



THE ABILITY AND ORIENTATION OF IMPLEMENTING INTERNATIONAL FINANCIAL REPORTING STANDARDS IN VIETNAM

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Abstract: The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) have been rapidly adopted in the world. Furthermore, the rapid growth of the Vietnamese economy in recent years has led to the necessity to apply IFRS to harmonize with international accounting and the globalization trend of the world economy. Adopting IFRS to prepare and present financial statements has provided many benefits but also poses certain challenges, therefore, Vietnam must have an appropriate and timely orientation plan to apply IFRS. The purpose of this article is to outline the benefits, challenges, and conditions for the countries having adopted IFRS. Based on the specific situation, characteristics and conditions of the Vietnamese economy, this article also proposes reasonable directions for applying IFRS in Vietnam.

Keywords: Vietnamese Accounting Standards (VAS), international convergence, International Financial Reporting Standards (IFRS)

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Introduction

IFRS issued by the International Accounting Standards Board (IASB) has been rapidly adopted worldwide. Organizations that have an essential impact on the world economy, such as G20, the World Bank (WB), the International Monetary Fund (IMF), the Financial Stability Board (FSB), and the International Organisation of Securities Commissions (IOSCO) encourage and support the application of IFRS globally. Approximately 120 countries and reporting jurisdictions allow or require IFRS for domestic listed companies, although about 90 countries have fully complied with IFRS as promulgated by the IASB. Adopting IFRS brings numerous benefits such as increasing the reliability, transparency, and comparability of financial statements, or reducing the cost of capital mobilization. IFRS also helps businesses and markets to operate more efficiently by having a consistent and global standard that could be applied to both developed and emerging economies.

Vietnam plans to adopt IFRS instead of the current Vietnamese accounting standards (VAS) by 2025 in its efforts to enhance comparability and improve

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transparency. Adopting IFRS to prepare and present financial statements has provided many benefits but also poses specific challenges. This article will outline the characteristics of IFRS, as well as the benefits, and challenges for countries that have adopted IFRS. The article then describes the situation and conditions of Vietnam, and suggests appropriate directions for applying IFRS in Vietnam.

Methodology

The article uses the Archival Research method to conduct the study. The research data includes studies on IFRS in emerging countries, as well as studies and opinions of IFRS experts in Vietnam.

Overview of economic theories on harmonization and convergence

Agency Theory

The agency theory emerged in the 1970s. In its primary form, the study identified asymmetric information problems between owners (called the principal) and managers (called the agent) in the insurance industry (Spence, Zeckhauser 1971, p. 87; Ross 1973, p. 134). It was quickly applied to many issues related to the representative contract between the principal and the agent to operate businesses (Jensen, Meckling 1976, p. 343; Harris, Raviv 1978, p. 29). The financial statement is prepared and published by the agent. The transparency and comparability of financial statements affects an enterprise's ability to attract investment capital. In fact, the principal always wants to raise more capital, hence it always wants to increase the comparability and transparency of financial statements. An effective method is for the agent to prepare and publish a financial statement following IFRS.

The theory of accounting harmonization, accounting standardization, and accounting convergence

Harmonisation is coordination, a tuning of two or more objects (Van der Tas 1988, p. 165). Harmonization (a process) is a movement away from the total diversity of practice. Standardization (a process) is a movement towards uniformity (a state). Harmony and uniformity are therefore not dichotomous (Tay, Parker 1990, p. 85). Harmonization includes harmonization in principle and rules; in accounting standards; in making and presenting the financial report.

Standardization is described as a period of uniformity or near uniformity. Standardization embraces both harmonization and normalization. The main reason is that standardization implies adopting a unique set of accounting rules, with a universal application (Barbu, Triggiani 2004, p. 1490).

Convergence is the process of moving toward a point, especially movement toward uniformity. The process of convergence with international accounting standards (IAS) is also a standardization process. Harmonization and convergence are different stages of accounting globalization.

The decision-usefulness theory

The decision-usefulness theory (1966) is a standard accounting theory used as a grounding theory to build IFRS as well as the accounting standards of many countries. This theory emphasizes that the basic function of the financial report is to provide useful and appropriate information for economic decision-makers. The decision-usefulness theory also refers to the concept of cost-benefit balance, which is an important aspect to consider when establishing accounting standards (Godfrey et al. 2003).

Theories of national accounting diversity

Many factors lead to differences in the accounting system of each country, which are divided into four main categories: economic, legal, cultural and political. Therefore, when each nation adopts IFRS, it is necessary to consider its political, economic, cultural and legal implications.

Overview of IFRS studies

Vietnamese studies

In Vietnam, there are many studies on the harmonization and convergence of the Vietnamese accounting system with IFRS. The studies conducted by Pham Hoai Huong (2010), Nguyen Thi Lien Huong (2010), Pham et al. (2011), Nguyen & Gong (2012) and Tran Hong Van (2014) show that the level of harmonization between VAS and IFRS is relatively high. Nevertheless, there are still some obstacles.

The process of accounting innovation in Vietnam to meet the trend of international accounting integration will have many defects and obstacles. Micheline & Nguyen (2007, p. 22) argue that the reliability and usefulness of information are not high and this is a barrier to international harmonization. Nguyen & Richard (2011, p. 719) and Nguyen & Tran (2012, p. 454) show the inadequacies of Vietnamese accounting in the parallel existence of the accounting standards system with the traditional accounting regulations and this causes difficulties for the accounting convergence process in Vietnam. Nguyen et al. (2012) argue that the Vietnamese accounting system approach on the basis of strict regulations is a barrier to international harmonization.

There are many proposals for accounting convergence in Vietnam. Vu Huu Duc and Quoc Viet (2008) propose a strategy for the international integration of accounting in Vietnam, which suggests applying IFRS for listed companies, public companies and other types of businesses sensitive to public interests such as banking or insurance. The remaining companies will be exempt from some requirements of the International Financial Reporting Standards. Quoc Viet (2009, p. 92) presents suggestions such as setting up a new mechanism for the Vietnamese accounting system in order to improve it. Pham Thi Thanh Ha (2009, p. 92) introduces some accounting orientations in Vietnam in the process of converting international accounting. Accordingly, in the short term, regulators need to add some accounting

standards that are consistent with Vietnamese practice and issue standards consistent with IFRS and that follow Vietnamese characteristics. In the long term, Vietnamese accounting requires a transitional period to unify the VAS and IFRS.

These studies have evaluated the current situation and proposed solutions to improve the usefulness of Vietnam's financial reporting system, based on the application of and harmonization with IFRS. However, the limitation in consolidating the scientific foundation and experience to issue accounting standards, regimes and regulations on evaluating the quality of financial reports based on the application of accounting principles and international practices is not explicit.

Long-term solutions and a roadmap for the development and integration of financial reporting systems have not been outlined. Studies have not mentioned or addressed the current global issues in preparing and presenting financial statements, such as the use of fair value in the valuation, presentation of knowledge resources or social responsibility of the enterprise on the financial report.

Studies on the benefits and factors affecting the harmonization, convergence, and preparation of IFRS

Applying IFRS will bring tremendous benefits. Christensen, Lee, Walker (2008) indicate that voluntary adoption of IFRS is associated with reduced earnings management and more timely loss recognition from German companies. The study by Lee & Fargher (2010, p. 15) shows the relationship between adopting international financial reporting standards and an increase in multinational investment by Australian investors. Armstrong et al. (2010, p. 229) conclude that investors expect convergence to improve information quality, reduce information asymmetry, and enhance compliance. Francis & Michas (2012, p. 548) find that accountant harmony reduced the cost of information, as well as promoted mergers and acquisitions in countries with similar accounting systems. Regarding research in Southeast Asian countries, Mahesh Joshi and Prem Yapa (2016, p. 234) point out that professional accounting, the media, and the government in Singapore, Malaysia, and Indonesia strongly supported the implementation of IFRS because there are many economic benefits from harmonizing with international accounting standards.

Accounting harmonization has many influencing factors. According to Rahman et al. (2002, p. 49), accounting harmonization should be considered in four important respects, that is, the influences, process, output, and outcome. The influences refer to the factors that have an impact on accounting practice harmonization (i.e. accounting regulation harmonization and other factors such as environmental factors and firm characteristics). The process refers to the actual steps taken by firms that may lead to reducing the differences in accounting practices of two or more countries, leading to a certain state of harmony (i.e. a similarity in practices). The output refers to the product of the level of harmony at a point in time (i.e. comparable accounting information). Finally, the outcome refers to the consequences of harmonization (e.g. better capital market decisions).

The preparation process for implementing IFRS should also take into account many factors. The study by Merve Kiliç et al. (2016, p. 170) on the factors

influencing the preparation for IFRS application in small and medium enterprises in Turkey indicates that the company characteristics such as scale, independent auditing, and internationality have an impact on the preparation for IFRS application in small and medium enterprises.

Studies on the conditions and orientations of IFRS application

Each country should consider the appropriate conditions and directions for adopting IFRS. Ball (2006, p. 24) explains that using fair value in IFRS is a problem for many countries. Many countries do not accept the complexity of fair value measurements. In spite of increasingly intense globalization, the stock market and the legal system are still dependent on the characteristics of each country, while IFRS implementation is not compulsory.

Lasmin (2011, p. 12) argues that convergence requires more time and effort than compliance. This is especially true for developing countries.

Ramanna (2013, p. 40) shows that each country has different IFRS harmonization strategies based on its political position. Nations with strong political positions will seek to influence the IASB to benefit them.

Ehoff & Fischer (2013, p. 220) argue that full application of IFRS may make the relevant regulator unable to control financial instruments and protect investors.

Alzeban (2016, p. 14) investigates the challenges faced by accounting educators in their efforts to organize IFRS materials in their teaching and examines the impact of various factors (lecturer's attitude, size of accounting department, teaching obligation, type of institution, teaching experience and teaching materials) on the time spent teaching IFRS materials in undergraduate accounting schedules. The results indicate that the lecturer's attitude and the available IFRS materials affect the most the instructor's time spent with IFRS. Besides, faculty support and IFRS training experience also have a positive impact on IFRS teaching time.

Discussion on the implementation of IFRS in Vietnam

The necessity of implementing IFRS in Vietnam

According to the studies mentioned above, implementing IFRS brings significant benefits to countries and businesses, including developed countries as well as countries that are restructuring their economy. Vietnam is restructuring its economy; therefore, Vietnam will have many benefits from implementing IFRS.

Vietnam is now integrating into the global economy with participation in the Trans-Pacific Partnership (TPP) and the ASEAN Economic Community (AEC). It has been proven that implementing IFRS will improve the transparency and reliability of the information provided by listed companies and the stock market, which will help increase the reliance of domestic and foreign investors. Therefore, the requirement of harmonizing Vietnamese accounting with international accounting is an indispensable requirement. On the other hand, the "Vietnam Accounting-Audit Development Strategy up to 2020, vision to 2030" affirmed

Vietnam's determination to apply IFRS. These are the preparatory steps to apply IFRS in Vietnam progressively.

Conditions and orientations for implementing IFRS in Vietnam

Currently, many countries are reviewing ten years of IFRS implementation from 2005 to 2014; meanwhile, Vietnam is about to start applying them, although not entirely, only a part of IFRS. From 2001 to 2005, the Ministry of Finance issued 26 Vietnamese accounting standards. According to Decision 480/QĐ-TTg dated March 18, 2013, these standards will be amended to harmonize with international standards and from 2016 to 2020, new accounting standards will be issued.

In Vietnam, according to Deloitte Vietnam, most companies are applying VAS to prepare the statutory financial report, only a few foreign-invested companies or those companies listed on the international market implement IFRS to make the financial report. Applying IFRS is still tricky in Vietnam for many reasons:

- Financial instruments, business integration, share-based payment, and the decrease in asset value are much debated when applying IFRS.
- Applying IFRS requires accountants to use principle-based accounting while they are using rule-based accounting.
- IFRS aims to value assets by using fair value rather than historical cost. Therefore, IFRS has been synchronized and developed in the market. Meanwhile, the VAS was made based on the International Accounting Standards (IAS), which is uses historical cost. Many accounting experts believe that using fair value measurement is very difficult to implement in Vietnam because the Vietnamese market is unclear and unstable.
- The lack of resources to implement IFRS on a large scale is a significant disadvantage. In fact, many Vietnamese companies have successfully applied IFRS. However, to apply IFRS on a large scale will require a substantial investment in resources. These resources include both human and financial resources.

In 2015, The Vietnamese National Assembly promulgated the Accounting Law 2015 and introduced the concept of fair value measurement, which is an essential precondition for Vietnam to apply IFRS soon. In the period 2018-2019, Vietnam will implement IFRS for all companies listed on the stock exchange. To successfully implement IFRS, Vietnam could consider the following measures:

- Firstly, having a specific roadmap to implement IFRS. Vietnam should adopt IFRS step by step to suit the economic conditions, foreign language ability, labor market level and development of the Vietnam stock market before full implementation. With this model, Vietnam can simultaneously implement two standard systems: IFRS and VAS. This policy orientation is very reasonable as the Vietnamese market is not fully developed.
- Secondly, enhancing the role of accounting and auditing associations. Implementing IFRS is not a simple, but very important issue. Therefore, Vietnam should have consultancy and support from accounting and auditing associations. They can provide material, training or technical support in the process of applying

- IFRS. With experience in the global adoption of IFRS, some international organizations and auditing firms could assist the Ministry of Finance in making the roadmap and implementing IFRS in Vietnam. At the same time, they can advise and support businesses in applying IFRS to prepare financial statements.
- Thirdly, improving the quality of accounting training. One of the crucial reasons why Vietnam does not fit into other convergence models is the limited capacity of accountants. In fact, most universities do not introduce IFRS in the curriculum. In addition, the foreign language ability of students has not met the requirements of international integration. Therefore, if Vietnam wants to implement IFRS successfully, they should pay more attention to training human resources.

Conclusions

Implementing IFRS brings benefits to countries and businesses such as increased capital mobilization, increased transparency, and improved financial information comparability. Vietnam is a developing country, is restructuring its economy and wants to integrate deeply with the global economy; therefore IFRS implementation is necessary. IFRS implementation is also challenging and requires the efforts of the Vietnamese government, businesses, and universities. To successfully apply IFRS, Vietnam should focus on three main directions. The first thing Vietnam should do is to have a specific roadmap to implement IFRS step by step. The main reason is that there are several of differences between VAS and IFRS at present so it is necessary to eliminate those differences before applying IFRS entirely. The second and third thing that Vietnam should do is to enhance the role of accounting and auditing associations and to improve the quality of accounting training. In order to have human resources to apply IFRS, Vietnam needs the cooperation and efforts of all professional associations, state agencies, enterprises and training institutions. When Vietnam decides to implement IFRS completely, there will be a significant change in accounting training. Therefore, training institutions should work with professional associations and enterprises to address the need for IFRS training not only for accountants who want to update their knowledge about IFRS but also for students who will be accountants in the future.

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ZDOLNOŚĆ I ORIENTACJA WDRAŻANIA MIĘDZYNARODOWYCH STANDARDÓW SPRAWOZDAWCZOŚCI FINANSOWEJ W WIETNAMIE

Streszczenie: Międzynarodowe Standardy Sprawozdawczości Finansowej (MSSF) wydane przez Radę Międzynarodowych Standardów Rachunkowości (RMSR) zostały szybko przyjęte na świecie. Ponadto dynamiczny wzrost wietnamskiej gospodarki w ostatnich latach doprowadził do konieczności zastosowania MSSF w celu harmonizacji z międzynarodową księgowością i trendem globalizacji gospodarki światowej. Przyjęcie MSSF przy sporządzaniu i prezentowaniu sprawozdań finansowych przynosi wiele korzyści, ale także napotyka pewne wyzwania, dlatego Wietnam musi mieć odpowiedni i terminowy plan orientacyjny, aby zastosować MSSF. Celem niniejszego artykułu jest przedstawienie korzyści, wyzwań i warunków dla krajów, które przyjęły MSSF. W oparciu o specyficzną sytuację, charakterystykę i warunki gospodarki wietnamskiej w publikacji zaproponowano również rozsądne wskazówki dotyczące stosowania MSSF w Wietnamie.

Słowa kluczowe: wietnamskie standardy rachunkowości, konwergencja międzynarodowa, międzynarodowe standardy sprawozdawczości finansowej