

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES



ACCOUNTING AND AUDITING MODULE

Vietnam, 2016

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) ACCOUNTING AND AUDITING MODULE

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ACRONYMS AND ABBREVIATIONS

AAPD	Accounting and Auditing Policy Department	MDG	Millennium Development Goals
ACCA	Association of Chartered Certified Accountants	MOET	Ministry of Education and Training
AFA	Asian Federation of Accountants	MOF	Ministry of Finance
ASEAN	Association of Southeast Asian Nations	MRA	Mutual Recognition Agreement
BCP	Basel Core Principle	NPL	Non-performing Loan
CAPA	Confederation of Asian and Pacific Accountants	PAO	Professional Accountancy Organization
CPA	Certified Public Accountant	PIE	Public Interest Entity
CPD	Continuing Professional Development	PPE	Property, Plant, and Equipment
FDI	Foreign Direct Investment	ROSC	Reports on the Observance of Standards and Codes
GDP	Gross Domestic Product	SAV	State Audit Office of Vietnam
IAASB	International Auditing and Assurance Standards Board	SBV	State Bank of Vietnam
IAESB	International Accounting Education Standards Board	SCIC	State Capital Investment Corporation
IAS	International Accounting Standards	SME	Small and Medium Enterprises
IASB	International Accounting Standards Board	SMO	Statement of Membership Obligations
IASC	International Accounting Standards Committee	SOCB	State-owned Commercial Bank
IES	International Education Standards	SOE	Enterprise with 100 percent Capital Owned by the State
IFAC	International Federation of Accountants	SSC	State Securities Commission
IFIRC	International Financial Reporting Interpretations Committee	VAA	Vietnam Accounting Association
IFRS	International Financial Reporting Standards	VAASB	Vietnam Accounting and Auditing Supervision Board
IMF	International Monetary Fund	VACPA	Vietnam Association of Certified Public Accountants
INTOSAI	International Organization of Supreme Audit Institutions	VAMC	Vietnam Asset Management Company
IPO	Initial Public Offerings	VAS	Vietnamese Accounting Standards
ISA	International Standards on Auditing	VFRS	Vietnamese adoption of IFRS and the related IFRIC interpretations
ISB	Insurance Supervisory Bureau	VND	Vietnamese dong
		VSA	Vietnamese Standards on Auditing
		WTO	World Trade Organization

Currency: Dong (VND)

US\$1 = VND21,890 (as of December 31, 2015)

PREFACE

The Reports on the Observance of Standards and Codes (ROSC) is a joint World Bank and International Monetary Fund (IMF) initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognized standards and codes. The ROSC was developed in the wake of the financial crisis of the late 1990s as part of a series of measures to strengthen the international financial architecture. The global financial community believed the implementation of internationally recognized standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency.

The Financial Stability Forum and G20 meetings stressed the need for internationally recognized accounting and auditing standards because they promote transparency, mitigate the risk of economic and financial instability, and foster market efficiency. Ultimately, the ROSC aims to enhance countries' resilience to shocks and to support their risk assessment and investment decisions through the preparation of reports in twelve key areas.¹

The Vietnam ROSC Accounting and Auditing was prepared in active collaboration with the Ministry of Finance and related Government agencies². The review was conducted with key stakeholders and representatives of the accounting profession through discussions and roundtable meetings led and facilitated by the Vietnam country authorities.

The report focuses on accounting and auditing standards and practices for public interest entities, as well as the institutional framework that underpins the corporate financial reporting system, in Vietnam. It reflects the key recommendations made in a report on public oversight, monitoring and enforcement commissioned by AAPD and financed under an Institutional Development Grant from the World Bank. The report titled "Strengthening the Capacity of the Accounting and Auditing Policies Department of Ministry of Finance in Vietnam" dated 8 June 2015, which was authored by a team from the Association of Certified Chartered Accountants.

1 The twelve ROSC areas are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payments systems, anti-money laundering and combating financial terrorism, corporate governance, accounting and auditing, and insolvency and creditor rights.

2 Government Multi Task Force is as in Appendix V.

The ROSC team thanks the officials and coordinators of the various institutions for their valuable assistance in facilitating this review. This ROSC was prepared by a task team of World Bank staff comprising Christopher Fabling (Senior Financial Management Specialist, Task Team Leader), Tran Thi Phuong Mai (Senior Financial Management Specialist, Co – Task Team Leader), Alfred Borgonovo (Senior Financial Management Specialist), Tran Thuy Ha (Senior Financial Management Specialist), Bill Palmer (International Consultant) and Dam Trung Kien (Local Consultant), under the supervision of Roberto Tarallo and Fily Sissoko (Practice Managers, Governance Global Practice, PRMM) and with guidance from Victoria Kwakwa (Vice President) and Mr. Ousmane Dion (Vietnam Country Director). Valuable advice was also received from Rajeev K. Swami (Lead Financial Management Specialist) and the following peer reviewers: Sameer Goyal (Senior Financial Sector Specialist), Sha Ali Khan (Director Practice Monitoring, ACCA), Jiwanka Wickramasinghe (Senior Financial Management Specialist), Andrei Busuioc (Senior Financial Management Specialist, CFRR), and Nguyen Nguyet Anh (Operation Officer, IFC). Administrative support was provided throughout the preparation process by Nguyen Thi My Quyen and Chu Thi Kim Oanh (Team assistants).

EXECUTIVE SUMMARY

INTRODUCTION

Vietnam's rapid economic growth since the late 1980s has brought it quickly to middle income-country status, a performance surpassed only by China. This growth has slowed in recent years, however, due to the weaker external environment and a slowdown in reforms. Vietnam has the potential to join the ranks of upper middle income countries in the next twenty years, but this will require tough choices and actions to deepen market institutions, create a level playing field for the private sector and the state-owned enterprises (SOEs), and build a modern financial sector.

Vietnam is embarking on a process of implementing a broad range of reforms designed to realize its aspiration of becoming high-income country. As outlined in the recently published World Bank report 'Vietnam 2035', Vietnam compares well with upper-income-countries in Government effectiveness and political stability, but ranks poorly for voice and accountability and regulatory quality (which measures the perceptions of the capacity of the state to formulate and implement policies aimed at private-sector development). The report goes on to indicate the aspects of institutional quality (or governance) that Vietnam might focus on in the coming years if it is to achieve the biggest development impact. It points out that as countries move up from lower to upper- middle-income status, their economies become more complex and diversified. The quality of government and particularly its ability to work with and regulate the private sector efficiently become even more important.

The nature of these changes are very relevant to this report. Many of its recommendations reflect measures that will assist the Government in enhancing the economy's competitiveness through improving the quality of corporate financial reporting and access to financial information. It makes key recommendations in support of the reforms in the SOE and financial sectors in terms of improved transparency and accountability.

OBJECTIVE AND SCOPE OF THE REPORT

The overall objective of this report is to assist the development of a sound financial reporting institutional framework by improving understanding of the importance of a high-quality system for corporate financial reporting and auditing. The report identifies currently existing gaps and how they can be addressed. Its recommendations are intended to support the implementation of the Government's "Strategy for Accounting and Auditing towards 2020, Vision by 2030" and provide the basis for preparing an updated implementation plan.

The report primarily focuses on the corporate financial reporting and statutory audit requirements for public interest entities (PIEs). PIEs, as defined by international practices and in this report include the entities which have public stakeholders due to the nature and size of the business, and hence include SOEs. This focus is deliberate, given the importance of corporate financial reporting by PIEs to the development of Vietnam's capital market and financial sector. This report does not analyze the financial statements of Small to Medium-sized Enterprises (SMEs) and Foreign Direct Investment (FDI) enterprises. It is envisaged that a more focused report on SMEs and FDI enterprises will be completed as part of work supporting the implementation of a proper differential reporting framework in Vietnam.

OVERVIEW OF THE CURRENT CONTEXT

Despite the Vietnam government's effort in introducing international practices and issuing Vietnamese accounting standards over the past 20 years, the quality of corporate financial reporting by PIEs in Vietnam is not consistent with international good practice. While there are examples of very good practice, the overall standard is adversely impacted by the following:

1. Vietnam Accounting Standards (VAS) have not been kept up to date with developments in International Financial Reporting Standards (IFRS).
2. Prudential and other regulatory financial reporting requirements for financial sector entities and SOEs take precedence over accounting standards.
3. Monitoring and enforcement of compliance with the accounting standards is lacking, as the regulator is more focused on issuing policies rather than monitoring and enforcement.

The result is that the financial statements are not prepared on a basis comparable with those in other jurisdictions.

Many PIEs in Vietnam are audited by local firms with capacity and resources much more limited than international firms. Smaller local audit firms often face difficulties in establishing appropriate internal quality assurance arrangements and do not have the benefit of international network quality assurance and technical support. These aspects are both important in ensuring that firms are able to fully comply with International Standards on Auditing (ISA) and the requirements of the International Standard on Quality Control (ISQC1), particularly for audits of more complex PIEs. The criteria for an audit firm's acceptability to audit the PIEs, are still focused on the quantitative measures (such as the size of the firm) rather than measures of audit quality (such as whether the firm has the audit methodology and quality control procedures in place to ensure the firm is able to conduct a high quality audit).

The demand for corporate financial reporting is low, as the benefits are not fully appreciated.
The reasons for this are:

1. At the entity level, corporate governance issues, particularly the Supervisory Board's failure to work as an effective audit committee, limit the value placed on the role of accountants, financial reporting, and external audit.
2. The capital market is dominated by retail investors who do not rely on audited financial statements for making investment decisions.
3. A corporate bond market has not yet been established, which means no demand exists from bond holders for audited financial statements.

Regional and international trade agreements will likely increase the demand for high-quality corporate financial reporting. The establishment of the ASEAN Economic Community and the European Union - Vietnam Free Trade Agreement will require regulatory harmonization and alignment with international good practice. The development of Vietnam's capital markets will depend on the extent to which the country is prepared to participate actively in these change processes. The Vietnam accounting profession will also need to play its part in this process, given the global trend of converging accounting and auditing standards.

The Government recognizes the need for accounting and auditing reforms. The “Strategy for Accounting and Auditing towards 2020, Vision 2030,” approved by the Prime Minister in 2013, provides the basis for the ongoing accounting and auditing reforms in Vietnam. These reforms are designed to modernize the accounting and auditing profession, promote high-quality corporate financial reporting and support improved transparency and accountability.

KEY FINDINGS AND RECOMMENDATIONS

Statutory Framework

The Accounting Law and the Law on Independent Audit could benefit from simplification. While the new Accounting Law 2015 is a significant improvement on its predecessor in 2003, both laws still contain detailed requirements that would normally be included in supplementary regulations, the regulations of the professional accountancy organization or are already incorporated in the accounting, auditing and ethical standards. Having this level of detail in the Law may lead to routine changes or updates requiring an amendment of the Laws. To avoid this unnecessary work and the potential for delays, both Laws could benefit from simplification during the next revision process.

Accounting Standards

Vietnam should fully adopt International Financial Reporting Standards (IFRS) and the related International Financial Reporting Interpretations Committee (IFRIC) interpretations in full for PIEs. A phased approach should be taken to setting the effective dates for the implementation of Vietnam Financial Reporting Standards (VFRS) for different entity types and sectors. Once full alignment of VFRS with IFRS has been achieved a mechanism should be put in place to ensure it is maintained.

General-purpose financial statements should be prepared in full compliance with Vietnamese Accounting Standards (VAS) developed in line with IFRS. Currently, these standards are sometimes overridden by various guidance and instructions issued by state authorities or regulators.³ This causes difficulties for preparers and affects the credibility and comparability of the information provided in VAS financial statements. It also means the scope of the audit opinion is broadened beyond ensuring the financial statements are fairly stated in compliance with VAS, and it provides the potential for external auditors to issue unqualified audit opinions on financial statements, even in cases where there is material noncompliance with accounting standards.

Vietnam should minimize the instances in which instructions and regulations override VAS in the short to medium term. The new Accounting Law will need to be further amended to clarify that VAS takes precedence over specialized laws and other decisions and instructions for the preparation of the general-purpose financial statements.

Vietnam needs to develop a strong and independent valuation profession to support the implementation of VFRS (particularly to support the implementation of the “fair value” concept as authorized under the Accounting Law 2015). Vietnamese valuation standards are being developed in line with the International Valuation Standards, covering areas: code of ethical principles, bases of value, valuation approaches, real property interests, intangible assets. Those effective standards have set the principles for application of “fair value” concept in financial reporting. Further detailed guidelines for valuation for financial reporting purposes are to be issued.

Auditing Standards

Although the current Vietnamese Standards on Auditing (VSA) are in line with ISA, a mechanism should be put into place to ensure they are kept up to date. Vietnam should establish a mechanism to ensure the auditing standards, quality control and ethical standards are always kept up to date with the international standards, as they frequently change.

The accounting profession needs to address the issue of low audit fees. Apart from the significant corporate governance implications, the audit fee issue raises questions about the overall sustainability of the external audit profession in Vietnam. The accounting profession needs to make a concerted effort, led by MOF, regulators, and the professional accountancy organizations (PAOs), to educate key stakeholders on the value proposition for the independent external audit process in terms of providing credibility for corporate financial reporting and increased transparency and accountability. A high-quality audit process requires audit fees set at a sustainable level.

Statutory Reporting and Auditing Requirements

MOF should take the opportunity under the next revision of the Accounting Law to establish a comprehensive differential reporting framework. Under this approach, PIEs would be

³ Special accounting treatment instructions may be given to SOEs or prudential reporting requirements imposed on financial sector entities that do not comply with VAS.

required, as at present, to prepare and lodge audited financial statements prepared in full compliance with VFRS. Those entities that are not PIEs, but are nevertheless of commercial significance and therefore likely to need access to credit, could elect to adopt either VFRS for SMEs (the equivalent of IFRS for SMEs) or full VFRS (the equivalent of IFRS)⁴.

Public Oversight and Monitoring

Vietnam should consider developing an appropriate organization (such as Vietnam Accounting and Auditing Supervision Board - VAASB) to oversee the accounting and auditing profession. The current proposals would eventually see the VAASB assume responsibility from the Accounting and Auditing Policies Department (AAPD) for regulating accounting and auditing. Besides setting the accounting and auditing standards, its responsibilities would include review of PIEs corporate financial reporting, licensing of practicing auditors and accountants, review of the quality of PIEs' audited reports and disciplinary processes with respect to matters of public interest.

The consolidation of these activities under a capable VAASB would yield considerable advantages in terms of promoting collaboration across regulators and the efficient utilization of scarce capacity and resources. It would reduce the need for individual regulators to build and maintain specialist skills and expertise, as well as minimize the costs of compliance for PIEs subject to the inspection processes. It could also provide an opportunity to further rationalize the monitoring and oversight arrangements for SOEs. An area requiring more attention is the oversight of compliance with accounting standards, which is emphasized in Accounting Law 2015.

The prudential regulators should publish an annual report on their monitoring and oversight activities. Although some outcomes of prudential monitoring and the nature of the action initiated by prudential regulators cannot always be made public, the absence of any public reports on their activities can lead to the assumption that no problems exist or that the regulators are ineffective. Either entails significant regulatory risk. Since October 2015, MOF and SSC have published the list of examined audit firms with “pass/fail” status, detailed findings however have not been published but were sent to the related firms only.

Public Accountancy Organization

Vietnam needs one credible domestic PAO with the power and authority to properly regulate and advocate on behalf of its members for the accounting profession in the public interest. The “Strategy for Accounting and Auditing towards 2020, Vision by 2030” identified the need to strengthen the local PAOs and their status. The intention was to delegate additional responsibilities and autonomy and to allow them to operate in a similar manner to PAOs internationally. In practice this did not proceed and therefore neither of the two local PAOs is able to fully comply with the membership requirements of International Federation of Accountants (IFAC).

⁴ Smaller, owner-managed entities would simply prepare financial statements in the form necessary to comply with their taxation and statistical reporting requirements and be exempt from any statutory audit requirement.

⁵ See Appendix III for more detail.

MOF should transfer those regulatory responsibilities to a PAO that are required for it to be able to fully comply with IFAC Statements of Membership Obligations (SMOs). To meet the aspirations of the strategy, implementation of a phased change process is recommended while the proposed new PAO builds its capacity.

Membership should be mandatory for all individuals acting as chief accountants of PIEs and all certified providers of accounting and auditing services. This could be achieved by providing PAO membership concurrent with certification by MOF and making payment of the annual membership dues a condition of maintaining certification. The mandatory dues would help contribute towards the additional costs associated with establishing a credible PAO.

Professional Accounting Qualification Requirements

Vietnam does not have a domestic PAO that is both a full member of IFAC and able to fully comply with IFAC's Statement of Member Obligation requirements. This means that the Vietnamese accounting and auditing designations (Vietnamese CA and Vietnamese CPA respectively) are not recognized internationally.

MOF and domestic PAOs need to work together to establish a proper framework for examination, practical experience, and continuing professional development. This should meet the minimum requirements of the International Education Standards (IES), as issued by the International Accounting Education Standards Board (IAESB).

The criteria for admission to sit for the CPA examinations also needs to be aligned with IES. This means the CPA examinations should focus more on integrative knowledge, professional competencies, and lifelong learning skills, which will support individual CPA's ability to stay up to date with the latest international standards and practices.

Accounting Education

Accounting education is the most important area of focus for development in the medium term for the accounting and auditing profession in Vietnam. The Ministry of Education and Training (MOET) and the universities should work with the PAOs and international organizations to develop a national quality framework and a core curriculum for accounting and auditing education. The aim should be to comply with IES and achieve better alignment with the changing and growing needs of domestic enterprises.

A real demand for high-quality accounting education exists in Vietnam. Both ACCA and CPA Australia have been partnering with local universities to broaden their appeal and reach and have participated in capacity building of local teaching staff. The success of these international PAOs, which together have over 10,000 active students enrolled in their programs, demonstrates the strength of the demand for high-quality accounting education in Vietnam.

The focus of the core curriculum should shift from compliance with local rules and regulations to application of principles-based international standards and international good practice to catch up with the Government's adoption strategy. A competency-based model should be put in place. The recommended adoption of international accounting standards will provide one of the foundations for updating the accounting degree programs and the professional examinations.

Proper accreditation processes for accounting degree programs will need to be established to assure the quality of the programs.

Procedures for international cooperation in education should be simplified to reduce bureaucracy and enhance effectiveness and efficiency. The Government should aim to encourage initiatives in this area as a key means of quickly increasing the quality of accounting education.

All these suggested changes are consistent with the Government's drive for an outcome-based training and education system to meet the needs of an “industrialized, modernized and socialism oriented market economy.” A range of policy initiatives is underway that includes giving both public and private universities more autonomy over their operations and providing for a self-financing mechanism for public universities.

I

INTRODUCTION



OVERVIEW OF THE VIETNAM ECONOMY

1. Rapid growth since the late 1980s has brought Vietnam to middle income-country status, with a three-and-a-half-fold increase in per capita average income, a performance surpassed only by China⁶. This growth has slowed in recent years, however, due to the weaker external environment and a slowdown in reforms. Vietnam has the potential to join the ranks of upper middle income countries in the next twenty years, but this will require tough choices and actions to deepen market institutions, create a level playing field for the private sector and SOEs, and build a modern financial sector, all of which are needed to enhance the economy's competitiveness.
2. Vietnam's record of poverty reduction over the past two decades has been remarkable. Extreme poverty has been all but eliminated, today less than 3 percent of the population lives below the international poverty line of US\$1.90 a day. Based on a new poverty line reflecting Vietnam's status as an emerging middle-income country, the poverty rate was 9.8% percent in 2015. Vietnam has also been exemplary in sharing prosperity. Between 1993 and 2015, the mean income of the bottom 40 percent of the population grew at an annual rate of 9 percent, exceeding the overall growth rate. Vietnam has achieved most of the numerical Millennium Development Goals (MDG) targets⁷.
3. Economic growth is strengthening, with gross domestic product (GDP) growth rising from 5.4 percent in 2013 to 6 percent in 2014 and 6.7 percent in 2015⁸. This improved growth is linked to stronger domestic demand. Longer-term (or trend) growth will remain constrained, however, by a web of structural problems in SOEs and the banking sector and policy distortions that continue to thwart domestic private investment, as well as a widening skills gap and gaps in infrastructure and trade logistic services.
4. Macroeconomic stabilization continues to improve. Headline inflation (y/y) fell from a peak of 23 percent in August 2011 to 5.5 percent in June 2014 to the lowest ever of 0.7 percent in 2015⁹. This reflects two main factors. First, GDP was, until quite recently, below its estimated potential because of soft domestic demand. Second, supply-side pressures have continued to ease with lower energy and food prices. While the external trade account balance has weakened recently, robust remittances and foreign direct investment (FDI) inflows have contained balance of payments pressures. Nevertheless, foreign reserves remain low, and the State Bank of Vietnam (SBV) devalued the exchange rate by a cumulative 5 percent over 2015¹⁰ to maintain stability in the foreign exchange market and preserve external competitiveness.

Vietnam needs tough choices and actions to deepen market institutions and build a modern financial sector.

6 Extracts from the *Vietnam 2035 Report*.

7 Extracts from the *Vietnam 2035 Report*.

8 Source: Statistical General Department.

9 Source: Extract from the World Bank *Taking Stock* report June 2014 and December 2015.

10 Extracts from the World Bank *Taking Stock* report December 2015.

5. Credit growth is picking up on the back of recent easing of monetary policy. Using the space provided by declining inflation, the SBV has eased the policy interest rate by a cumulative 850 basis points since early 2012 in an attempt to boost domestic demand. The SBV has also reduced the cap on deposit rates and cut the maximum lending rates for five priority sectors. As a result, credit demand has started to increase, with growth estimated at 18 percent in 2015. While improved macroeconomic conditions have helped maintain stability in the banking system, deep-seated vulnerabilities, including high non-performing loans (NPLs), continue to pose risks. As of December 2015, the Vietnam Asset Management Company (VAMC) had purchased around VND243 trillion in bad debts. According to VAMC, however, only 7 percent of the total bad debts have since been resolved. Their resolution has been hampered by the absence of an adequate enabling legal framework for insolvency, asset titling, and seizure of collaterals¹¹.

6. Persistent fiscal imbalances are a concern against the backdrop of rising public debt. The fiscal deficit stayed at 5 percent of GDP in 2015, reflecting weak revenue outturn and increased capital spending. Total public and publicly guaranteed debt increased to 62.2 percent to GDP in 2015 (up from 59.5 percent in 2014¹²). While public debt levels are still within the bounds of sustainability, debt-servicing costs are beginning to cut into fiscal space. Interest payments rose to 7.7 percent of total expenditures in 2015, compared to 6.7 percent in 2014 and 5 percent in 2013¹³. A gradual, growth-friendly fiscal consolidation—as planned by the Government—is crucial to stabilize public debt at prudent levels.

7. State invested enterprises as at the end of 2014 contributed to 28.38% GDP (decreasing from 29.34% in 2009). The number of SOEs (enterprises with 100% state ownership) was 949, of which 54% were under local government, 36% were under Ministries and 10% were under State economic groups. 65% of the SOEs are commercial entities with the remainder providing public and national security related services. 83% of total the State Capital investment in the SOE sector is in the 18 large State Economic groups/ corporations¹⁴ and so these were a key area of the focus for this report.

8. There were more than 700 listed companies in early 2016. The number of non-listed public companies is in the thousands. Total market capitalization of listed companies is more than USD 60 billion, equivalent to 34% of the country's GDP¹⁵.

9. There was a total of 120 commercial banks, either state owned, private joint stock or FDI companies, in early 2016. Total assets of the whole banking sector was USD 335 billion. Total legal capital of the whole banking sector was USD 21 billion (10% of GDP)¹⁶.

10. The Insurance sector is less developed than the banking sector. Total insurance revenue in 2014, according to MOF, was around USD 2 billion, concentrated in 5 large insurance companies (Bao Viet, PVI, Bao Minh, PJICO and PTI, which are all equitized state-owned companies).

11 Published by SBV and VAMC.

12 Extracts from the World Bank *Taking Stock* report December 2015 and July 2016.

13 Extracts from the World Bank *Taking Stock* report July 2015.

14 Extracts from the World Bank *Taking Stock* report December 2014.

15 Published by SSC.

16 Published by SBV.

11. **SMEs are a very important in the economy, but there is very limited financial reporting related information available for analysis.** SMEs account for 97% of the number of enterprises in Vietnam, of which 65% are super small (micro) enterprises. SMEs contribute 40% GDP to the economy and they are operating in a number of industries – agriculture, construction and manufacturing or services. Under the Prime Minister's Decree, SMEs are defined into three categories: super small, small and medium, with the criteria based on the number of employees and capital. Maximum capital for medium enterprises is VND 100 billion (USD 4.8 million) and the maximum number of employees is 300. This is important sector of the economy but has very limited capacity for financial reporting and specific analysis work is needed that is outside the scope of this report.

Reform of the SOE and Banking Sectors¹⁷

12. **SOEs account for about one-third of all business assets, one-quarter of output, and one-eighth of employment in the enterprise sector.** Therefore their performance is important to the overall growth potential of the economy. In 2012, the Government initiated comprehensive reforms to restructure the SOE sector to improve their performance and efficiency and reduce the barriers to private sector entry. This included commencing a process to progressively equitize some 1,200 fully owned SOEs. As of December 31, 2013, there were 949 equitized SOEs, and the figure increased by 143 in 2014 and by 210 for 2015.

13. **The fragmentation in the oversight and monitoring arrangements for SOE performance, as well as weak corporate governance, is being addressed.** In 2013, Decree 61¹⁸ was issued, which provided an improved framework for the assessment of SOE performance and outlined additional financial reporting and disclosure requirements. Decree 87¹⁹ replaced Decree 61 in 2015 and established stricter requirements on disclosure of SOEs' financial statements. Circular 14²⁰ in 2016 segregated the special duties of SOEs from their normal business activities when assessing SOEs' performance. Decree 99²¹ provides clearer segregation of monitoring and oversight responsibilities for SOEs. These changes have the potential to improve SOE transparency and accountability if compliance is properly monitored and enforced. A fuller discussion of these policies is provided in Appendix 2.

The oversight and monitoring arrangements for SOE performance has gradually improved.

14. **The banking sector reforms are focused on consolidating the banking system.** Progress accelerated in the first half of 2015, with a number of smaller banks being acquired by major state-owned commercial banks. This is consistent with SBV's policy to restructure credit institutions which will help to reduce the number of credit institutions to a more reasonable level. There has

17 Extracts from the World Bank *Taking Stock* report, July 2015.

18 Decree 61/2013/NĐ-CP.

19 Decree 87/2015/NĐ-CP.

20 Circular 14/2016/TT-BTC.

21 Decree 99/2012/NĐ-CP.

been no direct involvement by foreign banks in any of the recent acquisitions, despite relaxation of the foreign ownership cap.

15. The SBV has strengthened regulations on the Non-Performing Loans (NPLs) classification and the provisions for loan losses. These changes aimed to facilitate application of international standards and practices. This has improved the accuracy and transparency of the presentation of the quality of the banks' lending and increased the level of provisions for NPLs disclosed in the audited financial statements.

16. Despite the NPL issues, confidence in the banking system seems to have improved. This has been reflected in increases in the share prices of listed commercial banks in 2015, and the real estate market has also shown signs of recovery.

17. The Government needs to push ahead with reforms in the SOE sector and consolidation of the banking sector. This will be necessary to lift GDP growth closer to the 7 percent needed to realize its aspiration for "an upper-middle income country on the cusp of high income"²² status.

Capital Market Development²³

18. The equity market is characterized by a large number of listed companies (700) with low average capitalization. A significant increase in recent years in both the number of listings and capitalization of the two exchanges, in Ho Chi Minh City and Hanoi, has been largely the result of "equitization" of SOEs. About one-third of the listed companies are majority state owned. Growth is expected to continue with a strong pipeline of initial public offerings (IPOs) and plans to merge the two exchanges in the near future.²⁴

19. While the equity market has so far served as a conduit for SOE "equitization," it has the potential to play a much more meaningful role. Stock market capitalization as a percentage of GDP is much lower than that of other Association of Southeast Asian Nations (ASEAN) countries, with the exception of Brunei, Cambodia, and Laos²⁵. Many of the SOEs with better prospects have not yet been listed, and family companies may still be reluctant to commit to enhanced disclosure requirements. The universe and quality of listed firms could be improved by equitizing some of the larger SOEs and seeking strategic investors to help improve their corporate governance and performance.

20. The institutional investor base in Vietnam is very thin. The prevalence of retail investors raises questions about the extent to which price discovery is driven by speculation rather than sound evaluation of underlying fundamentals, such as sustainable earnings. Market depth, liquidity, and price discovery could also be improved by enforcing the adherence to IPO and listing timetables and building a stronger investor base.

22 Extracts from the Vietnam 2035 Report.

23 Extracts from the *Financial Sector Assessment*, June 2014.

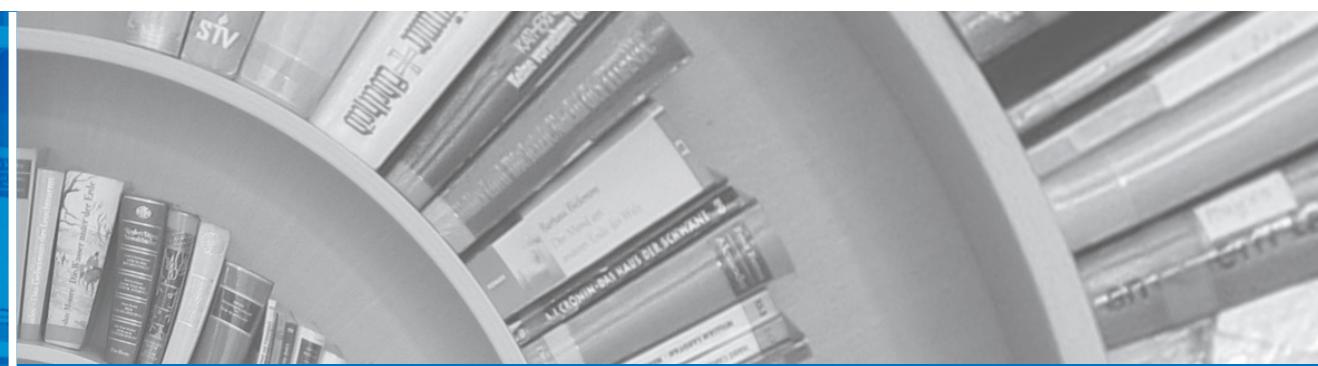
24 The objective of the merger is to enhance the competitiveness of the Vietnam Stock Exchange.

25 Extracts from the *Financial Sector Assessment*, June 2014.

21. **The Government has recently approved a comprehensive roadmap for bond market development.** The roadmap is focused on the Government bond market, but its implementation is a precondition for developing the corporate bond market. This aspect is important, as it would provide an alternative to bank financing for major corporations which would also increase the demand for higher quality financial reporting and external audit.
22. **Globalization and regionalization trends and international trade agreements will increasingly affect economic growth.** In particular, the establishment of the ASEAN Economic Community and the European Union – Vietnam Free Trade Agreement will increase the demand for regulatory harmonization and the alignment with international accounting and auditing standards. The development of Vietnam's capital markets will be dependent upon the extent to which Vietnam is prepared to actively participate in these change processes.

II

DEMAND FOR AND PERCEPTIONS OF THE **QUALITY** OF FINANCIAL REPORTING AND AUDIT



23. **Vietnam ranks poorly in corporate governance among ASEAN countries.** In the Asian Development Bank's most recent (2013–14) ASEAN Corporate Governance Scorecard, Vietnam received the lowest score of the six countries participating in the survey in four of the five categories. This was based on a review of companies representing 63 percent of the combined capitalization of Vietnam's stock exchanges. Although some improvement was recorded over the course of the survey, which was conducted in 2012–13, it was minimal with respect to the disclosure of audit and non-audit fees paid to auditors and timeliness of the release of financial statements.

24. **Audit committees are not mandated in legislation in Vietnam and generally only exist in entities where there is a strategic foreign ownership interest.** The appointment, rotation and dismissal of auditors, as well as the review of audit reports, are generally performed by either the entities' senior management, or by some members of the Supervisory Board. In both cases, this is not aligned with corporate governance good practice due to lack of independence from senior management and the lack of specialized expertise of those involved in decision making.

25. **Despite the recognized improvements in the institutional framework for corporate financial reporting, there is a general acknowledgement among stakeholders that the audited financial statements prepared in compliance with VAS are of low quality.** This perception largely stems from weak corporate governance; lack of regulations in line with international standards and practices, limited demand for financial information by most shareholders; the impact of specifically sanctioned accounting treatments and disclosures that do not comply with VAS in some SOEs; inadequate enforcement of compliance with accounting and auditing standards and ethical requirements by the appropriate authorities; and the capacity limitations of preparers and auditors. This means that the VAS financial statements, although audited, are not in full compliance with international standards and accepted good practice.

26. **Users tend to consider financial statements audited by larger audit firms, which are members of international networks, meet a higher standard of financial reporting.** Interviews and discussions with stakeholders, including bankers, revealed greater reliance is placed on the financial statements audited by members of the Big 4 and others that are members of well-known international accounting firm networks. The directors of many smaller companies complained, however, about the audit fees charged by such firms. The use of Big 4 audit firms tends to be concentrated among the larger companies and those that need access to international capital markets.²⁶

***Minimal improvement
was recorded with
respect to the disclosure
of audit and non-audit
fees paid to auditors and
timeliness of the release
of financial statements.***

26 In the case of the Ho Chi Minh stock exchange, Big 4 firms audit approximately 35 percent of listed companies; in the case of the Hanoi stock exchange, which has a higher concentration of smaller companies, the proportion is approximately 16 percent.

27. **Vietnam lacks a credible analyst community and credit reference service.** There is no group of professional advisors and investors to encourage greater transparency and full inquiry into financial reporting by companies. This reflects the low level of demand from investors for high-quality financial information, based on comprehensive reviews of companies and their prospects, to support their investment decisions.
28. **In the capital markets, the dominance of small retail investors curtails the demand for financial reporting.** Because a large percentage of listed company shares are owned by small retail investors who essentially trade shares for short-term capital gain, most shareholders do not rely at all on the audited VAS financial statements when making their investment decisions.
29. **Improved financial reporting and more transparency in the SOE sector will be needed to attract strategic and other institutional investors.** The stock exchanges recognize the need for more institutional investors to provide increased stability to the market. They are actively promoting improved corporate governance and financial reporting.
30. **The Government's plans to sell equity in SOEs will increase the demand for higher quality corporate financial reporting and external audit.** The SOEs make up a significant portion of Vietnam's economy, and the Government plans to continue selling down state ownership by way of initial public offerings (IPOs). The IPOs will require the issue of prospectuses together with audited financial statements.
31. **Many PIEs in Vietnam are audited by local firms with limited capacity and resources, compared to firms that are members of international networks.** Smaller local audit firms often face difficulties in establishing appropriate internal quality assurance arrangements and do not have the benefit of international network quality assurance and technical support. These aspects are both important in ensuring that firms can fully comply with International Standards on Auditing (ISA) and the requirements of the International Standard on Quality Control (ISQC1), particularly for audits of more complex PIEs.

III

STATUTORY FRAMEWORK

CURRENT SITUATION

32. **The statutory framework covering accounting, auditing, and corporate financial reporting in Vietnam comprises Accounting Law and Independent Audit Law.** The Accounting Law sets out detailed requirements for the accounting profession, including financial reporting, accounting function arrangements, accountant qualifications, accounting services, accounting regulatory requirements and PAOs. The Independent Audit Law governs the principles, conditions, scope and types of the independent audits, roles and responsibilities of the auditors and audit firms.
33. **After more than ten years of implementation, the Accounting Law 2003 has been revised to accommodate changes in accounting practice.** The new Accounting Law, was approved by the National Assembly on November 20, 2015 and became effective on January 1, 2017. It is a significant improvement over its predecessor. One of the most important changes is the inclusion of the “fair value” concept to facilitate the issuance of related accounting standards in this area for financial instruments, fixed assets, and investment properties.²⁷
34. **Article 71 of the Accounting Law 2015 effectively designates the Ministry of Finance (MOF) as the prime regulator for accounting.** An important area added is oversight of accounting standards compliance. It also allocates to Ministers and ministerial agencies responsibility for accounting in the specific branches or domains assigned to them and to People’s Committees of provinces and cities responsibility for accounting in their respective locations.²⁸
35. **The Law on Independent Audit applies to auditors, certified public accountants, audit firms, auditees, audit professional organizations and any related parties.** It contains a wide range of provisions for the registration and operation of independent audit activities, roles and responsibilities of auditors and audit firms, as well as detailed requirements concerning matters such as the qualifications of auditors, the form and content of audit reports, and quality control. In addition, the Law sets out those businesses and organizations with a statutory obligation to have their financial statements audited.²⁹
36. **The Law on Independent Audit contains detailed requirements that would be better dealt with in the auditing standards or the regulations of professional accountancy organizations (PAOs).** These include requirements pertaining to audit contracts, audit fees, audit documentation, quality control, and the form and content of audit opinions, among other matters.
37. **The Law on State Audit sets out the functions and responsibilities for audit of all activities related to the management and use of the state budget and state assets.** The law provides for the appointment by the National Assembly of the State Auditor General and requires that State Audit Office of Vietnam (SAV) to evaluate, certify, conclude, and recommend on the use of the state budget and state assets. The law also details the various types of audits (financial, compliance, and operational) SAV may conduct; the standards to be followed in conducting those audits; and their reporting requirements, including to the National Assembly. Financial audits of SOEs’ annual general purpose financial statements are conducted by independent audit firms, under the Law on Independent Audit. The SAV has the right to also conduct financial compliance and operational audits on those entities.

27 Other important new areas included in the revised Accounting Law are internal audit and the production of “Whole of Government” consolidated financial statements.

28 Refer to Appendix III for more detail on some problems related to disclosure of SOEs’ annual audited financial statements.

29 Those entities that have a statutory requirement to have their annual financial statements audited, is in Article 37 of the Law, and include: foreign invested enterprises, credit institutions, finance companies, insurance companies, insurance brokerage companies, public companies, stock trading and stock underwriting companies, SOEs, except the ones with confidential information, state invested enterprises, and audit firms.

38. **The Law on Enterprises deals with the establishment of all enterprises.** It includes limited liability companies, joint stock companies, partnerships, and sole traders and requires them to comply with accounting and other relevant laws. It covers matters such as the registration and incorporation of companies, capital contributions, and governance arrangements. Article 3 of the Law however, refers to the specific laws to be applied in case any specific law has detailed provisions on establishment, organization and re-organization, operation and dissolution for the types of enterprises it governs, The Law on Enterprises requires certain enterprises to have Supervisory Board under the Board of Directors.

39. **The Law on the State Bank of Vietnam is primarily concerned with the role of the SBV as a central bank and its responsibility for the stability of the financial system.** It also designates SBV as the regulator for banks and other credit institutions. The law requires credit institutions to provide information and statistical data as requested by the SBV to enable it to assess, inspect, and supervise the operation of individual credit institutions and the financial system as a whole.

40. **The Law on Credit Institutions concentrates on the establishment and operation of individual credit institutions.** It designates additional requirements for credit institutions, over and above those set out in the Law on Enterprises and the Accounting Law. These mainly relate to the provision of prudential information to the SBV and the establishment of capital reserves.

41. **The Law on Insurance covers the organization and operation of insurance businesses, including general, reinsurance, life, and brokerage businesses.** Article 121 provides for the MOF to regulate insurance businesses. The MOF carries out those responsibilities through its Insurance Supervisory Bureau (ISB). Articles 101–103 require insurance businesses to comply with the requirements of the Accounting Law and provide professional reports to the MOF.

42. **The Securities Law regulates the operation of Vietnam's capital markets.** It covers activities relating to the public offering of securities, the listing and trading of securities, the conduct of businesses investing in securities, security services, and the securities market. It applies to all organizations and individuals participating in the Vietnamese securities market and other related securities activities. MOF is the regulator of the securities market and securities transactions, and the State Securities Commission (SSC), within MOF, is the direct supervisory body.

The next revision of the Accounting Law should replace the detailed requirements relating to accounting records with a general obligation to maintain proper books and records.

THE RECOMMENDED WAY FORWARD

43. **The Accounting Law and the Law on Independent Audit could benefit from further simplification.** Both laws still contain detailed requirements that would normally be included in supplementary regulations, the regulations of the professional accountancy organization, or are already incorporated in the accounting, auditing, and ethical standards. The next revision of the Accounting Law should replace the detailed requirements relating to accounting records with a general obligation to maintain proper books and records. Similarly, the detailed requirements regarding audit contracts, audit fees, audit documentation, quality control, and the form and content of audit opinions should be removed from the Law. This should make it easier to amend the detailed requirements when necessary.

IV

ACCOUNTING STANDARDS



CURRENT SITUATION

44. **VAS have not been updated to the current versions of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS).** Article 7 of the Accounting Law requires MOF to prescribe accounting standards and ethical codes based on international standards and the provisions of the Accounting Law. VAS were developed from IAS/IFRS as they existed in 2001 to 2005. Since this inaugural period, the International Accounting Standards Committee and its successor, the International Accounting Standards Board, have issued many new standards and updated or repealed others.

45. **This means some newly issued IFRS are not applied in Vietnam, and some provisions in the IFRS-equivalent standards used in Vietnam need updating.** In addition, the interpretations issued by the Standing Interpretations Committee and its successor, the International Financial Reporting Interpretations Committee, which are integral components of IFRS, have not been adopted in Vietnam. Circulars guiding detailed transactions have been issued, instead.

46. **There are no VAS equivalents for 15 IFRS and IAS and there are differences between some VAS and IFRS.** Financial instruments, fair value accounting, and impairment in terms of both valuation and disclosure are particular problem areas. In the absence of VAS equivalents for IAS 32, IAS 39, IFRS 9, and IFRS 13 on financial instruments, Circular 210/2009/TT-BTC was issued to guide the entities on disclosure of financial instruments. The Circular does not, however, provide any relevant instructions on the assessment and recognition of the fair value of financial assets and liabilities.³⁰

47. **There are differences between IFRS and VAS requirements.** Under IFRS, impairments or loan losses are calculated as the difference between a financial asset's carrying amount and the present value of the estimated future cash flows and then discounted at the asset's original effective interest rate. Under VAS, impairments are mainly based on quantitative factors (such as aging), with banks generally calculating impairment on the unsecured portion of loans and receivables based on an SBV-approved provisioning matrix that calls for a range of fixed provisioning rates according to the number of days a loan has been classified as non-performing. Qualitative provisioning method is only an allowed alternative, and still has to be applied in parallel with the quantitative method for at least 5 years and the more prudent result prevails. Appendix II provides further details on the calculation of provisions for loan losses and the impact of the current accounting practice on the financial performance and financial position disclosed in the Banks' audited financial statements.

VAS have not been updated to the current versions of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS).

48. **MOF has been working towards IFRS adoption.** This is a specific goal in its “Strategy for Accounting and Auditing towards 2020, Vision by 2030,” supported by a decision by the Prime Minister in 2013³¹. The revised Accounting Law in 2015³² defined the fair value concept, which sets the ground for IFRS adoption in future.

30 Furthermore, as per Article 128 of Circular 200/2014/TT-BTC, the application of Circular 210 is now optional, as accounting standards on financial instruments and fair value are still lacking.

31 Decision 480/QD-TTg, March 18, 2013.

32 As mentioned in paragraph 23, the revised Accounting Law approved by the National Assembly in November 2015 includes the “fair value” concept, which is key to the further alignment of VAS with IFRS.

49. In most jurisdictions, PIEs are required to prepare general-purpose financial statements in compliance with IFRS, or at least the equivalent principles-based national accounting standards.³³ Vietnam's financial reporting framework is broader and requires corporate financial statements be prepared in accordance with VAS and other relevant statutory requirements applicable to financial reporting. These other statutory requirements include the followings:

- Prudential regulations issued by regulators to the credit institutions and insurance companies on the preparation of financial statements that take precedence over VAS when there is a conflict.
- Ad hoc decisions and instructions that may be specific to the circumstances of a particular SOE or specific types of transactions, which again, take precedence over VAS.

50. Vietnam is trying to align VAS more closely with international accounting standards. This effort has resulted in three new Circulars being issued Circular 200/2014/TT-BTC,³⁴ Circular 210/2009/TT-BTC; and Circular 202/2014/TT-BTC. These circulars include the introduction of financial instruments, fair value and consolidation accounting concepts.

51. The SBV and ISB issue prudential regulations that affect the preparation of financial statements by financial institutions. In terms of practical application, these prudential reporting requirements prevail over VAS when differences in accounting treatment and disclosures arise in the preparation of financial statements. This has led to confusion and created inconsistencies in the application of VAS and accounting regulations across banks and insurance companies. It has also affected both the transparency and comparability of the financial statement information in the financial sector.³⁵

52. To avoid these problems, prudentially regulated entities should be permitted to prepare general-purpose financial statements in accordance with VAS/VFRS. Compliance with prudential reporting requirements should be achieved through the provision of supplementary information that is reconciled in the general-purpose financial statements. Where this leads to a difference between the accounting profit disclosed in the general-purpose financial statements and that calculated for prudential purposes, the accounting profit that is to form the basis for taxation calculation purposes should be made clear.

53. A collaborative approach between the accounting standard setter and the financial sector regulators is very important. MOF AAPD should be empowered and strengthened to take the role of issuing financial reporting standards and guidance on accounting for banks and other financial institutions in consultation with SBV. This is an important step in facilitating increased alignment between the accounting standards and the prudential regulation financial reporting requirements.

54. A few SOEs still receive ad hoc decisions and instructions from State authorities, which affects the preparation of their VAS financial statements. These types of decisions and instructions can have a significant impact on the reported financial position and performance of these entities. The primary reason for allowing special accounting treatments is that the SOEs' executives are remunerated, awarded, or sanctioned based on financial performance.

33 In Vietnam, this would be VAS.

34 This supersedes Decision 15/2006/QD-BTC and is applicable from January 2015.

35 More details on the impacts of this are provided in Appendix II.

The Government asked a number of the SOEs to serve the public interest or public security by assuming loss-making tasks and projects. Circular 14/2016, which became effective March 07, 2016, is expected to minimize these special accounting treatments.³⁶

55. It is noted that several VAS financial statements contain warnings to readers on the significant deviation from international standards and practices. The notes under the Statement of Compliance of those financial statements state: “These accounting policies may differ in some material respects from the generally accepted accounting principles and standards in other countries. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and consolidated results of operations and consolidated cash flows in accordance with generally accepted accounting principles and practices in other countries or jurisdictions other than Vietnam”. This then carries over to the scope and nature of the audit opinions provided. This type of warning seriously detracts from the credibility of corporate financial reporting in Vietnam, and hence weakens the trust and reliance placed on financial information by the international investment community.

56. The legal and standards framework becomes ineffective if exemptions or exceptions are granted to any entity within its scope. Where exceptions are possible to the VAS framework, as modified by decree or instruction, the credibility of financial statements is very limited. Allowing them also destroys the effectiveness of an audit process designed to monitor compliance with the standards, as it broadens the framework within which the auditor reports from a VAS-based compliance framework to a VAS framework as modified by decree.

57. The credibility of Vietnam’s financial reporting framework is adversely affected by allowing accounting treatments that do not comply with the accounting standards. This results in a lack of consistency in the basis of financial statement preparation and compromises the comparability of the information provided in the VAS financial statements. The conflicts between regulators’ “guidance” and VAS confuses the preparers, auditors, and users of the financial statements. It also broadens the basis on which an unqualified audit opinion can be issued.

The legal and standards framework becomes ineffective if exemptions or exceptions are granted to any entities within its scope.

Application of the Accounting Standards in Practice

58. The ROSC team reviewed 35 PIEs’ VAS financial statements for the year 2014. The VAS-based financial statements covered various types of entities and ownership structures (state-owned companies, state-owned public listed companies, and private joint stock listed companies) across various industry sectors (banking, insurance, energy, real estate, services, and manufacturing).³⁷ Only one SOE group was subject to review. IFRS financial statements of four banks, one insurance company and one SOE group were also reviewed for comparison and reference. The limitations on access to SOEs financial statements is discussed in Appendix II.

³⁶ This circular requires segment reporting for the special duties and allows the exclusion of losses incurred for special duties in rating, remunerating, and awarding SOE executives.

³⁷ The review focused on issues of presentation and disclosure, but it did not cover compliance with “recognition and measurement” requirements of the accounting standards because this is not detectable purely through a review of financial statements.

59. Although some financial statements showed high degrees of compliance with VAS requirements, areas in which accounting policies, presentations, and disclosures failed to comply fully were also widespread. In analyzing this sample set, an effort was made to understand more clearly the extent to which noncompliance was caused by the nonalignment of VAS with prevailing regulations and other decisions or instructions (as discussed above). In those few cases where entities also prepared IFRS financial statements, we completed a comparison with the VAS financial statements. The differences in financial position, financial performance and the related note disclosures were not surprisingly significantly different. For example, in two banks the provisions for loan losses in the IFRS financial statements were approximately double the provisions made in the VAS financial statements.

60. The meaning of the “fair value” concept and why it is important to Vietnam’s transition to a market-oriented economy is greatly misunderstood. In particular, for SOEs a loss in value of a state asset could result in a criminal prosecution of the members of the governing body and senior management. This course of action may well be appropriate where fraud, misappropriation, or blatant mismanagement occur. Currently, however, the fear of the consequences of disclosing a loss in value, even where it is the result of normal commercial business operations, is providing a strong incentive for “management” of financial performance and position, to the extent that the financial statements in some cases do not reflect reality and provide misleading information. This, in turn, results in audit opinions that are qualified or contain extensive warnings to readers in the form of emphasis of matter commentary.

61. The lack of understanding of the “fair value” concept has also affected strategic investors’ interest in the SOE sector. Until relatively recently, equitized SOEs could not allow investors to purchase interests in their corporations for share prices below the value determined during the “equitization” process by local valuation professionals³⁸. Strategic investors usually bring significant benefits to a corporation in terms of both capital and other technical capacity, and they expect this will be allowed for in the prices they pay for their investments. Grant Thornton, in its *Vietnam Private Equity Report Quarter 4-2014*, cited “differences in valuation expectation as the most significant factor contributing to deal failure.”

62. Some PIEs including SOEs already prepare financial statements in full compliance with IFRS. As potential investors and lenders cannot compare financial statements in Vietnam with those of similar entities in other countries, increasing numbers of enterprises, particularly banks and listed companies, are finding it necessary to maintain parallel financial reporting processes and prepare financial statements in full compliance with IFRS. This trend, which adds significant costs to doing business in Vietnam, will continue to grow as more enterprises seek access to foreign investment capital and borrowing. This is especially so given plans to provide opportunities for strategic and other institutional investors to hold shares in SOEs by way of IPO and the recent Government decision to allow increased foreign ownership in some sectors.

THE RECOMMENDED WAY FORWARD

63. Vietnam should fully adopt IFRS and the related International Financial Reporting Interpretations Committee (IFRIC) interpretations (a combination known as “VFRS”) in full for PIEs.³⁹ These standards and interpretations should form the statutory financial reporting framework for the preparation of general-purpose financial statements for PIEs to ensure consistency of the standards and comparability of the financial statements prepared. For non-PIEs, Vietnam should consider the appropriateness of the adoption of IFRS for SMEs. Given the majority of business in Vietnam are micro SMEs, it is likely that these standards will still be too complex for them to comply with. The appropriate standards and thresholds for financial reporting requirements should be further considered as part of the establishment of a differential reporting framework.

64. A phased approach should be taken to setting the effective dates for the implementation of VFRS for different entity types and sectors. MOF AAPD, as the standard setter, should be empowered to coordinate the preparation of a detailed roadmap for VFRS implementation for each sector (banking, insurance, and SOEs) in consultation with key stakeholders. The roadmap should include realistic effective dates for applying VFRS, with the primary consideration being the level of capacity building required. Early adoption of VFRS should be allowed by those PIEs that believe they already have the necessary capacity. In these cases, regulators should accept VFRS-compliant financial statements rather than requiring VAS financial statements.

65. Once full alignment of VFRS with IFRS has been achieved, a mechanism should be put in place to ensure it is maintained. This can best be achieved by ensuring any new standards and updates to existing standards are applicable on the effective dates stipulated in the international standards.

66. A revised Accounting Law should further clarify that VFRS/VAS takes precedence over specialized laws or other decisions or instructions for the preparation of the general-purpose financial statements.⁴⁰ Preparation of financial statements in full compliance with VFRS/VAS means the followings:

- Where there are prudential reporting requirements that do not comply with VAS, they should be included in the financial statements as supplementary information; and
- The practice of overriding VAS by special decision or instruction as provided to some SOEs should be discontinued.

The appropriate standards and thresholds for financial reporting requirements should be further considered as part of the establishment of a differential reporting framework.

39 Apart from enabling the financial statements to assert full compliance with IFRS, the other significant benefit of minimizing the extent of “localization changes” is that it makes it far easier to keep the standards up to date. The current significant effort and resources applied to issuing circulars can be refocused on issuing implementation guidance and providing implementation advice to preparers and auditors.

40 Circular 200, Article 129 has partially dealt with this by requiring a note to the financial statements for reconciliation between taxable income and accounting profit, and any variances from accounting standards.

67. **Vietnam needs to develop a strong and independent valuation profession and a set of international-equivalent valuation standards.** Historically, almost all enterprises were under 100% state ownership and the revaluations of assets were based upon Government's decision. Therefore, there was little demand for valuations for accounting and financial reporting purposes. Currently, the valuation profession for financial reporting purposes is under development, with Vietnamese valuation standards being developed in line with the International Valuation Standards, covering areas: code of ethical principles, bases of value, valuation approaches, real property interests, intangible assets. Those effective standards have set the principles for the application of the "fair value" concept in financial reporting. Further detailed guidelines for valuation for financial reporting purposes are to be issued.⁴¹

68. **The demand for independent valuations is already increasing as more entities, particularly SOEs, undertake revaluations as part of their equitization process.** The use of the "fair value" concept will increase this demand further as IFRS is more widely adopted. It is essential that the valuations standards and methodologies applied are aligned with the VFRS/VAS requirements to enable the external auditors to issue unqualified audit opinions on the financial statements.

41 Some valuation standards have been developed based on the International Valuation Standards and included on the MOF website, but no specific guidance on valuations has been prepared for financial reporting purposes.

V AUDITING STANDARDS



CURRENT SITUATION

69. **Vietnam Standards on Auditing (VSA) are set by MOF based on International Standards on Auditing (ISA) under Article 6 of the Law on Independent Audit.** Vietnam currently has forty-seven VSA, of which thirty-seven were updated in 2012 and ten were newly issued to align with the clarified ISA.⁴²

70. **Recent changes to ISA, particularly with respect to the form and content of the audit report of publicly listed entities, need to be reflected in VSA.** The International Auditing and Assurance Standards Board (IAASB) has released new and revised reporting standards designed to enhance auditors' reports significantly for investors and other users of financial statements. Most notable is a new requirement for auditors of listed entities' financial statements to communicate "key audit matters" the auditor views as most significant, with an explanation of how they were addressed in the audit. The new and revised standards⁴³ became effective for audits of financial statements for periods ending on or after December 15, 2016.

APPLICATION OF THE AUDITING STANDARDS IN PRACTICE

71. **Some audit areas require more attention to comply fully with VSA, ISQC1, and IESBA Ethical Standards.** In reviews of a very small number of audit files, the ROSC team noted cases with insufficient documentation covering internal controls, particularly controls relating to specific audit risks identified and the planning of the audit. In some cases, materiality levels selected were also above the accepted norms, as suggested by VSA 320. Audit quality reviews have been conducted by MOF/SSC and the findings shared with the auditors concerned. Since October 2015, MOF and SSC have published the list of examined audit firms with "pass/fail" status, detailed findings however are not published but are sent to the audit firms only.

72. **Differences in the technical proficiency, levels of experience, and levels of resources across audit firms result in significant variations in audit quality.** While local member firms of international audit firm networks have the benefit of firm-wide internal quality control procedures, other local audit firms have limited support.⁴⁴ It is difficult for the latter to deal with such important concepts as audit risk, audit planning, internal control, materiality, documentation, and going concern. The result is a wide variation in audit quality and a need for practical guidance on implementing auditing standards and complying with ISQC1 and ethical standards.

42 The forty-seven VSAs cover auditing (thirty-eight VSAs), review services (two), assurance services other than audit and review (three) related services (two), framework on assurance services (one), and ethics code for auditing and accounting (one).

43 The complete suite of new and revised standards consists of ISA 700, *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 260 (Revised), *Communication with Those Charged with Governance; and Conforming Amendments to ISAs 210, 220, 230, 510, 540, 580, 600, and 710*.

44 While helpful, the standard audit program and guidance provided by the Vietnam Association of Certified Public Accountants (VACPA) are insufficient to help local audit firms comply fully with international standards on auditing or ISQC1.

73. Preparers of financial statements interviewed by the ROSC team acknowledge the level of fees was a significant factor in selecting an audit firm, although it was not the main determinant⁴⁵. Other observers indicated some directors and those charged with governance responsibilities often fail to adequately appreciate the purpose and value of the external audit and therefore focus primarily on minimizing the “cost and disruption” of what they perceive merely as a compliance requirement. This situation has resulted in unrealistically low audit fees, which can reduce audit quality as auditors seek to lower costs.

74. Local audit firms are not covered by professional indemnity insurance. Article 29 of the Law on Independent Audit only requires the audit firms to either purchase professional indemnity for its auditors or “make provision” for the professional risks as guided by MOF⁴⁶. Except for the big four firms and a couple of other large firms who are mandated to have professional indemnity insurance by their international network, other audit firms in the country prefer the “provision” or self-insurance alternative as it has no cost and even has a tax benefit. Another reason for not purchasing professional indemnity insurance is that insurance companies charge a very high premium, due to their concerns about the high risks in the local audit market.

75. Independence of auditors is not always fully observed. Independence is the pre-condition for a quality audit. Article 30 – Item 1a of the Law on Independent Audit sets Independence as a principle of the independent audit, and forbids the auditors from providing assurance opinions on the financial statements of the entities to whom they are providing or provided accounting services, financial reporting services or internal audit services. However, the failure by senior management and those charged with governance to understand the role of external audit and the responsibilities of auditors, along with a lack of capacity at the corporate level and conflicting accounting directives from regulators, often result in preparers both seeking and expecting substantial assistance from auditors in preparing their financial statements. This situation can threaten a basic tenet of external auditing, that auditors should not compromise their independence by reporting on their own work.

76. Apart from entities with foreign ownership interests, audit committees generally do not exist in the large banks, large listed companies or large SOEs. The Enterprise Law allows entities to select one of the two options: Supervisory Board or Internal Audit Board, reporting to Board of Directors. The auditor appointment, rotation and dismissal processes, as well as review of audit reports, are normally conducted either by the company senior management, or by members of Board of Directors who often lack the necessary knowledge and expertise. This situation is not aligned with corporate governance good practice. This issue was also identified in the Vietnam ROSC Corporate Governance 2013, which commented on the absence or the inadequacy of other Board's sub-committees to supervise executive remuneration, conflicts of interest and related party transactions.

Local audit firms are not covered by professional indemnity insurance but make provision for professional risks.

⁴⁵ The average audit fee for PIEs in 2015 was VND 205 million, while average audit fee charged by Big 4 for PIEs was VND 634 million, and hence the Big 4 accounted for only 21.75% of the PIEs market.

⁴⁶ The provision is to be made at 0.5% - 1% of total audit revenue according to MOF until the provision fund reach 10% revenue from audit services.

THE RECOMMENDED WAY FORWARD

77. A mechanism should be put into place to ensure VSA, quality control, and ethical standards are kept up to date for changes to existing standards and the issuance of new standards. The benefit of the work recently done to update VSA with ISA will be lost if the form and the content of audit reports in Vietnam differ from what is followed internationally. The mechanism should include dissemination of the standard updates to the oversight bodies as well as the users. The recommendations in public oversight, monitoring and evaluation section also addresses the issue of monitoring and oversight of compliance with auditing standards.

78. **The accounting profession needs to address the issue of low audit fees.** Apart from the significant corporate governance implications, the audit fee issue raises questions about the overall sustainability of the external audit profession in Vietnam. A concerted effort by the accounting profession, led by MOF, regulators, and PAOs, is needed to educate key stakeholders on the value proposition for the independent audit process in terms of providing credibility and increased transparency and accountability for corporate financial reporting. A high-quality audit process requires fees to be set at a sustainable level.

79. **PIEs should establish an audit committee with adequately qualified members.** The role of audit committee is to define the company's accounting policies and supervise the financial reporting process; supervise the effectiveness of the internal control and internal audit functions; appoint and dismiss the external auditors, review the audit report and management representation letter, among other necessary assigned tasks. Given the critical importance of these responsibilities to the company's corporate governance and financial reporting, the committee needs to be adequately staffed with qualified and experienced people and have sound reporting line arrangements. The current Supervisory Board under Board of Directors could be strengthened and then converted into a fully functioning Audit Committee in accordance with Corporate Governance good practice.

VI

STATUTORY REPORTING AND AUDITING REQUIREMENTS

CURRENT SITUATION

80. **Enterprises are required to prepare annual financial statements.** Article 29 of the Accounting Law requires all state agencies and business enterprises to prepare annual financial statements in accordance with VAS and submit them to relevant state authorities within ninety days. Article 29(4) provides MOF with the flexibility to decide which other business enterprises should prepare financial statements and other financial reporting matters, such as the financial period, basis of preparation, deadline for submission, and requirements to lodge and publish.
81. **Corporate groups, including those in the banking sector, are legally required to prepare consolidated financial statements.** Article 191 of the Law on Enterprises requires the parent of a group to prepare consolidated financial statements. By mandating VAS compliance and issuing VAS 25, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, the Accounting Law reinforces the requirement to prepare consolidated financial statements for group companies operating in Vietnam. Further guidance on consolidated financial statements was issued by MOF in Circular 202⁴⁷. International good practice normally requires the consolidated financial statements for PIEs only, to reduce the burden for small group entities.
82. **The Law on Enterprises requires shareholders to approve the legal entity's financial statements.** In the case of SOEs that are 100 percent owned by the state, the financial statements must be submitted to the Members Council. For joint stock companies, audited annual financial statements must be available for review by shareholders ten days before the general meeting of shareholders and lodged with the appropriate authorities.
83. **All business enterprises that produce financial statements must publish these statements within 120 days of the fiscal year end.** Article 32 of the Accounting Law requires disclosure of financial statements through printing, written notification, or other forms of public posting. PIEs, including SOEs and foreign direct investment enterprises and others, must lodge their financial statements directly with the regulators, the taxation office, and the statistics office. The limited publication of SOEs financial statements is discussed in Annex II.
84. **The Law on Securities and the listing rules of the two Vietnam stock exchanges require all listed companies to present interim financial statements.** All publicly traded companies must prepare VAS-compliant, semiannual, and annual statements. The semiannual statements must be reviewed and the annual statements audited by SSC-approved auditors.
85. **The Law on the State Bank of Vietnam mandates SBV to regulate the financial reporting of banks and similar financial institutions, including microfinance institutions.** It also prescribes disclosure requirements, primarily for prudential reporting purposes, that each bank must follow. There are some differences between VAS and prudential reporting requirements, mainly with respect to investments in associates (with VAS stipulating a 20 percent investment threshold for equity accounting, whereas the threshold for prudential reporting purposes is 11 percent) and loan loss provisioning. The provision for loan losses were measured and presented by the commercial banks in their financial statements in accordance with SBV's directions as detailed in Annex I, while under the "fair value" concept, impairment would be recognized for a loan as soon as its fair value falls below the carrying amount. Banks are obliged to submit financial statements to SBV

quarterly and annually. SBV requires credit institutions to have their annual financial statements audited within three months after the fiscal year end, following applicable accounting standards. SBV is about to issue a specific accounting system for microfinance institutions, who are currently using the general accounting system for all credit institutions.

86. Insurance companies (including life insurance companies) as well as insurance brokers are regulated by ISB. They are subject to the same financial reporting requirements as other companies, except for some technical provision adjustments set by ISB. The insurance companies must submit their financial statements to MOF monthly, quarterly, and annually, together with other reports as prescribed. Annual financial statements of insurance companies must be audited. The regulatory standards cover the types of investments and their liquidity and capital ratios, and the measurement of the provision for insurance liabilities based on a prescribed formula that varies from VAS 19.

87. Improvements to the supervision and assessment of performance and financial information disclosure of SOEs are covered in Decree 87. Decree 87⁴⁸ was issued in December 2015 and covers financial supervision, performance assessment, and disclosure of financial information for 100 percent state-owned companies; joint stock or limited liability companies with state ownership; and the State Capital Investment Corporation (SCIC). The decree also includes key aspects of improved transparency and accountability.

88. The issuance of Decree 87 and relevant circulars is a positive move toward increased transparency and accountability for SOEs. Decree 87 and Circular 200⁴⁹ requires an SOE to publish on its website a full set of its audited financial statements, audit report, analysis of financial performance, investment projects, assets purchased, and number and salaries of employees and managers. As Decree 87 and the respective circulars have only recently become effective the level of compliance with their requirements cannot yet be assessed.

89. The audit of financial statements is mandatory for banks, other credit institutions, insurance companies, and listed companies. Article 37 of the Law on Independent Audit stipulates that the audit of financial statements is mandatory for enterprises with foreign-owned capital; credit institutions established and operating in accordance with the Law on Credit Institutions; finance organizations, insurance business enterprises, and insurance broking enterprises; and public companies, issuing organizations, and securities business organizations.

90. PIEs are to be audited by auditors approved by competent authorities. Article 53 of the Law on Independent Audit defines public companies, banks and other credit institutions, insurance businesses, insurance brokerage businesses, and security trading and underwriting businesses as PIEs. The article also includes within the definition of a PIE other organizations

The issuance of Decree 87 and relevant circulars is a positive move toward increased transparency and accountability for SOEs.

48 Decree 87/2015 ND-CP.

49 Circular 200/2015/TT-BTC, replaces for Circular 158/2013/TT-BTC and Circular 171/2013/TT-BTC.

related to the public interest due to the nature and scope of their operations. This provides purview to require such entities as large private companies to be audited by approved auditors. Circular 183⁵⁰ requires PIEs in the securities area⁵¹ to be audited by SSC-approved auditors, while others are audited by MOF-approved auditors.

91. Audit partner rotation is required. Article 39 of the Law on Independent Audit stipulates that the auditors (partners and auditors in charge) who sign the audit reports must rotate every three consecutive years. This applies to all audits. Article 58 of the Law also requires that the same individual auditor should not perform audit for a PIE in five consecutive years. For financial institutions, SBV requires rotation of the audit firm every five years.

92. The Law on State Audit mandates SAV to conduct audits of enterprises in which the state owns more than 50 percent of capital. For the enterprises where state ownership is less than 50% of capital, SAV decides the necessity of the audit as well as the applicable audit scope and methodology. The audits it conducts focus primarily on compliance with rules and regulations in carrying out financial management of the enterprises. SAV reviews the work undertaken by the independent auditors, but this is normally limited to the financial statements, audit reports, and management letters. There is no direct reporting line between the independent audit firms and SAV, which only contacts the audit firms when necessary. The Law on State Audit 2015, became effective January 1, 2016. It specified three types of audit to be performed by SAV: financial audit, compliance audit, and performance audit. SAV is also in the process of updating its auditing standards to bring them into line with the International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions (INTOSAI).

THE RECOMMENDED WAY FORWARD

93. MOF should take the opportunity under the next revision of the Accounting Law to establish a comprehensive differential reporting framework. The framework should clearly distinguish the respective financial reporting and statutory audit requirements for PIEs, large private businesses, and SMEs. It should clearly outline the statutory financial reporting and audit obligations for non-PIEs and the accounting standards with which they should comply when preparing their financial statements. It should also set out their financial statement submission and publication obligations. The requirement to prepare consolidated financial statements should also differentiate between PIEs and non-PIEs, with an exemption provided to the non-PIE groups.

94. Under this tiered framework, PIEs would be required, as they are at present, to prepare and submit audited VFRS financial statements. Commercial banks, insurance companies and SOEs who are PIEs should be required to have audited financial statements in full compliance with VFRS without any exceptions. Those entities that do not have the significance of PIEs, but are nevertheless of commercial significance and that are likely to need access to credit, could

50 Circular 183/2013/TT-BTC on 4 December 2013 on PIEs audit.

51 According to Circular 183, PIEs in securities areas include large public companies, listed companies, issuing companies, securities companies, securities investment companies, and fund management companies.

elect to adopt either VAS for SMEs (the equivalent of IFRS for SMEs) or full VFRS. Smaller, owner-managed entities would be exempt from any statutory audit requirement; they would simply need to prepare financial information in the form necessary to comply with their taxation and statistical reporting requirements.

95. The division of the framework tiers for these enterprises could be defined based on the ability to meet two out of three benchmarks pertaining to revenue, total assets, and employee numbers. This approach is similar to the one currently set out in Decree 56,⁵² which divides small and medium-size businesses into three categories—super small, small, and medium – according to level of total assets.

VII

PUBLIC OVERSIGHT, MONITORING AND **ENFORCEMENT**



CURRENT SITUATION

96. **The Accounting Law permits inspection of an entity's accounting records.** Article 34 specifies that any accounting inspection may only be performed if approved by the competent authorities in accordance with laws and regulations⁵³ or if performed by the special agencies.⁵⁴ It may include the followings:

- Inspection of accounting work
- Inspection of accounting function arrangements and accounting personnel
- Inspection of management and provision of accounting services
- Inspection of compliance with accounting laws and regulations

Besides the inspection area, the Law has newly added the requirement on oversight of compliance to accounting standards, which is critical to ensuring proper implementation of the standards.

97. **Upon completion of an inspection, the inspector is required to prepare and deliver minutes to the entity concerned.** If any violations/breaches against the Accounting Law have been detected, the inspectors should deal with those issues within their competence or transfer responsibility for taking further action to a competent state body for handling them according to the law.

98. **MOF has the overall responsibility for managing and implementing the quality assurance for the auditing profession.** MOF reviews the quality assurance self-assessments prepared by the audit firms to monitor their compliance with auditing standards and regulations of audit firms and auditors. MOF informs SSC and VACPA of the list of audit firms to be inspected during the year, and organizes the quality assurance review at the audit firms who are not inspected by SSC.

*The Accounting Law
permits inspection of
an entity's accounting
records.*

99. **The SBV reviews financial and prudential reporting by banks and other credit institutions.** It has set up its own standardized procedures to do so⁵⁵ and may carry out onsite inspections where its offsite review raises questions that warrant further investigation.

100. **The MOF ISB monitors compliance with financial and prudential reporting by insurance companies.** Inspectors perform reviews of the financial and prudential reporting of insurers, focusing on compliance with insurance regulations. Violations of the Law on Insurance can result in administrative or penal sanctions. Neither SBV nor ISB focuses specifically on compliance of financial statements with VAS.

⁵³ Competent authorities encompass all statutory regulators with regard to accounting, auditing, and corporate financial reporting, including MOF, provincial people's committees, or any other body defined by the laws and regulations.

⁵⁴ Special agencies may include a government inspectorate, financial inspectorate, state audit office of Vietnam or tax regulators.

⁵⁵ SBV and the audit profession could leverage the guidelines set forth jointly by the Basel Committee on Banking Supervision and the International Auditing and Assurance Standards Board (IAASB) in *The Relationship between Banking Supervisors and Banks' External Auditors*.

101. Article 123 of the Law on Insurance includes provision for whistleblowers to be commended or rewarded. This provision introduces a “whistleblower” concept,⁵⁶ which does not appear to be included in other laws within the statutory framework for accounting, auditing, and financial reporting. The establishment of a whistleblower concept is increasingly expected as part of good governance within the broader corporate community internationally and is increasingly considered a useful adjunct to sanctions and other legal penalties by legislators.

102. The SSC reviews the financial statements of listed companies on a risk assessment basis. SSC performs reviews based on the risks identified from different sources. The reviews focus on abnormalities or exceptions rather than following a systematic review process based on a standard program. Discussions are held with the auditor as part of the review process where necessary, particularly if the audit opinion has been qualified. SSC does not publish the results of its periodic review of financial statements and they do not specifically review for compliance with VAS.

103. The Vietnam stock exchanges do undertake reviews for financial reporting compliance, but they do not focus on compliance with VAS. They are generally satisfied if a publicly listed company issues its financial statements on a timely basis, in the correct format and the audit report is unqualified. In the event the audit report contains any form of qualification, the company concerned is contacted for further explanation. Qualified audit reports and explanations are published immediately to provide timely information to the public. The stock exchanges, through a consulting contract with a Big 4 firm, have conducted a corporate governance and financial reporting promotion program, including a comparison of local VAS with IFRS. They have also worked with some audit firms to provide IFRS orientation training to the PIEs and stock exchange staff.

104. SSC has taken over responsibility from MOF for conducting inspections of auditors who audit PIEs listed on the stock exchange.⁵⁷ SSC now undertakes quality reviews for those certified practicing auditors who audit of PIEs listed on the stock exchange. Inspections are undertaken on a three-year cycle, with approved auditors also required to perform an annual self-assessment. At present, there are thirty approved auditors for the audit of listed entities, compared with forty-three in the previous year. The reduction was the result of more stringent requirements for the minimum number of clients and qualified auditors an audit firm must have to be approved.

105. The Accounting Law 2015 prohibits accounting fraud. Article 13 provides a listing of prohibited acts for organizations and individuals. Articles 51 and 54 of the law⁵⁸ specifically stipulate on qualifications of accountants or chief accountants working at accounting units.

56 Under Article 123, a person detecting a violation of the law can be commended and/or rewarded. International experience suggests some major financial frauds (for example, that involving Enron) would not have been detected but for the actions of a “whistleblower” within the organization.

57 Before 2014, VACPA conducted compliance and quality reviews for the profession under delegation from MOF. However, in view of the good practice being adopted internationally of moving responsibility for the conduct of audit quality reviews of PIEs from professional bodies to independent regulators.

58 Accountants must maintain the integrity, professional ethics and compliance to laws. A supplementary requirement for Chief Accountants is 2-years experience for accounting bachelors and 3-years experience for intermediates, plus Chief Accountant certificate.

106. MOF has responsibility for dealing with complaints and violations of the law and the overseeing of audit quality control under Article 11 of the Law on Independent Audit. Article 6 sets audit and ethical standards for the accounting and auditing profession as the basis for inspection and appraisal of audit quality and professional ethics. Article 13 prohibits auditors from engaging in certain financial dealings with clients, providing audit services without the required qualifications, and engaging in fraudulent activity with respect to financial statements or the audit itself. A similar prohibition exists for auditees with respect to financial statements and obstruction or bribing of auditors. Article 27 empowers MOF to terminate the right of an auditor to practice where the auditor fails to meet certain registration requirements or violates audit or ethical standards. Article 59 specifies a series of acts, such as failure to comply with certain provisions of the law, as constituting violations, while Article 60 prescribes sanctions that can be imposed, including cautions, fines, revocation of the ability to practice, or participate in audits, imposition of penal liabilities, and the payment of compensation.

107. Although the laws covering both accounting and audit specify prohibited acts, sanctions are not currently enforced effectively. The limitations in monitoring and enforcement actions provide little incentive for entity management, those responsible for governance, or the auditors to ensure financial statements are prepared and audited in compliance with the established standards and ethical requirements.

THE RECOMMENDED WAY FORWARD

108. The current public oversight and monitoring arrangements need modernization. Vietnam needs an appropriate organization, and consideration is being given to the establishment of the Vietnam Accounting and Auditing Standards Board (VAASB) to assume responsibility from AAPD for regulation of accounting and auditing. The VAASB model was first proposed in the “Strengthening the capacity of AAPD” report and would consist of sub-committees for: standards issuance; financial reporting compliance review; practicing auditors and accountants licensing; oversight and quality assurance; and disciplinary matters. VAA and VACPA will continue their functions on standards development, membership quality assurance and disciplinary functions as delegated. VAASB’s sub-committees will oversee those functions of the PAOs, and deal with cases of significant non-compliances. Care will need to be taken by VAASB to ensure that those responsible for setting standards are not involved in the enforcement of those standards.

The Accounting Law specifically stipulates on qualifications of accountants or chief accountants working at accounting units.

109. It is proposed that the establishment of VAASB be undertaken in two steps. Initially, VAASB would be set up within AAPD on a non-statutory basis (step 1) until such time as relevant legislation can be passed by the National Assembly granting it statutory recognition (step 2). Government agencies, AAPD, SSC, the stock exchanges, ISB, SBV, VAA and VACPA need to determine the financing mechanism for the public oversight function. VAA and VACPA’s oversight activities should be financed by their membership fees. The strengthened PAOs, in turn, should contribute to the financing of VAASB’s quality assurance reviews. Financing for VAASB’s other activities, such as financial reporting compliance reviews, will

need to be shared by stakeholders with the Government potentially needing to partially finance this agency's activities⁵⁹.

110. VAASB would be composed of a wide range of stakeholders initially selected by the Minister of Finance and be independently responsible for its own operations and decision-making processes. This would enable AAPD to focus more on identifying key risks to the quality of financial reporting in Vietnam and the provision of appropriate strategic policy advice to the government and the National Assembly to mitigate such risks, as well as overseeing the application of the new Accounting Law 2015.

111. The current audit quality review activities of publicly listed companies conducted by SSC need to be strengthened. SSC is not a member of the International Federation of Independent Audit Regulators (IFIAR) and, consequently, does not have access to the technical training and other support available to IFIAR members. SSC also relies on seconding auditors from audit firms to assist with audit quality inspections. That practice, which is legalized in Circular 157,⁶⁰ might compromise the independence and effectiveness of those inspections. (As mentioned in paragraph 108 it is proposed that the audit quality review functions for all PIEs be consolidated under VAASB, so it will be necessary to determine SSC's future role in that context).

112. The audit quality inspection process could be made more effective by adopting the recommendations contained in the “Strengthening the capacity of AAPD”. The report proposes quality inspections of PIE auditors be carried out by VAASB, using staff specifically recruited for the task who have the requisite knowledge and experience to conduct inspections of the international network firms and larger local firms that conduct the audits of PIEs. The cost of the audit inspection unit could be recovered by way of a levy on all PIEs. Given the definition of PIEs, this arrangement would enable all those regulators involved in the statutory framework covering accounting, auditing, and financial reporting to rely on VAASB to assess the quality of individual audit firms.

113. The “Strengthening the capacity of AAPD” report also proposes that VAASB takes responsibility for PIE auditor licensing. This would facilitate rationalizing the licensing process in terms of the criteria used (in consultation with SBV and SSC), for the approval of auditor appointments, and the monitoring of ongoing compliance by the licensees, which would, in turn, eliminate the need for SBV or SSC to establish separate auditor licensing approval mechanisms for listed companies and financial institutions. It would also facilitate use of a more consistent and rigorous process to assess auditors of PIEs, including SOEs, with an increased focus on capacity and capability to conduct high-quality audits.

114. The report also advises on disciplinary procedures and the enforcement of sanctions. It proposes VAASB takes responsibility for disciplinary procedures against preparers and auditors of PIEs financial statements. The other responsibilities proposed for VAASB—to conduct reviews of financial statements' compliance and audit quality inspections—would facilitate ready referral of violations detected to the Disciplinary Committee for appropriate action. Making VAASB responsible for disciplinary procedures would also increase the likelihood of successfully imposing appropriate sanctions where warranted by providing the committee

59 Extract from “Strengthening AAPD” report financed by the World Bank.

60 Circular 157/2014/TT-BTC.

with access to suitable technical experts. This would not only make the disciplinary process more effective; it would also improve consistency and transparency in reporting and dealing with violations.

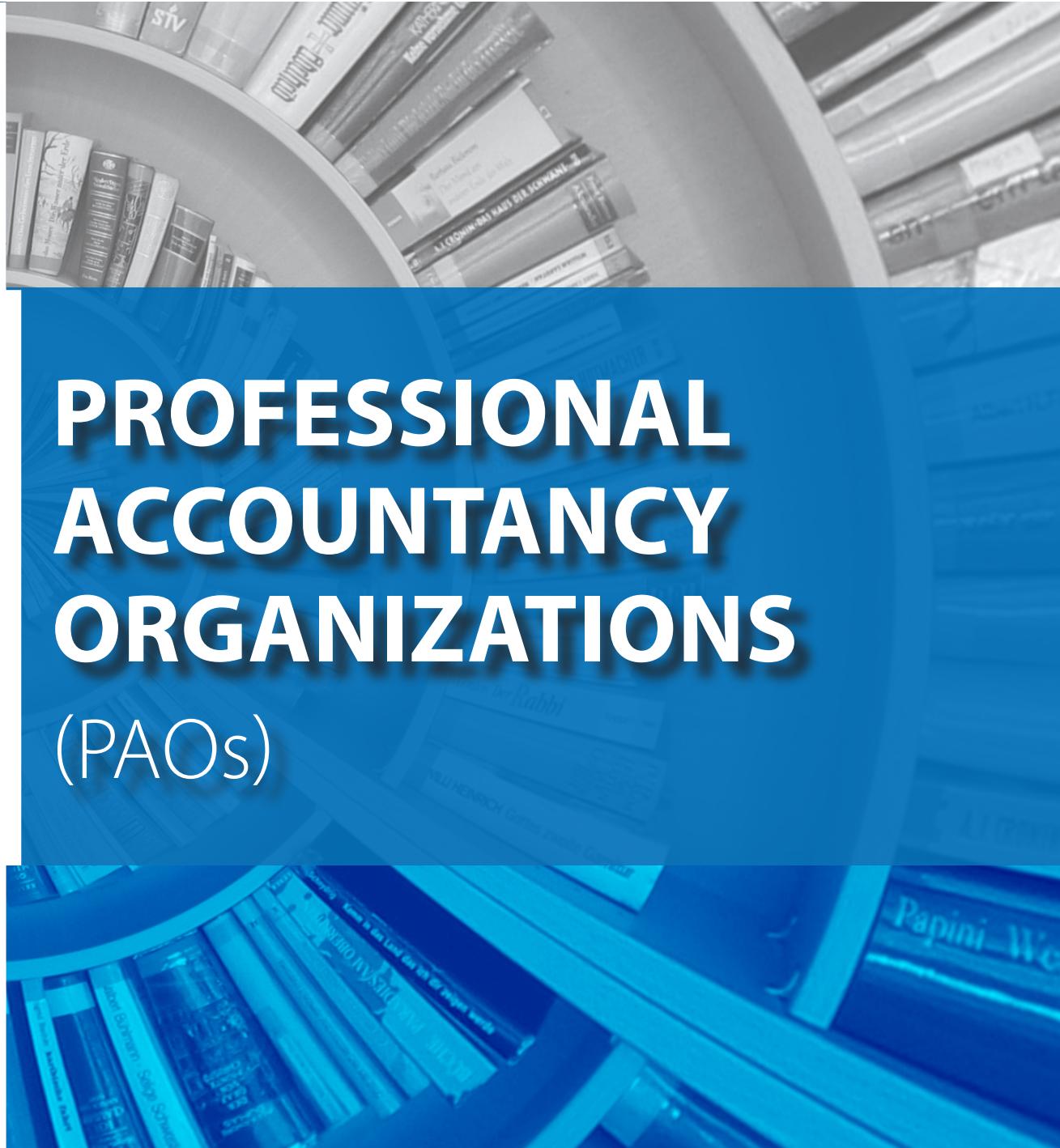
115. The consolidation of these related activities under VAASB would have considerable advantages in terms of promoting collaboration across regulators and the efficient utilization of scarce capacity and resources. It would reduce the need for individual regulators to build and maintain specialist skills and expertise and minimize the costs of compliance for PIEs subject to the inspection processes. It could also provide an opportunity to support further improvements in the current monitoring and oversight arrangements for SOEs with necessary technical accounting expertise.

116. The outcome of monitoring by prudential regulators should be made more transparent. It is recognized that some of the outcomes of prudential monitoring and the nature of the actions prudential regulators may initiate cannot always be made public, as they might cause alarm or put solvent businesses at risk through contagion. However, the absence of any public reports on the regulators activities can lead to the assumption that no problems exist or that the regulators are ineffective. Either entails significant regulatory risk. To mitigate this risk and as a discipline to encourage greater effectiveness in prudential monitoring, many prudential regulators throughout the world produce annual reports summarizing their activities and their general outcomes. Vietnam's regulators should consider adopting a similar practice. As an initial step in this direction, since October 2015, MOF and SSC have published the list of examined audit firms with "pass/fail" status, however detailed findings are not published and are sent to the related audit firms only.

Vietnam needs an appropriate organization to assume responsibility for regulation of accounting and auditing.

VIII

PROFESSIONAL ACCOUNTANCY ORGANIZATIONS (PAOs)



CURRENT SITUATION

117. **Vietnam has two officially recognized domestic PAOs.** The Vietnam Association of Accountants and Auditors (VAA) and the Vietnam Association of Certified Public Accountants (VACPA).⁶¹

118. VAA is the first professional organization representing accounting and auditing profession in Vietnam. VAA was established in 1994 under Decision 12-TTg dated 10 January 1994 signed by Prime Minister and named formally as Vietnam Association of Accountants and Auditors by Decision 35/2004/BNV dated 18 May 2004 signed by Minister of Ministry of Home Affairs. It has more than 10,000 members as at 2015 and is a member of Vietnam Science and Technology Union. It is a member of the International Federation of Accountants (IFAC), but its membership is currently suspended. It is also a member of the ASEAN Federation of Accountants (AFA). Its broad membership base includes 3,000 employees in the public sector, plus chief accountants, chief financial officers, and internal auditors. Some 1,200 VAA members are also members of VACPA. Membership in VAA is purely voluntary, and the annual membership fee is very low (approximately US\$10). VAA has members which are professional associations such as National Chief Accountants Club, Vietnamese Institute of Chartered Accountants – VICA, State Treasury Accountants Association, Accounting Association of Universities, Sub-nationals and Sectors.

119. Since 2007, it has been responsible for management of the practice of accounting profession and contributed to establishment and development of the accounting services market. VAA advocates on behalf of the accounting profession in Vietnam and provides training to prepare candidates for the Chief Accountant's Certificate (a 400-hour training program), as well as delivering continuing professional development (CPD) activities to its members. VAA has contributed to the development of Vietnam Auditing and Accounting profession and towards regional and global integration. VAA has provided the recommendations on important legal regulations such as: Law on Independent Audit, Accounting Law, Decrees and other regulations of MOF.

Vietnam has two officially recognized domestic PAOs: The Vietnam Association of Accountants and Auditors (VAA) and the Vietnam Association of Certified Public Accountants (VACPA).

120. VACPA is the professional organization for Vietnamese CPAs and audit firms operating in Vietnam. It was established since 2005 by a decision dated 19 January 2005 of Minister of Internal Affairs. VACPA pursues the principles independence, integrity, transparency and acting in its members' interest by maintaining the connection between the Government agencies and auditors and audit firms. As with VAA, membership in VACPA is voluntary, and it estimates 90 percent of public practitioners are members. Its membership also includes some non-practicing certified public accountants (CPAs) and totaled around 1,835 as of May 31, 2016.

61 VAA and VACPA are established as professional accountancy organizations in Vietnam. Under Article 70 of Accounting Law 2015, professional accountancy organizations are established and operating in accordance with the law on associations and are responsible to comply with accounting regulations. Professional accountancy organizations can provide training and CPD to the accountants and perform other duties as requested by the Government. Article 71 of the Law determines Ministry of Finance to be responsible to the Government in regulating the accounting profession.

121. VACPA became associate member of IFAC in November 2015 and it belongs to the Confederation of Asian and Pacific Accountants (CAPA). It has also established collaborative arrangements with several international PAOs, such as the Association of Chartered Certified Accountants (ACCA), CPA Australia, the Institute of Chartered Accountants in England and Wales (ICAEW). VACPA has two offices: a headquarters in Hanoi and a satellite office in Ho Chi Minh City.

122. In addition to performing its roles of representation and advocacy on behalf of members, VACPA delivers the training program for the CPA examinations to candidates and continuing professional development (CPD) to auditors in public practice. Government Decree 17⁶² also provides further roles and responsibilities for VACPA such as: drafting and updating Vietnamese standards on auditing in accordance with ISA for Minister of Finance's issuance; participating in organizing CPA exams; coordinating with MOF on quality assurance of audit profession. From 2009 to 2015, VACPA updated all issued standards on auditing, drafted standards on quality assurance and other assurance service in accordance with international standards. VACPA has submitted 47 standards on auditing for Minister of Finance's issuance so far.

123. VACPA has completed a self-assessment using the CAPA PAO maturity model. This model sets out the criterion for an organization to reasonably be regarded as an effective PAO. The criterion includes recognition of IFAC's Statement of Member Obligations (SMO) and consists of four key components: sustainability, relevance, professionalism, and member value.

124. VAA and VACPA are aiming to meet the criteria of fully effective PAOs. Their operations should be expanded rather than being limited to undertaking certain training and international cooperation responsibilities as designated by MOF. This would enable them to comply with IFAC's SMO and other key areas in the CAPA maturity model⁶³ of a regulatory nature, over which they currently have limited control or responsibility⁶⁴. Furthermore, both bodies need to be able to operate more independently of the regulators.

125. The PAOs' visibility and standing within the business and professional communities needs to be enhanced. Their financial capacity should also be strengthened to adequately promote the accounting and auditing profession in Vietnam, both locally or internationally. VAA should be able to pay its membership fees to IFAC without relying on an ad hoc support from MOF. Both PAOs need to work towards sustainability through generating revenue by conducting training and other courses rather relying solely on the voluntary support and goodwill of their members.

THE RECOMMENDED WAY FORWARD

126. Vietnam needs at least one credible domestic PAO with the power and authority to properly regulate and advocate on behalf of its members for the accounting profession in the public interest. This may mean that the formation of a new PAO is the best way forward. MOF AAPD's "Strategy for Accounting and Auditing towards 2020, Vision by 2030," also identified the need to strengthen the local PAOs and their status by delegating additional responsibilities

62 Decree 17/2012/ND-CP dated 13 March 2012 provides detailed guidance on implementation of Independent Audit Law provisions.

63 This is a model prepared by CAPA, designed to assist PAO development.

64 Where responsibility for matters contained in the SMOs are allocated to an independent regulator, an IFAC member is simply required to use 'best endeavours' to persuade the regulator to comply with the requirements.

and providing them with more autonomy. The intention was to allow the local PAOs to operate in a similar manner to PAOs internationally thereby increasing their ability to comply with IFAC's membership requirements.

127. As the statutory framework and the PAOs capacity is further developed, MOF should gradually transfer more responsibilities to a new PAO. For the new PAO to be assessed as achieving full compliance with certain SMO and other areas of the PAO responsibility, it would likely initially have to be under the oversight of MOF (or VAASB if it is established).

128. There are certain responsibilities that should be performed by the PAO under supervision of MOF (or VAASB when established) required in the IFAC SMOs. These include: quality assurance of the members; complaint handling and disciplinary matters; informing members on issuance of new international standards or standard updates; training, disseminating, raising awareness of the members on the standards; and participating in drafting standards. Other areas included within the maturity model assessment but not of a regulatory nature, such as achieving sustainability and providing member value through CPD, could be addressed concurrently, with full responsibility and control passing to the new PAO over time.

129. A phased change process under a three-step approach is recommended, given the constraints under which both VAA and VACPA currently operate.

1. MOF-AAPD work with the existing PAOs to complete an independent assessment - for which the CAPA maturity model may provide a good reference, and formulate an action plan as to how best to address the identified development areas and generate the required resources to achieve the desired outcome.
2. AAPD work with the existing PAOs on the implementation of the action plan.
3. AAPD relinquish control and oversight on some activities of the PAO once it is able to comply with all aspects of the CAPA maturity model and as permitted by legal regulations. The new PAO should, at that stage, have an independent governance structure and be accountable primarily to its members.

Vietnam needs at least one credible domestic PAO with the power and authority to properly regulate and advocate on behalf of its members for the accounting profession in the public interest.

130. Membership in the PAO to be made mandatory for all individuals certified to act as chief accountants of PIEs and all certified providers of accounting and auditing services.

It is important for those in society who directly benefit from acting as chief accountants or providers of accounting or auditing services to contribute to the development of the profession. Providing PAO membership concurrently with certification by MOF and making payment of annual dues a condition of maintaining certification would be a means of contributing toward the additional costs associated with establishing a credible PAO and providing a sound base for its long-term financial sustainability.

IX

PROFESSIONAL QUALIFICATION REQUIREMENTS



CURRENT SITUATION

131. **Vietnam does not currently have a professional accounting designation recognized internationally.** This is because of the limitations of the PAOs in complying IFAC SMOs, as discussed in previous section, and the current lack of compliance with IES requirements. The Vietnam certified public accountant (CPA) or Vietnam certified accountant (CA) designations have no recognition outside Vietnam, and demand from employers for the designation is currently limited. Consequently, graduates who aspire to accounting or auditing employment overseas prefer to obtain an accounting designation offered by one of the international PAOs operating in Vietnam. Their designations have international recognition and offer the professional mobility graduates are often seeking.

132. **The Accounting Law 2015 sets out the qualifications for accountants and chief accountants employed by organizations and the conditions for independent accounting practitioners.** Article 4 details what constitutes an accounting task, while Article 55 requires these tasks to be carried out under the supervision of a chief accountant. Article 52 requires accountants to have professional qualifications. To act as a chief accountant, one must satisfy certain experience and qualification requirements and possess the Chief Accountant Certificate issued by MOF.

133. **The Law on Independent Audit and its accompanying decrees and circulars set out the requirements to be an auditor.** According to the Law, an auditor is a person who has been granted an audit certificate by MOF or a foreign certificate accredited by MOF and has passed a test in Vietnamese. To be granted a certificate, the person must hold a university degree or higher in finance, accounting, banking, audit, or such other discipline as MOF may nominate.

Vietnam does not currently have a professional accounting designation recognized internationally.

134. **A practicing auditor is an auditor who has been granted a practicing license by MOF.** To receive the license, the person must be currently employed full time by an audit practice, have worked for thirty-six months in audit, and passed the seven components of the CPA examinations. Members of an international PAOs (including ACCA, CPA Australia, and IFAC members) must complete a single “conversion examination” (a 180-minute test in five subjects in Vietnamese) in lieu of the seven CPA examinations.

135. **The Ministry of Finance has certified 1700 CPAs as at March 31, 2016.** To maintain their audit licenses (and thus have the right to sign audit opinions), auditors registered with MOF must comply with CPD requirements.⁶⁵

136. **CPA examinations are held over a period of four days at the end of each year in Hanoi and Ho Chi Minh City.** They cover seven subjects: business law, taxation, finance, accounting, audit, analysis, and foreign language (choice of English, French, Russian, German or Chinese). An eighth topic, computing, was withdrawn from the program. An optional short training course organized by VACPA is offered to students before the examinations. Most of the lecturers

⁶⁵ The requirements are set out in Circular 150/2012/TT-BTC, issued by MOF on 12 September 2012 and Circular 56/2015/TT-BTC dated 23 April 2015 issued by MOF, to revise Circular 150/2015/TT-BTC providing guidance on CPD for certified auditors.

are outsourced on an ad hoc basis from various universities and other institutions. For the 2014 examinations, there were more than 1,700 candidates (approximately 800 in Hanoi and 900 in Ho Chi Minh City).

137. The Vietnam CPA program is not without merit. The exemptions granted to certified auditors by the international PAOs from their certification programs underline its rigor. For example, individuals who are Vietnam CPAs have an exemption for 06 out of 14 ACCA topics and ACCA members have exemptions for 2 Vietnam CPA topics: Law and Tax. A review of the program, however, indicates its focus is on local rules and regulations, compliance, and analysis; and since Vietnam's accounting and audit rules and regulations lag international good practice, it is not surprising that neither its university degree programs nor its professional examinations have kept up to date with the latest global developments.

138. Qualified accountants and auditors in Vietnam tend to be proficient technicians with a good understanding of the applicable local rules and regulations. They are not, however, trained to be the leaders and change managers required in a highly complex and competitive international business environment. Neither VAA nor VACPA nor MOF has entered into significant mutual recognition agreements (MRAs) on behalf of the accounting and audit professions in Vietnam.⁶⁶

139. CPD requirements are managed more strictly for the auditing profession than for the accounting profession more generally.⁶⁷ MOF regulations mandate all practicing auditors the completion of forty hours of CPD annually, of which at least 20 hours for accounting and auditing local regulations and 4 hours for professional ethics. For Chief Accountants, MOF regulates the criteria for qualified training institutions. Those institutions, once approved by MOF, will organize the trainings and provide Chief Accountant certificates to graduate trainees.

140. All CPD hours must be effectively verifiable. No allowance is made for unverifiable hours, such as time engaged in reading, structured personal learning, or completion of projects. MOF has accredited a couple of audit firms to provide CPD to their employees, who can meet some of their CPD obligations through the training provided by their employers, subject to case-by-case approval by MOF. These arrangements provide more flexibility but are limited to a minority and still involve cumbersome administrative approval procedures.

141. VACPA has built internal capacity to deliver CPD. It has hired qualified technical staff, establishing a research center, and leveraging the presence of international PAOs, such as ACCA and CPA Australia, in Vietnam. Members of VACPA in Hanoi and Ho Chi Minh City have access to a wide range of CPD offerings, including the program offered by VACPA. Members in the middle area of Vietnam can attend a five-day seminar organized by VACPA in the city of Da Nang each year to meet their CPD obligations.

THE RECOMMENDED WAY FORWARD

142. It is critical that Vietnam work towards achieving international recognition for the local accounting designations. Besides working to comply with IFAC SMOs, the domestic PAOs need

66 Vietnam is participating in an initiative currently underway to establish an ASEAN MRA for accounting services only.

67 Vietnam is one of the three countries cooperating with CAPA to develop the CPD tools, funded by a World Bank project. VACPA is responsible for this piloting task.

to work together with MOF to establish a proper competency based professional examination and practical experience framework that will meet the minimum requirements of the IES, as issued by the International Accounting Education Standards Board (IAESB). As discussed in section X, Accounting Education, working with the Ministry of Education and Training and Universities to ensure the graduate degree programs meet minimum standards will also be important.

143. The criteria for admission to sit for the CPA professional examinations need to be aligned with the IES. This means the CPA examinations should focus more on integrative knowledge, professional competencies, and lifelong learning skills, which will support the professional accountant's ability to stay up to date with the latest international standards and practices.

The CPA qualification program should be modernized. An upgraded CPA qualification program should integrate case studies with topics such as international economics and finance, strategic management accounting, and governance. Ethics concepts should also be addressed throughout the program and made relevant through case studies. This will help bring the CPA examinations into line with international good practice and support the move to international MRAs.

144. As international accounting standard will not be applied by all entities, it may be advisable to split the revised CPA program into two levels:

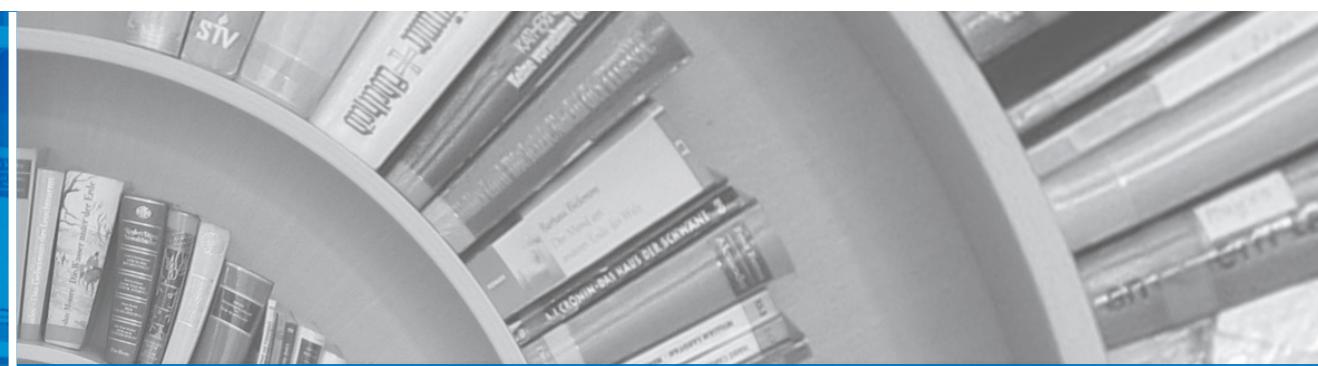
- A technician-level certification, the program for which would retain the structure of the current program and be updated to address the latest standards and regulations
- A professional-level certification, which would incorporate international standards and practices, and for which mutual recognition with leading international PAOs could be achieved

The creation of separate qualification requirements for practicing accountants and auditors will need to be considered, and professional practical experience requirements will need to be compliant with international standards and lead to the acquisition of relevant professional competencies.

It is critical that Vietnam work towards achieving international recognition for the local accounting designations.

X

ACCOUNTING EDUCATION



CURRENT SITUATION

145. **Higher education in Vietnam has a long tradition.** The ancient system was established in the eleventh century with Quoc Tu Giam, Vietnam's first university. Statistics published by the Ministry of Education and Training (MOET) for the 2013–14 academic year indicate a total of 427 universities and colleges, comprising 343 public and 84 non-public institutions. Among these, 223 institutions provide college degrees in accounting, with bachelor's degrees available at 126 institutions, master's degrees at 18, and doctorates at 5.

146. **Higher education in Vietnam has undergone a considerable transformation over the past decade.** Since 1993, when the Fourth Session of the 7th Central Committee of the Communist Party declared education a priority area for national investment, the proportion of the population who participate in higher education has increased from 2 percent to over 13 percent in 2015. A higher education system that comprised small, specialized institutions has been transformed into one with a few leading universities that are large and multidisciplinary.

147. **In 2005, a Higher Education Reform agenda⁶⁸ was introduced to achieve continued growth and change in the system.** By 2020, for example, 450 students per 10,000 population are expected to be participating in higher education; higher education institutions are expected to be more financially self-reliant; and as many as 40 percent of all enrollments are expected to be in the non-public sector of higher education⁶⁹.

148. **MOET has developed and administered a national university entrance examination.** MOET also has managed the process of selecting students for admission to the universities and courses. In 2015, in accordance with resolutions 29/NQ-TW of the 8th Session of the 6th Central Committee of the Communist Party and 44/NQ-CP⁷⁰, no university entrance exam took place. The selection process was conducted by universities, based on the results of high school graduation exams, which were developed and managed by MOET.

149. **The Government is pushing for outcome-based training and education.** Resolutions in 2014 continued the reforms by giving specific directions to “change basically and completely the training and education system for industrialization, modernization, socialism oriented market economy, and global integration.”⁷¹

Vietnam presently has 223 institutions provide college degrees in accounting, with bachelor's degrees available at 126 institutions, master's degrees at 18, and doctorates at 5.

⁶⁸ Resolution 14/2005/NQ-CP, November 2, 2005.

⁶⁹ The Government set other key targets for the higher education sector to be achieved by 2020 as well. Revenue from science and technology activities was to increase to 25 percent of total university revenue; the proportion of university teaching staff with master's degrees was to increase to 60 percent and those with doctorates to 35 percent; and the ratio of university students to teaching staff was to be reduced to twenty to one. Decision 711/QD-TTg approved the “Education Development Strategy 2011–2020,” which revised the target for higher education downward to 350–400 students per 10,000 population. Even with lowered aspirations to meet, however, most of actions listed in the agenda and the strategy documents have yet to be implemented.

⁷⁰ Resolutions 29/NQ-TW, November 4, 2013, and 44/2014/NQ-CP, June 9, 2014.

⁷¹ For higher education in particular, planned changes include the following: selected universities and majors are to reach regional and international benchmarks; the student enrollment process is to be fully delegated to the training institutions, based on high school results and education requirements; employment opportunities for graduates will be among the criteria to assess the quality of the training institutions and lead the training development; and the socialization of the education sector is to be encouraged, with participation from employers, research institutions, nonpublic sectors, and international organizations.

150. To implement the reform policy on outcome-based education, the Prime Minister issued the Decision 1982⁷² QD-TTg approving the Vietnamese Qualification Framework. MOET sets minimum requirements on the knowledge and competencies at the bachelor, masters, and doctorate levels in Circular 07⁷³. These requirements are to be used as the outcomes for training institutions to tailor their curricula. Besides technical expertise, each level requires related soft skills in communication, foreign language, teamwork, and leadership. Circular 07 also gives full authorization to training institutions to develop, appraise, and issue the curricula in accordance with established quality assurance procedures.

151. Autonomy to develop curricula is not well understood by the training institutions. While they have registered the learning outcomes for each course, they have not restructured their curricula, strengthened the technical aspects, or supplemented soft skills training to ensure graduates can meet them. Training institutions are still following the old-style curricula developed in accordance with directives predating Circular 07. The limited capacity of universities for internal program conception and development contributes to keeping the curricula outdated and less relevant to the needs of graduates and industry. Furthermore, the outcomes registered by training institutions with MOET do not meet minimum requirements of IESs and international good practice. Students achieving the outcomes, therefore, are still not guaranteed recognition by international professional organizations and employers.

152. The Government has allowed foreign curricula to be imported and adapted for delivery in some training programs in accounting conducted jointly with foreign institutional partners. A feature of these programs is their emphasis on exposing students to the use of principles-based accounting standards, as opposed to detailed bookkeeping rules and local regulations. This provides a far better platform for producing accounting graduates with the necessary skills and abilities to adapt to continual change, as opposed to carrying out routine bookkeeping activities more suited to accounting technicians than professional accountants. Training on principles-based accounting standards, however, is still very limited in universities, as interpretation and implementation of government regulations is still the main focus and is pervasive across the accounting curricula.

153. International cooperation in education, which falls under the same regulations as international investments in education, lacks flexibility.⁷⁴ The regulations provide detailed mechanisms for establishing and operating foreign investment training institutions and other types of joint ventures in education with foreign parties, but cooperation is diversified and manifests itself in many forms at many levels, some of which call for simplified and accelerated decision-making processes. Granting greater autonomy to leaders of institutions and heads of technical departments and research centers so they can manage operations better in this area is imperative. This is a key way to raise the quality of accounting education quickly.

154. Proficiency in English is not a prerequisite for graduate entrance to higher-level university programs. Although English is the language of international business, as well as the language in which IFRS, ISA, ethical, and other international standards are initially written, no official requirement is in place for proficiency in English to enter graduate programs. The ability to read, write and converse fluently in English is essential. Circular 07 provides minimum requirements

72 Decision 1982/QD-TTg dated October 18, 2016.

73 Circular 07 2015/TT-BGDDT, April 16, 2015.

74 All transactions with foreign parties, including education cooperation agreements, are governed by Decree 73/2012/NĐ-CP.

for foreign language for each level of study: undergraduates (working toward bachelor's degrees) should be able to read and write technical reports, while postgraduates (working toward doctorates) should attain a level of proficiency that enables them to work fluently in English.

155. Institutions are not yet ready to adopt the financial management reforms to be independent, from either the financial sustainability or the technical perspective. Despite the recent overhaul of government policies giving institutions financial autonomy,⁷⁵ the institutions themselves are not up to date with the latest developments, nor are they adapting their capacities and strategies accordingly. Very few universities have availed themselves of the self-financing mechanism as provided by Resolution 77.⁷⁶ The budget allocation and execution process in the public sector generally, and in public training institutions is not robust enough to ensure optimal allocation of resources. This has led to big gaps between demand and supply in some critical areas.

156. Tuition fees for higher education in Vietnam have traditionally been prescribed by the Government and kept low. In 2015, public universities providing training in social sciences and economics, including accounting and auditing, charged on average VND550,000 (US\$21) per month for tuition. While scholarships are available, the funds must be derived from university budgets, so universities have little incentive to award them. Decree 86/2015/ND-CP⁷⁷ allows the non-public training institutions to decide the level of tuition fees with the condition that they publish the annual and estimated whole-course fees.

157. Despite considerable efforts by the Government to raise the quality of university education across all disciplines, particularly by raising educators' qualifications, great potential remains for further improvement. An indicator of academic excellence for a country is the number of its universities that are ranked globally or the volume of research papers published in international publications. Vietnam scores poorly on both counts.

158. The cause often cited to explain the low quality of university education in Vietnam is a centrally controlled system with a lack of incentives and resources. While the Government's desire to provide equitable access to higher education by regulating university fees is commendable, internationally recognized degrees and accounting designations should not be subject to the same rate regulations. The quality based tuition fee mechanism will offer better learning conditions and highly qualified teaching staff.

*Proficiency in English
is not a prerequisite for
graduate entrance to
higher-level university
programs.*

⁷⁵ The government issued Resolution 77/NQ-CP to introduce the self-financing mechanism. Public training institutions are to use their earned revenues, mainly from tuition fees, to cover all operating and capital expenditures. In return, the institution will decide on the level of its tuition fees, enrollment numbers, training majors, local and international training affiliates, research and use of research products, and use of the institution's assets and goodwill. A self-financing institution is to set tuition fees within the ceiling set forth in its autonomy proposal as approved by the government, ensure quality assurance of the training curriculum, and cater to students at all levels of achievement.

⁷⁶ So far about ten institutions have received government decisions on their self-financing status. Most of the public institutions still prefer to be sponsored by the government and rely on government quotas on enrollment numbers, tuition fees, staff numbers, salaries, promotions, and research spending.

⁷⁷ Decree 86/2015/ND-CP dated October 2, 2015 stipulating the mechanisms for collection and management of tuition fees applicable to national education system and policies on tuition fee exemption and reduction and financial support from academic year 2015-2016 to 2020-2021.

159. **A real demand exists for high-quality accounting education in Vietnam.** Both ACCA and CPA Australia have been partnering with local universities to broaden their appeal and reach. They have participated in building the capacity of local teaching staff. The success of these international PAOs, which together have over 10,000 active students enrolled in their programs, is testimony to the strength of the demand for high-quality accounting education in Vietnam. A review of some of universities' curricula showed they focus on calculations, rules, and compliance. Courses in advanced mathematics and statistics are well represented while, on the other hand, courses in strategic management accounting, advanced financial accounting, accounting theory, and management of information systems are not.

THE RECOMMENDED WAY FORWARD

160. **The policy to increase the autonomy to universities needs to be more broadly disseminated.** The decision⁷⁸ giving more autonomy in the operations of both public and private universities, including setting tuition fees; designing or choosing teaching materials that can meet the objectives of each training program; engaging in science and technology activities, international cooperation in accordance with developmental strategies and plans of universities; maintaining training quality; appointing an organization that will provide quality assessments. Universities interviewed during the preparation of this report did not seem aware of this decision and, as a result, the new initiative has not been implemented.

161. **The self-financing mechanism for public training institutions approved by the government should be disseminated and promoted.** This would enhance stakeholder autonomy and provide a demand-driven incentive for training institutions to improve the quality of their programs. The associated policy and guidance should be issued to promote greater accountability and transparency. This could be achieved by making financial information publicly available, as well as by shifting government subsidies from the supply side (grants to universities) to the demand side (education loans to students).

162. **Procedures for international cooperation in education should be simplified to reduce bureaucracy and enhance effectiveness and efficiency.** The Government should encourage initiatives in this area as a key means of quickly increasing the quality of accounting education.

163. **MOET and the universities should work with PAOs and international organizations to develop a national quality framework and core curriculum for accounting and auditing education.** The aim should be to comply with IES, to help Vietnamese graduates and professionals meet the changing needs of local businesses, and to ensure the mobility benefits of an internationally recognized qualification are achieved.

164. **The current focus of accounting degree programs and professional examinations should shift from local rules and regulations to a competency-based model.** The revisions recommended for accounting and auditing standards will provide one of the foundations for this change.

165. Accreditation processes for professional accountancy degree programs need to be developed. Currently, no accreditation processes for accounting and audit graduate programs exist in Vietnam. Monitoring by MOET is limited to verifying compliance with laws and regulations. Without an accreditation process, the public is uninformed about the quality of training institutions and the associated training programs. MOET needs to work with MOF and PAOs to achieve accounting and auditing training in Vietnam that meets international standards.

APPENDIX I

FINANCIAL REPORTING IN THE FINANCIAL SECTOR

A. CREDIT INSTITUTIONS

Financial Reporting and Disclosure Requirements

Commercial banks in Vietnam are required to follow VAS and the guidance issued by the SBV. The SBV has issued a chart of accounts and accounting guidance for banks. MOF has also issued supplementary guidance, including the new Circulars 200 and 210. Although there has been a gradual move toward increased alignment with IFRS, there is still a long way to go.

In 2004 the SBV issued Decision 479/2004/QD-NHNN to provide a chart of accounts for credit institutions, detailed to accounts level III with four digits, with the associated accounting entries. This strict rule has required frequent updates to cope with the demands of the growing economy.⁷⁹ In 2014, Circular 10/2014/TT-NHNN was issued to replace Decision 479 and all its revisions. While maintaining the detailed chart of accounts and accounting entry rules, Circular 10 allows securities to be recognized on a “mark to the market” basis, “if VAS and prevailing financial regimes permit”.

Gaps between VAS and IFRS Requirements

VAS and current guidance available to the banking sector have key limitations in the areas of financial instruments and fair value accounting. Other deficiencies in VAS as compared to IFRS that reduce the credibility of VAS financial statements pertain to (1) impairment and revaluation of property, plant, and equipment; (2) recognition and impairment of goodwill. Disclosures to provide appropriate information to the users of the financial statements for segment reporting, related party transactions, correction of identified errors, and fair value of collateral securities held are only required to a limited level under VAS.

⁷⁹ The revisions and addenda were issued in 2005, 2006, and 2008—namely, Decision 807/2005/QD-NHNN, Decision 29/2006/QD-NHNN, and Decision 02/2008/QD-NHNN, respectively—with the sole purpose of adding and eliminating accounts and subaccounts. SBV also issued Decision 16/2007/QD-NHNN on financial statements format and replaced it in 2014 with Circular 49/2014/TT-NHNN.

A financial sector assessment undertaken in 2014 by the World Bank and IMF indicated that the non-performing loan ratio was understated. The assessment stated that, “*on the basis of reasonable adjustments to existing provisions, including the reclassification of loans in top categories, haircuts of the inferred levels of collateral, and further adjustments to reflect the likely overvaluation of investments and other assets, the non-performing loan ratio as at the end of 2012 rose to 12 percent, and there was a significant decline in the capital adequacy ratio of several banks*”. This suggests that VAS financial statements prepared by the banking industry on the basis of Decision 493⁸⁰ and its successors may be misleading, and that the level of profitability and capital adequacy could be significantly less if prepared under IFRS, which requires loan impairment to be calculated as the difference between the loan’s carrying amount and the present value of the estimated future cash flows, discounted at the loan’s original effective interest rate.

This was confirmed by a comparison between VAS and IFRS 2014 financial statements. The ROSC team compared financial statements for both a large state-owned listed commercial bank and a top private sector listed commercial bank, which showed the provisions for loan losses in their IFRS financial statements were approximately double those in their VAS statements. The provision for loan losses were measured and presented by the commercial banks in their VAS financial statements in accordance with SBV’s directions as detailed below, while under IFRS, impairment would be recognized for a loan as soon as its fair value falls below the carrying amount.

Impact of Noncompliance with Accounting Standards

The financial reporting and disclosure requirements for credit institutions in Vietnam are significantly influenced by the prudential reporting and other requirements that are issued by SBV and take precedence over VAS. Two examples are provided below of the adverse impacts on the credibility of financial reporting and the external audit process if accounting standards are overridden by prudential reporting and other requirements; they concern loan loss provisioning and the Vietnam Asset Management Company (VAMC).

Loan Loss Provisioning

The primary area affected is non-performing loans and the associated provisioning for loan losses.

Background

On March 1, 2012, after a period of significant credit expansion, increases in the number of credit institutions and types of services, and fluctuating interest rates, the Prime Minister approved the Credit Institutions Restructuring Plan 2011–2015. The restructuring plan was necessitated by the accumulation by the banking system of a significant amount of non-performing loans, which threatened the solvency of some credit institutions.

80 Decision 493/2005/QD-NHNN dated April 22, 2005 on the issuance of regulation on the debt classification, provisioning and use of provisions against credit risks in the banking activities of credit institutions.

Assessment of Nonperforming Loans and Loan Loss Provisioning

From 2012 to 2015, the banking sector observed various policies and guidance issued by SBV on the measurement of and accounting treatment for non-performing loans. Before April 23, 2012, rather than following VAS for the calculation of provisions for loan losses and the assessment of the current market value of collateral asset securities held, credit institutions had to apply the requirements of Decision 493, as issued in 2005. This Decision set out detailed rules regarding the classification of loans and the establishment of provisions for loan losses. It allowed credit institutions to use both a quantitative criterion (based on overdue days of the loan) and a qualitative criterion (based on recoverability of the loan, as judged by the credit institution) to classify the loans into five groups, and to make a provision for impairment for groups 2 to 5, respectively, at 5 percent, 20 percent, 50 percent, and 100 percent of the net loan balance (remaining loan balance less value of the collateral security held). It also provided detailed guidance on how the value of the assets held as collateral security should be measured, with a standard discount percentage applied for each asset type. In addition to the specific loan loss provisions, credit institutions were required to make a “general provision” for groups 1 to 4 of 0.75 percent of total net loan balances.

On April 23, 2012, SBV issued Decision 780⁸¹, which allowed credit institutions to maintain the classification of “rescheduled loans” with extended repayment terms⁸² instead of downgrading them to non-performing loans and increasing the impairment provision accordingly. In effect, Decision 780 provided commercial banks with a means of keeping “reported” non-performing loans within the required level. If the requirements of Decision 493 had continued to be applied, the non-performing loans ratio would have been much higher than the reported 5 percent. The decision also enabled those borrowers that received extended loan repayment terms to maintain good credit ratings with commercial banks, thereby giving them continued access to additional financing.

On January 21, 2013, SBV issued Circular 02/2013/TT-NHNN, which provided stricter rules for the measurement of and disclosure on non-performing loans. The requirements of this circular, once it became effective on June 1, 2013, threatened credit institutions with having to disclose all overdue loans and the related provisions for loan losses.

A key requirement of Circular 02 was that credit institutions would need to use the borrower credit rating information provided by the Credit Information Center (CIC) in their loan classification and loan loss provisioning. If the credit rating for one customer in one credit institution was higher than that provided by CIC, it would need to be downgraded to equivalence with the CIC rating. This also meant a borrower with an overdue loan with one credit institution could not have a good credit rating with any other institution. Circular 02 also required the credit institutions that SBV had approved to measure the loans based on qualitative assessment to also measure them based on quantitative assessment, in parallel, and use the higher figure of the two for reporting. This parallel process had to be conducted for at least five consecutive years from the date of approval.

⁸¹ Decision 780/2012/QD-NHNN on classification of rescheduled or extended loans.

⁸² These loans were to borrowers who had failed to repay principal and interest on time but were assessed by the credit institutions as having an ability to repay at some time in the future.

These proposed new requirements raised significant concerns within credit institutions and enterprises and among investors. At the time, financial analysts estimated “reported non-performing loans” would increase by more than three times under the new requirements. SBV therefore issued on March 18, 2014—three months before the effectiveness date of Circular 02—a “Revised Circular 02,” called Circular 09/2014. Circular 09 delayed the application of CIC credit ratings and the termination of Decision 780 on “performing” rescheduled loans. The loan rescheduling under Circular 09, however, could only be applied once, on or before 31 March 2015, and with stricter requirements than Decision 780 on prudential ratios and credit limits.

In effect, Circular 09 allowed credit institutions not to apply the borrower credit rating, even if it was worse than that reported in the credit institution’s own internal system, until March 31, 2015.

Impact on Financial Reporting and Disclosures

The financial statements of the credit institutions during the period 2011–2014 were prepared in accordance with the requirements outlined above. This has meant the following:

- The financial performance and position reported by individual credit institutions was significantly better than if generally accepted accounting standards had been applied, as the value of loans outstanding has been overstated and the level of loan loss provisions has been understated.
- At the sector level, the real level of non-performing loans was significantly understated; however, it is impossible to quantify the level of understatement without reviewing the individual loan portfolios of each institution.

SBV issued such intervening guidance to save the borrowing enterprises from being cut off from all access to credit and provide them with more time to rebuild their businesses and repay the loans.

Vietnam Asset Management Company (VAMC)

Background

A key component of the sector restructure was the establishment by the Prime Minister of VAMC in May 2013. It was in the form of a wholly state-owned, nonprofit enterprise, reporting to SBV and with a legal capital of VND2000 billion⁸³. VAMC’s role was to help credit institutions restructure their non-performing loans and strengthen their loan portfolios. The provisions of the VAMC charter making it “nonprofit” and enjoining it to “preserve and increase the legal capital” have proved problematic for the company and constrained its ability to enter, as a regular commercial business entity, into any risk-containing transactions. Progress made to date in realizing collateral securities for which VAMC has assumed ownership has been very limited.

⁸³ The Prime Minister then issued Decree 34/2015/ND-CP and Decree 18/2016/ND-CP to revise Decree 53/2013/NDCP, increasing VAMC legal capital to VND 2,000 billion and empower it with more rights to dissolve the bad debts and apply the market value principles.

Bond Recognition in Credit Institutions' Financial Statements

Under the scheme, the credit institutions were able to derecognize the non-performing loans and the related provisions for loan losses and recognize a VAMC bond. The bond was initially recorded at its face value (equivalent to the net loan amount outstanding) and was then annually amortized over its term.

Impact on Financial Reporting and Disclosures

The bond recognition transaction was, in substance, purely a mechanism to enable credit institutions to spread the costs of unrecoverable non-performing loans over an extended period and, accordingly, disclose a lower nonperforming loan ratio. Instead of showing the face value of the loan and its related provision for impairment, the credit institution's statement of financial position only showed the unamortized balance, of a "clean" asset, named "VAMC bond."

Non-performing Loans Sold to VAMC Are Also Taken Out of the Substandard Loan List

Once the non-performing loan is sold to VAMC by the credit institution, it is considered off the credit institution's records. The related borrower now can reschedule the other outstanding loans or can even apply for a new loan. If, at the maturity date of VAMC bond, VAMC has not liquidated the loan but transfers it back to the credit institution, the credit institution will use the provision made for VAMC bond to "dissolve" the bad debt. Nothing happens except for an accounting entry that changes a bad borrower to a performing one.

The Government's concept when establishing VAMC was that as a specialized function and with the authority to resolve the bad debts it was thought that VAMC would perform better than the individual credit institutions in bad debt resolution. It would also enable the credit institutions to access to additional credit with SBV when selling the bad debts to VAMC.

Oversight and Monitoring Arrangements

SBV is the direct supervisory body of the credit institutions. It supervises the credit institutions via its Banking and Supervision Authority (BSA), comprising several departments and bureaus responsible for various types of credit institutions, business transactions, and risks. BSA has been focusing on prudential safeguards, business risks, and vulnerabilities. The credit institutions financial statements are used by BSA for its analysis, supervision and oversight, as well as to ensure appropriate publication of financial information. SBV also assigned BSA to be the focal point of the 2011–15 Vietnam Banking System Restructuring Program.

The Financial Sector Assessment–Vietnam 2014, performed jointly by the World Bank and IMF, observed that while SBV has functional responsibility for systemic risk oversight, it lacks the database and the capacity to analyse emerging systemic risks. Lack of onsite inspection and the combination of prudential supervision with a policing violation inspectorate have undermined the value of prudential supervision by SBV. The level of compliance with Revised Basel Core Principles (RBCPs) is low. The weak requirements regarding prudential ratios, capital adequacy, risk management, and asset classification also undermine the quality of BSA supervision.

Revised Basel Core Principle 26 – Internal control and Audit receives moderate compliance by BSA and the banks. Essential criteria of this principle require the supervisor to determine whether the banks maintain: i) mandatory sophisticated internal control framework; ii) adequate staffing to effectively exercise the controls and manage the risks; and iii) an independent, permanent and effective internal audit function. BSA has been provided intensive supervision and monitoring on the commercial banks internal control systems, both on site and through daily reports. The internal audit function has also been introduced and used effectively. The absence of an audit committee, however, undermines the independence and effectiveness of the internal audit function. This is an issue for the whole economy and has been discussed separately in the previous chapters.

Revised Basel Core Principle 27 – Financial reporting and external audit receives low compliance by BSA and the banks. Although since 2015, as part of the process to strengthen SBV oversight, BSA has been equipped with more experienced CPAs and has started to work periodically with audit firms on audit opinions and significant issues in the financial statements, the current limitations of the local financial reporting framework and absence of fair value caused severe non-compliances to RBCP 27, where “accounting policies and practices that are widely accepted internationally”, “valuation practices consistent with accounting standards widely accepted internationally” and “banks document any significant differences between valuations used for financial reporting purposes and for regulatory purposes” are essential criteria for compliance.

The supervision performed by BSA on auditing of the banks also needs strengthening in accordance with RBCP 27. BSA is responsible for approving the list of audit firms who provide the annual external audit services to credit institutions. The criteria used, however, are purely quantitative, such as the level of legal capital, the number of CPAs in the firm, and their years of experience. The selection criteria do not contain any requirements regarding audit methodology and practices or the audit quality assurance process that is applied. RBCP 27 requires the supervisor to involve more in the auditing process of the banks, from establishing the audit scope to rejecting and rescinding the appointment of auditor who is deemed to have inadequate expertise or independence or not adhere to professional standards.

Revised Basel Core Principle 28 – Disclosure and transparency receives moderate compliance by BSA and the banks. The financial information disclosed in the banks' annual reports are quite comprehensive, including both qualitative and quantitative information on a bank's financial performance, financial position, risk exposures and other governance issues. The disclosure and transparency of financial sector ranks first in the economy among other PIEs. Quality of such information however, again, is undermined by the gaps between the local financial reporting standards and the international generally accepted practices. The BSA also performed limited supervision on the standards compliance of those financial disclosures. Disclosure of IFRS financial statements is not encouraged and not supervised.

SSC performs oversight on the listed credit institutions of more than thirty domestic commercial banks, eight of which are listed. Oversight and monitoring are focused on checking compliance with policy and regulations. SSC also approves the list of firms to provide audit services to PIEs. No formal coordination exists, however, between SSC and BSA regarding auditor capacity assessment or ongoing audit quality assurance.

SAV and the Government inspectorate check on the state-owned credit institutions to preserve the state capital and assets in those entities. SAV conducts a compliance audit and does not issue an audit opinion on the financial statements of any credit institutions. The government inspectorate performs ad hoc reviews based on the risks identified from different sources, including complaints. These state supervisory agencies do not give any attention to the quality of financial statements and compliance with accounting standards or the quality of the financial audit process.

Audit and inspection results are normally not made available to the public. Although Decree 26/2014-NDCP on oversight and inspection of the banking industry requires publication of the inspection results, it also provides for an exception “in case the inspection results contain confidential or sensitive issues that, if published, would harm the safety of the operation of the inspected entity.” Most of the inspection results have not been disclosed for this reason.

The value of the credit institutions' VAS financial statements has been restricted by gaps between VAS and associated, sometimes conflicting, directions and guidance and IFRS, as well as by the limited monitoring arrangements by the supervisory agencies on accounting standards compliance. Those financial statements, however, are the ones made available to the public, even when credit institutions have also prepared IFRS financial statements to serve the needs of international strategic investors or lenders. Where credit institutions' IFRS financial statements are produced, SBV does not encourage their publication.

B. INSURANCE COMPANIES

Insurance companies' financial statements are prepared in accordance with insurance Circular 125/2012/TT-BTC rather than VAS 19, *Insurance Contract*, for recognizing and measuring insurance liabilities. The ISB's establishment charter, the Insurance Supervisory does not include any responsibility for supervising the insurance companies' financial reporting process and financial statements, but only focuses on technical and prudential supervision.

APPENDIX II

FINANCIAL REPORTING IN THE SOE SECTOR

FINANCIAL REPORTING AND DISCLOSURE REQUIREMENTS

SOEs are subject to the financial reporting and disclosure requirements of the Accounting Law, VAS, and other regulations, as outlined in the body of the report. In addition, Decree 87, along with Circular 200, which became effective in 2016, provides additional requirements and detailed guidance for the financial supervision, performance assessment, and disclosure of financial information for SOEs. Under these regulations, SOEs are required to publish their annual audited financial statements together with explanatory notes on corporate governance and salaries and allowances. The owners of the entities also need to publish information on owners' equity, financial status, and financial monitoring results of their managed entities.

Together with the circulars, Decree 87 and, previously, Decree 61 potentially represent a significant step forward in the promotion of improved corporate governance, transparency, and accountability in the SOE sector. Although all of the information mentioned above, must be published on the respective SOEs' websites, by August 31 of each year for bi-annual information and by 31 May of the following year for annual information, very few supervising agencies or SOEs have complied with the requirements to date. As this report was being prepared, only Ho Chi Minh City had published information for a limited number of SOEs for 2015. Decree 87 has sought to address this non-compliance through the inclusion of Article 47, which covers disciplinary action for violations.

Oversight and Monitoring Arrangements

Decree 87 and SCIC's charter set out the responsibility for undertaking the financial supervision and primary assessment of the agency that represents the state's ownership as follows:

- **Supervising ministries**, as owners, shall cooperate with the MOF in financial supervision and the efficiency assessment of enterprises that are parent companies or independent, one-member limited liability companies established by managing ministries or under their supervision.
- **Provincial people's committees**, as owners, are responsible for the financial supervision and performance evaluation of parent companies and independent, one-member limited liability companies established by them.
- **MOF and provincial departments of finance**
 - MOF shall cooperate with the supervisors of the enterprises established or managed by the line ministries in performing the financial supervision of those enterprises and reporting the supervision results to the government.
 - The provincial departments of finance shall perform financial supervision on the enterprises established by provincial people's committees.
- **State Capital Investment Corporation (SCIC)** represents state capital interest in the equitized SOEs, including PIEs and non-PIEs and listed and non-listed entities, and performs financial supervision on them. Upon receiving financial statements, different departments (portfolio, risk, and finance) will review and comment to limit risks at those entities and enhance their operations. If SCIC finds the financial statements have errors or the external auditor's opinion is qualified, SCIC will discuss necessary actions with the investees' management and auditors.

The limitations of SOEs' VAS financial statements (see below) and their non-compliance with disclosure requirements raise concerns about the lack of accountability on the part of the custodians of public assets to their owners—that is, the citizens of Vietnam. Although decrees and circulars on disclosure of SOEs' financial statements have been in place, the implementation of these requirements has been inadequate due to short time frame and limitations in the technical infrastructure. In fact, the ultimate owners, being the citizens of Vietnam, should be made aware of the performance and solvency of SOEs through the publication of SOEs' general-purpose financial statements. To provide a sound basis for oversight and monitoring of their performance, SOEs' financial statements should only be prepared in accordance with an accounting standards framework, and the overriding of accounting standard requirements by ad hoc decisions and instructions should not be allowed.

Findings from a Review of a Sample of SOEs' VAS Financial Statements

Ad Hoc Decisions and Instructions

It was noted that some VAS financial statements can be affected by accounting treatments mandated by ad hoc decisions and instructions that do not comply with generally accepted accounting practice. In these instances, the audit opinions for the SOEs' VAS financial statements were unqualified, despite the significant impact the accounting treatments applied had on the financial performance and financial position of these entities. This raises questions as to the credibility of the SOE VAS financial statements being prepared, and it means the financial information they provide is not comparable, even within the SOE sector itself. It also means the usefulness of the statements for oversight and monitoring purposes is questionable, with relation to the “safe” versus “unsafe” assessments described above.

Overuse of Emphasis Matter Instead of Qualified Audit Opinions

For some material items (such as contingent liabilities, assets held as collateral, or inappropriate capitalization of certain expenses) auditors have tended either not to mention them or to consider them matters of emphasis, rather than qualify their audit opinion. The emphasis of matter is not appropriate in cases where the deviation from VAS would have a material impact on the financial statements.

Gaps between VAS and IFRS

VAS03 – Tangible fixed assets have a conflict with IAS 16 – Property, Plant and Equipment. Under VAS03 – Tangible fixed assets, in cases where fixed assets are revalued based on Government's decision, cost and accumulated depreciation and carrying value are adjusted to revalued value. Differences arising from revaluation are treated subject to Government's decision. IAS 16 outlines the revaluation model accounting policy and requires it to be applied for an entire class of property, plant and equipment

No VAS-equivalent standards are applicable for IAS 32 and IAS 39, Financial Instruments, IAS 36, Impairment of Assets, or IFRS 2 or IFRS 13, Fair Value Measurement. The result is a significant gap between the financial position, financial performance, and disclosures reported in the SOEs' VAS financial statements and those that would be reported if the statements were prepared in compliance with IFRS.

These mismatches between VAS and IFRS cause significant variances in financial statements and audit opinions for SOEs. For example, the net profit before tax reported in IFRS financial statements for an SOE reviewed was approximately 90 percent larger than that reported under VAS, due to the treatment of foreign exchange gains and revaluation reserves. Moreover, the SOE's audit opinion on IFRS financial statements was different from that on the VAS statements in that audit qualifications on asset revaluation, incorrect capitalization of expenses, and non-compliance with IAS 32 and 39 were not included.

To meet the financing agreement covenants of multilateral lenders, some SOEs are required to prepare IFRS-compliant financial statements. In these instances, the statements are generally prepared by the auditor and are purely a conversion of the VAS financial statements through various adjustments to reflect the accounting treatment and disclosures required under IFRS. The audit opinions for these IFRS financial are usually qualified to the extent that their credibility is very limited.

APPENDIX III - NON-COMPLIANCE WITH NATIONAL ACCOUNTING STANDARDS (VAS)

The ROSC team reviewed 35 PIEs VAS financial statements for the year 2014, comprising of banks, insurance companies, manufacturing listed companies in various industries, equitized state invested companies, and one SOE group. The limited access to SOEs financial statements has been discussed in Appendix II. IFRS financial statements of four banks, one insurance company and one SOE group have also been reviewed for comparison and reference. The review has found non-compliances in the following areas.

Investment Properties

Under VAS 5, after initial recognition, investment properties are stated at cost, accumulated depreciation and carrying value. In most cases, no clear definition of investment properties is provided in the accounting policy note. This lack of information raises a concern that the classification of investment properties may not comply with VAS 3, *Tangible Fixed Assets*, VAS 5, *Investment Properties*, or VAS 6, *Leases*. Also there is inadequate disclosure of income and expenditure for the investment property's business, as required by VAS 5. Although VAS 5 requires an entity to disclose the fair value of investment properties at the accounting period end, it also allows the entity, alternatively, to disclose the list of investment property and the reason its fair value cannot be determined in the Notes to Financial Statements. Entities usually choose not to disclose fair value but rarely provide any explanation for non-disclosure.⁸⁴

84 Circular 200/2014/TT-BTC provides further guidance on investment properties.

Property, Plant, and Equipment (PPE)

Unlike IAS 16, *Property, Plant, and Equipment*, VAS 3 does not include within its scope the measurement and recognition of asset dismantlement, removal, and restoration costs. In determining the cost of a PPE item, VAS 3 only includes expenses incurred as part of installing the item. Impairment write-downs and revaluation of PPE are not allowed under VAS 3 unless specific approval is obtained from the Government. Circular 45/2013/TT-BTC on management, use, and depreciation of fixed assets also gives guidance on such revaluations. It was noted that disclosures on fixed assets for the entities reviewed in general did not contain information about fully depreciated assets and mortgaged assets, as required by VAS 3 and 4⁸⁵.

Leases

Little information is provided in the accounting policies for operating leases and finance leases. Details of lease contracts, as required by VAS 6, Leases, are therefore not provided. This leads to difficulties in proper classification of and accounting for finance leases and operating leases. Circular 200 requires disclosure for determining the relevant cost of as well as the depreciation method applied for the lease.

Reconciliation of Tax and Accounting Profit

Due to differences between VAS and prevailing local tax regulations, entities are expected to hold deferred tax assets or liabilities that should be disclosed in the financial statements. VAS 17, Income Tax, requires the financial statements to present a table reconciling corporate taxable income and the accounting profit in the income statement, together with a detailed note explaining any differences. There was usually no note detailing the deferred tax reconciliation in the financial statements reviewed⁸⁶.

Contingent Assets and Liabilities

In many cases, there were inadequate or even no disclosures concerning the nature of contingent assets and liabilities, as required by VAS 18, Provisions, Contingent Assets, and Liabilities. VAS 18 requires the financial statements to disclose a summary of the nature of the contingent assets and liabilities, their probability, and their financial effects, or to state the reason this information is not disclosed. The lack of information on contingent assets and liabilities, as required by VAS 18, could lead to an unfairly presented financial position that may be misleading to users of the financial statements. In certain cases, some items that were disclosed as contingent liabilities did not meet the definition of contingent liabilities in VAS 18, and provisions should have been made. In one case, provisions had already been made, but the items were still disclosed as contingent liabilities.⁸⁷

⁸⁵ Circular 200 provides guidance on assets fully discounted but still in use and mortgaged assets in the notes to the financial statements.

⁸⁶ Circular 200/2014/TT-BTC has requested the entities to prepare the notes on deferred tax and reconciliation between accounting profit and taxable income.

⁸⁷ Circular 200/2014/TT-BTC has requested the entities to prepare detailed notes on provision and contingent liabilities.

Related Party Transactions

IAS 24 (revised 2010 version) clearly mentions exemption from the disclosure requirements of transactions and balances where the government has control, joint control, or significant influence over the reporting entity and another entity (that is, a related party because the same government has control, joint control, or significant influence over both the reporting entity and the other entity); however, this exemption is not made clear under VAS 26, *Related Party Disclosures*. Many entities in Vietnam, including some financial institutions, omitted important disclosures, such as relationships and transactions, volumes of related party transactions, and corresponding balances. Adequate disclosure of material on related party relationships and transactions in accordance with VAS 26 is essential to users' understanding of a company's financial position and results, and for minority investors' confidence that they will receive fair treatment. The completeness of related parties' disclosures in the financial statements is a critical factor for transparency, especially in the private and state-owned sectors.⁸⁸

Segment Reporting

For most of the entities reviewed, segment reporting in the financial statements was inadequate. This issue applied mostly to large corporations and banks operating in different regions or territories, with detailed information not provided for revenue, operating profit, total assets, or total liabilities; capital expenditure of different segments; or the basis of measurement; nor for reconciliations of the total segment revenue, reported segment profit or loss, or other material segment items with the corresponding entity amount. The lack of information in each of these areas suggests many entities' financial statements failed to comply with the requirements of VAS 28 - *Segment Reporting*.

Correction of Identified Errors

Errors arising in previous reporting periods were presented in a note without adequate note disclosure of details of the nature of the errors, the amount of correction for each prior period presented (to the extent practicable) for each financial statement line item affected, or the amount of the correction at the beginning of the earliest period presented. This lack of disclosure is not in compliance with the requirements of VAS 29, Changes in Accounting Policies, Accounting Estimates, and Errors, and it limits users' awareness of the significant impact created by those errors on the balance sheets and income statements.

Insurance Contracts

Revenues and insurance liabilities were not recognized in accordance with VAS 19, Insurance Contracts. Provisions for insurance liabilities were based on a provisioning matrix that conflicted with VAS 19. Under the matrix provision was required for losses incurred but not yet reported as of the date of the balance sheet and for large loss variations. Under VAS 19, no provision is to be made for insurance liabilities if they do not exist at the balance sheet date.

88 Circular 200/2014/TT-BTC has requested the entities to prepare detailed notes on related party transactions and balances.

VAS does not provide a formula to calculate provisions but requires them to be calculated at the present value of the expected amount to be paid.

Collateral for Borrowings

Although the notes to the financial statements identified certain inventory and other assets that formed collateral for borrowings, little detail was provided on the secured amounts, as required by VAS 2 and 3.

APPENDIX IV

LAW REFERENCES

Accounting Law	Accounting Law 03/2003/QH11 Revised Accounting Law 88/2015/QH13
Law on State Audit	Law on the State Audit 81/2015/QH13
Law on Credit Institutions	The Law on Credit Institutions 47/2010/QH12
Law on Enterprises	The Law on Enterprises 68/2014/QH13
Law on Independent Audit	The Law on Independent Audit 67/2011/QH12
Law on Insurance Business	Law on Insurance Business 24/2000/QH10 and its revision 61/2010/QH12
Law on Securities	Law on Securities 70/2006/QH11 and its revision 62/2010/QH12
Law on State Bank	The Law on the State Bank of Vietnam 46/2010/QH12

CIRCULARS AND DECREE REFERENCES

Decree 61	Decree 61/2013/NĐ-CP on Regulation of financial supervision, performance assessment, and disclosure of financial information applicable to state-owned enterprises and state-capitalized enterprises
Decree 56	Decree 56/2009/NĐ-CP on Assistance to the development of small and medium-size enterprises
Decree 26	Decree 26/2014-NDCP on Oversight and inspection of banking industry

Decree 84	Decree 84/2016/NĐ-CP on Qualified auditors of the PIEs
Decree 99	Decree 99/2012/NĐ-CP on Decentralizing powers to state business operation management
Decree 17	Decree 17/2012/NĐ-CP on Detailing and guiding the implementation of a number of articles of the Law on Independent Audit
Decree 87	Decree 87/2015/NĐ-CP on Supervision of state capital investment in enterprises; financial supervision, performance assessment, and disclosure of financial information of state-owned and state-invested enterprises
Decree 73	Decree 73/2014/NĐ-CP on Foreign cooperation and investment in education
Circular 200	Circular 200/2014/TT-BTC Providing guidance on the Vietnamese corporate accounting system
Circular 210	Circular 210/2009/TT-TBC Guiding the application of International Accounting Standards to presentation of financial statements and disclosure of financial instruments
Circular 171	Circular 171/2013/TT-BTC on Guidelines for disclosure of financial information prescribed in Decree 61/2013/NĐ-CP dated June 25, 2013.
Circular 150	Circular 150/2012/TT-BTC on Guidelines of yearly CPD for practicing auditors
Circular 158	Circular 158/2013/TT-BTC on Providing guidelines on the scope of financial supervision and operational efficiency assessment of state-owned enterprises and enterprises with state-owned capital
Circular 196	Circular 196/2011/TT-BTC on Guiding the initial sale of shares and the management and use of proceeds from the equitization of enterprises with 100 percent state capital into joint stock companies
Circular 02	Circular 02/2013/TT-NHNN on Classification of assets, levels and method of setting up of provisions against risk in the banking activity of credit institutions and branches of foreign banks
Circular 232	Circular 232/2012/TT-BTC Guiding the accounting applicable to non-life insurance enterprises, reinsurance enterprises, and branches of foreign non-life insurance enterprises
Circular 45	Circular 45/2013/TT-BTC on Guiding the regulation of management, use, and depreciation of fixed assets

Circular 202	Circular 202/2014/TT-BTC on Guiding the preparation of consolidated financial statements
Circular 53	Circular 53/2006/TT-BTC Guiding the application of enterprise administration accounting
Circular 87	Circular 87/2011/TT-BTC Providing guidance on inventorying and revaluation of assets and equity of the enterprises of which the charter capital that is wholly owned by the state, in accordance with the Prime Minister's Decision 352/QD-TTg dated March 10, 2011
Circular 125	Circular 125/2012/TT-BTC on Guiding financial regime applicable to insurers, reinsurance businesses, insurance brokers, and branches of foreign non-life insurers
Circular 36	Circular 36/2014/TT-NHNN Stipulating minimum safety limits and ratios for transactions performed by credit institutions and branches of foreign banks
Circular 14	Circular 14/2014 TT-NHNN Revising the regulation on loan classification and risk provisioning in banking operations of credit institutions pursuant to Decision 493/2005/QD-NHNN dated April 22, 2005.
Circular 14	Circular 14/2016 on Finance mechanism applied to wholly state-owned single-member limited liability companies participating in political objectives, assurance of social security, and regulation of supply and demand of the economy
Circular 157	Circular 157/2014/TT-BTC on Audit service quality control
Circular 07	Circular 07/2015/TT-BGDDT Promulgating the regulation on minimum amount of knowledge, required capacity of graduates at each training level of higher education and procedures for establishment, appraisal and issuance of training curricula at bachelor, master and doctoral levels
Circular 10	Circular 10/2014/TT-BTC on Amendment of, supplement to several accounts in the accounts system of credit institutions issued in conjunction with the Decision 479/2004/QD-NHNN
Circular 09	Circular 09/2014/TT-NHNN Providing revisions and amendments to Circular 02/2013/TT-NHNN dated January 21, 2013 on classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches
Circular 200/2015	Circular 200/2015/TT-BTC on Financial monitoring, performance appraisal and publication of financial information for state invested enterprises

Circular 183	Circular 183/2013/TT-BTC on Audit of PIEs
Circular 56	Circular 56/2015/TT-BTC on CPD for auditors
Decision 493	Decision 493/2005/QD-NHNN on Issuance of regulation on the debt classification, provisioning and use of provisions against credit risks in the banking activities of credit institutions
Decision 15	Decision 15/2006/QD-BTC on Issuing enterprise accounting system
Decision 780	Decision 780/2012/QD-NHNN on Classification of rescheduled or extended loans
Decision 480	Decision 480/2013/QD-TTG on Approving the accounting and auditing strategy up to 2020, with a vision till 2030
Decision 711	Decision 711/2012/QD-TTG Approving the 2011–20 education development strategy
Decision 70	Decision 70/2014/QD-TTG on Promulgating the University Charter
Decision 479	Decision 479/2004/QD-NHNN Promulgating the system of book-keeping accounts of credit institutions
Decision 352	Decision 352/2011/QD-TTG Providing guidelines for a pilot scheme for counting and reassessment of assets and capital of SOEs

APPENDIX V

GOVERNMENT MULTI TASK FORCE

NO	FULL NAME	POSITION	DEPARTMENT	AGENCY
01	Mr Vũ Đức Chính	Director General	AAPD	Ministry of Finance
02	Mr Đặng Thái Hùng	Former Director General	AAPD	Ministry of Finance
03	Ms Lê Tuyết Nhung	Deputy Director General	AAPD	Ministry of Finance
04	Mr Trịnh Đức Vinh	Head	AAPD	Ministry of Finance
05	Ms Phạm Thị Loan	Deputy Head	AAPD	Ministry of Finance
06	Ms Phạm Thị Minh Hằng	Deputy Head	AAPD	Ministry of Finance
07	Ms Trương Thị Mai Phương	Officer	AAPD	Ministry of Finance
08	Ms Phạm Thị Thanh	Officer	AAPD	Ministry of Finance
09	Mr Nguyễn Hoàng Long	Officer	AAPD	Ministry of Finance
10	Ms Trần Thị Ánh Tuyết	Officer	AAPD	Ministry of Finance
11	Ms Trịnh Phong Lan	Deputy Director General	Banking and Finance Department	Ministry of Finance
12	Ms Hồ Thanh Thùy	Officer	Banking and Finance Department	Ministry of Finance
13	Ms Nguyễn Thu Thủy	Deputy Director General	Legal Department	Ministry of Finance
14	Mr Nguyễn Ngọc Ánh	Officer	Legal Department	Ministry of Finance
15	Mr Đặng Quyết Tiến	Deputy Director General	Enterprise Finance Department	Ministry of Finance
16	Mr Phạm Đức Hưng	Deputy Head	Enterprise Finance Department	Ministry of Finance
17	Ms Trần Thị Diệu Hằng	Head	Insurance Monitoring and Management Department	Ministry of Finance
18	Ms Trần Thanh Hà	Head	Insurance Monitoring and Management Department	Ministry of Finance
19	Ms Trương Thị Thủy	Deputy Director	Academy of Finance	Ministry of Finance
20	Mr Ngô Như Vinh	Officer	Academy of Finance	Ministry of Finance
21	Ms Nguyễn Thị Thu Thủy	Officer	Higher Education Department	Ministry of Education and Training
22	Ms Đào Thị Thu Vinh	Deputy Director General	Department of Audit Quality Control	State Audit of Vietnam
23	Mr Trương Anh Hùng	Deputy Director General	Bank System Safety Monitoring Department	State Bank of Vietnam
24	Ms Phạm Thị Minh Nghĩa	Deputy Director General	Finance & Accounting Department	State Bank of Vietnam
25	Mr Bùi Hoàng Hải	Deputy Director General	Issuing Management Department	State Securities Comission
26	Ms Nguyễn Thị Hải Yến	Officer	Issuing Management Department	State Securities Comission



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