

Independent Audit of Credit Institutions and Foreign Bank Branches

On 15 December 2011, the State Bank of Vietnam (SBV) issued Circular No. 39/2011/TT-NHNN (Circular 39) on independent audit of credit institutions and foreign bank branches.

The issuance of Circular 39 to enforce independent bank audits is the latest example of the Vietnamese Government's determination to ensure the healthy operation of its banking system.

New changes brought about by Circular 39 include expanding the scope of mandatory audits to the operation of the internal audit system and raising the qualifications and criteria of practising auditors. Of note, if an audit report contains a reservation, then the credit institution or foreign bank branch concerned must undergo a re-audit.

These and other salient provisions are discussed below.

Applicable entities

Circular 39 applies to:

- credit institutions (comprising commercial banks and co-operative banks, non-banking credit institutions, micro-finance institutions and People's credit funds with total assets of 50 billion dong (about USD 2.38 million) or more as at 30 September in the year preceding the audit year);
- foreign bank branches; and
- independent auditing organisations, practising auditors, auditors, and other organisations and individuals involved in independent audits of credit institutions and foreign bank branches.

Scope of audits

Credit institutions and foreign bank branches must, on an annual basis, select an independent auditing organisation as stipulated in Circular 39 to perform an independent audit of:

- financial statements; and
- operation of the internal audit system.

The SBV may require a credit institution to use one or more independent auditing services when deemed necessary in the following cases:

- the credit institution is in danger of being placed under special control;
- the credit institution is being considered for termination of its period under special control;
- the credit institution is being restructured under the Law on Credit Institutions;
- other cases as stipulated by law.

Encouragement to conduct audits

The SBV encourages credit institutions and foreign bank branches to use independent auditing services to conduct audits of their limits or restrictions, aimed at ensuring safety during their operation.

Selection of independent auditing organisation

- When to select independent auditing organisation
 - » Prior to the end of a financial year, a credit institution or foreign bank branch must select an independent auditing organisation among eligible auditors to audit its financial statements and operation of its internal audit system in the following financial year.

- » If the selected independent auditing organisation is on the list of ineligible auditors as published by the SBV for the following year, the credit institution or foreign bank branch must select another organisation which satisfies all the conditions set out in Circular 39. The deadline for selection of a replacement organisation is 30 days from the date of publication of the list of ineligible auditors.
- Authority to select independent auditing organisation
 - » For a credit institution being a limited liability company, the members' council will make the decision on selection.
 - » For a credit institution being a joint stock company, the general meeting of shareholders will decide the selection of an independent auditing organisation for the audit or authorise the board of management to do this (if so stipulated in the charter of such credit institution).
 - » For a credit institution being a co-operative, the general meeting of members will decide such selection or authorise the board of management to do this (if so stipulated in the charter of such credit institution).
 - » For a foreign bank branch, the general director will decide the selection of an independent auditing organisation for the audit of the foreign bank branch.
- institution or foreign bank branch;
- operation of the internal audit system, aimed at ensuring satisfaction of:
 - » effectiveness and safety during operation, preservation, management, and safe and effective use of assets and other resources;
 - » a truthful, reasonable, complete and prompt system of financial information and management information.

Independent audit opinion

Based on the results of an audit, the practising auditors and the independent auditing organisation must provide an opinion on the financial statements and on other matters audited pursuant to the auditing standards. As defined in the Law on Independent Auditing, the auditing standards means regulations and guidelines on the requirements, principles and procedures for auditing and dealing with relationships arising during auditing activities that members participating in an audit, auditing enterprises and branches of foreign auditing enterprises in Vietnam must comply with. These auditing standards are formulated and issued by the Ministry of Finance on the basis of international standards.

If an audit report contains a reservation, then the credit institution or foreign bank branch concerned must undergo a re-audit. Within 30 days from receipt of such audit report, the credit institution or foreign bank branch must select another eligible independent auditing organisation to re-audit items relevant to the reservation in the audit report. Within 90 days from receipt of the above audit report, the credit institution or foreign bank branch must directly lodge with the SBV or send to it by post the results of the re-audit by way of report.

Matters to be independently audited

An independent audit of the financial statements of a credit institution or foreign bank branch comprises an audit of:

- accounting balance sheet;
- business operational results report;
- cash flow report; and
- notes to financial statements.

An independent audit of the operation of the internal audit system of a credit institution or foreign bank branch comprises an audit of:

- compliance with current regulations of the SBV on the internal audit system of the credit

Conditions for an independent auditing organisation to conduct auditing

These conditions include:

- It is established and has conducted auditing activities in Vietnam for a minimum three years;
- It has equity or paid up capital of 10 billion dong (about 476,000 USD) or more;
- It has ten or more practising auditors;

- It has at least five practising auditors participating in the audit of any one bank, non-banking credit institution or foreign bank branch, of whom at least three persons have two years' auditing experience in the finance and banking sector;
- It was not dealt with for a breach of legislation on independent auditing in the two-year period immediately preceding the year of the audit;
- It is not on the list of ineligible auditors as published by the SBV.

Criteria set for practising auditors

These criteria include:

- They have certificates of registered auditing practice issued by the Ministry of Finance;
- Practising auditors being Vietnamese must have had at least two years' auditing practice experience after the date of issuance of their audit practising certificates;
- Practising auditors being foreigners must have at least two years' auditing practice experience in Vietnam;
- They are not customers currently being extended credit or provided with other services on preferential conditions by the bank, non-banking credit institution or foreign bank branch being audited;
- They were not dealt with for a breach of

legislation on independent auditing in the two-year period immediately preceding the year of the audit.

Effectiveness

Circular 39 will take effect as from 1 February 2012 and will replace Decision No. 121/2005/QD-NHNN of the Governor of the SBV dated 2 February 2005 issuing the regulations on independent audits of credit institutions.

Audit contracts signed prior to 1 February 2012 will continue to be performed pursuant to the signed agreements.

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