

**MINISTRY OF EDUCATION AND TRAINING**  
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**MISSTATEMENTS IN FINANCIAL STATEMENTS OF  
LISTED COMPANIES ON VIETNAM STOCK MARKET**

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## INTRODUCTION

### 1. The need of the topic

Financial statements (FS) provide helpful information for users to make decisions. The quality of information may affect the decision making of information users in FS. FS misstatement is a topical topic in the field of economy, society and politics. The prevalence of FS misstatements in the world and in our country raises the question of the nature, cause, and consequences of misstatements. Summary, analysis from researches related to FS misstatements shows that this topic always attracts scientists, managers in order to prove the presence of FS misstatements, influencing factors and ability to detect and prevent misstatements. In general, the researches have approached in different angles, different topics to better clarify the nature and causes of FS misstatements. The fraudulent pressures, opportunities and behaviors have been further studied by researchers since the theoretical framework for fraud triangles was included in the US audit standards. Another important branch of the research of the cause of FS misstatement is researches based on representation theory. This research direction has identified corporate governance as a key factor influencing FS misstatements. Signs and ability to predict FS misstatements are also an area of interest, which helps to predict the probability of FS misstatements.

Although this topic has attracted a lot of attention from academics around the world, this research has also begun to appear in Vietnam, but in general, studies only reflect one aspect with a small number of research samples and comprehensive studies related to this topic to specify, measure and build testing models of factors affecting FS misstatements of listed companies in Vietnam are limited. Meanwhile, the situation of FS misstatements of listed companies in Vietnam is very large in terms of both the number of companies and the scale of

misstatements. This requires research in Vietnam to focus more on this topic to provide convincing evidence about the phenomenon, the cause of misstatements; thereby helping state management agencies improve their management capacity, helping the public to better understand the phenomenon of FS misstatements.

This requires researches in Vietnam to focus more on this topic to provide convincing evidence about the phenomenon, the cause of misstatements; thereby helping businesses identify risks, have effective corporate governance mechanisms to prevent and limit misstatements; help state management agencies improve management capacity; help the public better understand the FS misstatement phenomenon...

Due to the above-mentioned reasons, the author chooses the topic "Misstatements in financial statements of listed companies on Vietnam stock market" for research. The purpose of the author is to clarify the FS misstatement aspects of listed companies on Vietnam stock market to provide an overall picture of the status and cause of FS misstatements, from which there are solutions measures to prevent and limit FS misstatements.

## **2. Object and scope of the research**

*Object of research:* This thesis researches aspects of FS misstatements of listed companies, including the situation of misstatements and factors affecting FS misstatements of listed companies on the Vietnam stock market.

*Scope of research:* This thesis researches the subject of making and announcing FS of listed companies on Vietnam stock market (except for companies operating in banking - finance, securities and insurance). Among the factors affecting FS misstatements, the thesis emphasizes the factors of corporate governance. This Thesis includes research data for a period of 5 years, from 2012 to 2016.

### **3. Research objectives and questions**

**Research objectives:** The thesis aims to achieve the following two objectives:

- To assess the status of FS misstatements of listed companies on Vietnam stock market.

- To specify and assess the impact of factors on FS misstatements of listed companies in Vietnam, focusing on considering factors of corporate governance.

Based on the above two objectives, the thesis also aims to provide solutions to prevent and limit FS misstatements of listed companies.

**Research questions:** To achieve the above objectives, the content of this thesis must answer the following research questions:

1. What is the current situation of FS misstatements of companies listed on Vietnam's stock market?

2. What factors affect the FS misstatements of companies listed on Vietnam's stock market nowadays?

### **4. Research method**

The thesis uses a combination of qualitative and quantitative research methods, mostly based on a quantitative approach. Specifically: Method of document rereview; Qualitative research method; Quantitative research method through binary regression.

### **5. Contribution of the thesis**

The research results of the thesis have some academic and practical contributions in the current situation of Vietnam as follows:

#### ***In terms of theory***

The thesis synthesizes the theoretical basis for FS misstatements, emphasizes the theories of FS misstatements, thereby providing a theoretical framework as a basis for domestic researches. The results of the thesis also provide evidence of the status of FS misstatements of listed companies, explaining the causes of misstatements of listed

companies in an emerging economy, thereby enriching this research topic in the world.

### ***In terms of practice***

Research results show that FS misstatements of listed companies are common in both number of companies and scale of misstatements, and misstatements do not tend to decrease over 5 years. The research results also indentify some factors related to corporate governance, independent audit and corporate attributes affecting FS misstatements. This result is a clear evidence of the reliability of information in the FS of the companies, thereby providing signals to the market, giving investors more careful consideration in using accounting information to make decision.

The results also show that the management mechanism of listed companies does not seem effective in preventing and limiting misstatements. On the one hand, the company owner needs to improve this situation. On the other hand, the information also helps the state management agencies consider a more strict monitoring mechanism for the responsibilities of the parties in monitoring the company's operations, including monitoring the reliability of the information in FS.

## **6. The structure of the thesis**

In addition to introduction and conclusion, the thesis is organized into 5 chapters.

### **CHAPTER 1**

#### **THEORETICAL BASIS AND STUDY OVERVIEW OF FINANCIAL STATEMENT MISSTATEMENTS**

##### **1.1. Mistatements and frauds**

###### ***1.1.1. Definitions***

Misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statements item and

the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud (Vietnamese Standard on Auditing No. 200).

Fraud refers to an intentional act by one or more individuals among the Board of Management, Board of Directors, employees or third parties involving the use of deception to obtain an unjust or illegal advantage (Vietnamese Standard on Auditing No. 240).

### ***1.1.2. Signs of FS fraud***

- A continuous serious reduction in the level and quality of profits;
- Profit is not commensurate with operating cash flow;
- High value of inventories and receivables;
- Applying accounting policies to increase profits...

## **1.2. Fraud triangle theory and researches based on fraud triangle theory**

### ***1.2.1. Fraud triangle theory***

Three branches of the fraud triangle include: pressure/incentive, opportunity and rationalization. Fraud in general and FS fraud in particular can be explained on the basis of combining the three elements of fraud theory as follows: the pressure leading to fraud is identified in this theory as the financial pressure comes from lifestyle, debt or the consequences of a business. Secondly, fraud occurs when opportunities are present (such as no control, weak control, or plurality). Thirdly, individuals and organizations often seek excuses to rationalize their frauds.

### ***1.2.2. Researches based on fraud triangle theory***

Many researches explained by fraud triangle theory to evaluate the pressures, opportunities and rationalize frauds of companies where FS fraud is occurring. Researchers on this topic found the presence of three elements of a fraud triangle when FS frauds occurred in

companies such as Romney et al. (1980), Albrecht and Romney (1986), Loebbeck et al. (1989), Macell and Carcello (2000), Apostolou et al (2001), Christopher et al. (2009), Pincus (1989), Skousen et al (2009); Tran Thi Giang Tan (2009), Tran Thi Giang Tan et al (2014), Nguyen Cong Phuong and Nguyen Tran Nguyen Tran (2014),...

### **1.3. Theories of corporate governance and researches based on corporate governance theories**

#### ***1.3.1. Theories of corporate governance***

*Stockholder/shareholder theory:* This theory is based on the premise that a business executive is hired as a representative of shareholders to run the company in their own interests, and therefore the administrator has a legal and ethical obligation to serve the interests of shareholders. Because of representing the interests of shareholders, business executives shall act to bring in as much money as possible to maximize the value of shareholder assets.

*Agency theory:* This theory argues that both shareholders and managers want to maximize their interests. Shareholders want to maximize their benefits by increasing the value of their investments, meanwhile the interests of managers are often directly linked to income. However, the conditions for maximizing the interests of both sides are not the same.

#### ***1.3.2. FS misstatement researches based on theories of corporate governance***

The researches based on representative theory in the field of FS misstatements focus on the company's executive supervisory mechanism to protect the interests of shareholders. More specifically, researches examine the characteristics of this monitoring mechanism through corporate governance with the core components of the Board of Management, the Board of Directors, the audit committee and

quality of independent audits such as the research of Beasley (1996), Abbott et al. (2004), Baber et al. (2005), Beasley et al (2010), McMullen (1996), Farber (2005), Marciukaityte et al. (2006), Agrawal and Chadha (2005), James (2003), Patterson and Noel (2003), Sennetti and Turner (2001), Stanley and DeZoort (2007), Nguyen Cong Phuong and Lam Xuan Dao (2016), Tran Thi Giang Tan and Truong Thuy Duong (2016),...

#### **1.4. Summary of factors affecting FS misstatements**

FS misstatements occur due to many different reasons such as fraud and error. Research on the factors influencing FS misstatements is often based on theories that explain error behavior. This study direction considers FS misstatements as a dependent variable, factors related to pressure, opportunity and justification for managerial fraud as explanatory variables. These explanatory variables are concretized through the application of shareholder theory and representation theory. A summary of the studies within the theories that explain the error behavior shows that the factors affecting the FS misstatements are usually divided into two groups: i) Group of factors belonging to corporate governance; ii) Group of factors belonging to the independent audit.

#### **1.5. Research gaps**

The results of previous researches in the country and abroad implied that the unique characteristics of corporate governance in each country (due to differences in legality, environment, corporate governance cognitive and methods ...) may falsify the effect of corporate governance attributes on FS misstatements. In terms of research design, overseas researches focusing on FS fraud data which were identified, fewer ones research on FS misstatements. For the inception researches in the country, the research method has not shown a good approach due to limited samples, observations usually

in a year or a few years, considering only a few corporate governance factors, and especially, there has been no domestic research describing and comparing the actual situation of FS misstatements of entire listed companies for many years. From the above-mentioned issues, this thesis will find a way to fill the gap in the research; thereby providing more convincing results on the subject of FS misstatements.

Summary, analysis from theories and researches based on the topic of FS misstatement show that this topic has a great attraction to the community of scientists and managers in order to find and explain FS fraud of companies. In terms of applying background theory to explain, the researches focus on studying two trends: i) research based on fraud triangle theory, in order to explain the company's FS misstatement behavior through three aspects: pressure, opportunity and rationalization of fraud; ii) research based on the theory of corporate governance, focusing on representative theory, shareholder theory, to explain the FS misstatements of companies through the supervision mechanism of the Board of Directors. Research results in both directions are not completely consistent, due to differences in corporate governance institutions, and due to research approaches. Since then, the issue needs further research in specific situation in Vietnam.

## **CHAPTER 2**

### **RESEARCH DESIGN**

#### **2.1. Research framework**

The research framework consists of two branches. The first branch is a research describing, summarizing and comparing the actual situation of FS misstatements of listed companies on Vietnam stock market from 2012 to 2016. This research branch aims to provide a general picture of the situation of FS misstatements, thereby providing evidence showing the necessity of researching the cause of FS

misstatements in the second branch. This branch researches causality to explain the causes of FS misstatements of companies.

## **2.2. Approach of research describing the situation of FS misstatements**

### **2.2.1. Research questions**

This study raises two issues that need to be solved in order to confirm and expand previous perceptions of the situation of FS misstatements of listed companies on the Vietnamese stock market, which are:

- What is the level of FS misstatements of listed companies ?
- Are the FS misstatements of companies different among industries and listed markets?

### **2.2.2. Research method**

Method of description and explanation of comparison is applied to describe and explain FS misstatements of listed companies. The description is made through the statistical parameters describing misstatements such as profit, revenue, cost, assets, liabilities... The description of misstatements is also presented in the direction to assess the trend and degree of misstatement over time. Comparison analysis is applied to assess comparison of FS misstatements between companies by industry and by market. The data collected is the FS of all listed companies with misstatements over a 5-year period, from 2012 to 2016, excluding securities, banks, and finance companies.

## **2.3. Research approach explaining FS misstatements through factors of corporate governance**

### **2.3.1. Hypothesis**

H1: The larger the size of the BOD, the lower the probability of FS misstatements;

H2: The higher the independence of the Board of Directors, the lower the possibility of FS misstatements;

H3: Companies with a Chairman of the Board of Directors cum

director have a higher probability of FS misstatements;

H4: The higher the number of meetings of the BOD during the year, the lower the probability of FS misstatements;

H5: The greater the ownership level of the company manager, the higher the probability of FS misstatements;

H6: The higher the ownership level of the major external shareholder, the lower the probability of FS misstatement;

H7: The bigger the size of the Supervisory Committee, the lower the probability of FS misstatement;

H8: The more financial experts in the Supervisory Committee, the lower the probability of FS misstatements;

H9: Companies audited by Big 4 have a lower probability of FS misstatements;

H10: The company which has an independent audit change has the lower probability of FS misstatements.

Testing of the aforementioned hypotheses to answer the research question: What factors affect FS misstatements?

### **2.3.2. Research methods**

#### **Identification and measurement of variables**

The misstatements measured in this research reflect FS misstatements (both fraud and error). Because there is no official published data of the competent authority on companies with FS misstatements, FS misstatements are measured through the criterion of profitability misstatement. Profits are considered the most comprehensive item, integrating misstatements from revenue, expenses, assets, and debts. Profitability misstatements are measured through comparing unaudited profit figures with audited figures. Applying the principle of materiality in auditing, a materiality level of 10% for selected profit (in accordance with the audit sample files published by the Vietnam Association of Certified Public Accountants). Accordingly, profit differences of 10% or more are

considered as having material misstatements).

Due to FS misstatements can occur in both directions: increase and decrease. The measurement of dependent variable FS misstatement is shown in table 2.2 as follows:

**Table 2.2. Measurement of dependent variables**

<b>Item</b>	<b>Content of measurement</b>
1. Item profit used to calculate misstatements	Profit after tax
2. Scale	<i>Binary</i>
3. Misstatement measurement (general)	<p>✓ Formula:</p> $\frac{\text{Audited profit} - \text{Unaudited Profit}}{\text{Absolute value of } \textit{Unaudited profit}}$ <p>✓ Value: Assign to 1 if there are material misstatements (level of misstatement 10% or more); attach 0 if there are no material misstatements (level of misstatement less than 10%).</p>
4. Measurement misstatements in the direction	The level of profit misstatement from 10% or more
4.1. Reported profit INCREASED compared to audit figures	$\frac{\text{Audited Profit} - \text{Unaudited Profit}}{\text{Absolute value of } \textit{Audited profit}} \geq 10\%$
4.2. Reported profit DECREASED compared to audit figures	$\frac{\text{Audited Profit} - \text{Unaudited Profit}}{\text{Absolute value of } \textit{Audited profit}} \leq -10\%$

Regression model: Binary regression of profit misstatements under independent variables

$$\text{SAISOT} = a + b1\text{BSI} + b2\text{BIN} + b3\text{DC} + b4\text{BME} + b5\text{MAO} + b6\text{BIO} + b7\text{ACS} + b8\text{ACQ} + b9\text{BIG4} + b10\text{AUCH} + b11\text{CSIZE} + b12\text{GRO}$$

+b13LEV +b14ROE +b15LTI + e. *In which:*

*SAISOT: Profit misstatement*

*BSI : Number of members of the Board of Directors*

*BIN : Percentage of non-executive board members*

*DC : Value 1 if the Chairman of the Board of Directors cum Director, otherwise it has the value of 0*

*BME : Number of Board meetings in a fiscal year*

*MAO : Part of management ownership*

*BIO : Ownership of major external shareholders (from 5% or more)*

*ACS : Value 1 if the number of members of the Supervisory Board is higher than 3, equal to 0 if it is 3.*

*ACQ : Value 1 if there is at least 1 member with financial expertise, otherwise 0*

*BIG4 : Value 1 if it is audited by Big 4, otherwise it is 0*

*AUCH : Value 1 for companies with audit changes, otherwise 0*

*CSIZE : Log of assets*

*GRO : Revenue growth  $(DT_t - DT_{t-1}) / DT_{t-1}$*

*LEV : Liabilities / Total assets*

*ROE : Return on equity*

*LTI : Number of listed years*

*Data collection and processing:* Due to time and cost constraints, the sample has 600 observations over 5 years (2012-2016). The sample size of 600 compared to the overall 3025 is appropriate (with margin of error 3.6%, confidence level 95%). This size also fits the regression requirement in statistics. To ensure the sample represented for the 5-year research period from 2012 to 2016, 600 observations were evenly allocated over the years. Thus, 120 companies will be collected every year, of which 60 companies with material misstatement are randomly selected, 60 counterpart companies (control) with no material misstatement selected in a stratified manner

(same field of operations, similar size to companies with misstatements). To measure the trend of misstatements, 60 companies with material profit misstatements each year were divided equally into 30 companies with increasing profit misstatements and 30 companies with decreasing profit misstatements.

*Analytical techniques:* The techniques of univariate analysis (descriptive statistics, comparisons between two samples), correlation analysis and regression analysis are applied. The above analysis techniques were performed through SPSS software.

Chapter two presents the content of the hypothesis and research design. Two research questions were raised that needed answers related to the situation of FS misstatements of listed companies. Based on the theories that explain FS misstatements, the results of previous researches, together with consideration in the current situation of Vietnam, 10 hypotheses regarding the explanation of corporate governance to FS misstatements are proposed. The identification and measurement of the research variables are presented on the basis of previous researches, taking into account the data characteristics in Vietnam. Logistic regression model is applied in accordance with the scale of dependent variables. Comparative, descriptive statistical techniques are also designed to be applied in results analysis.

### **CHAPTER 3**

#### **CURRENT SITUATION OF FINANCIAL STATEMENT MISSTATEMENTS OF LISTED COMPANIES**

##### **3.1. Overview of current situation of FS misstatements in listed companies**

General assessment of FS misstatements is made through two combined indicators: profit and total assets. Data of companies with difference in profit and total assets between unaudited and audited figures was collected from 2012 to 2016.

- *Proportion of companies with profit and asset misstatements*

The aggregate data provided by StoxPlus shows that the number of companies officially listed on the HOSE and HNX over the years is as follows: there were 689 companies in 2012, 662 in 2013, 679 companies in 2014, 684 companies in 2015 and 698 companies in 2016. In which, companies that lack unaudited or audited data as well as companies in the financial, banking and securities industries will be excluded from the research data. The companies are included in the research data as follows: 2012: 612 companies, 2013: 580, 2014: 585 companies, 2015: 599 companies and 2016: 649 companies.

The statistics show that companies with profit and asset misstatements account for a relatively high proportion, fluctuating around 80% of the total companies selected for research. The analysis results show that misstatements in assets and profits do not tend to decrease in the research years. In which both companies which have audited profit and assets higher than audited figures (increasing misstatements) and companies that have reported profits, assets lower than audited profits and assets (decreasing misstatements) account for a high proportion.

- *Comparison of profit misstatements by listed stock exchange and by industry*

The companies in the sample were collected from data of two Stock Exchanges (HNX and HOSE). Although the two Stock Exchanges operate under the common legal framework, there is little difference in management, administration, reputation, etc. To assess whether the FS misstatements of listed companies differ between the two listed markets, a T-test comparison is applied. The comparison only illustrated via the most representative indicator that is profit misstatement. The results show that T-test is not statistically significant (significance level sig. = 0.619 > 0.05). This result shows that there is no difference in profit misstatement in FS of listed companies between two Stock Exchanges. As such, listing on any

stock exchange does not affect the profit misstatement between companies. This is easy to understand because the regulatory frameworks, execution and supervision of the two stock exchanges are not significantly different.

Comparative analysis of profit misstatement of companies across industries is conducted through ANOVA test. The testing results show that the statistical significance level of the test is 0.21 greater than 0.05. Which means that the profit misstatement between unaudited and audited data of companies across industries have no difference. These preliminary results imply that the industry is not a factor in the profit misstatement of listed companies.

### **3.2. Details of common types of misstatements**

In terms of behaviors, FS misstatements may be intentional (fraud) or unintentional (error). Because relevant information is not available for collection, this research cannot classify these misstatements by behavior. This needs to be done by the regulator. Therefore, this part only summarizes the general types of misstatements, including fraud and error. These types of misstatements are classified as follows: Recognition of wrong fiscal year and unrealistic revenues; debt hiding; incorrect cost, asset value and incorrect disclosure in FS.

#### ***3.2.1. Wrong revenue recognition***

The proportion of companies with revenue misstatements accounted for a significant proportion of the overall study (the lowest was 39.3% in 2014 and the highest was 44% in 2012). The percentage of companies reporting higher than actual revenue (about 22%) are always larger than the percentage of companies reporting lower than actual revenue (about 19%). In comparison with the proportion of profit misstatements, the proportion of revenue misstatements is much lower in both directions, increasing and decreasing. This result shows that profit misstatements are significantly affected by cost

misstatements.

### ***3.2.2. Wrong cost recognition***

The analysis also shows that the proportion of companies with cost misstatements accounts for a large proportion compared to companies without cost misstatements (the lowest was 71.5% in 2014 and the highest was 79.4 % in 2012). This result shows that cost misstatements are very common. Details of each misstatement direction show that companies tend to report costs lower than audited figures over the years (About 41%), in which companies tend to report costs higher than the audited figures over the years (about 34%), which makes the reported profits are often higher than the audited profit.

Summary from the analysis of FS misstatements of listed companies in Vietnam shows that the FS misstatements are common in both quantity, quality (high level of misstatements) and time of misstatements. From the analysis results, the following conclusions can be drawn: The FS misstatements of listed companies are common in both number of companies and scale of misstatements; Misstatements do not tend to decrease over 5 years; FS misstatements are presented in typical financial indicators that affect information provided in the FS: Revenue, expenses, profit, assets, liabilities.

## **CHAPTER 4**

### **FACTORS AFFECTING THE FINANCIAL STATEMENT MISSTATEMENTS OF LISTED COMPANIES**

#### **4.1. Univariate results**

Table 4.1 presents the average, standard deviation of the companies with material misstatement and reciprocal companies (without material misstatement). The purpose is to provide research sample summaries and variable values, to specify data models, as a basis for regression analysis to test research hypotheses. Descriptive statistical parameters include mean value, standard deviation.

Comparing the mean value of independent variables between two groups is also used to see if there is a difference between the two groups with each independent variable.

**Table 4.1: Univariable Results**

	Company with misstatements		Company without misstatements		Diff.in Mean	T-test
	(n=300)		(n=300)			
Independent variables	Mean value	Standard deviation	Mean value	Standard deviation		
DC	0.42	0.494	0.31	0.465	-0.107	-2.723*
BIO	0.408	0.217	0.478	0.225	0.071	3.909***
AUCH	0.35	0.478	0.24	0.43	-0.107	-2.875**
ROE	0.018	0.152	0.127	0.163	0.109	8.474***

\*, \*\*, \*\*\* Significant at p-value <0.10, .05, .01, respectively

The results show that companies with material misstatements and those without material misstatements have a difference in the mean value of the independent variables, which is the duality ( $p = 0.1$ ), the ownership of major external shareholders ( $p = 0.01$ ), audit changes ( $p = 0.05$ ), and return on equity ( $p = 0.01$ ). The remaining variables have no difference.

#### 4.2. Correlation results

Correlation analysis results show that there are many pairs of predicting variables have correlation (statistically significant). However, the correlation between the pairs of variables is low and the correlation coefficients of these pairs are quite small ( $r < 0.5$ , the largest correlation coefficient is 0.406 reflecting the correlation between variables BIG4 and CZISE). The value of this coefficient is still low compared to some standard values (0.5 and sometimes 0.8). Therefore, it is considered that the variables have no correlation.

### 4.3. Multivariate results

#### 4.3.1. General regression (in both directions of misstatements)

Binary regression results for the ability to predict profit misstatements of the predicting variables are presented in Table 4.6. The results show that there are five predictive variables and one control variable with statistical significance.

**Table 4.6: Binary regression of profit misstatements under independent variables (The variables are statistically significant)**

Independent variables	Direction of predicted effect	Estimated coefficient	Wald $\chi^2$
BSI	-	-0.155	2,750**
DC	+	0.389	3,710*
BME	-	0.02	4,450**
BIO	-	-0.88	3,933**
AUCH	+	0.394	3,920**
ROE	+	-7.28	54,875***

\*, \*\*, \*\*\* = p-value <.10, .05, .01, respectively, one - tailed if in predicted direction, two-tailed otherwise. Dependent variable = 1 if with misstatements, = 0 if without misstatements.

#### 4.3.2. Regression in the direction of misstatement

In addition to the general regression model (in both directions of misstatement, hereinafter referred to as model 1), the author also uses two regression models in the direction of misstatement, including: model 2 is binary regression of increasing profit misstatements and model 3 is the binary regression of decreasing profit misstatements.

The results of the three regression models have certain compatibility with some variables (Table 4.9). The variables BIO (ownership of major external shareholder) and AUCH (audit change) are statistically significant in both model 1 and model 2. The variables DC (concurrently) and BME (number of meetings of the Board of

Directors) is statistically significant in model 1 and model 3. Meanwhile, the BSI variable (BOD scale) is only significant in model 1, whereas the ROE control variable is significant in all three models. The difference between the three models is probably due to the reduced number of observations in model 2 and model 3. It should be noted that the general regression results are the most general results, while regression results in the direction of increase or decrease are intended to further clarify the trend of misstatements.

Overall, the general regression results provide some of the evidence that has been verified in previous researches. Accordingly, the factors of the scale of Board of Directors, the Chairman of the Board of Directors cum the director, Number of meetings of the Board of Directors, Ownership of major external shareholders, change of auditor affect the possibility of FS misstatements. In addition, the research was unsuccessful in testing the influence of several factors on FS misstatements. Future research needs to test more of these factors through data expansion or change of regression model. Only then can the assertion be made about the FS misstatement predictability of these variables.

**Table 4.9: Summary of regression results for three models (Estimated Coefficients) (independent variables with statistical significance)**

<b>Independent variables</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
BSI	-0.155**	-0.134	-0.140
DC	0.389*	0.308	0.525*
BME	0.020**	0.007	0.030**
BIO	-0.880***	-1.300*	-0.730
AUCH	0.394**	0.473*	0.340
ROE	-7.280***	-8.717***	-6.255***

## **CHAPTER 5**

### **DISCUSSIONS AND POLICY IMPLICATIONS**

#### **5.1. Discussion on research results**

##### ***5.1.1. Discussion on researching actual situation of FS misstatements***

Summarizing the contents of FS misstatement analysis of listed companies in Vietnam, it can be seen that the FS misstatements of the companies are common in both number of companies and scale of misstatements; Misstatements do not tend to decrease over 5 years; FS misstatements are expressed in typical financial indicators such as profit, revenue, expense, asset, debt.

##### ***5.1.2. Discussion on research explaining FS misstatements***

The regression analysis results provide evidence of four factors of corporate governance, one factor of independent audit and one factor of company attributes that affect FS misstatements.

#### **5.2. Implications from research results**

##### ***5.2.1. Strengthening supervisory role of corporate governance to limit FS misstatements***

Listed companies on Vietnam stock market need to maintain a sufficiently large number of members of the BOD to ensure the inspection and supervision of the Board of directors to ensure FS quality.

The position of Chairman of the Board of Directors and Chief Executive Officer should be separated soon to minimize the possibility of FS misstatements. In addition, it is necessary to further strengthen the supervisory role of the Board of Directors to Management.

The larger number of meetings of the Board of Directors during the year, the lower FS misstatements they are, this is also suitable because the higher number of meeting, the better to prove the Board of Director's strict implementation, regular monitoring of Management's

execution, thereby reducing FS misstatements.

In addition, the greater the ownership of major external shareholders, the more motivated it will be to supervise the management of the company and this is considered an additional control mechanism, thereby reducing the probability of FS misstatements. Major shareholders also influence the structure of the Board of Directors by affecting the selection of members of the Board of Directors. Therefore, the strategic potential external shareholders should also be encouraged by the enterprise to increase the proportion of share ownership in listed companies.

According to the research results, the variable Independence of the BOD is not statistically significant. This result may be due to the fact that the role of the independent members in the listed enterprises in Vietnam is still quite vague, formal, not as effective as expected that the presence of an independent member will act as a supervisor, reducing the risk of abusing the rights of managers and executives, contributing to protect the legitimate interests of shareholders. Therefore, it is necessary to enhance the independence of the independent members of the Board of Directors, these members shall be truly independent in relations, especially economically independent.

According to the testing results, the variables related to the company's Supervisory Committee are not statistically significant, this may be because the research data is not convincing enough to accept the relevant hypotheses. In fact, the operation of the Supervisory Committee may still be formalistic to deal with legal regulations. However, the need to enhance the role of the Supervisory Committee for the Board of Directors and Management, in order to detect and prevent misstatements to limit FS misstatements is undeniable.

Each listed company in Vietnam should establish an Audit Committee like developed countries in the world. The Audit Committee

is not established in a formal way but shall actually work to uphold the role of FS quality control, and prevent FS misstatements. The establishment of the Audit and Assurance Committee so that this Committee has sufficient resources and authority is also recommended in Principle 4.1 in the Corporate Governance Code of Best Practices for Public Companies in Vietnam.

Listed companies also need effective solutions in using independent audit services and improving the quality of accountants.

In addition, the Board of Directors should strengthen effective supervision of FS preparation process, carrying out its independent responsibilities in the appointment, supervision, remuneration payment, independent audit selection and organizing of internal audit committee... The Board of Directors shall also be responsible for ensuring that business operation management shall develop an effective FS fraud risk management program to allow employees, customers, and sellers to rely on these standards to operate.

### ***5.2.2. Improving independence audit quality***

The research results show that the company changing auditor has the lower probability of FS misstatements. Therefore, listed companies should regularly evaluate the quality of FS audit services and deem it necessary to change audit firms to improve their independence and select better qualified auditing firms to reduce FS misstatements. Newly audit firms and newly changed auditors are usually more independent in their relationship with the manager. In addition, new audit companies and new auditors will be more objective, have a new audit approach, different audit strategies and perspectives compared to the previous auditors, thereby improving FS quality, reducing FS misstatements.

### ***5.2.3. Strengthening the management of the State***

The Ministry of Finance should promote the completion of

regulations related to the preparation and presentation of FS such as accounting standards system, accounting regimes, accounting law and other relevant regulations.

The Ministry of Finance and the Vietnam Association of Certified Public Accountants need to more closely manage the professional activities of independent auditors, and need solutions to improve the FS audit quality for independent audit firms, especially audit firms approved to audit listed companies.

The State Securities Commission should strengthen the inspection and supervision of the market in order to promptly detect frauds of listed enterprises in order to protect investors in the securities market and enhance the faith of the investors in the market, attract medium and long-term investment capital for the country's economic development. In addition, the quality inspection of independent audit companies shall also be conducted regularly to detect and promptly rectify violations.

#### ***5.2.4. For other users of FS information***

Users of FS information should refer to this research result to consider factors that may affect FS misstatements of listed companies in Vietnam, thereby to make the appropriate economic decisions.

In summary, the analysis of FS misstatements in chapter 3 shows the overall picture of FS misstatements of listed companies in Vietnam. The research results in chapter 4 show that there are 6 factors out of 15 factors included in the testing model that affect the financial statements misstatements, the remaining factors may not give the expected results because the Vietnam's social economics characteristics have different factors compare to countries in the world. Policy implications and recommendations from the research results target groups such as listed companies, independent audit firms, state management agencies, banks, creditors, investors and others users of financial statements information.

## **CONCLUSION, RESEARCH LIMITATIONS AND DIRECTIONS IN THE FUTURE**

The research results show that the status of FS misstatements of listed companies in Vietnam is common in quantity, value and non-decreasing misstatements over time. The results of the analysis also show that there exist some factors of corporate governance and independent audit that affect FS misstatements. Based on the results of this research, some implications related to strengthen corporate governance, enhance the quality of independent auditors as well as the role of state management and of the related parties to limit FS misstatements are presented. The research results provide clearer evidence about FS misstatements of listed companies, thereby contributing to enrich the topicality and importance of FS misstatements topic.

Besides the achieved results, the thesis also has some limitations. Unlike researches in developed countries which FS misstatements are evaluated through the data published by the authorised agencies/organizations, this research evaluated the causes of FS misstatements through profit misstatements indicator determining the difference between unaudited and audited figures, which is a limitation. This is because in Vietnam there is no published data on companies with misstatements. Therefore, future research needs to assess more misstatements through other criteria such as revenue, expense, asset, and debt. Additionally, the research evaluated the effect of corporate governance to FS misstatements via consider individual factors rather than corporate governance index (Gov-Score) as some recent researches. Future research needs to explore aspects of corporate governance in an integrated manner. Finally, the research explaining the cause of the misstatements was performed on a limited sample of 600 observations. In order to increase the representativeness of the whole, and from which the results of the research are more general, in the future, it is necessary to research all companies with material misstatements.

## **LIST OF PUBLISHED WORKS OF PH.D. STUDENTS**

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