



Original Article

The effect of audit opinions and audit firm reputations on the stock prices of Vietnamese joint-stock companies during and after the COVID-19 pandemic

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Abstract: The research aims to analyze the impact of audit opinions and the reputation of audit firms on the stock prices of listed joint-stock companies in the Vietnamese stock market during and after the COVID-19 pandemic. Using a dataset of 672 joint-stock companies listed on the Vietnam stock market from 2020 to 2023 and employing the panel data Feasible Generalized Least Squares (FGLS) method, this research provides evidence of the significant positive effects of audit opinions and audit firm reputation on stock prices within the Vietnamese context. The findings reveal that stock prices during the COVID-19 pandemic were significantly higher than in the post-COVID-19 pandemic period, driven by investor psychology and excessive optimism. Moreover, the research points out that during the COVID-19 pandemic, investors paid less attention to audit opinions compared to the post-COVID-19 pandemic period. Finally, the research results also demonstrated that audit firms' reputations consistently influenced stock prices, regardless of the period. Based on these findings, the study offers several recommendations for investors, corporate managers, and government regulators.

Keywords: Audit opinions, audit firm reputation, stock price, COVID-19 pandemic, stock market.

1. Introduction

The Vietnamese stock market experienced significant fluctuations during and after the COVID-19 pandemic. By the end of 2019, market capitalization had reached approximately 71 per cent of GDP, compared to 60 per cent in 2018. The average trading volume on the Ho Chi Minh Stock Exchange (HOSE) was 182.5 million shares per session, with an average trading value of VND 4,128 billion. Similarly, the Hanoi Stock Exchange (HNX) reported an average trading value of VND 409 billion per session, with an average volume of 31.63 shares.

However, during 2020-2021, the COVID-19 pandemic caused significant instability in the Vietnamese stock market. Lockdowns and social distancing measures were the main reasons for short-term production disruptions, severely impacting the business operations and financial performance of listed companies. The widespread sell-off of stocks in 2020 triggered shocks in the Vietnamese stock market.

Vietnam's government interventions, such as debt restructuring and interest rate reductions, helped stabilize the stock market by the end of 2020 and 2021. However, the VN index fell from 1,536.45 points in January 2022 to 878.78 points

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by November, while the HNX index dropped from 493.84 to 205.31 points due to global economic instability and rising interest rates, exacerbated by the Russia-Ukraine conflict. In 2023, the market began to recover, with the VN-index closing at 1,129.83 points (up 12.2 per cent from 2022) and the HNX at 231.04 points (up 12.5 per cent). Throughout this period, investor belief in financial transparency played an important role in stabilizing stock prices (SP). Specifically, companies audited by reputable auditing firms and those receiving unqualified opinions exhibited a better recovery in SP, as evidenced by the price distribution before and after the COVID-19 pandemic (see Figures 1 and 2). The disparities in SP between companies audited by Big Four firms and those audited by Non-Big Four firms, along with the price variation between companies receiving unqualified and modified audit opinions (refer to Figures 1 and 2), highlight investors' concerns regarding the quality of financial reporting when analysing company stocks. This trend has been maintained post-COVID, highlighting the influence of audit opinions and auditing firms' reputation on publicly listed companies' SP. Financial theories like asymmetric information, agency theory, and signaling theory highlight the influence of audit opinions and the reputation of audit firms on SP. Asymmetric information theory indicates stakeholders have unequal information about a company's financial status, with investors often less informed than internal managers. Thus, independent audit opinions and reputable firms reduce this information gap, boosting investor trust and aiding buy or sell decisions. Signaling theory suggests that hiring well-regarded auditors sends positive signals to stakeholders. In contrast, agency theory points out that independent audits mitigate conflicts of interest between shareholders and managers, protecting shareholder interests and minimizing agency costs. Expectation and behavioral finance theories explain how investors respond to market information, especially during crises like the COVID-19 pandemic.

Empirical studies on the impact of audit opinions on SP yield inconsistent results; some indicate no effect (Anggraini et al., 2024; Siagian, 2023), while others suggest a positive impact (Hoti et al., 2012; SaGLar & Glizer, 2023). Companies audited by reputable firms (Big Four) tend to attract more investor attention and have lower equity costs (Ghoul et al., 2016). Hiring Big Four firms during the IFRS transition can mitigate stock price drops (Lim et al., 2016). Chen et al. (2023) found that switching from Big Four firms to smaller ones negatively affects SP. Research on audit opinions and the impact of firm reputation on SP in Vietnam is limited and mainly focuses on pre-COVID-19 conditions (Nga, 2022; Nguyen et al., 2020), with little

comparison of these factors during and after the pandemic.

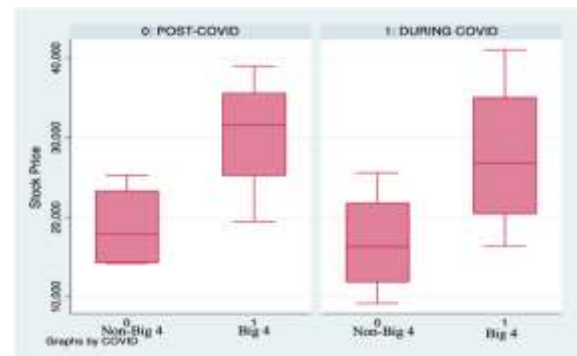


Figure 1: SP distribution by audit firm type and COVID-19 period

Source: Calculated from research data with the support of Stata 17 software.

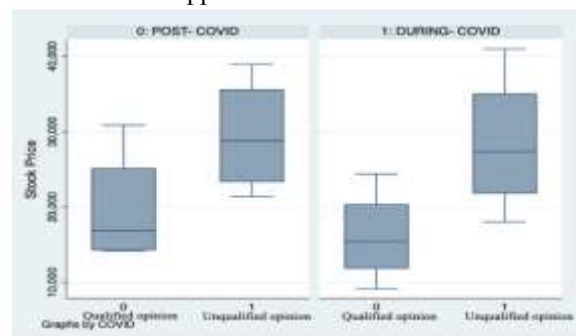


Figure 2: SP distribution by audit opinion type and COVID-19 period

Source: Calculated from research data with the support of Stata 17 software.

This research aims to determine the impact of audit opinions and audit firm reputation on the SP of joint-stock companies (JSCs) listed on the Vietnamese stock market during and after the COVID-19 pandemic. Unlike previous studies, it incorporates COVID-19 as a moderating variable, allowing for a clearer understanding of how these factors influence investment decisions in this unique context. The results from the two boxplots (see Figures 1 and 2) show that during the COVID-19 period, companies audited by Big 4 firms and those with unqualified audit opinions had higher and less volatile SP compared to companies not audited by Big 4 firms or those with modified audit opinions. This reflects that during times of crisis, investors tend to have greater trust in companies with transparent financial statements audited by reputable firms, leading to a clear divergence in SP. In contrast, after COVID-19, SP declined across both groups, indicating that the role of audit opinions and audit firm reputation remains important. By incorporating COVID-19 as a moderating variable, this study captures these shifts in investor behavior, providing deeper insights into how economic shocks shape the relevance of audit quality in stock price valuation.

2. Literature review

Asymmetric information theory: Asymmetric information theory shows how uneven information can cause adverse selection, where one party knows more about a transaction's quality or risks. Akerlof (1970) demonstrated this in the used car market, where sellers know more than buyers, driving out high-quality cars because buyers can't distinguish their quality. Later studies by Spence (1973) and Chiappori and Salanie (2000) examined this in other markets like labor and insurance. The stock market's adverse selection can cause poor investments and inaccurate stock valuations (Wang, 2023; Mehrnoush, 2022). Auditing reduces information gaps by providing independent financial assessments and boosting investor trust through reliable "unqualified" opinions. Big Four firms' reputation enhances this trust, positively impacting SP, while "qualified" opinions from smaller firms may lower investor confidence and stock values.

Signaling theory: Signaling theory explains how individuals and companies communicate information to investors in economics and finance, especially when information is unequal. Introduced by Spence in 1973, it shows how job candidates signal abilities via education and skills. While education doesn't perfectly predict job performance, employers rely on these signals to reduce uncertainty. After Spence's study, research expanded to financial markets, revealing similar dynamics. Ross (1977) studied firms signaling their financial health through capital structure, while Leland and Pyle (1977) analyzed ownership levels as signals of a company's potential. High founder ownership can indicate confidence in long-term growth. Additionally, audit opinions and firm reputation are critical signals for investors. Gul et al. (2010) found that "qualified opinions" can erode investor trust and lead to stock price declines due to perceived financial risks.

Agency theory: Agency theory explores conflicts between shareholders and managers, leading to agency costs like monitoring, contracting, and conflict losses (Jensen and Meckling, 1976). High costs cause stock declines and often result in excessive executive pay, unproductive investments, risky actions, and reduced shareholder value (Kim et al., 2012; Maigoshi et al., 2016). Shareholders can lower costs by enforcing effective contracts and monitoring, with audit reputation and quality playing crucial roles (Siagian, 2023; Khan et al., 2016). Piot (2001) showed that Big Six auditing firms help reduce agency costs for publicly listed companies in France.

Expectation and behavioral finance theory: Expectation theory and behavioral finance explain how investors make decisions based on expected returns, risks, and psychological factors. Rational expectation theory, developed

by Muth (1961), posits that investors utilize all available information for rational predictions, aligning with the efficient market hypothesis (Fama, 1970). In contrast, behavioral finance highlights how emotional and cognitive biases lead to irrational decisions. During the COVID-19 pandemic, investors shifted behavior due to heightened expectations and increasing SP. Smales (2020) found that "herd behavior" rose as pandemic-related news influenced investors, while Mazur et al. (2021) noted excessive optimism tied to positive news, causing stock price spikes. Goodell (2020) identified confirmation bias as a key factor in industry price volatility.

3. Research methodology

3.1. Research data

The research data consists of 672 publicly listed companies on the Vietnamese stock market from 2020 to 2023. As of 2023, there were 739 JSCs listed on the Vietnamese stock market. The authors excluded companies with incomplete data for all four years, resulting in a final sample of 672 companies with 2,688 observations. In this study, we collected daily closing SP from the Ho Chi Minh and Hanoi Stock Exchanges and calculated their annual averages for analysis. We also gathered audit opinions and data on auditing firms from yearly audit reports, coding this information into variables. Table 1 presents the descriptive statistics of the variables in the model, including the mean, maximum, minimum, and standard deviation.

Stock price (SP): The average daily stock price is 25,463.13 VND per share, with a standard deviation of 25,038.36 VND per share, indicating notable volatility across the 2,688 observations (Table 1). The lowest recorded average daily stock price is 919 VND per share for Vietnam Financial Investment Securities Joint Stock Company in 2020, while the highest is 288,224.70 VND per share for VNECO4 Electricity Construction Joint Stock Company in 2023 (Table 1).

Audit firm reputation (AFR): Table 1 shows that among 2,688 observations, the average audit firm reputation value is 0.3, indicating that only 30 per cent of companies in the sample used auditing services from Big Four firms. With a standard deviation of 0.46, there is significant variability, suggesting that most companies did not engage in Big Four services. This trend may stem from lower audit costs, more straightforward auditing needs for domestic-focused companies, or a lack of international affiliations.

Audit opinion (AO): Table 1 shows that the average audit opinion value is 0.9, indicating that 90% of the companies in the sample received unqualified opinions from auditors. An

unqualified opinion reflects that the auditor has collected sufficient evidence to determine that the financial statements fairly represent the company's financial position, in compliance with Vietnamese Accounting Standards and legal regulations. While this suggests that most companies practice transparent and reliable

financial reporting, the standard deviation of 0.3 reveals that some companies did not receive unqualified opinions, indicating potential issues in their financial statements. Consequently, these variations serve as important signals for investors to assess financial risks, especially for those companies receiving qualified opinions.

Table 1: Descriptive statistics of the variables in the model

Variables	Observations	Mean	Standard deviation	Min	Max
SP	2,688	25,463.13	25,038.36	919	288,224,.0
AFR	2,688	0.30	0.46	0	1
AO	2,688	0.90	0.30	0	1
COVID	2,688	0.50	0.50	0	1

Source: Calculated from the research data with the support of Stata 17 software.

3.2. Research model and hypotheses

3.2.1. Research model

Based on the theoretical framework and empirical studies presented in Section 2, the proposed research model is shown in Figure 3.

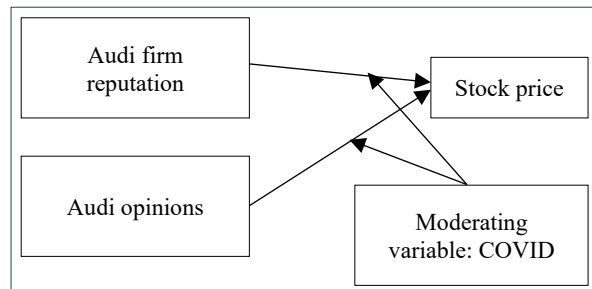


Figure 3: Research model

Source: Developed from theories and previous empirical research

The variable notations, variable names, calculation methods, and related studies are detailed as follows:

Stock price (denoted as SP) is the average daily SP per year and is calculated according to the following formula:

$$SP_i = \frac{\sum_{t=1}^n \text{daily closing price}_t}{\text{Number of trading days in the } i_year}$$

Audit firm reputation (denoted as AFR): AFR is the value of 0 if the auditing firm is not a Big Four company (Deloitte, KPMG, PwC, EY) and 1 if it is a Big Four auditing firm.

Audit opinion (denoted as AO): AO is the value of 0 if the audit opinion is not unqualified and 1 if the audit opinion is unqualified.

COVID-19 pandemic (denoted as COVID): COVID is the value of 1 during the COVID-19 period and 0 during the post-COVID-19 period.

3.2.2. Research hypotheses

AO and SP: An audit opinion is an assessment given by an auditor after evaluating a company's financial statements (FS) for compliance with auditing standards and regulations, as well as legal requirements, during FS preparation. An auditor's opinion assures stakeholders about the FS's truthfulness and

fairness. Research on the link between audit opinions and SP shows mixed results. Some studies found no significant impact, suggesting that audit reports provide limited information for investors (Dionisijev & Lazarevska, 2021; Moradi et al., 2011). Others showed a positive relationship, arguing that auditor opinions reduce information asymmetry, enhancing the reliability of FS for investment decisions (Abad et al., 2017; Flees & Mouselli, 2023; Hoti et al., 2012). The research hypothesis is formulated as follows:

H1: AO significantly affect the SP of JSCs listed on the Vietnamese stock market.

AFR and SP: Big Four firms have better access to technology, training, and infrastructure (Chaney et al., 2004; Francis & Yu, 2009; Khurana & Raman, 2004). Their auditors show greater independence because they face significant reputational risks. A diversified client base reduces dependence on individual clients, enabling objective assessments. High audit revenues also mean increased lawsuit risk, which prompts rigorous procedures to avoid errors (DeFond & Zhang, 2014). Consequently, FS audited by Big Four are usually higher quality, attracting investors and leading to higher SP. Empirical studies confirm a positive link between audit firm reputation and stock prices (Afifa et al., 2020; Ugwunta et al., 2018). The second hypothesis in this study is:

H2: AFR positively impacts the SP of JSCs listed on the Vietnamese stock market.

COVID and SP: Research by Ashraf (2020) shows SP increased in healthcare and technology but dropped in energy, aviation, and real estate during COVID-19, due to differing economic expectations. Smales (2020) noted increased herd behavior among investors reacting to pandemic news and misinformation. Mazur et al. (2021) observed excessive optimism during positive news, causing an increase in the SP of sectors. Goodell (2020) reported irrational investor reactions to COVID-19 data, leading to stock divergence. Expectation theory suggests conflicting views: support versus profitability concerns. Behavioral finance explains fear-

driven sell-offs and optimism, especially in healthcare and tech. In the post-COVID period, investors prioritized long-term growth, causing cautious moves and slight SP declines amid uneven sector recoveries. Based on this, the third hypothesis is:

H3: COVID-19 impacts the SP of JSCs listed on the Vietnamese stock market.

The moderating effect of COVID-19 on the relationship between AO, AFR, and SP: The research model considers COVID-19 as a moderating variable to evaluate its effects during and after the pandemic. It is essential to include COVID-19 when analyzing the relationship between audit opinions, audit firm reputation, and SP of publicly listed companies in Vietnam. The pandemic has significantly impacted the global economy and financial markets, modifying business operations and investor risk perceptions. This change highlights how audit opinions and firm reputation affect SP differently during and after the COVID-19 pandemic. Thus, two additional research hypotheses are proposed:

H4: There is a significant difference in the impact of AO on SP during and after COVID-19.

H5: There is a significant difference in the effect of AFR on SP during and after COVID-19.

4. Research results and discussions

4.1. Testing of research model

Table 2 results show that the VIF coefficients of the independent variables in the model are all less than 2, and the Tolerance coefficients are all greater than 0.5. Therefore, the independent variables in the model do not have linear relationships.

Table 2: Testing of multicollinearity

Variables	VIF	Tolerance
AFR	1.02	0.98
AO	1.06	0.94
COVID	1.01	0.99

Source: Calculated from the research data with the support of Stata 17 software.

Table 3 presents the results of the Hausman test, showing a p-value of 0.000, which is less than the 1% significance level. Hence, the fixed effects model is more appropriate than the random effects model for studying the impact of audit opinions and the reputation of audit firms on stock price changes, with COVID as a moderating variable.

The Wooldridge test for autocorrelation and the Wald test for heteroscedasticity, as presented in Table 3, show that all p-values are below the 1 per cent significance level. The model will exhibit both autocorrelation and heteroscedasticity simultaneously.

The study employs the FGLS method to solve the issues of autocorrelation and heteroscedasticity. FGLS uses the covariance matrix of the error terms in the model to produce more accurate regression estimates than the OLS method.

4.2. Analysing the results of research

The research results (Table 3) show that the p-value (Prob > chi2 = 0.0000) is less than the 1 per cent significance level, indicating that at least one regression coefficient of the independent variables is non-zero. The model is appropriate for explaining the variation in SP of JSCs listed on the Vietnamese stock market during 2020-2023. The specific results for the impact of independent variables in the model on stock price are analyzed in detail as follows:

AO and SP: The regression coefficient for audit opinion is 0.2314, which is greater than 0, and the p-value ($P > z = 0.000$) is less than the 1 per cent significance level (Table 3), indicating that audit opinion has a positive impact on the SP of listed companies on the Vietnamese stock market. When a company receives an unqualified audit opinion, its average stock price is 23.14 per cent higher than when it obtains a qualified or modified opinion. This result aligns with the Vietnamese stock market's theoretical and practical aspects. According to the theory of information asymmetry, investors often lack accurate information about a company's financial condition. An unqualified audit opinion helps reduce this information gap. Moreover, in the context of the Vietnamese stock market, where transparency is still limited, an unqualified audit opinion serves as a positive signal to investors about the company's internal control system and financial prospects. An effective internal control system can mitigate risks of material misstatements in financial statements. Additionally, during the audit process, auditors evaluate the financial statements and consider financial factors affecting the company's ability to continue as a going concern. Auditors are unlikely to issue an unqualified opinion if a company shows high financial risk or potential bankruptcy. The findings of this study are consistent with previous studies (Abad et al., 2017; Flees & Mouselli, 2023; Hoti et al., 2012; Nga, 2022; Nguyen et al., 2020).

AFR and SP: Table 3 indicates that the reputation positively affects the stock price of a Vietnamese listed company. Audit reports provided by Big Four audit firms are generally highly regarded by investors due to these firms' superior access to resources related to technology, training, and audit process (Chaney et al., 2004; Francis & Yu, 2009; Khurana & Raman, 2004). Additionally, auditors from Big Four firms tend to exhibit a higher degree of independence than those from smaller audit firms (DeFond & Zhang, 2014). According to

signaling theory, hiring a Big Four audit firm sends a positive signal about the transparency and reliability of a company's financial statements. This signal enhances investor belief and increases demand for the company's stock, leading to a rise in SP. Agency theory highlights that using Big Four audit services showcases management's commitment to protecting shareholder interests through independent oversight. Their reduced influence from management enhances objectivity, allowing for better detection of misstatements and fraud. This lowers agency risks, attracts more shareholder investment, and boosts SP for companies audited by Big Four firms.

COVID and SP: The research results (Table 3) show that the COVID variable positively affects SP, with a positive regression coefficient and a p-value smaller than the 1% significance level. On the Vietnamese stock market, during the COVID-19 period, increased uncertainty heightened investor caution. SP during COVID-19 were higher than post-COVID-19, which the expectation and behavioral finance theories can explain. According to expectation theory, investors during COVID-19 anticipated government support policies and economic stimulus measures to help businesses overcome difficulties. Investors expected market recovery and increased stock purchases, leading to higher SP. Meanwhile, behavioral finance theory suggests that psychological factors such as optimism and the FOMO effect (fear of missing out) drove aggressive investment behavior during COVID-19. Post-COVID-19, as economic support measures diminished and market sentiment stabilized, investors became more cautious, leading to a downward adjustment in SP.

Moderating effect of COVID-19 on the relationship between AO, AFR and SP: The research results point out that the influence of

audit opinions on SP was weaker during COVID-19 than after (Table 3). Investors during the pandemic paid less attention to audit opinions, focusing instead on short-term factors, pandemic resilience, and government support expectations. Investor optimism and FOMO led them to prioritize projected earnings, financial health, and dividend-paying capacity over audit opinions. Post-COVID-19, investors needed to assess companies' transparency and financial sustainability during recovery. As government support waned, reliable information became important to analyze long-term prospects, making audit opinions key indicators of compliance and accuracy. Industries like aviation, tourism, services, and entertainment recovered unevenly, requiring careful financial analysis with audit opinions presenting strong governance and promising outlooks. Cautious sentiment made investors prefer companies with unqualified audit opinions, and increased regulatory oversight further emphasized audit opinions to evaluate compliance and mitigate legal risks.

Table 3 results show no significant difference in the impact of AFR on the SP of JSCs listed on the Vietnamese stock market during and after the COVID-19 period. Big Four firms consistently maintain a strong reputation for the reliability of audited financial statements, regardless of stock market volatility. The Big Four firms' audits enhanced the quality of companies' financial statements during and after COVID-19. Moreover, Vietnamese investors, particularly individual investors, cannot often conduct in-depth financial analyses of companies. As a result, they rely on the audit firm's reputation as a signal to evaluate the risks and prospects of companies. This stability in the perceived value of audit firm reputation across both periods reflects its enduring significance.

Table 3: Hausman, autocorrelation, heteroscedasticity test, and FGLS results

Variables	Coefficient	Std. err	z	P> z
AO	0.2314	0.0304	7.62	0.0000
AFR	0.4469	0.0249	17.97	0.0000
COVID	0.2126	0.0396	5.36	0.0000
c.AFR# c.COVID	-0.0261	0.0251	-1.04	0.2980
c.AO# c.COVID	-0.2533	0.0405	-6.25	0.0000
cons	9.3998	0.0311	302.06	0.0000
Number of observations	2688			
Wald chi2(5)	504.97			
Prob > chi2 (p-value)	0.0000			
Hausman	$\chi^2(3) = 127.25$; Prob > $\chi^2 = 0.0000$			
Heteroskedasticity	$\chi^2(672) = 6 * 10^6$; Prob > $\chi^2 = 0.0000$			
Autocorrelation	$F(1.671) = 454.05$; Prob > F = 0.0000			

Source: Calculated from the research data with the support of Stata 17 software.

5. Conclusions and recommendations

Based on a sample of 672 publicly listed companies on the Vietnamese stock market, the study demonstrates the positive impact of audit

opinions and audit firm reputation on SP. The findings show that signaling, agency, and information asymmetry theories effectively explain how audit opinions and the reputation of audit firms impact SP in Vietnam's stock market.

Moreover, expectation and behavioral finance theories clarify the differences in SP during and after COVID-19. The study also confirms that the influence of audit firm reputation on SP remains consistent during and after COVID-19. Finally, the research shows that in the post-COVID-19 recovery period, audit opinions substantially impacted SP.

Based on the findings, the research offers several recommendations for stakeholders:

For investors: Post-COVID-19, companies with unqualified audit opinions tend to have higher SP than those with qualified opinions. Investors should prioritize analyzing these companies, as such opinions signal transparency and financial reliability. Investors should also consider the audit firm's reputation to assess financial quality and transparency before investing. Additionally, investors should focus on long-term prospects and avoid being swayed by short-term psychological factors or the inaccurate exaggeration of noise information in investment decisions.

For JSCs: Both positive and negative audit opinions significantly impact market prices during and after COVID-19. To enhance financial statement reliability, companies should strengthen internal controls, adhere to applicable financial reporting standards (such as IFRS or national accounting regulations), and stay updated on regulations from the State Securities Commission and the Ministry of Finance. Improving accounting team skills and adopting advanced technologies are essential. Engaging reputable audit firms ensures quality audits, and companies should seek specific recommendations for process improvement. Timely disclosures of accurate financial statements with detailed explanations for discrepancies are crucial for stakeholder understanding.

For regulatory authorities: The findings highlight the crucial role of audit opinions and audit firm reputation in the stock price fluctuations of publicly listed companies on the Vietnamese stock market. Therefore, state authorities should enhance audit quality supervision and enforce the application of IFRS standards according to the timeline established by the Ministry of Finance. Additionally, they should develop appropriate scenarios to create policies that stabilize investor sentiment during and after crises. Since investor sentiment and expectations influence stock price fluctuations, regulatory authorities must ensure timely and accurate information dissemination to send positive signals that minimize panic or excessive optimism among investors, stabilizing the stock market. Finally, the State Securities Commission should further refine information disclosure regulations and standards, aligning them with international norms to ensure the accuracy, completeness, timeliness, and transparency of financial information.

While the study achieves several significant results, it has some limitations. Specifically, the sample includes only 672 listed companies on the Vietnamese stock market during the 2020–2023 period, which limits the generalizability of the findings, as comparisons with global stock markets or more extended data periods are not addressed. The study examines only the short-term effects of the COVID-19 pandemic on SP, neglecting potential long-term impacts and changes in investment behavior. It also lacks a detailed analysis of how audit opinions and firm reputation affect SP across different industries. These limitations provide directions for future research by the authors.

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