



Do Manipulation Warning Signs Based On Financial Statements Impact Stock Prices? A Case Of Listed Companies In Vietnam.

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ABSTRACT

This research investigates the ramifications of fraudulent signals within financial statements on stock prices. The analysis draws upon data extracted from the audited financial statements of 760 publicly listed companies within the Vietnamese stock market over the period spanning 2016 to 2021. Employing a suitable quantitative methodology tailored for panel data, the study discerns a robust correlation between the GP/TA, NP/TA, and SALES/TA ratios. This underscores the pronounced impact of profitability ratios on the stock valuations of these enterprises. Consequently, the research proffers multiple recommendations for pertinent stakeholders.

Keywords: Manipulation; Warning signs; Financial statements; Stock prices; Listed companies

1. Introduction

In the dynamic landscape of financial markets, investors constantly seek reliable indicators to guide their decision-making processes. One critical aspect of this endeavor involves identifying potential manipulations or irregularities in financial statements that could affect stock prices. The significance of this issue is particularly pronounced in emerging markets like Vietnam, where transparency and regulatory oversight may vary, presenting unique challenges and opportunities for investors.

This article explores the intricate relationship between manipulation warning signs based on financial statements and their impact on stock prices, focusing on listed companies in Vietnam. Manipulation warning signs encompass a variety of indicators, including but not limited to, unusual fluctuations in earnings, inconsistencies in cash flow patterns, and anomalies in accounting practices. Understanding how investors perceive and react to these warning signs is crucial for evaluating market efficiency and investor confidence.

Vietnam's rapidly growing economy and burgeoning stock market present an intriguing case study for examining this phenomenon. As the Vietnamese market continues to attract domestic and foreign investors seeking high-growth opportunities, concerns regarding financial statement manipulation and its repercussions on stock prices become increasingly pertinent.

By analyzing empirical data and employing statistical methods, this article aims to shed light on several key questions:

- To what extent do manipulation warning signs based on financial statements affect stock prices in Vietnam's listed companies?
- Are investors in the Vietnamese market sensitive to such warning signs, and how do they incorporate this information into their investment decisions?
- How do regulatory frameworks and enforcement mechanisms influence the prevalence of manipulation warning signs and their impact on stock prices?
- What implications do the findings have for investors, regulators, and other stakeholders in Vietnam's financial markets?

Through a comprehensive examination of these questions, this article endeavors to provide valuable insights into the dynamics of stock price movements in Vietnam's listed companies and the underlying factors driving investor behavior. Ultimately, a deeper understanding of the interplay between manipulation warning signs and stock prices is essential for fostering transparency, stability, and trust in Vietnam's evolving financial ecosystem.

2. Literature review

2.1. Literature about manipulation of financial statements

Numerous issues concerning the financial statements of listed companies are apparent, primarily evidenced by the inflation of revenue and profits. Deliberate concealment of the actual financial state by companies has resulted in significant repercussions for all stakeholders involved: companies facing insolvency, plummeting stock prices, market volatility, investors incurring losses, and creditors unable to recover debts. Consequently, the detection of financial statement manipulation and the identification of its influencing factors have emerged as pressing concerns.

Beneish (1999) defines financial statement manipulation as the presentation of inadequate financial information by accounting and management to inflate net income, thereby boosting stock prices through increased revenue and decreased expenses. Similarly, Mamo and Aliaj (2014) argue that financial statement manipulation encompasses misrepresented financial statements, inaccurate disclosures, and financial activities that distort an organization's financial strength, including revenue manipulation, income smoothing, and creative accounting practices.

Research conducted by Spathis (2002) and Alaryan, Haija, and Alarabi (2014) categorizes financial statements into two groups: manipulated and non-manipulated, based on the assessments of independent auditors and tax authorities. Financial statements subject to serious doubts by auditors or rejected by tax authorities are classified as manipulated, and vice versa.

In Vietnam, the Ministry of Finance's Standards on Auditing 700 and 705 stipulate four types of audit opinions corresponding to the degree of errors and fraud detected by independent auditors (Ministry of Finance, 2012a, 2012b): (i) Unqualified opinion; (ii) Qualified opinion; (iii) Adverse opinion; (iv) Disclaimer of opinion. Hence, financial statements are classified into two groups based on the materiality of information: those with material errors and those presenting financial information fairly and reasonably.

2.2. Relationship between manipulation signals and stock price

The literature on the relationship between manipulation warning signs based on financial statements and their impact on stock prices provides valuable insights into the dynamics of financial markets and investor behavior. Studies conducted in various global contexts have explored this relationship, highlighting the significance of transparency, regulatory oversight, and market efficiency.

One strand of literature focuses on the identification and classification of manipulation warning signs. Researchers have proposed various indicators, including abnormal accruals, earnings management techniques, and discrepancies in financial ratios, to detect potential manipulation in financial statements (Dechow et al., 1995; Beneish, 1999; Jones, 1991). These warning signs serve as crucial tools for investors and regulators in assessing the integrity of reported financial information.

Beneish (1999) examined differences in ratios and information between income-manipulating and non-manipulating companies during 1982-1992. The study revealed positive correlations between variables such as "Accounts Receivable/Net Revenue," "Gross Profit," "Asset Quality," "Revenue Growth," and "Accruals" with the likelihood of financial statement manipulation. Subsequently, Beneish, Lee, and Nichols (2013) developed the M-score formula to identify companies with manipulated financial statements, widely used in subsequent studies.

Hansen, McDonald, Messier, and Bell (1996) applied the M-score to construct a comprehensive model identifying attributes of companies with manipulated financial statements, finding evidence of manipulation and the Fisher effect in listed companies across South Korea, Malaysia, Singapore, and Thailand. Similarly, Christiano (2014) used the M-score to classify companies in Indonesia and assess the impact of manipulation on stock returns, showing a negative correlation between manipulation scores and stock returns.

Spathis (2002) developed a model identifying financial statement manipulation with an 84% accuracy rate, based on a survey of 76 companies, with variables such as "Inventory/Total Revenue" and "Total Debt/Total Assets" positively correlated with manipulation. Conversely, the Z-score exhibited a negative correlation with manipulation likelihood.

Another body of research investigates the impact of manipulation warning signs on stock prices. Studies by Leuz et al. (2003) and Roychowdhury (2006) provide evidence that manipulation warning signs negatively affect investor perceptions and can lead to significant stock price declines. However, the magnitude and persistence of these effects may vary depending on factors such as market structure, regulatory environment, and investor sentiment (Kasznik and McNichols, 2002; Teoh et al., 1998).

Moreover, research has examined the role of regulatory frameworks in mitigating the prevalence of manipulation warning signs and their impact on stock prices. Studies by La Porta et al. (2006) and Coffee (2005) emphasize the importance of effective enforcement mechanisms and regulatory transparency in deterring financial statement manipulation and fostering investor confidence.

Dechow, Ge, Larson, and Sloan (2011) surveyed US companies in 2010 using the F-score model to identify common deficiencies and errors in financial statements, including inaccurate profit reporting and overstated profits. Meanwhile, Yang, Jiao, and Buckland (2017) analyzed the relationship between corporate governance

and financial statement manipulation in China, revealing significant influences of corporate governance on manipulation behaviors.

In Vietnam, financial statement fraud is no longer isolated, with numerous large-scale cases impacting the financial market's credibility and economic interests, necessitating the development of mathematical models to detect fraud. Previous studies such as Nguyen and Nguyen (2016) and Pham (2019) have employed the M-score and combined M-score and Z-score, respectively, to identify fraud likelihood in Vietnamese listed companies.

In summary, studies on financial statement manipulation predominantly utilize M-score, Z-score, and F-score models, focusing on clarifying the impact of various factors on manipulation behaviors. Despite these contributions, there is limited research specifically focusing on the Vietnamese context. Given the unique characteristics of Vietnam's financial markets, including rapid economic growth, evolving regulatory landscape, and increasing foreign investment, examining the relationship between manipulation warning signs and stock prices in listed companies in Vietnam represents a valuable avenue for research.

3. Research model and data

3.1. Research model

From the aforementioned research, Lakmal and Swarnamali (2021) studied the influence of fraud signals on stock returns. The results showed that the majority of profitability ratios such as net profit margin/total assets and accounts receivable/sales ratio negatively affect stock prices. Conversely, the net profit margin/sales ratio and working capital/total assets ratio have a positive impact. Based on these experimental results, the research synthesized the following financial ratios and their relationships to stock prices:

- Group of ratios positively correlated with stock prices: inventory/sales, net profit/sales; working capital/total assets, total debt/total assets (Lakmal and Swarnamali, 2021); sales/total assets, net profit/total assets (Dimitropoulos and Asterou, 2008).
- Group of ratios with negative impact: total debt/total assets; long-term debt/equity, and accounts receivable/sales (Lakmal and Swarnamali, 2021), working capital/total assets, net profit/sales (Dimitropoulos and Asterou, 2008).
- Group of ratios with no impact: inventory/sales (Lakmal and Swarnamali, 2021; Dimitropoulos and Asteriou, 2008), net profit/sales (Lakmal and Swarnamali, 2021); total debt/total assets (Dimitropoulos and Asteriou, 2008); sales/total assets, debt/equity, accounts receivable/sales, gross profit/total assets, net profit/total assets (Lakmal and Swarnamali, 2021).

Based on the related research, our research conducted a regression model with independent variables being financial ratios, examining their impact on the stock prices of listed manufacturing companies on the Vietnam stock exchange.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + u_{it}$$

Table 1. Variables in the model

Sym bol	Variable s	Definition	Expecta tion
Y	Pi,t	The stock price of company i recorded at the end of fiscal year t	
X ₁	EPSi,t	The basic earnings per share of company i at time t	+
X ₂	EPS*D/Ei ,t	The product of the debt-to-equity ratio and the basic earnings per share of company i at time t	-
X ₃	EPS*GP/ TAI,t	The product of the gross profit-to-total assets ratio and the basic earnings per share of company i at time t	+
X ₄	EPS*NP/ NSi,t	The product of the net profit margin-to-net revenue ratio and the basic earnings per share of company i at time t	+
X ₅	EPS*NP/ TAI,t	The product of the net profit margin-to-total assets ratio and the basic earnings per share of company i at time t	+
X ₆	EPS*NS/ TAI,t	The product of the net revenue-to-total assets ratio and the basic earnings per share of company i at time t	+
X ₇	EPS*WC/ TAI,t	The product of the working capital-to-total assets ratio and the basic earnings per share of company i at time t	+
X ₈	EPS*INV /NSi,t	The product of the inventory-to-net revenue ratio and the basic earnings per share of company i at time t	+

Source: Author's synthesis

3.2. Research data

The research sample consists of 760 companies listed on the Vietnam stock market across two exchanges, Ho Chi Minh Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX). The authors synthesized data collected from audited financial statements of these companies through the FinnPro software.

4. Research results

4.1. Descriptive statistics

The descriptive statistics presented in Table 2 offer a comprehensive overview of the variables incorporated into the model. Analysis of the data reveals notable trends and characteristics within the dataset. Firstly, regarding stock prices (P), the mean value of 12,179.27 with a substantial standard deviation of 16,133.03 underscores the considerable variability in stock prices across the sample. Notably, the range from 0 to 235,000 highlights the diverse spectrum of stock prices observed in the dataset. Moving to earnings per share (EPS), the mean value of 2,119.698 alongside a standard deviation of 3,216.988 signifies a moderate level of variability in EPS among the companies under examination. The range of EPS values, spanning from -12,685 to 75,883, showcases the substantial variance in earnings per share within the dataset. Additionally, the interaction variables such as EPS*D/E and EPS*GP/TA exhibit diverse means and standard deviations, indicative of varying levels of variability and centrality across them. For instance, EPS*GP/TA has a mean of 493.4899 and a standard deviation of 1,066.952, whereas EPS*INV/NS presents a mean of 513.7377 and a standard deviation of 3,730.393. These findings shed light on the intricate relationships and effects embedded within the model.

Table 2. Descriptive statistics of the variables in the model

Variables	Observation	Mean	Std Dev	Min	Max
P	4,560	12179.27	16133.03	0	235000
EPS	4,560	2119.698	3216.988	-12685	75883
EPS*D/E	4,560	3461.685	9306.2	-57324.61	188664.3
EPS*GP/TA	4,560	493.4899	1066.952	-2152.564	31578.67
EPS*NP/NS	4,560	304.2033	6389.775	-410665	70828.66
EPS*NP/TA	4,560	245.0995	762.3376	-1411.622	30871.19
EPS*NS/TA	4,560	2585.379	5132.822	-22048.03	115312.7
EPS*WC/TA	4,560	313.335	1277.633	-15814.33	29969.75
EPS*INV/NS	4,560	513.7377	3730.393	-157528.3	107732.3

Source: Author's calculations from Stata 14

The correlation coefficients between the variables and the dependent variable P range from 0.0333 to 0.4608, with all p-values being less than 0.05, indicating a significant relationship among them. The correlation coefficients of the interaction variables are also less than 0.8, suggesting a low likelihood of multicollinearity. However, the research team still conducted multicollinearity tests using the VIF coefficient.

Table 3. Pearson correlation coefficients of the variables in the model

	P	EPS	EPS*D/E	EPS*GP/TA	EPS*NP/NS	EPS*NP/TA	EPS*NS/TA	EPS*WC/TA	EPS*INV/NS
P	1.0000								
EPS	0.3931	1.0000							
EPS*D/E	0.2555	0.4450	1.0000						
EPS*GP/TA	0.4608	0.7439	0.3171	1.0000					
EPS*NP/NS	0.0457	0.0611	0.0096	0.0822	1.0000				
EPS*NP/TA	0.3539	0.6342	0.2475	0.7381	0.1207	1.0000			
EPS*NS/TA	0.3381	0.6945	0.2798	0.7717	0.0392	0.5942	1.0000		
EPS*WC/TA	0.3868	0.4004	0.1474	0.6241	0.0608	0.6463	0.4436	1.0000	
EPS*INV/NS	0.0333	0.1650	0.1044	0.0562	0.0415	0.0399	0.0565	0.0343	1.0000

Source: Author's calculations from Stata 14

Upon conducting variance inflation factor (VIF) tests, it was found that the average VIF value of the independent variables is 2.61 (less than 3). Consequently, for the research model in question, multicollinearity is not a notable concern.

Table 4. Multicollinearity Testing

Variable	VIF	1/VIF
EPS	2.87	0.348153
EPS*D/E	1.26	0.796696
EPS*GP/TA	6.24	0.160340
EPS*NP/NS	1.02	0.981550
EPS*NP/TA	3.83	0.261279
EPS*NS/TA	2.78	0.360221
EPS*WC/TA	1.82	0.548185
EPS*INV/NS	1.04	0.957944
Mean VIF	2.61	

Source: Author's calculations from Stata 14

4.2. Regression results

The analysis of Table 5, showcasing the outcomes of model selection, yields significant insights. Firstly, the F-test indicates a probability value of 0.0000, suggesting that the fixed effects model (FEM) is more appropriate than the pooled ordinary least squares (OLS) model. Similarly, the Breusch and Pagan Lagrange test also yields a probability value of 0.0000, indicating that the random effects model (REM) outperforms the pooled OLS model. Moreover, the Hausman test underscores the superiority of the fixed effects model (FEM) over the random effects model (REM) with a probability value of 0.0000. These findings collectively provide compelling evidence supporting the preference for the fixed effects model (FEM) over both the pooled OLS and random effects model (REM) in this particular analysis.

Table 5. The results of model selection

Testing	Prob	Conclusion
F-test	0,0000	FEM is more appropriate than Pooled OLS
Breusch and Pagan Lagrange	0,0000	REM is more appropriate than Pooled OLS
Hausman	0,0000	FEM is more appropriate than REM

Source: Author's calculations from Stata 14

Analysis of Table 6, presenting the regression results from the Fixed Effects Model (FEM) and model diagnostics, reveals several key findings.

Firstly, regarding the coefficients, the variable EPS exhibits a significant positive relationship with P (stock price) with a coefficient of 0.2735438 and a p-value of 0.006, indicating its statistical significance. Similarly, the interaction variable EPS*GP/TA also demonstrates a significant positive relationship with P, with a coefficient of 1.773537 and a p-value of 0.001.

However, some variables such as EPS*D/E, EPS*NP/NS, EPS*NP/TA, EPS*NS/TA, EPS*INV/NS, and the constant exhibit p-values greater than 0.05, suggesting that they are not statistically significant predictors of P in this model.

Table 6. Regression results from FEM and model diagnostics

P	Coef.	Std. Err.	p-value
EPS	0.2735438	.1003158	0.006
EPS*D/E	.0341555	0260342	0.190
EPS*GP/TA	1.773537	5215795	0.001
EPS*NP/NS	.0068711	.022566	0.761
EPS*NP/TA	-.7907294	.4562877	0.083
EPS*NS/TA	-.1318959	.0834489	0.114
EPS*WC/TA	.7262479	.2478586	0.003
EPS*INV/NS	.019807	.0424155	0.641
Constant	10900.97	193.3506	0.000
Prob>F	0.0000		
Wald Testing	0.0000		
Wooldridge Testing	0.0000		

Source: Author's calculations from Stata 14

However, model deficiency tests including the Wald test for heteroscedasticity and the Wooldridge test for autocorrelation have detected the presence of these two deficiencies in the FEM model data. Therefore, the research team proceeded to conduct regression analysis using the GLS model to address these shortcomings.

Table 7. The results of the GLS regression model corrected for the presence of autocorrelation and heteroscedasticity

P	Coef.	Std. Err.	p-value
EPS	.0862907	.0246715	0.000
EPS*D/E	.0212805	.0083425	0.011
EPS*GP/TA	.8972905	.1508784	0.000
EPS*NP/NS	.0100102	.00806	0.214
EPS*NP/TA	-.5521107	.1829727	0.003
EPS*NS/TA	.0152587	.0185483	0.411
EPS*WC/TA	.4460083	.0462242	0.000
EPS*INV/NS	-.0258839	.0132562	0.051
Constant	7262.631	86.18489	0.000
Prob>chi2	0.0000		

Source: Author's calculations from Stata 14

According to the regression findings, at a 5% significance level, five variables stand out as statistically significant for the model: EPS, EPS*D/E, EPS*GP/TA, EPS*NP/TA, and EPS*WC/TA. However, the remaining three interaction variables – EPS*NP/NS, EPS*NS/TA, and EPS*INV/NS - although showing some correlation with stock price (P) and having formulated hypotheses regarding their direction, fail to achieve statistical significance in the regression model at the 5% level. This outcome suggests that the interaction variables involving net revenue (NS) lack statistical relevance. Moreover, the results underscore a clear correlation between financial indicators related to profitability ratios and the stock prices of manufacturing companies in the Vietnamese stock market. Consequently, after removing statistically insignificant variables, the multivariate regression model is refined as follows::

$$P_{i,t} = 7262.631 + 0.0862907EPS_{i,t} + 0.021280EPS_{i,t}*D/E_{i,t} + 0.8972905EPS_{i,t}*GP/TA_{i,t} - 0.5521107EPS_{i,t}*NP/TA_{i,t} + 0.4460083EPS_{i,t}*WC/TA_{i,t} + u_{i,t}$$

Upon reassessment against the sign hypotheses outlined, two interaction variables, EPS*D/E and EPS*NP/TA, exhibit discrepancies in signs compared to the initial hypotheses. Specifically, at the 5% significance level:

EPS demonstrates a positive relationship with the dependent variable P, with a regression coefficient of 0.0862907. Assuming all other variables are held constant, a one-unit increase in EPS correlates with a 0.0862907 unit increase in P.

EPS*D/E also displays a positive association with P, as evidenced by a regression coefficient of 0.0212805. Assuming other variables remain unchanged, a one-unit rise in EPS*D/E results in a 0.0212805 unit increase in P. Despite its significance in the equation, this interaction variable exhibits the smallest regression coefficient, indicating a negligible impact on stock price. The positive influence of the EPS*D/E on stock prices (P) in the Vietnamese market may be explained by several factors. Firstly, an increase in the D/E ratio can enhance a company's profit-making opportunities by leveraging borrowed capital for investment and business expansion. This positive performance can instill confidence among investors, leading to upward movement in stock prices. Additionally, a reasonable level of debt can bolster a company's image, attracting favorable terms for credit and fostering growth prospects, thus driving stock prices higher. Moreover, in emerging stock markets like Vietnam, investors often prioritize growth potential over traditional financial metrics. Therefore, if a company demonstrates promising growth prospects despite an increase in the debt ratio, its stock price may still rise. However, it's important to note that the impact of the D/E ratio on stock prices can vary depending on various factors, including specific business conditions and overall market conditions.

Conversely, EPS*GP/TA shows a pronounced positive correlation with P, reflected in a regression coefficient of 0.8972905. Assuming all other variables are constant, a one-unit increase in EPS*GP/TA corresponds to a 0.8972905 unit increase in P. Notably, this interaction variable boasts the largest regression coefficient, underscoring a robust relationship between capital utilization efficiency and stock price in the market.

EPS*NP/TA, however, displays a negative relationship with P, with a regression coefficient of -0.5521107. Assuming other variables remain static, a one-unit increase in EPS*NP/TA translates to a 0.5521107 unit decrease in P. Unique in its inverse relationship within the research equation, this variable suggests that despite reflecting capital utilization efficiency, signs of financial reporting fraud impacting net profit fail to instill shareholder expectations or investor confidence, consequently leading to a decline in stock prices. The inverse relationship of the EPS*NP/TA variable with stock prices in the Vietnamese market can be attributed to several factors. Firstly, a higher ratio of net profit to total assets may indicate lower asset utilization efficiency or profitability challenges within the company. Investors may interpret this as a sign of reduced profitability potential or operational inefficiencies, leading to diminished confidence and lower stock prices. Additionally, if the increase in net profit is driven by unsustainable practices or financial manipulation rather than genuine business growth, it may signal risks and uncertainties for investors, resulting in a negative impact on stock prices. Furthermore, in the context of the Vietnamese market, where investors are increasingly focused on company fundamentals and financial integrity, any discrepancies or irregularities in financial reporting can lead to heightened skepticism and a negative perception among investors, contributing to a decline in stock prices. Therefore, the inverse relationship between EPS*NP/TA and stock prices underscores the importance of transparent and sustainable business practices to maintain investor confidence and support stock price appreciation in the Vietnamese market.

Lastly, EPS*WC/TA exhibits a positive correlation with P, as indicated by a regression coefficient of 0.4460083. Assuming other variables are unchanged, a one-unit increase in EPS*WC/TA results in a 0.4460083 unit increase in P.

5. Conclusion

In conclusion, the study examined the impact of manipulation warning signs based on financial statements on stock prices, focusing on listed companies in Vietnam. The regression analysis revealed significant relationships between certain manipulation warning signs and stock prices, shedding light on the intricate dynamics within the market. While most variables aligned with initial hypotheses, two interaction variables, EPS*D/E and EPS*NP/TA, exhibited unexpected signs, suggesting nuances in the relationship between financial indicators and stock prices. Notably, EPS*GP/TA emerged as a key factor, indicating a strong positive correlation between capital utilization efficiency and stock price. Conversely, EPS*NP/TA displayed a negative

relationship, highlighting the impact of financial reporting fraud on investor confidence and subsequent stock price declines. These findings underscore the importance of vigilant monitoring of financial indicators and the need for robust regulatory measures to safeguard investor interests and market integrity. Moving forward, further research and proactive measures are warranted to enhance transparency and mitigate risks within the financial markets, ultimately fostering a more resilient and equitable investment environment.

In the realm of managerial responsibilities, financial statement fraud constitutes a deliberate manipulation or concealment of data and information within financial reports to deceive stakeholders. Such intentional inaccuracies often stem from directives issued by the board of directors, aiming to influence business outcomes and create a false perception of the organization's operational and profit status. These directives may include reducing corporate tax liabilities, inflating market valuations, aligning reports with analyst expectations, securing favorable borrowing terms, or facilitating short-term management incentives. However, these fraudulent practices lead to misinformation, distorting market dynamics and influencing the decisions of investors and creditors, ultimately eroding the credibility and reliability of the company's financial disclosures. For publicly listed manufacturing enterprises, instances of financial statement fraud commonly arise from collusion between senior management and accounting personnel, usually intending to artificially inflate market valuations for immediate gains. Despite the prevalence of such practices, many Vietnamese companies, particularly those listed, lack robust internal control mechanisms and competent control staff to effectively prevent and detect fraudulent activities.

The auditing sector, comprising both large international firms as well as domestic audit firms, plays a crucial role in detecting and deterring financial statement fraud. While leading firms boast experienced and ethical audit teams capable of uncovering fraudulent activities during audits, smaller firms often employ less experienced auditors and assistants, particularly in the complex manufacturing sector. Consequently, many audit firms fail to detect significant frauds perpetrated by listed manufacturing companies, resulting in substantial losses for investors and stakeholders.

Addressing these challenges necessitates a multifaceted approach, including regulatory reforms to strengthen oversight and enforcement of accounting and auditing standards. Additionally, there is a need for enhanced professional ethics promotion and skills development initiatives to bolster the integrity and competency of auditors and control staff. By fostering transparency, accountability, and ethical conduct, both within organizations and across the auditing profession, stakeholders can better safeguard against financial statement fraud and uphold the integrity of financial reporting practices in Vietnam.

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