

The Impact of Internal Training and Internal Auditing on Corporate Profit Management: A Study at HNX Vietnam

Nguyen Tuan Duy

¹Academy of Policy and Development (APD), Vietnam

Email: duynt@adp.edu.vn

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ABSTRACT

This study examines the role of internal auditing and auditor training in mitigating financial statement manipulation at companies listed on the Hanoi Stock Exchange (HNX). The focus of the study is the impact of internal auditor training and the level of internal audit implementation on earnings management through discretionary accruals. Financial statement data from 69 companies during the period 2022–2025 were used to measure earnings management according to the Kothari et al. (2005) model, where the level of earnings manipulation (represented by discretionary accruals) is the dependent variable. The independent variables include (i) internal auditor training and (ii) characteristics/effectiveness of internal auditing, collected from internal datasets at selected companies. The analysis results show that the majority of listed companies have established internal audit departments, but the level of investment in professional training is limited and uneven among companies. Quantitatively, companies with more effective internal audit activities and a focus on auditor training tend to record lower discretionary provisioning levels, implying reduced earnings management behavior. Therefore, the study recommends strengthening internal control mechanisms before publishing financial statements, establishing close operational links between the internal audit department and the audit committee, and standardizing and expanding training programs for auditors to improve their ability to detect and prevent financial statement manipulation

Keywords: Internal audit, Auditor training, Profit management; HNX, Vietnam..

INTRODUCTION:

The increasing problems in accounting practices are affecting many companies in various financial markets around the world. Consequently, users of accounting information face numerous difficulties. Therefore, the enforcement of supervisory authority in strengthening corporate governance mechanisms is necessary for responsible agencies to mitigate some challenges in profit management and critical accounting issues. One of the tools of corporate governance and its means is the internal control and audit department. Therefore, this study has identified problems faced by securities companies due to the lack of administrative management departments for internal control and audit at several listed companies on the Hanoi market, Vietnam. Similarly, most companies with departments for detecting and correcting errors in financial operations are concerned with the professional competence of their auditors.

A set of control and audit methods and techniques is known as the technical competence of the auditor; these techniques provide auditors with many indicators for detecting and preventing existing fraud, while remediation depends on the quality of the work and its independence. Therefore, this study aims to investigate the impact of auditor and internal audit training in mitigating financial statement manipulation by highlighting the influence of auditor and internal audit training and their relationship to earnings management. The contribution of this study lies in evaluating the quality

of modern audit techniques and the quality of internal audit, as well as their overall role in mitigating manipulations in earnings management practices. Other contributions include demonstrating the role of internal audit and auditor training in influencing earnings management and highlighting the concept of earnings management and the motivations for its adoption.

2. THEORETICAL FRAMEWORK

2.1 The concept of internal audit

According to Ljubisavljevic and Jovanovi (2011), internal auditing makes a significant contribution to achieving company objectives; it contributes to achieving these objectives through the implementation of strategies. Furthermore, Hutchinson and Zain (2009) mention that the internal audit function can be responsible for minimizing fraud within the organization and strengthening the role of the Board of Directors and the Audit Committee. The integrity and reliability of financial and operational information determined by internal audit originates from various organizational units in accordance with appropriate management decisions. Internal auditing needs to be independent to successfully perform its functions. For the success of company management, internal auditing is a crucial tool (Ljubisavljevic & Jovanovi, 2011).

Furthermore, Goodwin (2003) adds that the work and effectiveness of the audit committee are supported by the internal audit function because there is consistency between the audit committee's objectives in overseeing

financial reporting and the audit function. Similarly, the mechanism for strengthening internal governance processes is provided by internal audit, and the existence of an internal audit department is supported by corporate governance (Collier & Gregory, 1996; Goodwin & Kent, 2003; NYSE, 2002).

According to studies by Archambeault, DeZoort and Holt (2004), Holt and DeZoort (2008) and Mercer (2004), the presence of an internal audit function enhances stakeholder confidence in the disclosure of financial information. According to Ferguson and Moroney (2008), companies with internal audit departments benefit from the detection of fraud due to misappropriation of assets, while Kaplan and Schultz (2007) reported that fraudulent activities are detected thanks to the internal audit function.

In 2010, the Institute of Internal Auditors (IIA) reviewed ways to enhance the value of the Audit Committee. Consequently, it issued a statement on the Audit Committee titled "Internal Audit Committees and Audit Boards: Working Towards a Common Goal." The American Institute of Chartered Certified Accountants (AICPA) conducted a study and argued that establishing an internal audit department in all publicly traded companies would allow the internal audit function to effectively detect and prevent fraud. The importance of the Internal Audit Department is also emphasized in numerous standards such as the Standards for Internal Auditing (SIAS), the Institute of Internal Auditors (IIA), and the Professional Standards Board (PSB) on Professional Practice in Internal Auditing. Talab, Manaf, and Malak (2017) argue that the cost of connecting managers as an indicator of their commitment to good governance is the internal audit function from the agency's cost perspective.

2.2 Training of internal auditors

Ensuring the effective operation of internal control measures and processes, as well as establishing an effective internal control system for financial reporting procedures, is the responsibility of corporate governance. Therefore, Lenz (2023) argues that establishing an internal audit department provides an independent assessment of the organization's internal control mechanisms. From previous studies, addressing weaknesses in the internal control system can improve the reporting quality of the internal audit function through the effectiveness of internal controls on financial reporting.

The internal audit function needs to be independent to operate effectively. According to Salehi (2016), the scope of the audit function, the extent to which problems are remedied by the internal audit department, and the management capacity of the internal audit department affect the effectiveness and efficiency of internal control. Therefore, providing the necessary resources such as training for internal audit staff is crucial.

According to Pickett (2000), to meet challenges and receive support from management, internal auditors need to constantly hone and develop new skills through knowledge updates and regular training. Usang and Salim (2025) argue that employee performance is evaluated more highly when focusing on the importance of ~~employee research and training~~. This research indicates

that the higher the professional experience and error detection ability, the higher the auditor's training level; therefore, there is a positive relationship between training and audit quality. This reflects the answer to the question of audit quality.

2.3 The concept of profit management

One of the serious problems affecting the practical performance of companies is the manipulation of earnings, because users of the company's financial statements are misled by these practices. The credibility of financial statements is diminished, affecting the trust of stakeholders. The separation of ownership and management, along with the large size of companies, has led to the emergence of agency theory. Agency theory was developed as an attempt to find solutions to conflicts of interest among stakeholders within the economic unit of an organization. This theory includes and is linked to the concept of earnings management to minimize opportunistic behavior of corporate management and achieve many objectives affected by manipulation. The impact of accounting principles, standards, and methods can also be traced back to this theory. Corporate management is acting in the interest of economic unity rather than exploiting accounting standards and principles. The study concluded that by altering the company's actual operating performance, they could be exploited to achieve their own goals.

When defining accounting policies and procedures, the problem with accounting is that it cannot impose strict limits on management choices. While these simple choices regarding actions and policies are very beneficial to investors, they become more complex when strategies are established to meet expected returns (Talab, Flayyih & Ali, 2018). In other words, earnings management is the deliberate intervention of management in financial and reporting activities to modify and influence the decisions of stakeholders regarding the economic performance of the company and its contractors. These decisions are based on data contained in accounting reports and information. Researchers believe that earnings management encompasses many potentially positive aspects. Based on that, it can be divided into black profit management, gray profit management, and conventional profit management, but regardless of the positive or negative aspects of these types, they are all bad because they go against all common practices, and that makes them negative practices.

3. RESEARCH METHODOLOGY

This study employs an inductive methodology; specifically, it examines companies listed on the Hanoi Stock Exchange, Vietnam, to assess the impact of internal auditing and auditor training on minimizing earnings management manipulation. Eight economic sectors from 2022 to 2025 were selected as research subjects, representing companies listed on the Hanoi Stock Exchange, Vietnam. Research data was collected from the service, insurance, banking, agriculture, investment, hospitality and tourism, industrial, and telecommunications sectors. Throughout the study period, companies with complete datasets were selected as the research sample. After excluding companies with incomplete data from the analysis, the final sample

comprises 276 observations for the fiscal years within the study period, namely 2022, 2023, 2024, and 2025.

Kothari et al. (2005) mentioned that incorporating independent variables using a multiple linear regression model can be used to measure earnings management, while the impact of both internal auditing and auditor training can be measured using the STATA software package in mitigating manipulation of earnings management. Additionally, secondary data extracted from the financial statements of companies listed on the Hanoi Stock Exchange, Vietnam, were used for this program. The following is the hypothesis of the study:

"Statistically, there is a significant correlation between internal auditing and auditor training with the reduction of earnings management manipulation."

3.1 Measuring research variables

The following is a presentation of the research variables and their corresponding measurement methods.

3.1.1 Independent Variables

Internal audit: this is a dummy variable; if there is an internal audit department, the value assigned is 1, otherwise it can be 0.

Auditor training: if there is an internal audit department, the value is assigned as 1, while otherwise the value can be assigned as 0.

Table 1 below shows companies that have both auditor training programs and internal audit activities

Table 1: Companies with internal audit and auditor training

Sample	Companies that have internal audit departments	These companies do not have internal audit departments.	Total
Quantity	54	15	69
Percentage	%79	%2	100
Sample	The companies have trained auditors.	Companies that do not train auditors.	Total
Quantity	19	50	69
Percentage	%28	%72	%100

Table 1 above clearly shows that 28% of these companies are training auditors, while 79% have an internal audit department.

Table 2: Ratio between company management activities and profits

Year	Research sample	The ratio between business management activities and profit management.
2022	276	2022

3.1.2 Dependent Variable

Return on Assets (ROA): Using the model of Kothari et al. (2005), a modified model, the return on assets is used to estimate option receivables. This model is the most suitable for measuring option benefits. The statistical model is illustrated in the equation below:

$$\frac{TA}{Asset_{t-1}} = \partial_1 \frac{1}{Asset_{t-1}} + \partial_2 \frac{\Delta REV - \Delta REC}{Asset_{t-1}} + \partial_3 \frac{PPE}{Assets_{t-1}} + \partial ROA_{t-1} + \varepsilon_{it}(1)$$

TA represents a change in non-cash assets in short-term liabilities, a write-down, and a write-off of total assets.

Δ REV represents the change in revenue.

Δ REC represents the change in the number of debtors.

PPE is the net fixed asset value divided by total assets.

ROA stands for return on assets.

ε_{it} is the standard error

Therefore, the equivalent equation used to measure the research variables is:

$$EM_{it} = \alpha_{it} + \beta_1 IAE_{-it} + \beta_2 IAT_{it} + \varepsilon_{it}(2)$$

The independent variables in this study include internal auditing and auditor training, while earnings management is the dependent variable, denoted by the symbol Y. The impact of internal auditing and auditor training on earnings management is measured based on the financial statements of companies listed on the Hanoi Stock Exchange, Vietnam. The study variables were measured using a multiple regression model from the available data provided in Table 5. Table 5 clearly shows the results of the multiple regression of the hypothesis being tested. The results of the statistical analysis are illustrated in the table below.

Table 5: Results of measuring the impact of internal audit and auditor training on earnings management

4. RESEARCH RESULTS

Table 2 presents the results of applying the model to the earnings management of listed companies during the study period of 2022. The results show that the highest percentage of companies implementing earnings management was achieved in 2022, with an average of 75% of the total number of companies studied. Previously, this rate was 47%; then, it reached 45% of the total number of companies studied in 2023. Finally, in 2025, this figure reached 42% of the total number of companies studied

2023	276	2023
2024	276	2024
2025	276	2025

Table 2 shows the measurement variables of the study's statistical model, measuring the impact of both audit quality and auditor training on earnings management.

Table 3. Measurement variables of the research model

Variable		Icon	
Dependent variable	Profit management	Y	$\frac{TA}{Asset_{t-1}} = \partial_1 \frac{1}{Asset_{t-1}} + \partial_2 \frac{\Delta REV - \Delta REC}{Asset_{t-1}} + \partial_3 \frac{PPE}{Assets_{t-1}} + \partial ROA_{t-1} + \varepsilon_{it}$
Independent variable	The existence of internal audit	X 1	Dummy variables, assigned the value 1 for companies with internal audit departments, and 0 for companies without.
	internal audit training	X 2	Dummy variables, assigned a value of 1 for companies that have internal audit training, and 0 for companies that do not.

And the equivalent equation is used to measure the variables being searched for.

$$EM_{it} = \alpha_{it} + \beta_1 IAE_{it} + \beta_2 IAT_{it} + \varepsilon_{it} \quad (3)$$

EM = Profit Management

a = constant value

β = Beta coefficient of the independent variable (i) per year (t)

IAE = The existence of internal audit

IAT = Internal Audit Training

Table (4) below shows the results of the multiple regression tests to test the hypothesis. The tables listed below illustrate the results of the statistical analysis that was obtained

Table 4. Results of measuring the impact of the existence of internal audit and auditor training on earnings management.

Dependence change / Independence change		Profit management			
		β	F	R ²	p-value
1	The existence of internal audit	-0.13	21.40	0.13	0.000
2	internal audit training	-0.29			

According to the table, the effect is significant at the 0.05 and 95% levels, and the F-value in the table at the 0.05 significance level is 4.19.

At a 5% significance level, the calculated F value (21.4) is greater than the table F value (4.19) determined through the regression equation. Meanwhile, the β values for both internal audit and auditor training are negative for both variables, with -0.13 and -0.29, respectively. In earnings management, this implies an inverse relationship with the variables; therefore, when the results for internal audit and auditor training are 0.13, it indicates that both internal

audit and auditor training influence 13% of the earnings management variables. Other contributions not mentioned in this model account for the remaining 87%. The main hypothesis of this study is accepted on that basis: "There is a statistically significant relationship between internal audit and auditor training in minimizing earnings management manipulation."

5. CONCLUSION

Based on this research, it can be concluded that the majority of companies listed on the Hanoi Stock

Exchange, Vietnam, have an internal control department. However, only a few companies listed on the Hanoi Stock Exchange, Vietnam, have an internal audit department, focusing on developing the professional capacity of their auditors. Similarly, this study also indicates the rate of implementation of this phenomenon among the selected companies over the years and the existence of earnings management activities in companies listed on the Hanoi Stock Exchange, Vietnam. The quality of internal auditing is improved through training for auditors; therefore, this will positively impact earnings management activities.

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