

# AN OUTLINE OF DEVELOPMENT OF FINANCIAL AUDIT IN VIETNAM

by MAI THỊ HOÀNG MINH

**F**inancial audit in general, and accounting audit to be precise, has become the focus of attention of the Vietnamese government since the August Revolution. Under the centrally-planned mechanism, the financial audit machinery was also made suitable to that mechanism: the Government, as the manager at macroeconomic level and the owner of all means of production, controlled all audit instruments; most accounting audits were done internally and the state financial inspection was carried out on a case-by-case basis. Since the 1990s when the market mechanism replaced the old one, independent auditing business has come into being besides the state-run auditing machinery. The following is an outline of the history of accounting audit, independent audit and Government's macroeconomic management in Vietnam since 1945.

## 1. Accounting audit

In the period of the building of socialism in the North, the State promulgated legislation on the keeping of account books in 1957: there were 27 accounting journals to be kept by state-owned companies. Each journal provides information needed for business management and financial audit. This was the first effort to legitimize and standardize the accounting business with a view to facilitating the business management and the state control over its companies.

In the first years of independence, general discipline and sense of responsibility have helped put the financial audit and accounting business in order although the law system was simple.

In 1967, Ministries of Finance and Statistics issued regulations on the journalizing (entering the first record of a transaction in the journal) in state-owned companies and regulations on the chart of accounts, voucher register and financial accounting reports. The historical significance of this accounting legislation was the fact that it beefed up the state control over the industrialization and development of social-

ism in the North. Particularly, the voucher register system provided many auditing methods (for example, comparing information from a single journal or from different ones). The accounting business became a useful instrument for economic management at both macro- and micro-economic levels.

In 1971, new legislation on accounting business was promulgated. Its consistency and standardization were enhanced. The government intervention wasn't limited to the control over state-owned companies, it aimed at ensuring social equity and protecting financial interests of all sectors and businesses of all kinds of ownership. Under the centrally-planned mechanism, this development in the accounting and auditing businesses was an important change that beefed up the government's political, financial and economic power.

In May 1988, the Ordinance on Accounting and Statistics was issued with a view to establishing discipline in the accounting business and making it more compulsory. Accounting systems included in the Ordinance were: general accounting system applied to all companies and organizations (chart of accounts, accounting records, accounting report, etc.); and specialized accounting systems applied to specific organizations (non-state organizations, administrative bodies, branches of the Public Treasury, etc.). Generally speaking, the accounting system has been developed with a view to achieving the following targets:

- legitimizing standards and procedures for providing information needed for financial audit under the market mechanism followed by all companies and organizations.

- distinguishing between management information and other kinds of information supplied by the accounting body.

- enhancing the government's control over public and business finance under the market mechanism.

- standardizing the accounting information with a view to reaching international standards and practices.

In 1989, there was a need to reform the economic management mechanism and the structure of in-

dustry, and to develop the market economy to a higher level, along with a need for a new financial management mechanism. That is why a new accounting system was introduced and replaced the old one. Historically, this was a necessary development based on past achievements and oriented towards a revolution in the accounting business. In the years 1988-1990, the Ministry of Finance, in cooperation with related governmental bodies, studied and promulgated series of accounting systems and regulations more suitable to new situations and developments. To facilitate the implementation of the new accounting systems, the Government conducted in 1990 two censuses of public property and capital held by administrative agencies with the aim of estimating market price of this property. These censuses served as a basis for granting rights to use it and financial autonomy to state-owned companies and civic organizations. In the years 1990-92, refresher courses in new accounting system were given to some 400,000 public accountants from all over the country. The new accounting system was also applied to the private sector without trouble. As for family businesses, all of them (some 180,000 ones) have started to keep their account books more properly, and 52,000 family businesses have applied the whole system since June 1993.

However, the accounting system introduced in 1989 was still different from international accounting practices, and many of its features weren't appropriate to the market economy. In 1994, the PM personally directed an accounting reform program. After two years of studying, drafting and experimenting, a new accounting system was promulgated in December 1995. The basic characteristic of the 1995 accounting system was its ability to ensure the government's macroeconomic management and approach international accounting practices while taking Vietnamese conditions into consideration. In such a situation, the auditing business also needed improvements, especially in its organization.

## 2. Independent audit

Independent audit has come into being and developed in the South before the Liberation Day: offices of such famous auditing companies with certified public accountants, accounting controllers and auditors as SGV and Arthur Andersen have been opened in Vietnam. After the Liberation Day, the independent auditing business ceased to exist under the centrally -planned mechanism. Thus, it's arguable that the independent audit really came into operation after the economic reform was launched. Policies to diversify ownership of means of production and encourage both foreign and domestic investment led to a need for independent auditing. On May 13, 1991, the Ministry of Finance decided to form two auditing companies according to License 957/PPLT granted by the PM: Vietnam Auditing Company or VACO (Decision 165-TC/QD/TCCB) and Vietnam Auditing Service Company or ASC (Decision 164-TC/QD/TCCB) which was later renamed Audit- Accounting Advisory Service Company or AASC (Decision 639-TC/QD/TCCB). As leading companies, VACO and AASC have made great efforts not only to develop their business but also to cooperate with foreign auditing companies in developing the auditing business in Vietnam. In 1991, Ernest and Young was the first foreign auditing company that was allowed to open offices and operate in Vietnam.

Up to now, nine years after the formation of the first auditing company, the number of these companies has increased quickly and they are of different kinds. At present, there are 11 Vietnamese auditing companies, five foreign-invested auditing companies and one auditing joint venture.

In addition, some foreign auditing companies have also opened their rep offices in Vietnam and many private persons are preparing to form their own auditing companies. With help from the Government and financial support from international organizations, Vietnamese auditing companies are improving their skills and performance to catch up with their foreign counterparts. The situation promises new developments of Vietnamese auditing business.

## 3. Government's macroeconomic management

After the birth of the Democratic Republic of Vietnam, President Hồ Chí Minh signed an order to establish the Special Inspection Agency under the central government (Order 64/SL on Nov. 23, 1945) followed by

Order 57/SL dated June 4, 1946 providing regulations on the organization of ministries and other governmental bodies, including inspection agencies at provincial level; and Order 76/SL issued on Aug. 25, 1946 on the organization of the Financial Inspection Agency under the Ministry of Finance. Tasks assigned to these agencies were:

- Controlling and inspecting the financial machinery.

- Inspecting and directing the implementation of accounting and financial regulations by state-owned companies and public services.

- Investigating complaints and cases about financial and accounting matters made by citizens.

- Drawing up reports needed for adjusting the accounting business done by governmental agencies or state-owned companies.

To enhance the Government financial management, the Government issued Decree 1077/TTg on Oct. 12, 1956 stipulating organization, duties and rights of the system of financial inspection agencies formed by the previous orders. More tasks, besides the above-mentioned ones, were assigned to the system of these inspection agencies, from central to local levels. They were:

- Inspecting carefully the implementation of financial and accounting regulations by public services, state-owned companies, private businesses, cooperatives and civic organizations.

- Discovering embezzlement and waste of public funds and reporting to related authorities.

This was also an effort to beef up discipline and enforce laws on economic activities, and strengthen the public finance.

On Sep. 10, 1958, after the issue of Decree 1077/TTg, the Government promulgated Decree 174-CP stipulating ways of organizing financial inspection agencies. In this period, another task undertaken by financial inspectors was to ensure that all local governments and state-owned companies enjoying budgetary appropriation would enforce the budget act, that is, to ensure all budgetary receipts and expenditures provided for by the budget act.

After the wartime, a new period of the Vietnamese history started but the legislation on accounting business was still a basis for carrying out financial inspections that aimed at conserving public funds left by the Saigon regime, realizing reformation of the private sector and enforcing new tax policies.

On May 25, 1991, the Ministry of Finance issued Decision 173-TC/QD/TCCB providing regulations on the organization of financial inspection. The Decision affirms that the financial inspection is the most important function of financial authorities. New financial and accounting systems were also promulgated.

A real reform in the financial inspecting task, however, wasn't started before the formation of the state auditing agency. On July 11, 1994, the Government issued Decision 70/CP on the formation of the State Auditing Agency with the following duties and rights:

- Making annual auditing plan and program, and after being given a seal of approval by the PM, carrying out the plan and program, and making periodic reports on its task to the PM.

- Providing the Government and other governmental bodies with audit report as required.

- Certifying, evaluating and remarking audited documents, accounting data and financial statements, and bearing full responsibility for its remarks, evaluation and certification.

- By carrying financial audit, giving advice on mistakes and shortcomings in accounting documents to audited organizations, petitioning authorized governmental bodies to deal with violations of accounting regulations and suggesting amendments to the financial management mechanism to the PM when necessary.

- Obeying only laws and professional requirements when carrying out its tasks, and asking audited organizations and related bodies for documents and information needed for its jobs (Article 2 of Decree 70/CP).

The above-mentioned data allow us to affirm that the financial audit came into being after the August Revolution and has developed extensively and intensively since. The audit business has contributed a lot to the financial management and helped prevent violations of laws and accounting regulations, maintain discipline and keep socioeconomic relations healthy.

However, the history of auditing business shows that the state auditing agency, internal audit and independent audit should develop into an independent system in both organizational and legal aspects. Regarding this concept, the auditing business in Vietnam has a very long way to go. ■