

IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. It comprises six sections, in two parts, as follows:

Part One: Accounting Standards

- 1 – Accounting Standards Board
- 2 – Accounting Standards
- 3 – Deviations from International Accounting Standards
- 4 – Public Sector Accounting Standards

Part Two: Auditing Standards

- 5 – Auditing Standards
- 6 – Vietnamese Standards on Auditing

Part One. Accounting Standards

1. Accounting Standards Board

Viet Nam has an Accounting Standards Board, which has the responsibility of establishing the Viet Nam Accounting Standards (VAS). The Accounting Standards Board was established by the Minister for Finance in accordance with Decision 19/1999/QĐ-BTC dated February 12 1999 and the members of the Board were nominated in this Decision. The Board may be changed by a Decision of the Minister for Finance. At this stage, there is no separate Board representing accounting standards for the public sector. The Public Sector Accounting Standards were issued by the International Federation of Accountants on the 24 May 2000 and the establishment of a Public Sector Accounting Standards Board in Viet Nam is recommended.

The Board consists of 13 members and is chaired by the Vice-Minister for Finance. The Board is not independent of the Government. However all Board Members are not government officers. The Ministry of Finance (MOF) issues VAS under the authority of the Minister for Finance. The duties of the Board are as follows:

- Develop a plan for establishing Viet Nam Accounting Standards;
- Organize researching and drafting Viet Nam Accounting Standards.

- Organize seminars in order to get comments from departments of Ministry of Finance, other ministries, government bodies, auditing firms, enterprises, Vietnamese Accounting Association (VAA), etc.; and
- Organize implementation of Accounting Standards after approval. The Ministry of Finance has also established the Accounting Standard Drafting Group which consists of 34 members, including those who are accounting and financial specialists of the departments of MOF, VAA, State Audit, auditors in auditing firms, accountants in enterprises, accounting professors of universities, institutes, etc. The Group is under the control of the standing Vice-Chairman of the Accounting Standards Board.

2. Accounting Standards

Viet Nam has not yet issued Accounting Standards. All accounting is applied in accordance with the Vietnamese Accounting System. The MOF, through the Accounting Policy Department, is presently setting up the Vietnamese Accounting Standards, which are based on International Accounting Standards (IAS). There are currently 10 draft Accounting Standards in process of finalization. These Standards have been drafted using IAS as the base with adjustments for economic, finance and accounting using Vietnamese considerations. Generally, there has been very little change from IAS. Alternative treatments have been minimized and the benchmarks have become the norm.

Four of these Standards have received comments from other ministries, auditing firms, enterprises, VAA and other organizations in seminars and workshops. It is intended that these be issued at the end of the year 2000. The Standards are:

- VAS 2 Inventories
- VAS 16 Fixed Assets
- VAS 18 Revenue
- VAS 38 Intangible Assets

The Standards have been only slightly adjusted to suit Vietnamese conditions and mainly alternative treatments have been reduced to allow for fewer deviations from the recommended benchmarks. Seminars will be organized at the end of this year for comments on the remaining six drafts, and it is intended that they be issued at the beginning of year 2001.

The Standards are:

- VAS 1 Framework
- VAS 7 Cash Flow Statements
- VAS 11 Construction Contracts
- VAS 17 Leases
- VAS 21 Foreign Exchange
- VAS 23 Borrowing Costs

The MOF is committed to issuing a full set of Vietnamese Accounting Standards by the end of the year 2003. The problem that MOF is having in this regard is that there is no expert on IAS located in Viet Nam for problem solving and discussing issues.

The current Vietnamese Accounting System is based on law and government regulations. The format of financial statements and accounting records are specified in government regulations. Enterprises with foreign-owned capital are required to register their accounting standards and practices with the MOF and to submit regular financial reports to the MOF as well as the Ministry of Planning and Investment.

3. Deviations from International Accounting Standards

The following paragraphs outline the deviations between the Vietnamese Accounting System and International Accounting Standards (IAS). It should be noted that the Vietnamese Accounting System consists mainly of guidelines for a recommended system of accounting whereas IAS consists of a number of standards with benchmarks and options. The English version of the System does not cover all aspects and therefore ensuring the accuracy of comparisons is quite difficult.

IAS 1: Presentation of Financial Statements

- Substance over form and materiality are not mentioned as governing a company's accounting policies.
- Accounting policies on fixed assets, the method of depreciation and inventory must be disclosed; none others are required whereas the IAS requires disclosure of significant policies.
- Financial statements have to be presented in a standard format – this is not required by the IAS.

- Financial statements need not include a statement of changes in equity nor a cash flow statement.
- The basis for selecting accounting policies is not specified.
- There is no mention of the concepts of materiality and offsetting.
- The regulations state which assets and liabilities are current and which are long-term, rather than giving rules and guidelines to be applied by the preparer of the financial statements.

The disclosures required are listed by regulation. The disclosures required in Viet Nam differ from those in the IAS. The following disclosures are required:

- The total number of employees;
- The form of records and accounting books used;
- Revenue generated by the employees (i.e., total payroll, salaries, etc.);
- Various ratios (net profit margin, etc.);
- The company's business plans in the next reporting period; and
- The company's business prospects.

The following disclosures are not required:

- Leased assets and assets purchased using installment payments;
- Restrictions on cash balances;
- Terms of loans greater than one year;
- The method of providing for pensions and retirement plans; and
- Intercompany and associated company payables and receivables.

Some income and expenses are not included in the Income Statement:

- Bonuses and welfare funds for employees; and
- Annual tax charge on business profits.

IAS 1 prescribes how preparers of financial statements should distinguish between current and noncurrent assets and liabilities. In Viet Nam,

- What is current and what is not is defined by detailed regulations.
- Cash includes gold, silver, precious metals, gems and precious stones.
- Companies may make a provision against specific bad debts if the bad debtor can be identified (e.g., as having gone bankrupt). General provisions are not allowed.

IAS 2: Inventories

- Inventory includes tools and implements (i.e., assets which are too small to qualify as fixed assets), materials and equipment for basic construction (this includes tools, etc.) and goods on consignment, which includes the value of labor and services which have been rendered to customers in accordance with orders or contracts, but which the customer has not yet accepted for settlement.
- Inventory is valued at cost. If there is proof of a permanent decline in value, then a provision is made accordingly.
- The cost of inventory may be measured using average cost, the average price of the last purchase, First In First Out (FIFO) or Last In Last Out (LIFO) or specific identification.

IAS 7: Cash Flow Statements

In Viet Nam, cash flow statements are encouraged but not compulsory. In practice, many companies do not prepare statements.

IAS 8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies in Viet Nam

- Changes in accounting policies must be disclosed. The method used to make the disclosure is not prescribed.
- Fundamental errors from previous years are corrected in the current period's income statement.
- Certain types of income and expenditure are defined as extraordinary.

IAS 10: Contingencies and Events Occurring After the Balance Sheet Date

Viet Nam Accounting System does not address contingencies and post-balance sheet events.

IAS 11: Construction Contracts

In Viet Nam, the percentage of completion method is acceptable.

IAS 12: Income Taxes

Viet Nam does not account for deferred tax.

IAS 14: Segment Reporting

There is no equivalent standard in Viet Nam.

IAS 15: Information Reflecting the Effects of Changing Prices

Vietnamese Accounting System does not include an equivalent to this standard.

IAS 16: Property Plant and Equipment

In Viet Nam, the residual value and depreciable useful life of fixed assets are not defined. However, State-owned enterprises are required to depreciate their fixed assets on a straight-line basis to zero, using a useful life based on taxable allowances. Assets may be revalued as follows:

- When all owners of an enterprise agree to accept them as noncash contributions, their value is deemed to be the required value of that contribution [this is commonly used in joint venture agreements].
- When the partners, shareholders or directors of a company decide to do so unanimously.
- When approved by the Government.

IAS 17: Accounting for Leases

Viet Nam does have detailed rules on accounting for leases. The general guidelines are similar to IAS.

IAS 18: Revenue

- Viet Nam divides revenue between income from normal operations, income from financial operations, extraordinary income, e.g., the types of extraordinary income defined by law.
- Generally recognizes revenue upon receipt.
- Records revenue for installment sales based on the selling price. Imputed interest is recognized as revenue in the period in which it is received.

IAS 19: Employee Benefits

In Viet Nam, the Social Insurance Fund, paid for by a compulsory levy from enterprises, is the most common source of retirement benefits.

Enterprises charge their contributions against operating costs. There are no other requirements for accounting for retirement benefits.

IAS 20: Accounting for Government Grants and the Disclosure of Government Assistance

Provision is made for subsidies from the state budget and complies with IAS.

IAS 21: The Effects of Changes in Foreign Exchange Rates

- Unrealized gains are disclosed as deferred income, i.e., they appear in the Balance Sheet, not the Profit and Loss Account / Income Statement.
- There are no rules governing the translation of the financial statements of foreign entities or foreign operations.

IAS 22: Business Combinations

In Viet Nam, there is no definition of consolidated accounts nor any detailed rules regarding the recognition of investments in other enterprises, except for joint ventures (refer IAS 31).

IAS 23: Borrowing Costs

Borrowing costs are capitalized during the construction period of a project.

IAS 24: Related Party Disclosures

VAS does not address this Standard.

IAS 25: Accounting for Investments

Long term investments in stocks and bonds are separately shown in the Balance Sheet under Fixed Assets.

IAS 26: Accounting and Reporting by Retirement Benefit Plans

Viet Nam does not have a standard specifically addressing this area.

IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Mention is not made of consolidating subsidiaries' financial statements.

IAS 28: Accounting for Investments in Associates

There are no detailed rules regarding the recognition of investments in other enterprises, except for joint ventures (refer IAS 31).

IAS 29: Financial Reporting in Hyper-inflationary Economies

No standard or system exists.

IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions

There is no reference made to these disclosures in Vietnamese Accounting System. The State Bank of Viet Nam governs accounting systems applicable in banks and other financial institutions.

IAS 31: Financial Reporting of Interests in Joint Ventures

- A joint venture has a specific definition: it is an enterprise established in Viet Nam on the basis of a joint venture contract signed by one or more Vietnamese parties and one or more foreign parties in order to invest and carry on business in Viet Nam
- The investment is accounted for on a cost basis.

IAS 32: Financial Instruments: Disclosure and Presentation

There is no corresponding standard or system.

IAS 33: Earnings per Share

The accounting rules do consider earnings per share.

IAS 34: Interim Financial Reporting

There is no specific system for this situation. However, if a condensed form of reporting were done the same comments would be applicable as for IAS 1.

IAS 35: Discontinuing Operations

The Viet Nam Accounting System does not consider the going concern convention nor does it consider such matters as impairments and discontinuing operations.

IAS 36: Impairment of Assets

There is no provision for this Standard.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets

Most Provisions, e.g., depreciation, bad debts, etc., are regulated for taxation purposes and may not necessarily conform with the measurement bases under IAS, nor with the owners' contention of what constitutes fair value. Contingencies are not provided for under the Vietnamese system.

IAS 38: Intangible Assets

The Viet Nam Accounting System allows for the recognition of Intangible Assets under six sub-accounts:

- Land use Rights
- Start-up Costs
- Patents
- Research and Development costs
- Goodwill
- Others (copyright etc.)

The initial recognition and valuation of intangible assets is similar to IAS. However the Vietnamese System does not allow for revaluations or review of amortization periods. Research and Development costs are capitalized and amortized over their economic life in accordance with MOF's decision 166 of 31 December 1999.

IAS 39: Financial Instruments: Recognition and Measurement

The content of this IAS is almost nonexistent under the Vietnamese Accounting System except that the VAS allows for a devaluation of short-term investments if the market value at the end of the year is less than the original purchase cost.

4. Public Sector Accounting Standards

The Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) has released the first eight International Public Sector Accounting Standards (IPSASs) designed to enhance the accountability and financial management of governments worldwide. The release of these documents means that for the first time there is an authoritative set of independent financial reporting standards for governments. The Standards are based on Cash or Accrual; there are no Standards for Modified Cash or Modified Accrual.

IPSASs 1-8 are the first in a set of accrual-based accounting standards applicable to the public sector and will contribute significantly to the provision by governments of comparable, relevant and understandable financial information.

The IPSASs are based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC). The IASs are adapted as necessary to reflect their application to the public sector

The PSC recognizes that many governments may not yet be in a position to adopt the accrual-based IPSASs. To assist these governments, the PSC has developed an exposure draft ED *Financial Reporting under the Cash Basis of Accounting*. This sets out the requirements for the presentation of the primary financial statement under the cash basis of accounting, as well as the statement's structure and minimum content requirements. The requirements that are likely to emerge in this standard should lead to transparency where governments remain on the cash basis of reporting.

Building on the momentum of the recently released first set of final International Public Sector Accounting Standards (IPSASs), the International Federation of Accountants (IFAC) Public Sector Committee (PSC) released a further six new exposure drafts. The exposure drafts are another key step in the PSC's efforts to develop a comprehensive body of international accounting standards for governments around the world.

In addition to the new standards and exposure drafts, the Public Sector Committee has released a study, *Governmental Financial Reporting: Accounting Issues and Practices*. The new study aims to assist governments in the preparation of their financial reports and contains a detailed description of the common bases of accounting used by governments: cash accounting and accrual accounting, as well as a brief discussion of

common modifications to the cash and accrual bases. The study also provides examples of actual financial statements prepared under each basis of accounting.

Summary of PSC Study 11, IPSASs 1 – 8 and EDs 9 - 15 are as follows:

- *IFAC PSC Study 11 Governmental Accounting Issues and Practices* aims to assist governments in the preparation of their financial reports and contains a detailed description of the common bases of accounting used by governments: cash accounting (including modified cash accounting) and accrual accounting (including modified accrual accounting). The Study also provides examples of actual financial statements prepared under each basis.
- *IPSAS 1 Presentation of Financial Statements* prescribes the overall considerations for the presentation of financial statements, guidance for the structure and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.
- *IPSAS 2 Cash Flow Statements* requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement, which classifies cash flows during the period from operating, investing and financing activities. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities and the manner in which that cash was used.
- *IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies* requires the classification and disclosure of extraordinary items and the separate disclosure of certain items in the financial statements. It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.
- *IPSAS 4 The Effect of Changes in Foreign Exchange Rates* deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for deciding which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates.
- *IPSAS 5 Borrowing Costs* prescribes the accounting treatment for borrowing costs and generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that

- are directly attributable to the acquisition, construction or production of a qualifying asset.
- *IPSAS 6 Consolidated Financial Statements and Accounting for Controlled Entities* requires all controlling entities to prepare consolidated financial statements that consolidate all controlled entities on a line-by-line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.
 - *IPSAS 7 Accounting for Investments in Associates* requires all investments in associates to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.
 - *IPSAS 8 Financial Reporting of Interests in Joint Ventures* specifies proportionate consolidation as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. IPSAS 8 also permits – as an allowed alternative – joint ventures to be accounted for using the equity method of accounting.
 - *ED 9 Financial Reporting under the Cash Basis of Accounting* sets out the overall considerations for the presentation of the financial statements under the cash basis of accounting, guidelines for their structure, and minimum requirements for their content.
 - *ED 10 Revenue from Exchange Transactions* proposes requirements for the accounting treatment of revenue arising from exchange transactions and addresses the issue of revenue recognition for these transactions.
 - *ED 11 Inventories* proposes the accounting treatment for inventories under the historical cost system.
 - *ED 12 Construction Contracts* proposes requirements for the accounting treatment of revenue and costs associated with construction contracts.
 - *ED 13 Financial Reporting in Hyperinflationary Economies* proposes requirements for financial reporting under conditions of hyperinflation.
 - *ED 14 Property, Plant and Equipment* proposes the accounting treatment for property, plant and equipment, including the timing of their

initial recognition, and the determination of their ongoing carrying amounts and related depreciation.

- *ED 15 Leases* proposes requirements for the accounting treatment of leasing transactions.

It has been recommended that IPSAS be used as a base to establish Vietnamese Public Sector Accounting Standards and that a Public Sector Accounting Board be established.

Part Two. Auditing Standards

5. Auditing Standards

In response to the requirements of an economy that is in the process of moving to a market-based system and international integration, the external auditing activities have come into prominence and rapid development has occurred.

With a view to establishing a legal framework for the establishment, development and management of external auditing activities, the State has promulgated the Regulation on Independent Auditing in the National Economy, the Regulation on Examination and Issue of Auditor Certificate, and the Regulation on Registration of Practising Auditing Profession.

In connection with the further advancement of the industry, the Ministry of Finance (MOF) plans to issue a complete set of Vietnamese Standards on Auditing by the end of the year 2002. These Standards will be based on International Auditing Standards, knowledge of regional countries' standards, experience of practising auditing services over the last eight years, and current legal provisions and requirements. When the Standards are completed by MOF they are sent for comment to all departments concerned, and they are sent to local and international firms.

6. Vietnamese Standards on Auditing

Under Decision No.120/1999/QD-BTC of Minister for Finance, the first four Standards have been issued as follows:

- Standard 200: Objective and General Principles Governing an Audit of Financial Statements.
- Standard 210: Terms of Audit Engagements
- Standard 230: Documentation
- Standard 700: The Audit Report on Financial Statements.

Vietnamese Standards on Auditing issued by this Decision are used for external audits of financial statements. Audit firms and auditors legally practicing their profession in Viet Nam have the responsibility to implement these Vietnamese Standards on Auditing in their operations.

There are a further six draft Standards which have been finalised and are currently pending issue by the Minister for Finance. These Standards are:

- Standard 250: Considerations of Laws and Regulations in an Audit of Financial Statements
- Standard 310: Knowledge of the Business
- Standard 500: Audit Evidence
- Standard 510: Initial Engagements – Opening Balances
- Standard 520: Analytical Procedures
- Standard 580: Management Representations