

Financial Management and Governance Issues in Viet Nam

Volume One

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Jointly Developed by Asian Development Bank and
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*5877: Strengthening Financial Management and Governance in
Selected Developing Member Countries.*

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Foreword

This Study was undertaken jointly by the Asian Development Bank and World Bank. Volume One (this report) presents the findings of the Asian Development Bank and describes financial management and governance arrangements in Viet Nam, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. For the purposes of this report, financial management and governance arrangements are narrowly defined as being accounting and auditing arrangements and practices. Volume Two presents the findings of the World Bank and covers mainly the budgeting and accounting system and state enterprises in Viet Nam.

This report was prepared for ADB by Ted Godden, (International Consultant) with overall guidance from Francis B. Narayan (Lead Financial Specialist, ADB) under Regional Technical Assistance (RETA) 5877 – *Strengthening Financial Management and Governance in Selected Developing Member Countries*. Research assistance was provided by Le Tuyet Nhung, between July and August 2000. The contents of the draft report were discussed and debated with representatives from the Government, the private sector, and international organizations at a workshop that was held in Hanoi on 10-11 August 2000. The issues and recommendations were further discussed at an international conference at ADB headquarters in Manila on 16-18 October 2000.

This report should be read in conjunction with the Summary Report, which identifies and examines selected issues in relation to financial management and governance.¹

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¹ Narayan, Francis, Ted Godden, Barry Reid, and Maria Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank.

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Currency Equivalents

(As of 5 November 2000)

Currency Unit	–	Dong (D)
D 1.00	–	\$0.0000692
\$1.00	–	D14,452

The value of the Dong is determined using a floating exchange rate.

Abbreviations

ADB	Asian Development Bank
AFA	ASEAN Federation of Accountants
ASOSAI	Asian Organization of Supreme Audit Institutions
AusAID	Australian Agency for International Development
CAPA	Confederation of Asian and Pacific Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
GDP	Gross Domestic Product
IAAS	International Accounting and Auditing Standards
IAS	International Accounting Standards
IFAC	International Federation of Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
ISA	International Standards on Auditing
MPI	Ministry of Planning and Investment
RETA	Regional Technical Assistance
SAI	Supreme Audit Institution
SOE	State-owned Enterprise
TA	Technical Assistance
UNDP	United Nations Development Program
VAA	Vietnamese Accounting Association
VAS	Vietnamese Accounting Standards

Notes

- (i) The financial year of all organizations, including the Government, ends on 31 December.
- (ii) In this report, \$ refers to US dollars.

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Executive Summary

Background

Viet Nam is approximately 1,750 kilometers long and has a land area of approximately 330,000 square kilometers. The east coast and southern tip of Viet Nam border the South China Sea, and the People's Republic of China, the Lao Democratic Republic and Cambodia lie to the north, west and southwest respectively. Two large river systems dominate the north and south of the country. In the north, the Red River flows through Hanoi and the port of Haiphong into the Gulf of Tongkin. In the south, the Mekong River flows through the Mekong delta south of Ho Chi Minh City into the South China Sea.

Viet Nam's population of 80 million comprises a number of ethnic groups, each with its own culture and language, and the national language is Vietnamese. English is emerging as the most readily used and understood language between foreign businesspersons and Vietnamese citizens. French is still widely spoken, and many Vietnamese speak and understand Russian or German. Viet Nam has a well-educated population, with a literacy rate of around 90 percent. With the loss of reform momentum and the economic slowdown over the last two years, the sustainability of past gains on poverty reduction is at stake. Carrying the process of poverty reduction forward in the coming years will require embarking on a second set of reform measures focused on diversifying rural livelihoods.²

Developments and Challenges

The early stages of accounting development in Viet Nam were influenced by countries that had an association with Viet Nam either by military, social or trade links.

- | | |
|-----------|--|
| 1960 – 69 | Accounting practices were influenced by China |
| 1969 – 89 | The former Soviet Union played a catalytic role in accounting procedures |
| 1989 – 95 | French and the United States of America had an important influence on financial reporting |
| 1995 – 98 | European Union Project (EUROTAPVIET) introduced International Accounting Standards to the Vietnamese Government. |

² Asian Development Bank. 2000. *Asian Development Outlook 2000*. p. 118.

The current accounting problems are focused on the following:

- The need for more qualified Vietnamese accountants;
- The introduction of International Accounting and Auditing Standards;
- The strengthening of the accounting profession and the Viet Nam Accounting Association; and
- The reduction of Government control in accounting and financial reporting matters.

Accounting and Auditing in Viet Nam

The accounting system in Viet Nam is governed by the *Ordinance on Accounting and Statistics 1988* and the *Vietnamese Accounting System*, which was introduced in 1995. The Ordinance gives details of accounting records and reports required to be compiled to suit the needs of taxation and statistics. The system is completely regulated and all forms are standardized and controlled by the Ministry of Finance (MOF). The Vietnamese Accounting System is a reporting system intended to be used by both public and private sector enterprises in Viet Nam.

The State Audit of Viet Nam was established by Government decree in 1994 and the department is a member of INTOSAI and ASOSAI. There are 18 audit firms in Viet Nam; six owned by the State, six owned by local interests, five owned by foreign interests and one partly State-owned joint venture firm.

Professional Infrastructure

The Chief Accountants Club, which was the first organized accounting association in Viet Nam, was formed by the MOF in 1989 and started with 200 members. This club grew to 600 members and, in 1994, with the assistance of MOF; the Club formed the Viet Nam Accounting Association (VAA).

VAA is a member of the International Federation of Accountants (IFAC) and the ASEAN Federation of Accountants. It is not a member of the Confederation of Asian and Pacific Accountants (CAPA). The membership is approximately 5,000 and the members are categorized as primary members, honorary members and sponsor members. The financial health of VAA is weak and the annual subscription is the equivalent of US\$3.55. The structure of the VAA consists of an assembly, a central committee, a standing committee and various

subcommittees. Elections for the executive and the central committee are held every five years.

Accounting and Auditing Standards

The Accounting Standards Board was established by the MOF in 1999 and this Board is responsible for the establishment and monitoring of accounting standards in Viet Nam. Vietnamese Accounting Standards are currently being formulated and the plan is to complete a full set by the end of 2003. These Standards will be based on International Accounting Standards (IAS). Four Standards have been completed but not issued. A further six standards have been drafted for comment. Deviations between the present Vietnamese Accounting System and International Accounting Standards have been comprehensively explained in the Report. Public Sector Accounting Standards have not yet been considered.

Four Vietnamese Standards on Auditing have been issued and a further six have been completed but not issued. The plan is to complete a full set of auditing standards by the end of 2002. The Vietnamese Auditing Standards are based on International Standards on Auditing (ISA).

Education and Training

There are 11 State-owned universities providing full-time accounting training in Viet Nam. There are a further six privately owned universities covering accounting and there are six universities covering postgraduate studies.

To obtain a degree requires a high school certificate plus the successful completion of four years university study; or a high school certificate plus three years successful completion of a college course, plus two years practical experience, plus the successful completion of a qualifying exam, plus one final year at university. The Vietnamese Accounting System is taught at universities. The term "Professional Accountant" is soon to be recognized as a status category for accountants with high qualifications and professional experience.

The Public Sector caters for limited training in government procedures and requires Continuous Professional Education (CPE) training for advancement. The levels of advancement in the public service are Expert, Key Expert, and then Senior Expert.

Government Budgeting and Accounting

The MOF is responsible for the management of financial, accounting and budgeting procedures of the State. The MOF operates under the Vietnamese Accounting System, which is geared at central control. The move towards a free market economy is creating problems that will be overcome when the Vietnamese Accounting Standards are established.

The State Budget System is a unified system consisting of the central state budget and budgets at grassroots levels. Budget preparation is the responsibility of the Department of National Budget in accordance with the State Budget Law 1996. A Capital Investment Plan is produced as part of the Budget process.

No Central Assets Register is kept and each department maintains its own register.

Donor Assistance

In recent years, the major assistance provided for accounting and auditing improvement was from the European Union. The European Union Assistance Project (EUROTAPVIET) commenced in September 1995 and was completed in June 1998. The general objective of the Project was to develop skills and competencies for the Vietnamese Accounting and Auditing profession in a market economy. Achievements included:

- Provided knowledge of IAS and ISA through workshops and studies overseas
- Assisted Viet Nam in forming relationships with international accounting bodies
- Improved the quality of audit and accounting training in Viet Nam, and
- Assisted in technical matters relating to computer hardware and software.