CT)". It consists of 6 observed variables: Competition among audit firms (CT1); Auditor's desire not to lose status by losing key client (CT2); Audit-fee discounting and low-balling (price pressure) (CT3); Budget pressures imposed by audit firm on staff (CT4); Being a Big Four international firm or an international firm (CT5); Small, local audit firm (CT6);

The second group of factors is named the group of factors: "The risk to the auditor from the provision of poor - quality audit services (RR)". It consists of 4 observed variables: Risk to auditor of disciplinary action by professional body (RR1); Risk to auditor of loss of practicing certificate (RR2); Risk of damage to reputation of auditors from public scandals (RR3); Risk of litigation against auditor (RR4);

The third group of factors is named the group of factors: "Audit tenure (TK)". It consists of 3 observed variables: Rotation of auditors (more than 3 years) (TK1); Rotation of audit partners (more than 3 years) (TK2); Rotation of audit firms (more than 5 years) (TK3);

The fourth group of factors is named the group of factors: "The disclosure of financial relations (CK)". It consists of 3 observed variables: Disclosure of non-audit service (CK1); Disclosure of audit fees (CK2); Disclosure of non-audit fees (CK3);

The fifth group of factors is named the group of factors: "The provision of non-audit services (DV)". It consists of 3 observed variables: Auditing firms provides accounting, tax advisory, internal audit and financial services to audit clients (DV1); Provision of executive search and appointment services by incumbent auditor (DV2); Non-audit services from incumbent $\geq 50\%$ audit fee (DV3)

The sixth group of factors is named the group of factors: "Economic dependence (P)". It consists of 2 observed variables: Income of partner depends on the retention of a specific client (P1); Income from one client 10% of total revenues of the firm (P2);

The seventh group of factors is named the group of factors: "Employment with audit clients (QH)". It consists of 2 observed variables: The rank of the ex-auditor who accepts employment with a client firm (QH1); The time - lapse between auditing and working for a client firm (under 3 years) (QH2).

- For dependent variables

Table 5

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.797
Bartlett's Test of Sphericity	Approx. Chi-Square	271.284
	df	6
	Sig.	.000

Source: Analysis results from the author's research data

KMO and Bartlett's scale (Kaiser-Meyer-Olkin) with value = 0.797 satisfies a condition that ranges from 0.5 to 1; the Bartlett's Test results have a Sig value. = 0.000. Factor analysis is consistent with real data.

Table 6

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.711	67.781	67.781	2.711	67.781	67.781
2	.620	15.512	83.292			
3	.387	9.669	92.961			
4	.282	7.039	100.000			

Source: Analysis results from the author's research data

According to Table 6, the total variance extracted with the cumulative variance value of the factors is 67.781%, which means 67.781% chance of factors is explained by observed variables. After testing the reliability and analyzing EFA, the research team used Pearson's correlation coefficient to check the correlation between the dependent and independent variables. The result in table 7 shows that the Sig. value between each independent variable and the dependent variable is less than 0.05 so does not remove any type of factors. In other words, all the independent variables have a linear relationship with the dependent variable. To examine the impact of independent variables on the dependent variable, the study performs multivariate regressions. The results in Table 8 and Table 9 show that adjusted R Square= 0.694, F-test (ANOVA) represents the significance level. = 0.000; therefore, the regression model is suitable, about 69.4% of the variation of the dependent variable is explained by the independent variables in the model.

Table 7
Correlations

		DL	TK	RR	QH	CK	P	DV	CT
DL	Pearson Correlation	1	-.507**	.373**	-.509**	.339**	-.594**	-.500**	-.611**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000	.000
	N	163	163	163	163	163	163	163	163
TK	Pearson Correlation	-.507**	1	-.189*	.243**	-.189*	.236**	.271**	.313**
	Sig. (2-tailed)	.000		.016	.002	.016	.002	.000	.000
	N	163	163	163	163	163	163	163	163
RR	Pearson Correlation	.373**	-.189*	1	-.292**	-.042	-.208**	-.154*	-.236**
	Sig. (2-tailed)	.000	.016		.000	.599	.008	.049	.002
	N	163	163	163	163	163	163	163	163
QH	Pearson Correlation	-.509**	.243**	-.292**	1	-.179*	.344**	.251**	.414**
	Sig. (2-tailed)	.000	.002	.000		.023	.000	.001	.000
	N	163	163	163	163	163	163	163	163
CK	Pearson Correlation	.339**	-.189*	-.042	-.179*	1	-.199*	-.158*	-.209**
	Sig. (2-tailed)	.000	.016	.599	.023		.011	.044	.007
	N	163	163	163	163	163	163	163	163
P	Pearson Correlation	-.594**	.236**	-.208**	.344**	-.199*	1	.197*	.491**
	Sig. (2-tailed)	.000	.002	.008	.000	.011		.012	.000
	N	163	163	163	163	163	163	163	163
DV	Pearson Correlation	-.500**	.271**	-.154*	.251**	-.158*	.197*	1	.263**
	Sig. (2-tailed)	.000	.000	.049	.001	.044	.012		.001
	N	163	163	163	163	163	163	163	163
CT	Pearson Correlation	-.611**	.313**	-.236**	.414**	-.209**	.491**	.263**	1
	Sig. (2-tailed)	.000	.000	.002	.000	.007	.000	.001	
	N	163	163	163	163	163	163	163	163

Source: Analysis results from the author's research data

Table 8
ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	50.036	7	7.148	53.512	.000 ^b
	Residual	20.705	155	.134		
	Total	70.741	162			

Table 9
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.841 ^a	.707	.694	.36548	2.084

Source: Analysis results from the author's research data

Table 10 presents the result of the multiple linear regression as follows: The variables have an impact on the dependent variable because the Sig value in the t-test of each independent variable is less than 0.05. Besides, the beta coefficients value of the factors: TK; DV; P; QH; CT is negative, beta coefficients value of the factors: RR; CK is positive.

Table 10
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.832	.404		11.966	.000		
	TK	-.196	.043	-.217	-4.561	.000	.834	1.199
	RR	.177	.056	.149	3.191	.002	.866	1.155
	QH	-.115	.042	-.139	-2.759	.006	.745	1.343
	P	-.222	.041	-.280	-5.462	.000	.719	1.390
	DV	-.230	.043	-.249	-5.341	.000	.866	1.155
	CK	.134	.044	.139	3.035	.003	.901	1.110
	CT	-.207	.051	-.218	-4.041	.000	.650	1.538

Source: Analysis results from the author's research data

5. Conclusion

The results are consistent with the previous views when variables CK, QH, RR have little impact on the auditor independence (e.g. Salawu, 2017; Nguyen & Ha, 2015; Al-Ajmi, 2011; Teoh et al., 1996; Koh & Mahathevan, 1993; Imhoff, 1978) while other variables have a strong impact on the independence (e.g. Salawu, 2017; Omri & Akrimi, 2015; Nguyen & Ha, 2015; Alleyne et al., 2006; Abu Bakar, 2005; Beattie et al., 1999). At the same time, the variables TK; DV; P; QH; CT have negatively affected while the variables RR and CK have positive influences on the auditor independence. The findings show that to be able to ensure auditor independence so increase the quality of financial statement audit, have to perform the following:

Firstly, ensuring the rotation time of auditors and auditing firms; balancing non-auditing and auditing services for a client; disclosure of fees for services to reduce competition between auditing firm; regularly assess the risks to the auditor, auditing firm and control the audit quality, etc.

Secondly, more fully regulating the manifestations of independence in the legal documents and strictly implementing the signing of the commitment to independence before performing the audit.

This study has several limitations. The size of the survey sample and the scope of the survey are still limited, thus partly affecting the representativeness of the survey data. The study has not evaluated the impact level of factors from different groups of subjects. So, these limitations will be overcome by extensive research in future time.

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