

Some Measures to Enhance Efficiency of Independent Audit in Vietnam

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To survive the competition and develop, companies should supply goods or services of high quality appropriate to accepted standards. To achieve this aim, companies must control their product quality. Quality control is an important stage of production that can be done from the outside or inside the companies.

The Dictionary of Vietnamese, the quality control is defined as, "the act of watching, checking and certifying continuously the state of goods, services or organization, and analyzing documents to make sure that all preset requirements are satisfied." It's worth noting that: (1) The quality control can be done by customers or their representatives to make sure that requirements agreed upon in the contract are satisfied; (2) The quality control may include acts of watching or taking actions to prevent damage or decay of objects over time; and (3) The adverb 'continuously' in the definition means 'always' or 'regularly.'

Audit is a special occupation and in its nature, a kind of guaranteed service supplied by auditing companies by which they offer opinions about information based on certain standards. This service aims at enhancing reliability of the information thereby helping information users, such as investors or bankers, make right decisions on investment.

To achieve this aim, quality of auditing service must be well under control. The quality control is carried out not only by auditing



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companies themselves but also by their trade association or related governmental bodies.

In Vietnam, the stock market has come into being and developed well in recent years. One of measures to stabilize the market is to make sure that information supplied is honest and reasonable. This means that the auditing services must be of high quality. In other words, the quality of the auditing service is a concern for all users of information presented in the financial statement. The problem is how to control the quality of the auditing service in order to force auditors to comply with policies and procedures for quality control applied to their auditing jobs and each case of auditing.

On May 15, 2007, the Ministry of Finance issued Decision 32/2007/QĐ-BTC on statute on controlling the quality of the auditing and accounting services.

In spite of its many strong points, the statute also has its shortcomings. And some of them should be dealt with properly as soon as possible to enhance the quality of the independent auditing service in the near future. The following are my suggested measures.

1. Standards of quality control applied to other guaranteed services

Article 4 of the "Statute on controlling the quality of the auditing and accounting services" reads, "The quality control must cover all services offered by the auditing/ accounting companies and accountants, mainly guaranteed services supplied by auditing/ accounting companies. Guaranteed services comprise: auditing; checking the financial statement; internal auditing (in cases of outsourcing); control of quality of information, and other guaranteed services."

This means that the quality control from the outside includes not only the act of controlling the audit of financial statement, but also controlling the quality of other services. The aspect to investigate is to check whether the auditing company has built a quality control procedure appropriate to the standards or not. Up till now, however, there is only a standard named VAS 220 "Quality control of auditing service" in the current system of standards for auditing, and there is no standard for quality control of other guaranteed services.

Absence of such standard makes controllers unable to do their jobs, and auditing companies have no basis for fulfilling their services. That is why standards on quality control of other services must be introduced soon. The ISQT1 (International Standard on Quality Control) can be used as a basis for the Vietnamese standard. In the system of international auditing standards, the ISQT1 applies to quality control in companies specializing in

auditing, examining financial information, supplying guaranteed services and other related services.

2. A statute on quality control for auditing companies that serve public and private companies

The current statute that applies to companies auditing both private and public companies is not reasonable, because the financial statements from public companies are used broadly by the public, which affects development of the stock exchange and OTC markets. That is why information from such statements should be transparent and honest, so the quality the auditing service should be higher than the services supplied to private companies. For this reason, a separation of quality control for two groups of companies is accepted by many economies all over the world.

In the U.S., the control of quality for public companies is done by PCAOB (Public Company Accounting Oversight Board)

while AICPA (American Institute of Certified Public Accountants) oversee auditors of non-public companies through the Peer Review Program. Objective of this program is to ensure quality of accounting and auditing service by checking, training and introducing adjusting measures.

In France, the quality control conducted by Compagnie Nationale des Commissaires aux Comptes (CNCC) is divided into two levels: control of non-public companies is done by regional CNCC while the control of public companies and special industries (such as finance and insurance) is carried out by the national CNCC in cooperation with the *Autorité des marchés financiers* (similar to SEC in the U.S.).

So we can see that, due to importance of financial information of public companies, its effects on various groups of users, the quality control of auditors of public and non-public companies must be different. Therefore, it's necessary to perfect the current regulations with a view to separating the control of public and non-public companies. The following are my suggestions to this effort:

- In Vietnam, the control of quality of auditors of non-public companies could be carried out by associations of auditors and accountants (VAA and VACPA).

- As for public companies, the control must be stricter because information about them affects the public greatly. In inspecting, there must be representatives from Ministry of Finance and Securities Commission besides members of auditors association, and the inspection must be under strict supervision of the Ministry of Finance. In the past few years,



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the Department of Accounting and Auditing has just cooperated with the Securities Commission in selecting auditing companies allowed to serve public companies but it didn't support the control of quality of auditors of public companies. And as a result, quality of services supplied by auditors of public companies is not high enough.

3. Changes in time of inspection

According to current regulations, regular inspection is carried out every three years regardless of companies the auditors serve. This regulation of inspection of all auditors without regarding their size and customers is unreasonable and infeasible.

Statistics up to early 2008 show that there were some 140 auditing companies, and 28 of them are allowed to serve listed companies. This figure certainly increases over time. If the current regulation is carried out (inspection every three years), some 45 companies are inspected in a year. This seems a task that beyond reach of the Ministry of Finance because it can only inspect some 25 companies a year due to its limited work force. If the Ministry has to inspect 45 companies a year, the quality of inspections is not ensured.

Moreover, the same cycle of inspection for all auditors is not reasonable. In the U.S., Sarbanes - Oxley Act of 2002 requires PCAOB to inspect auditing companies that serve 100 public companies or more on an annual basis, and at least one inspection every three years for auditors that issue less than 100 auditing reports.

As for small auditing companies that don't serve public companies, cross-inspection is feasible. Such cross-inspection could be carried out every three or five years.

In France, the time of inspection for auditors of non-public companies varies from three to six years. As for auditors of public companies, they are inspected every three years.

So we can see that, the term of inspection differs over countries and kinds of auditing companies. An inspection term of three years is only suitable to auditing companies of medium size that serve public companies, and a longer term could be allowed for auditors of non-public companies. Moreover, auditing companies that serve a large number of public companies must be inspected more regularly (shorter term of inspection).

4. Forms of inspecting the quality of auditing/accounting services

According to current regulation, there are two forms of inspecting the service quality: direct and indirect inspection.

- Direct inspection: Inspectors examine directly documents and reports at head office of the company, and interview related persons. Inspectors can require the inspected company to bring necessary documents and papers to inspectors' office for examination.

- Indirect inspection: The company carries out inspection of its documents and papers and makes a report on the inspection. Inspectors examine results of the inspection or re-inspect directly some aspects if need be.

The indirect inspection, of course, is not as reliable as the

direct one, so it should not apply to auditors of public companies. At present, when the number of accounting and auditing associations is small, the cross-inspection among small auditing companies that serve non-public companies is feasible and acceptable.

In the U.S., A firm enrolled in the AICPA Peer Review Program is deemed to be enrolled in an approved practice-monitoring program.

Services to be inspected according to regulations are the ones affected by auditing standards and guaranteed services. The AICPA Peer Review Program is developed and supervised by AICPA.

Peer reviews under AICPA should comply with AICPA standards and be supervised by state CPA societies that are approved by the AICPA Peer Review Board.

Inspected firms should arrange, schedule and complete the inspection according to Board rules and cooperate with CPA societies and the Board in matters relating to the inspection.

CPA societies are required to complete and sign the annual management plan. Based on the enrolled list, the Board approves every year the list of societies in states where the peer review program is carried out.

To enhance the quality and reliability of the control of quality of auditing service and adjust to the existing condition where auditors' associations are limited in terms of quantity and quality, the authorities had better replace the indirect inspection with the cross-inspection.

5. Need for criteria and ways of recruiting inspectors

According to the current statute for quality control, regarding duties and rights of inspectors and inspected firms, the statute only introduces standards for inspectors without mentioning personnel, responsibility of auditing companies for supply of personnel, or responsibility of each inspector (how many hour they work as inspectors in a year, etc.). Lack of such regulations leads to lack of sense of responsibility among auditing companies and auditors. It's thus necessary to add ways to recruit inspectors to the statute. French experience is useful for the matters, namely, in the following aspects.

- Responsibility: Inspectors should take part in the quality control program as required by the Ministry of Finance and accountant associations.

- Criteria: In France, inspectors must be auditors because only auditors can evaluate the quality of other auditors. Rules of the CCNC, qualifications of inspectors are as follows:

- Being accountant and auditor and member of a professional association for at least five years.

- Facing no disciplinary actions at present.

- Being trained in control of quality of auditing service by an accountant association.

Term of an appointed inspector is three years and appointment could be renewed.

- Principle: Inspectors should observe professional principles in order to serve the good for community. Important principles for them are:

- + Confidentiality: Inspectors should keep information secret when doing inspection, and only present remarks and conclusions in their inspection reports.

Compliance with this principle reflects itself in:

- (1) code number: Code numbers are given to documents of the inspected companies as replacement for their names.

- (2) confidentiality agreement: Inspectors should sign such agreements when conducting the inspection.

- (3) possession of documents: Inspectors mustn't retain any document after the inspection.

- + Committing to fulfill the task: Inspectors should not re-assign the task assigned to them by their professional associations in any cases. Inspectors should give at least 50 hours a year to the inspections but the working hours should not exceed 200 hours a year.

- + Independence: Inspectors should not hold any position or any interest in the auditing companies they are inspecting and vice versa. Inspectors have independent rights to carry out the inspection and identify the scope of the inspection within current regulations about quality control.

All disputes between inspectors and inspected companies are handled by their professional associations.

Under current conditions in Vietnam, the statute should include measures to ensure human resource needed for the inspection and quality of the inspections, and stipulate responsibility of auditing companies for providing personnel and of inspectors (their annual working hours, etc.)

6. Enrollment for inspection

According to Article 19 of the Statute of Quality Control, regarding the selection of companies to be inspected in preparation for the inspection,

companies to be selected for the annual inspection fall into one of the five following groups:

- Companies that came into operation for at least 18 months after their licenses granted.

- At least three years have passed since their last inspection.

- Companies, or their previous inspections, showing signs of serious violation of regulations or guidelines set forth by their professional associations.

- As required by auditing/ accounting companies.

But the Statute doesn't explain what 'as required by auditing/ accounting companies' means. At present, the selection of auditing/ accounting companies and individual accountants to inspect is carried out by governmental bodies responsible for controlling the quality of auditing/ accounting services. In other words, there is no mechanism in which auditing/ accounting companies enroll for being inspected. Lack of such a mechanism puts auditing/ accounting in a passive position because they only know that they are going to be inspected when receiving notice from the inspectorate. Moreover, this lack can lead to absence of self-control in the auditing/ accounting companies.

In the U.S., auditors of non-public companies can enroll in the peer review program, and their professional associations should schedule the inspection based on their enrollment.

To facilitate the quality control, authorities had better allow auditing/ accounting companies enroll in inspection program in order to encourage habit of observing regulations about the quality control.

7. Fee for inspection of quality control

To ensure the independence for inspectors and fund for their operation, the Ministry of Finance had better make regulations about the fund for quality control from the outside of auditing service, and it can learn from American and French experience of this issue.

In the U.S., the fund for PCAOB operation comes from auditors of public companies and issuers (companies that sell their shares to the public). This payable is defined as a fee for accounting support and used for PCAOB operations. The AICPA Board calculates the annual fee based on an expenditure plan for the year approved by the SEC. Shares of issuers are determined according to two principles: size of the issuer, and equality and rationality, because bigger size makes the inspection more complicated.

As for the peer review program conducted by the AICPA,

the expenditure depends on the size, nature, and complexity of operations in the inspected companies. The expenditure is agreed upon by inspecting and inspected companies. In addition, the auditing company that enrolls in the program should pay a fee to the governing body.

In France, the fund for the inspection of quality is made of contributions from auditors.

This shows that the quality control from the outside in many countries depends on contributions from auditing companies. The contribution depends on the size of the auditing companies. In addition, public companies also pay some fees for the inspection.

These facts prove that a strict and reasonable statute is necessary for the effort to enhance the control of quality of the auditing service. In the past few years, although no serious crime has been committed by auditing companies as we saw in many countries, many violations that could be discovered by regular inspections,

such as mistakes in financial statements by Bibica, Bạch Tuyết Cotton Company and Hà Long Canning Factory, have taken place. These mistakes made by auditing companies have reduced the quality of information on financial statements and public trust in the auditing service as a profession. To enhance the quality of the auditing service, therefore, one of indispensable measures is to perfect the Statute of control of quality of auditing service, thereby setting standards for the auditing service.■

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