

AUDITING OF FINANCIAL STATEMENTS IN VIETNAM - CURRENT SITUATION AND CHALLENGES**Nguyen Thi Thu Thu, Nguyen Hong Hai**

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SUMMARY

Financial statements play a crucial role in providing information about the financial situation and business activities of enterprises to investors, shareholders, creditors, and other stakeholders. Therefore, auditing of financial statements aims to confirm the accuracy and reasonableness of the information presented in the financial statements, which is essential. In Vietnam, the auditing of financial statements has made significant progress in recent years. However, alongside the achievements, there are still existing shortcomings that need attention and resolution. This article aims to study the current situation and challenges in the auditing of financial statements in Vietnam, while proposing solutions to enhance the quality of auditing of financial statements.

Keywords:

Audit, financial statement audit, quality.

1. INTRODUCTION

Financial statements (FS) and the process of auditing financial statements (AFS) play an undeniable role in ensuring the transparency and reliability of the financial information of enterprises. Especially in Vietnam, where the economy is developing with active participation from numerous enterprises and strong growth in various industries and services, conducting AFS has become an indispensable factor to ensure the transparency and stability of the financial system. Financial statements play a pivotal role in providing information about the financial status and business activities of enterprises to investors, shareholders, creditors, and other relevant parties. Therefore, the purpose of auditing financial statements is to confirm the truthfulness and reasonableness of the information presented in the FS, which is extremely necessary. Like many other countries worldwide, Vietnam has implemented AFS to ensure transparency and safety for the financial system. However, in the process of implementation, AFS in Vietnam still faces some shortcomings, posing challenges and difficulties for both enterprises and relevant parties. These shortcomings not only affect the effectiveness of the auditing process but also can have negative impacts on the development of enterprises and the financial system as a whole. Therefore, understanding and evaluating the current situation of AFS as well as the existing shortcomings are essential to propose appropriate solutions and improvements, thereby enhancing the transparency, reliability, and effectiveness of the auditing process.

2. REALITY OF AUDITING FINANCIAL STATEMENTS IN VIETNAM**2.1. Advantages**

In the context of economic development and the increasing demand for transparency in financial information, the process of auditing financial statements in Vietnam has achieved significant advantages. In a developing society like Vietnam, the demand for transparency and accuracy in financial information is becoming more important than ever. Particularly, with the increasing investment capital from both domestic and foreign sources, as well as the enhancement of international standards and regulations regarding financial reporting, auditing financial statements has become an indispensable part of enterprise management. One of the most important steps forward in the auditing process in Vietnam is the enactment of the Independent Audit Law since 2012. This law not only sets higher standards for the establishment and operation of audit firms but also helps create a healthy competitive environment within the industry. As a result, low-quality audit firms have been eliminated, thereby enhancing the market's ability to meet the requirements and increasing the transparency and credibility of financial statements.

In addition to verifying information, the role of audit firms and auditors has expanded further. Instead of merely examining financial figures, they actively contribute to the development and improvement of accounting and internal control systems within enterprises. By doing so, they not only help identify and address issues during the auditing process but also create conditions for enterprises to improve their efficiency and effectiveness, thereby enhancing their competitiveness and sustainability in the market. The accumulation of experience over many years of work is a strength of audit firms and auditors. They have accumulated deep understanding of the auditing process and financial analysis skills. This not only helps minimize risks for both audit firms and clients but also facilitates the provision of more effective and high-quality auditing services.

Thanks to their professionalism and in-depth understanding of the market, audit firms and auditors have made positive contributions to the development of the financial system and enterprises in Vietnam. In summary, these advantages have marked a significant step forward in the process of auditing financial statements in Vietnam. Improving the quality and efficiency of auditing not only benefits enterprises but also contributes to the sustainable development of the economy.

2.2. Disadvantages

During its development, the activity of auditing financial statements in Vietnam has faced several challenges and shortcomings, posing significant obstacles to international and regional integration. Although the quality of auditing financial statements in our country has been improved and gained trust from clients, there are still many issues that need to be addressed. The level of expertise and professional capacity of many audit firms and auditors in Vietnam remains limited. Moreover, various types of services are not competitive enough compared to foreign firms, and unhealthy competition among domestic companies still exists. Furthermore, price reduction to attract clients has led to a decrease in service quality, failing to meet the practical requirements of enterprises.

In addition, the society's awareness of auditing activities still has many limitations. Despite many improvements in the framework of auditing activities, it is still not comprehensive and consistent. Professional organizations have not been able to effectively organize and guide professional management. The quality of auditing financial statements also reflects fundamental issues in the management and use of state budgets at all levels and in various sectors. Moreover, there are many errors in data, presentation, and language in financial statements, making auditing information less transparent and reliable. Another issue is that most auditors are young and inexperienced. Although they have educational qualifications, many lack thorough preparation and practical experience. The lack of regular supervision and encouragement from unit leaders can lead to arrogance, abuse of power, and negligence of discipline during the auditing process.

There are many legal limitations, and some practical issues have been unresolved for many years without guidance, such as: Provision for reserve for OTC stocks where there are hardly any transactions; Capital contribution by brand; recognition of commercial advantages arising from internal transactions between companies under the control of controlling company... Some documents provide guidance that does not match the actual situation, even contrary to the documents already issued, leading to different interpretations and applications for the same issue. A typical example is the handling of exchange rate differences due to re-evaluation of year-end foreign currency balances... Competition in the auditing market is becoming increasingly fierce, which can lead to audit firms reducing fees to attract clients, thereby potentially compromising the quality of audits. Due to the difficulties in the domestic and international economy, sales revenue decreases, goods are sometimes stuck in circulation while bank interest rates are high, and input costs increase, leading to many listed companies and public companies not meeting their planned targets, and even some businesses are heavily loss-making and difficult to pay. This can lead to fraudulent activities by enterprises to "beautify" financial statements for various purposes. This risk affects audit firms significantly because in many cases, auditors have followed all procedures according to standards and regulations, but still cannot detect all frauds from enterprises. In conclusion, although there have been improvements, there is still much to be done to improve the quality of auditing financial statements in Vietnam, from improving the qualifications and capacities of organizations and individuals involved to strengthening supervision and professional management during the auditing process.

2.3. Causes of limitations

Firstly, the identification of annual audit objectives for specialized audits and state audits is often vague, lacking connection with key performance indicators and the audit subject. When planning audits, selecting and defining focal objectives are crucial. Focusing audits on key management objectives, particularly on budget management operations, can rectify the prevalent issues of scattered and trivial audits. Audit reports lacking direction and conclusions on substantive issues hold little value at the macro level.

Moreover, the selection of audit targets annually sometimes lacks rationale and fails to align with audit objectives. The yearly audit targets are typically ordered from entities with large budget revenues to small ones, without considering the annual audit purpose or identifying audit objectives for each target. Until now, the State Audit Office has not obtained necessary information, primarily economic and financial budget data from central ministries, localities, to strategically choose audit targets annually. Only after selecting targets in sequence do they conduct surveys to understand the situation and define audit objectives.

Additionally, the recent revision and issuance of unified audit report templates across the industry have led to illogicalities, contributing to subpar audit quality. The templates fail to guide auditors to delve into the core issues, compliance, and settlement of audited entities, specifically the audit results section. Instead of requiring audits to follow the budget execution cycle (preparation, execution, settlement), the templates only present discrepancies in finances, assets, and operational activities between the audited unit's financial statements and the audit report. Moreover, the discussion of budget preparation and execution is placed under the comments section, which is unreasonable and results in monotonous audit outcomes, failing to reflect the systemic nature of the issues.

Furthermore, the current synthesis and report writing skills of auditors are inadequate. Moreover, the delegation and assignment between auditors conducting comprehensive audits and those writing comprehensive reports are inconsistent, with improper utilization of human resources. Consequently, many audit reports yield poor quality outcomes and numerous errors, which should not be the norm.

3. Solutions to Overcome and Develop Financial Statement Auditing in Vietnam: Present and Future

To leverage the maximum advantages and mitigate the negative impacts of the Fourth Industrial Revolution (4IR), the accounting and auditing sector needs to continue innovating and adopting modern technology. This can be achieved by developing and implementing strategies for information technology (IT) development, focusing on enhancing cybersecurity management, especially through establishing Data Backup Centers. Strengthening cybersecurity systems and ensuring the expansion of operations in a stable, secure, and long-term efficient manner is crucial. Additionally, there needs to be more emphasis on disseminating knowledge about finance and accounting in the context of the 4IR, identifying and fully assessing risks related to accounting data and information when connected to the internet.

In terms of application: Increasing the application of IT in accounting and auditing activities, utilizing modern methods and IT to gradually increase efficiency while reducing costs, enhancing IT application in directing and managing the activities of accounting and auditing firms.

Universities specializing in accounting and auditing should develop programs that include applications and provide in-depth training on IT. Professional associations can support education and training on the 4IR by encouraging universities to incorporate relevant programs, ensuring graduating students have connections and digital skills. Furthermore, universities should invest in technology for practical experiences within the context of the 4IR.

Regarding infrastructure: Building and improving technical infrastructure to support IT applications across the sector, ensuring information and communication tools serve auditing activities, internal management, and operations in a stable, secure, and efficient manner on network environments. Establishing centralized data centers with advanced and appropriate technology to deploy IT applications, constructing internal network systems to meet the operational requirements of all affiliated units and network connectivity across the sector, ensuring high-speed transmission.

For human resources: Developing a sufficient and high-quality IT workforce to meet the requirements of managing IT systems and IT-related accounting and auditing tasks. Enhancing the expertise of IT personnel to ensure they have the capacity to manage, operate, and develop IT systems. Improving IT skills for staff to gradually enhance the capacity of auditors to perform audits in IT environments. 100% of staff should participate in training and guidance on software operation, administration, and software operation following specialized professional tasks.

Furthermore, cybersecurity management is also a key focus area. The 4IR has increased information sharing, leading to a significant demand for cybersecurity. Therefore, special attention should be paid to establishing Data Backup Centers and upgrading high-level security systems to ensure stable, safe, and long-term efficient operations expansion.

For the Ministry of Finance (including the State Securities Commission): To improve financial statement audit activities in Vietnam, the Ministry of Finance needs to provide specific and effective solutions. One of the most important measures is to enhance guidance and supervision. The Ministry of Finance should develop and publish detailed guidelines on audit procedures and standards. Implementing regular monitoring and inspection will help ensure compliance and quality of audit activities.

Additionally, there is a need to improve the legal environment to create clear, transparent, and consistent legal frameworks. This will enhance transparency and reliability of financial statements in the eyes of the business community and investors. To improve the quality of financial statement audits, the Ministry of Finance should support training and development of audit personnel. Proposing support policies for training, providing guidance materials, and encouraging specialized training programs will help enhance the competence and capacity of audit personnel. Moreover, promoting international cooperation in the auditing sector is also important. The Ministry of Finance can sign cooperation agreements with international auditing organizations and agencies, facilitating the sharing of experiences and learning from other countries. Furthermore, enhancing information and communication efforts regarding the role and significance of auditing activities is an effective means to improve awareness and cooperation from businesses and the public. Finally, promoting the use of information technology in audit activities is also a critical solution. The Ministry of Finance can promote the application of information technology in auditing, optimizing audit processes, and increasing work efficiency.

For listed companies and public corporations: Companies should choose reputable and quality audit firms to perform financial statement audits, avoiding selecting audit firms solely based on low fees. Companies should require auditors to explain their opinions on exceptions in financial statements during annual general meetings. Proactive collaboration with auditors in providing documents, addressing issues, and reviewing accounting data before issuing financial statements can minimize discrepancies between pre-audit financial statements and audited financial statements.

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For audit firms: Audit firms should invest appropriately in training to enhance the quality of staff, increase staff awareness of compliance with audit standards and professional ethics. Encouraging staff to participate in international audit certification programs such as ACCA, CPA is discouraged. Audit firms need to continue refining audit processes, quality control procedures, and supplementing timely updates to comply with auditing standards, accounting standards, and accounting regulations. Additionally, they must strictly implement established procedures. Audit firms should introduce regulations requiring independent members with high professional qualifications to review audit quality before issuing audit reports.

CONCLUSION

In the context of economic development and the increasing demand for financial transparency, financial statement auditing activities in Vietnam play an extremely important role. This article has outlined the current situation of financial statement auditing activities, from the achievements to the shortcomings and challenges. Despite significant improvements, there are still many difficulties and challenges facing financial statement auditing activities in Vietnam. The shortage of high-quality human resources, incomplete legal environment, and unhealthy competition among audit firms are challenges that the auditing industry is currently facing. However, by proposing specific and effective solutions such as strengthening guidance and supervision, improving the legal environment, investing in human resource training, promoting international cooperation, and using information technology, we can overcome these challenges. Consequently, the quality and reliability of financial statement audits will be improved, contributing to the transparency and sustainability of Vietnam's financial system. This not only helps improve the business environment and attract investment but also creates trust and stability for domestic and international businesses and investors.

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