

A COMPARISON OF THE UNITED STATES PUBLIC COMPANY ACCOUNTING
OVERSIGHT BOARD STANDARDS AND VIETNAMESE STANDARDS ON AUDITING

by

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ABSTRACT

Due to economic globalization, the growth of multinational corporations is inevitable. Those corporations are required to comply with the auditing regulations in each country they issue shares. However, the auditing environment in the countries are not the same. With my personal experience working with audit firms in both the United States and Vietnam, I am motivated to conduct this study to target to the United States companies who plan to issue shares in Vietnam, and Vietnam companies who plan to issue shares in the United States. This paper compares auditing standards in the United States and in Vietnam. The Vietnamese Standards on Accounting and Auditing Committee has adopted International Standards on Auditing. Since Vietnamese Standards on Auditing shares similarities with International Standards on Auditing, this paper uses International Standards on Auditing as an intermediary for the comparison. The result of the research indicates that Vietnamese Standards on Auditing is moving towards International Standards on Auditing more than towards the United States Public Company Accounting Oversight Board standards. The differences mainly reflect on the differences in accounting standards and social-economic factors.

Key words: Vietnamese Standards on Auditing (VSAs), International Standards on Auditing (ISAs), Public Company Accounting Oversight Board (PCAOB), Auditing Standards, Adoption.

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TABLE OF CONTENTS

INTRODUCTION	6
OVERVIEW ON THE AUDIT PRACTICE IN VIETNAM.....	7
RESEARCH QUESTIONS	9
REVIEW OF LITERATURE	10
PROPOSITION 1.....	13
PROPOSITION 2.....	14
PROPOSITION 3.....	15
PROPOSITION 4.....	15
CONCLUSION.....	17
WORKS CITED	18

INTRODUCTION

Financial auditing is the process of examining corporate financial statements to determine if they are in accordance with “generally accepted” accounting standards. Auditing requires a company to bring in external auditors to independently examine its financial statements and provide an independent opinion on whether the statements “present fairly, in all material respects, the [company’s] financial position.” When the external auditors conduct audit an organizations’ financial statements, they comply with a set of systematic guidelines called auditing standards to ensure the accuracy, consistency and verifiability of auditor’ actions and reports.

Currently, here are two types of auditing standard-setters: national standard-setters and an international standard-setter. The International Audit and Assurance Standards Board (IAASB) develops auditing standards. In the United States, Public Company Accounting Oversight Board (PCAOB) creates International Standards on Auditing (ISAs) for the audits of public companies and other issuers, while Auditing Standards Board develops auditing standards for the audits of non-issuer organizations. In Vietnam, the Vietnamese Standards on Accounting and Auditing Committee create Vietnamese Standards on Auditing (VSAs) for both public and private companies in Vietnam. In this thesis, we compare US auditing standards for public companies issued by the PCAOB in the United States with both International and Vietnamese Auditing Standards.

With the growth of global trade, it is essential for the International Audit and Assurance Standards Board (IAASB), an independent standard-setting body dedicated to serving the public interest by developing high-quality international auditing standards. The International Standards on Auditing (ISAs) are professional standards for the performance of financial audit of a

company's financial statements and required disclosures. Issued by International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), the final set of "clarified standards" comprise 36 International Standards on Auditing (ISAs) and the International Standard on Quality Control (ISQC) 1. Currently, there are 125 jurisdictions either using the Clarified ISAs or committed to their use in the near future (IAASB, 2018).

In the United States, the Public Company Accounting Oversight Board (PCAOB), created by the Sarbanes-Oxley Act of 2002, oversees the auditors and audits of public companies and other issuers registered with the U.S. Securities and Exchange Commission (SEC). All PCAOB rules and standards are subject to approval by the SEC. The PCAOB has four primary functions in overseeing auditors and audits: Registration, Inspection, Standard setting, and Enforcement (PCAOB, 2018).

The Vietnamese Standards on Accounting and Auditing Committee issues Vietnamese Auditing Standards (VSAs) under the authority of the Ministry of Finance (MoF) of Vietnam. Created to be in compliance with ISAs, VSAs apply to all enterprises and auditing firms operating in Vietnam. VSAs include 37 standards fully adopted of ISAs (Russell Bedford, n.d.).

Overview on the Audit Practice in Vietnam

Although accounting has a long history in Vietnam, the accounting profession was only established in the early 1990s. In 1991, the Ministry of Finance of Vietnam (MoF) founded the first two accounting and auditing firms in response to the changes in Vietnam's economy from a centrally-planned to an open market economy. The audit market attracted the large international firms with the first foreign investment license granted to Ernst & Young in 1992. The demands

of foreign investors required Vietnamese companies to provide reliable and transparent financial information in their annual reports. Subsequently, in an effort to align the audit with international standards and practice, the MoF issued the first series of six Vietnamese Standards on Auditing (VSAs), which it adapted from International Standards on Auditing (ISA) in 1999 (Russell Bedford 1, n.d.). Since 1999, the Ministry of Finance (MoF) of Vietnam issued seven series of VSAs. (Russell Bedford, n.d.).

Table 1: Timeline of Vietnamese Standards on Auditing (VSAs)

Year	Series Number	Number of auditing standards issued
1999	Series 1	6 VSAs
2000	Series 2	6 VSAs
2001	Series 3	6 VSAs
2003	Series 4	5 VSAs
2003	Series 5	6 VSAs
2005	Series 6	6 VSAs
2005	Series 7	4 VSAs

RESEARCH QUESTIONS

This paper seeks to answer the following questions:

1. Did VSAs partially or fully adopt ISAs? Develop hypotheses to explain this behavior.
2. Are there major modifications when VSAs adopt guidance from ISAs?
3. Are proposed changes to VSAs moving the VSAs toward ISAs and/or PCAOB standards?
4. Will the Ministry of Finance of Vietnam accept auditors' reports in accordance with PCAOB standards?

This thesis begins to address these questions by reviewing the existing literature related to the issue of differences in auditing standards by comparing three sets of auditing standards: those issued by the International Audit and Assurance Standards Board, the US Public Company Accounting Oversight Board, and Vietnamese Standards on Accounting and Auditing Committee. This paper also discusses the socio-economic factors in Vietnam that may account for differences in its auditing standards when compared to the other two sets. The paper concludes with a discussion of the findings of the research and proposes potential answers to the research questions above.

LITERATURE REVIEW

In this research, I compile a list of auditing standards under each standard setter:

International Audit and Assurance Standards Board, the US Public Company Accounting Oversight Board, and Vietnamese Standards on Accounting and Auditing Committee. Table 2 below uses ISAs on the far left column as the benchmark against the comparison of Vietnamese and the US auditing standards. When the other standard setters have a similar auditing standard to ISAs, the standard sequence of that standard setter is shown accordingly on the right columns. For auditing standards excluded from ISAs that the PCAOB has, they are indented on the left column. If a standard setter does not have the similar standard with other standard setters, it is shown as an “X”. This section discusses the propositions that explain the differences of VSAs from the US auditing standards.

Table 2: A comparison of ISAs, PCAOB standards, and VSAs

Guidance		ISAs	PCAOB	VSAs
General Principles and Responsibilities				
ISA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing		AS 1001 AS 1015	VSA 200
ISA 210	Agreeing the Terms of Audit Engagements		AS 1001	VSA 210
ISA 220	Quality Control for an Audit of Financial Statements		AS 1220 AS 1110	VSA 220
ISA 230	Audit Documentation		AS 1215	VSA 230
ISA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements		AS 1001	VSA 240
ISA 250	Consideration of Laws and Regulations in an Audit of Financial Statements		x	VSA 250
ISA 260	Communication with Those Charged with Governance		AS 1301	VSA 260
ISA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management		AS 1305	VSA 265
Audit Planning				

Guidance		ISAs	PCAOB	VSA s
ISA 300	Planning an Audit of Financial Statements		AS 2101	VSA 300
ISA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment		AS 2110	VSA 315
ISA 320	Materiality in Planning and Performing an Audit		AS 2105	VSA 320
ISA 330	The Auditor's Responses to Assessed Risks		AS 2301	VSA 330
	AS1101 Audit Risk	x		x
Auditing Internal Control Over Financial Reporting				
ISA 402	Audit Considerations Relating to an Entity Using a Service Organization		AS 2601	VSA 402
ISA 450	Evaluation of Misstatements Identified during the Audit		x	VSA 450
ISQC	International Standard on Quality Control (ISQC) 1, Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements		AS 1220	VSA 400
	AS 2610 Initial Audits - Communications Between Predecessor and Successor Auditors	x		x
Audit Evidence				
ISA 500	Audit Evidence		AS 1105	VSA 500
ISA 501	Audit Evidence-Specific Considerations for Selected Items			VSA 501
ISA 505	External Confirmations		AS 2310	VSA 505
ISA 510	Initial Audit Engagements-Opening Balances			VSA 510
ISA 520	Analytical Procedures		AS 2305	VSA 520
ISA 530	Audit Sampling		AS 2315	VSA 530
ISA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures		AS 2501 AS 2502	VSA 540
ISA 550	Related Parties		AS 2410	VSA 550
ISA 560	Subsequent Events		AS 2801	VSA 560
ISA 570	Going Concern		AS 2415	VSA 670
ISA 580	Written Representations		x	VSA 580
	AS 2401 Consideration of Fraud in a Financial Statement Audit	x		x
	AS 2405 Illegal Acts by Clients	x		x
	AS 2503 Auditing Derivative Instruments, Hedging Activities, and Investments in Securities	x		x
	AS 2505 Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments	x		x
	AS 2510 Auditing Inventories	x		x

Guidance		ISAs	PCAOB	VSAs
Using the Work of other experts				
ISA 600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)		AS 1205	VSA 600
ISA 610	Using the Work of Internal Auditors		AS 2605	VSA 610
ISA 620	Using the Work of an Auditor's Expert		AS 1210	VSA 620
Concluding Audit Procedures & Audit Reporting				
ISA 700	Forming an Opinion and Reporting on Financial Statements		AS 3101	VSA 700
ISA 705	Modifications to the Opinion in the Independent Auditor's Report		AS 3105	VSA 705
ISA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report		AS 3105	VSA 706
ISA 710	Comparative Information-Corresponding Figures and Comparative Financial Statements		x	VSA 710
ISA 720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements		AS 2710	VSA 720
AS 3110	Dating of the Independent Auditor's Report	x		x
AS 2701	Auditing Supplemental Information Accompanying Audited Financial Statements	x		x
AS 2705	Required Supplementary Information	x		x
AS 2805	Management Representations	x		x
AS 2810	Evaluating Audit Results	x		x
AS 2815	The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles"	x		x
AS 2820	Evaluating Consistency of Financial Statements	x		x
AS 2901	Consideration of Omitted Procedures After the Report Date	x		x
AS 2905	Subsequent Discovery of Facts Existing at the Date of the Auditor's Report	x		x
AS 4101	Responsibilities Regarding Filings Under Federal Securities Statutes	x		x
AS 4105	Reviews of Interim Financial Information	x		x
AS 6101	Letters for Underwriters and Certain Other Requesting Parties	x		x
AS 6105	Reports on the Application of Accounting Principles	x		x
As 6110	Compliance Auditing Considerations in Audits of Recipients of Governmental Financial Assistance	x		x

Guidance		ISAs	PCAOB	VSA s
AS 6115	Reporting on Whether a Previously Reported Material Weakness Continues to Exist	x		x
AS 1201	Supervision of the Audit Engagement	x		x
AS 2201	An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements	x		x
Special Topics				
ISA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks		x	VSA 800
ISA 805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement		x	VSA 805
ISA 810	Engagements to Report on Summary Financial Statements		x	VSA 810

Proposition 1: Minor modifications of VSAs from ISAs.

Most VSAs were adapted from ISAs with few modifications. Clear differences between these standards are mainly found in the required formats of the auditors' report and the audit engagement letter. The auditors' report in Vietnam requires more signatures and company stamps than those required by the ISAs. The Vietnamese audit engagement letter is in the form of an economic contract and is influenced by Laws and Regulations in an Audit of Financial Statements (Russell Bedford 2, n.d.).

Similar to PCAOB Standards, VSAs require an auditors' report on consolidated financial statements of general corporations and its subsidiaries. The main difference between VSAs and PCAOB Standards is that PCAOB has additional standards on audit evidence and reporting matters. The differences in audit evidence include the differences in Consideration of Fraud in a Financial Statement Audit, Illegal Acts by Clients, Auditing Derivative Instruments, Hedging Activities, and Investments in Securities, Inquiry of a Client's Lawyer Concerning Litigation,

Claims, and Assessments, and Auditing Inventories. Some examples of the differences in audit reporting are the differences in Dating of the Independent Auditor's Report, Required Supplementary Information, Management Representations, Letters for Underwriters and Certain Other Requesting Parties, and Responsibilities Regarding Filings Under Federal Securities Statutes. These differences are resulted from the difference in financial reporting standards between the United States and Vietnam.

In addition to auditing standards that are identical to ISAs, VSAs have sections expressing the responsibilities of foreign public accounting firms in Vietnam and responsibilities of clients. Neither the ISAs and PCAOB standards mention these responsibilities.

Proposition 2: Economic Environment Influences the Differences between ISAs, PCAOB standards, and VSAs

Vietnam's development record over the past 30 years is remarkable due to economic and political reforms. The shift from a centrally planned to an open market economy launched in 1986 has spurred rapid economic growth and development and transformed Vietnam from one of the world's poorest nations to a lower middle-income country. According to the World Bank, Vietnam is now one of the most dynamic emerging countries in the East Asia region (World Bank, 2017). This economic development demands the changes in Vietnam's audit standards to adapt the quality control and the effectiveness of ISAs for an audit of financial statements. The growth of multinational corporations' operations in Vietnam requires auditors in Vietnam to comply with international and foreign countries' auditing standards. The VSAs are moving towards ISAs and share many similarities with PCAOB standards.

Proposition 3: Legal Environment Influences the Differences between ISAs, PCAOB standards, and VSAs

In contrast to the common law system prevalent in the United States and other western countries, there is lower shareholder protection and transparency than in code law countries, like Vietnam (Y. Ding et al. 2007). International accounting standards are setting in accordance with the legal system and the requirements of the common law countries. However, Vietnamese accounting standards are constructed in accordance with the legal system and the requirements of the according code law country. The Vietnamese accounting system is strictly regulated by law, from laws on accounting (the highest hierarchical level) to circulars (the lowest hierarchical level) (Nguyen & Gong, 2012). With this difference in the accounting system of Vietnam and the United States, Vietnamese Standards on Auditing serves different objectives influenced by the accounting system.

Proposition 4: Cultural Environment Influences the Differences between ISAs, PCAOB standards, and VSAs

Since the 1980s, many studies confirm that cultural factors influence the development of accounting and auditing in a country. For example, the cultures Anglo-Saxon countries, tend to flexibility and accounting judgments. Conversely, eastern countries tend to more stringent regulations. Hofstede used four cultural factors to measure the similarities and differences in culture between countries on the world: Power distance (PDI), Individualism (IDV), Uncertainty avoidance (UAI), Long-term Orientation (LTO). These factors influence the development of accounting and the changes of accounting system. Table 3 below shows the cultural differences between Vietnam and Anglo-Saxon countries. Vietnam is a large power distance and collectivist

country. Hence, Vietnam's auditing system tends to strict rules and a unified, is often limited to the disclosure of auditing information, auditors' reports.

Table 3: A Comparison of some cultural values between Vietnam and Angle-Saxon countries

Country	Power Distance (PDI)	Individualism (IDV)	Uncertainty Avoidance (UAI)	Long-term Orientation (LTO)
Vietnam	70	20	30	80
United States	40	91	46	29
United Kingdom	35	89	35	25
Australia	36	90	51	31
New Zealand	22	79	49	30
Canada	39	80	48	23

Source: Geert Hofstede

CONCLUSION

Since 1999, The Ministry of Finance of Vietnam issued seven (7) series of Vietnamese Standards on Auditing, gradually adopting the International Standards on Auditing. Currently, VSAs fully adopted 37 standards of ISAs. The Ministry of Vietnam does not have any intention in moving VSAs toward PCAOB standards.

The modifications of VSAs from ISAs are minor. Differences are mainly found in the form of more elaborations on a regulation or different wordings of definitions. Most of the differences are influenced by consideration of Laws and Regulations in an Audit of Financial Statements. The changes from ISAs to VSAs are applicable for only compulsory audit clients. For voluntary audit client, the ISAs are followed rather than the VSAs.

It is reported that the Ministry of Finance (MoF) of Vietnam will accept audit that complied with ISAs. Accounting firms are required to adjust Auditors' Reports on public clients in accordance with VSAs, but it is not compulsory for non-issuer clients. Currently, there is no report on whether the MoF of Vietnam will accept auditors' reports in accordance with PCAOB standards. This matter is open for future research.

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