

## Auditing quality from perspective of auditing firms in Vietnam

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### ABSTRACT

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This article focuses on identifying the essential factors that affect the audit quality and proposing some implications of the policy to contribute to the enhancement of the social trust in Vietnam audit profession. The pressure on the certified and reliable financial information is a key challenge to stimulate auditors to improve audit quality. The study reaches its objective by analyzing the point of views from survey participants (CPA and independent auditors) by using questionnaires and interviewing in combination with abroad and domestic references. The authors have collected 102 responses from professional staff working in auditing firms in Ho Chi Minh (HCM) city. Through evaluating the reliability of the scale, exploratory factor analysis (EFA), correlation analysis and multiple linear regression analysis, the research model shows that there are six factors affecting the audit quality. They are (1) professional ethics of auditors, (2) professional capacity of auditors, (3) quality of external control, (4) internal factors belong to auditing firms, (5) audit fees and (6) size of auditing firms.

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## 1. Introduction

In the market economy, there are certain fundamental changes in the nature of accounting and auditing field. As such they have become various types of financial services which support business and management activities. These services require high quality and legal value and neither allow defective nor unreliable deliverables. Independence, objectivity, legal evidences, professionalism and quality control are the key requirements of this type of service. Stemming from characteristics and nature of accounting and auditing field, practitioners must firstly have high professionalism, enthusiasm and responsibility for their professions to meet the required quality by clients in the new market. With respect to professional competence, the practitioners must be knowledgeable, capable, skillful organizing, project management, sensitive and creative, especially capable of managing different financial operations in a dynamic and integrated economy. With respect to human dignity and professional ethics, the practitioners must have honesty, objectivity and bravery occupation in the field work. The bravery occupation feature of accountants and auditors is essential not only for their career but also for the economy, the society and the healthiness of financial activities of all investors, economists and countries. This element requires accountants to respect the truth and the objectivity of the economic facts and opinions. Furthermore, the attitudes toward the financial information must demonstrate the responsibility, the solid professionalism, the credibility, the authenticity of evidence and the ingenious in behaviors and

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persuasion. From the perspective of auditing firms, the assurance service is a business activity that brings profit for firms. However, this is also a specific type of service with the characteristics that always cherish and respect the responsibility to society, besides the professional qualifications, practice standards and public trust. Therefore, in order to come up with the solutions to improve the audit quality, it is essential to study the factors affecting the audit quality and to evaluate these influences on the audit quality. Meantime, studying about the audit quality's determinant also contributes to rebuild the reputation in the audit professions in Vietnam. They can then meet the demand for providing quality information of relevant parties in the trend of integration and competition.

## 2. Literature review

Frederick (1911), "The principle of scientific management" under the view of auditing firms, audit quality is (1) to fully comply with standards, professional regulations, risk control; (2) auditing procedures selected should always be balanced between costs and benefits i.e. the appropriate audit fees with the level of audit risk. Additionally, the auditing firms are service providers, so that this point of view is seemingly subjective. This quality is not decided by the expectations of clients but by the auditing firms. Hence, the auditing firms often build audit processes and control the quality of this process in order to help the auditors to gain true and fair view. In general, the audit quality is reached when the auditors and the audit firms fully comply with the professional standards, procedures set up by the audit firms. Besides, the profitability, the main target in their operations, should also be balanced with the costs. Overall, the audit quality under the perspective of audit firms is to meet the requirements and regulations according to the professional ethical standards, audit standards and other relevant laws. Furthermore, auditing firms need to satisfy the requirements of customers in the balance between benefits and costs.

**Table 1**

Summary of the audit quality factors based on the results of previous theoretical and empirical studies

Factor	Result	Source
Size of audit firms	The larger the audit firms are, the better audit services provided.	Clive (1999); Francis (2004); Mansi et al. (2004); Zhan Shu (2000).
Audit fees	Audit fees has a significant impact on the audit quality and it is proportional to the size of audit firms.	Basioudis & Fifi (2004); Choi et al. (2010); Kallapur et al. (2010); Novie (2013).
Non-audit services	Most of studies show that non-audit services have different impacts such as positive impact, negative impact or not affect the audit quality.	Michael (2002); Kinney (2004); Chung & Kallapur (2003).
Audit term	The long-term audit relationship can cause the familiarity threats leading to reducing the independence and audit quality.	Vanstraelen (2000); Adenuyi & Mieseigha (2013); Chen et al. (2008).
Quality of internal control within audit firms	Reviewed procedures help to detect the behaviors that cause deterioration of audit quality.	Otley & Pierce (1996); Matsumura & Tucker (1995); Susan & Kaplan (2003).
Professional capability of auditors	The high level expertise of auditors in many fields closely relates to the detection of the violations of audit firms and increases audit quality.	Bonner & Lewis (1990); Stanley & Todd DeZoort (2007); Eko (2012).
Professional ethics	A positive relationship between career skepticism attitudes and audit quality. The independence has a positive relationship with audit quality and reputation.	Jensen & Von Glinow (1985); Margheim et al. (1990); Baotham & Ussahawanitchakit (2009); Fullerton & Durtschi (2004); Choi et al. (2010)
Quality of external control	A tight and an effective quality of external control would promote auditing firms to improve their quality, the audit activities and balance the public interests. An effective quality control system will ensure the development of audit activities.	Donald & Gary (1992); Terrence et al. (1994).

*Source: Summary by authors*

## 3. Research model

Through the overview of previous studies on the audit quality, we found that most of the authors adopted the quantitative method to both studying the relationship and measuring the impact of factors such as size of audit firms, audit fees, professional capacity of auditors, professional ethics, etc. to the audit quality. By inheritance, the article synthesizes the factors affecting the audit quality in HCM city including: internal factors (factors relating to audit firms and auditors); and external factors to test the appropriateness of the model in Vietnam so as to address these two primary issues: (1) evaluating the general situation of the audit quality in HCM city; (2) determining the factors affecting the audit quality in HCM city. Outcomes of the expert interviews help the authors to select variables on the proposed model; and influencing factors to test the level of impact on the audit quality in the following table:

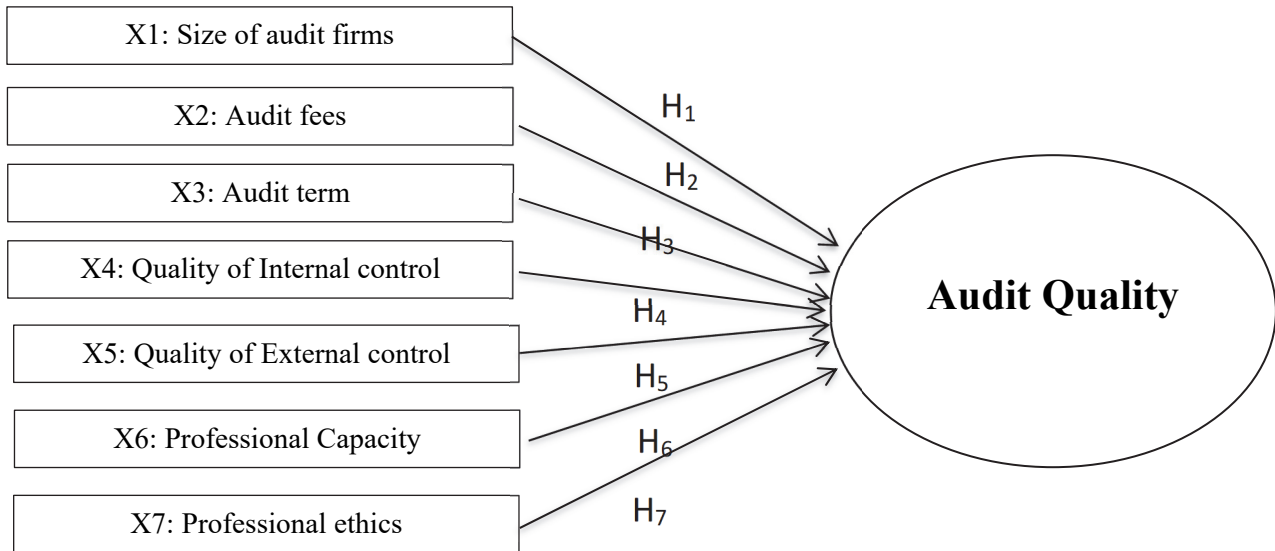
**Table 2**

Summary of research hypotheses of independent variables to Auditing quality

Variable name	Hypothesis	Variable description	Expected sign
SIZE	H1	Size of audit firms impacts on the audit quality	+
FEE	H2	Audit fee impacts on the audit quality	+
TERM	H3	Audit term impacts on the audit quality	-
IN-CONTROL	H4	Quality of internal control impacts on the audit quality	+
EX-CONTROL	H5	Quality of external control impacts on the audit quality	+
CAPACITY	H6	Professional capacity of auditors impacts on the audit quality	+
ETHICS	H7	Professional ethics of auditors impact on the audit quality	+

Source: Summary by authors

From the above Hypothesis, the research model is as follows:



**Fig 1.** Proposed research model

Base on the above research model, the equation in regression analysis is assumed as follows:

$$Y = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7) + e$$

- Y: Audit quality (Dependent variable)
- X1: Size of audit firms (1<sup>st</sup> Independent variable)
- X2: Audit fees (2<sup>nd</sup> Independent variable)
- X3: Audit term (3<sup>rd</sup> Independent variable)
- X4: Quality of internal control (4<sup>th</sup> Independent variable)
- X5: Quality of external control (5<sup>th</sup> Independent variable)
- X6: Professional capacity of auditors (6<sup>th</sup> Independent variable)
- X7: Professional ethics of auditors (7<sup>th</sup> Independent variable)
- e: Uncorrelated error term

**4. Research methodology**

**The way to collect data:** (1) Qualitative approach: the survey tool is used in form of a questionnaire sent directly by email, online survey via Google Docs tool and collecting the survey forms directly (2) Quantitative approach: base on descriptive statistics, frequency statistics, Cronbach's alpha coefficient, exploratory factor analysis (EFA), correlation analysis, linear regression analysis and the survey samples were collected from April 1, 2019 to June 31, 2019 at audit firms located in HCM city.

**Sample size:** to perform EFA and multiple linear regression model, the minimum sample size was 100 and ratio between the number of observations and variables is usually 5:1, i.e. with one variable needs at least five observations (Nguyen Dinh Tho, 2011). The other possible proposed ratio of observations and variables is from 2:1 to 20:1 (Velicer & Fava, 1998). In this research, due to time and budget constraints, the author chose the ratio of observations and variables is 3:1, i.e. with 26 observed variables, the sample collected is 78 observations. However, in order to ensure the minimum number of samples to implement EFA and multiple regression model, the sample size for this study is 102.

According to Article 3 of Circular No. 202/2015/ TT-BTC on listed securities issued by Ministry of Finance (MoF), the conditions for companies to be listed are their financial statements (FSs), audited reports must be audited by audit organization approved by the State Security Commission of Vietnam (SSC) and complied with the independent regulation of auditing. Therefore, the requirement of reliability of transparent information is quite strict. The companies are eligible to be listed, which partly determines the quality of FSs audited of audit firms. After that, we identify the representation in the survey sample. We collected the FSs of 100 listed companies published on the website of Ho Chi Minh Stock Exchange (HoSE) on April 1, 2019 to identify the level of participation and scale of audit firms providing audit service for these listed companies.

**Table 3**

Synthesize the number of audit firms provide independent audit service for 100 listed companies on HoSE on 1/4/2019

	The number of companies using independent audit service per 100 companies	The number of audit firms provide service for 100 listed companies
Large-sized audit firms (more than 100 employees)	95	13
Medium-sized audit firms (from 50 to 100 employees)	5	3
Small-sized audit firms (less than 50 employees)	0	0
<b>Total</b>	<b>100</b>	<b>16</b>

Source: List of VN100 stock basket from HoSE

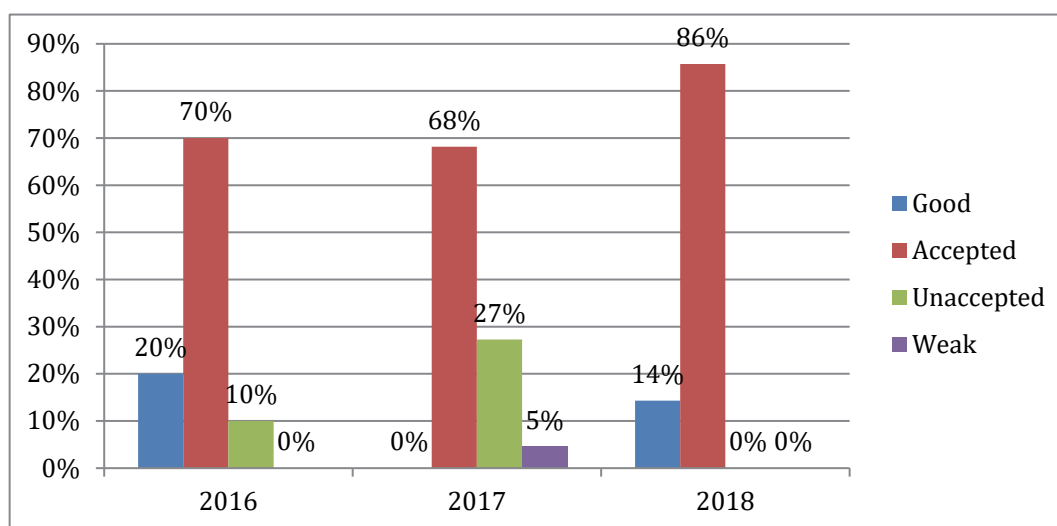
**Survey subjects:** The study obtained 102 responses from professional staff who are currently working in different positions in audit firms in HCM city. These people directly participate in jobs or manage the quality of the jobs. So, they are the ones who directly perceive which factors possibly impact the audit quality. Furthermore, the authors also rely on the inspection reports which displayed on the VACPA website in 2017 and the SSC website in 2016 and 2018, sketching the current status of the audit quality in Vietnam. These reports were the results of the examination of the quality control in audit firms implemented by the cooperation between those organizations and the MoF. Among 39 audit firms, the largest proportion were medium-sized firms which made up of 41% of the sample, followed by small-sized and large-sized, made of 31% and 28%, respectively. The number of medium and large size firms account for the majority of the sample.

**Table 4**

The statistical inspection of audit firms classified by size

Size	Year						Total	
	2016		2017		2018		Volume	%
Large	6	60%	1	5%	4	57%	11	28%
Medium	4	40%	9	41%	3	43%	16	41%
Small	0	0%	12	55%	0	0%	12	31%
<b>Total</b>	<b>10</b>	<b>100%</b>	<b>22</b>	<b>100%</b>	<b>7</b>	<b>100%</b>	<b>39</b>	<b>100%</b>

Source: Data collected on Website of SSC (in 2016 and 2018) and those of VACPA (in 2017)

**Fig 2.** Results of classification in quality from 2016 to 2018

Source: Data collected on Website of SSC (in 2016 and 2018) and those of VACPA (in 2017)

**Table 5**

Experiences and titles of survey subjects

Title			Experience		
Criteria	Frequency	%	Criteria	Frequency	%
Partner/ Director	2	2%	Over 10 years	2	2%
Manager	15	15%	From 5 to under 10 years	17	17%
Senior	19	19%	From 2 to under 5 years	59	58%
Consultant	66	65%	Under 2 years	24	24%
<b>Total</b>	<b>102</b>	<b>100%</b>	<b>Total</b>	<b>102</b>	<b>100%</b>

*Source: Summary by group of authors***Table 6**

The number of professional staff and auditors

Size	Professional staff			Auditors		
	Criteria	Frequency	%	Criteria	Frequency	%
Large	Over 400 staff	13	81%	Over 30 auditors	13	81%
Medium	From 50 to under 100 staff	3	19%	From 10 to under 30 auditors	3	19%
Small	Under 50 staff	0	0%	Under 30 auditors	0	0%
	<b>Total</b>	<b>16</b>	<b>100%</b>	<b>Total</b>	<b>16</b>	<b>100%</b>

*Source: Summary by group of authors*

It can be clearly seen that, the structure of survey participants is quite diversified, with various working positions and experiences. The majority of the big audit firms provide services to listed companies (13/16). Additionally, except for Big4 firms and other foreign audit firms which have offices in Vietnam, some domestic large firms, such as AASC, A&C, CPA Vietnam, etc. are also reputable ones in the audit market. Hence, the size factor partly determines the fame of its firms. They need to pay more attention to the process of service control as well as regularly organize training programs for the staff in order to enhance the human resource capability which would improve the audit quality over time.

**Scale of the research design:** the authors surveyed and collected data by questionnaires consisting of four parts (23 questions for seven independent variables, three questions for dependent variable). The research uses Likert scale at five levels: (1) Strongly disagree, (2) Disagree, (3) Normal, (4) Agree and (5) Strongly agree.

### Research results

The quantitative results show that all of the independent variables satisfy the coefficient  $\alpha > 0.6$  and the Corrected item – Total Correlation coefficient  $> 0.3$ , which are sufficiently reliable to continue analysis the discovery factor EFA to eliminate variables whose KMO is less than 0.5. The following is the KMO and Bartlett Test of independent variables:

**Table 7**

KMO and Bartlett Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.771
Bartlett's Test of Sphericity	Approx. Chi-Square
	3751.413
	Df
	253
	Sig
	.000

*Source: Calculated by authors by SPSS 22.0 software*

The KMO = 0.771  $> 0.5$  demonstrates that it is appropriate to implement the EFA analysis with the research data. Bartlett Test has the Sig = 0.000  $< 0.05$  deduces that the observed variables are correlated with the overall, which proves that the data used for factor analysis is perfectly appropriate. Next, the Total Variance Explained table is considered to identify the ability of each group explains what percentage of the variation of observed variables.

**Table 8**

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.853	29.795	29.795	6.853	29.795	29.795
2	5.297	23.031	52.827	5.297	23.031	52.827
3	4.176	18.159	70.985	4.176	18.159	70.985
4	2.289	9.953	80.938	2.289	9.953	80.938
5	1.539	6.693	87.631	1.539	6.693	87.631
6	<b>1.063</b>	4.622	<b>92.253</b>	1.063	4.622	92.253

*Source: Calculated by authors by SPSS 22.0 software*

Thus, the research model consists of 23 observed variables and divided into six groups: Eigenvalues of six groups > 1; and Cumulative of Extraction Sums = 92.253% > 50%, this value indicates that these six groups explain 92.253% of the variation of observed variables.

**Table 9**  
Rotated Component Matrix

	Component					
	1	2	3	4	5	6
TERM2	.958					
INCONTROL3	.953					
INCONTROL2	.952					
INCONTROL1	.917					
TERM1	.904					
INCONTROL4	.829					
SIZE3		.945				
SIZE2		.925				
SIZE1		.901				
SIZE4		.884				
CAPACITY4			.945			
CAPACITY2			.936			
CAPACITY3			.934			
CAPACITY1			.927			
FEE3				.909		
FEE2				.905		
FEE1				.888		
ETHICS2					.961	
ETHICS3					.955	
ETHICS1					.850	
EXCONTROL1						.862
EXCONTROL3						.815
EXCONTROL2						.784

Source: Calculated by authors by SPSS 22.0 software

It can be clearly seen that all the coefficients > 0.5, this proves that these groups have practical implications. After analyzing EFA, the author found a combination of two groups “Audit term” and “Quality of Internal control”. According to the author, when conducting the survey, the participants may think that arranging the audit teams and rotating the partners belong to the regulations and managerial/ operational policies, ICS of audit firms. Therefore, the results after running the EFA is reasonable. Nevertheless, this result is contrary to the number of previous studies such as Adeniyi and Mieseigha (2013), Chen et al. (2008), Gul et al. (2009), etc. Based on the results of the EFA, research hypotheses and research model are adjusted as follows:

**Table 10**  
Summary of research hypotheses 2 of independent variables to Audit quality

Variable name	Hypothesis	Contents	Expected sign
SIZE - X1	H1	SIZE1, SIZE2, SIZE3, SIZE4	+
FEE - X2	H2	FEE1, FEE2, FEE3	+
INTERNAL - X3	H3	INCONTROL1, INCONTROL2, INCONTROL3, INCONTROL4, TERM1, TERM2	+
EXCONTROL - X4	H4	EXCONTROL1, EXCONTROL2, EXCONTROL3	+
CAPACITY - X5	H5	CAPACITY1, CAPACITY2, CAPACITY3, CAPACITY4	+
ETHICS - X6	H6	ETHICS1, ETHICS2, ETHICS3	+
AUQ - Y		AUQ1, AUQ2, AUQ3	

To test the research hypotheses in order to see the impact of variables X1, X2, X3, X4, X5, X6 on the audit quality (variable Y), we use multivariate linear regression method to find the regression coefficients and use these factors to prove the hypothesis.

The study will bring six independent variables: X1, X2, X3, X4, X5, X6 in the order of the extracted factors and the dependent variable Y into the regression equation as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

where:

$Y$ : is the dependent variable, explaining “Audit quality”.

$X_i$ : are independent variables, explaining for 6 new factors.

$\beta_i$ : is the coefficient of independent variables - indicates the direction and level of the effects of the independent variables on the dependent variable.

**Table 11**  
Model Summary R2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.819 <sup>a</sup>	0.671	0.651	0.178

Source: Calculated by authors by SPSS 22.0 software

According to the analysis result, it can be seen that the fitness of the model Adjusted  $R^2 = 0.651$ . This means that the model explains 65.1% between the dependent and independent variables. Relevance of the model is relatively high. However, this result is only true for sample data. To test the model whether or not deduce for the overall, the author used ANOVA analysis.

**Table 12**  
The results of testing the suitability of the regression function (ANOVA<sup>a</sup>)

Model	Sum of Squares	Df	Mean Square	F	Sig	
1	Regression	6.214	6	1.036	32.361	0.000 <sup>b</sup>
	Residual	3.041	95	0.032		
	Total	9,255	101			

a. Dependent Variable: AUQ

b. Predictors: (Constant), ETHICS, EXCONTROL, FEE, CAPACITY, SIZE, INTERNAL

Source: Calculated by authors by SPSS 22.0 software

To test the fit of the overall regression model, we consider the F-value from the ANOVA table,  $F = 32.361$  with the significance level  $\text{Sig.} = 0.000 < 0.05$ , showing that the linear regression model is suitable for the overall.

**Table 13**  
Coefficients<sup>a</sup>

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	Constant	0.274	0.397		0.689	0.493		
	SIZE	0.065	0.024	0.200	2.752	0.007	0.654	1.528
	FEE	0.141	0.031	0.332	4.579	0.000	0.657	1.522
	INTERNAL	0.203	0.035	0.440	5.839	0.000	0.608	1.645
	EXCONTROL	0.089	0.035	0.210	2.564	0.012	0.517	1.934
	CAPACITY	0.219	0.030	0.497	7.233	0.000	0.732	1.367
	ETHICS	0.227	0.026	0.558	8.724	0.000	0.845	1.184

Source: Calculated by authors by SPSS 22.0 software

Based on the Standardized coefficients – Beta to compare the influence level of independent variables for the dependent variable, all of six factors which also have Sig. value less than 0.05 should be significant in the study model. In addition, the VIF coefficient of 1.0 less than 2 indicates that the independent variables are not multicollinearity. Since then, we have the regression equation with standardized beta coefficients as follows:

$$AUQ = 0.274 + 0.227 \times ETHICS + 0.219 \times CAPACITY + 0.203 \times INTERNAL + 0.141 \times FEE + 0.089 \times EXCONTROL + 0.065 \times SIZE$$

## 5. Discussion

Through the tested outcomes, we found that the trend of the variables in the model is consistent with the previous research point of view. The number of small and medium-sized audit firms still make up of high proportion in the audit market. However, the results show that this factor has the least impact which suggested that the audit firms should place the professional ethics factor to be the priority. However, in the scope of this research, the professional capacity and professional ethics are the two most

influential factors on the audit quality. Hence, the authors will discuss these two independent variables in the relationship with the audit quality.

Professional ethics are guidelines for auditors to maintain proper professional attitudes so that they can protect and enhance the reputation of their careers. In order to ensure the accuracy, rationality and legality of the FSs, the auditors should initially ensure their responsibilities. This is proved by complying with the ethical principles, which are not only stipulated in Vietnamese auditing standard No. 200 but also specified in the International Standard on Auditing (ISA). Especially, the independence of the auditors is the basic practical principle of the auditors. The independence of auditors must be considered as one of the most essential qualities. In the auditing process, the auditors should not be affected or dominated by any physical or morale interests that affect their objectivity, honesty and independence. The auditors are not at the same time allowed to be accountants and working for the companies which they have economic relations and benefits such as equity contribution, lending or borrowing from clients, controlling shareholders, signing outsourcing service contracts, consuming agencies, etc. The reason why relevant parties use the audited reports is that they trust the impartial and conscientious of the auditors to assess the true and fair view of FSs. The independence only exists if the auditors can maintain an impartial attitude during the audit process in contrast to the fact is that the independence is the result of the explanations about the issue by others. Therefore, both audit firms and enterprises need to build an effective management regime and methods to train the intuitive, independence, impartial, fairness, carefulness, diligence and responsible mindset. These are crucial factors that significantly contribute to the quality of auditors, and a professional audit environment so that they can be assured in their field work, dedication and eligible to enhance their professional skills and qualifications.

It is known that the audit profession is one of eight occupations which are free to move labor since the ASEAN Economic Community (AEC) has established. Participating in AEC requires Vietnam to develop higher professional accounting and auditing human resources, be capable of competing with the labor force of other countries. The field of audit in Vietnam, for many people, is quite new phenomenon, but in global, it is really a popular profession and has a development process so far. Many developed countries such as US, Japan, and some European countries are very keen on the training programs. The auditors of its countries are vast in quantity, qualified in quality, experienced and able to meet the work requirements, flexibility and high sensitivity. They need to have a comprehensive knowledge, understanding in various areas and related aspects of auditing. In addition, they need to proactively approach the reality of accounting and auditing activities to form the expertise in both theory and practical aspects. Besides, in order to meet the age of Industry 4.0, the auditors not only promote their professional awareness but also constantly update information about foreign languages, science and technology as well as other social fields.

In addition, the sanctions when dealing with violations in audit quality for audit firms are also specified in Circular 157/2014/TT-BTC dated October 23, 2014 issued by MoF. Accordingly, audit firms with serious violations of either profession or standards will be suspended for auditing business. However, for which auditors who have violations in audit quality will be punished in accordance with the administrative sanctions. If handling violations in this way, it will be limited in some aspects because the duration of the mentioned sanctions above will expire after one year (according to the Law of administrative sanctions), while the audit consequences may affect for many years later. Thus, in order to enhance the responsibilities of audit firms as well as auditors, perhaps, it is necessary for them to take responsibility for the audited report in an identified of time. Whenever a violation is found in this period, they have to admit the mistake. Obviously, it must have a basis to conclude that the errors belonging to both auditors and audit firms.

## 6. Conclusion

The paper presents the results of the test and analyzed the data in the study by methods such as Pearson correlation, F test, etc. to give a multiple linear regression model of six-independent factors. The level of relationship also differs in each variable with dependent variables in which the two most affected level are the factors of “Professional ethics of auditors” and “Professional capacity of auditors”. Therefore, Vietnam should urgently research and set up the Audit Quality Indicators (AQIs) conforming to international practices as mentioned above. The MoF and the SSC should coordinate with audit firms, listed companies to develop the AQIs in accordance with Vietnamese conditions, on the basis of the platform from IFAC guidelines and experiences of developed countries. Since then, the audit firms must comply with public supervision and make efforts to enhance both of their scale of operations and the staff force, especially to ensure and constantly improve the audit quality.

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