



Decree No. 174/2016/ND-CP Guidance on the Law on Accounting (2015)

Financial Reporting Alert

February 2017



On 30 December 2016, the Government of Vietnam issued decree No. 174/2016/ND-CP ("the Decree"). The Decree provides guidance on some articles of the Law on Accounting (2015) ("the Law").

1. Scope of application

In addition to the scope of application already specified in the Law, the Decree clarifies that the Law also applies to foreign organizations and individuals that generate income from providing services in Vietnam (also known as foreign contractors) and organizations and individuals that are involved with or provide accounting services.

2. Unit of accounting

Accounting units that may adopt an accounting currency other than VND: the Law specifies that this clause is applicable to accounting units that have receipts and payments mainly in a foreign currency. The Decree clarifies that an accounting currency other than VND may be used for accounting units of which the economic transactions mainly occur in a foreign currency.

Rounding numbers in published financial statements: numbers presented in consolidated, combined or summarized financial statements may be rounded to the nearest thousand, million or billion if at least one figure presented in such financial statements are 9 digits, 12 digits or 15 digits long, respectively.

3. Accounting records and supporting documents

Accounting records and supporting documents: the Decree requires that accounting vouchers are prepared in a manner that is clear, complete, timely, accurate, verifiable and easy to reconcile.

Electronic accounting vouchers: where electronic vouchers are used in accordance with the Law on Accounting, an e-signature may be used in accordance with the Law on Electronic Transactions. Note that the Law on Electronic Transactions promulgates, amongst others, the following:

- conditions for an e-signature to be considered as secured and reliable including the use of an e-signature that is verified by an organization that provides e-signature verification service
- conditions for an e-signature to be considered to be legally valid
- responsibilities of an individual that signs electronically and the party that accepts an e-signature.

Copied accounting documents: where copied accounting documents are used, they should be copied from the original documents. Copied accounting documents should be certified with a signature of a legal representative and a seal of the accounting unit, or a competent authority that decides to sequester the accounting unit's accounting documents. The Decree specifies the instances when an accounting unit may use copied accounting documents including (i) having a donor-funded project or a project funded by borrowing funds and the accounting unit commits to submit original documents to the foreign donor or lender; (ii) having projects, programs that are co-implemented by various organizations; (iii) its accounting documents being sequestered by a competent authority; or (iv) its accounting documents being lost or destroyed as a result of a natural disaster.

Accounting documents that are blockaded or sequestered: the Decree provides additional guidance on instances where accounting documents (including electronic documents) of an accounting unit are blockaded or sequestered by a competent authority including the responsibilities of both the accounting unit and the related competent authority in such instances.

4. Language used in accounting

The Law requires that if a foreign language is used on an accounting voucher, in an accounting book or financial statements, both languages (Vietnamese and the foreign language) should be used simultaneously.

The Decree specifies that an accounting unit should translate the minimum content of an accounting voucher (as specified in article 16 of the Law) if it is used to record to an accounting book or when preparing financial statements in Vietnam. It is not mandatory to translate all supporting documents unless there is a specific request from a competent authority.

5. Retention and destruction of accounting records and supporting documents

The Decree dedicates articles 8 to 17, of few pages long, on providing guidance on retention and destruction of accounting records and supporting documents.

Types of accounting documents that should be archived: accounting vouchers, sub-ledgers, general ledgers, financial statements, summarized/ combined reports to finalize state budget expenditure. The Decree also includes a detailed list of other documents to be archived.

Archiving original vs copied accounting documents: accounting documents to be archived should be original. The Decree specifies instances when copied accounting documents should be archived (mostly where copied accounting documents can be used as specified in section 3 above).

Internal policy on document preservation: the Decree requires an accounting unit to establish a formal policy on the management, use and preservation of accounting documents. Very small enterprises are exempt from having to comply with this requirement.

Archiving electronic accounting documents: the Decree requires an accounting unit to print out accounting vouchers and records before sending them to archive except in cases where the accounting unit chooses to archive such documents electronically.

Despite the above, the accounting unit should still print out electronic accounting documents, have them signed and stamped by its legal representative, if it is required by a competent authority in an investigation or an audit.

The option to archive documents electronically is not available to most entities implementing state accounting.

Location to archive: accounting documents are archived at a warehouse of an accounting unit or its rented warehouse in Vietnam.

For an accounting unit that ends its operation in Vietnam, the legal representative decides the location to archive its accounting documents.

For an accounting unit that dissolves, bankrupts or terminates operations, this decision is made by the accounting unit's legal representative or a competent authority that decides to terminate the accounting unit's operations.

For an accounting unit that changes its form of ownership or form of enterprise, accounting documents that are dated within the retention period, or relate to the change, are archived at the new accounting unit or as decided by a competent authority that decides the change.

For an accounting unit that has been restructured through a split-off, spin-off, merger or acquisition, accounting documents that are dated within the retention period are archived at the newly formed accounting unit. The Decree also specifies the location to archive accounting documents that relate to the split-off or spin-off.

Retention duration: the Decree specifies minimum retention periods of five years and ten years, depending on the type of document; certain types of documents must be retained perpetually.

Five-year retention period applies to documents that are not the direct source of information to record a transaction in an accounting book or to prepare financial statements and documents that are mainly used for internal management purposes.

Ten-year retention period applies to documents that are the direct source of information to record a transaction in an accounting book or to prepare financial statements. This retention period also applies to, amongst others, (i) documents relating to a liquidation or sale of fixed assets, inventory count or asset valuation; (ii) accounting documents of an accounting unit that holds funds, or is assigned to manage funds for a public investment project (or "chủ đầu tư" in Vietnamese) in financial years when a project of group B and C¹ is finalized; (iii) documents relating to establishment of an enterprise, split-off, spin-off, business combination, merger, change of ownership form or enterprise form, dissolution, bankruptcy and termination of operation; and (iv) documents at an accounting unit that relate to an examination or an investigation by the state audit team, a competent state authority or an independent auditor.

Perpetual retention period applies to documents of historical, economic, national security and defense significance (term is not defined in the Decree but also used in the Law on Archiving), and certain accounting documents in accounting units implementing state accounting.

Destruction of accounting documents: legal representative of an accounting unit decides on the destruction of accounting documents when the retention period lapses.

Documents may be destroyed by burning, shredding, tearing-off or other manners such that the documents cannot be re-used.

An accounting unit shall (i) establish a committee to destroy the documents, (ii) count and classify documents to be destroyed; and (iii) formalize the counting process, including pre and post-count procedures, by way of taking minutes.

6. Accounting personnel

Organizational structure of an accounting department

The authority that is competent to establish an accounting unit decides on the organizational structure of the unit's accounting department. If such authority does not exist, the legal representative of the accounting unit makes this decision.

Individuals that are considered to have expertise in accounting are those that hold (i) qualifications from various universities, colleges, schools and academies specialized in accounting and auditing; (ii) certified public accountant certificate in accordance with the Law on Independent Audit; (iii) accounting practitioner certificate in accordance with Law on Accounting; and (iv) accounting certificates of a foreign body recognized by the Ministry of Finance.

¹ Project of group B and C is basically a project relating to industries such as power, petroleum, chemicals, fertilizers, machine building, cement, metallurgy, mining, mineral processing, infrastructure, healthcare, culture, education and broadcasting etc that achieve a certain level of investment capital.

The Decree includes several grandfather clauses applicable to individuals who do not hold the required accounting certificates / degrees but were appointed to chief accountant in the past.

Individuals who are not eligible to conduct accounting work

The Decree reiterates similar requirements in the Law. Individuals that are not eligible to conduct accounting work (i) minors and people whose civil act capacity was restricted or revoked as decided by a court; (ii) people that are prohibited from practicing accounting under judgment or as decided by a court; (iii) blood-related or adopted parents, spouses, blood-related or adopted children and blood-related siblings of the legal representative, (general) director, his/her deputy in charge of finance and accounting, chief accountant of the same accounting unit except entities of certain types (see below); and (iv) people that are management personnel, warehouse keeper, cashier, individual in charge of frequent buying and selling assets at the same accounting unit except in certain types of entities (see below).

Exceptions specified in (iii) and (iv) above include accounting units that are private companies, limited liability companies owned by an individual and other cases, which are specified by the Decree to be enterprises that are not state owned and are very small enterprises.

Appointment of chief accountant or person in charge of accounting

An accounting unit shall appoint a chief accountant (or if not ready, a person in charge of accounting, but only for a period not exceeding 12 months).

An accounting unit that is not implementing state accounting may outsource the chief accountant service.

A very small enterprise may appoint a person in charge of accounting instead of a chief accountant.

The Decree also specifies requirements on re-appointment of a chief accountant in an accounting unit implementing state accounting.

Qualification and experience of Chief Accountant

Article 21 in the Decree reiterates the qualification requirements of a chief accountant or person in charge of accounting ("chief accountant") as specified by the Law. Whilst article 54, item 1(b) of the Law requires minimum intermediate level accounting qualifications (or "trung cấp" in Vietnamese), the Decree now specifies that a chief accountant of most enterprises and state organizations should have at minimum a university accounting degree.

An intermediate level accounting qualification is acceptable for the chief accountant position of enterprises with a charter capital below VND10 billion and some state accounting units at district or lower level.

The chief accountant of a state owned parent company of which more than 50% of the capital is contributed by the state shall have at least five years' experience in accounting.

7. Accounting by a foreign contractor

A representative office of a foreign enterprise operating in Vietnam that is not a legal entity or a foreign contractor can choose to adopt, partially or in full, the Vietnamese Accounting System for enterprises; in the latter case, the adoption should be consistent throughout the annual accounting period.

8. Provision of accounting service

Eligibility: an auditing enterprise and a practicing auditor eligible to provide independent audit services, as decided

by the Ministry of Finance, are also permitted to provide accounting services.

Such enterprises and auditors are under quality supervision from, and are monitored by, the Ministry of Finance.

Capital contribution ratio by founding members of an accounting service entity:

An institutional member may contribute capital up to 35% of the total charter capital in an accounting service limited liability company with two members or more. If there are more than one institutional members, the capital contributed by all of these members will not exceed 35%.

An accounting practitioner shall contribute capital, in combination with other accounting practitioners, to a minimum level of more than 50% of the total charter capital in an accounting service limited liability company with two members or more. An accounting practitioner is not allowed to register to practice the profession (or "hành nghề" in Vietnamese) at two accounting service entities at the same time.

Professional indemnity insurance ("PII"):

An accounting service entity shall buy a PII policy for its accounting practitioners within 60 days from the issue date of the accounting practitioner certificate.

The insurance premium is negotiable between the accounting service entity and the insurance company, but if damages relating to an engagement occur, then the compensation amount, if any, should not be less than the service fee received or receivable by the accounting service entity from its client.

Cross-border provision of accounting services

The Decree specifies conditions for cross border provision of accounting services in Vietnam, which include, amongst others:

- the foreign accounting service enterprise is established in countries that are members of the World Trade Organization or have an international convention with Vietnam for cross-border provision of accounting services;
- the foreign accounting service enterprise is licensed to provide accounting service in its home country
- the foreign accounting service enterprise has at least two practicing accountants who are licensed by Vietnam's Ministry of Finance. One of the two shall be its legal representative
- the foreign accounting service enterprise has purchased PII for its practicing accountants in Vietnam
- the foreign accounting service enterprise has been registered with and licensed by the Vietnam's Ministry of Finance to provide cross-border accounting services and
- the foreign accounting service enterprise shall only provide cross-border accounting services jointly with a licensed Vietnamese accounting service enterprise.

The Decree also specifies responsibilities of both enterprises mentioned above.

9. Implementation provision

The Decree became effective on 1 January 2017. It also provides for a transitional period of 24 months from 1 January 2017.

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