

# ASEAN Audit Regulatory Group (AARG) non-members Community of Practice (CoP)

**Audit oversight and quality assurance  
in **Vietnam**: current status**

## Background information – state of audit market

- *Number of auditors: 4,215 CPA, including 1,836 practicing Auditor (who eligible to sign audit report).*
- *Number of audit firms: 159, of which:*
  - + 19 auditing firms are members of international auditing firms (Big4, BDO, GT, RSM, PKF, ...)
  - + 12 companies are affiliate members
  - + All big 4 have been in Vietnam since 1996 up to now
  - + 27 auditing firms are approved to audit PIE in security sector (including listed company).
- *Number of entities, subject to statutory audit: 22.000*
- *Number of Public Interest Entities: 7.400*



## *Which entities are subject to statutory audit according to the local legislation?*

Annual financial statements of the following entities should be audited by an auditing firm:

- a) Public companies, issuers and security trading organizations
- b) Credit institutions established and operating under the Law on Credit Institutions (commercial banks)
- c) Financial institutions, insurance enterprises
- d) State owned enterprises (SOEs)
- e) Entities having foreign investment
- f) Enterprises where SOEs or listed companies, issuers, securities trading organizations hold at least 20% of the voting rights at the end of a fiscal year;
- g) Auditing firms

- *Are any companies exempt from audit requirements?*

State owned enterprises operating in the field of state secrets as prescribed by law are exempt from audit requirements



# Legal framework (1)

- Law on Independent Audit No. 67/2011/QH12 dated March 29, 2011 (effective from January 01, 2012).
- Decree 17/2012/ND-CP dated March 13, 2012 detailing and guiding the implementation of a number of articles of Law on Independent Audit (effective from May 01, 2012).
- ▶ Decree No. 105/2013 /ND-CP dated September 16, 2013 of the Government on the handling of administrative violations in the field of accounting and auditing, effective from December 01, 2013.
- ▶ Circular 202/2012/TT-BTC dated November 19, 2012 on granting licenses for practicing auditors , effective from March 1, 2013.
- ▶ Circular 203/2012 / TT-BTC dated November 19, 2012 on granting licenses for auditing firms, effective from May 1, 2013.
- ▶ Circular 150/2012 / TT-BTC dated September 12, 2012 on CPD requirement for practicing auditors.

# Legal framework (2)

- Decree No. 84/2016 / NĐ-CP dated July 01, 2016 of the Government on the criteria and conditions for auditor and auditing firm to carry out audit for public interest entities (PIE)
- Circular No. 157/2014 / TT-BTC dated October 23, 2014 of the Ministry of Finance regulates the quality control of auditing services.
- Decision No. 3022/QĐ-BTC dated November 26, 2014 of the Minister of Finance on the issuance of guidelines on inspection of quality of auditing services at auditing enterprises
- Circular No. 183/2013 / TT-BTC dated 04/12/2013 of the Ministry of Finance on independent audit of public interest entities.
- Circular No. 39/2011/TT-NHNN of the State Bank providing for independent audit of credit institutions and foreign bank branches



# Legal framework (3)

- ▶ Circular No. 214/2012 / TT-BTC dated December 06, 2012 of the Ministry of Finance issuing the system of auditing standards of Vietnam (including 37 standards based on IAS clarified 2009 of IAASB including VSQC<sub>1</sub> based on ISQC<sub>1</sub>). These auditing standards have been in effect since January 1, 2014 and replaced the Vietnamese auditing standards issued since 1999.
- ▶ Other standards such as VSRE 2400, VSRE 2410, VSAE 3000, VSAE 3400, VSAE 3420, VSRS 4400, VSRS 4410 base on equivalent international standards are updated and issued in 2015 and in effect since January 01, 2016.
- The current Code of Ethics (issued by the MOF in 2015, effective from January 01, 2016) was based on the 2010 IESBA Code of Ethics for Professional Accountants and replaced old version Code of Ethics issued since 2005.

# Legal framework (4)

- *Please, specify if when the current legislation in auditing in your country was developed, was the Statutory Auditing Directive consulted or used as a reference?*

No

- *Is there any draft/planned legislation on accounting and auditing?*
  - Amendment of the Decree on sanctioning of administrative violations in the field of accounting and auditing
  - Draft new functions and duties of the Department of Management and Supervision on Accounting and Auditing (new name of current Accounting and Auditing Policy Department ).
  - Draft new Vietnamese Accounting Standards (to update with some IFRSs)



# Public Oversight Authority (1)

- *Is there a regulatory body for the auditors?*
  - The Ministry of Finance (MOF) is responsible for the regulation of the accounting and auditing in Vietnam.
  - The Accounting and Auditing Policy Department (AAPD) is the agency directly authorized by the Ministry of Finance to perform activities of managing and supervising the accounting and auditing profession.
- *Is this body responsible for regulating ALL practicing auditors or the statutory auditors of public interest entities only?*

AAPD is responsible for regulating ALL practicing auditors.
- *How is the budget of the Public Oversight Authority in your country financed?*

It is financed by the Government (state budget)
- *Do professional accounting organizations have any role in the public oversight system?*

The professional organizations send some their reviewers to join the audit quality review team at the request of the MOF.

## Public Oversight Authority (2)

- *Briefly describe the scope and objectives of the audit regulatory body*
  - Develop a strategy for development of accounting and auditing for submission to the Government for issuance;
  - Preparation of legal regulations on accounting and independent auditing (such as accounting law, independent audit law and guiding decrees) submitted to the National Assembly / Government for promulgation.
  - Drafting of accounting standards for submission to the Minister of Finance for issuance;
  - Verify the auditing standards prepared by VACPA for submission to the Minister of Finance for issuance;
  - Submit to the Minister for issuance all regulations on licensing, CPD requirement, quality control for auditors and auditing firms.
  - Granting operating licenses for auditing firms and practicing licenses for auditors.



## Public Oversight Authority (2)

- *What are the duties of the oversight body?*
  - Receive the annual quality self-control report of the auditing firms
  - Select auditing firms for annual quality review
  - Mobilize practicing auditors and experts with relevant experience and expertise to join the inspection team;
  - Set up inspection teams at auditing firms subject to inspection
  - Develop and update documentation to serve the quality audit review. Organize training for the members of the inspection team;
  - Making annual report on audit quality review and publish on the website of MOF.
  - Discipline auditors and auditing firms
  - Supervise the implementation of post-inspection recommendations of auditing firms and practicing auditors
  - Organize the discussion, dissemination of lesson learned from findings for practicing auditors and auditing firms.

- *What is the composition (membership) of the oversight body?*

- ✓ The composition of the AAPD only includes officials of the Ministry of Finance.
- ✓ Some AAPD staffs hold CPA certifications and have auditing practice experience.
- ✓ Independent Audit Law allows the Ministry of Finance to set up an Advisory Board on audit quality when necessary.

- *What are the powers of the oversight body?*

To handle auditing firms and practicing auditors who violate regulations on auditing (such as poor quality audit, failure to comply with CPD requirement,...)



• *Describe if the oversight body conducts a program of inspections to assess the degree of compliance of each Statutory Auditor (individual and/or firm) with applicable auditing standards and regulations?*

1. AAPD selects the list of audit firms to be reviewed;
2. Set up inspection team for all visits and from that form inspection team for each visit;
3. Notify (at least 10 days in advance) to each audit firm selected to review. (including expected time of inspection and list of documents that should be available for review).

4. On-site review

The review consists of two parts:

- ▶ Evaluate the design, dissemination, and implementation of audit firm's internal quality control policies and procedures (compliance with VSQC<sub>1</sub>).
- ▶ Review selected audit files to assess compliance with auditing standards, laws and regulations.

The overall assessment is graded at four levels:

1. Good
2. Satisfactory
3. Unsatisfactory
4. Weak

- *Describe if the oversight body conducts a program of inspections to assess the degree of compliance of each Statutory Auditor (individual and/or firm) with applicable auditing standards and regulations?*
5. At the conclusion of each inspection, review team advises the firms and practicing auditors areas of non compliance with standards as well as areas that require improvement.
  6. AAPD then requires a response from the firms on their remediation plans to address areas of deficiencies



- *What are the sanctions for noncompliance?*

- The sanctions are generally warnings, monetary penalties, suspension or withdrawal of audit license.
- If the overall assessment is “Unsatisfactory” the auditing firms will be reviewed again in the next following year or next two following year. (If auditing firms are approved by SSC to audit PIE, the audit firms shall be suspended from providing audit services to PIE and shall not be approved for the next year).
- If the assessment of the audit engagement is “Unsatisfactory”: The auditors, who sign the audit reports, shall receive the warnings from AAPD (If auditors are approved by SSC to audit PIE, the auditors shall be suspended from approved PIE auditor list and shall not be approved for PIE audit next year).
- If the overall assessment is “Weak”, the audit license of auditing firms will be suspended for 3 to 6 months.
- The audit license of auditing firms shall be suspended from 6 to 24 months if having committed serious professional violations or violated the auditing standards, the code of ethics.

- *What are the sanctions for noncompliance? (cont...)*

➤ Auditing firms shall have their audit license withdrawn if:

- failing to rectify the violations within sixty days as from the date of suspension;
- deliberately certifying financial statements of frauds, errors or collusion and distort accounting records and dossiers to supply untruthful information and data;

- *How many staff/Inspectors does the POA have? Professional background and average number of years of audit inspection experience of the staff members?*

- The total number of AAPD staff is 30.
- But there are only 8 full time officers in the audit area.
- Four of them have CPA certification and have auditing practice experience.
- Average number of years of audit inspection experience of AAPD staff is 6.



- *Is there a public report prepared by the audit oversight body?*

- An annual report on audit quality review is prepared by AAPD and publish on the website of MOF.
- An annual report on audit quality review of audit firm which eligible to audit for listed companies and public companies is prepared by SSC and publish on the website of SSC.

(The annual report outlines the findings of the inspections and the overall assessment results of each of the reviewed auditing firms).

- *Can this report be accessed by the general public?*

- The AAPD's report is published in the website of the Ministry of Finance at the address <http://mof.gov.vn>
- The SSC's report is published in the website of the SSC at the address <http://ssc.gov.vn>

# Quality Assurance System (1)

***If an audit practice/quality review system is in place in your country, please specify:***

***1. Which institution is responsible for QAS?***

- The Ministry of Finance (AAPD) is responsible for promulgating regulations on audit quality review.
- ▶ The State Securities Commission is responsible for monitoring and evaluating the quality of auditing firms of listed companies and public companies in the securities sector.
- ▶ AAPD is responsible for monitoring and evaluating the quality of remaining auditing firms.

***2. What is the total number of staff dedicated to audit inspection activities; their professional background and average number of years of audit inspection experience of the staff members?***

- ▶ The total number of AAPD staff dedicated to audit inspection activities is 4.
- ▶ They are holders of CPA and have experience in auditing practice.
- ▶ Average number of years of audit inspection experience of AAPD staff is 6.



3. *What is the basis for selection of Statutory Auditors for review (for example, random, systematic, based on an annual return, risks assessment, etc.).*

- ▶ At least once every three years an audit firm that audits a listed company or public company in the securities sector should be reviewed.
- ▶ At least every four years an audit firm that audits a public company not in the securities sector (eg insurance companies) must be reviewed.
- ▶ At least once every 5 years, the remaining audit firm must be reviewed.
- ▶ An audit firm that have unsatisfactory result in the previous review should be selected to review in the following year or next two following years.

***Apart from the annual inspection, the auditing firm shall be inspected immediately upon:***

- ▶ There are signs of serious breach of professional standards, laws and regulations on audit.
- ▶ There is information to reflect and denounce unfair competition practices in order to attract customers or harm the interests of other audit firms.
- ▶ There is a major dispute between the members of the firm or large fluctuations in the number of practicing auditors leading to the potential to significantly affect the quality of auditing services;

*4. Is there a referral mechanism to the review process (for example, can the disciplinary function of professional accountancy body refer issues for review)? Who performs the review?*

- Ministry of Finance is the place to receive complaints and accusations against audit firms and practicing auditors. Upon receipt, the Ministry of Finance will consider and decide whether to inspect or not.
- If MOF determines that it should be inspected immediately, MOF will set up inspection team.



## Quality Assurance System (2)

*5. Describe the review i.e. whether it is primarily a desktop review, an on-site visit, or a combination of both.*

➤ All the reviews are on-site visit

*6. What is the average duration of the review (distinguish between sole practitioner, average audit firm, and a large audit firm)?*

➤ The average duration of the review:

- large audit firm: 5 days
- average audit firm: 3 days
- small audit firm: 2 days

*6. What is the primary focus of the review (for example, a review of the effectiveness of a firm's internal quality control systems, individual audit engagement reviews, etc.).*

The review consists of two parts:

- Evaluate the design, dissemination, and implementation of audit firm's internal quality control policies and procedures (compliance with VSQC<sub>1</sub>).
- Review selected audit files to assess compliance with auditing standards, laws and regulations relating to audit of audit firms and practicing auditors.



## Quality Assurance System (3)

*7. What is the basis for the selection of the audit engagements under review?*

- Engagement with big size client; special industry
- Engagement with too high or too low audit fees;
- Engagement with client whose audit firm offered a variety of services in the same period in addition to auditing services;
- Engagement that have disputes, litigation
- Initial audit engagement
- Different engagements of different partners of a auditing firm

## Quality Assurance System (3)

8. *Briefly describe the availability and quality of necessary resources to carry out this activity.*

- Annually, 25 – 30 audit firms are selected for review (AAPD selects from 15 to 20 non-PIE auditing firms and SSC selected about 10 PIE auditing firms)
- ▶ AAPD set a whole review team for each year (in 2016, review team including 34 persons) (reviewers are mobilized from the audit firms on a voluntary basis. Reviewer should be practicing auditor and have at least 3 years experience post qualified as CPA. Reviewer of PIE audit should hold position of audit manager/director or partner).
- ▶ Each firm's review team including 5-7 persons and reviewed at least 5 audit files, including 1 file refer by the firm and 4 files are random selected by the head of review team).



*9. Are the results of the review published or otherwise made available to the public?*

- ▶ An annual report on audit quality review of audit firm which eligible to audit for listed companies and public companies is prepared by SSC and publish on the website of SSC.
- ▶ An annual report on audit quality review is prepared by AAPD and publish on the website of MOF.

*10. Please highlight some of the major non-compliances detected by the inspectors. Also, please provide information about the sanctions imposed by the regulator or any other relevant institution as a follow-up of non-compliance (with actual examples if possible).*

### **At firm level:**

- Do not have robust systems of quality controls.
- The quality control policies and procedures lacks elements required by VSQC<sub>1</sub>
- Some firms not fully disclosed the firm's quality control policies and procedures to staffs or not documented the evidence of dissemination of the firm's quality control policies and procedures.

### **At engagement level:**

- did not perform sales and purchases cut-off tests to ensure proper cut-off at year end.
- lack of work done to carry out alternative procedures for all balances not confirmed.



- no or inadequate work done to test the completeness and accuracy of the underlying source data for provision and accruals;
- Inadequate work done to test costing of inventories in accordance with the entity's accounting policy
- inadequate work was done to review events that occurred after the date of the financial statements.
- Inadequate audit evidence obtained to support audit report/audit group audit.
- insufficient professional skepticism applied in the audit of related parties balances and transactions.
- Giving qualified opinion but not clarifying the reasons and not quantifying the extent that affected the elements of the financial statements.

- In 2016, among 10 auditing firms are selected for review by SSC:
  - 2 auditing firms ranked at grade 1 “Good”
  - 7 auditing firms ranked at grade 2 “Satisfactory”
  - 1 auditing firms ranked at grade 3 “Unsatisfactory” (this firm was suspended from providing audit service to PIE in 2016 and was not approved to audit PIE in 2017).
  - 11 practicing auditors, who sign the audit report of PIE, and their audit files ranked at grade 3 “Unsatisfactory” (these auditors was suspended from approved PIE auditor list 2016 and was not approved to audit PIE in 2017).



- In 2016, among 15 non-PIE auditing firms reviewed by AAPD,

- 2 auditing firms ranked at grade 3 “Unsatisfactory”
- 13 auditing firms ranked at grade 2 “Satisfactory”

Total 61 audit files are reviewed

- 7 files: Good
- 41 files: Satisfactory
- 13 files: Unsatisfactory

AAPD send warning letters to all firms and auditors who have files ranked at grade “Unsatisfactory”.

2 auditing firms ranked at grade 3 “Unsatisfactory” should be review again in 2017.

# The relationship between POA and other financial sector regulators

*Please, specify what are the relationship between Public Oversight Authority (POA) and other financial sector regulators in your country.*

➤ They refer to the AAPD if there are signs of violating the standards and regulations of the auditing firms.

*Are there any other regulations which address Quality Assurance for Audit e.g Banking and/or Securities Regulations?*

➤ The State Bank has issued regulations on independent audit of credit institutions, including criteria for auditing credit institutions;

➤ The State Bank has the right to request auditing firms to explain to the State Bank the issues stated in the audit report of credit institutions. The State Bank also have the right to decide on the list of auditing firms not allowed to audit for credit institutions.



# Conclusions

*Please describe significant challenges in the establishment and maintenance of a public oversight and quality assurance system in your country*

## ➤ Lack of human resources:

- Lack of full- time experienced and competent reviewer working for AAPD and SSC (therefore it is not possible to extend the duration of each visit and to increase the number of visits).

## ➤ Lack of financial resources:

- Funding for quality assurance is only from the government (no mechanism to collect contributions from profession or PIE)
- No mechanism to pay a remuneration at market rates for hiring senior independent reviewer who can exercise a high degree of professional judgement without any conflicts of interest



***Thank you  
for your attention!***