

VIII. Issues and Recommendations

The following comments and recommendations refer to the main findings of this Study, which involve gaps or weaknesses in the accounting and auditing structure. The comments and recommendations are divided into two parts

- Part One. Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with donor assistance.
- Part Two. Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for donor assistance.

Part One. Matters Where Donor Assistance is Required

1. Vietnamese Accounting and Auditing Standards

The Accounting Policy Department has drafted 10 Vietnamese Accounting Standards (VAS) using International Accounting Standards (IAS) as a base with adjustments to suit Vietnamese conditions. Other government departments and private sector interests including independent auditing firms have commented on four of these standards. These Standards are:

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

The following six Standards have been drafted by the Accounting Policy Department but have not been issued for comment pending the Minister for Finance's approval:

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

The Accounting Policy Department has also drafted and finalized 10 Vietnamese Standards on Auditing. At this stage four have been issued under Decision No. 120/1999/QD-BTC of the Minister for Finance 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

Another six Vietnamese Standards on Auditing have been finalized and are with the Minister pending approval for their issue:

- 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 Presentations

The European Union (EU) assisted Viet Nam with a financial strengthening project (EUROTAPVIET) part of which covered the introduction of International Accounting Standards. This project commenced in 1995 and concluded in 1998 (for more details refer to the chapter on Donor Assistance). The Ministry of Finance (MOF) offered a second project to EU on accounting and auditing in October 1999. The EU did not respond and a second request was made in March 2000. At this stage, there is no firm commitment by EU to continue with the Project.

The MOF suggested the following proposals to EU in connection with the procedural issues of the project:

- Send International Accounting and Auditing Standards experts, with a knowledge of Viet Nam conditions, to work in Viet Nam. These experts will attend all the discussions on accounting standards drafts, auditing standards drafts and accounting law. Their responsibility would involve explanation and answering questions arising in the discussions, and commenting on the proposals and related issues.
- Providing material on accounting standards, auditing standards and accounting law of other countries.
- Organizing study tours for Vietnamese accountants to learn experiences of other countries, that have similar conditions to Viet Nam, in the setting up of the legal framework in the accounting and auditing fields.

- Organizing international conferences on accounting and auditing to discuss the result of setting up the legal framework in accounting and auditing with the assistance of the donor.

The World Bank also stated their willingness to assist Viet Nam in the accounting and auditing field in June 1999. At that time, the EU had not decided whether or not to continue with the second part of the project. The World Bank decided not to proceed with their approach until the EU had made a decision; according to MOF.

It is a long and difficult process for Viet Nam to draft all the Standards required and they have requested assistance with this task. Harmonization between the new Vietnamese Accounting Standards (VAS) and the current system will need to be considered in order to avoid conflict. The special needs of State-owned enterprises (SOEs) will have to be considered. There may have to be special instructions drawn up on the use of the new Standards. The task is made much more difficult because the MOF intend to keep the format of the present system after the new VAS is introduced. The new VAS will be incorporated into a new recommended system, which will be more detailed than the present system. The discontinuance of the format of the present system is suggested because it would be a difficult task and it would be extremely time consuming maintaining an up-to-date version of the VAS in this format.

It is recommended that technical assistance be considered to assist the Vietnamese Government in the completion of the new Vietnamese Accounting Standards (VAS) and the Vietnamese Standards on Auditing.

2. Vietnamese Public Sector Accounting Standards

The International Federation of Accountants has issued eight International Public Sector Accounting Standards (IPSAS) and seven Exposure Drafts for comment. The first eight IPSAS issued are based on accrual accounting and ED 9 refers to Financial Reporting under the Cash Basis of Accounting.

Since Public Sector Accounting has now gathered momentum on an international basis, it is convenient to introduce appropriate training to cover this subject. Universities and colleges should be encouraged to include this subject in their curricula.

It is recommended that technical assistance be provided to the Government of Viet Nam in order to establish the Vietnamese Public Sector Accounting Standards and that these Standards be based on the International Public Sector Accounting Standards issued by International Federation of Accountants (IFAC).

3. Ordinance on Accounting and Statistics

The Ordinance on Accounting and Statistics was promulgated in 1988 and remains the major law on accounting in Viet Nam. It was drafted in a period when the Government and State-owned enterprises formed the major part of the economy and foreign-invested businesses and the non-government private sector were practically nonexistent.

The Ordinance covers the uniform procedures relating to accounting which is mainly used for statistical and taxation purposes. It sets out the forms to be used, codifications and basic reporting requirements. There is no flexibility and any deviations require prior approval.

With the reform to a free market economy and the Government's encouragement of private and foreign investment, it is appropriate that the accounting laws be completely reviewed.

It is recommended that the Ordinance on Accounting and Statistics be repealed and technical assistance be provided to the Government of Viet Nam for the drafting of a new Law on Accounting.

It is also recommended that this Law should be drafted in parallel with the drafting of the new Vietnamese Accounting and Auditing Standards and that its promulgation should occur no later than the formal issue of the new Standards.

4. Accountancy Education and Training

Seventeen universities in Viet Nam provide full-time education in accounting; 11 are owned by the State, and six are privately owned. Six State-owned universities provide full-time education in postgraduate studies. There are numerous institutions and colleges, which provide full and part-time training in accountancy. It has been estimated that there are approximately 7,000 to 8,000 accountancy students currently undergoing training in Viet Nam, and there are approximately 65,000 to 70,000 accountants in the workforce. Although an accountant needs

analysis has not been done, it would appear that the number of accountancy training institutions is adequate.

The Curriculum for the Bachelor of Accounting Degree Course at the Hanoi University of Finance and Accountancy, which is the leading accountancy training institute in Viet Nam, was revised last year to give more weight to accountancy studies. The Ministry of Education is responsible for curriculum development in State-owned institutions.

The Ministry of Finance (MOF) does not do a great deal of formal accountancy training. The MOF organizes workshops and seminars for specialist training, such as the EU project, and organizes some retraining and training for on-the-job activities. It also organizes overseas attachments and sponsorships for its staff.

The main consideration for accountancy training is the future requirements when the new Vietnamese Accounting and Auditing Standards are issued. The staff of the State-owned enterprises (SOEs), which make up 50 percent of the economy, will need special attention and training courses will need to be developed. Special instructions on the use of the new Standards may need to be developed. Training of Central Government staff will also require special attention. The new International Public Sector Accounting Standards (IPSAS) have recently been issued by IFAC, and, if the Government of Viet Nam agrees to accept these as a base for the introduction of Vietnamese Public Sector Accounting Standards, then Government financial staff will need training on the use and application of these new Standards.

A “train-the-trainers” program will need to be implemented to cover all teachers, lecturers and professors involved with accountancy training in the universities, colleges, and institutions. Local international auditing firms can probably handle some of this training and some specialist trainers may need to be recruited from overseas.

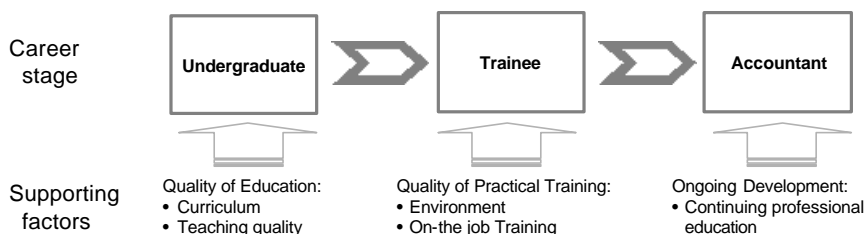
- **It is recommended that technical assistance be provided to the Government of Viet Nam to draw up a plan for the training of Vietnamese accountants and accountancy students in the use of the new Vietnamese Accounting and Auditing Standards. This will also include training in the use and application of the Vietnamese Public Sector Accounting Standards if it is decided to adopt the international standards as a base.**
- **This plan should be drawn up in parallel with the setting up of the new Standards. The plan should cover the special training needs of Government and SOE staff. The plan should also include a “train-**

the-trainers” program for accountancy teaching staff at universities, colleges and institutions. The MOF should take the lead in the training of Government staff if it is decided to establish Vietnamese Public Sector Accounting Standards.

5. Training for Accounting Lecturers and Professors

There is no specific advanced training program for continuing education of accounting lecturers and professors in Viet Nam. In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern day practices and trends. Figure 1 presents a simplified way of looking at the factors that support the development of competent accountants.

Figure 1: Developing Competent Accountants



It is recommended that:

- **a specific training program for accounting professors and lecturers be developed and implemented. This training program should include present day best practices in accounting procedures and current information available on International Accounting Standards. Important matters such as information technology (including both hardware and software) should also be included; and**
- **a professional organization be established in order that accounting professors and lecturers may further their education and share their technical knowledge through a common forum.**

6. Public Accounts Committee

Under Viet Nam laws and regulations, there appears to be no independent body that is separate from the Government, which carries out an independent review of all public expenditures incurred by government ministries, agencies and enterprises. Most countries have

established a Public Accounts Committee that publicly examines the expenditure of governments and their agencies.

The People's Office of Supervision and Control appears to have some of the responsibilities of a Public Accounts Committee. However, the obligations cover general misdemeanors rather than specifically relating to public accounts. These obligations are covered in Articles 137 to 140 of the Constitution of the Socialist Republic of Viet Nam.

A well-meaning and competent Public Accounts Committee, made up of members of the National Assembly, instills public confidence in government financial operations.

The general functions of most public accounts committees are to examine the accounts of Government and State-owned enterprises to ensure that amounts expended were appropriate and in accordance with budget and were applicable to the service for which they were charged or allocated. Some countries go much further than this, and the PAC is sometimes responsible for the examination of annual financial statements and the examination of reports of the State Auditor which are submitted to Government. In most cases members of public accounts committees are not necessarily qualified accountants and their obligations and duties should reflect this fact.

The main advantages of having a competent Public Accounts Committee in operation are that it is independent from the Government and its decisions, findings and recommendations are formulated without bias. The hearings are transparent and open to the public and this adds public confidence to the results of the investigations.

It is recommended that:

- **A Public Accounts Committee (PAC) be established and be comprised of members from the Vietnamese National Assembly. The PAC should be established by law and the objectives, rules and procedures should be transparent and in the interests of the public.**
- **Technical assistance be provided to the Government of Viet Nam to assist in drafting the necessary laws and regulations.**

7. Review, Consolidation and Translation of Laws

The regulatory framework, involving the laws, ordinances, decrees, circulars and decisions of the Vietnamese authorities, appears in need of review and consolidation for ease of reference by professionals and other

users. In many cases, titles have changed and cross-references are either incorrect or out-of-date.

The review and consolidation of the laws would make the task easier for potential investors to be able to understand the procedures, the potential problem areas and the likely benefits when making investment decisions. There would be less reliance on expensive professional advice about matters, which an investor should be able to read about and understand for himself.

Not all the laws promulgated have been translated into English. The English language is the most commonly used language in the world today. It would be of benefit to most potential foreign investors and donors, and Viet Nam, if all laws, especially the commercial laws, were translated into the English language.

It is recommended that:

- **the Vietnamese laws, ordinances, decrees, circulars and decisions be administratively reviewed and updated for ease of reference, and**
- **for ease of reference by most foreign investors, it is also recommended that technical assistance be provided for all current commercial laws to be translated into the English language. The consolidation of all laws, etc., is best done by way of computerization; once the database is completed, any future reviews become much less complex and time consuming. Once this task is achieved, the majority of the community should benefit. Reference to laws, etc., will be made easier, there will be less reliance on expensive solicitors, the work of professional people and academics will be facilitated.**

Part Two. Where Donor Assistance is Not Required

8. Viet Nam Accounting Association

An examination of the Charter of the Viet Nam Accounting Association (VAA) reveals the following functions, which are being undertaken by the Government instead of the Association:

- Formulating policies and regulations and achieving national standards for the profession; and
- Exercising control over professional ethics of members and development of a code of ethics.

The following functions do not appear to be covered by either the Association or the Government.

- Monitoring and upgrading of the professional qualifications of practitioners; and
 - Carrying out research for enhancement of information technology.
- The Ministry of Finance (MOF) issues practising certificates for auditors although this is part of the Association's Charter, and the Certificate may be issued even if the applicant is not a member of the Association. Soon the MOF will be issuing "Professional Accountants" certificates and this is also the responsibility of the Association under its Charter.

The Association is financially weak and this situation has been brought about partly by lack of funds because of the low level of annual subscriptions, and partly through nonpayment by members. Many of the VAA objectives and functions are not being achieved, yet, on the surface, it would appear that the Association should be strong and should be able to achieve its aims. The Viet Nam Accounting Association has over 5,000 members, the Central Committee has 55 members and the Standing Committee has 15 members. These are impressive numbers and there are many accounting associations in other developing countries with far less numbers where the society and the profession are strong.

The Central Committee is in office for five years and is required to meet only once per year. This Committee monitors the Association's operations and elects the members of the Standing Committee. The Standing Committee assigns tasks to the various subcommittees by resolution and is required to meet only twice per year. To be effective, the General Committee and the Standing Committee should be required to meet on a much more regular basis.

It would seem that the solution to the problem rests with the Association to have the willingness to carry out its functions in accordance with its Charter and for the Government to accept that it must divest itself of these functions.

The nonadmission of foreigners should also be reviewed. In most countries, non-citizens are admitted to local accounting associations if their qualifications are acceptable to the Council. In Viet Nam, it is reasonable that every practising auditor should be a member of VAA including foreigners. Another advantage is that non-citizen practising auditors are usually senior accountants who would bring a great deal of experience to the profession.

It is recommended that:

- **In order to strengthen the VAA and to monitor the operations on a more regular basis the Committee structure should be reviewed as follows:**
 - **The General Assembly should meet annually, not every five years, and elect the members of the various Committees; and**
 - **The Central Committee should be abolished and its functions taken over by the Standing Committee, which should be renamed the “Council,” and which should meet at least once every two months.**
- **The Standing Committee adopts a more positive role in achieving the functions outlined in the VAA Charter. Many of the functions of the VAA are currently being undertaken by the MOF (Accounting Policy Department). Examples of this include the following:**
 - **Development and monitoring of a Code of Ethics;**
 - **Quality Control of Practitioners;**
 - **Assist in formulating accounting policies and regulations;**
 - **Achieving national Accounting and Auditing Standards;**
 - **Monitoring and upgrading of the professional qualifications of members; and**
 - **Carrying out research especially in the field of information technology.**
- **The above functions are currently well covered by MOF and a properly planned transition process and timetable needs to be formulated before any transfers of functions take place. ADB technical assistance could be considered if deemed appropriate. It is strongly recommended that the formulating of National Accounting and Auditing Standards should remain with MOF until this exercise is complete.**
- **The VAA should also consider increasing its fees and the raising of funds through the organization of more high standard workshops and seminars for attendance by the financial community.**
- **The VAA should open its membership to non-citizens. The benefits of this are the increase in members and fees and the international experience that the non-citizen members would bring to the benefit and knowledge of citizen members.**
- **The VAA should also consider the introduction of different membership status levels within its structure and the setting up of professional exams for advancement in status.**

9. Establish Public Sector Accounting Standards Board

The Viet Nam Accounting Standards Board was established in 1999 with the responsibilities of planning, organizing and implementing the Vietnamese Accounting Standards (VAS). The new VAS will be based on International Accounting Standards (IAS) which are recommended for use by “for Profit” organizations.

The International Federation of Accountants (IFAC) saw the need to develop another set of accounting standards for “not-for-profit” organizations, which mainly consisted of national governments, and, in 1996, formed a committee to develop a set of International Public Sector Accounting Standards (IPSAS). These Standards were issued in May 2000 and included eight Public Sector Standards and one guideline. A further seven Exposure Drafts were issued in July 2000. Most countries have two Accounting Standards Boards; one for the private sector and one for the public sector.

It is recommended that consideration be given to the setting up of a Vietnamese Public Sector Accounting Standards Board in order to plan and establish the Vietnamese Public Sector Accounting Standards, and to organize and monitor the implementation of these Standards.

10. Conflict of Interest

There are more than 5,000 state-owned enterprises (SOEs) in Viet Nam, owned by the central Government and “managed” by the ministry that has functions and powers that relate to that SOE. While this procedure may be suitable from an administrative point of view, it does present problems in the nature of a conflict of interest.

A typical example is the case of the Viet Nam Auditing Company (VACO), the largest and most successful State-owned auditing company in Viet Nam, which is “managed” by the Ministry of Finance. Conflicts of interest could arise in the following circumstances:

- The letting of tenders for auditing and accounting work either when the Government is awarding the tender, or where the Government plays a role in recommending a certain tender.
- Representatives of the Ministry of Finance are the officials to whom the public makes complaints in connection with the competency of accounting and auditing firms. There is an obvious conflict of interest if a complaint is received involving the Viet Nam Auditing Company.

- The Ministry of Finance is responsible for the “quality control” of accounting and auditing firms. This could also give rise to a conflict of interest situation.

The SOEs will be equitized over future years in accordance with the Equitization Plan of the Government and the conflict of interest situation will diminish. Until this happens it is recommended that:

- **In the case of public complaints on quality control of accountants and auditors, these responsibilities should be handed over to the Viet Nam Accounting Association at the appropriate time; and**
- **In the case of the letting of accounting and auditing tenders, where the Viet Nam Auditing Co. (VACO) or any other state-owned accounting company is involved, an independent board should be established to oversee the selection process.**

11. Transparency Issues

There is a lack of transparency with Government financial reporting. This is not uncommon in nations that have recently emerged from a centralized, controlled economy to an open free market situation. The procedures of the past are difficult to change and Government officials are reluctant to make information public which they had not been required to do before. In some cases, it has been suggested that officials are reluctant to publicize information because of the dubious or poor quality of such information.

There needs to be an increase in transparency in connection with budgetary and public accounts information. In addition, the situation with obtaining financial information concerning SOEs is also most difficult. Circular No. 65 dated June 1999 prescribes the amount of information available to the government, the employees and other interested parties. Most public inquiries would be classified in the third category, and the information available under this category excludes the annual financial statements of SOEs, although certain information relating to assets, debt, and profits is available.

It is recommended that all Government accounts of public expenditures and revenues and all State-owned enterprises annual financial statements be classified as public information, and that all statistical data, inventories of public property, government procurement policies, and the like, be also classified as public information.

12. Financial Performance Indicators

Under the Viet Nam Accounting System, certain ratios are required to be included as notes to the financial statements. These ratios are not strong indicators of performance and they are not the ratios generally required by international lending agencies as part of the covenants of loan agreements.

In many countries, public service State-owned enterprises, in particular those that generate their own revenue, often include financial performance indicators as Notes to the Financial Statements. These financial performance indicators include Rate of Return, Self-Financing Ratio (Contribution to Capital Ratio) and Debt Equity Ratio.

- The Rate of Return measures the profitability of an organization based on the return (expressed as a percentage) it achieves on the invested capital.
- The Self-Financing Ratio measures the amount of self-generated funds invested in the acquisition of capital assets.
- The Debt Equity Ratio is a measurement of long-term debt expressed as a ratio of long-term debt and equity.

These financial performance indicators assume greater significance when used as a benchmark for comparisons between financial periods.

It is recommended that consideration be given to the adoption of financial performance indicators (as recommended by international lending agencies) as benchmarks for comparison purposes between financial periods in public service State-owned enterprises that generate their own income. If adopted, the indicators recommended are the Rate of Return, the Self-Financing Ratio and the Debt Equity Ratio; and further, that these indicators be included as Notes to the Financial Statements.

13. ADB Anti-corruption Policy

The ADB's anti-corruption policy centers on three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of ADB's broader work in governance and capacity building; (ii) supporting promising anti-corruption efforts on a case-to-case basis and improving the quality of ADB's dialogue with its developing member countries (DMCs) on a range of governance issues, including corruption; and (iii)

ensuring that ADB's projects and staff adhere to the highest ethical standards.

In order to combat corruption in the public service, the following procedures should be considered:

- **A Public Accounts Committee needs to be established and adequately recognized in the Constitution or by legislation. The advantages of establishing an independent Public Accounts Committee, and its functions have been detailed previously.**
- **Adequate accountability measures should be in place within the public service. These measures should be transparent to the individuals concerned and should be covered in position descriptions or included in finance instructions.**
- **Procedures should be in place for the detection and investigation of corruption. Strengthening internal control procedures or broadening the scope of the internal audit may achieve this.**
- **The employment and training of accountants should be enhanced within the public service. All accounting bodies have a stringent code of ethics and deviations from this code could lead to dismissal from the accounting society. The employment of people committed to these ethical codes of behaviour will enhance the overall integrity of public servants. Employees should be encouraged to further their careers by taking up additional training that will lead to obtaining professional qualifications. The Government should undertake Retraining and training in Government procedures.**
- **Effective internal controls with properly constructed transparent guidelines should be established and adherence to these guidelines should be monitored. This monitoring process could be achieved by inclusion in the mandate for internal audit.**