MANAGEMENT AND ACCOUNTING REVIEW, VOLUME 21 NO 3, DECEMBER 2022

Corporate Governance and Audit Quality: The Moderating Role of Ownership Concentration Roles

Nguyen Vinh Khuong[1,2♣], Nguyen Thanh Liem[2,3], Bui Thi Ngan Dung [1,2] and Le Huu Tuan Anh[1,2]

[1]Faculty of Accounting and Auditing, University of Economics and Law, Ho Chi Minh City, Vietnam

[2]Vietnam National University, Ho Chi Minh City, Vietnam

[3]Faculty of Banking & Finance, University of Economics and Law, Ho Chi Minh City, Vietnam

ABSTRACT

The purpose of this study was to examine the relationship between corporate governance (CG) and audit quality (AQ), and the moderating effect of ownership concentration (OC) for Vietnamese listed companies. We used the logistic regression model on a sample of 622 Vietnam listed firms data over the period 2014-2018, with a total of 2667 firm-observations collected. The regression result showed a negative association between CG and AQ. The collected evidence suggested that internal controlling and monitoring was related to external AQ. Our study used finite proxies to measure CG and AQ in Vietnam, but there is an extensive diversity of other indicators which may help in the outcome being more precise and explicit, so that future research can extend the measurements in a more detailed manner and on a larger scale. This study primarily contributes to the literature on CG, AQ, OC and exposes the association between CG and AQ.

Keywords: Corporate Governance; Audit Quality; Ownership Concentration; Moderation Effect

---

ARTICLE INFO

Article History:
Received: 21 July 2022
Accepted:12 September 2022
Available online: 01 December 2022

♣ Corresponding Author: Nguyen Vinh Khuong, Faculty of Accounting and Auditing, University of Economics and Law, Vietnam National University, Ho Chi Minh City, Vietnam; No. 669, Highway 1, Quarter 3, Linh Xuan Ward, Thu Duc City, Ho Chi Minh City, Vietnam; Email: khuongnv@uel.edu.vn; Tel: +84 0935 997 116

INTRODUCTION

For many decades, we have witnessed plenty of accounting loopholes or virtual existence of companies established to violate accounting standards, fraud, manipulate earnings such as cases of Lucend Technologies in 2014, Dell 2010, Time Warner, 2010, etc. These events make outside stakeholders more concerned about internal governance instead of relying only on audit reports. The relationship between corporate governance (CG) and auditors has become controversial in recent years due to the different results of research (AlQadasi & Abidin, 2018). Those studies vary under different economics context, different features of ownership structures (Kaawaase, Nairuba, Akankunda, & Bananuka, 2021; N. A. Widani & Y. Bernawati, 2020). Alawaqleh, Almasria, and Alsawalhah (2021); Simunic (1980, 1984); Wallace (1984) showed that better internal control will allow reducing external audit work, while others represented a positive relation between control, governance, and audit (Alawaqleh et al., 2021; Fakhfakh & Jarboui, 2022). Hence, internal governance and audit are substitutes according to the first viewpoint, and complementary in the second conclusion.

Under the substitution scenario, we expect a negative correlation between CG and audit quality (AQ). The companies in emerging markets in general and Vietnam in particular are almost medium and small – scale companies, hence they are not willing to spend a large amount of money for two those controlling instruments including internal governance and external audit firms. Holding the limitations of their research, our research enlarged the analysis by concentrating especially on the influence of CG and AQ in emerging markets, with the control variables such as CEO ownership, CEO duality, board size, board independence. Besides, this study would significantly contribute to the existing literature on emerging markets such as Vietnam. Vietnam is a country with an incomplete legal framework for protecting investors (Leuz, Nanda, & Wysocki, 2003), and the CG quality is still low compared to other ASEAN countries (Khuong, Abdul Rahman, et al., 2022; Khuong, Anh, Quyen, & Thao, 2022; Thuy, Khuong, Anh, & Quyen, 2022).

This study contributes to the existing literature about the association between CG and AQ in an emerging market, Vietnam. Furthermore, we also controlled ownership concentration (OC) as a moderating factor in the CG-

AQ link to provide deeper insights into the role of ownership structure in the link between the CG mechanism and AQ. As far as we know, there is no research on CG and AQ in Vietnam and that is the reason why this research is significant. In addition to this, the result of this study is also important for managers/shareholders to consider how to maintain good CG and reduce the risk of agency problems as low as possible by CG mechanism and external auditing. Investors can decide which companies they should invest in based on the quality of CG and audit. Through the OC as a moderating factor, we provide proof about the significant role of ownership kind and magnitude in a company's operational process. Additionally, our study is expected to help authorities concerned about stricter regulations to enhance the quality of governance, auditing and moderate the extent of ownership concentration to give the best operating result for firms.

The rest of the paper proceeds as follows. Section 2 shows the research context, Section 3 introduces the theoretical framework and hypothesis development, Section 4 indicates the research methodology and sample selection process, Section 5 presents the findings and the last concludes.

LITERATURE REVIEW

Corporation Governance and Audit Quality Under the Economic Context Of Vietnam

The Code of CG was also developed and issued on March 13, 2007, by the Ministry of Finance. To enhance the quality of CG, other versions of Code and Law and Enterprises Law 2014 were born respectively. The latest version was published in the middle of August 2019 – considered as the watershed to promote CG practices, enhance sustainable development in the best interest of stakeholders, create market confidence and business integrity, contribute to a company's competitiveness and reputation while accessing capital markets (Hung, 2019). Some prior studies have indicated that large audit firms like the Big4 in Vietnam tend to maintain good AQ to protect their reputation, hence the customers audited by Big4 auditors manipulate earnings rarely in comparison with companies audited by non Big4 firms (Pham, Vu, Nguyen, & Nguyen, 2020). In addition, Big4 firms are expected to have better features in the quality control system, with

more detailed guidelines, audit procedures, and a working paper from the global headquarters. Such companies also have more financial conditions to invest in cutting-edge technical resources, train staff, hire expertise and pay lucrative salaries.

In some cases, audit firm size and audit fee can be negatively related to AQ. As described by Kinney & Libby (2002), "unexpected non-audit and audit fees may more accurately be likened to attempted bribes and will reduce the quality of reported earnings through the auditor's reduced willingness to resist client biases to manage earnings". After all, there is a risk of self-interest when audit firms depend economically on their customers and the independence of auditors can also be impacted badly.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Corporate Governance

CG is considered as the most important factor to reduce agency problems, which can align the conflict of interest between shareholders and the board of directors (BOD) because they can monitor and restrict manager's discretion to protect outside partners from information asymmetry. Bigger companies require more efficient CG mechanisms. To measure CG, prior research uses some indicators like board size, CEO duality, board independence, audit committee diligence, audit committee independence, expertise, etc. (Ibrahim et al., 2019; Khudhair, Al-Zubaidi, & Raji, 2019; Quick, Schenk, Schmidt, & Towara, 2018; Riguen, Kachouri, & Jarboui, 2018).

Audit quality

External auditors play a pivotal role to prevent agency problems and protect the interest of its readers because audit procedures act as monitoring and checking tools, then conclude whether financial a statement reflects the true business activities and financial status in the fiscal year faithfully and reasonably (Barros, Boubaker, & Hamrouni, 2013; Z Jun Lin & Liu, 2009). They can narrow the gap between ownership and control by auditing not

only accounting activities, but also evaluate internal control, inquiry BOD, discuss and communicate with audit committees, perform an internal audit of their reports, or even use their results.

Many researchers have tried to define AQ (DeAngelo, 1981; Knechel, Krishnan, Pevzner, Shefchik, and Velury, 2013). Although there are a variety of definitions no definition has achieved universal recognition and acceptance since they vary among stakeholders. Hence, some subsequent researchers have used indicators or proxies to represent AQ such as audit size (Becker, Defond, Jiambalvo, & Subramanyam, 1998; Huq et al., 2022; Riguen et al., 2018; Sundgren & Svanström, 2013), audit fee (AlQadasi & Abidin, 2018; Hay, Knechel, & Ling, 2008), litigation (Schmidt, 2012). Most studies pointed out the significant correlation between AQ and audit firms' size because they claimed that the firms with large scale have strict principles, useful resources, perfect technical expertise, and more independence (Beatty, 1989; Sundgren & Svanström, 2013). On the other hand, in small audit firms with less reputation, staff can ignore essential audit procedures in peak season, miss misstatements or meet the risk of self-interest.

Hypothesis Development

When it comes to prior research, there are two competing viewpoints to explain the association between internal governance mechanisms and external auditors. The first deduction signified that the companies with good internal control are willing to pay less audit fee, which means less audit quality (Felix, Gramling, & Maletta, 2001). In this substitution scenario, the external audit work would be superseded by the CG regime. They hope that a large amount of money for instruments of internal controland monitoring can be compensated by the reduction of external audit fee and vice versa. This viewpoint followed the feature: assets in place and growth (Anderson, Francis, & Stokes, 1993). On the other hand, the second view which was indicated by some of the latest studies is that good CG is positively related to external audit quality. This is a complementary view which says that the company investing more in the governance mechanism would invest more on other monitoring means with a famous brand name and specialist auditors like the Big4 (Srinidhi, He, & Firth, 2014).

As the BOD grows, there will be more members, which may result in divergent viewpoints. When there are too many divergent viewpoints at a shareholders' meeting, it becomes difficult to agree on a plan of action. Some studies have denoted that a small board can abolish the disadvantages of a huge board which are time-wasting for making decisions, process, and procedures. Therefore, a small-sized board can make the hierarchy simple, make decisions more quickly in emergent situations, alleviate processing problems, and hence become more effective (Abu Qa'dan & Suwaidan, 2019; Pucheta-Martínez & Gallego-Álvarez, 2018).

On the contrary to those above deduction, board size or the number of executive directors is a critical element in management and enhancing competitive advantage. According to the Agency Theory, the more directors on the board, the greater the monitoring responsibilities they play, pushing management to provide more information about the company's actions, such as corporate social responsibility, and lowering agency costs.

Furthermore, bigger boards can prevent misuse of power to dominate the board, as well as any acts that are detrimental to other stakeholders (Abdul Rahman, Haniffa, & Haneem Mohamed Ali, 2006). With a large number of members, they are willing to dedicate their time and effort, utilize fully resources to detect and mitigate errors, supervise management actions, make the right decisions, enhance CG and financial results (Khudhair et al., 2019; Quick et al., 2018). The first hypothesis would be:

H1a: There is a negative relationship between the size of the board of directors and external audit quality.

CEO duality arises when one person concurrently acts as the chairman and CEO of the company (Rechner & Dalton, 1991). Combining the responsibilities of the chairman and CEO might cause some issues in CG, such as ignoring the viewpoints of other board members (Bartov, Gul, & Tsui, 2000), because CEO duality gives them with a solid foundation of power. In this instance, the CEO may make decisions that promote personal gain without considering the views of other board members or the interests of other stakeholders (Khan, Muttakin, & Siddiqui, 2015). Besides, CEO duality has more chances and incentives to manipulate earnings due to the scarcity of transparency (Imhoff, 2003), resulting in reduced

overall accountability and making the companies less transparent for all relevant stakeholders, leading to less corporate social responsibility (CSR) implementation (Cherian et al., 2020). The above discussion is also proper for the CEO holding a significant number of shares. Thus, the following hypothesis was derived:

H1b: There is a negative relationship between CEO ownership, CEO duality and external audit quality.

Park, Shin, and Suh (2013); Riguen et al. (2018) have shown that the better the CG the better the AQ is. Independent directors, according to the Agency Theory, play a critical role in CG by improving the monitoring and scrutiny of a company's management and operations. It is expected that the interests of diverse stakeholders would be protected, and that company value will be enhanced through more transparent information with the participation of highly independent directors (Nguyen & Nguyen, 2020). By contrast, there are some studies that have reported that a negative relation between corporate governance and AQ if almost all shareholders are in the BOD. This kind of shareholders take part in and monitor daily activities of companies; hence they are less dependent on public information and managers may be less likely to dedicate effort in preparing financial statements as well as other essential reports (Srinidhi et al., 2014). As a result, this kind of CG will not require high AQ and be willing to pay less audit fees. The research of Khan et al. (2015) found this situation taking place in the Bangladeshi economic context with most family firms. Hence, our hypothesis was as follows:

H1c: There is a negative relationship between board independence and external audit quality.

Ownership structure includes inside and outside shareholders. Inside substantial shareholders are executive directors or non-executive directors, family members who hold at least 5% shares of the company (Yunos, Smith, & Ismail, 2010), while outside shareholders are totally independent individuals or organizations (Mustapha & Che Ahmad, 2013). There are two main kinds of ownership called concentrated ownership (Choi, Park, & Hong, 2012) and distributed ownership (Ongore, 2011). In the distributed ownership, each owner can have equal possibility to make decisions to

be applied to a company, while in concentrated ownership, the ownership focusses on substantial shareholders who have more power to control, monitor and affect management.

With the greater ability of taking part in management, Bozec and Bozec (2007); Jensen and Meckling (1976) argued that if a company has a great number of concentrate shareholders, those controlling shareholders will have more chances to gain insights into daily activities and issues, take part in the decision making process, monitor directors frequently, help to limit discretion and expropriation of directors to investors, and simultaneously there is less reliance on the monitoring role of other CG mechanisms. Nevertheless, most controlling shareholders can engender agency problems between substantial owners and minor shareholders. Due to the dominant power in their hands to engage in management, controlling shareholders can have more opportunities to make decisions or impose policies that do harm to others (AlQadasi & Abidin, 2018; Khan et al., 2015; Srinidhi et al., 2014). From the above discussion, the following hypothesis was formulated:

H2: Ownership concentration moderates the relationship between a firm's governance and the demand for audit quality.

From the underlying theories and previous studies, we proposed the following analytical framework for the study:

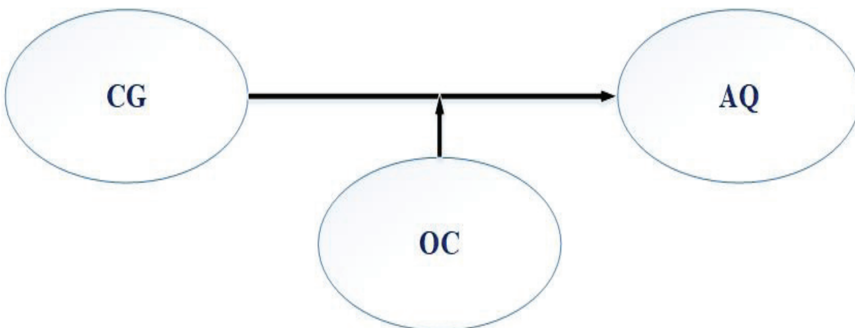

Figure 1: Research framework

METHODOLOGY

In this study, we estimated the effect of CG on AQ with the moderation effect of OC. The logistic regression model was used to achieve the research objective because the dependent variable "Did clients engage with the service of the Big 4 auditors - AQ" had only two values (0: Not engaging with the service of the Big 4, 1: Engaging with the service of the Big 4) and considering the nature of the relationship and the variables were chosen. The logistic regression model equation is described below:

$$AQ_{i,t} = \delta_1 CG_{i,t} + \delta_2 CG * OC_{i,t} + \delta_3 OC_{i,t} + \delta_4 ROA_{i,t} + \delta_5 SIZE_{i,t} + \delta_6 PPE_{i,t} + \delta_7 RISK_{i,t} + \delta_8 LEV_{i,t} + \varepsilon_{i,t}$$

Dependent Variables

Follow the result of Pham et al. (2017) about the quality disparity between Big4 and non-big companies in Vietnam, it showed the higher AQ in Big4 firms was due to the more competent auditors and modern technology, hence we used Big4 as the control variable for AQ. AQ = 1 if the client engaged the service of a Big4 auditor in the financial year, otherwise, AQ = 0.

Independent Variables

We incorporated in our investigation various controls variables that were assumed to simultaneously influence the association between CG and AQ. For a firm CG's characteristic, we controlled for the volatility of the CEO ownership (CEOOWN), management size (MGNTSIZE), board size (BOARDSIZE) and board independence (BOARDIND). We forecast that all the four indicators of CG to be negatively associated with AQ, since managers and shareholders expect a good CG mechanism to reduce the risk of information asymmetry, which can supersede external audit services.

Control Variables

Based on the research of AlQadasi and Abidin (2018); Srinidhi et al. (2014)"ISSN":"00014826","abstract":"Family firms are characterized by less separation between ownership and control (Type 1 agency problem,

we controlled some variables that had an impact on the demand for AQ such as SIZE, LEV, RISK, ROA and PPE. We forecasted LEV, SIZE and RISK to have a positive relationship with AQ. While, ROA and PPE were predicted to have a negative impact on AQ. **Table 1** describes all the variables in this study.

Table 1: Describe the Variables in Research Model

Variables	Description	Source
AQ	AQ: 0: Not engaging the service of the Big 4, 1: Engaging the service of the Big 4	Becker et al. (1998); Huq et al. (2022); Pham et al. (2017)
BOARDSIZE	The number of boards members	Balakrishnan, Billings, Kelly, and Ljungqvist (2014); Felix et al. (2001); Khan et al. (2015); Khudhair et al. (2019); Simunic (1980, 1984); Wallace (1984)
BOARDIND	The proportion of independent shareholders in the board	
MGNTSIZE	The number of management members	
CEOOWN	Shares of CEO divided bytotal shares of the company	
SIZE	Natural log of total assets	AlQadasi and Abidin (2018)
LEV	Dividing financial debt by total assets	
ROA	Total net income over total assets	
RISK	The proportion of receivables and inventory to total assets	
PPE	Netbook value of fixed assets over total assets	

RESULTS AND DISCUSSION

Descriptive statistics

The descriptive statistics for the variables used in the current study are shown in **Table 2**. Regarding Big 4 service engagement (**big4**), the mean value of the variable was quite small 0.24 which meant that just nearly one-fifth of the enterprises in our sample engaged the services of the Big 4. In terms of four indicators measuring CG, the largest board included 11 members, and the highest shareholding of the CEO was nearly 72%. Furthermore, the multicollinearity test revealed that all independent and control variables had VIF < 10, indicating that the model is free of multicollinearity.

Table 2: Descriptive Statistics of All Variables

Variable	Obs	Mean	Std. Dev.	Min	Max	VIF
big4	2,769	0.241	0.428	0.000	1.000	1.34
ceoown	2,691	4.044	7.997	0.000	71.824	1.14
mgntsize	2,756	7.343	1.472	3.000	17.000	4.69
boardid	2,756	3.624	1.257	0.000	10.000	5.12
boardsize	2,756	5.445	1.102	3.000	11.000	1.85
oc	2,760	0.482	0.221	0.02	0.988	1.09
roa	2,733	0.067	0.082	-0.790	0.840	1.15
size	2,769	27.178	1.508	23.330	32.200	1.77
ppe	2,769	0.245	0.210	0.000	0.953	1.54
risk	2,736	0.390	0.234	0.000	0.988	1.57
lev	2,769	0.227	0.191	0.000	0.798	1.69

Empirical results

OC was the moderating factor of the relationship between CG and AQ. OC was calculated as the proportion shares of substantial shareholders who held at least 5% of the company's shares. To address the multicollinearity problem, we used the demeanoc (**Table 3, 4, 5**) value to reduce the interaction between given variables and measured the impact of OC on AQ.

As shown in Table 3 the four CG indicators were board independence, board size, CEO ownership, and CEO duality all have negative impact on AQ. These results supported **Hypothesis H1a, H1b** and **H1c**. Managers would have less incentives to hire competent auditors due to the opportunities of fraud or expropriation if they are Chairmen or hold a great number of shares. Besides, Z Jun Lin and Liu (2009) showed the same result and explained that if the CEO also holds Chairman position, it is much easier to manipulate discretion and mislead so the demand for AQ is low. By contrast, board size and board independence are signs of efficient supervisors, so they are not willing to pay more for external governance instruments. These results are consistent with Balakrishnan et al. (2014); Khan et al. (2015); Khudhair et al. (2019). Consequently, with a bigger membership, they are more ready to devote their time and effort to detecting and correcting errors, making sound choices, and improving CG quality (Khudhair et al., 2019).

To test **Hypothesis H2**, we measured the impact of OC on the relationship between CG and AQ. Firstly, the direct impact of OC on AQ is shown in **Table 3**. Firms with a more concentrated ownership have the tendency to reduce the transparency of financial statements, hence they are not willing to be audited by Big 4 companies or it can be said that there is low demand for AQ. It is also consistent with the outcome in the Malaysia market (AlQadasi & Abidin, 2018). Then, we tested the impact of OC as a moderatingfactor to the relationship between CG and AQ. The results suggested that firms with good internal governance will demand higher AQ and make sure of the transparency of financial statements and information quality to prevent the risk of suboptimal decisions, fraud, and discretion of managers. This result is similar to the outcome of the research conducted by AlQadasi and Abidin (2018).

Table 3: Logit Regression Results

Variables	Model 1	Model 2	Model 3	Model 4
demeanedoc	-2.382*** (0.653)	-2.678*** (0.663)	-2.674*** (0.661)	-0.359 (0.613)
boardid	-0.222*** (0.054)			
Oc*boardid	0.579*** (0.068)			
boardsize		-0.155** (0.051)		
Oc*boardsize		0.441*** (0.049)		
mgntsize			-0.090* (0.042)	
Oc*mgntsize			0.326*** (0.036)	
ceoown				-0.098*** (0.021)
Oc*ceoown				0.098** (0.037)

size	1.027***	1.027***	1.021***	0.991***
	(0.051)	(0.052)	(0.052)	(0.050)
ppe	0.913**	0.866**	0.836**	1.185***
	(0.316)	(0.318)	(0.318)	(0.310)
risk	1.172***	1.137***	1.180***	1.179***
	(0.291)	(0.290)	(0.292)	(0.288)
lev	-3.208***	-3.241***	-3.154***	-3.138***
	(0.364)	(0.364)	(0.366)	(0.366)
Constant	-29.589***	-29.638***	-29.704***	-28.262***
	(1.421)	(1.424)	(1.425)	(1.405)
N	2667	2667	2667	2604

Note: ***, **, * are statistically significant at 1%, 5%, 10% respectively. Numbers in parentheses represent t-value

To overcome the endogenous issue, we used the future value of the dependent variable (Future Big 4) by dropping the value of AQ at time t and using the predicted value at time t+1 to improve the robustness and forecast ability of the Logit regression model. The results are presented in **Table 4**, the relationship between CG and AQ as well as the moderation role of OC were consistent with original result as shown in **Table 3**. As a result, the reliability of the research results is guaranteed.

Table 4: Endogeneity Test – Future Big 4

Variables	Model 1	Model 2	Model 3	Model 4
demeanedoc	-2.583*** (0.776)	-2.915*** (0.788)	-2.829*** (0.785)	-0.44 (0.730)
boardid	-0.195** (0.062)			
oc*boardid	0.588*** (0.078)			
boardsize		-0.139* (0.058)		
Oc*boardsize		0.456*** (0.056)		
mgntsize			-0.063 (0.048)	

Oc*mgntsize			0.324***	
			(0.041)	
ceoown				-0.090***
				(0.023)
Oc*ceoown				0.078
				(0.043)
roa	-0.155	-0.076	-0.102	0.038
	(0.784)	(0.785)	(0.783)	(0.758)
size	1.054***	1.054***	1.045***	1.015***
	(0.060)	(0.061)	(0.060)	(0.058)
ppe	0.789*	0.734*	0.717*	1.053**
	(0.361)	(0.363)	(0.363)	(0.356)
risk	1.134***	1.085**	1.152***	1.091**
	(0.337)	(0.335)	(0.338)	(0.333)
lev	-3.049***	-3.078***	-2.990***	-2.942***
	(0.410)	(0.410)	(0.412)	(0.411)
Constant	-30.383***	-30.462***	-30.535***	-28.856***
	(1.648)	(1.653)	(1.654)	(1.630)
N	2050	2050	2050	2001

Note: ***, **, * are statistically significant at 1%, 5%, 10% respectively. Numbers in parentheses represent t-value

To control and ensure the moderating role of OC with the association between CG and AQwe distributed our samples according to the level of OC. We created a dummy variable called oc_hi and the oc_hi value was 1 if shareholders held at least 48.2% of the shares and vice versa. The results as shown in **Table 5** showed the same relationship about the impact of OC on the association between CG and AQ. The findings underline the significant role of CG on the AQ with firms having a high OC.

Table 5: Interaction Results with OCdummy Value

Variables	Model 1	Model 2	Model 3	Model 4
demeanedoc	-1.568* (-0.639)	-1.804** (-0.646)	-1.805** (-0.646)	-0.297 (-0.613)
boardid	-0.024 (-0.044)			
oc_hi*boardid	0.180*** (-0.029)			
boardsize		-0.031 (-0.047)		
oc_hi*boardsize		0.142*** (-0.021)		
mgntsize			0.031 (-0.038)	
oc_hi*mgntsize			0.103*** (-0.015)	
ceoown				-0.066*** (-0.012)
oc_hi*ceoown				0.036* (-0.018)
roa	-0.405	-0.299	-0.381	-0.207
	(-0.684)	(-0.683)	(-0.683)	(-0.68)
size	1.012***	1.022***	1.005***	0.993***
	(-0.051)	(-0.052)	(-0.051)	(-0.05)
ppe	1.080***	1.025**	0.998**	1.200***
	(-0.312)	(-0.314)	(-0.314)	(-0.31)
risk	1.192***	1.131***	1.198***	1.187***
	(-0.289)	(-0.287)	(-0.289)	(-0.288)
lev	-3.339***	-3.385***	-3.279***	-3.154***
	(-0.362)	(-0.362)	(-0.364)	(-0.365)
Constant	-29.202***	-29.403***	-29.390***	-28.329***
	(-1.399)	(-1.407)	(-1.404)	(-1.409)
N	2667	2667	2667	2604

Note: ***, **, * are statistically significant at 1%, 5%, 10% respectively. Numbers in parentheses represent t-value

CONCLUSION

Our study contributes to the literature on the association between CG and AQ with the moderating role of OC in an emerging market - Vietnam. There is currently no research in Vietnam on CG and AQ using OC as a moderation factor, which is why this essential evidence is important. Furthermore, the findings of this study are critical for managers and shareholders to assess if they should maintain strong CG and minimize the risk of agency problems through governance and external auditing. Furthermore, OC is important because a high degree of OC can improve information transparency and demand for a higher AQ. As a result, investors can make decisions about which companies to invest in based on CG and AQ. Additionally, our study is expected to help authorities concerned more about stricter regulations to enhance the quality of governance and auditing.

This study reinforces some prior research about the negative association between CG and AQ, especially in emerging market conditions like Vietnam. In more detail, we separated each feature of CG efficiency in relationship to AQ in order to bring the most conspicuous results to readers who are investors, managers, shareholders or policymakers. More specifically, the moderating role of OC to the relationship between CG and AQ was also considered in the Vietnam economic context. Empirical evidence suggested that OC has a positive influence on that association. It means that the ownership is more concentrated and the association between CG and AQ is strengthened.

Our study provides critical implications for investors, managers, shareholders, and policy makers. The results warn investors to consider CG rigorously instead of only being concerned with audit opinions as before Shareholders who are already owners, they can take note of the analysis in this study to ask for more controlling and monitoring regimes for explicit public information because of the high peril of agency problems.

Managers who would like to attract more investors or establish long-lasting relationship with stakeholders can consider the substitute instruments: internal governance regimes or prestigious audit firms to build a firm belief of outsiders but reduce control expenses. In addition, it is advisable to consider keeping the board size at a moderate level and appointing more independent members on the board to increase the effectiveness of CG.

Lastly, the policymakers should consider stricter regulations on CG in Vietnam to enhance the competitive advantage and prestige of Vietnamese companies to international investors, and simultaneously ensure accurate and clear disclosures reflecting the truthfulness of financial information and operation status. Besides, independent directors play a vital role in the CG structure in Vietnam, as recognized by regulatory organizations. Furthermore, directors of companies might profit from these findings by utilizing them as a criterion for evaluating how board traits affect financial reporting and AQ.

There are several restrictions of this study, which provides new possible avenues for future research. The first limitation is that we only focused on CG with traits related to internal structures of boards. Therefore, the next research can extend to other CG methods such as internal control/ audit, audit committee, etc. The second point is that the sample was restricted to Vietnam, therefore future research should explore CG practices across companies and regions. Thirdly, we excluded financial institutions from our sample and did not consider the classification of controlling shareholders (government, organization, individuals) which may have affected the results of this study.

Despite these limitations, this study provided readers who are policymakers, regulators, domestic and foreign investors, business organizations the details of the CG literature and relevant implications in the context of an emerging market like Vietnam.

ACKNOWLEDGEMENTS

This research is funded by University of Economics and Law, Vietnam National University Ho Chi Minh City, Vietnam.

REFERENCES

Abdul Rahman, R., Haniffa, R., & Haneem Mohamed Ali, F. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial auditing journal, 21*(7), 783-804.

Abu Qa'dan, M. B., & Suwaidan, M. S. (2019). Board composition, ownership structure and corporate social responsibility disclosure: the case of Jordan. *Social Responsibility Journal, 15*(1), 28-46.

Alawaqleh, Q. A., Almasria, N. A., & Alsawalhah, J. M. (2021). The Effect of Board of Directors and CEO on Audit Quality: Evidence from Listed Manufacturing Firms in Jordan. *Journal of Asian Finance Economics and Business, 8*(2), 243-253.

AlQadasi, A., & Abidin, S. (2018). The effectiveness of internal corporate governance and audit quality: the role of ownership concentration–Malaysian evidence. *Corporate Governance: The International Journal of Business in Society, 18*(2), 233-253.

Anderson, D., Francis, J. R., & Stokes, D. J. (1993). Auditing, directorships and the demand for monitoring. *Journal of Accounting and Public Policy, 12*(4), 353-375.

Balakrishnan, K., Billings, M. B., Kelly, B., & Ljungqvist, A. (2014). Shaping liquidity: On the causal effects of voluntary disclosure. *The journal of Finance, 69*(5), 2237-2278.

Barros, C. P., Boubaker, S., & Hamrouni, A. (2013). Corporate governance and voluntary disclosure in France. *Journal of Applied Business Research (JABR), 29*(2), 561-578.

Bartov, E., Gul, F. A., & Tsui, J. S. L. (2000). Discretionary-accruals models and audit qualifications. *Journal of Accounting and Economics, 30*(3), 421-452.

Bathala, C. T., & Rao, R. P. (1995). The determinants of board composition: An agency theory perspective. *Managerial and Decision Economics, 16*(1), 59-69.

Beatty, R. P. (1989). Auditor reputation and the pricing of initial public offerings. *Accounting Review*, 693-709.

Becker, C. L., Defond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The Effect of Audit Quality on Earnings Management*. *Contemporary Accounting Research, 15*(1), 1-24.

Bozec, Y., & Bozec, R. (2007). Ownership concentration and corporate governance practices: substitution or expropriation effects? *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'Administration, 24*(3), 182-195.

Chen, J., & James, M. (April 12, 2020). Corporate Governance. Retrieved from https://www.investopedia.com/terms/c/corporategovernance.asp

Cherian, J., Safdar Sial, M., Tran, D. K., Hwang, J., Khanh, T. H. T., & Ahmed, M. (2020). The strength of CEOs' influence on CSR in Chinese listed companies. New insights from an agency theory perspective. *Sustainability, 12*(6), 2190.

Choi, S. B., Park, B. I., & Hong, P. (2012). Does ownership structure matter for firm technological innovation performance? The case of Korean firms. *Corporate governance: an international review, 20*(3), 267-288.

Chung, K. H., Elder, J., & Kim, J.-C. (2010). Corporate Governance and Liquidity. *Journal of Financial and Quantitative Analysis, 45*(2), 265-291.

Cohen, D. A., & Zarowin, P. (2010). Accrual-based and real earnings management activities around seasoned equity offerings. *Journal of Accounting and Economics, 50*(1), 2-19.

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics, 3*(3), 183-199.

Fakhfakh, I., & Jarboui, A. (2022). Board of director's effectiveness, audit quality and ownership structure: impact on audit risk-Tunisian evidence. *Journal of Accounting in Emerging Economies, 12*(3), 468-485.

Felix, J., William L, Gramling, A. A., & Maletta, M. J. (2001). The contribution of internal audit as a determinant of external audit fees and

factors influencing this contribution. *Journal of Accounting Research, 39*(3), 513-534.

Francis, J. R. (2004). What do we know about audit quality? *The British Accounting Review, 36*(4), 345-368.

Hay, D., Knechel, W. R., & Ling, H. (2008). Evidence on the impact of internal control and corporate governance on audit fees. *International Journal of Auditing, 12*(1), 9-24.

Hung, H. (2019). A new decree on Internal Audit – Towards international best practices. *PwC Vietnam NewsBrief*.

Huq, A. M., Hartwig, F., & Rudholm, N. (2022). Do audited firms have a lower cost of debt? *International Journal of Disclosure and Governance*. doi:10.1057/s41310-021-00133-1

Ibrahim, A., Habbash, M., & Hussainey, K. (2019). Corporate governance and risk disclosure: evidence from Saudi Arabia. *International Journal of Accounting, Auditing and Performance Evaluation, 15*(1), 89-111.

Imhoff, G. (2003). Accounting quality, auditing and corporate governance. *Auditing and Corporate Governance (January 2003)*.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jiang, F., & Kim, K. A. (2015). Corporate governance in China: A modern perspective. In: Elsevier.

Kaawaase, T. K., Nairuba, C., Akankunda, B., & Bananuka, J. (2021). Corporate governance, internal audit quality and financial reporting quality of financial institutions. *Asian Journal of Accounting Research, 6*(3), 348-366. doi:10.1108/AJAR-11-2020-0117

Khan, A., Muttakin, M. B., & Siddiqui, J. (2015). Audit fees, auditor choice and stakeholder influence: Evidence from a family-firm dominated economy. *The British Accounting Review, 47*(3), 304-320.

Khudhair, D., Al-Zubaidi, F., & Raji, A. (2019). The effect of board characteristics and audit committee characteristics on audit quality. *Management Science Letters, 9*(2), 271-282.

Khuong, N. V., Abdul Rahman, A. A., Thuan, P. Q., Liem, N. T., Anh, L. H. T., Thuy, C. T. M., & Ly, H. T. N. (2022). Earnings Management, Board Composition and Earnings Persistence in Emerging Market. *Sustainability, 14*(3).

Khuong, N. V., Anh, L. H. T., Quyen, P. N., & Thao, N. T. T. (2022). Agency cost: A missing link between female on board and firm performance. *Business Strategy & Development*. doi:10.1002/bsd2.199

Kinney, W. R., & Libby, R. (2002). The relation between auditors' fees for nonaudit services and earnings management: Discussion. *The accounting review, 77*, 107-114.

Knechel, W. R., Krishnan, G. V., Pevzner, M., Shefchik, L. B., & Velury, U. K. (2013). Audit quality: Insights from the academic literature. *Auditing: A Journal of Practice & Theory, 32*(Supplement 1), 385-421.

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economics, 69*(3), 505-527.

Lin, Z. J., & Liu, M. (2009). The impact of corporate governance on auditor choice: Evidence from China. *Journal of International Accounting, Auditing and Taxation, 18*(1), 44-59.

Lin, Z. J., & Liu, M. (2010). The determinants of auditor switching from the perspective of corporate governance in China. *Advances in Accounting, 26*(1), 117-127.

Mustapha, M., & Che Ahmad, A. (2013). Blockholders and corporate monitoring costs: Evidence from Malaysia. *International Journal of Economics and Management, 7*(1), 28-44.

Nguyen, A. H., & Nguyen, L. H. (2020). Determinants of sustainability disclosure: Empirical evidence from vietnam. *The Journal of Asian Finance, Economics, and Business, 7*(6), 73-84.

OECD. (2021). *SME and Entrepreneurship Policy in Vietnam*.

Ongore, V. O. (2011). The relationship between ownership structure and firm performance: An empirical analysis of listed companies in Kenya. *African Journal of Business Management, 5*(6), 2120-2128.

Park, J. I., Shin, J. Y., & Suh, C. W. (2013). The effect of corporate governance on the audit fees and audit hours. *Korean Acconting Association*, 2, 273-314.

Pham, C. B. T., Vu, T. M. T., Nguyen, L. H., & Nguyen, D. D. (2020). Audit Quality and Stock Return Co-Movement: Evidence from Vietnam. *The Journal of Asian Finance, Economics and Business, 7*(7), 139-147.

Pham, N. K., Duong, H. N., Pham, T. Q., & Ho, N. T. T. (2017). Audit firm size, audit fee, audit reputation and audit quality: The case of listed companies in Vietnam. Asian Journal of Finance & Accounting, 9(1), 429-447.

Pucheta-Martínez, M. C., & Gallego-Álvarez, I. (2018). An international approach of the relationship between board attributes and the disclosure of corporate social responsibility issues. *Corporate social responsibility and environmental management, 26*(3), 612-627.

Quick, R., Schenk, N., Schmidt, F., & Towara, T. (2018). The impact of corporate governance on auditor choice: evidence from Germany. *Journal of Management and Governance, 22*(2), 251-283.

Rechner, P. L., & Dalton, D. R. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic management journal, 12*(2), 155-160.

Riguen, R., Kachouri, M., & Jarboui, A. (2018). Book-Tax Differences, Corporate Governance Effectiveness and Audit Quality: An Interactive Effects. *Journal of Corporate Accounting & Finance, 29*(4), 20-36.

Rustam, S., Rashid, K., & Zaman, K. (2013). Retracted: The relationship between audit committees, compensation incentives and corporate audit fees in Pakistan. In: Elsevier.

Schmidt, J. J. (2012). Perceived auditor independence and audit litigation: The role of nonaudit services fees. *The accounting review, 87*(3), 1033-1065.

Schwartz, K. B., & Menon, K. (1985). Auditor switches by failing firms. *Accounting Review*, 248-261.

Simunic, D. A. (1980). The pricing of audit services: Theory and evidence. *Journal of Accounting Research*, 161-190.

Simunic, D. A. (1984). Auditing, consulting, and auditor independence. *Journal of Accounting Research*, 679-702.

Srinidhi, B. N., He, S., & Firth, M. (2014). The effect of governance on specialist auditor choice and audit fees in US family firms. *The accounting review, 89*(6), 2297-2329.

Sundgren, S., & Svanström, T. (2013). Audit office size, audit quality and audit pricing: evidence from small-and medium-sized enterprises. *Accounting and Business Research, 43*(1), 31-55.

Thuy, H. X., Khuong, N. V., Anh, L. H. T., & Quyen, P. N. (2022). Effect of corporate governance on corporate social responsibility in Vietnam: state-ownership as the moderating role. *Journal of Financial Reporting and Accounting*.

Wallace, W. A. (1984). Internal auditors can cut outside CPA costs. *Harvard Business Review, 62*(2), 16-30.

Widani, N. A., & Bernawati, Y. (2020). Effectiveness of corporate governance and audit quality: The role of ownership concentration as moderation. *Jurnal Etikonomi, 19*(1), 131-140.

Yunos, R. M., Smith, M., & Ismail, Z. (2010). Accounting conservatism and ownership concentration: Evidence from Malaysia. *Journal of Business and policy research, 5*(2), 1-15.