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Article

Enhancing independence of local auditing services by profiting from experiences of the Big4 group (KPMG, Deloitte, PWC E&Y) operating in Vietnam market

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2. Competitiveness of enterprises in knowledge economy. PTM publisher, 2012, Warsaw, 449 pages (In Polish)



3. Competitiveness of Vietnam economy. PTM publisher, 2013, Warsaw, 165 pages (In Polish)



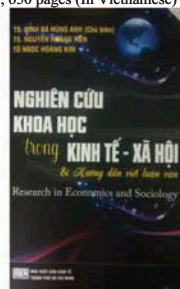
4. Leadership in socially responsible enterprises. EMENTON publisher, 2015, Warsaw, 201 pages (In English)



5. Strategic international human resource management. PTM publisher 2017, Warsaw, 281 pages (In English)



6. Methodology of research in social and economic science. UEH publisher 2017, HCMC, 650 pages (In Vietnamese)



7. Global strategic marketing management. EMENTON publisher 2018, Warsaw, 241 pages (In English)



ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

Enhancing independence of local auditing services by profiting from experiences of the Big4 group (KPMG, Deloitte, PWC E&Y) operating in Vietnam market

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Abstract: In Vietnam, auditor independence is guided by the Code of Professional Ethics for Accounting and Auditing issued in accordance with Circular No. 70/2015/TT-BTC of the Ministry of Finance. Independence is the first and most important principle for the professional ethics of auditors. Independence is also an essential component of quality assurance of the auditing service. At present, there are many studies on auditor independence in general and on the relationship between non-audit services and auditor independence over different time and space. The auditing industry in Vietnam is still in a burgeoning state, and its economic and sociocultural context as well as the institutional settings are very specific compared to those of other countries in the world. The article investigates the issue of how local auditing companies could improve their independence and as a result their quality of auditing services based on experiences of the Big4 group already present and operating in Vietnam market.

Subjects: Auditing; Business Ethics; Asian Business



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PUBLIC INTEREST STATEMENT

In Vietnam, auditor independence is guided by the Code of Professional Ethics for Accounting and Auditing issued in accordance with Circular No. 70/2015/TT-BTC of the Ministry of Finance. Independence is the first and most important principle for the professional ethics of auditors. Independence is also an essential component of quality assurance of auditing service. Currently, there are many studies on auditor independence in general and on the relationship between non-audit services and auditor independence over different time and space. The auditing industry in Vietnam is in a burgeoning state, and its economic and socio-cultural context as well as the institutional settings are very specific compared to those of other countries in the world. The article investigates the issue of how local auditing companies could improve their independence and as a result their performance and quality of services based on experiences of the Big4 group already present and operating in Vietnam market.

| **Keywords:** auditor independence; KPMG; Deloitte; PwC; E&Y; Vietnam

1. Introduction

According to Arens and Loebbecke (1997), auditing is the process by which a competent, independent person accumulates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. According to the International Federation of Accountants (IFAC, 2007), auditing is about auditors examining and expressing their opinions on financial statements. The quality of auditing services is really essential to users and more important to service providers in order to bridge the gap between social expectations and the ability to meet the performance of the auditor. It means the need to ensure the reliability and quality of auditing services has largely focused on auditors' independence. Auditor's independence can be affected by many factors, and the results obtained from the past studies are inconsistent and differ very much due to the specific economic, social, cultural and institutional settings. Independent auditing is a very important cornerstone of the market economy. It increases the credibility of financial information, contributing to healthy economic relations. Based on the independent audit results, the users of the audited financial statements obtain objective, accurate information to reasonably assess financial status and results of business operations of interested companies as the basis for their economic and investment decisions. In addition to the aforementioned objective of auditing services, by providing comments on the financial statements, the independent auditors, through the audit process, can also make recommendations to help enterprises improve the effectiveness of control system, the efficiency of financial management in particular as well as the overall performance of business activities.

Vietnamese enterprises have only really approached and familiarized themselves with auditing services and concept of independent auditing for more than 10 years. In the past, for a long time, due to the lack of well-functioning auditing system and lack of awareness of the importance of independent auditing, many companies had reported wrong financial statements for the purpose of tax frauds or reported extraordinary good business results to attract investors that lead to the damage of investors' interests. At present, auditing services have been formed and developed, becoming an increasingly inevitable part of business activities, contributing to the general improvement of the quality of business management. The independence and quality of auditing services in Vietnam is not really good and far from the expectation of enterprises and market demand. Many companies have been successfully audited by local auditing companies, but they have gone bankrupt with big losses occurred very soon after that. By the end of 2011, a new independent audit law was introduced, along with a number of decrees and circulars aiming at boosting the independence and quality of services performed by local auditing companies. Besides, the presence of global auditing corporations such as KPMG, PwC, Ernst & Young and Deloitte (the so-called the Big4 group) offering auditing services according to international standards has also given a big boost to the independence and quality of auditing services performed by local auditing companies to respond to the rising demand of the market and fast-growing economy. The article investigates the issue of how local auditing companies profit from international experiences of the Big4 group already present and operating in Vietnam auditing market. That means how they could improve their independence, professionalism and quality of auditing services based on global standards, following international experiences of the Big4 group, adapting and adjusting to local market conditions and requirements. In Vietnam, there are a significant number of researches investigating how local auditing companies could enhance the independence, improving quality of the services offered but not so many researches relate to the international experiences of the largest foreign auditing corporations operating in the local market. This article is trying to close this gap, contributing to the body of auditing knowledge and spreading the best global practices to the small and medium local auditing companies by investigating experiences and practices of the mentioned Big4 group.

2. Theoretical background and methodology

Depending on perspective of clients (DeAngelo, 1981a, & DeAngelo, 1981b; Parasuraman, Berry, & Zeithaml, 1991), owners, shareholders, bondholders, investors, lenders and other creditors, society, professional associations and public (IAASB, 2013) whose perception of the importance of developing and maintaining the factors affecting audit quality is the same, the independence is considered as a key constituent factor (Suseno, 2013). Independence is the cornerstone of auditing and is essential for the reliable corporate financial statement. Independence and quality of auditing services and the way to improve them is the subject of investigation in this paper. In fact, they ultimately lead to a higher competitive position, better economic returns and long-term sustainable development. In common with the International Federation of Accountants in Vietnam, independence is defined in the professional ethics of accounting and auditing issued in accordance with Circular 70/2015/TT-BTC dating 8 May 2015 (Ministry of Finance, 2015). The Ministry of Finance has classified independence into two parts: independence in fact (real independence) and independence in appearance (perceived independence). This Circular also mentioned some threats affecting the independence of auditors such as self-interest (financial interest in client), self-review (evaluating own work), familiarity (auditors become too sympathetic to client's interest, through a close relationship with them), advocacy (auditors promote a position or opinion to the point that their objectivity is compromised in regard to that position/opinion) and intimidation (auditors are deterred from acting objectively by threats made against them). Identification of the potential threats should be made to ensure the independence of the auditor.

The *lending credibility theory* provides the primary function of auditing to increase the reliability of financial statement (Ittonen, 2010) in which auditor independence is a symbol of public trust (Beattie, Brandt, & Fearnley, 1999). It is fundamental to the existence of auditing services (Bakar & Ahmad, 2009) to act in accordance with social expectations (Suchman, 1995). Based on the theoretical view of legality, many studies have shown that when attitudes and social expectations change, the auditor independence should also be appropriately adapted within the framework of imperative standards (Deegan, 2006; Lindblom, 1994). The auditor environment includes various stakeholders such as information users, public managers and professional bodies. All stakeholders have different expectations about the truth and fairness of the financial statements. In line with *stakeholder theory*, formal independence depends on how the user perceives information. Also, stakeholders' impact on auditors can control threats that maintain legitimacy to an acceptable level. The level of optimality for auditor independence is suboptimal (DeAngelo, 1981a), so it is important to select qualified and knowledgeable auditors to be able to detect financial misstatements. One of the major influences is the principal cost (Francis & Wilson, 1988) which is perfectly consistent with *agency theory*. Some researchers (DeAngelo, 1981b; Magee & Tseng, 1990) argue that lowballing lowers the quality of auditing. Economic dependence is considered to be one of the most threatening factors of independence, in particular when clients' fees account for a major part of auditing company's total revenues (Alleyne, 2006; Beattie et al., 1999).

The provision of non-audit services in a professional manner increases the total value of the service pack that auditing companies offer their customers (Lennox, 2005). Many other studies (Blay & Geiger, 2013; Brody & Masselli, 1996; Crain, Goldwasser, & Harry, 1994; Francis & Ke, 2006; Haynes, Jenkins, & Nutt, 1998; Jenkins & Lowe, 2011; Pany & Reckers, 1983; Ponemon, 1995; Robinson, 2008; Shaub, 2004; Shockley, 1981; Trompeter, 1994) show that non-audit services (i.e. management consultancy and tax consultancy) detract auditor's independence. In addition, it reduces counterbalance in the relationship between the clients and the auditing companies, creating a high risk of self-reliance and self-examination (Quick & Warming-Rasmussen, 2015). This threat often occurs in small auditing companies (Shockley, 1981). Large auditing companies, especially members of a global corporation, are generally more independent than small local auditing companies (Alleyne, 2006; Al-Ami & Saudagaran, 2011). According to DeAngelo (1981a), local auditing companies must improve auditing services' quality in order to survive and develop. However, they have to consider "quasi-rents" which is the pressure of balancing between benefits and costs. Large-scale auditing companies are generally of higher quality, as perceived by the

market, than smaller local auditing companies. Other views expressed by Goldman and Barlev (1974) suggest that large-scale auditing companies should not be immune to customer pressures as the Arthur Andersen and Enron's cases in history have shown. Since then, regulations have been in place to restrain non-audit services engagement of the auditing companies because the close relationship between auditors and clients would negatively affect audits' quality (Bamber & Iyer, 2007).

The rotation of auditors is considered to be one of the main factors contributing to the independence of the auditing services (Beattie et al., 1999; Teoh & Lim, 1996). Many studies (Garcia-Blandon & Ma Argiles, 2015; Geiger & Raghunandan, 2002) show that there is a negative relationship between the auditor tenure and audit quality. Manry, Mock, and Turner (2014) discovered a significantly negative correlation between the auditor tenure and the cumulative adjustment for an audit tenure term of seven years or more in case of small customers and insignificantly negative correlation in case of large customers. A study by Johnson, Khurana, and Reynolds (2002) concluded that short-term auditor tenures of 2–3 years had a negative impact on poor quality of financial statements, but there was no evidence of a decline in audit quality for long-term auditor tenures of 9 years or more. The practice of auditors' rotation is used to increase their independence from customers using their services. Auditors must comply with standards promulgated when detecting violations of independence. In case of that, the auditor must assess the seriousness of the breach and its effect on the compliance with basic ethical principles and use all reasonable measures as soon as possible to properly settle the consequences of the breach. The auditor must determine whether it is necessary to report this violation to those who may be affected by the offense, the professional organization in which they are a member, management agency or supervisory authority concerned.

In Vietnam's research context, Dang (2011) has found four factors affecting the quality of services of auditing companies: (1) the auditing firm and client relationship, (2) the process of training and capacity building of auditors, (3) the audit cycle, (4) the effectiveness of the audit process. Other studies have also found the main cause of impairment of the values of auditing services in the auditor–client relationship (Dang, 2009). Amongst threats, the threat of self-interest, threat of self-review, threat of familiarity, threat of advocacy and threat of intimidation affect most the independence of auditing (Giang, 2010). According to research carried out by Nguyen and Ha (2015), reviews of the views and opinions on the subjects related to financial reports and independence of not only the auditors (but also the accountants, bank creditors and investors) and factors that affect this independence, the authors found that eight factors, (1) non-audit services, (2) audit fees, (3) auditor's tenure; (4) rotation of auditors/audit firms, (5) the auditing committee appointed, (6) the competition in auditing market, (7) the size of the auditing companies, (8) the risks of disclosure of financial relationships, have different levels of impact that increase or threaten the independence. Recent research done by Vo (2016) shows that there are four factors that have an effect (non-audit services, auditing costs, tenure and rotation of auditors) on the independence of the auditor.

Based on the theory of audit quality and independence, a number of other factors such as clients' gift/hospitality and corporate governance have been less or completely not studied empirically. Cadbury (1992) states that corporate governance is the whole system of monitoring and control to ensure that the company manager carries out its work in the right way. Elements of corporate governance that impact on audit independence may include the management philosophy, the ways of monitoring the auditing process and reviewing the auditing reports, the measures of quality control and so on. Additionally, many researches are carried out in different countries with various socio-cultural, economic and political settings. Thus, the research results obtained about the impact of each factor on the independence of auditing and audit quality are different, even contradictory. Many studies have found no evidence in relation to factors such as non-audit services (Beaulieu & Reinstein, 2010; DeFond, Raghunandan, & Subramanyam, 2002; Ghosh & Pawlewicz, 2009; Ratzinger-Sakel, 2013; Seetharaman, Sun, & Wang, 2015), cost of auditing (Chi,

Huang, Liao, & Xie, 2009; Dogui, Boiral, & Heras-Saizarbitoria, 2014; Li, 2009; Reynolds & Francis, 2001), the size of the auditing firm (Canning & Gwilliam, 1999) and the audit tenure (Carcello & Nagy, 2004; Ruiz-Barbadillo, Gomez-Aguilar, & Carrera, 2009; Wen & Hay, 2013) that might affect the auditor independence.

Studies in the past have mainly inherited the previous research on factors affecting auditor independence and used quantitative methods to test the impact of these factors in a specific market for a specific time period. However, the meaning of and the impact on auditor independence cannot be entirely determined solely by the use of quantitative measurements and statistical relationships. In particular, the construction of theoretical framework for auditing independence may have been formed and affected by different contexts. In this study, we examine how local auditing enterprises could profit from experiences of global auditing corporations operating in Vietnam in order to enhance the independence and quality of their auditing services. In Vietnam market reality, as well as in other developing markets, we have four leading corporations as the objects of research, called the Big4 group, competing with each other to offer auditing services mostly to larger domestic business groups and global corporations operating in diverse sectors/industries of the national economy: KPMG, Ernst & Young (E&Y), PricewaterhouseCoopers (PWC) and Deloitte. As a result, we use a case study as a qualitative method of analysis to investigate each of those corporations. We are intending to find out how local auditing companies, mostly small and medium enterprises, can profit from the Big4 group's experiences and expertise in terms of boosting auditing independence and quality, especially around three main factors (subjects of research) identified during the literature screening phase of this study, namely, (1) the cost of auditing services (clients' fees), (2) the non-auditing services, (3) the auditor's rotation rate. A case study is considered as the best choice for our study as we have only four research objects and three mentioned subject of research.

Previous studies carried out by domestic authors are focused mainly on quantitative analyses exploring the factor impacting on auditor independence without showing, within a given set of impacting factors, why global players are doing well with their business operations and how domestic players could profit from their expertise and experiences. To that end, the understanding of what global corporations are doing, why they are doing so well and how the domestic companies could profit from their (global corporations) expertise and experiences is related to the methodology that most researchers used. Case studies and interviews are frequently used to find the answers to "why" (why they are so successful in penetrating foreign market) and "how" (how they are doing to maintain their success and keep their business expanding continually) question as well as to offset the lack of so far findings in the domestic literature (Rubin & Rubin, 2005; Yin, 2009). Moreover, but not in this present study, the vast preference for qualitative research in developing countries may indicate the difficulty of conducting costly and time-consuming empirical research on a wide scale (Husted & Allen, 2006; Jamali & Mirshak, 2007).

3. Local auditing services' independence

The business results of recent years in Vietnam showed that, without any surprise, the top auditing firms are E&Y, PwC, KPMG and Deloitte, the largest foreign auditing corporations in Vietnam. This is not difficult to understand because the largest enterprises in Vietnam, whether domestic or foreign, when needed, hire foreign auditors. The reason behind that strategic choice is to attract and retain important foreign investors. Due to the low competencies and unknown prestige, local auditing companies have not yet reached regional and global standards and not yet recognized internationally. Independence is the principle of practice and also the standard of professional ethics indispensable in auditing profession. Since auditing is such an industry that requires absolute independence, according to international standard and practice, the auditing companies cannot be state management agencies. In most countries, auditing services are administered by professional associations which are free from governmental manipulations. In Vietnam, the Ministry of Finance has transferred the function of controlling the quality of accounting and auditing services to the auditing association. However, this transfer process is slow and very

formal. Therefore, the independence of local auditing companies is far from international standard and requirement.

On top of that, the unhealthy price competition is widespread and the average service fee of local auditing companies is only a half or less of that of foreign auditing corporations for the same type of services. Vietnamese local auditing companies are afraid of losing their customers and so they depend too much on price competition and that impacts the quality of their services accordingly. This affects the independence of the auditor in terms of low rate of diversity and rotation of active auditors in local auditing companies. Some of the cost reductions are usually related to the simplification of auditing procedures and less diversity resulting in poor quality of auditing services offered to the local market. Due to that, the total revenue as well as the market share of local auditing companies is significantly limited. In 2015, the total turnover of 78 Vietnamese local auditing companies was only equivalent to the total turnover of the Big4 group. Additionally, up to 60% of customers of local auditing companies are statutory, while the market share of voluntary customers has increased over the years but not significantly.

One characteristic of Vietnamese auditing industry is that the business environment is so dependent on relationships that make auditors still not fully independent. Many businesses still view tax evasion as usual. Auditors or business accountants know that they are doing something wrong but sometimes cannot stand alone against the owner. In the process of auditing, the auditors deem that there is a misconduct or wrong information on trading transaction volume and on value-added tax refund, but fail to notify the superior. Moreover, many auditors are usually not willing to signal suspicious items in the financial statements. In addition to these subjective factors, there are many objective factors that affect the independence of the auditors. Local auditing companies only focus on auditing financial statements that account for 60%, while tax and financial consultancy account for 20% and management consultancy accounts for 14% of their total revenue. So, the auditor's income stream from non-auditing services is not significant while the competencies for financial statements auditing is still not satisfactory. All these factors contribute to the limitation of the independence of auditors in local auditing companies.

4. Auditing services' independence of the Big4 group in Vietnam

4.1. KPMG Vietnam

KPMG Global's personal independence policy requires that all members of its business units around the world, including the KPMG Vietnam, comply with International Ethics Standards Board for Accountants (IESBA) concerning the limitation of securities possessed by any auditor in any business unit. KPMG Vietnam has established additional policies to ensure compliance with regulations on the independence of Vietnamese law and standards issued by the Ministry of Finance. Employees are responsible for getting information to ensure they have no personal, business or family financial benefits that are limited to ensuring their independence. KPMG Vietnam uses online investment declaration system to assist its employees in adhering to policies that require individual independence in relation to private investment. The system includes a list of appropriate investment products. Board of directors and managers working directly with clients are asked to check the system before investing and to see if they are allowed to make an investment. They are also required to maintain a record of their investments in the system, and the system will warn if their investments are banned. Especially, KPMG Vietnam manages the compliance of the board of directors and chief auditors with this requirement in the so-called Compliance Audit Program. Any employee who provides auditing services to the clients is also required to report to the Ethics and Independence Partner if he or she intends to engage in a job interview with clients' firms (KPMG, 2016).

4.2. Ernst & young Vietnam

E&Y Global has designed and implemented a comprehensive global audit quality policies and procedures. These policies and practices meet the requirements of the international standard for

quality control (ISQC1) issued by the International Auditing and Assurance Standards Board. E&Y Vietnam has adopted these global policies and procedures, adding the necessary content to comply with local laws and professional guidelines and in particular the Vietnamese standards for quality control (VSQC1) to meet specific business needs. E&Y Global's independence policies and procedures are designed to ensure that E&Y Vietnam and its professional staff adhere to the independence standards and norms applicable on a case-by-case basis, for example, the professional ethics standards of IESBA of International Federation of Accountants (IFAC) and the professional ethics of accounting and auditing in Vietnam. All professional staff and other staff members are required to participate in the annual independence training to maintain independence from the companies that E&Y Vietnam performs audits. The purpose of this request is to help employees understand E&Y Vietnam's personal responsibility to ensure that no benefits can be considered prejudicial to objectivity, integrity and fairness of current audit services. Independence is reviewed and evaluated from a variety of perspectives, including company and professional staff's financial relationships, working relationships, business relationships and the extent to which non-audit services can be performed for auditing clients, the rotating members of the board of directors in charge of the auditing services, the method of charging fee, the prior approval of the audit committee, if any, and the compensation for the members of the board of directors. E&Y Vietnam deploys E&Y Global's applications, tools and procedures to assist professional staff and other employees in adhering to independence policies (E&Y, 2018).

4.3. PricewaterhouseCoopers Vietnam

PwC Vietnam's independence policy follows independence requirements in accordance with Vietnamese law and in compliance with PwC Global's independence policy requirements. The independence is a subject of interest of quality assurance department which is also responsible for developing a detailed annual work plan to ensure compliance with all policies and regulations on independence. The policy of PwC Vietnam's independence is based on the professional ethics of the IESBA for professional accountants, PwC Global's independent policy system and the requirements of Vietnamese law. PwC Vietnam provides technical tools to assist in maintaining independence, including systems designed to (PWC, 2018):

- Identify companies and organizations with separate regulations on independence;
- Evaluate and manage business relationships;
- Conduct consultation, if needed, on independence;
- Observe the limits and scope of approval;
- Keep annual records confirming independence and other forms of independent verification in accordance with PwC Vietnam's independence policy;
- Review the implementation of PwC Vietnam's investments; procedures to ensure the independence of PwC Vietnam are periodically reviewed by PwC Global to ensure compliance with the independence of the individual, PwC Vietnam and its auditing services.

4.4. Deloitte Vietnam

Deloitte Global (Deloitte Touche Tohmatsu Limited) establishes policies and procedures to ensure that Deloitte Vietnam and other business units around the world are complying with the applicable independence requirements. These policies and procedures are based on IESBA's code of ethics and in some cases are more stringent to reflect the Vietnamese standards and policies of the Deloitte Global. The quality management system of Deloitte Vietnam related to the independence issues and policies consists of the following parts (Deloitte, 2017):

- Policies and procedures for independence. Compliance tools in business processes, including Deloitte's System of Compliance and Unit Search (DECS), Global Independence Monitoring System (GIMS) to confirm independence and consult on assessment and supervision of business relations;

- Training courses on independence. System for monitoring and control related to individual and staff independence, service agreements, and quality reviews;
- Violation measures. Assignment of responsibility for the independent control system and commitment culture of senior leaders on independence.

5. Profiting from experiences of the Big4 group in Vietnam—discussion

The above literature review has revealed and highlighted, among others, three most important factors affecting auditor independence in auditing service companies. They are audit fee, non-auditing services and auditor tenure/rotation. The results of previous research showed that level of auditing fee is positively related, the percentage of non-auditing services in total is negatively related and the rate of auditing rotation is positively related to the independence of auditing services. However, this is not absolutely true, because those relations are also shaped by the economic and socio-cultural context and institutional settings of a given country. Truthfully, local auditing services in Vietnam are determined predominantly by political context and institutional setting which make them less independent. Moreover, local auditing services are mostly price-sensitive. Despite the fact that the participation of non-auditing services in total is marginal due to limited capability to diversify the offer of services, this factor is not positively related to auditing independence and quality. The main reason is that local competencies for financial statements auditing alone are still not satisfactory as well as the highly skilled human resource needed to deploy and diversify the services and guarantee basic independence in terms of the degree of rotation and participation of auditor in diverse services performed to customers. The situation of the Big4 group in Vietnamese market is totally different. The price they charge their customers is reasonably high, but the quality of the services offered as well as the independence of auditing is guaranteed by international experience, professionalism and highly skilled staff members. Their non-auditing services are ample and diversified which do not affect the independence of carried out auditing services as many researchers are afraid of. All corporations in the Big4 group have powerful resource and adequate talent recruitment and talent management strategy to guarantee right rate of staff rotation and diversification in both global and local scale (headquarter and business units). In auditing and consulting industry, qualified and highly skilled human resource are very essential for the quality and independence of services performed. Moreover, as international corporations, they still have plenty of room to relocate their staff globally from the place of abundance (developed countries) to the place of deficiency (developing countries).

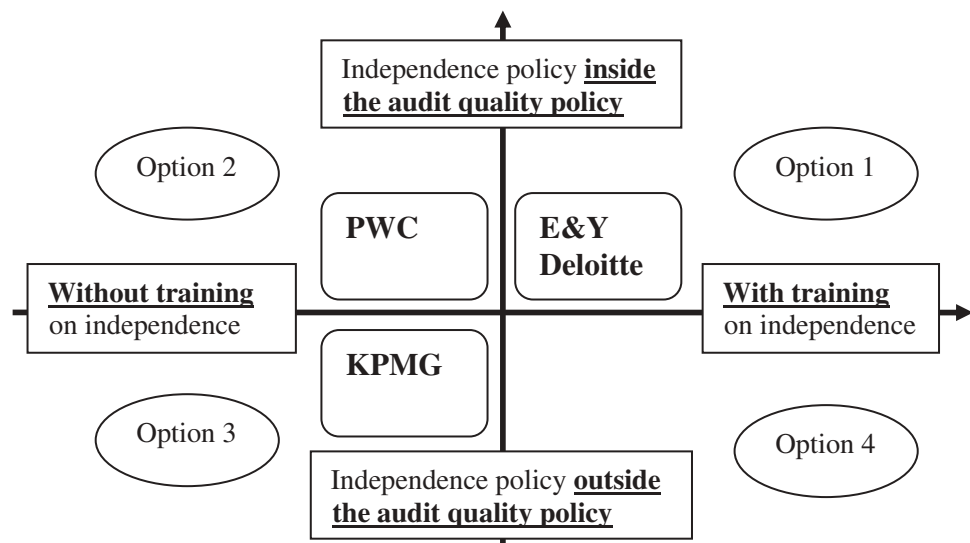
Local auditing companies should find out solutions to effectively compete and cope with the increasing presence of large foreign auditing corporations, especially the Big4 group, in Vietnamese market, given the aforementioned unbalanced competitive situation between those groups of companies. First of all, the corporations in the Big4 group do not compete directly with local auditing companies, but with each other for the same segment of customers—large domestic corporations and foreign corporations operating in diverse sectors of the economy. Each of them in the Big4 group possesses own distinctive features associated with their services offered to clients, especially the non-auditing services. As competition between the giants becomes increasingly fierce, their interest is extended to the segment of middle and even small enterprises. Then, the direct competition between the giants and local companies is going to take place. The solution for local auditing enterprises to survive is to encourage small auditing companies to merge into larger auditing companies or to form an alliance or even an auditing ecosystem to boost mutual support in terms of exchange professional experiences, mutual exchange and training qualified human resources, inter-organizational knowledge management and transfer, sharing services and quick adoption of international expertise from large auditing corporations, especially the Big4 group. Within the created auditing alliance or auditing ecosystem, each of local auditing companies will specialize in the development of only one kind of services and develop specific human resource within it accordingly. By this way, local auditing companies could gradually improve the

quality and diversity of staff members and services offered to more and more diversified groups of customers, at the same time to raise step by step the price of services to reach those of the large auditing corporations.

In preserving the independence of auditing services, the corporations within the Big4 have been developing in parallel in two directions, active and continuous training human resource, on the issue of independence or only sporadically and even not at all; treating independence policy inside or outside general audit quality policy. But first and foremost, foreign corporations in the Big4 group should conform, in parallel, to international standard such as IESBA's code of ethics, Vietnamese law and standards issued by the Ministry of Finance and own policy and procedure on the independence-related issues. As a result, we have a matrix of four options. In Figure 1, option 1 is reserved for E&Y and Deloitte which are focused on retaining the integrity of auditing quality policy and independence policy and devote most of their efforts for training human resource on the relevant issues. Option 2 is occupied by PWC which is focused on retaining the integrity of auditing quality policy and independence policy and devotes less effort for training human resource on the relevant issues. Option 3 is identified as of KPMG which is focused on keeping independence policy development outside the auditing quality policy and devotes less effort for training human resource on the relevant issues. Option 4 is considered as a theoretical silence and any corporation including those from the Big4 group can move in from options 1, 2 and 3. Treating independence policy as an integral part or excluded part of the auditing quality policy depends rather on the philosophy of management and leadership approach. The auditor independence could be seen in two ways. First, it could be a precondition (necessary but not sufficient) of auditing services' quality. Second, it could be identified as an indispensable part of auditing services' quality. Training employees and managers of corporations in the Big4 group on independence issues could be reduced or enhance in terms of the level of intensity and continuity and depends mostly on current needs. So, there is full flexibility for a corporation in the Big4 group in moving within the bipolar continuum between training and without training on auditor independence issues.

In terms of profiting from experiences of foreign auditing corporations, especially the Big4 group, to retain a high level of independence of auditing services performed to diverse groups of customers, local auditing companies should consider the following things. In contrast to the auditing corporations in the Big4 group with already well-trained and highly skilled human resource, the intensive training on independence issues is very important for local auditing companies to get adequate knowledge and experiences by their staff. The auditing and business consulting industry is amongst the most knowledge-intensive and relies on staff's competencies

Figure 1. Independence policy in auditing services of the Big4 group (Source: Authors').



than other industries in the economy. Hence, option 1 and option 4 are appropriate for local auditing companies. As aforementioned, whether the independence policy should be excluded or included in the general audit quality policy depends on the philosophy of management and leadership approach. Auditor independence policy should be highlighted as an important stand-alone problem to be treated with adequate resource and attention or should it be an integral part of the general quality policy. As shown in Figure 1, most of the corporations in the Big4 group have chosen the independence policy issue to be an integral part in the general quality assurance policy. Due to the specific of auditing services, the auditor independence is usually considered as a precondition, necessary but not sufficient for the overall quality process in this industry. However, for the purpose of convenience and effectiveness of management, it is better to maintain at the same time the auditor independence requirements and the auditing services' quality requirements. Especially for local auditing companies limited in experiences, professional knowledge and expertise which are the key determinants of quality of the services offered to customers, also for the reason of reducing of cost of management, it is much recommended to include the auditor independence issues in the overall company-wide quality assurance policy. That means that the best and most appropriate solution for local auditing companies is option 1 which is also the most popular choice for auditing corporations in the Big4 group.

6. Conclusion and limitation

Increasing the independence of auditors contributes to the improvement of the quality of the auditing services. The present study examined the factors affecting auditor independence, the experiences and patterns of actions of foreign auditing corporations in the Big4 group, thereby proposed appropriate policy and strategic implications to contribute to the better performance of local auditing companies in Vietnam's market. The research results of this study have gained theoretical and practical significance. The development of theoretical framework for research on auditor independence is based on a review of foreign and domestic literature, including background theories for auditing independence, the factors constituting auditors independence. The present study not only contributes theoretically in the field of auditing but also delivers some practical solutions and implications for the local auditing companies to boost their auditing independence and effectively compete with foreign auditing corporations, especially those belonging to the Big4 group, operating in Vietnam's market. Policymakers, planners and managers of local auditing companies can use these results in the process of developing auditor independence and services' quality policy, even if by the formulation of a set of new management mechanisms and improvement in the field of business decision-making process.

Despite some important theoretical and practical contributions mentioned above, this present study has several limitations to overcome in the future research. The first limitation of this study is to narrow down important factors (subjects of research) impacting auditors' independence to the most popular triad: auditing fee—non-auditing services—auditor rotation rate. Other important factors, such as corporate governance, are also interesting and should be considered as subjects of research in future studies. The second limitation of this study is to conduct research for Vietnam's market only. Future studies should involve analysis of many countries in the region, for example, the operation of the Big4 group in ASEAN top 04 biggest and fast-growing markets (Vietnam, Myanmar, Philippines and Indonesia) or the ASEAN top four most developed markets (Singapore, Brunei, Malaysia and Thailand) should be the objects of separate future analyses. The regionally conducted researches may reveal that various socio-cultural, economic, political context and institutional settings are more responsible for different than expected research results which might be contradictory to and inconsistent with traditional logic and patterns of auditors' managerial orientations and thoughts. The research results of this present study may serve as the preliminary and precondition for such further in-depth researches at the regional level and cross-regional level as well.

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