

Vietnam's Auditing System Situation, Orientation and Solutions

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The Vietnam's auditing system – one of effective instruments for financial- economic management; and one of products of the market economy and international integration – has taken shape and made remarkable developments. The system comprises three sectors: the state auditing, independent auditing and internal auditing. The sectors have their own roles, positions and fields of activities; but all of them, as supervisors of financial- economic activities, employ the same professional operations and methods. The independent auditing sector came into operation in 1991, the state auditing in 1994 and the internal auditing 1997. From then on, all auditing sectors have established their roles and positions, contributed positively to process of controlling and employing effectively and economically financial resources and social assets, made monetary and financial relations healthy, facilitated the international integration, and perfected components of the market economy in Vietnam.

1. Achievements of development of the Vietnam's auditing system

Main achievements of the development of the Vietnam's auditing system are as follows:

Firstly, laws about the auditing business are available (legislation on the state and independent auditing operations in 1994, and on internal auditing in 1997), which provides preconditions for birth and development of auditing companies today. Up till now, the State Audit Law and Decree on the independent audit have been passed and the ministry of Finance has also issued the statute of internal audit operations in state-owned companies. They constitute a legal basis for development of the auditing system in Vietnam. Moreover, the state auditing authority has set forth standards of the state auditing operations and specialized rules of auditing operations for specific clients. The Ministry of Finance has also set forth 38 auditing standards for independent auditing operations and service quality control.

Secondly, the development of auditing sectors has contributed to administrative reform, building of socialist rule of law and economic reform. In a short period, the auditing service has established

its role and effects on the administrative reform and changes in economic managing mechanism. The Government has paid full attention to the system of auditing companies in Vietnam by creating a legal infrastructure for their development and take measures to beef them up.

Thirdly, operations of auditing companies are well organized. The state auditing business has made good progress. After the State Audit Law came into effect in 2006, the state auditing service has expanded its field of operations. Results of the auditing service in recent years are not only limited to thousands of billions of dong this service earned for the budget income or cut from the budget expenditure. More importantly, the state auditing service has helped its clients prevent negative practices, losses, and wastes of money or assets; and employ financial resources more effectively and economically. It has supplied comprehensive and exact information about financial management and employment of budget income by ministries, companies and local authorities, along with its suggestions to the Government, the NA and authorized bodies, thereby helping them perfect the management mechanisms and policies on various fields.

Independent auditing companies have developed well in terms of their armies of auditors, service quality and market shares. Besides supplying auditing and advisory services, these companies played important roles in giving training courses and guidelines on implementation of financial and monetary policies.

The internal auditing service, although small and new, has come into being in some organizations and proved useful. The internal audit has had its own contribution to the internal management and control, and helped detect and prevent timely violations of laws in some organizations. Skills of internal auditors have been improved and they could perform their tasks more effectively.

Fourthly, relations between different auditing sectors have taken shape. The state auditing and independent auditing companies have cooperated in auditing some state-owned companies and national target programs. The state auditing sector has

played well its role in providing technical instructions and employing results of the internal audit. In addition, Vietnam Accountants Association (VAA) and Vietnam Association of Certified Public Auditor (VACPA) have helped provide guidelines for their members and develop good relations between auditing sectors.

2. Shortcomings in the auditing system

In spite of encouraging achievements gained by auditing sectors, their organization and operations reveal certain shortcomings that are as follows:

- The legal framework for organization and operation of the auditing system has not been perfect and uniform. Legal status of the state audit sector and general state auditor is not stipulated in the Constitution as seen in foreign countries. Regulations on organization and operations of the state audit sector imply certain contradictions. There is no law about the independent auditing service (it is now regulated by decrees of the Government, which can't establish a strict legal framework needed for development of independent auditors, their reliability and efforts to handle risks in this service. Regulations on the internal audit are not effective and sufficient enough to facilitate the development of this service.

- Auditing techniques and methods, especially processes, standards and regulations on service quality applying to three auditing sectors, are not consistent, which produce unfavorable effects on the service quality. Application of IT to the auditing service is limited.

- Organizational development of the three auditing sectors doesn't match requirements from realities. The state auditing sector has developed well in terms of its personnel but its auditing skills are not equal to assigned functions, duties and rights. Particularly, its regional branches responsible for auditing local budgets are still lacking. Number of independent auditing companies increases but their competence is, in general, limited. The system of internal audit developed slowly and it has just come into operation in major state-owned corporations and commercial banks.

- In reality, the auditing service is limited in terms of scope and quality. The state auditing sector concentrates on audits of financial statement while conformity assessment and performance audits are not carried out regularly. Local independent auditing firms lack experience, competence and competitiveness; and their service quality doesn't meet requirements from information users. The in-

ternal audit in some state-owned corporations reveals shortcomings in its scope and expertise, therefore it failed to establish its importance to internal control of the organization.

- Different auditing sectors failed to establish close and systematic relations, and their mutual support and interactions are very limited. The state auditing sector, as the leading one of the system, failed to organize auditing firms to support its activities, and encourage governmental bodies to develop and direct their internal audits. Internal auditing bodies in some state-owned corporations operate on their own without cooperation with other auditing sectors.

- The state control over the three auditing sectors is not consistent; directions of their development is not clear; unfair competition between independent auditing firms is not prevented; management of internal auditing departments in organizations and governmental bodies is not strict. At present, the Ministry of Finance is responsible for controlling the independent auditing sectors but its performance is not good enough and is usually limited to tasks of working out standards of independent auditing service and procedures for establishing auditing firms, and holding exams and granting certificate for auditors. Assessment of service quality of independent auditing firms is limited. The role of the VAA in the building of cooperation and career development of auditors is not well performed.

3. Objective and view on future development of the Vietnam's auditing system up to 2020

In spite of important developments, operations of the auditing system are still limited. Auditing authorities should identify objectives and directions for future development of the system and take comprehensive measures to achieve these objectives. The overall objective of the development of the auditing system up to 2020 could be as follows:

"The auditing system must be developed into an effective instrument for establishing, beefing up and maintaining healthy monetary- financial relations during the period of industrialization and modernization; and international integration, and shaping the network of monetary and financial control from the inside of organizations in all economic sectors."

To achieve the objective, directions of development of the auditing system must be based in the following views:

Firstly, the VCP lines and Vietnam's laws on the development of the auditing system must be observed. Observing the law is the sufficient condition for the auditing system to develop according to the planned directions and become an indispensable instrument for financial supervision in the effort to build a transparent and firm national finance.

Secondly, the auditing system must be developed uniformly in which the state auditing sector must be a strong instrument for the state control. Although each auditing sector has its own relative independence, their operations, however, have effects on one another, organizations being audited and the whole economy.

Thirdly, development of the auditing system must comply with the process of building the rule of law and socialism-oriented market economy. In each stage of development, the auditing system has appropriate requirements in terms of organization, targets for its operations, and ways of carrying out audits.

Fourthly, the state control and role of associations of auditor must be beefed up. The state control plays a very important role in the building of directions of development, law system and other preconditions for the development of the auditing system. Beefing up the state control over the auditing service must aim at ensuring a sustainable development for all auditing sectors, thereby enhancing the state economic-financial control.

Fifthly, the auditing service has both global and national features due to development and management levels of one country. Foreign experience, international standards of auditing (such as INTOSAI and IFAC), and local standards approved by the association of auditors may serve as a basis for the national auditing standards that are appropriate to international principles and practices. Meanwhile, these standards must comply with the national laws, economic mechanism and political regime.

4. Measures to develop the Vietnam's auditing system up to 2020

To enhance the role of the audit service in the development of the market economy and the rule of law in a socialist state, the Government, governmental bodies, organizations and auditing firms must carry out simultaneously the following measures:

(1) Perfecting the legal infrastructure of the auditing service: The service can only operate and develop well on a basis of perfect and stable legal infrastructure. Thus, the decisive condition for the

development of the auditing system is the building of a stable legal infrastructure appropriate to the economic – financial management and development level of Vietnam, and international practices.

The state auditing sector must try to implement the State Auditing Law; suggest necessary amendments to make it more consistent. Unify regulations on operation and organization of the state auditing sector; and suggest adding the status of the state auditing sector and general state auditors to the Constitution when appropriate in order to ensure a firm infrastructure for the sustainable development of the state auditing sector.

As for the independent auditing sector, it needs an Independent Auditing Law and regulations about compulsory audits of certain economic concerns. The law must establish responsibility for providing auditors with necessary information and fines for the supply of inexact information in order to protect users of audited information and facilitate improvements in the auditing service.

There must be regulations on establishment, organization and operation of the internal auditing sector; and the use of internal audit for economic management. Necessary regulations on the internal audit in governmental bodies and local governments should be worked out in order to control local budgets and public assets.

(2) Beefing up the performance, identifying functions and duties, and establishing relations between auditing sectors: Each sector must develop their own human resource quantitatively and qualitatively by building strategies to train auditors in international standards and practices. Training auditors of international standards requires a national program and support from universities and research institutes. Each sector should also perfect standards of service quality, and auditing methods and techniques; and apply scientific advances to their services.

Although independent, their operations are interactive: development of the independent and internal auditing sectors will ensure law enforcement and transparent information about financial matters, which allows the state auditing sector to save cost and improve its performance. Cooperation and mutual support between these sectors can help improve their performance and service quality, and allow them to employ audit reports and auditors from any sectors in a cooperation mechanism.

(3) Making the auditing service appropriate to reforms in public and corporate finance: The eco-

economic development and international integration gives birth to entities that need to be audited, such as budgetary plans, national programs, projects financed by foreign aid, implementation of commitments made by the Government, and building of national indicators based on international practices. This reality forces the auditing service to reform intensively and extensively, and diversify their services. Many fields, such as stock exchange, investment projects, and control over public assets, require financial, conformity assessment, and performance audits. In addition, the auditing sectors, especially the independent one, should improve and diversify its advisory services to help prevent accidental violations.

(4) Beefing up the control over quality of auditing service: Auditing results and reports affect various users, therefore the Government should beef up the control over service quality by working out effective measures to assess performance of auditors and limiting unfair competition between auditors. Control over the internal auditing departments in bodies implementing budget expenditure and employing public assets must be stricter.

Associations of auditors must provide auditors with necessary instructions and guidelines, work out training programs, hold exams and grant certificates to qualified independent auditors. The associations should also take measures to supervise conformity to standards of work ethics and improve the service quality.

(5) Beefing up awareness of the auditing service: The auditing service was introduced in the early 1990 and still new to most organizations. Disseminating knowledge of importance of this service among organizations and the public as well is instrumental in developing the auditing service.

(6) Identifying functions and duties, and establishing relations between auditing sectors: This effort can help improve performance of each auditing sector and prevent waste of resources needed for the whole system. Cooperation between the state auditing sector with governmental and financial inspectors, especially in building the annual action plans and exchanging the information, must be beefed up in order to avoid overlap between sectors in carrying out audits and handling auditing results. In addition, each auditing sector should employ effective results of financial inspections in order to reduce costs and enhance the performance.

(7) Developing international cooperation in the auditing service: With strong developments of international auditing organizations, such as IFAC, INTOSAI, and ASOSAI, Vietnam has joined, exchange of experience and skills is necessary and easy, which provides local auditors with chances to improve their performance and get access to modern methods and techniques. Each auditing sectors with its own characteristics can find appropriate ways to engage in international cooperation in order to help the Vietnam's auditing system meet international standards. ■

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