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Improve the Quality of Financial Reports through Strengthening Internal Audit: Case Study at Garment Companies Listed on the Stock Market

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Abstract

Financial reports are considered one of the key components of management information, taking on the role of managing financial information resources for businesses. The quality of financial reporting is worryingly declining and causing many direct consequences for the market and investor confidence. Vietnam's textile and garment industry has always been one of Vietnam's key export industries for many years. Although, after the Covid 19 epidemic, the manufacturing industry in general and the garment industry in particular faced many difficulties. However, on the stock market, textile and garment stocks have recently received

cash flow attention. To attract cash flow from investors, listed companies in general and listed garment companies in particular are required to create trust for investors with the quality of information on financial reports. The article studies the current state of internal audit organization of garment companies listed on the Vietnamese stock market through survey data of 9 listed garment companies. From the research results, the authors propose a number of solutions to strengthen internal audit to improve the quality of financial reports of garment companies listed on the Vietnamese stock market.

Keywords: Internal Audit, Financial Reports, Garment Companies Listed on the Vietnamese Stock Market

1. Introduction

Vietnam's textile and garment industry plays a pivotal role in industrial development in Vietnam. With the development of technology, an increasingly large proportion of skilled labor and incentives from state policies, the textile and garment industry has achieved many encouraging results, creating value of goods, ensuring both domestic consumption and export demand. In the coming time, Vietnam will continue to participate more deeply in the global integration process, a series of FTA free trade agreements will be implemented, science and technology will develop rapidly with the technological revolution. 4.0, the business environment is volatile, unstable, and unpredictable. Garment businesses must face new and increasingly complex risks that are difficult to identify and respond to. Therefore, garment businesses in general and listed garment businesses in particular need a tool to support business management. That creates an urgent need to establish and maintain a solid and effective three-layer defense system in which internal audit is an essential part. Since its inception, internal audit has been an effective tool for management and control from within the enterprise. Internal audit is a support tool to improve the efficiency and effectiveness of corporate governance processes. Internal audit activities are also one of the issues that businesses focus on and flexibly improve. For internal audit activities to become an effective tool to help businesses manage and prevent risks, businesses must be fully aware of and ensure good implementation of its principles. Stemming from that practical need, the article is based on the results of researching the current state of internal audit of garment companies listed on the Vietnamese stock market to propose a number of recommendations to strengthen internal audit. Department to improve the quality of financial reporting.

2. Theoretical basis

Internal audit

According to the Association of Internal Auditors IIA, internal auditing is an impartial, independent assurance and consulting process that is used to strengthen and improve internal company or organizational processes. Internal audit assesses and enhances the efficacy of risk management, control, and corporate governance procedures using a methodical and structured

methodology.

The following are the functions of internal audit:

- *The accounting condition and financial statements' audit function*

Internal audit's primary duties include reviewing corporate accounting records and auditing financial statements. Internal auditing specifically manages and oversees corporate operations, the process of adhering to current legal rules, and the quality and dependability of financial information.

- *Function to protect business value*

Internal auditors are independent observers who ensure company operations, ensuring compliance with national laws, business ethics and the company's own regulations. Internal audit is responsible for detecting errors in the business operations of an enterprise.

In other words, internal audit has the function of advising and orienting the board of directors and management on risk control.

- *System improvement functions*

Internal audit supports improvement and overcoming weaknesses in the corporate management and governance system through professional measures such as inspection, analysis, and monitoring of processes and activities of departments, department in the business apparatus.

Internal audit consulting helps companies improve productivity and operational efficiency. In fact, around the world, many companies with internal audit departments will operate more effectively, with less fraud, transparency and higher business efficiency.

Internal audit plays an important role in the organization's governance process and supports businesses. Some internal audit roles may include:

- Provide risk management capabilities, identify and evaluate the effectiveness of processes, internal control systems, and corporate governance.
- Consulting on process development, consulting on new project control, consulting and assessment, risk management.
- Ensure inspection activities are performed to provide objective assessments of compliance, effectiveness and control performance.
- Internal assessment, reporting directly to the Board of Directors and Board of Directors on the business financial situation and other issues of the enterprise. Therefore, the enterprise's internal audit system needs to be continuously checked, updated and perfected.

Quality of financial reporting

Financial reporting is a system that includes all economic and financial information of an organization, presented with standards and regulations according to accounting standards and accounting regimes. Financial reports are used to provide information about the financial situation, business situation and cash flows of an enterprise, meeting the management requirements of business owners, state agencies and useful needs of customers. Users in making economic decisions. Specifically, financial reports must provide information of a business about assets, liabilities, equity, revenue, other income, production and business costs, other costs, profit and loss. And division of business results and cash flows.

A useful financial report is a financial report that has required quality characteristics, and these quality

characteristics are also affected by basic and additional factors. The article addresses the quality characteristics of financial reports and explores the factors that affect financial reports.

Requirements for financial reporting quality:

- *First, Honesty*

The information and data presented in the Financial Statements must be recorded and reported on the basis of complete, objective evidence, true to the actual situation, nature of content and value of economic development operations. Generated, without errors in the process of recording data. Specifically, error-free means there are no omissions in the description of the phenomenon and no errors in the process of providing selected and applied reporting information. Inerrancy does not mean being completely accurate in all respects; for example, estimates of unobservable prices and values are difficult to determine whether they are accurate or inaccurate. The presentation of an estimate is considered to be truthful if the estimated value is clearly described, the nature and limitations of the estimation process are explained, and there are no errors in the selection of appropriate figures in the estimation process.

- *Second, Objectivity*

Objective presentation is unbiased when selecting or describing financial information. Objective presentation must ensure neutrality, without focusing on, emphasizing or minimizing, as well as other manipulations that change the level of impact of financial information, whether it is beneficial or unfavorable to the user. Financial report. In short, accounting information and data must be recorded and reported according to reality, not misrepresented, not distorted and verifiable.

- *Third, Completeness*

All economic and financial transactions arising related to the accounting period must be fully recorded and reported, without any omissions. Information is considered complete when it includes all information necessary to help users of financial statements understand the nature, form and risks of transactions and events. For some items, a complete presentation must also describe additional information about quality, factors and situations that may affect the quality and nature of the item.

Financial information must be fully presented in all material respects. Information is considered material in cases where missing information or inaccurate information can affect the decisions of users of the reporting unit's financial information. Materiality depends on the nature and magnitude, or both, of the relevant items presented in the financial statements of a particular entity.

- *Fourth, Timeliness*

Accounting information and data must be recorded and reported promptly, on or before the prescribed deadline without delay.

- *Fifth, Easy to understand*

Information and data presented on the Financial Statements must be clear and easy to understand for users. Users here are assumed to have a certain knowledge of economics, business, and accounting. Information about complex issues in the Financial Statements must be explained in the notes.

- *Sixth, Comparable*

Accounting information and data between accounting periods within an enterprise and between enterprises can only be compared when calculated and presented consistently. In case of inconsistency, explanations must be

given in the notes so that users of the financial statements can compare information between accounting periods, between businesses, or between implementation information and estimate and accounting information, plan.

Enhancing the caliber of financial reporting is crucial for any company hoping to sustain its expansion and advancement. When it comes to business, companies with a solid financial basis frequently have an advantage over those with a poor one. Through financial reporting, shareholders are able to better understand company information and carry out monitoring duties while also helping business owners understand the present state of the company. It is evident that a major element influencing an enterprise's commercial performance is the caliber of its financial reporting.

3. Current status of internal audit at garment enterprises listed on the Vietnamese stock market

Introduction to listed garment companies

According to the listing floor, there are eight firms on the Stock Exchange out of the nine companies participating in the garment production and business sector that are listed on the Vietnam stock market as of 2023. One firm at the Hanoi Stock Exchange (HNX) and Ho Chi Minh City (HOSE).

Table 1: List of garment companies listed on the Vietnam stock market

STT	Stock code	Company	Exchanges
1	TCM	Thanh Cong Textile Garment Investment Trading Joint Stock Company	HOSE
2	TVT	Viet Thang Coporation	HOSE
3	GMC	Garmex Saigon Coporation	HOSE
4	ADS	Damsan Coporation	HOSE
5	EVE	Everpia Coporation	HOSE
6	KMR	Mirae Coporation	HOSE
7	MSH	Song Hong Garment Joint Stock Company	HOSE
8	GIL	Galimex	HOSE
9	TNG	TNG	HNX

Early in 2023, Vietnam's textile and apparel sector experienced a number of obstacles and hurdles. When export turnover reached 44 billion USD in 2022-an increase of nearly 10% from 2021-this industry had seen success. However, starting around the conclusion of the 2022 fourth quarter, the political and economic conditions the textile sector is badly impacted by the numerous issues the globe faces.

The lack of orders is one of the major issues the Vietnamese textile and apparel sector is now experiencing.

This industry has had challenges since the end of the third quarter of 2022, difficulties that are worse than they were during the Covid-19 pandemic. When compared to the average of the three prior quarters, textile and apparel exports fell 15% in the fourth quarter of 2022. The shortage of orders continues to persist and affects the production performance of businesses in the industry. However, despite facing difficulties and challenges, the textile and garment industry still has the potential to grow in 2023. In the second half of 2023, domestic garment manufacturing enterprises expect orders in the third quarter of 2023 will remain similar to the second quarter of 2023 level and after the sharp price reduction during the fourth quarter of 2023 holidays, the revenue outlook will improve. Most companies have recorded low business results in the fourth quarter of 2022,

so it is expected that businesses will achieve positive profit growth as early as the fourth quarter of 2023.

There are hopes for improvement and stabilization of the situation in the near future. This requires the textile and garment industry to adapt and find expected solutions, such as enhancing competitiveness, proactively finding new partners, and effectively using support policies from the government and other organizations relevant organizations.

Current status of internal audit

About audit activities

According to survey results of 9 listed garment companies, 4 companies have clear internal audit activities, shown on annual plans with internal audit reports and audit minutes. Internal. However, there are still companies whose internal audit activities are still sketchy or are only presented integrated in other financial reports, without a specific internal audit plan or separate audit report.

About the internal audit department

Among the 9 listed garment companies with 4 companies operating internal audit activities, it is clear that they have established a fairly systematic internal audit department with establishment decisions, operating regulations and functional regulations. The tasks of internal audit are relatively complete, clear and strict. According to the survey results, 44.4% of companies have a full-time internal audit, 26.2% of companies have a semi-specialized internal audit, and the rest are non-specialized. Currently, no company has outsourced the internal audit function.

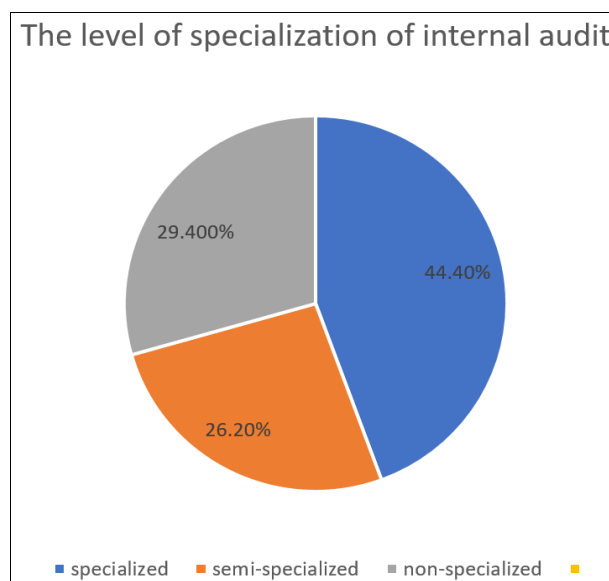


Fig 1: The level of specialization of internal audit

Regarding the capacity of internal auditors

The capacity of internal auditors in listed garment companies is considered through factors such as experience, skills and knowledge. With 9 listed garment companies, whether they have specialized or non-specialized internal audit organizations, 100% of auditors have university degrees in accounting and auditing. All companies have at least 2 internal auditors. Of these, 66.1% of internal auditors have over 5 years of experience, only 5.6% of internal auditors have less than 2 years of experience. This may show that the quality of internal auditors at listed garment companies is quite good. Every year, companies also

organize training for internal auditors. With the above characteristics, it can be seen that the capacity of internal auditors in listed garment companies is basically guaranteed to carry out the tasks. Goals and tasks of internal audit.

Technically auditing

At listed garment companies, two internal audit approaches are being implemented: traditional approach and system approach. The communication approach focuses on financial activities, mainly looking at compliance, heavy on details through reviewing a very large number of transactions. Such an approach takes a lot of time, is not very effective and does not bring added value to the business. The second approach also applied by listed garment companies is the system approach, which means that internal auditors approach activities and financial statements according to cycles, according to a series of events, Systematic and comprehensive control procedures. The risk-oriented approach is a modern approach that only a few listed garment companies have applied.

Regarding auditing techniques and technology, the majority of internal auditors are proficient in technical auditing methods, but the most common are basic tests through the implementation of detailed testing techniques for accounts. Item, profession. Modern information technology is only partly applied, mainly serving the processing and storage of information. Continuous auditing techniques, the use of sampling software, specialized auditing software or scoring techniques in risk assessment are almost not applied at listed garment companies.

4. Conclusion

The stock market is a channel to mobilize long-term capital in each country. The development of the stock market is closely linked to the development of businesses, so the quality of financial reports is a condition to help the stock market. Operating contracts have high transparency and efficient capital allocation. Transparency in financial reporting also helps avoid cases of financial reporting fraud. Dao Thi Thuy Hang (2022) ^[4] believes that financial reporting fraud is the process where an enterprise intentionally falsifies financial information. Mainly to cover up business violations, which affects businesses, investors and further has a negative impact on economic development. Therefore, it is required that listed companies in general and listed garment companies in particular need to strengthen internal audit to improve the quality of financial reports.

To overcome the shortcomings and limitations to organize internal audit in businesses effectively, in accordance with the tasks and functions of internal audit, some of the following solutions need to be implemented:

Firstly: It is necessary to unify awareness and viewpoints on the meaningful role of internal audit. This is a very important factor, directly affecting the organization and operation of internal audit in the enterprise. Managers need to have a proper awareness of the role of internal audit in controlling, preventing and detecting violations in management. It is necessary to have an overall, macro view of the role of internal audit. Organizing an internal audit department may initially increase costs for businesses. However, its effectiveness is extremely great, thanks to the internal audit department that can prevent and detect fraudulent acts that cause loss of assets that can be many times greater than the cost of organizing and maintaining the

system. Maintain the operation of the internal audit department.

Business managers also need to have a more positive view of internal audit, which is not entirely a department that inspects or controls individual or collective behavior, but its ultimate nature is to build a sustainable development business managed and operated by yourself, contributing to the overall development of the Economy and Society.

Second: There needs to be drastic intervention from State management agencies

To strengthen State management of internal audit activities, the State needs to develop and promulgate regulations for internal audit activities appropriate to new conditions, with content guiding units to establish set up an internal audit department. The state needs to issue regulations and sanctions, forcing businesses to organize an internal audit department.

On the part of the Ministry of Finance, it is necessary to issue internal audit standards and guidelines in accordance with international standards and practices. Provide practical guidance and apply the internal audit and risk management framework according to a standard model, to serve as a premise for internal audit to develop according to international practices. In addition, there also needs to be regulations on the legal status, independence, professional ethics as well as the powers and responsibilities of internal audit.

Third: Focus on training and developing human resources in internal auditing

This is a long-term solution in the internal audit development strategy in Vietnam.

For universities: Put an emphasis on providing students with an understanding of internal auditing; for those majoring in accounting or auditing, internal auditing may be required coursework.

Regarding associations of professionals: Organize regular training sessions with certification to develop internal auditing abilities in compliance with global norms and practices. Collaborate with globally recognized auditing organizations to provide experience sharing or superior human resource training. Collaboration may facilitate the updating of corporate trends and new norms, enabling management agencies to further enhance the legal framework. Enhance the internal audit team's professional credentials concurrently.

Fourth: Make sure internal auditors are independent and strengthen their standing under the law. Separation and independence from the unit's functional divisions and units must be guaranteed by the internal audit department. To perform its audit duties, the internal audit committee of the unit has to have a suitable place within the organizational hierarchy of the unit.

Regulations governing the internal auditor's independence during the audit process are necessary. Internal auditors don't take part in auditing tasks that they have previously overseen or are in charge of implementing. Internal auditors are prohibited from conducting an audit of a department or unit for a period of three years in a row, etc.

Official documentation must explicitly outline the internal audit department's goals, powers, and duties. The internal audit department's operational norms must explicitly state the department's position, grant access to accounting records, personnel, and related physical assets for the purpose of audit work, and clearly outline the range of

internal audit operations.

Fifth: Comply with correct audit methods and procedures

During the process of performing internal audit, it is necessary to strictly follow the methods and processes of an audit, from the audit preparation stage to the audit completion stage, giving opinions and recommendations.

During the audit planning stage, Internal Auditors need to properly research and evaluate the internal control system to determine the correct scope of the audit. At the same time, develop appropriate audit plans and programs. During the audit implementation phase, it is necessary to apply a variety of audit evidence collection techniques: Inspection, analysis, observation, interview, to obtain the most reliable qualifications; in the final stage of the audit, the opinions given must ensure reliability and truth.

Internal audit is a tool that helps managers control and manage the unit's operations. For internal audit to truly be an effective tool, that tool must be placed in the hands of a manager who has both heart and vision. Thus, you can rest assured about the reliability of economic and financial information as well as ensuring the safety of the assets of the State and the unit.

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