

# **The Role of State Management for Independent Audit in Vietnam**

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## **Abstract**

This article aims to find out the current situation of external management for independent audit activities in Vietnam, which is mainly about the level of compliance with standards or commitments to related parties and reporting to the Securities and Exchange Commission. In addition, the article discusses the development strategy of accounting and auditing in Vietnam until 2030, including necessary activities to enhance the role of state management in independent audit activities in Vietnam.

## **1. Introduction**

In the context of the current global integration economy, service quality management is an important key for the existence of auditing firms in Vietnam. Enhancing the role of state management in independent auditing is a necessary condition in the operation of enterprises, especially in the period when Vietnam has just joined the WTO, under competitive pressure from many enterprises. foreign audit. This article was made with the following goals in mind:

- i) The process of formation and development of independent auditors in Vietnam over 30 years
- ii) Evaluation of the management of independent audit activities in Vietnam today
- iii) Discussing activities to enhance the role of state management in independent activities in Vietnam in the coming time

## **2. The process of formation and development of independent audit in Vietnam**

Auditing is a professional term and a professional activity that has appeared for a long time in many countries around the world and has been accepted in Vietnam since the 1990s. In the new economic management mechanism, the State leads and manage the economy not by administrative means, but by law, by economic means, by leverage and economic tools. The market economy also requires economic and financial activities to take place in an equal, transparent and public manner. Economic - financial information processed, aggregated and provided by accounting accountants, serving economic decisions must ensure completeness, truthfulness and high reliability. To do so, the first problem is that the collection, processing and provision of economic-financial information of enterprises and of the State must be based on the provisions of law, first of all, the law on accounting, statistics, on economic information; must comply with accounting standards and principles; must rely on the capacity and legal compliance of the financiers - accountants. There is absolutely no doubt about the quality, ethics, honesty, and professional competence of financial managers, economists, and accountants. But the state, investors, entrepreneurs and traders need high reliability of the economic and financial information received to use, consider and consider when making investment decisions, decisions. do business or decide on economic, financial - budgetary issues of the locality, of the country. Users of economic and financial information, especially investors, business partners, Lenders, lessors, lenders, managers, legislators can only rest assured and boldly make economic-financial decisions when the information provided by accountants is evaluated. and verified objectively and honestly by an organization or independent practitioners. That is the audit activity and performed by the auditors. There are 3 types of audits: Independent audit will perform the audit of economic activities; the state audit shall audit the state financial activities; Internal audit will carry out the audit in each entity.

Independent auditing activities have been established and developed in Vietnam since before 1975: The offices operate independently of certified public accountants or accounting assessors and also international control offices such as: SGV, Arthur Andersen,..

After the reunification of the country, in Vietnam's centralized planning mechanism, independent audit no longer exists. Therefore, the new independent audit was formed after the transformation of the economic mechanism. With the theme of diversification of ownership types, diversification of investment types has set the requirements of independent audit.

On May 13, 1991, the Ministry of Finance of Vietnam signed a decision to establish two companies: Vietnam Auditing Company - VACO and Vietnam Accounting Service Company (ASC), which later changed its name to Accounting and Auditing Financial Consulting Services Co., Ltd (AASC).

The two companies VACO and AASC have made many contributions not only to the development of the company, to the expansion of the audit team, but also to the cooperation with companies and organizations in your country to develop the audit career in Vietnam.

Also in 1991, Ernst and Young was the first foreign auditing company approved by the State of Vietnam to set up an operating office in Vietnam.

After more than 30 years of establishment and development, up to now, Vietnam's independent audit has affirmed its indispensable role in the market economy and has become an important component of the system of macro management tools. economy - finance, play an active role in serving socio-economic development. Independent audit activities have become a necessary need to publicize and transparent financial information, serving the interests of enterprises, domestic and foreign investors, the interests of capital owners, creditors as well as the interests and requirements of the State.

First, the perception of audit in general, independent audit in particular, awareness and role, position of independent audit is increasingly confirmed in Vietnam's market economy. From a type of operation that has never existed in Vietnam, today independent audit has been recognized by society as an indispensable need, contributing to maintaining and developing the Vietnamese accounting and auditing profession. Independent audit activities have actively participated in the examination, assessment and confirmation of the financial status of the enterprise.

Secondly, independent audit activities have contributed to creating a transparent and favorable investment environment, promoting investment, especially investment from abroad. The appearance and operation of independent auditors have helped foreign investors to have access to and necessary understanding of economic and financial laws, principles and regulations of accounting and auditing. Vietnam. The activities of independent auditors have significantly affected the investment environment of Vietnam as well as the determination of investors to enter the Vietnamese market. Undoubtedly, lack of understanding or with inadequate understanding of the legal and economic environment, investors will hesitate and of course investment opportunities will be missed or investment activities will take place. out slower. Moreover, by professional expertise, by objective and independent activities, the auditors will honestly and grounded assessment and certification of the financial situation, business activities of enterprises, of economic organizations, restricting inspection and examination activities with heavy administrative nature. Auditing activities in general and independent audit in particular will ensure the truthfulness, objectivity and reliability of economic-financial information when it is transmitted to information users or publicly reported. finance, especially in the arrangement and renovation of equitization of State-owned enterprises, in investment activities on the stock market..It can be said that in recent time, Vietnam's independent auditors have done well. many things affirm the status role in the new economic mechanism.

Fourth, as a service activity in the financial sector, the Independent Auditor has contributed to economic growth and the development of an open and integrated financial and financial services market. Accounting and auditing has been and is an important service sector in the market economy, in the process of opening up

and integrating into the regional and world economy. The total revenue of auditing firms operating in Vietnam has increased significantly every year, creating thousands of jobs for new graduates. The market for accounting and auditing services has been formed, ready to join the regional and world markets.

Excited and proud of the work and the results achieved, but also many concerns about the operation of the independent audit. In which, the most prominent are the quality of the independent auditor's activities, the quantity and quality of the team of auditors, the unfair and non-transparent competition in the market of financial and accounting services, and the lack of transparency. Audit of Vietnam. Compared with the development of the economy, with the current demand, the number of auditors in Vietnam is not much, the quality is not guaranteed, uneven, not meeting the requirements of enterprises and organizations. The good news is that many people have been interested in the auditing profession by participating in entrance exams, self-studying, studying, and improving their professional and professional qualifications. The number of candidates for the national auditor's exam is increasing day by day. However, it is a fact that many people who have been granted certificates, auditors' certificates and registered to practice, have changed careers for various reasons. That is an important reason why the number of auditors has been reduced, and the quality of auditors has not been raised commensurately. A large team of auditors with good quality meeting the requirements of the open market economy and integration has not been met, has been lacking even more. For the audit profession (like many other specific professions), after a while, the requirements and status of professional quality will be much different. In fact, from 1994 until now, the professional requirements for an auditor have been getting higher and higher, even more stringent, even in entrance exams and in activities.

### **3. Independent audit quality management in Vietnam**

#### ***Audit quality and quality management - the vital issue of audit activities***

One of the extremely important issues to develop the market of accounting and auditing services is service quality, the core issue to strengthen customers' trust and expand the market. In order to improve the quality of audit activities, many different solutions must be implemented, both on the side of the state, the auditing service company, the auditors and the audited entities, who are provided with the services.

According to Vietnam Auditing Standard No. 220 Quality control of audit activities: The quality of audit activities is the level of satisfaction of the users of the audit results regarding the objectivity and reliability of their opinions. auditor's audit; and at the same time satisfy the audited entity's desire for the auditor's comments, in order to improve business performance, within a predetermined time at a reasonable cost.

Thus, it can be seen that the quality of audit activities should be considered from three angles:- Satisfaction level of information users about the objectivity and reliability of audit results; The level of satisfaction of the audited entity about its contribution in order to improve business performance; The audit report is prepared and issued on time as set out in the audit contract and at a reasonable cost for audit services.

The content, scale and order of conducting quality control procedures are applied depending on the specific conditions of each audit. However, there are audit quality control policies and procedures that audit firms must develop and implement in every audit to be consistent with Vietnamese Standards on Auditing or Auditing Standards. internationally accepted by Vietnam. Particular attention should be paid to the following policies and procedures:

- ❖ Always consider the compliance with professional ethics of its employees. The monitoring and checking of compliance with professional ethics principles includes checking for independence, integrity, objectivity, professional capacity, prudence, confidentiality, conduct, and professional ethics. Auditing firms may require professional staff to submit a statement of independence from clients, assigning a competent person to check the independence of employees. Take timely measures to detect and prevent beneficial relationships that violate the independence and objectivity in audit activities. During training and implementation guidance, auditing firms should emphasize and make specific demands on the independence and professional status of auditors.
- ❖ The audit firm must consider and evaluate the professional skills and competence of the auditors and professional staff. Professional competence of auditors and staff should be considered not only during

the audit, but also in the process of recruitment and training. Developing and applying standards for each level, title and providing career advancement opportunities for employees is an effective way to increase the motivation of auditors to continuously improve their professional skills. . Moreover, in order to contribute to improving the capacity and skills of employees, auditing firms need to conduct performance evaluation and periodically inform them of each individual's prospects and opportunities for promotion.

- ❖ Audit work must be fully guided and supervised at all levels of officers and employees. For each audit, the structure and composition of the audit team is always determined specifically, in accordance with the audit object and legal requirements of the audit, the structure includes: director (partner) , the audit manager (manager), audit supervisor (supervisor), principal auditor (senior auditor) and audit assistants. The level of audit supervision will gradually increase according to the scope of the audience and the legal nature of the audit. In addition to compliance with the provisions of the review of the company's audit work in each audit group, supervision may be carried out by auditors in other engagement groups.
- ❖ When necessary, audit firms can consult more consultants. The consultation of experts will increase the reliability of the opinion and the audit results on the areas of deep expertise, complexities, and specific business lines. However, when consulting with experts, the audit firm should consider the professional competence and independence and objectivity of the consultant.
- ❖ Regularly consider and evaluate the audit firm's ability to serve clients and the integrity of the client company's managers. This is an important factor determining audit quality. If the audit firm does not have professional staff who are really knowledgeable about the client's business, it should not decide to perform an audit for that client. If doubts about the integrity of management are too serious, the audit firm may refuse to audit.
- ❖ The audit firm must regularly inspect and evaluate the implementation of the company's policies and procedures for quality control of audit activities.

### ***Legal framework***

Currently in Vietnam, the management and supervision of independent audit activities is carried out on the basis of provisions in the following legal frameworks:

- ✓ Law on Independent Audit No. 67/2011/QH12
- ✓ Decree 17/2012/ND-CP
- ✓ Decree 41/2018/ND-CP & Decree 102/2021/ND-CP
- ✓ Circular 202/2012/TT-BTC
- ✓ Circular 157/2014/TT-BTC
- ✓ Vietnam Standard on Quality Control 1 (VSQC1)
- ✓ Code of Ethics for Professional Accountants
- ✓ Vietnam Standards on Auditing

### ***The regulator of independent audit activities***

In Vietnam, The Ministry of Finance is the regulator of independent audit activities with the following Key responsibilities:

- ✓ Formulate independent audit laws and regulations and submit them to competent authorities for promulgation.
- ✓ Organize auditor certification exams.
- ✓ Register audit practitioners and issue audit business licenses for audit firms.
- ✓ Promulgate standards on auditing and code of ethics
- ✓ Conduct audit quality inspection.
- ✓ Deal with misconducts of auditors and audit firms.

### ***Inspection units***

In Vietnam, the State Securities Commission will be responsible for Inspection of audit firms conducting audits of public interest entities (PIEs) in the securities sector (<40 companies) including: Public companies

✓ Listed securities organizations, registered trading organizations, organization offering organizations to the public ✓ Securities companies ✓ Securities investment fund management companies; ✓ Securities investment companies, securities investment funds.

Besides, the Department of Accounting and Auditing Regulation will be responsible for Inspection of the other audit firms: Credit institutions, insurance enterprises (non-securities sector) ✓ FDI enterprises; ✓ State-owned enterprises; ✓ Enterprises and organizations of which 20 percent or more of the voting right is held by state-owned corporations/holding companies/listed organizations/issuers and securities trading organizations. ✓ Other businesses and organizations.

### ***Quality inspection process***

In Vietnam, Quality inspection process is normally carried out through the following 4 steps:

#### ***I. Preparation for inspection***

In this step, the tasks will include: Select audit firms to be inspected, Assemble an inspection team and Notify selected audit firms

#### ***II. On-site visit***

Testing will include: Read the inspection decision, Review: Firm-wide review and Audit files review

#### ***III. Exit***

In this step, the procedures typically include: Prepare the draft review report; Discuss the draft report with the audit firm; and Sign the review report

#### ***IV. Post-inspection***

The final step is Post-inspection. In this step, common tasks include: Settle different opinions; The audit firm to submit a remedial plan; Prepare inspection findings report

### ***Selection of inspected firms***

For the Selection of inspection firms, there are two types of inspection as follows:

1. Regular inspection: Regular inspection will be performed: → 3-year cycle for PIE auditors in the securities sector → 3-year cycle for PIE auditors in other sectors → 5-year cycle for others. → Audit firms rated 3 "Does not meet expectations" or 4 "Underperform, significant deficiency" are reinspected after one to two years.

2. Special inspection: Special inspection will be performed when there are signs of deficiency in terms of audit findings or signs of significant deviations from professional standards, relevant laws and regulations

### ***Inspection team and duration***

In Vietnam, the inspection team usually has 5- 7 reviewers → Team leader (DAAR/SSC/VACPA) → 1-2 officers of DAAR/SSC; → 1-2 officers of VACPA → 2-3 senior auditors from audit firms (who are independent of inspected firms)

Inspection duration: From 4 to 7 days

### ***Review agenda***

Firm-wide review: To assess whether the firm establishes and implements quality control policies and procedures required by VSQC1.

File review: Select 4-6 audit files for review to assess whether the audits are planned and conducted in accordance with professional standards, relevant laws and regulations.

### ***Categorization of review results***

For firm-wide review: Rate 1: Good quality control system; Rate 2: The quality control system meets expectations; Rate 3: The quality control system does not meet expectations; Rate 4: The quality control system underperforms, with significant deficiency.

For file review: Rate 1: Audit files are of good quality Rate 2: The quality of audit files meets expectations; Rate 3: The quality of audit files does not meet expectations; Rate 4: The quality of audit files is unsatisfactory, with significant deficiency.

General conclusion of the review results: Rate 1: The audit quality is good; Rate 2: The audit quality meets expectations; Rate 3: The audit quality does not meet expectations; Rate 4: The audit quality is unsatisfactory, with significant deficiency.

### ***Publication of inspection results***

The inspection report is shared with the inspected audit firm and is consolidated in the general inspection report.

The annual general inspection report is published on the websites of the Ministry of Finance, State Securities Commission, and VACPA.

### ***Sanctions***

Depending on the level of violation, the forms of Sanctions usually include:

- Reprimanding;
- Fines;
- Suspension of registration;
- Withdrawal of license;
- Prohibition of engagement in independent audit activities;
- Criminal prosecution.

## **4. Evaluation of independent audit service quality management in Vietnam**

From the perspective of state management, an independent audit system has been established with a full legal framework, on the basis of applying international practices suitable to the specific conditions of Vietnam, including the independent audit law, drafting, guiding documents and the system of 37 Vietnamese auditing standards. The role and capacity of the state management on auditing has been gradually improved, the inspection, supervision and compliance with the law on auditing are carried out appropriately and effectively.

The Ministry of Finance has organized and strictly implemented the inspection of the quality of audit services in accordance with the law, including: developing a plan to handle violations and summarizing reports on the actions taken by the Ministry of Finance violations, after being discovered, such as: suspending the operation of the audit firm and the auditor, requesting reports on remedial solutions and implementing recommendations and requests for implementation currently audit the financial statements and the provisions of the law.

In recent times, the Ministry of Finance annually inspects the quality of audit services from 15 to 20 auditing firms as assigned by the Ministry. From the behaviors detected through the inspection, it has helped to handle or recommend handling and remedial measures along with the disclosure of information on the results of handling violations according to regulations. In addition, based on the results of the review, the Ministry of Finance has revised relevant legal documents on the management of audit activities, helping audit firms to overcome errors and improve the audit process, improve the quality of audit services.

However, the service quality inspection of the Ministry of Finance in some cases still has certain limitations, has not achieved high efficiency, and the test results do not fully reflect the actual situation of the unit's operations. The personnel apparatus to carry out the inspection is still lacking in quantity and quality, the number of audit firms inspected annually is not high (only 7% to 10% compared to the total number of audit firms currently more than 200 enterprises).

The current staff of the Ministry of Finance for quality control of audit services is still thin, inexperienced and in practice. Therefore, the audits must mobilize personnel who are practicing auditors mobilized from large domestic auditing firms to inspect audit records.

On the other hand, according to current regulations, the report of specific test results of each company is not publicized on electronic information sites, but only publicized report summarizing test results while the disclosure of information is very important for audit firms and public interest entities. Some countries stipulate that the time limit for checking the quality of enterprises audit public interest entities is shorter than other enterprises at least once every 2 years, in which annual inspection is required for companies has a large market share like Big4.

Currently, the agency under the Ministry of Finance, which is the Department of Management, Supervision, Accounting and Auditing, has not yet been assigned the power to handle violations in the field of accounting and auditing. The handling of violations is carried out through the decisions of the chief inspector of the Ministry of Finance and this regulation in some cases has reduced the timeliness and responsibility in detecting, making minutes and deciding on handling violate.

## **5. Enhancing the role of state management over independent audit activities in Vietnam**

On May 23, 2022, the Prime Minister of Vietnam issued Decision No. 633/QĐ-TTg approving the Accounting - Auditing Strategy to 2030, in which the overall objective of the Strategy is to improve the accounting and auditing system. system of regulations on accounting - auditing to ensure strict, effective, efficient and synchronous system of accounting - auditing standards in accordance with international practices and conditions of Vietnam; improving the role of state management, promoting the activities of professional organizations, focusing on developing the service market and human resources in the field of accounting and auditing on a par with other countries in the region. Thereby improving the quality of the economic-financial-budget information system to be more open and transparent, honestly reflecting economic-financial information and data in the national economy. meet the requirements of management, administration and decision-making of state management agencies as well as other enterprises, units and organizations; strengthen international integration, cooperate with international organizations on accounting - auditing, create close relationship and mutual recognition between Vietnam and other countries in the region and in the world. The specific objectives of the Strategy are as follows:

### ***Completing the system of regulations on accounting - auditing***

In 2024, submit to the National Assembly for consideration and comments on the draft Law amending and supplementing the Law on Accounting; The Law amending and supplementing the Law on Independent Auditing, ensuring synchronous regulations, in line with international practices and Vietnam's conditions, strengthening the roles and responsibilities of enterprises, units and organizations organizations and individuals in providing accounting and auditing information.

### ***Promulgating, announcing and updating the system of accounting standards and auditing standards***

Enhance the compatibility between the financial mechanism and accounting standards; develop a legal framework to apply international financial reporting standards (IFRS) according to an appropriate roadmap, update Vietnam's financial reporting standard system (VFRS), independent audit standards, and standards. internal audit standards, professional methods on the basis of conformity with international practices and conditions of Vietnam; ensure comparability of economic and financial information among enterprises and organizations in the economy.

Announce the Vietnamese public accounting standard system on the basis of international public accounting standards, deploy and apply in accordance with the laws of Vietnam.

### ***Improve the efficiency of management and supervision of accounting and auditing activities***

Improve the capacity and operational efficiency of accounting and auditing management and supervision agencies in the management and supervision of accounting units and accounting service providers. - audit.

Strengthen inspection and supervision activities and have appropriate sanctions to ensure compliance with the law of accounting units and accounting - audit service providers in order to improve reporting quality. financial reporting and accounting and auditing services.

### ***Improving the quality of human resources and the market of accounting and auditing services***

Developing the market for accounting and auditing services; implementing solutions to improve the quality of accounting and auditing services. Orient the scale and number of organizations providing accounting - auditing services in accordance with actual requirements through perfecting the mechanism and practice conditions. Identifying objects to be audited practically and effectively, by 2025, ensuring 100% of large-scale enterprises and units have their financial statements audited, regardless of type of operation and form of ownership. There are policies to increase the quantity and improve the quality of the team of accountants and auditors, ensuring to meet the requirements of high-quality human resources in the context of international integration.

### ***Developing professional organizations in accounting - auditing***

To adopt policies to encourage professional organizations in accounting - auditing in order to unify and improve the operational capacity of these organizations; actively coordinate closely with professional organizations in planning and implementing the law on accounting - auditing as well as inspecting and supervising the compliance with regulations of the accounting - auditing team. .

### ***Strengthening international integration in accounting - auditing***

Review, improve and strengthen the framework and cooperation agreements with important partners such as financial institutions, international professional organizations and state management agencies in charge of accounting and auditing in Vietnam. comprehensive strategic partner countries, strategic partners and media partners of Vietnam. Deeply develop, improve the substantive effectiveness of cooperation programs with these organizations, create close relationships and mutual recognition between Vietnam and countries in the region and the world.

### ***Implementing digital transformation in the field of accounting and auditing***

Promote the application of information technology in line with the digital transformation process in building the legal framework and organizing the implementation at the units; building a database related to accounting - auditing to serve the operations of the units and activities of management and supervision of accounting - auditing.

## **6. Conclusion**

In the process of economic renewal in Vietnam, many solutions are needed to continue to rapidly and steadily develop the independent audit activity. In the coming time, with the goal of continuing to improve the quality of accounting and auditing services, ensuring compliance with international and internationally recognized standards, and in line with the process of opening up and integrating into the business regional and world economy. To do so, it is necessary to continue to perfect the system of legal documents in line with Vietnam's economic development conditions and international practices, and at the same time improve the quality of training and disseminate it to each unit. Strengthening the State management of auditing, at the same time strongly developing professional associations and professional organizations, expanding international relations, gradually recognizing each other's practice certificates, providing on-site services and providing cross-border audit services.

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