

# IMPROVING THE QUALITY OF INDEPENDENT AUDITORS SUPPORTING THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN VIETNAM

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**Abstract:** *Currently, the roadmap for the adoption of International Financial Reporting Standards (IFRS) in Vietnam has opened up many opportunities and challenges for many parties such as businesses, investors, analysts, etc. In this context, independent auditors play a huge role in confirming that information on financial statements is well-prepared in accordance with IFRS. However, not only the number of independent auditors who are knowledgeable about IFRS in Vietnam, but also the quality of independent auditors, is limited. Therefore, it is necessary to improve the quality of independent auditors to support the adoption of IFRS in Vietnam. This paper will analyze the current situation of independent auditors in the context of adopting IFRS in Vietnam and propose several suggestions to improve the quality of independent auditors in the current context.*

• Keywords: *quality of independent auditors, independent auditor, application of IFRS.*

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Tóm tắt: Lộ trình áp dụng các Chuẩn mực Báo cáo tài chính quốc tế (IFRS) tại Việt Nam được ban hành đã mở ra nhiều cơ hội và thách thức cho các bên liên quan như doanh nghiệp, nhà đầu tư và thị trường nói chung. Trong quá trình áp dụng các IFRS, các kiểm toán viên độc lập đóng vai trò rất lớn trong việc đảm bảo các thông tin trên các Báo cáo tài chính được lập theo IFRS. Tuy nhiên, số lượng và chất lượng kiểm toán viên độc lập am hiểu IFRS tại Việt Nam còn rất hạn chế. Do đó, việc nâng cao chất lượng nguồn nhân lực kiểm toán độc lập trong bối cảnh IFRS được tiến hành triển khai áp dụng tại Việt Nam là rất cần thiết. Bài viết sẽ phân tích thực trạng nguồn nhân lực kiểm toán viên độc lập dưới góc tiếp cận của việc áp dụng IFRS tại Việt Nam và gợi ý một số giải pháp nhằm nâng cao chất lượng nguồn nhân lực kiểm toán viên độc lập trong bối cảnh hiện nay.

• Từ khóa: *chất lượng kiểm toán viên độc lập, áp dụng IFRS.*

## 1. The necessity of adopting IFRS in Vietnam

According to the International Accounting Standards Board (2022), 167 jurisdictions have declared to apply IFRS in different forms. Of which, about 119 jurisdictions have requested a full application of IFRS to all or most of the public enterprises, the remaining jurisdictions allow the application of IFRS in different forms. Many countries that have not yet introduced sanctions to apply IFRS are also in the process

of adjusting their national financial reporting standards system to gradually harmonize with IFRS. The magnitude of IFRS adoption by each country depends on their current economic and social context as well as their future strategies.

In Vietnam, on March 16, 2020, the Ministry of Finance issued Decision No. 345/QĐ-BTC approving the scheme for application of International Financial Reporting Standards in Vietnam. This is a signal that Vietnam is actively using the global accounting language in the

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process of integrating with the world economy. The roadmap to apply IFRS is divided into 3 phases, including:

- Phase 1 is a period of IFRS readiness preparation (from 2019 to the end of 2021). In this phase, necessary preparations for the adoption roadmap are made by the Ministry of Finance, in order to support businesses adopting IFRS from 2022 onwards. These preparations include publishing the Vietnamese translation of IFRS standards, training, building guidelines for IFRS implementation, etc.

- Phase 2 is voluntary application (from 2022 to the end of 2025). In this phase, the IFRS will be put into practice in certain companies, such as state-owned enterprises, listed companies and large-scale unlisted public companies. FDI companies may adopt IFRS for their separate financial statements on a voluntary basis, provided that they supply all required information and transparent reports to the authorities about their contributions to the State budget.

- Phase 3 is compulsory application (from 2025 onwards). In this phase, IFRS will be compulsory for consolidated financial statements of all state-owned enterprises, listed companies and large-scale unlisted public companies. Other businesses that operate as parent companies may create IFRS consolidated financial statements on a voluntary basis. All remaining businesses may adopt IFRS for their separate financial statements on a voluntary basis, provided that they supply all required information and transparent reports to the authorities about their contributions to the State budget.

IFRS is considered as a global accounting language, so the application of IFRS will definitely bring many benefits to businesses, investors and the market in general, specifically:

- For businesses, the application of IFRS shall create conditions for qualified businesses to list on international exchanges, or approach preferential loans from international financial

institutions such as the World Bank, the International Monetary Fund, the Asian Development Bank, etc. FDI enterprises that are subsidiaries of transnational corporations will no longer have to pay extra costs to convert financial statements from Vietnamese Accounting Standards (VAS) to IFRS for the purpose of consolidating financial statements with parent companies abroad.

- For investors, the application of IFRS will improve the transparency of financial statements, helping to protect investors' interests because IFRS requires items of financial statements to be recognized and presented according to their nature, rather than the form or the name of the transaction, so it will minimize the impact of the transaction form on the accounting method, thereby increasing the comparability between the financial statements of the Vietnamese enterprise with other enterprises over the world.

- For the market, the application of IFRS will create a legal framework for accounting for a variety of financial instruments, assets and liabilities at fair value. The development of specific regulations on financial instruments and derivatives trading strongly affects both the primary market (the market for issuing financial instruments) and the secondary market (the trading market). For the primary market, banks and financial institutions have a clear legal basis to account for newly issued financial instruments such as futures, forwards, options contracts, and swaps. For the secondary market, a fully promulgated financial reporting standard system will contribute to promoting investment activities in financial derivatives such as securities on a centralized exchange. In particular, the application of IFRS is one of the factors to upgrade Vietnamese stock market.

The current IFRS system includes more than 40 standards, of which several new standards have been issued and applied in recent years, such as IFRS 15 about Revenue from contracts with customers, IFRS 16 about Lease, etc. Meanwhile,

the Vietnamese Accounting Standards (VAS) system only includes 26 standards that have been drafted and promulgated for a long time (the period 2001 - 2005) and are gradually revealing many shortcomings and not being able to keep up to changes in the economy. Some standards in the VAS system are not even updated in time compared to newly issued circulars, such as Circular 200/2014/TT-BTC. Thus, it is easy to see that there is a large gap between IFRS and VAS, therefore, a full application of IFRS in Vietnam requires great efforts and changes from many related units such as: state management agencies, entities applying IFRS, accountants, auditors, accounting and auditing training institutions, etc.

## 2. Current situation of independent auditors in the context of adopting IFRS in Vietnam

As mentioned above, a successful adoption of IFRS in Vietnam requires the changes of the many of related units such as state management agencies, application entities, accountants, auditors, accounting and auditing training institutions, etc. This paper will focus on analyzing quality of independent auditors in general in the context of adopting IFRS in Vietnam.

Independent auditors are those directly involved in process of auditing financial statements of entities applying IFRS in Vietnam. However, in reality, the number and quality of independent auditors who are qualified to participate in IFRS audits of financial statements are still very limited, specifically:

*Firstly*, the number of auditors with intensive training in IFRS are mostly from large auditing firms. This comes from the fact that the majority of enterprises that are currently applying IFRS in preparing financial statements are FDI enterprises, at the same time, they often choose to sign assurance audit contracts with the same auditing firms that their parent enterprises are selecting. Therefore, only a

few large international auditing firms have the opportunity to access IFRS financial statements audit contracts. Therefore, only a small number of auditors of these auditing firms have much access to IFRS, while auditors working at small auditing firms rarely have the opportunity to work with IFRS, they could mainly only works with VAS.

*Secondly*, the number of auditors with intensive training in IFRS in large auditing firms is also very limited. In fact, even in large audit firms, the number of auditors who are truly knowledgeable about IFRS is not much. The explanation for this situation is that many FDI enterprises only require the preparation of reports to be sent to their parent companies under IFRS, not a complete set of financial statements according to IFRS. Less workload means less experience. In addition, at many auditing firms, only a small number of auditors are actually trained and worked extensively with IFRS reports due to job assignments. That is, these auditors will be specifically assigned to clients who have reporting requirements under IFRS. Therefore, although working in the same large auditing company, there is only one department specializing in IFRS, the remaining auditors still only specialize in working with clients who prepare financial statements according to VAS.

*Thirdly*, the current IFRS reporting process still focuses on the conversion of financial statements, not really the process of recording and preparing financial statements under IFRS. In fact, the preparation of financial statements under IFRS is done based on financial statements prepared under VAS and conversion entries, therefore, the nature of arising economic transactions has not been directly reflected by IFRS but still through VAS. Thus, the reality is that many auditors are very good at preparing financial statement by using conversion entries, but do not really understand all international financial reporting standards.

### 3. Suggestions to improve the quality of independent auditor in the context of adopting IFRS in Vietnam

In order to fully prepare for the application of IFRS in Vietnam, it is necessary to improve the quality of independent auditors for IFRS. In this paper, several suggestions will be proposed as follows:

**Firstly**, audit firms should provide extensive training sessions to their auditors on IFRS. Currently, most of the training at IFRS is done during the actual audit process, thus, the auditors learn from each other based on working experience. A formal training process on IFRS has not been widely implemented across enterprises. Some individual auditors are really knowledgeable due to self-improvement and self-study. Therefore, in order for all independent auditors to have a certain understanding of IFRS on a common ground, it is necessary for auditing firms to organize extensive training sessions.

**Secondly**, auditing firms may consider rotating works between groups of auditors within the company. Instead of having only one group of auditors specializing in working with IFRS financial statements, auditing firms can consider assigning IFRS related works to different groups of auditors. In this way, the number of auditors who are familiar with IFRS will increase, thus, their experience of working with IFRS will also increase. Of course, this assignment of works should not be done during busy season because it will put great pressure on the performance of the auditors.

**Thirdly**, accounting and auditing training institutions should add more courses on IFRS. Currently, many accounting and auditing training institutions do not have IFRS related subjects, they only focus on training accounting practices under VAS. Therefore, learners do not have many opportunities to access IFRS at school. Regarding this issue, the Academy of Finance has already offered a course on IFRS in the training program. However, the number of

taught standards is limited, and at the same time, some of the taught standards are still familiar standards, such as IAS 16 about Properties, Plants and Equipment.

**Fourthly**, state management agencies should organize training sessions on IFRS for enterprises in general and auditors in particular. In fact, the Ministry of Finance has organized many seminars related to this issue, however, the coverage is still limited due to the low number of people who know the information of the seminars. Therefore, it is recommended that there should be a widely shared information channel so that many interested individuals and groups can easily access information and participate in these useful seminars.

Above recommendations is for the purpose of improving the quality of independent auditors in the context that IFRS is being implemented and applied in Vietnam. The process of applying IFRS in Vietnam still faces many challenges, in the process of implementation, related entities should gradually remove challenges to achieve the best results after this application roadmap.

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