

## VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements and is structured as follows:

- 1 – Financial Management
- 2 – The State Budget System
- 3 – Allocation of State Revenues and Expenditures
- 4 – The Budget Cycle
- 5 – Capital Investment Plan
- 6 – Assets and Liabilities Management
- 7 – Corruption Issues in the Public Service

### 1. Financial Management

The Ministry of Finance (MOF) is responsible for the management of the financial, accounting and budgeting processes of the State. With regard to financial reporting and accounting, MOF operates under a version of the existing Vietnamese Accounting System that is heavily geared towards central control.

With the current move to a market economy, the present degree of State involvement in all financial sectors of the economy is creating problems for MOF, the enterprises that the State controls and the nongovernment private sector. Under the centrally directed economy, the State, through MOF, established the accounting and financial reporting rules and regulations for the Government, state-owned enterprises (SOEs), and the private sector. A market economy works under a different set of rules, and the accounting and financial reporting rules reflect operational and financial performance. Financial statements are drawn up using generally accepted accounting principles and these statements are used to provide information about the financial performance and changes in the financial position of an enterprise which is useful to a whole range of users in making economic decisions. These users include owners, investors, employees, lenders, trade creditors, customers, governments and their agencies and the public. Under the centralized Vietnamese system the financial reporting is drawn up to suit the needs of Government for statistical and taxation purposes.

The MOF has the task of establishing the Vietnamese Accounting Standards based on a free market economy, and eliminating much of the centralized control, which existed in the past and, to some degree,

exists today. This is a difficult task that will require knowledge of International Accounting Standards (IAS), and these Standards contain reference to concepts, which previously had no application in Viet Nam. MOF will need to educate its specialist staff, financial officers, accountants, and auditors in the concepts of financial accounting and reporting based on a free market economy. The professional accounting staff of SOEs and other enterprises will need to be educated in the application of the new accounting and financial reporting rules. The European Union Project (EUROTAPVIET) has been instrumental in assisting in this process.

## **2. The State Budget System**

The State Budget of the Socialist Republic of Viet Nam is a unified system, consisting of the central state budget and the state budgets at grassroots levels.

Each level of the State Budget is classified in detail by revenue resources, and by the responsibilities of subsidies mandates. Revenue resources and scope of subsidies for different levels of the State Budget are specified under the State Budget Law, which was approved by the National Assembly on 26 March 1996 (Appendix 16 refers). Law No. 06/1998/QH 10 dated 20 May, 1998, adjusts and supplements some terms specified in the State Budget Law, and these documents are used as guidelines for the implementation of the State Budget Law.

MOF has the primary role in the formulation of the State Budget. This role is performed through the Department of State Budget. The budgetary process begins with a call letter from the Prime Minister to all ministries and agencies at the various levels of government, requesting budget expenditure projections. MOF has an advisory and guiding role with regard to other ministries and agencies, and is ultimately responsible for the consolidation of the individual projections into the proposed State Budget and its submission to the National Assembly. The expenditure projections are made within the parameters of the Government's fiscal agenda determined by the Party as advised by its Economic Committee. There is a close working relationship between the MOF and the Ministry of Planning and Investment (MPI) with regard to budgetary expenditure levels.

The budgetary process within MOF is a divided responsibility. Compiling the State Budget is the responsibility of the Department of National Budget. Once the National Assembly has approved it, the

implementation of the budget is the responsibility of the Department of Finance, which allocates the budget and monitors expenditures and revenues. Actual disbursement of funds is made through the State Treasury Department.

The National Assembly approves the State Budget under major categories of expenditure, administration, management, training, research, etc. MOF allocates funding to other ministries and agencies in a lump sum. The appropriate minister allocates his budget, internally, to the various ministerial departments, under the same major financial headings. The objectives of the Government and the individual ministries are explained in the budget document. Expenditures are accounted for under financial categories and are not related to objectives. There is a movement towards adopting performance based budgeting and accounting.

### **3. Allocation of State Revenues and Expenditures**

The allocation of resources between different state budget levels is regulated by the State Budget Law, and specified in detail by guidelines on the implementation of the State Budget Law, which are issued by the Government (Decree No. 87/cp dated 19 December, 1996; Decree No.51/1998/ND-CP dated 18 July, 1998) and by MOF (Circular No. 103/1998/TT-BTC dated July 18, 1998).

### **4. The Budget Cycle**

The steps to be taken for setting up budget estimates are as follows:

April:

- Prime Minister issues instruction on setting up budget estimates for the year.
- Based on the Prime Minister's instruction, MOF issues Circular detailing guidelines on budget preparation.

End of June:

- MOF issues Control figure (or Indicative target) to each ministry, locality, (provinces, cities, etc.)
- On receipt of the Circular and "Control figure/Indicative target" issued by the MOF, the ministries and localities prepare their

budget plan according to the formats and tables issued by the MOF and attached to the Circular.

July:

- The commune and district levels complete their budget plan, and then submit it to their provincial authority.
- The ministerial affiliates complete their budget plans and submit them to their administrative ministry.

End of July and beginning of August:

- Ministries and provinces submit their proposed budget plan to MOF. First round of budget negotiations are held between MOF and ministries and provinces. Agreements on proposed budget plans can be reached during the first round of negotiations.

Beginning of September:

- Second round of negotiations between MOF and provinces and ministries on pending issues. If agreements are not reached, MOF reports these details to the Prime Minister.

End of September:

- MOF completes consolidated budget plan and makes submission to the Prime Minister.

October:

- Government submits proposed budget plan to National Assembly for consideration and approval.

November:

- Based on the approved budget plan, the Government assigns the formal budget plan to ministries and provinces.

December:

- Ministries and provinces advise the approved budget allocations to their lower levels. These detailed allocations are sent to MOF for reconciliation with the total budget.
- Spending agencies set up their budget utilization records on a quarterly basis, according to their implementation schedule.

## **5. Capital Investment Plan**

During the period of preparing next year's estimated annual state budget, the Investment Manager prepares next year's estimate on capital investment, which will be submitted to ministries or executing departments in the case of projects which are managed at the central level, and the People Committees at different levels, in the case of projects which are managed by local governments. The ministries and Peoples Committees consolidate and prepare the Capital Investment Plan, which is sent to MOF and MPI.

The Capital Investment Plan is consolidated by MOF before the 20 August each year and included in the State Annual Budget for next year.

MPI submits to the Government the list of national programs, projects, and other important capital construction projects, which will be funded from the State Budget. The Government then submits this Capital Investment Plan to the National Assembly. After approval, the MPI, in collaboration with MOF, prepares and allocates estimates of capital expenditures to ministries and local governments.

## **6. Assets and Liabilities Management**

Under Decree No. 178, MOF is given the responsibility to manage the assets and natural resources owned by the State, to manage capital and property invested by the State in enterprises and businesses, to exercise the rights of the State as owner of capital and property invested in enterprises and business, and to manage loans and debt payments, provide financial management of foreign aid, and to evaluate projects requiring foreign capital.

In practice, MOF is primarily an executing agency responsible for the accounting for, and reporting of, State assets and liabilities. These functions are exercised through the Department of Public Assets Management, the Department Finance for Enterprises, the Department of Financial Management and the Department of External Finance.

The Department of Public Assets Management is responsible for the management of State-owned assets in all enterprises, including SOEs and agencies. The main responsibilities are as follows:

- Development of policies for financial management of public assets;
- Auditing and inspections of public assets;
- Financial analysis and projections; and
- Training management and staff.

There is no central assets register maintained by the Department and each individual ministry maintains its own Assets Register.

The Department of Finance for Enterprises is mainly responsible for the activities of SOEs and its main functions are as follows:

- Evaluating the need and approval of financial subsidies for enterprises;
- Agreeing financial allocations to enterprises;
- Performing reviews of business performance efficiency by conducting inspections and analyzing reports;
- Reporting after-tax profits of enterprises;
- Developing guidelines for enterprises, exercising control and supervision of asset in mergers, splits and dissolutions;
- Providing guarantees for loan funds; and
- Seeking permission for loans and mortgages from MOF.

Within the Department is the Equitization Committee, which develops the policies to be followed in the equitization and privatization process and with other transfers of assets.

## **7. Corruption Issues in the Public Service**

One of the most basic structural problems in Viet Nam is the low salary rates of the public sector. This has direct implications on the efficiency, integrity and reform process of the public service. The low salary issue needs to be seriously addressed otherwise the reform process may be impeded.

The Government is making an effort to reduce corruption in the Public Service. Measures taken include the issue of the Anti-corruption Ordinance and this legislation, coupled with the determination and strictness of law enforcement agencies in recent corruption cases has restored some degree of confidence in the law and justice systems regarding anti-corruption measures.