



The Audit Committee's Forecasted Impact on the Timeliness of Financial Statements in the Current Unpredictable Business Environment – Evidence in Vietnamese Listed Joint Stock Companies

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Abstract. This article aims to analyze the influence of the Audit Committee (AC) in the organizational structure of the joint stock company on the timeliness of the Financial Statements (FS). AC is a new part of the organizational structure of the joint-stock company in Vietnam, which had just been legislated and took effect in 2021. AC aims to inspect and supervise the company's activities to enhance the truthfulness, reasonableness, and timeliness of Financial Statements (FS). Under the effect of the Covid-19 epidemic and the ongoing trade war, the global business environment has become unpredictable in recent years as well as in the coming years. Since then, it has significantly impacted the production and business situation, and the time of publishing FS of companies. A quantitative study method is conducted by collecting data from the year 2017 to 2021 from all listed companies that have established AC. The authors analyzed the impact of Audit Committees on the timing of the FS publication. The results showed that AC with a compact personnel structure has played an active role in improving the timeliness of FS. When the company has an Audit Committee, the probability that FS information is timely published increases by 14.34%. This finding encourages joint-stock companies to examine the provisions of Enterprise Law 2020 when selecting a management structure to enhance the timeliness of financial statement information in the present unpredictable business climate.

Keywords: Audit Committee · Timeliness · Financial Statements · Financial Reporting · Joint-stock company · Binary Logistic model

1 Introduction

The information presented in Financial Statements (FS) should be timely disclosed to users of financial information. Delayed disclosure of FS will impact the usefulness of information, increasing uncertainty for the decisions of users (Ashton et al., 1989). Therefore, timeliness is recognized as an important informational attribute of FS (Carslaw &

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Kaplan, 1991) that should be studied to have useful orientations in capital market management policies (Owusu-Ansah, 2000); and improve decision making, reducing information asymmetry. The timeliness of FS is affected by certain factors in each context. Currently, in Vietnam, a new factor is forming in the management structure of joint stock companies (JSCs) namely the Audit Committee (AC). The AC was derived from the Sarbanes-Oxley Act (2002) and is gradually being implemented in many nations across the world because it satisfies the needs of administrators and stakeholders and is consistent with the trend of international integration. Since the Enterprise Law No. 59/2020/QH14 was issued by the National Assembly on June 17, 2020, and went into effect on January 1, 2021, the actual approach in Vietnam demonstrates that JSCs are interested in the function of AC. This rule creates the first legal pathway for the AC, enabling JSCs to replace the Supervisory Board with the AC as part of their corporate governance framework. The mission of the AC is to inspect and oversee actions to guarantee the veracity and reasonableness of the FS. Simultaneously, the AC aims to improve the timeliness of FS. Currently, several JSCs must decide whether to organize the AC instead of the Supervisory Board in the corporate governance structure, and whether the AC truly contributes to enhancing the quality of FS. By evaluating the forecasting model changes before and after the organization of the AC, the research experimentally examines the claim that the organization of the AC in the corporate governance structure of JSCs affects the timeliness of FS. This research intends to bring this issue to the theory and practice of joint stock company governance in Vietnam in light of the present uncertain economic environment.

2 Literature Review

2.1 The Timeliness of Financial Statements Information

The timeliness of FS plays an important role in reducing information asymmetry (Owusu-Ansah, 2000). The Timeliness of FS is the availability of information necessary for useful decision-making before it loses its influence (IASB, 2008). Therefore, FS need to be quickly available to users (Carslaw & Kaplan, 1991) to support their decisions.

There are many studies that provide evidence on the determinants of the timeliness of FS. Large-size companies often must respond to the needs of providing information quickly from the majority of users, so they have to prepare FS faster (Haw & Ro, 1990). Once the company has positive business results compared to the plan, the company tends to request the completion of the audit earlier to publish the FS to spread good information. In contrast, the company will require the audit start time later than usual to avoid reporting bad news to shareholders and investors (Carslaw & Kaplan, 1991). The more subsidiaries or branches a company has, the more time it takes to prepare the consolidated FS (ASHTON et al., 1989), resulting in a slower time to publish the FS. In addition, the length of the audit is also a component affecting the timeliness of FS (Owusu-Ansah, 2000).

The AC is a new part of the corporate governance structure of the JSCs. The AC not only increases the operational efficiency of the company but also aims to increase the timeliness of the FS. However, this research direction seems to have not been done much, especially experimental research from practical results.

2.2 The Audit Committee (AC)

Beginning from the separation of ownership and management rights in a joint stock company, the problem of information asymmetry occurs due to a conflict of interest between the owner and the authorized manager (Spence & Zeckhauser, 1978). Since then, companies need to have an independent department or mechanism to monitor and control to enhance operational efficiency, compliance, and information reliability. Indeed, many departments were formed to meet this requirement such as supervisory board, internal audit, and independent audit. However, these departments have not yet met expectations for the truthfulness and timeliness of FS. Therefore, the AC is a new part of corporate governance that needs to be researched and applied to today's businesses.

The AC was formed from the requirement to improve control in the JSCs to better solve the problem of information asymmetry (Chiu et al., 2021). The AC is considered a new management mechanism with many advantages and is in line with international practices. Most countries create a legal framework for JSCs to voluntarily choose an AC, but not be required to establish an AC. The Board of Directors (BOD) directly affects the formation of the AC through the corporate governance mechanism. The BOD will identify and select the components (Elad et al., 2017) in the management system and set up, and use management tools. The larger the enterprise, the more promoting the establishment of the AC (Paul Collier, 1992) since the advantages of the supervision of the AC are much higher than the costs of maintaining the AC.

The presence of the AC in the management structure of a joint stock company can add value to the company and its stakeholders (Grange et al., 2021a). Therefore, the effectiveness of the AC is an issue that companies always evaluate on an overall basis and approach the attributes of the AC. Besides, the characteristics of the members of the AC (including qualification, experience, and independence) are important attributes influencing the effectiveness of the AC (Grange et al., 2021b). Especially, the leadership style of the chairman of the AC (Compernelle & Richard, 2018) and the way they deal with work barriers (Free et al., 2021) bring about high efficiency for the AC. A point worth noting, the independence of the AC needs to be maintained through regular assessment and timely identification of potential risks. Attributes that need to be focused on assessment such as the number of board members, the number of independent directors on the board, and related charters (Drogalas et al., 2020, Ali & Meah, 2021).

The AC reduces asymmetric information, conflicts of interest in proxy relationships, and risks; and increases operational efficiency (Chiu et al., 2021). The specific approach to the attributes constituting the AC, each attribute affecting the performance of the company such as the number of members of the AC, the quantity of meetings of the AC's members, and the structure of the AC (Al-Homaidi et al., 2021), and ownership concentration (Javeed et al., 2021). Furthermore, the AC actively supports internal audits (Weickgenannt et al., 2021), and strengthens the implementation of internal recommendations (Alzaban, 2021).

The AC improves the quality of FS information (Ashfaque Ali Banbhan et al., 2021), integrated reporting (Erin & Adegboye, 2021), and audit quality (Rani, 2018). The attributes of the AC that play this role can be listed as the number of members, frequency

of meetings, independence (Raimo et al., 2021), gender (Ud Din et al., 2021), reputation (Khoo et al., 2020), technological qualifications (Ashraf et al., 2019), professional qualifications (Bédard & Paquette, 2021).

In Vietnam, Vietnamese JSCs have been interested in the role of the AC since Enterprise Law No. 59/2020/QH14 was promulgated by the National Assembly on 17th June 2020, which opened the first legal corridor for AC. A joint-stock company has the right to choose an organization to manage and operate under one of two models: (i) The first model includes General Meeting of Shareholders, Board of Directors, Board of Supervisors, and Director or General Director; (ii) the Second model contains General Meeting of Shareholders, Board of Directors, Audit Committee and Director or General Director.

The current studies mainly research the role of the AC in theory and practice through the attributes constituting the AC. Although the role of the AC is also aimed at improving the timeliness of FS, previous studies have not studied this relationship. Therefore, the actual effectiveness of the AC in increasing the timeliness of the FS through changes before and after the organization of the AC in a joint stock company is a necessary issue that should be implemented to fill the theoretical and practical gap.

3 Research Methodology

3.1 Research Approach and Methods

Based on the methodology and template of Olalere (2012), the paper uses a mixed approach and mixed research method. The article takes the enterprise approach to explore the research objective of the AC organization in the management structure of JSCs, and how it affects the timeliness of FS.

In the first step, the study conducts a review of the previous studies of relevant both international and domestic researchers along with the instructions on the AC of the Big4 audit firms to identify relevant factors, identify trends, and build hypotheses. In the next step, the study uses the Binary Logistic model to test the hypothesis and evaluate the correlation between the factors and the appropriateness of the research model.

The data used for the analysis in this study is secondary data. The author's team collects data from published information, financial statements, management reports, and other reports in the period from 2017 when the company started organizing the AC until the end of 2021. As a result, 49 companies listed on the Ho Chi Minh City and Hanoi Stock Exchanges have an Audit Committee. Thus, the data sample includes 245 observations from 49 companies over the 5-year period from 2017 to 2021.

3.2 Research Model

Through a review of studies and comparisons with practice in Vietnam, the authors propose a research model that affects the timeliness of FS (Fig. 1):

The Binary Logistics regression model is used to analyze the timeliness of FS. The dependent variable is measured in binary. The independent variables are continuous, binary, or ordinal variables. The model is built as follows:

$$\text{Ln}[P(Y = 1)/P(Y = 0)] = \beta_0 + \beta_1\text{ACM} + \beta_2\text{COM} + \beta_3\text{BOD} + \beta_4\text{SIZE} + \beta_5\text{ACS} + \beta_6\text{AUO}$$

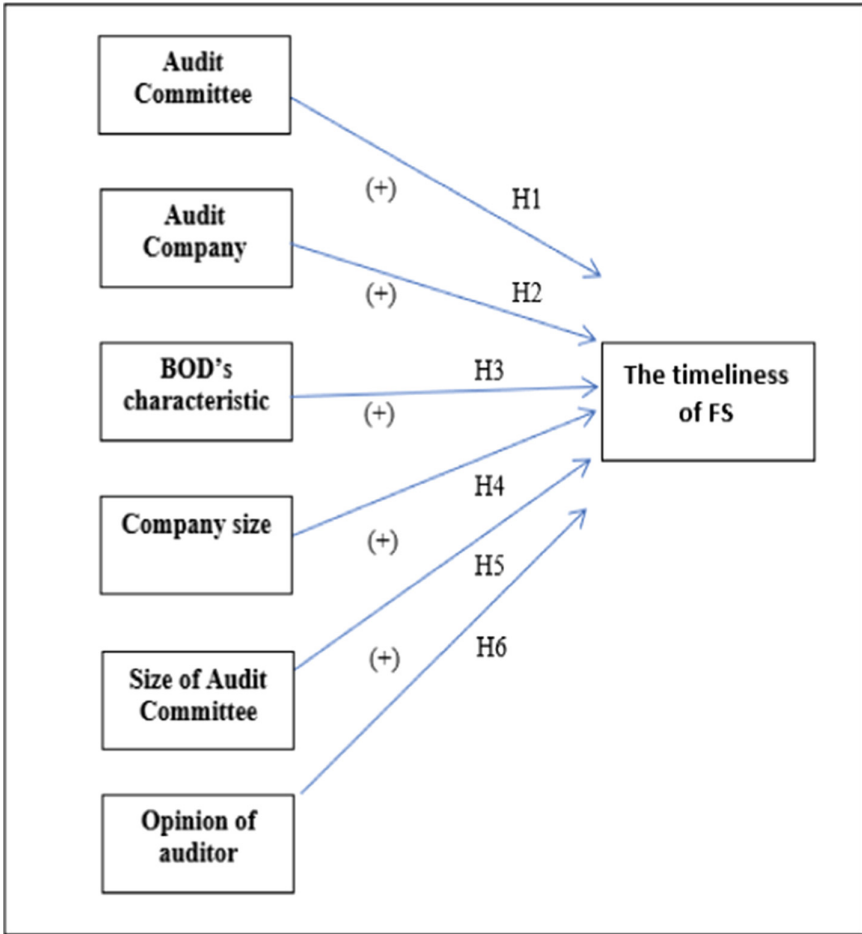


Fig. 1. Proposed research model (Source: Compiled by the authors)

Where:

+ $Y = FRT$: Timeless of FS; ACM : Audit committee; COM : Auditing company; BOD : Board of Directors; $SIZE$: Size of the company; ACS : Size of audit committee; AUO : Opinion of auditor.

+ $P(Y = 1) = P0$: Probability of financial statements to ensure timely publication.

+ $P(Y = 0) = 1 - P0$: Probability that financial statements are not published in a timely manner.

+ Ln : Logarithm with base e ($e = 2.714$).

+ β_i : The bases of the independent variables.

+ Approach the coefficient of Odds, with the estimate $Odds = P0/(1-P0)$. The model is shown below:

$$Ln(Odds) = \beta_0 + \beta_1ACM + \beta_2COM + \beta_3BOD + \beta_4SIZE + \beta_5ACS + \beta_6AUO$$

In order to forecast the timely publication of FS according to the factors ACM, COM, BOD, SIZE, ACS, and AUO; the forecasting probability function is expressed as follows: $E(Y/X) = e^{\text{Ln(Odds)}} / (1 + e^{\text{Ln(Odds)}})$. Besides, $E(Y/X)$ is the probability of predicting the dependent factor reaching the value 1 when the independent factors have a specific value.

3.3 Research Hypothesis

The Audit Committee has a role in selecting an independent audit firm, monitoring the audit process, controlling risks, monitoring business ethics, and overseeing the preparation and presentation of financial statements (Deloitte, 2014; KPMG's Audit Committee. Institute, 2017; PricewaterhouseCoopers (PwC), 2018). Therefore, the presence of AC in the management structure of a joint stock company contributes to increasing the timeliness of the FS.

[H1]: The Audit Committee is likely to have a positive impact on the timeliness of financial statements.

Independent auditing firms play a role as independent 3rd parties capable of conducting the inspection and confirmation of FS. Large-sized audit firms are more motivated to complete audit work to maintain their reputation (Rezaei & Shabani, 2014). Large audit companies have more resources and experience to carry out the audit process and can do the job faster than smaller ones (Lawrence et al., 2011). Moreover, a big audit firm has the benefit of utilizing technology to decrease the time it takes to perform the work (Leventis et al., 2005).

[H2]: A large-size independent audit firm can positively affect the timeliness of FS.

The BOD has an independent mechanism for inspection and supervision to enhance operational efficiency, compliance, reliability, and timeliness of the information. Therefore, the BOD with a large number of members (Ali & Meah, 2021) can perform its duties effectively, thereby publishing the financial reports more timely.

[H3]: A Large-size BOD size can positively affect the timeliness of FS.

A firm's size affects the timeliness of FS (Haw & Ro, 1990) because large enterprises often required to respond to the need to provide information quickly to many users so that they can make evaluation and make decisions sooner. Additionally, strong financial resources together with a huge investment in an effective data recording, analysis, and processing system; building and operating an effective internal control system will support the quality audit process and close it faster (Carslaw & Kaplan, 1991).

[H4]: The size of the business can positively affect the timeliness of FS.

Too few members will not be able to promote the role of the AC well. Therefore, the larger AC (Raimo et al., 2021) will be able to perform its tasks effectively, improving the timeliness of the FS.

[H5]: The larger the AC, the more likely it is to increase the timeliness of the FS.

At the end of the audit process, once the company receives a good audit opinion, it

tends to agree quickly with the audit report and publish the FS early to spread good information. On the contrary, the company will publish FS later than usual to review the audit results or to avoid reporting bad news to shareholders and investors (Carslaw & Kaplan, 1991).

[H6]: Audit opinion has the potential to have a positive impact on the timeliness of FS.

3.4 Measurement Method

The factors are designed by measurement method (Table 1) and collected from data sources FS, management reports, annual reports, and audit reports:

4 Findings

4.1 Organizing Audit Committees at Listed Companies

In Vietnam, in the period before 2017, JSCs were established with a management structure consisting of a BOD and a supervisory board. In the period of 2017–2020, a few listed JSCs have actively transformed the structure of the Supervisory Board into an AC (Table 2). In 2021 there is a rapid increase in the number of companies with an AC (Table 2) due to the legal framework of Enterprise Law 2020.

4.2 Description of Research Data Samples

With the sample selection criteria being listed JSCs that already have an AC in the management structure, the author collected a sample of 245 observations from 49 listed JSCs in the period 2017–2021 (Table 3):

Timeliness of Financial Statements (FRT) receives a value of 0 or 1, corresponding to the degree of timely non-disclosure and disclosure. The Mean value of FRT is 0.8245, reflecting the predominance of timely published FS. The audit opinion (AUO) received a value of 0 or 1, the Mean value of 0.9102 reflects the majority of FS that received an unqualified opinion. Company Size (SIZE) has a logarithmic value of assets between 9 and 15, with a Mean of 12,498. Auditing firm (COM) has a value of 0 or 1, the Mean value of 0.5592 reflects more than 50% of observations whose FS are audited by the Big 4 auditing firms. The Audit Committee (ACM) received a value of 0 or 1, the Mean value of 0.5633 reflects about half of the observations that AC exist in the management structure of companies. The Board of Directors (BOD) has a number of members from 2 to 13 people, the Mean value is about 6 people. Audit committee size (ACS) has the number of members from 0 to 5 people, the Mean value is more than 1 person. The size of the AC shows a compact staffing structure with a very small number of members.

4.3 Analysis of Model Fit

The first Binary Logistic regression has the following results (Table 4):

Table 1. Design of the scale. (Source: Compiled by the authors)

No.	Factors	Scale	Source
1	Audit committee (ACM)	The AC exists in the enterprise is measured by 1, if not, it is measured by 0.	Author elaborated
2	Timeless of FS (FRT)	The timeliness of FS is calculated from the end of the financial year to the date of publication. The period for publication of annual FS is 90 days. Base on the Binary Logistic model we used, dependent variable (timeliness of financial report) is assigned a value of 1 or 0. FRT is measured by the value 1 when the disclosure period is less than or equal to 90 and measured by the value 0 when greater than 90.	Developed from the studies of: Stephen Owusu-Ansah (2000)
3	Board of Directors (BOD)	Number of board members selected annually	Brown & Caylor (2006)
4	Size of the company (SIZE)	Company's size is measured by the base 10 logarithm of assets	Brown & Caylor (2006)
5	Auditing company (COM)	Measured by 1 if the incumbent auditing firm is in the Big4 and 0 if it is not in the Big 4.	Brown & Caylor (2006)
6	Size of audit committee (ACS)	The size of the AC is expressed in terms of the number of AC members.	Author elaborated
7	Opinion of auditor (AUO)	Measured by 1 if the FS have received an unqualified opinion and 0 if the remaining audit opinion is received. Data have collected type of audit opinion from the audit report attached to the financial statements.	Author elaborated

Table 4 shows the results of Chi-square test to assess the fit of the regression model. The Sig value of Chi-square test in the Model row is less than 5%, reflecting that the regression model is suitable.

Table 2. Number of listed joint stock companies with an Audit Committee from 2017 to 2021. (Source: Authors collected from Ho Chi Minh City and Hanoi Stock Exchange)

Year	Number of companies that have established AC (companies)
2017	18
2018	19
2019	21
2020	23
2021	49

Table 3. Description of the observed sample. (Source: Compiled by the authors)

	N	Minimum	Maximum	Mean
FRT	245	.00	1.00	.8245
AUO	245	.00	1.00	.9102
SIZE	245	9.00	15.00	12.4980
COM	245	.00	1.00	.5592
ACM	245	.00	1.00	.5633
BOD	245	2.00	13.00	6.1673
ACS	245	.00	5.00	1.3306

Table 4. Chi-square test. (Source: Compiled by the authors)

Omnibus Tests of Model Coefficients				
		Chi-square	df	<i>Sig.</i>
Step 1	Step	27.171	6	0,000
	Block	27.171	6	0,000
	Model	27.171	6	0,000

Table 5 shows the results of Wald test. The factors AUO, ACM with Sig values less than 5% show that these variables are statistically significant in the regression model. The remaining 4 factors including SIZE, COM, BOD, ACS have Sig values greater than 5%, reflecting that these variables are not statistically significant. Therefore, the authors do not attempt testing hypothesis [H2], [H3], [H4] and [H5], and do not continue to estimate the impact of 4 factors SIZE, COM, BOD, ACS. In the following step, the authors will run the regression the model with only 2 factors AUO, ACM.

Table 5. Wald test (1st step). (Source: Compiled by the authors)

	B	S.E.	Wald	df	Sig.	Exp(B)
AUO	1.134	.516	4.827	1	.028	3.107
SIZE	.160	.262	.375	1	.540	1.174
COM	-.377	.447	.711	1	.399	.686
ACM	1.862	.816	5.204	1	.023	6.439
BOD	.073	.117	.395	1	.530	1.076
ACS	-.120	.285	.176	1	.674	.887
Constant	-2.365	3.047	.602	1	.438	.094

Table 6. Prediction interval. (Source: Compiled by the authors)

Classification Table^a					
Observed			Predicted		
			Time		<i>Percentage Correct</i>
			0,00	1,00	
Step 1	Financial Statement Quality	0,00	6	37	14.0
		1,00	7	195	96.5
	Overall Percentage				

a. The cut value is 0.500

Table 7. Wald test (2nd time). (Source: Compiled by the authors)

Variables in the Equation							
	B	S.E.	Wald	df	Sig.	Exp(B)	
Step 1 ^a	AUO	1.223	.501	5.969	1	.015	3.397
	ACM	1.550	.383	16.355	1	.000	4.710
	Constant	-.200	.477	.175	1	.676	.819

a. Variable(s) entered on step 1: AUO, ACM.

4.4 Regression Analysis Results

From the results of the Wald test above, the regression continues with the dependent variable being FRT, the independent variable being AUO, ACM. The results (Tables 6 and 7) are as follows:

Table 6 reflects the model-wide Mean prediction value of 82%.

Looking at the sign of coefficient B in Table 7, hypotheses [H1], [H6] are accepted.

Table 8. Level of influence of factors on timeliness of financial statement. (Source: Compiled by the authors)

Factors	B	Exp(B)	Initial probability 80%	Increase/ Decrease by %	Order
			Later Probability		
Audit committee (ACM)	1.55	4.17	94.34%	+ 14.34	1
Opinion of auditor (AUO)	1.223	3.397	93,15%	+ 13.15	2

From the B value in Table 7, the regression model is estimated as follows:

$$\text{Ln(Odds)} = + 1.55\text{ACM} + 1.223 \text{AUO} - 0.2$$

Timeliness forecasting model of FS:

$$E(Y/X) = e^{\text{Ln(Odds)}} / (1 + e^{\text{Ln(Odds)}})$$

Predictive analysis of the impact of each factor on the timeliness of FS:

Factor ACM (Audit Committee): The factor of Audit Committee has coefficients B1 = 1.55 and Exp(B1) = 4.71 with initial assumed P0 value of 80% for the analysis.

$$P1 = P0 \times \text{Exp}(B1) / (1 - P0 \times (1 - \text{Exp}(B1))) = 80\% \times 4.17 / (1 - 80\% \times (1 - 4.17)) = 0.9434 = 94.34\%$$

With the assumption that the initial probability for timely disclosure of financial statement information is 80%, when the company has an AC, the probability of timely financial statement information reaches 94.34%, which is an increase of 14.34% compared to the original probability in when other factors do not change and consider the audit committee separately.

With the same estimate, the factor AUO (Audit Opinion) is analyzed, and the results are shown in Table 8.

Table 8 also reflects the order of influence on the timeliness of financial statement information: 1st is Audit Committee, and 2nd is Opinion of auditor. This order suggests companies focus their resources to improve the timeliness of financial statement information.

5 Conclusion and Implications

The investigation of the determinants of timeliness will serve as a guide for capital market management policy, improve decision-making, and minimize information asymmetry. From the perspective of the enterprise, the AC is a new department established in accordance with the trend of international integration, with the objective of enhancing the timeliness of FS, managing and controlling risks to improve the operational efficiency of enterprises, and promptly responding to the concerns of stakeholders. The study results

have answered the research questions and confirmed the hypotheses. Research findings indicate that both the audit committee and the audit opinion have an influence on the timeliness of the FS, with the audit committee component having the greatest favorable effect.

The research results also provide an empirical evaluation of the extent to which the AC improves the timeliness of the FS in the period following the establishment and operation of the Audit Committee with a compact personnel structure (five or fewer members) in the management structure, as compared to the period preceding. In addition, the study estimated the model for predicting the timeliness of financial statement information. If the AC is present in a company's management structure, timely disclosure of financial statement information is 14.34% more probable. The auditor's unqualified view also raises the likelihood of timely FS by 13.15%. This finding encourages JSCs to examine the provisions of Enterprise Law 2020 when selecting a management structure to enhance the timeliness of financial statement information in the present unpredictable business climate.

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