International Academic Institute for Science and Technology

International Academic Journal of Business Management
Vol. 10, No. 1, 2023, pp. 66-70.
ISSN 2454-2768

International Academic Journal of Business Management

www.iaiest.com

Audit Quality of Financial Statements of Commercial Banks in Vietnam

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Abstract

Financial statements are a means of presenting the profitability and current state of corporate finance to interested persons. Commercial banks in Vietnam are required to prepare honest and reliable financial statements as a basis for effective decision making by stakeholders. However, the quality of auditing financial statements of commercial banks in Vietnam has been a topic of concern in recent years. In this article, the author explores the situation of audit quality of financial statements of commercial banks in Vietnam. From there, focus on proposing a number of measures to improve the quality of auditing financial statements of commercial banks in the coming time.

Keywords: Financial Statements, Audit Quality, Commercial Banks, Vietnam.

Introduction

Improving the quality of auditing financial statements of commercial banks in Vietnam is essential to ensure transparency and accountability of the financial sector. High-quality financial reporting enables investors, shareholders and regulators to make informed decisions about the performance and stability of commercial banks, which in turn can contribute to the overall health of the economy. In Vietnam, the quality of auditing of financial statements is particularly important, where the banking sector is facing problems such as bad debts and weak corporate governance. These problems can erode public confidence in the financial sector, leading to reduced investment, slowing economic growth, and even financial crises. Furthermore, with the increasing complexity of financial transactions and the use of new technologies, auditors need to continually improve their skills and knowledge to ensure that financial statements are accurate and reliable. This is especially important for commercial banks, which are subject to a variety of regulations and reporting requirements. Therefore, by examining financial statements, detecting errors, making recommendations on internal controls and the financial reporting process, and identifying potential risks, independent auditors ensure the truthfulness and reliability of financial information. This enhances investor confidence, contributes to a more stable financial system and maintains the integrity and transparency of financial markets. Therefore, improving the quality of commercial banks' financial statements is significant both in theory and practice.

The Status of Audit Quality of Financial Statements of Commercial Banks in Vietnam

Vietnamese commercial banks are subject to an independent audit of their annual financial statements in order to increase the transparency and reliability of financial information. However, in addition to the role of auditing, the quality of audit of commercial bank financial statements in recent years still has certain limitations.

DOI:10.9756/IAJBM/V10I1/IAJBM1006
Received:30 January 2023/Accepted:26 February 2023/Published:20 March 2023

The assessment report on the quality of auditing financial statements of commercial banks in the 2019 Annual Report of the Vietnam Chamber of Commerce and Industry noted that the quality of financial statements of commercial banks was recorded as relatively low. The report identified weaknesses in financial analysis, forecasting and disclosure, and emphasized the need for greater transparency in financial reporting. In addition, the auditing quality of financial statements of Vietnamese commercial banks is also a concern, with weaknesses in the quality of audit work, audit reports and auditor independence. The report recommends that regulators strengthen their oversight of auditing activities and penalize auditors who fail to meet professional standards. At the same time, it calls for increased transparency in the audit process and the implementation of more effective internal controls in commercial banks to prevent fraud and financial malpractice.

In fact, over the past time, there have been large-scale violations at commercial banks, for example, Huyen Nhu case at Vietnam Joint Stock Commercial Bank for Industry and Trade, Pham Cong Danh case at Construction Bank, or the story of Exim bank having accumulated losses and stocks falling into the alert category is still very hot in the market. The reason for being warned is because Exim bank's profit in 2015 from profit of more than 114 billion was adjusted retroactively to a loss of more than 817 billion VND. The highlight of the debate this time is that Exim bank's auditor in 2015, KPMG, emphasized the errors in Exim bank's accounting and the acceptance of other auditors. The other auditor is E&Y – the auditing company for Exim bank during 2010-2014. It is suspected that an auditor known as Big 4 in the field of auditing like E&Y can "ignore" serious violations of Exim bank. All this makes the relevant authorities, investors, more concerned about the quality of auditing financial statements of commercial banks.

It can be seen that the quality of audits is declining in part due to the remaining limitations in the audit, reflected in some main aspects as follows:

First, the Limitations in the Audit Approach

There are two main approaches to auditing financial statements: (i) a risk-based approach to auditing; (ii) an item-based approach.

Major auditing firms (Big4) often opt for a risk-based approach, which is an effective and appropriate audit method for the audit of commercial banks' financial statements. This approach helps the auditor focus on the most important issues in the financial statements, ensuring that the most important risks are evaluated and fully addressed. Besides, with this method, the auditor only focuses on important risks and related issues, saving time and costs for the audit process. At the same time, ensuring the truthfulness of the financial statements, especially in the assessment of debts, deposits and investments, thereby improving the quality of the audit.

However, some auditing firms, especially those that are not part of the Big 4, are still more inclined to conduct audits of financial statements based on the items in the financial statements than based on the business processes of the bank. This does not fully assess the risks in the bank's business activities. Such as market risk, credit risk, operational risk, legal risk, reputation risk, etc., also need to be comprehensively assessed and controlled. Furthermore, focusing on the items on the financial statements leads to duplication of coordination and may overlook other important information. This can reduce the quality of the audits.

Second, Limitations in the Audit of Information Technology Systems

Currently, all commercial banks are based on modern, complex Core banking systems, managed databases, exploited based on huge data warehouse systems (Data ware house). Core banking system of commercial banks is a closed and complex software system, which makes it very difficult for auditors to comprehensively understand the system, the entire database, the software, the process on the information technology system in a short time. Therefore, it is possible to influence the completeness and persuasion of audit evidence.

In addition, the access, collection and exploitation of data from the information technology system of commercial banks is still difficult and limited; The current detailed data is mainly data related to credit activities, deposits and some other accounting data... Meanwhile, the data is momentary, there is no data link for many years, especially the big data related to transactions, cash flow management has not been exploited; Therefore, it is not possible to apply big and deep data analysis measures to identify risks to increase audit efficiency. This can affect the auditor's ability to detect errors and degrade the quality of the audit.

Third, Limitations on the Application of Technology in Auditing

In some auditing companies, the application of information technology and computer-assisted audit techniques has not been widely applied, leading to limitations in the analysis and processing of information and transactions of banks. The investment in new and modern technologies for auditing puts financial pressure on auditing firms. In addition, the cost of developing and deploying new software and systems is also expensive. Therefore, some auditing companies mainly use common office software such as Microsoft Office to record audit records, perform analytical procedures... so the efficiency of work is not high. On the other hand, auditors are not experts in information technology, so they

may have difficulty understanding and applying new and complex technologies for auditing. This also affects the quality as well as the effectiveness of the audit.

Fourth, Limitations in Audit Quality Control

In some auditing companies, the quality control of audit activities in general and the audit of commercial bank financial statements in particular have not been properly and formally respected. The implementation still has many limitations, inefficiencies and untimely and frequent. A majority of non-Big 4 audit firms have appointed an auditor to perform audit quality control. However, the auditor may not be adequately trained in the quality control of the audit activity, and therefore may not have the skills to perform this task effectively. Auditing firms may also lack resources and less investment in quality control of audit activities, such as: lack of software systems to manage audit tasks; data analysis systems and online monitoring systems to monitor the activities of auditors, leading to the quality control of audit activities being a formality and not taken seriously. As a result, the discovery of errors in the audit process will be delayed and not timely to resolve, affecting the quality of the audit.

Some Solutions to be Implemented in the Near Future

Recently, the State Bank of Vietnam issued Circular No. 24/2021/TT-NHNN amending and supplementing a number of articles of Circular No. 39/2011/TT-NHNN dated December 15, 2011 of the Governor of the State Bank of Vietnam providing for independent audits of credit institutions and branches of foreign banks, effective from April 15, 2022. Accordingly, the circular stipulates and guides to improve the quality of auditing financial statements of commercial banks, including: risk-based monitoring system and regular on-site inspection of banks' financial activities; internal control system of commercial banks... Although these measures are a step in the right direction, much work remains to be done to ensure that the audited financial statements of commercial banks in Vietnam are of high quality. Below, some measures can be taken to improve the quality of auditing financial statements of commercial banks in Vietnam.

First, Improve the Audit Method on the Basis of Risk Assessment

To implement this approach, the auditor must have a thorough understanding of the nature of the bank's work to determine the likelihood of material misstatement in the financial statements. Specifically, the auditor should:

(i) Develop and develop a risk assessment system: Auditors should identify risks related to the bank's operations and determine the extent to which those risks affect the financial statements. At the same time, auditors need to establish risk assessment criteria and risk assessment methods to assess the level of risk in segments of banking activities. For example, when the auditor discovers that the bank is carrying out transactions with untrustworthy subsidiaries. To assess the risks of this situation, the auditor may take the following steps:

- Identify risks: The auditor must identify risks associated with these transactions, including liquidity risk, credit risk, and market risk.
- Determine the extent of the impact: The auditor must evaluate the extent of the impact of such risks on the bank's financial statements, including the effects on the truth and authenticity of financial data.
- Establish risk assessment criteria: The auditor should establish criteria for assessing the level of risk, including criteria such as the authenticity of the information, the completeness of the information and the effectiveness of the control measures.
- Risk assessment: Finally, the auditor must use risk assessment methods to assess the level of risk in segments of the bank's operations and draw conclusions about the level of risk of transactions with untrustworthy subsidiaries.

(ii) Establishing a risk-based audit approach: Auditors need to develop and implement a risk-based audit approach. This approach will focus on major risk areas and the bank's most important operational segments. At the same time, this audit method also needs to ensure the comprehensiveness and completeness of risk factors. For example, the auditor finds that the bank's lending activities have a high level of risk because the borrower is unable to repay the loan or does not comply with the terms of the loan contract. Therefore, the auditor will establish a risk-based audit method that focuses on loans, determines the level of risk of each loan, and examines the bank's policies, processes, and procedures related to lending activities to assess the effectiveness and comprehensiveness of the bank's risk management system.

Second, Complete Information Technology Audits at Commercial Banks

Information technology audits at commercial banks require auditors to have in-depth knowledge of information technology and information security processes. In order to complete the information technology audit, the auditor needs to apply a number of measures as follows:

(i) There should be coordination between the auditor and the information technology engineer in the planning and implementation of the audit. Auditors and information technology professionals should evaluate the bank's information system based on the understanding and evaluation of common control and application control activities in order to assess the reliability of the information system. In order to ensure that the information technology risks identified in the audit plan are audited by procedures related to the use of information technology and verified for accuracy, compliance, and suitability for the audit samples required by the auditors, the information technology engineers must develop the necessary audit procedures.
(ii) Improving professional knowledge: Auditors need to have a solid knowledge of information technology processes and systems to be able to accurately evaluate the effectiveness of these systems. The auditor needs to update the latest knowledge of information technology to meet the innovation and development needs of the bank.
(iii) Application of Auditing Standards and Procedures: Auditors should apply audit standards and procedures to ensure consistency and transparency in the audit process. These standards and processes include ISO 27001, COBIT, ITIL and other standards related to information security and information technology management.
(iv) Using audit support software: Using information technology audit support software helps auditors save time and improve audit efficiency. Software such as ACL, idea and Microsoft Excel can be used to analyze data and look for information security vulnerabilities. For example, the auditor may use ACL software to analyze data and compare data between different systems to ensure data consistency and accuracy. Auditors may also use standards and procedures such as COBIT to evaluate the effectiveness and security of information technology systems.

Third, Improve the Professional Capacity of Auditors and Encourage the Use of Technology in Auditing

In order to improve the quality of auditing financial statements, auditors must have the necessary professional capacity, professional expertise and professional ethics standards. Therefore, the promotion of ongoing training and professional development for auditors is essential. This can be achieved through the organization of regular training sessions, seminars and workshops on related topics to enhance their skills and expertise. In addition, it is important to enforce strict requirements for the auditor's qualifications and experience to ensure that he or she has the necessary skills and expertise to perform his or her duties effectively. In order to implement the above solutions, the State Bank should: (i) establish a comprehensive accreditation system for auditors and ensure that only qualified auditors are allowed to conduct audits of financial statements; (ii) strengthen the supervision and regulatory framework for auditors and audit firms; (iii) promote the development of a strong and independent audit committee in commercial banks; and (iv) support the implementation of ongoing training and professional development for auditors.
The use of technology in auditing can help improve the quality of financial statement audits. The auditor may use data analysis tools to identify anomalies and evaluate the effectiveness of internal controls. For example, auditors may use idea or ACL software to analyze data in accounting and financial information systems. These are professional and powerful data analysis tools, which can help auditors find important information from different systems and compare data between them to ensure the consistency and accuracy of the data. Auditing firms need to set aside investment budgets for the application of new and modern technologies such as the use of artificial intelligence in auditing. Artificial intelligence can be used to detect fraudulent behavior in a bank's financial system by analyzing data and finding patterns or abnormal behavior. Artificial intelligence can help check the truthfulness of information in financial reports and other documents by comparing the information with other data sources in banks. At the same time, artificial intelligence can help optimize the audit process by automating some tasks such as analyzing data, identifying problems, and coming up with solutions. An example of the use of artificial intelligence in auditing is EY's Audit Bot tool. Audit Bot uses AI techniques to detect anomalous patterns in data and provide auditors with reports on these patterns. The tool also helps to optimize the audit process by automating some tasks such as data analysis and identifying key issues. The State Bank should encourage auditors and auditing firms to apply technology in their audit procedures to improve the quality of audit services of commercial banks' financial statements.

Fourth, Strengthen the Audit Supervision Mechanism

To ensure the quality of financial statement audits, it is necessary to strengthen the audit supervision mechanism. This can be achieved through the establishment of an independent supervisory authority responsible for overseeing the conduct of auditors, enforcing ethical standards and ensuring compliance with audit regulations. In addition, it is important to implement a rigorous quality control system to monitor the performance of audit firms, assess their compliance with audit standards, and take appropriate actions to correct any non-compliance issues.

Conclusion

The implementation of measures to improve the quality of auditing financial statements is essential and it requires synchronous efforts from regulators, auditors and commercial banks. By taking these measures, Vietnam can improve

the credibility of its financial reporting, promote greater transparency and accountability, and contribute to a stable and healthy financial sector.

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