Macrothink Institute™

Business and Economic Research
ISSN 2162-4860
2024, Vol. 14, No. 4

Study On the Factors Affecting the Audit Fees of Small and Medium Enterprises in Vietnam

Prof. Nguyen Manh Thieu, AOF

E-mail: nguyenmanhthieu@hvtc.edu.vn

Nguyen Thi Ha Linh, AOF

E-mail: nguyenthihalinh@hvtc.edu.vn

Received: September 22, 2024 Accepted: October 29, 2024 Published: October 31, 2024

doi:10.5296/ber.v14i4.22352 URL: https://doi.org/10.5296/ber.v14i4.22352

Abstract

The competitive pressure within the group of domestic audit firms is becoming increasingly intense, and pricing is considered one of the most effective competitive tools. This also stems from the fact that many small businesses tend to prioritize low costs when selecting an audit firm. Through a survey conducted on 70 companies, the author utilized SPSS 26 software to analyze the data and identified five factors. The results from the correlation test between two variables and the multivariate linear regression model both indicated that for small and medium-sized enterprises in Vietnam, two factors significantly impact the audit fees for client companies: the size of the audited company and the reputation of the auditing firm.

Keywords: Financial Statement Audits, Small and Medium Enterprises (SMEs)

1. Introduction

Audit fees can be considered as either audit remuneration or audit costs, depending on whether they are viewed from the perspective of the service user (client) or the audit firm. Essentially, this is the amount of money that clients are expected to pay for the services provided by the independent auditors of an audit firm. In developed countries where accounting and auditing services have long been established, audit firms compete based on audit quality. Meanwhile, the current situation in Vietnam shows that many audit firms compete on audit fees.

The competitive pressure within the group of domestic audit firms is becoming increasingly fierce, and fees are considered one of the most effective competitive tools. This also stems from the reality that many small businesses often prioritize low costs when selecting an audit

firm. Competing on price in markets for ordinary goods and services is generally positive. However, when competition excessively reduces audit fees, audit procedures may only meet minimal standards, leading to a high risk of errors. In reality, unhealthy competition based on price has always been a heated issue in the audit market, but so far, no effective solutions have been implemented.

This has led to unfair competition regarding audit fees for financial statement audits among small and medium-sized enterprises. Based on these initial observations, the author has conducted research to determine the factors influencing the audit fees of financial statements for small and medium-sized enterprises in Vietnam, as well as the causes and extent of their impact.

2. Overview of Audit Fees Research

Research by Dan A. Simunic (1980) used experimental methods to analyze audit fees. Audit services are a type of service that has both substitute and supplementary services; therefore, the amount of service required by a client depends on the relationship between cost and benefit. Audit fees are determined by the unit price multiplied by the amount of service required by the client. Audit fees vary among firms due to differences in the volume of audit work and unit prices. The unit price of audit work is determined by market competition within the audit service sector.

Additionally, audit fees include the input costs for the auditors and necessary profit (audit compensation). According to Simunic (1980), Firth (1985), Palmrose (1986), and other studies, audit fees and necessary profit (audit compensation) include three components: the cost of the assessment (including performing necessary assessment procedures, issuing mandatory audit reports, and all other opportunity costs), anticipated loss costs (including litigation losses and potential recovery costs), and the company's normal profit. The audited entity hopes to minimize financial reporting costs, while auditors aim to achieve the best possible profit from the audit. The audit fee is the result of maximizing benefits for both parties.

According to Lê Vũ Vi (2017), normal audit fees are established based on specific criteria set by the audit firm, such as: number of working hours, number of auditors, client size, client risk assessment, audit firm reputation, etc. Normal audit fees are measured through models estimating audit fees.

Abnormal audit fees are those exceeding or falling below normal audit fees. Studies by DeAngelo (1981), Dye (1991), Choi (2010), Ettredge et al. (2014) have identified such abnormal audit fees. Abnormal audit fees may arise because the incumbent audit firm has an advantage over other firms in retaining clients, leading them to lower audit fees. Alternatively, clients may negotiate contracts to reduce audit fees, or financial pressures may necessitate fee reductions. According to Phạm Trường Quân (2015), audit fees are determined by the equation:

$$\text{Audit Fee} = \text{Normal Audit Fee} + \text{Abnormal Audit Fee}$$

Through the process of reviewing relevant literature, the author identifies two approaches related to audit fees.

Research on measuring and determining audit fees from the perspective of audit firms: This approach primarily involves quantitative studies based on secondary data related to client companies and audit firms, aiming to determine the correlation between audit fees and various factors. This serves as a basis for audit firm managers to set service fees.

Research on measuring the relationship between audit fees and audit quality: This approach seeks to determine whether there is an impact or no impact between fee levels and the audit quality of audit firms, using both secondary and primary data.

3. Theoretical Framework

Step 1 – Identify the research gap: The author reviews both domestic and international studies on factors influencing audit fees for financial statements. From this, the research gap is identified, and the preliminary variables for the research model are determined.

Step 2 – Define the research objectives: After identifying the research gap, the author establishes the research objective, which is to identify the factors affecting audit fees for financial statements, particularly for small and medium-sized enterprises (SMEs) in Vietnam. Based on this, recommendations for the current audit fee market in Vietnam are proposed.

Step 3 – Present the theoretical framework: The author conducts a review of the foundational theories relevant to the research topic.

Step 4 – Develop the research model: Based on the literature review, the author constructs the research model, evaluating its suitability and compiling hypotheses to be applied to SMEs in Vietnam.

Step 5 – Preliminary research using qualitative methods: The author employs qualitative methods in the form of expert interviews. These experts include senior auditors, Directors, and Audit Partners at audit firms in Vietnam who have been directly involved in negotiating audit fees. The purpose of the interviews is to assess the validity of the research hypotheses established earlier.

Step 6 – Formal research using quantitative methods: The author collects data that meets the established criteria for quantitative analysis.

After identifying the research objectives and subjects, and based on the literature review presented above, the author has developed the following research hypotheses:

H1: The size of the audited company positively affects audit fees (measured by Total Assets, number of employees, and Revenue).

H2: The complexity of the audited company positively affects audit fees (measured by the number of subsidiaries, branches, accounts receivable ratio, inventory ratio to total assets, and ROE).

H3: The industry and type of audited company affect audit fees (measured by variables such

as industry sector: manufacturing, trade, services, and real estate; and types of audited company: joint-stock company, listed company, LLC, FDI company).

H4: The reputation and size of the audit firm positively affect audit fees (measured by the variable Big4).

H5: Audit tenure affects audit fees (variable not used due to data collection limitations).

H6: The fiscal year affects audit fees (variable not used due to data collection limitations).

H7: The time lag between the end of the year and the audit report affects audit fees (measured by the variable time lag between the end of the year and the audit report).

4. Research Results

Table 1 provides some descriptive statistical information for the data. Thereby, we can see that the average audit fee each company must pay for the 2023 reporting period is about 72.1 million VND. This number is only relatively representative because, in reality, audit costs fluctuate greatly (shown through a standard deviation of up to 61.6 million VND. The fee variable (*Phi*) has the smallest value of 18 million VND and the largest one is 380 million VND), proving that the audit fees of small and medium enterprises in Vietnam are significantly different.

Dependent variables such as total assets of the company, total number of employees, customer receivables ratio, inventory to total assets, ROE and time lag between year-end and audit report also show quite large fluctuations.

The total assets variable (*Tongtaisan*) has an average value of 113.1 billion VND and a standard deviation of 214.6 billion VND. The total number of employees variable (SLnhanvien) has an average value of 29 employees with a standard deviation of 26. The revenue variable (*Doanhthu*) has an average value of 72.3 billion VND with a standard deviation of 120.04 billion VND. The customer receivables ratio with inventory variable (*Pthu-HTK)* has an average value of 41.97% with a standard deviation of 28.64%. The ROE variable has an average value of -0.03 with a standard deviation of 1.12, and the time lag variable (*Dotre*) has an average value of 81 with a standard deviation of 19. This demonstrates a huge difference in scale and profit margin on equity, the time lag between the year-end and the companies' audit reports. This difference may be due to the author's sample selection.

Table 1. Descriptive statistics

	Mean	Median	Std Dev	Minimum	Maximum
Phi	72,095,714	50,000,000	61,626,980	18,000,000	380,000,000
Tongtaisan	113,100,026,874	50,742,591,439	214,595,815,788	340,967,421	1,435,816,980,514
SLnhanvien	29	17	26	first	98
Doanhthu	72,346,528,995	31,717,940,617	120,035,526,757	-	871,449,017,469
Pthu-HTK	41.97%	41.29%	28.64%	0.15%	97.63%
ROE	- 0.03	0.04	1.12	- 6.91	2.87
Dotre	81	86	19	39	137

Source: Compiled by author

Table 2. Table of Audit Fees by Other Independent Variables

	N	Yes count (%)	No count (%)	Mean	Median	Std Dev	Minimum	Maximum
Big4	25	35.71%	62 9%	124,440,000	100,000,000	75,302,101	20,000,000	380,000,000
Non-big	45	62 9%		43,015,556	40,000,000	19,742,317	18,000,000	100,000,000
ctycon-CN	6	8.57%	91.43%	132,666,667	140,000,000	63,892,270	36,000,000	200,000,000
Sanxuat	34	48.57%		72,455,882	50,000,000	69,383,517	18,000,000	380,000,000
Thuongmai	9	12.86%		68,333,333	60,000,000	43,906,466	20,000,000	150,000,000
Dichvu	27	38.57%		72,896,296	50,000,000	56,000,777	20,000,000	220,000,000
Joint Stock Company	24	32 9%		51,300,000	43,500,000	47,083,665	18,000,000	200,000,000
Co., Ltd	21	30.00%		61,285,714	45,000,000	44,488,782	20,000,000	200,000,000
FDI Company	25	35.71%		92,920,000	68,000,000	78,535,556	20,000,000	380,000,000

Source: Compiled by author

In addition, we can see from Table 2 that 25 companies among the 70 selected samples were audited by Big4 companies, accounting for 35.71%. The average audit fee audited by Big4 companies. is 124.44 million VND with a standard deviation of 75.3 million VND, while non-Big4 auditing enterprises have an average fee of 43 million VND with a standard deviation of 19.7 million VND. This difference indicates the competition in audit fees among companies and even among Big4 companies.

The percentage of companies with subsidiaries and branches *(Ctycon-CN)* accounts for only 8.57% (6 companies), indicating that small and medium-sized enterprises (SMEs) are typically small in scale, often lacking subsidiaries or branches, which aligns with the overall characteristics of SMEs.

Table 2 illustrates audit fees by industry and company type. Companies operating in the manufacturing sector (*Sanxuat*) represent the highest proportion at 48.57% and incur the highest and most volatile audit fees (average value of VND 72.46 million with a standard deviation of VND 69.38 million). The sector with the lowest audit fees is commerce (*Thuongmai*) (average VND 68 million with a standard deviation of VND 43.9 million). Regarding company type, SMEs are not listed companies; therefore, the author did not include the listing variable in this model, which is reasonable given the various conditions required for a company to be listed on the stock exchange, which these enterprises do not meet. FDI companies have the highest audit costs (average VND 92.92 million) and exhibit the greatest variability (standard deviation of VND 78.5 million).

All these descriptions indicate that audit fees for SMEs in Vietnam are unpredictable, difficult to forecast, and exhibit high complexity and volatility even within the same evaluation criteria.

5. Conclusion

Five factors were identified, but due to limitations in data collection, 10 independent

variables were selected by the author for testing. The results from the two-variable correlation test and the multivariate linear regression model both show that for small and medium-sized enterprises (SMEs) in Vietnam, two factors have a strong impact on audit fees for client companies: the size of the audited company (measured by total assets, with a positive effect) and the reputation and size of the audit firm (measured by the Big4 variable, with a positive effect). These results align with previous studies. In Vietnam, the reputation and size of the audit firm are important factors in determining audit fees, with the Big4 dominating the market with higher audit fees. The larger the audited company, the more audit procedures are required to ensure the fairness and accuracy of the financial statements, leading to higher audit fees.

The analysis of the two-variable correlation and the multivariate regression model consistently reflects the positive relationship between total assets and audit fees, with a Sig coefficient = $5.4*10^{-4}$ nd a standardized Beta coefficient = 0.459. Meanwhile, the total number of employees has a Sig coefficient = 0.308 (>0.05), and revenue has a Sig coefficient = 0.199 (>0.05), indicating that these variables are not significant in the model and do not affect audit fees.

Thus, the size of the audited company, measured by total assets, implies that the auditor's work and the duration of the audit must be extended to complete the audit procedures, resulting in higher fees. This finding is consistent with previous studies by Simunic (1980), Ha Thu (2016), Xu (2015), and Ling et al. (2018).

The two-variable correlation analysis shows that the industry of the audited company is not related to audit fees for SMEs in Vietnam (Sig > 0.1). Meanwhile, the FDI variable positively correlates with audit fees (Sig coefficient = 0.035, correlation coefficient = 0.252). This indicates that SMEs in Vietnam with FDI status have more complex production processes, requiring auditors to spend more time understanding and applying audit procedures, which results in higher fees. However, the multivariate linear regression model shows that industry and company type do not affect audit fees. This may be due to the limited sample selected by the author, which may not fully reflect the actual situation in Vietnam.

The two-variable correlation analysis shows that the complexity of the audited company, measured by the number of subsidiaries, branches, the ratio of receivables, and inventory to total assets, and the financial situation variable (ROE), is not related to audit fees (Sig coefficient > 0.1). Meanwhile, the multivariate linear regression analysis suggests that the "subsidiaries-branches" variable positively affects audit fees (Sig coefficient = 0.011, standardized Beta coefficient = 0.301). This indicates that companies with greater complexity, with more subsidiaries and branches, require auditors to spend more time understanding and assessing internal control systems, leading to higher fees. The other two variables, however, are not related to audit fees, possibly due to the limited sample size collected (SMEs typically have smaller scales).

The two-variable correlation analysis (Sig coefficient = $4.08*10^{-9}$, *correlation coefficient = 0.633) and the multivariate linear regression model (Sig coefficient =* $2.98*10^{-5}$ and standardized Beta coefficient = 0.463) demonstrate the dominance of Big4 firms in the

Vietnamese market, consistent with previous studies by DeAngelo (1981), Nathalie, G. B., & Schatt, A. (2006), and Xu (2015), as well as the current situation in the Vietnamese audit market.

The two-variable correlation analysis shows that the time delay between year-end and the audit report does not affect audit fees (Sig coefficient > 0.1), and the multivariate regression model also confirms that the "delay" variable has no effect on audit fees (Sig coefficient = 0.827). This is consistent with the opinions of experts interviewed by the author, who noted that this delay depends on the scheduling arrangements between the audit firm and the audited company, and does not lead to higher fees for shorter delays or lower fees based on company accounting practices.

Competing interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Macrothink Institute.

The journal's policies adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned; externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data are available.

Open access

Copyrights

References

Al-Khoury, A. F., Al-Sharif, M., Hanania, J., Al-Malki, I. A., & Jallad, M. (2015). Auditor independence and mandatory auditor rotation in Jordan. *International Business Research, 8*(4), 73-82. https://doi.org/10.5539/ibr.v8n4p73

Almasani, A. A., Azam, S. F., Ahmed, S., & Yusoff, S. K. B. M. (2019). The mediation effect of audit quality on the relationship between auditor-client contracting features and the reliability of financial reports in Yemen. *International Journal of Business Society, 3*(10), 58-69.

Lien, N. T. H., & Trang, N. T. H. (2020). The impact of audit fees on the quality of independent audit services in Vietnam. *VNU Science Magazine: Economics and Business, 32*(4), 29-36.

Ministry of Finance. (2016). *Circular 214/2016/TT-BTC issued together with thirty-seven (37) Vietnamese audit standards.*

National Assembly. (2015). *Law on independent audit No. 67/2015/QH12.*

Quynh, N. Q., & Hoa, N. T. P. (2019). *Textbook of fundamental auditing.* Nhà xuất bản Tài chính, Hà Nội.

Quynh, N. Q., & Tue, N. T. (2018). *Financial auditing textbook. NXB Đại học Kinh tế Quốc dân.*

Vi, L. V. (2021). *Factors affecting audit fees of audit firms in Vietnam.* Ho Chi Minh: University of Economics Ho Chi Minh City.