

# **AUDIT COMMITTEE CHAIRPERSONS' GENDER AND FINANCIAL IRREGULARITIES: EVIDENCE FROM VIETNAM**

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## **Abstract**

Transparency and disclosure of financial information is qualitative characteristics that enhance the usefulness of information to investors. The Corporate Governance Code of Best Practices for Public Companies in Vietnam highlighted the importance of audit committee to the effectiveness of the enterprise risk management. This study investigates the impact of audit committee chairpersons' gender on financial irregularities of industrial firms listed on Ho Chi Minh Stock Exchange. Using a sample of 71 industrial firms listed on Ho Chi Minh Stock Exchange in the period from 2014 to 2018 with a logistic regression model for panel data, we found that the probability of misstatement in financial information is more severe when firms have a female chairperson in the audit committee. Additionally, the recently changed audit firms and firm size as control variables have positive impacts on financial irregularities. This research offers evidence relevant to policy makers and securities administrators who are concerned with the potential role of market authorities and governance in protecting investors against financial irregularities.

**Key words:** audit committee, financial irregularities, Vietnam

**JEL Code:** G34, G38

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## **Introduction**

Vietnamese stock market has grown strongly in terms of trading volume, market capitalization and the number of investors. However, the listed firms on the market do not really pay attention to fully express their responsibilities to investors and are not aware of the benefits they get from disclosing information. As a result, many firms deliberately delayed the disclosure or disclosed inaccurately and/or inadequately. For example, recently, the investing public was shocked by series of violations of Dong A Plastic Joint Stock Company (HOSE: DAG). State Security

Commission of Vietnam confirmed DAG's act of financial irregularities in which the firm violated the on-time disclosure of information, incomplete contents of documents such as Board of Directors' Resolution, explaining difference on Financial statement IV/2018 compared to the same period in the last year. In addition, this firm was penalized because they violated the law on corporate governance of transactions with related persons of board of directors.

The Corporate Governance Code of Best Practices for Public Companies in Vietnam specially highlighted the importance of audit committee and the company should establish the internal control system under an effective risk management framework. The chairperson of an audit committee, as an independent director with accounting expertise, is responsible for internal audits and internal controls and plays a vital role in reducing corporate financial irregularities. However, there are not yet empirical research examining the audit committee chairpersons' gender effects on Vietnamese listed firms. Therefore, it is necessary to further examine and explore audit committee chairpersons' role. Besides, industries play a vital role in the development of Vietnam economy. Therefore, we examine the effect of audit committee chairpersons' gender on financial irregularities of industrial firms listed on HOSE based on a sample of 284 firm-year observations from 2014 to 2018.

The primary contribution is that this paper exclusively examines the impact of audit committee chairpersons' gender on financial irregularities of industrial firms listed on HOSE. Our second contribution is that the findings in this paper are particularly relevant to the State Securities Commission of Viet Nam and other standard setters to enhance audit committee representation in corporate governance, and thereby reduce corporate financial irregularities and protect investors's rights.

The remainder of the paper is organized as follows. The next section develops the hypotheses and section 3 explains data and research design. Section 4 presents the results. Section 5 offers a summary and concluding remarks.

## **1 Hypothesis Development**

Psychological studies indicate that female directors differ from male directors in job attitude, ethical norm and risk aversion (Ben-Amar et al., 2017; Peterson and Philpot, 2007). First, female audit committee chairpersons tend to assess the firm's internal audits and internal controls more diligently and rigorously, and improve the advisory and monitoring functions of audit committee, therefore reducing financial irregularities. Second, women maintain a higher level of independence because they do not pursue personal gains, more ethical and more likely

to detest corporate fraud (Gao et al., 2017; Krishnan and Parsons, 2008). The audit female directors do not belong to the “boys club”, they are more likely to think independently and less tolerant of the executives’ opportunistic behavior (Adams et al., 2010). Hence, female chairpersons are less likely to conspire with executives, but more likely to monitor executives’ opportunistic behavior effectively, thus reducing the probability and degree of corporate financial irregularities. Third, studies have indicated that women tend to value personal reputation more and therefore demonstrate greater risk-aversion in financial decision-making (García Lara et al., 2017). If a firm commits financial irregularities, the risk of lawsuits will increase, and the chairperson will be at greater risk of reputation loss, given that they bears full responsibility for this risk (Fich and Shivdasani, 2007). To protect her own reputation, a female chairperson tends to rigorously improve the firm’s internal audits and internal controls, thus reducing the risk of corporate financial irregularities. Based on the discussions above, we propose hypothesis:

*Female chairpersons in audit committees are more capable to reduce financial irregularities than male in listed firms.*

## **2 Sample and Research Design**

### **2.1 Sample**

Our initial sample consists of all observations from industrial firms which listed on HOSE. After collecting, there are a total of 105 industrial companies listed on the HOSE. The companies have to follow the conditions such as ensure the listing time is from 2013 and no delisting through the period of the study. There are 71 industrial companies meeting requirements over 5 years from 2014 to 2018 (the dependent variable is collected from 2015 to 2018, the independent variables and control variables are collected from 2014 and 2017). Therefore, it leaves a final sample of 284 observations.

The data about the audit committee and financial data are from listed firm’s financial statement, annual reports and audit committee reports. In addition, the financial irregularities data are manually gathered from the State Securities Commission of Viet Nam database.

### **2.2 Variables and research model**

This study uses the dependent variable VIO to denote financial irregularities of industrial firms listed on HOSE based on the study of Li Xiaochong and Li Yanxi, 2019. VIO represents

whether the listed firm commits financial irregularities. If a firm or its executive is penalized by the State Security Commission of Vietnam for irregularities of any category (disclose information untimely/misleading information on financial statements, do not report/report on time when conducting transactions and on ownership, submit a dossier for public company registration later than the prescribed deadline, offered securities to the public but not registered with the State Security Commission of Vietnam), VIO is 1; otherwise, it is 0.

The independent variable used in this study is gender of audit committee chairperson (GENDER) which equals 1 if the chairperson is female, otherwise, it is 0. The control variables are audit committee size (ASIZE), audit committee chairperson's tenure (TENURE), the change of audit firm (AUDITCHANGE), the leverage ratio (DEBT), return on assets (ROA) and firm size (FSIZE).

To reduce endogenous problems, the dependent variable VIO (financial irregularities) is based on data for the subsequent period, year  $t + 1$ , whereas other variables are based on data for the current period, year  $t$ . Therefore, model is constructed as follows:

$$VIO_{i,t+1} = \beta_0 + \beta_1 GENDER_{i,t} + \sum \gamma_{j,i} CONTROL_{i,t} + \varepsilon_{i,t}$$

**Where:**

VIO = dummy variable that equals 1 if a firm or its executive is penalized by the State Security Commission of Vietnam for irregularities, and 0 otherwise;

GENDER = dummy variable that equals 1 if the chairperson is female, and 0 otherwise;

*Control variables including:*

ASIZE = the number of members in the audit committee;

TENURE = the number of months of chairperson's tenure divided by 12;

AUDITCHANGE = dummy variable that equals 1 if audit firm changes, 0 otherwise;

DEBT = total debts divided by total equity;

ROA = net income divided by average total assets;

FSIZE = natural logarithm of total assets.

### 3 Results

#### 3.1 Descriptive Statistics

Table 1 presents the descriptive statistics of the variables. The mean value of VIO is 0.113, suggesting that 11.3% of listed industrial firms commit financial irregularities. The standard

deviation value of VIO is 0.317, showing that the probability of financial irregularities differs considerably among firms. The GENDER has mean value of 0.458, indicating that 45.8% of listed industrial firms appoint women as the chairpersons of audit committee.

**Tab. 1: Descriptive Statistics**

| Variable | Obs. | Mean   | Std. Dev. | Min    | Max    |
|----------|------|--------|-----------|--------|--------|
| VIO      | 284  | 0.113  | 0.317     | 0      | 1      |
| GENDER   | 284  | 0.458  | 0.499     | 0      | 1      |
| ASIZE    | 284  | 3.063  | 0.424     | 2      | 6      |
| TENURE   | 284  | 4.080  | 3.190     | 0.083  | 13     |
| ACHANGE  | 284  | 0.158  | 0.366     | 0      | 1      |
| DEBT     | 284  | 1.785  | 1.817     | 0.028  | 16.820 |
| ROA      | 284  | 0.066  | 0.091     | -0.128 | 1.124  |
| FSIZE    | 284  | 27.909 | 1.083     | 26.124 | 30.662 |

Source: Author's calculation

Table 2 presents the correlation matrix between all the independent and control variables used in the regression analysis in order to test for multicollinearity. The correlation coefficient between the highest variables was -0.374 (1% significance level) indicating no serious multicollinearity in this study (Hair et al., 2014).

**Tab. 2: Correlation Matrix between Variables**

|                | GENDER            | ASIZE             | TENURE            | ACHANGE            | DEBT               | ROA             | FSIZE |
|----------------|-------------------|-------------------|-------------------|--------------------|--------------------|-----------------|-------|
| <b>GENDER</b>  | 1.000             |                   |                   |                    |                    |                 |       |
| <b>ASIZE</b>   | -0.104*<br>0.079  | 1.000             |                   |                    |                    |                 |       |
| <b>TENURE</b>  | 0.038<br>0.515    | -0.147**<br>0.013 | 1.000             |                    |                    |                 |       |
| <b>ACHANGE</b> | -0.108*<br>0.068  | 0.140**<br>0.018  | -0.008<br>0.892   | 1.000              |                    |                 |       |
| <b>DEBT</b>    | -0.113*<br>0.057  | -0.047<br>0.435   | -0.141**<br>0.017 | -0.122**<br>0.040  | 1.000              |                 |       |
| <b>ROA</b>     | 0.060<br>0.308    | -0.024<br>0.684   | 0.092<br>0.122    | 0.007<br>0.914     | -0.374***<br>0.000 | 1.000           |       |
| <b>FSIZE</b>   | -0.119**<br>0.044 | -0.062<br>0.295   | 0.023<br>0.699    | -0.170***<br>0.004 | 0.157***<br>0.008  | -0.077<br>0.194 | 1.000 |

Source: Author's calculation

\*, \*\*, \*\*\* Represent the 10%, 5% and 1% level of significance in two-tailed tests, respectively.

Next, we classify all the samples on GENDER into an experimental group (GENDER=1) and control group (GENDER=0), and perform t-test on the probability (VIO) of financial irregularities. The results are displayed in Table 3. The probability of financial irregularities by firms in the experimental group are significantly higher than those of firms in the control irregularities. The result preliminarily opposites our hypothesis.

**Tab.3: Univariate analysis**

|           | Audit committees with male<br>chairpersons<br>(GENDER=0) | Audit committees with<br>female chairpersons<br>(GENDER=1) |         |
|-----------|--|--|---------|
| Variables | Mean   | Mean   | P-value |
| VIO       | 0.084  | 0.146  | 0.055*  |

Source: Author's calculation

Statistical significance is indicated by \*\*\*, \*\*, and \* for 1%, 5%, and 10%, respectively.

Then, we use logistic regression to test the impact of audit committee chairperson's gender on corporate financial irregularities. The dependent variable VIO (financial

irregularities) is categorical, taking the value of 1 for any financial misstatement, otherwise is 0.

**Tab.4: Results of the effect of female chairpersons on financial irregularities**

|             | VIO       | p-value |
|-------------|-----------|---------|
| GENDER      | 0.891**   | 0.017   |
| ASIZE       | -0.111    | 0.740   |
| TENURE      | -0.049    | 0.454   |
| ACHANGE     | 0.910**   | 0.044   |
| DEBT        | 0.015     | 0.902   |
| ROA         | -1.145    | 0.684   |
| SIZE        | 0.527***  | 0.009   |
| cons        | -16.93*** | 0.006   |
| Wald Chi2   |           | 16.15   |
| Prob > Chi2 |           | 0.0238  |
| N           |           | 284     |

Source: Author's calculation

Statistical significance is indicated by \*\*\*, \*\*, and \* for 1%, 5%, and 10%, respectively.

Table 4 shows that the coefficients of GENDER are significant positive, indicating that compared to male chairperson, female chairperson can more significantly increase the probability of financial irregularities. This finding is not in accordance with our hypothesis. Women's representation in leadership in Viet Nam is decreasing, which is contrary to the world trend of an increase in women's representation (Munro, 2012). A number of reports argue that women have not advanced because of a lower educational qualifications compared to men (World Bank, 2011). In addition, women have less time for work because they are responsible for family chores (IFGS and EOWP, 2009). Because of these reasons, the results are different from Li Xiaochong and Li Yanxi (2019).

Estimation of the model also shows that a change of auditor is positively associated with the incidence of financial irregularities at a statistically significant level of 5%. It means that switching auditor could increase the seriousness of information asymmetry. This is consistent with the findings of Mitra (2009), Nadia Smaili & Real Labelle (2015). Additionally, we found that the SIZE variable reacted positive strongly with the dependent variable VIO at a significant

level of 1%. It also shows that the higher the company size, the higher the probability of noncompliance, consistent with Jaswadi, Nicholas Billington & Stella Sofocleous (2012).

## **Conclusions**

Using a sample of audit committee of industrial companies listed on the Ho Chi Minh Stock Exchange (HOSE) from 2014 to 2018, this study examines the impact of audit committee chairperson's gender on corporate financial irregularities. We find that the probability of misstatement in financial information is more severe when firms have a female chairperson in the audit committee.

This study makes several contributions to the literatures on governance, fraudulent financial statements, and public enforcement of securities laws by market authorities. It has contributed to the set of reference materials, as experimental evidence for the following research topics. From the results of study, the listed firm and regulators should attend to the factors that affect the financial irregularities such as gender, auditor firm change and firm size. The ultimate objective is to help policy makers and national securities administrators improve their investigative power through a better understanding of the corporate governance characteristics of potential issuers in default.

However, this study is not free from its limitations. The research data are only industrial companies listed on HOSE for the period 2014-2018. The future studies can increase the study period in long term and also examine Hanoi stock exchange.

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