Risk Management Of Financial Reporting And Financial Security Reporting In Vietnamese Securities Companies

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Abstract:

This study proposes a set of solutions to assist the management of securities companies in managing the risk of financial reporting (FR) quality and financial security reporting (FSR) of Vietnamese securities companies. The research sample was collected from 650 survey questionnaires distributed among securities companies and investors. By utilizing multivariate regression analysis through SPSS 20 software, the results identified four factors influencing the quality of FR and FSR in securities companies (RMM), including: (1) Technical infrastructure and technology (TI); (2) Quality of human resources (HR); (3) Level of management in securities companies (MG); (4) Reputation of operations (RO). Among these factors, TI, MG, and HR have a positive relationship with RMM, while RO has a negative relationship. TI has the greatest impact on RMM, followed by HR, RO, and finally MG.

Keywords: Financial security of securities companies, Financial risk of securities companies, Risk management of securities companies, Financial reporting of securities companies, Financial security reporting of securities companies.

1. Problem Statement

In recent times, both in Vietnam and worldwide, there have been numerous scandals involving major companies being suspended, merged, or dissolved, such as Uber Vietnam, Silicon Valley Bank, Silvergate Bank, and Signature Bank. These incidents were caused by either unintentional or intentional fraudulent actions by company executives, which affected the quality of financial reporting (FR) and Financial security reporting (FSR). Detecting and preventing such fraud is crucial for enhancing the health of businesses.

The impact and effectiveness of investment have been acknowledged to be closely related to the quality of FR. It is particularly relevant for companies with significant cash balances and dispersed ownership, as it suggests that high-quality FR reduces the information asymmetry arising from conflicts among managers (Verdi, 2006). According to Ramalingegowda et al. (2013), high-quality FR minimizes the negative impact of dividend policies on investors, especially for companies that rely on market share growth as their primary source of value (Ramalingegowda, Wang, & Yu, 2013). Similarly, Koo et al. (2017) found a strong influence of executive motivations on FR, which significantly impacts dividend policies (Koo, Ramalingegowda, & Yu, 2017). The relationship between dividend policies and companies facing cash flow issues seems more severe, as low-quality FR mostly results in dividend payments below the standard level for shareholders. Essentially, high-quality FR acts as a tool that influences executive policies regarding dividends by addressing free cash flow concerns, making dividends a result of enhanced monitoring by relevant parties. The quality of FR also has a significant relationship with the maturity of a company's debt, which subsequently affects investment efficiency. Decreases in FR quality are often due to excessive investments made by companies. This has been demonstrated by Gomariz et al. (2014), who established that FR quality and debt maturity are mechanisms that certain companies utilize to improve investment efficiency. Companies may use short-term or longer-term debt depending on whether their FR quality is high or low, ultimately affecting the efficiency of projects or investments (Gomariz & Ballesta, 2014).

Therefore, it is evident that high-quality FR enables companies to have a clear understanding of their own status, while also allowing shareholders to gain better insights into the company's health, facilitating their monitoring function. In Vietnam, securities companies play a crucial role as a particular type of business entity engaged in regulated activities. Consequently, the quality of FR and FSR has implications for various stakeholders, including securities investors, corporate investors, businesses, and even government agencies, in terms of maintaining stability and development in the securities market, the financial market as a whole, and the overall economy.

2. Research Overview and Theoretical Basis

According to Standard No. 82 (SAS 82) issued on December 15, 1997, by the American Institute of Certified Public Accountants (AICPA), the quality of financial reporting must absolutely be free from fraudulent content or intentional misrepresentation. Fraud (financial statement fraud and asset misappropriation) refers to deliberate deception or distortion that an

individual knows to be false or misleading and intentionally carries out, which may result in unlawful benefits for oneself or another group of individuals. In order to enhance the quality of financial reporting, corporate management must pay attention to (i) assessing and documenting fraud risks from moderate levels and above; (ii) identifying potential risks; (iii) sponsoring or addressing fraud risks; (iv) evaluating relevant test results regarding fraud; and (v) communicating implicit fraudulent behaviors to corporate management and individuals who fail to adhere to ethical standards (Tseng & Chang, 2006). According to SAS 82, corporate management or auditors should consider the business environment of the enterprise, factors such as inventory, competitive pressures among companies, budgets, business objectives and expectations, and the market reputation of the enterprise. Typically, these factors can be grouped into influences on the quality of financial reporting, such as the leadership capabilities of corporate management, the business environment, industry conditions, legal aspects, oversight, operational characteristics of the enterprise, and financial capabilities and profitability. Managers need to review significant transactions, transactions with no cash flow generation from operations, transactions without growth, unusual or complex transactions, especially those occurring near the end of the year, which require careful examination.

Meanwhile, according to Albrecht and colleagues (1980), corporate managers themselves tend to exert pressure on relevant departments to create fraudulent activities in financial reporting (Albrecht & Romney, 1980). To identify whether corporate managers engage in activities that affect the quality of financial reporting, such as exerting economic pressure on employees, restricting personnel welfare policies, management, internal control systems, information technology systems, the extent of computer applications in auditing activities, and accounting practices to determine the involvement of managers in fraudulent activities and ethical issues, research results have explained the reasons for fraudulent behaviors by managers, clearly describing the characteristics of controllers and establishing a system of criteria to assess risks for relevant departments. Similarly, according to Huang and colleagues (2012), older corporate executives (CEOs) have a higher impact on the quality of financial reporting. This finding was supported by the research group's analysis of a sample dataset comprising 3,413 firms from 2005 to 2008, providing evidence for a positive relationship between the age of corporate executives and the quality of financial reporting. Conversely, the age of executives has a negative relationship with the ability of firms to meet financial analysts' income forecasts (Huang, Rose-Green, & Lee, 2012).

In the book "Theft by Employees" by Hollinger and Clark (1983), employee theft constitutes only a small proportion of the more common manifestations of employee deviance, with the majority of counterproductive behaviors being best explained by internal factors. Employee dissatisfaction with the work environment is often associated with deviations in asset management. Younger employees or those in non-permanent positions tend to exhibit higher levels of dissatisfaction and report more deviations in the company. The occurrence of theft is more frequent when management fails to recognize the issue and implement preventive measures. The best long-term solution lies in social control rather than material control (Hollinger & Clark, 1983).

Based on these research findings, Bell et al. (2000) constructed a logistic regression model to estimate the likelihood of fraud in financial statements for audited clients. The significant risk factors included limitations in internal control environment, rapid growth of companies, disproportionate and rational profitability, business management overly focused on revenue and income forecasts rather than financial statements, dishonest management, and ownership structure within the company (Bell & Carcello, 2000). Similarly, Wilks and colleagues (2004) developed a set of questions to assist auditors in detecting and preventing fraud in financial statements, emphasizing three important tasks in auditing: assessing fraud risk, planning and conducting the audit, and making changes to current auditing standards and formulating questions for each task. The authors developed and continued to expand predictive models of fraud and provided evidence that fraud in financial statements is a consequence of personnel factors such as inappropriate attitudes and motives (Wilks & Zimbelman, 2004a, 2004b).

According to Garrett et al. (2014), the employee's loyalty to management influences the quality of financial statements, manifested in three perspectives: (i) the quality of accumulation, (ii) data errors, and (iii) the quality of internal control (Garrett, Hoitash, & Prawitt, 2014).

To gain an accurate perspective on the factors influencing the quality of financial statements for different industries, Beasley et al. (2000) conducted surveys in three core sectors: information technology, healthcare, and financial services (Beasley, Carcello, Hermanson, & Lapides, 2000). The results indicated various fraudulent techniques employed at different levels and in different manners. Revenue fraud was common among technology companies, while asset misappropriation was prevalent in financial service firms. In each sector, fraudulent companies had limited management controls compared to industry standards, which is consistent with technology or financial firms having few or no internal audit departments or independent audit functions, and low involvement

of management in these companies. This suggests that the quality of financial statements depends on the industry, business environment, and the operating mechanisms of corporate management and industry or company-specific auditing standards.

From another perspective, Habib and colleagues (2013) suggested that corporate managers act as major shareholders and are expected to provide the highest returns to the remaining shareholders (Habib & Hossain, 2013). However, not all managers possess the ability to do so. Weak managers can be a significant factor affecting the quality of financial reporting to secure their present and future positions. The quality of financial statements and the income of managers may be evaluated to determine whether the labor market is effective in proposing sanctions for managers who manipulate financial statements. Ultimately, the authors believe that the impact of managers on the quality of financial statements is not significant compared to the specific industry in which the company operates. Kaawaase et al. (2021) aimed to clarify the relationship between the managerial competence of financial service organizations and the quality of financial statements. They found that the professional competence and capabilities of the board of directors, as well as their abilities, strongly correlated with the quality of financial statements.

3. Methodology and Research Model

Research primarily utilizes quantitative research methods.

* The aim of the quantitative study: is to test the model of factors influencing the financial statements quality (FR) and the quality of financial and non-financial information (FSR) of Vietnamese securities companies. The study is conducted using SPSS 20 software. The research follows the steps of the quantitative research process, such as evaluating the reliability of the measurement scale using Cronbach's Alpha coefficient, conducting exploratory factor analysis (EFA), multivariate regression analysis, and analyzing ANOVA to identify the factors influencing the quality of BCTC and BCATTC of Vietnamese securities companies.

The model is formulated as follows: QTRR **= β0 + β1*KT + β2*UT + β3*QL + β4*NNL**

Where:

- QTRR: Quality of FR and FSR
- UT: Operational reputation
- KT: Technical infrastructure and technology
- QL: Management competence of the securities company
- NNL: Quality of human resources

* Research data: The study collected 650 questionnaires from all three survey rounds, which is sufficient to run the model using SPSS 20 software.

* Survey sample composition: Out of the 350 respondents, 53.85% were securities company managers, and 46.15% were investors.

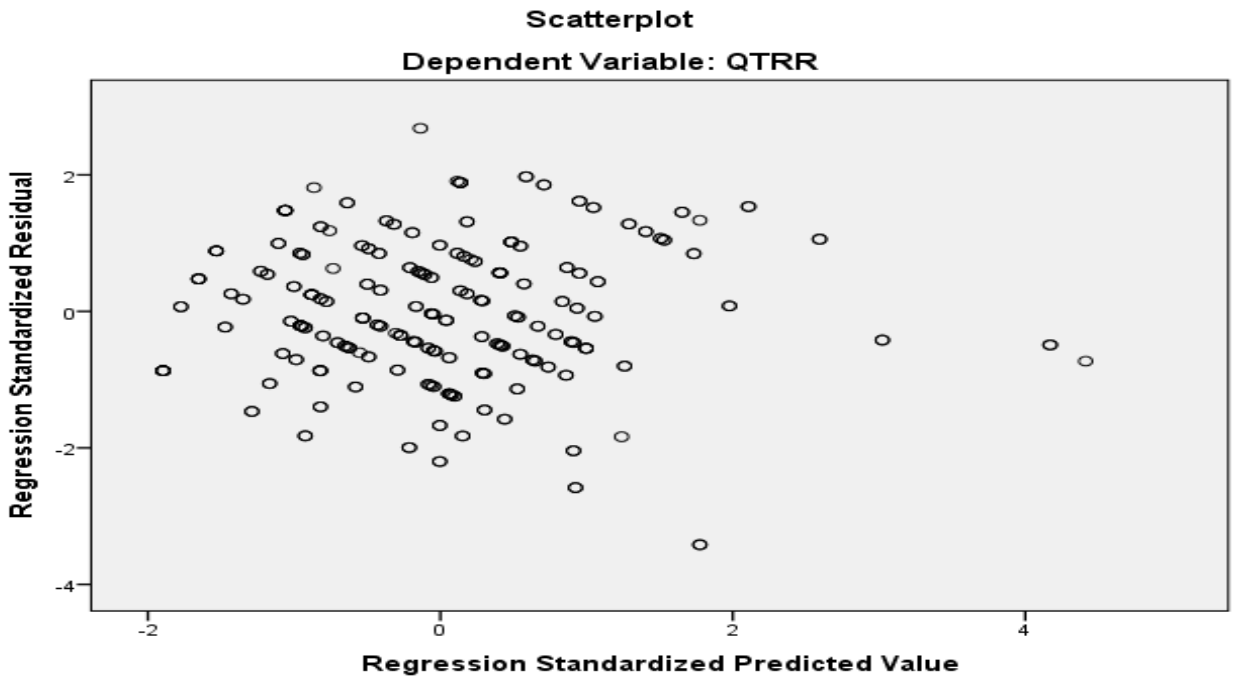
Table 1. Composition of the survey sample

Subject	Number of Questionnaires	Percentage
Securities Company Managers	350	53,85%
Investors	300	46,15%

Source: Compiled from the survey process

Table 1 demonstrates that the survey sample is relatively evenly distributed, accurately reflecting the reality of the situation

Figure 1. Dispersion of the survey data



Source: Compiled from the survey process

The survey data collected has been cleaned, making it relatively consistent. The dataset exhibits relatively good quality for regression model testing.

Table 2. Measurement of variables in the multiple regression model

No.	Variable	Content of Survey Question	References
I	Financial Report and Financial Security Report Quality (QTRR)		
1	QTRR1	Audit results of financial statements and audited consolidated financial statements at securities companies	SAS 82 standard
2	QTRR2	Professional expertise and reputation of the company	Expert interviews
3	QTRR3	Scale of securities companies	Expert interviews
II	Technical Infrastructure and Technology (KT)		
1	KT1	Core software used in modern work	SAS 82 standard, Albrecht et al. (1980), Hollinger and Clark (1983), Bell et al. (2000), Beasley et al. (2000), Wilks et al. (2004), Huang et al. (2012), Habib et al. (2013), Garrett et al. (2014), Kaawaase et al. (2021)
2	KT2	Core software used for reliable operations	
3	KT3	Regularly updated and adjusted information systems to fit securities companies	
III	Operational Reputation (UT)		
1	UT1	Service quality, reputation, and financial strength of the company, high and very high level of service diversity	SAS 82 standard, Albrecht et al. (1980), Hollinger and Clark (1983), Bell et al. (2000), Beasley et al. (2000), Wilks et al. (2004), Huang et al. (2012), Habib et al. (2013), Garrett et al. (2014), Kaawaase et al. (2021)
2	UT2	Service quality, reputation, and financial strength of the company, average level of service diversity	
3	UT3	Service quality, reputation, and financial strength of the company, low level of service diversity	
IV	Human Resource Quality (NNL)		
1	NNL1	Control of the quality of securities company employees	SAS 82 standard, Albrecht et al. (1980), Hollinger and Clark (1983), Bell et al. (2000), Beasley et al. (2000), Wilks et al. (2004), Huang et al. (2012), Habib et al. (2013), Garrett et al. (2014), Kaawaase et al. (2021)
2	NNL2	Ensuring the quality of securities company employees	
3	NNL3	Comprehensive quality management of securities company employees	
V	Management Competence (QL)		
1	QL1	Ability to plan, organize, direct, and control	

No.	Variable	Content of Survey Question	References
2	QL2	Ability to motivate, train, and participate	SAS 82 standard, Albrecht et al. (1980), Hollinger and Clark (1983), Bell et al. (2000), Beasley et al. (2000), Wilks et al. (2004), Huang et al. (2012), Habib et al. (2013), Garrett et al. (2014), Kaawaase et al. (2021)
3	QL3	Ability to manage time, excellent leadership skills	

(Source: Compiled from theoretical foundations)

4. Regression model testing and discussion of results.

Analysis of the reliability of the measurement scale. The results of the reliability analysis for the variables comprising the measurement scale indicate that the reliability (Cronbach's alpha) of the scale is greater than 0.6, meeting the requirement (Table 3).

Table 3. Results of scale analysis for variables belonging to constituent factors

Item-Total Statistics				
Var	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
QTRRQ1	4.75	2.067	.735	.871
QTRRQ2	4.66	2.238	.778	.823
QTRRQ3	4.29	2.351	.810	.803
	Cronbach's Alpha= 0,881			
KT1	8.44	2.114	.667	.684
KT2	8.21	2.032	.659	.689
KT3	8.55	2.052	.579	.778
	Cronbach's Alpha= 0,791			
UT1	7.68	3.129	.627	.736
UT2	7.50	3.352	.538	.829
UT3	7.50	2.934	.768	.687
	Cronbach's Alpha= 0,796			
NNL1	5.08	2.006	.727	.724
NNL2	4.76	2.286	.742	.712

NNL3	4.97	2.499	.603	.841
	Cronbach's Alpha= 0,829			
QL1	6.82	2.182	.863	.806
QL2	6.82	2.456	.734	.918
QL3	6.72	2.424	.821	.846
	Cronbach's Alpha= 0,901			

(Source: Statistics author using SPSS 20 software)

*** Correlation coefficient matrix**. The Pearson correlation coefficient is used to test the linear relationship between independent variables and the dependent variable with a significance level of less than 5% (Sig<5%). From Table 4, it can be observed that all independent variables are correlated with the dependent variable, and at the same time, the independent variables meet the regression assumptions.

Table 4. Pearson correlation coefficient matrix between variables in the model.

Correlations						
		QTRR	UT	QL	KT	NNL
QTRRQ	Pearson Correlation	1	-.445**	.181**	-.643**	.395**
	Sig. (2-tailed)		.000	.001	.000	.000
	N	650	650	650	650	650
TI	Pearson Correlation	-.445**	1	-.132*	.443**	-.186**
	Sig. (2-tailed)	.000		.019	.000	.001
	N	650	650	650	650	650
OR	Pearson Correlation	.181**	-.132*	1	-.037	.159**
	Sig. (2-tailed)	.001	.019		.516	.005
	N	650	650	650	650	650
HRQ	Pearson Correlation	-.643**	.443**	-.037	1	-.265**
	Sig. (2-tailed)	.000	.000	.516		.000
	N	650	650	650	650	650
MC	Pearson Correlation	.395**	-.186**	.159**	-.265**	1
	Sig. (2-tailed)	.000	.001	.005	.000	
	N	650	650	650	650	650

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

(Source: Statistics author using SPSS 20 software)

Using the sample data, the model parameters of the regression model were determined, and the adequacy of the model was tested. The results of the model's goodness-of-fit test are presented in Table 5.

Table 5. Results of the goodness-of-fit test for factors influencing the financial statements' quality and the quality of auditors' reports on financial statements of Vietnamese securities companies.

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702[a]	. 645	. 638	.47341
a. Predictors: (Constant), NNL, UT, KT				
b. Dependent Variable: QTRR				

(Source: Statistics author using SPSS 20 software)

From Table 5, it can be observed that both the R Square (R2) and Adjusted R Square (Adjusted R2) values, which are 0.645 and 0.638 respectively, are greater than 0.5. Additionally, the standard error of the estimate meets the requirements. Moreover, the calculated F-statistic, derived from the R2 value of the full model, has a significance level (Sig = 0.000) lower than 5%, indicating that the multiple linear regression model is highly suitable for the dataset and can be used effectively.

Table 6. Results of the regression analysis for factors influencing the financial statements' quality and the quality of auditors' reports on financial statements of Vietnamese securities companies.

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.162	.235		17.700	.000		
	UT	-.130	.035	-.166	-3.689	.000	.788	1.270
	KT	.493	.044	509	11.188	.000	.767	1.304

	NNL	.158	.031	.213	5.071	.000	.904	1.106
	QL	.094	.036	.107	2.630	.001	.961	1.040
a. Dependent Variable: QTRR								

(Source: Statistics author using SPSS 20 software)

From Table 6, it is evident that the regression results can be written as follows:

QTRR = 0.493*KT - 0.130*UT + 0.094*QL + 0.158*NNL

Among the remaining independent variables, all variables satisfy the condition of having a significance value (sig) less than or equal to 0.05, indicating their statistical significance. Among them, KT, QL, and NNL have a positive relationship with R, while UT has a negative relationship with R. KT has the greatest influence on R, followed by NNL, UT, and QL.

5. Conclusion and Suggestions for Solutions:

Based on the regression model's test results, the article proposes solution groups to assist securities companies' management in effectively managing the risks of financial statement quality and the quality of auditors' reports on financial statements of Vietnamese securities companies:

* **Solution group regarding technical infrastructure and technology**: Securities products based on technological platforms, technology adoption, online integration of IT service products. Additionally, securities companies should always provide service products that meet the 24/7 trading requirements of customers and handle multiple transaction requests simultaneously. Therefore, each company should have an integrated core software system to enhance the quality of financial accounting operations, risks of financial statement quality, and quality of auditors' reports on financial statements.

* **Solution group regarding the quality of human resources and management level of securities companies**: Given the nature of operating in the financial securities service industry, the quality of human resources is of utmost importance. To improve the quality of risks of financial statement quality in the financial accounting department, the focus should be on the quality of human resources. Building a human resource strategy, training, and evaluation are some of the key aspects that securities companies need to address in order to acquire high-quality human resources.

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