

Vietnam

# Public Expenditure and Financial Accountability (PEFA)

Public Financial Management Performance Assessment  
July 2013

Currency Unit	=	Dong
US\$	=	21,100 (July 2013)
Financial Year	=	Calendar Year

## ABBREVIATIONS AND ACRONYMS

<b>ADB</b>	Asia Development Bank
<b>AFTA</b>	Asian Free Trade Agreement
<b>AUSAID</b>	Australian Agency for International Development
<b>COFOG</b>	(UN) Classification of the Functions of Government
<b>DMEFD</b>	Debt Management and External Finance Department
<b>DMFAS</b>	Debt Management Financial Accounting System
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FY</b>	Financial Year
<b>GDC</b>	General Department of Customs
<b>GDP</b>	Gross Domestic Product
<b>GDT</b>	General Department of Taxation
<b>GFS</b>	Government Financial Statistics
<b>GoV</b>	Government of Vietnam
<b>IA</b>	Internal Audit
<b>ICOR</b>	Incremental Capital-Output Ratio
<b>IFAC</b>	International Federation of Accountants
<b>IFI</b>	International Financial Institution
<b>IFRS</b>	International Financial Reporting Standard
<b>IMF</b>	International Monetary Fund
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>MDA</b>	Ministries, Departments and Agencies
<b>MDTF</b>	Multi Donor Trust Funds
<b>MoF</b>	Ministry of Finance
<b>MPI</b>	Ministry of Planning and Investment
<b>MTEF</b>	Medium Terms Expenditure Framework
<b>MTFF</b>	Medium Terms Fiscal Framework
<b>NA</b>	Not Applicable
<b>NR</b>	Not Rated (the Indicator is not rated due to lack of evidence/data)
<b>ODA</b>	Official Development Assistant
<b>OECD</b>	Organizational for Economic Co-operation and Development
<b>PI</b>	Performance Indicator

<b>SAI</b>	Supreme Audit Institution
<b>SAV</b>	State Audit of Vietnam
<b>SBV</b>	State Bank of Vietnam
<b>SOE</b>	State-Owned Enterprise
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>TABMIS</b>	Treasury And Budget Management Information System
<b>TSA</b>	Treasury Single Account
<b>UNCTAD</b>	United Nations Conference for Trade and Development
<b>WB</b>	World Bank
<b>WTO</b>	World Trade Organization

## Foreword

Public financial management reform is considered one of the key elements of the overall economic reform in general and administrative reform in particular. As a matter of fact over the last years, public financial management reform activities have made significant progress, contributing positively to improving the investment environment, promoting socio-economic development and active integration into the world economy. The reform activities should be further strengthened in the coming time in response to requirements of the new development era of the country.

To help set priorities and to plan the roadmap for public financial management reform activities in line with the requirements of general economic reform, door-opening and integration, and taking into account human and material resources of the country, it is necessary to have overall assessment of the actual performance of the public financial management system.

I am very pleased to introduce this first Public Expenditure and Financial Accountability (PEFA) assessment of the Government of Vietnam. This report covers all aspects of the Vietnamese public financial management system: how the budget is set, including the role of the National Assembly, how revenue is raised, how money is spent, how it is accounted for and audited.

This assessment report is based on the Public Expenditure and Financial Accountability assessment framework (or “PEFA”) developed by the World Bank in collaboration with other development partners, both countries and international institutions. By now, comparable assessments have been made of public financial management systems of well over one hundred countries around the world.

This report is resulted from a process of self-assessment led by the Ministry of Finance, under the guidance from the PEFA Secretariat and support from the World Bank and other development partners. This is a progressive approach that reflects the ownership and initiation of all related Government agencies. In order to ensure quality, the results of the self-assessment were then the subject of a rigorous review by a team assembled by the World Bank, in the course of which all the evidence was re-examined in discussion with the Government’s Working Group. In addition information was sought from the Vietnam Chamber of Commerce and Industry and major auditing firms. The draft report was subjected to quality review by the PEFA Secretariat and peer reviewers appointed by the World Bank, and discussed at a workshop with the principal Vietnamese stakeholders.

We believe that this Report will provide important information to all stakeholders within and outside the Government of Vietnam, about the actual performance of the public financial management system of Vietnam against a common and standardized assessment framework, and thereby facilitate the identification of areas of reform priorities, in line with Government’s priorities and international practices. The Report will also provide comprehensive information to development partners be taken into account in their future cooperation with and support for the Government’s reform plans.

Nguyen Cong Nghiep  
Standing Vice Minister  
Ministry of Finance

## Acknowledgements

This Public Expenditure and Financial Accountability Assessment was commissioned by the Prime Minister of Vietnam, H.E. Mr Nguyen Tan Dung, and was prepared by the Government of Vietnam with the support of the World Bank and the Development Partners participating in the Multi-Donor Trust Fund for Public Financial Management Modernisation (MDTF 2).

On the Government side, overall guidance was provided by Mr. Nguyen Cong Nghiep, Standing Vice Minister of Finance. The task managers and principal editors of the report were officials in the State Budget Department, particularly Mr. Huynh Quang Hai – Director, Mr VoThanh Hung - Deputy Director General, and Mme Tran Kim Hien (Division Chief. The members of the PEFA Working Group which prepared the assessment are listed in Annex III of the report. They were drawn from all Departments of the Ministry of Finance, as well as other Ministries, the State Audit Agency, and the National Assembly.

On the side of the World Bank and Development Partners, overall guidance was provided by Mme Victoria Kwakwa (Vietnam Country Director) and Mr Deepak Mishra (Country Lead Economist). The principal contributors were Mr John Wiggins (Senior Public Finance Consultant) and Ms Quyen Hoang Vu (Economist).

Quality review and assurance has been provided by Mr Philip Sinnett (Head of the PEFA Secretariat), Ms Helena Maria Grandao Ramos (Senior Public Finance Specialist, PEFA Secretariat), and Ms Jennifer K. Thomson (Chief Financial Management Officer, Operations Policy and Country Services, World Bank) and Mr Peter Brooke (Senior Public Finance Advisor). Other members of the World Bank, as well as representatives of a number of Development Partners who are listed in Annex IV also participated in the quality review.

The editors and contributors to the report gratefully acknowledge the help received from members of the Working Group, from others in Vietnam government service, from the World Bank and Development Partners, from representatives of the Vietnam Chamber of Commerce and Industry, and from tax advisers, as well as from the PEFA Secretariat and peer reviewers.

# CONTENTS

<b>EXECUTIVE SUMMARY</b> .....	<b>I</b>
Background .....	i
Integrated assessment of PFM performance .....	i
Assessment of the impact to PFM strengths and weaknesses.....	viii
Prospects for reform planning and implementation.....	ix
<b>MAIN REPORT</b> .....	<b>12</b>
<b>1. INTRODUCTION</b> .....	<b>12</b>
<b>2. COUNTRY BACKGROUND INFORMATION</b> .....	<b>15</b>
2.1. Context and economic situation.....	15
2.2. Overall system of government and government development strategy .....	17
2.3. Description of budget outcomes .....	18
2.4. Description of the legal and institutional framework for PFM .....	20
<b>3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS</b> .....	<b>23</b>
<b>3.1.BUDGET CREDIBILITY</b> .....	<b>24</b>
PI-1: Aggregate expenditure out-turn compared to original approved budget .....	24
PI-2: Composition of expenditure out-turn to original approved budget .....	27
PI-3: Aggregate revenue out-turn compared to original approved revenue budget.....	30
PI-4: Stock and monitoring of expenditure payment arrears .....	31
<b>3.2.COMPREHENSIVENESS AND TRANSPARENCY</b> .....	<b>33</b>
PI-5: Classification of the budget.....	33
PI-6: Comprehensiveness of information included in budget documentation .....	35
PI-7: Extent of unreported government operations .....	37
PI-8: Transparency of Inter-Governmental Fiscal Relations.....	40
PI-9: Oversight of aggregate fiscal risk from other public sector entities .....	43
PI-10: Public access to key fiscal information.....	46
<b>3.3.BUDGET CYCLE</b> .....	<b>49</b>
<b>Policy-Based Budgeting</b>	
PI-11: Orderliness and participation in the annual budget process.....	49
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting.....	52

<b>Predictability and Control in Budget Execution</b>	
PI-13: Transparency of taxpayer obligations and liabilities.....	55
PI-14: Effectiveness of measures for taxpayer registration and tax assessment .....	59
PI-15: Effectiveness in collection of tax payments .....	62
PI-16: Predictability in the availability of funds for commitment of expenditures.....	65
PI-17: Recording and management of cash balances, debt and guarantees .....	67
PI-18: Effectiveness of payroll controls.....	70
PI-19: Transparency, competition, and complaints mechanisms in procurement.....	72
PI-20: Effectiveness of internal controls for non-salary expenditure .....	76
PI-21: Effectiveness of Internal audit.....	79
<b>Accounting, Recording and Reporting</b>	
PI-22: Timeliness and regularity of accounts reconciliation.....	80
PI-23: Availability of information on resources received by service delivery units .....	82
PI-24: Quality and timeliness of in-year budget reports .....	83
PI-25: Quality and timeliness of annual financial statements .....	84
<b>External Scrutiny and Audit</b>	
PI-26: Scope, nature and follow-up of external audit.....	86
PI-27: Legislative scrutiny of the annual budget law .....	88
PI-28: Legislative scrutiny of external audit reports.....	91
<b>3.4.DONOR PRACTICES</b> .....	<b>100</b>
D-1: Predictability of direct budget support.....	92
D-2: Financial information provided by donors for budgeting and reporting on project and program aid .....	94
D-3: Proportion of aid that is managed by use of national procedures.....	95
<b>4. GOVERNMENT REFORM PROCESS</b> .....	<b>97</b>



## Tables

Table 2.1: Vietnam: Selected Economic Indicators .....	16
Table 2.2: Consolidated Budget Indicators 2007 to 2010, in percent of GDP .....	19
Table 2.3: Actual Budgetary Expenditure by Economic Classification .....	19
Table 2.4: Actual Budgetary Expenditure by Function (billion VND) .....	20
Table 3.1: Aggregate expenditure out-turn compared to original approved budget.....	26
Table 3.2: Variance in expenditure.....	29
Table 3.3: Revenue out-turn compared to original Budget (in billion VND).....	31
Table 3.4: Social & health insurance as percentage of total State budget expenditure .....	40
Table 3.5: Equalisation, Supplementary and Targeted Transfers to Provincial Governments.....	42
Table 3.6: Use of different procurement methods 2009 and 2010 .....	75
Table 3.8: Percentage of aid funds managed through national procedures .....	96

## Boxes

Box 2.1: The PFM Legislation .....	22
Box 3.1: List of Public Financial Funds .....	39

## Annexes

Annex I: Summary of PFM Performance Indicators .....	101
Annex II: List of documents.....	110
Annex III: List of PEFA Working Group members .....	115
Annex IV: List of External Contributors and Commentators to the Assessment.....	118
Annex V: Evaluation of response to the PEFA Secretariat Comments .....	119

## EXECUTIVE SUMMARY

---

### Background

1. Vietnam, which now has a population of about 87.8 million, of whom, 94% are in the age group of 0-64. Through the adoption of its “DoiMoi” policy, Vietnam has progressively transitioned from a centrally planned economy to a market economy. The country has experienced an average growth rate of 7.3% per year in the 2 decades from 1991-2010, with average per capita income increasing from US\$118 in 1991 to its present level of nearly US\$1,200, which qualifies the country for middle income status for the first time. The reforms to attract investment flows from the private sector and foreign capital flows have been contributing to economic restructuring and driving rapid economic growth. During the period 1991-2010, the share of agriculture, forestry and finishing in GDP fell from 40 to 20 per cent, while the share of industry and construction increased from 24 to 41 per cent. Vietnam has also been relatively successful in achieving both economic development and social advance. The poverty rate, as measured according to the national definition of poverty, has declined from over 60% in 1990 to approximately 35% in 1998 and to less than 10% in 2010.

2. Over the last 2 decades, Vietnam has gradually developed a new legal system, which is relatively consistent and comprehensive, particularly the economic – financial legal framework, which essentially meets the requirements of a market economy, and the requirements of active and effective integration into the global economy while maintaining an appropriate degree of State regulation.

3. During the economic recession in 2009-2010, the Government took timely steps to relax its fiscal and monetary policies so as to stimulate domestic demand and investment, with the result that the economy recovered quickly from the recession. Nevertheless, it is a great challenge now and in the future for Vietnam to improve the balance of its economy so as to combine macro-economic stability with rising economic productivity, thereby providing the foundation for sustainable economic development and resilience in the face of world economic fluctuations while maintaining sustainable growth.

### Integrated Assessment of Public Financial Management (PFM) Performance

#### **(a) *Credibility of the Budget***

4. Thanks to economic growth and rapid economic restructuring, as well as reform of the tax system and tax administration, the Government’s budgetary revenues increased rapidly from 13.5% of GDP in 1991 to an average of about 28.7% of GDP during the period 2006 – 2010 (i.e. aggregated revenues from all the four budget levels, including those from crude oil, land use right transfers, and sale of state-owned premises). Corporate income tax (CIT) and Value Added Tax (VAT) are the two most important revenues, which together account for over 50% of the total budgetary revenue. In addition, import duties and the special consumption (excise) tax contribute a further 20% of total revenue. As a result, Vietnam has had little dependence on grant aid, which has never exceeded 0.5 per cent of GDP in recent years. Meanwhile expenditure has also followed a rising trend, increasing from 16% of GDP in 1991 to 30% of GDP in 2010. In order to finance the required infrastructure development and the expansion of the social safety net, the Government has implemented an overall budget deficit policy throughout the period since the mid-1990s.

5. The State Treasury (under the Ministry of Finance) is mandated to manage State budget funds, control all budgetary expenditures and revenues throughout the country, and raise funds in the domestic market to finance budget deficits. There is as yet no Treasury Single Account, and in order to ensure the availability of funds to meet payment requirements for expenditures at all sub-national levels, the Treasury keeps appropriate cash reserves in its entire provincial and district offices. The substantial cash reserves throughout the Treasury network, which reportedly make possible frequent adjustments between provinces and/or districts, mean that payment requirements can always be met, provided they fall within available appropriations and are accompanied by full documentation. There are indications, however, that work done on multi-year projects in the provinces sometimes outruns available appropriations, leading to delays in payments to contractors.

6. Recently, “excess” revenues have been collected year after year. Provinces argue for low estimates of their revenues to be included in the Budget, so that they can qualify for higher equalisation and supplementary transfers from central government, and subsequently enjoy expenditure increases from the overrealized revenue. Although the State Budget Law gives priority in using excess revenue and expenditure savings from the budget to reducing the deficit and replenishing financial funds, the additional revenues collected have for many years been driving budget expenditure increases (mainly for salary reforms, i.e. pay increases for government employees). Although in accordance with the applicable regulations, increases in budget expenditures funded from these excess revenues are submitted to the Standing Committee of the National Assembly (or the Standing Committees of the Sub-national People’s Councils) for approval, the resulting substantial expenditure increases somehow compromise budget credibility. In order to be consistent with good international practice, the “excess revenue” carried forward to finance expenditure in the following year should be appropriated by the NA as part of a revised annual budget for that year. In addition, the fact that there is a substantial amount of expenditure (up to 30% of the original budget) carried forward from one year into the next, makes the underlying fiscal stance difficult to discern for a single fiscal year, and deprives the annual budget of much of its significance.

7. Once the State Budget (which consolidates the budgets of the central government and of all sub-national governments) has been decided by the National Assembly by mid-November each year, and the People’s Councils at all local levels have subsequently set their budgets, spending ministries and sub-national governments have a substantial measure of discretion in allocating the resources within their budget envelopes; although in accordance with applicable regulations their decisions about the detailed allocations are then notified to MoF or its counterparts at lower levels for no-objection before the beginning of the new financial year, this procedure is essentially a formality.

8. The Ministry of Finance is responsible for consolidating all the detailed budget estimates of all units, with the totals broken down according to the economic and functional classifications of each item of revenue and expenditure. The Treasury and Budget Management Information System (TABMIS) (or its predecessor - KTKB where TABMIS is not yet operational) records full information about each transaction, so that detailed out-turn information should in principle be available to compare with the detailed budget allocation plans.

**(b) *Comprehensiveness and Transparency***

9. In Vietnam, the majority of revenues and expenditures of the State are captured in the budget. However, there are some elements of revenue and expenditure that are treated as off-budget, even though they are still budgeted, reported, disclosed and audited annually. The system of budget classification in Vietnam allows for four types of classification: by organizations (chapters), by functions (categories and sub-categories), by economic character of State budget revenues and expenditures (groups, sub-groups, items and sub-items), by national programs and projects. But the form of the reports on budget execution submitted to the National Assembly (NA) does not provide consistent information covering both expenditure carried forward from the previous year and expenditure funded from the current year's appropriations. It is intended that the revised State Budget Law now being prepared will require a consistent presentation applicable to all stages of the budget process, from budget preparation to execution and final account reporting.

10. There are about more than 30 "Financial Funds" established through which to finance parts of general government activity. The most important of which are the Social Insurance Fund, Health Insurance Fund, Unemployment Insurance Fund and the SOE Restructuring and Supporting Fund (nowadays named the SOE Restructuring and Development Fund). Only the few funds of a social security nature have stable sources of revenues outside the Budget, while most other funds rely on partial financial support from central or provincial governments. Although these funds publish out-turn financial statements which are subject to audit in the same way as those of ministries or provinces, there is no comparable publication at the budgeting stage.

11. About half of expenditure on public services is the responsibility of the provinces and their subordinate governments. They are assigned with their own sources of revenues and shares of tax revenue. The revenue shares are determined by taking account both of the prospective income of each province and its needs on the basis of a system of expenditure norms for the provision of services. Any shortfall is made good by equalization transfers so that each province should be in a position to finance at least a minimum level of public services. The central government mandates each province to devote at least 20% of its expenditure to education, 2% to science and 1% for environmental protection. The Treasury and Budget Management Information System (TABMIS) (or its predecessor) operates throughout the country, so that the same breakdown of expenditure should be available at province and district level as is available at the centre.

12. The NA is consulted at the initial stage of budget preparation about the fiscal stance and economic prospects, and when the draft Budget is presented it receives full information about revenue, expenditure, debt and financing, as well as comparable figures for the current and previous years. But only a summary of this information is published at the time of the budget, and it is only very recently that any information about domestic government debt has begun to be published. Important improvements have been made in the public disclosure of information about government revenue and expenditure through the regular publication of in-year budget execution reports, although the problem remains that the arrangements for carry-over of expenditure make it difficult to discern the real impact of the budget. Substantial progress has been made in informing the public about procurement plans, tendering opportunities and contract awards through the Ministry of Planning and Investment's (MPI) daily Procurement Gazette and dedicated procurement website, although not all provinces have been providing complete reports.

**(c) Policy-based Budgeting**

13. The Decree No. 60/2003/ND-CP provides a well-established calendar is in operation for the preparation of the annual budget. As noted above this provides for consultation with the NA on the economic background before submissions are invited from Ministries and provinces. It appears that Ministries and central agencies often bid higher than the indicative expenditure amounts notified by MoF and MPI, which results in a process of negotiation of the budget bids among them. Negotiations are carried out in parallel with provinces prior to the submission of the consolidated budget proposals to the NA Committees at the beginning of October. After the NA approves the block allocations for each function before 15 November, Ministries and provinces notify MoF about the breakdown of these amounts before the end of the year.

14. A start has been made in aggregate medium-term fiscal planning, which should be aligned with the government's 5-year Socio-Economic Development Plans (SEDPs). But the pilot Ministries and provinces produced plans going beyond the financial envelopes as indicated to them. Moreover the coordination between MoF and MPI in the preparation of investment and current expenditure plans has hitherto been inadequate; some investment projects have been given priority despite promising relatively poor socio-economic benefits, while the impact of all new investment projects on future current expenditure have not been taken fully into consideration.

15. Vietnam currently adopts a cautious fiscal policy, and has maintained a relatively controllable level of external borrowings despite the deficit increasing as a result of the global recession. The government has made clear its intention for the future to bring down the ratio of external debt to GDP, and rely more heavily on deficit financing from domestic market.

**(d) Predictability and Control**

16. Vietnam has made substantial progress in codifying and implementing tax legislation (particularly VAT). All tax collection is a function of the central government, but actual collection is mainly carried out through offices in each province. As already mentioned, in the negotiation with the central bodies, sub-national governments tend to put forward underestimates of their revenues, but once the revenue budget is decided by the National Assembly, many provinces set their revenue targets higher than the budgeted amounts approved by the NA. The training and performance of the 44,000 staff in the General Directorate of Taxation (GDT) varies considerably. While efforts have been made to establish a transparent system of laws, regulations and implementing instructions, during implementation, the provisions are not always clear and specific, resulting in different ways of interpretation in different places. Although the GDT has already established a service at central level to provide advice to taxpayers on uncertain points, there is no unified machinery to ensure that its interpretations of tax issues are applied throughout the country. There is no dedicated independent tribunal to resolve disputes between taxpayers and the authorities apart from the Administrative Court.

17. Each registered taxpayer is issued with a unique tax identification number (TIN), to be used for the declaration of all tax liabilities. But it appears that there are numerous potential taxpayers who have not registered for their business licenses, and hence have not obtained their TINs. Currently, there are no automatic links between tax and other databases of the Government such as of social insurance and bank account numbers. Taxpayers are allowed to

self-assess the amounts they owe, and make payment directly into the State Treasury. The proportion of the staff allocated to inspection on the taxpayer's premises is less than 3%, and it is only recently (since 2011) the GDT has made a systematic attempt to select taxpayers nationwide for inspection on the basis of common risk factors. GDT considers that the penalties for non-compliance with registration obligations and for delay in payment of taxes are inadequate, but the sanctions against deliberate under-declaration are potentially severe (up to five times the amount of tax not paid).

18. Collection of tax arrears has been improving, although the amounts outstanding are significant (6.9% of current tax yields in 2011). Thus the tax administration needs to make greater efforts to manage arrears effectively. Arrangements for the prompt payment of receipts into Treasury accounts are relatively good. Reconciliations between tax authority and Treasury records are prompt and effective, and the monthly reconciliations between assessments (including self-assessments) and actual payments at tax offices appear to be thorough.

19. Keeping balances in each Treasury office sufficient to meet up to two weeks' expenditure helps to ensure that cash will be available to meet any payments provided for in current appropriations, although it implies that cash management is inefficient; if cash was centralized in a Single Treasury Account the amount needed would be much less, and the balance could be used to reduce government debt, and hence interest rate costs. Significant in-year downward adjustments to already approved budgets must be submitted by the Government to the National Assembly. In recent years, there has been no major budget cut back without full consultation with the National Assembly during budget implementation.

20. The coordinating responsibility for overall public debt management is assigned to the Debt Management and External Finance Department (DMEFD) of MoF, which registers all debt in the Debt Management Financial Accounting System, and produces complete information about debt stock, guarantees and debt service costs. Information is generally complete and up-to-date. Although the government's cash balances are not consolidated in a single account at SBV, the Treasury has complete information every day about the amounts in every account. DMEFD is responsible for the issuance of Government guarantees in respect of domestic and external borrowing of the entities entitled to apply for such guarantees in accordance with the Public Debt Management Law. The Banking and Financial Institutions Department is responsible for measures (i.e. the legal framework, regulation of interest rates, mechanisms in taxes and fees, mechanisms for bond registration, custody, listing, and transaction...) for the development of the domestic bond market, covering Government bonds, Government guaranteed bonds, sub-national bonds and corporate bonds. Provinces cannot guarantee the borrowings of the SOEs for which they are responsible. The debt limits currently in force reflect the Government's objectives for the level of public debt in relation to GDP.

21. Personnel management and payroll are highly decentralised in Vietnam. There are no automatic links between personnel and payroll records, but payroll staff make changes to their records only on the basis of instructions accompanied by full documentation from the personnel departments. Because personnel data are updated only quarterly, retrospective adjustments to the pay of individuals sometimes have to be made to reflect the effects of promotions, etc. The practice of publishing the salary rates, pay and allowances of all the individual members of each administrative unit provides a substantial safeguard against manipulation giving rise to unmerited payments. The Inspection services of MoF and line

Ministries carry out periodic inspections throughout the country to ensure the correct payment of salaries and allowances.

22. Procurement is subject to far-reaching transparency, with government units at all levels required to publish their procurement plans, tendering opportunities and contract awards in MPI's daily Procurement Gazette and on its dedicated website. But the operative legislation, while making open tendering the default method, allows such extensive use of direct contracting that 70 per cent of all contracts, accounting for up to 40 per cent of expenditure are let in this way. In many cases the use of direct contracting appears not to have been satisfactorily justified. There is already an independent machinery established to deal with procurement complaints arising from the letting of contracts, although it does not appear that much use is made of this.

23. Specific controls over expenditure commitments, which would require the registration of purchase orders into the system at the time they were placed, are to be instituted once TABMIS is in full operation. Other internal controls and procedures applicable to different types of expenditure are apparently generally satisfactory from the standpoint of the government. But as noted in paragraph 5 above, there is evidence of payment delays on multi-year contracts where work done may out-run available appropriations. .

***(e) Accounting, Recording and Reporting***

24. Treasury records are daily reconciled with bank account data of the State Bank of Vietnam. Currently, the reconciliation between the Treasury's and spending units' records is conducted in accordance with the accounting regime for administrative and public service delivery units<sup>1</sup> and the accounting regime for State budget and Treasury operations<sup>2</sup>. Each Treasury office carries out daily reconciliations between its own records of receipts and payments and those of the bank accounts through which they pass. Sufficient information is captured for most transactions, so only a few items are placed in suspense accounts pending their complete identification. Advances for travel, etc. should be cleared within a month, while advances to contractors have to be cleared before any further payments are made. In accordance with the Prime Minister's Regulations on transparency, full information is published about the budgets and revenue and expenditure out-turns of individual schools, local health services and other service delivery units. In-year budget execution reports on revenue and expenditure are produced monthly (in the last week of the month), but only on a cash basis (there is no coverage of commitments) and there is no information about the budgetary provision against which the different items of spending are charged. The State budget execution statements (final account statements) take 14 months to prepare because of the need to consolidate all the information about the revenue and expenditure of all lower level governments. Hitherto Vietnam has not produced any consolidated financial statements for the whole of Government in line with international accounting standards, although the existing budget execution reports are prepared on a consistent basis from one year to the next.

---

<sup>1</sup> Issued in attachment to Decision No. 19/2006/QD-BTC.

<sup>2</sup> Issued in attachment to Decision No 24/2006/QD-BTC.

***(f) External Scrutiny and Audit***

25. The State Audit Agency (SAV) carries out a range of different types of audit - financial, compliance and performance - and works to international standards. But its resources only enable it to cover fully each year about 60% of central government units and 50% of provinces. Reports are submitted to the NA without delay, and there are effective arrangements for follow-up.

26. The NA's procedures in relation to the preparation and execution of the budget are well-established, and enable the NA to have a significant impact on the budget proposals. As the NA generally meets twice a year in about May and October, data on the use of excess revenues are reported to the Standing Committee of the National Assembly in March of the following year. The NA draws on the State Audit Agency (SAV) reports in its supervision visits to Ministries and provinces to enquire into different aspects of budget execution, and also includes SAV's detailed recommendations in the Resolutions it transmits to the Government.

***(g) Donor Practices***

27. During the period covered by this assessment, external grants amounted on average to about 0.5 per cent of GDP each year, with net additional external borrowing increasing from about 1.5 per cent of GDP in 2007 to 3.5 per cent in 2009. External funding (grants and loans together) thus corresponded to more than 11 per cent of government expenditure in 2009. The main donors (WB, ADB, Japan) provide information about prospective budget support amounts in time to be taken into account in the preparation of budget estimates, but the out-turns may diverge widely from earlier indications: thus the out-turn for budget support in 2009 was more than three times the original budget (as the donors supported the Government to cope with the crisis), while in 2010 it fell 10 per cent short of the budgeted amount. Quarterly projections of disbursements are not available. Actual loan amounts for 2008 and 2009 were 10% or more above budget, and 25% above budget in 2010. The principal donors provide information promptly following their disbursements, but this is of little importance since the execution of projects is effectively controlled by the Government. Amounts received as budget support, whether grants or loans, by definition use Vietnamese national systems for procurement, payment, reporting and audit, but the main lenders for projects/programmes insist on their own procedures except for reporting, so that national procedures are used only about 25% in the case of project/programme loans. Because of the large increase in budget support in 2009, the weighted average use of national systems for all external funding increased from just over 50% in 2008 to nearly 70% in 2009, before falling back to 58 per cent in 2010.



## **Assessment of the Impact of PFM System's Strengths and Weaknesses**

28. This section considers the impact of the findings summarised above on the maintenance of macro-fiscal discipline, the strategic allocation of resources and the efficiency of service delivery.

### ***(a) Aggregate fiscal discipline***

29. The Ministry of Finance of Vietnam and the centralized tax system are well-resourced to collect approaching 26% of GDP as annual tax and fee revenue (i.e. aggregated revenue from all the 4 government levels, including revenue from crude oil). Effective arrangements have been put in force to control the expenditures of lower level governments, and to ensure sufficient resources to meet their responsibilities in the delivery of public services. Cash and debt are managed in a way which enables Finance Departments at all levels to ensure cash availability to meet approved expenditures of spending units. Payroll and procurement expenditure are effectively planned and controlled. The main problem concerning fiscal discipline is the significant budget carry-overs between the years (which sometimes amounted up to 30% of the original budget), which make it difficult to determine the actual annual budget deficit and undermine the meaning of annual budgets. This issue is being reviewed and considered in the revision of the State Budget Law, which will specify the principles and expenditure items to be carried over in order to bring the practice within limits.

### ***(b) Strategic Allocation of Resources***

30. Vietnam has been relatively successful in providing effective health and education services, and in reducing the incidence of poverty. This indicates that the allocation of resources through the annual budget, informed by successive 5-year Socio-Economic Development Plans, can be seen as generally satisfactory. The arrangements for revenue sharing with provinces based on expenditure norms fixed for "stability periods" of 3-5 years, including the equalization transfers to poorer provinces and the requirement that all provinces spend at least minimum proportions of their budgets on education and health will have contributed to this outcome. However there is still room for improvement in Vietnam. Firstly, the medium term sector development plans are not consistent with resource availability, then, there is a weak link between capital and recurrent expenditure. The continued heavy reliance on direct contracting of single suppliers instead of competitive tendering, is one of the areas that suggest that there is still room for improvement in the way resources are allocated. In order to gradually improve efficiency in the use of the State budget, by linking the annual State budget to the medium-term assessment of available budget resources, it is intended that the draft (revised) State Budget Law will have new provisions on medium-term budgeting. At the same time, the State Budget Law will have new provisions concerning the principles and operation of capital construction budgeting, including regulations on appropriations, fund allocation, payment, and final accounting for capital construction projects. In terms of procurement, it is intended that the Procurement Law will be adapted so as to bring it into line with good international practices.

### ***(c) Efficient Service Delivery***

31. Vietnam's relatively good performance in delivering public services and reducing poverty, as demonstrated for example by near universal primary education and an average expectation of life not far below the experience of OECD countries. The involvement of both the

NA and the SAV in the scrutiny and reviews of public expenditure may have been contributing to better service delivery. However, the lack of master-planning capacity in line ministries and sub-national governments has resulted in fragmented, overlapping and thinly spread public investments in infrastructure (for instance in airports, seaports, and industrial zones), and hence sub-optimal use of resources. The difficulties due to insufficient qualified and skilled manpower indicate that although basic education is well served, the future development of the economy will require more resources to be devoted to vocational training and education, particularly in the vocations that require understanding of advanced technologies. To overcome the above difficulties, the Government assigned the Ministry of Planning and Investment to take the lead in the development of the Master Planning Law for the regulation of Master Development Planning nationwide, to avoid duplication and conflicts between master plans.

### **Prospects for reform planning and implementation**

32. As is explained in the context of the discussion of each Performance Indicator in the detailed report below, much work is already in progress to address many of the difficulties identified. In particular the opportunity of a major revision of the State Budget law provides an opening for reconsidering the definition of the Budget and its presentation. The uncertainty concerning the real content of any one year's budget, because of the present practice of carrying over up to a third of the annual provision into the following year, and the absence of any complete and detailed comparison between budget and out-turn, has been identified as the most pressing problem to be solved quickly.

33. In addition to work on revising the State Budget law (and the various implementing regulations underpinning its operation) work is in progress on integrating medium-term fiscal planning into the budgetary process, improving tax administration, establishing more effective supervision over State-Owned Enterprises, making public procurement more efficient and transparent, reconsidering the standards used in the Government's financial statements, and developing the work and resource plans of the State Audit Agency. All these initiatives are fully consistent with the country's Financial Development Strategy to 2020 as set out by the Prime Minister in 2012. Provided the momentum of all this work can be maintained, there are good prospects for PFM reform planning and implementation.

## SUMMARY OF PERFORMANCE MEASUREMENT FRAMEWORK

<b>A. Credibility of the Budget</b>		<b>Score</b>
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn to original approved budget	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	NR
<b>B. Comprehensiveness and Transparency</b>		<b>Score</b>
PI-5	Classification of the budget	D
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of Inter-Governmental Fiscal Relations	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+
PI-10	Public Access to key fiscal information	B
<b>C. Budget Cycle</b>		
<b><i>C (i) Policy-Based Budgeting</i></b>		<b>Score</b>
PI-11	Orderliness and participation in the annual budget process	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C
<b><i>C (ii) Predictability and Control in Budget Execution</i></b>		<b>Score</b>
PI-13	Transparency of taxpayer obligations and liabilities	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+
PI-15	Effectiveness in collection of tax payments	C+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+
PI-17	Recording and management of cash balances, debt and guarantees	B
PI-18	Effectiveness of payroll controls	B
PI-19	Competition, and appealing mechanism in procurement	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
<b><i>C (iii) Accounting, Recording and Reporting</i></b>		<b>Score</b>
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	D+
PI-25	Quality and timeliness of annual financial statements	D+

<b><i>C (iv) External Scrutiny and Audit</i></b>		<b>Score</b>
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	B+
<b>D. Donor Indicators</b>		<b>Score</b>
D-1	Predictability of Direct Budget Support	D+
D-2	Donor information for budgeting and reporting on project/program aid	B
D-3	Proportion of aid managed by national procedures	C

# MAIN REPORT

---

## 1. INTRODUCTION

### Purpose of the PFM-PR

34. The purpose of this Report is to provide information to all stakeholders, firstly the Government of the Socialist Republic of Vietnam (GoV) about the actual performance of the public financial management system of Vietnam against a common and standardized assessment framework, and thereby facilitate the identification of areas of reform priorities. Some of these areas have already been included in public financial management reform and modernization programs. The report indicates that there is room for improvements in the coordination between Government agencies for better and more effective management of public financial resources. This report provides an objective, indicator-led assessment of the country's public financial management (PFM) systems in a concise and standardized manner, to provide a benchmark against which to measure progress in further strengthening Vietnam PFM. In addition, the PEFA report brings out suggestions and policy recommendations for future reform priorities of the Government and provides information to the World Bank and other international development partners be taken into account in their future cooperation with and support for the Government's PFM reform plans.

35. This pilot Public Financial Management Performance Assessment Report (PFMPR) is prepared in the context of continuing study by GoV of possible further improvements in PFM, notably through changes in the Public Procurement and Tax Administration laws, and also particularly through the intended changes in the State Budget law.

36. The first step in the preparation of this assessment was a workshop in March 2011 for the related ministries and agencies in the Government of Vietnam, together with the key development partners, at which, the purpose and methodology of the assessment were presented with the assistance of the PEFA Secretariat. Following this presentation, the Prime Minister agreed with the recommendations of the Ministry of Finance for the pilot PEFA assessment in Vietnam. The PEFA working group was then established with representatives of departments in the Ministry of Finance (State Budget Department, State Treasury, General Department of Taxation, General Department of Customs, Debt Management and External Finance Department, Accounting and Auditing Policy Department, Banking and Financial Institutions Department, Corporate Finance Department, Human Resources Management Department, Planning and Finance Department, Public Services Department, and Financial Inspectorate) and other related stakeholders (Office of the National Assembly, Ministry of Planning and Investment, State Audit of Vietnam). The stakeholders were given the task of preparing preliminary draft assessments of the PEFA Performance Indicators relevant to their respective PFM related functions and duties. The State Budget Department of MoF was responsible for integrating the assessment into a preliminary draft report. This self-assessment material, although not complete, has formed the starting point for the preparation of this draft report.

37. The preparation of this assessment has involved detailed discussions with representatives of a wide range of GoV Ministries and Agencies in order to review and assess the documentary and other evidence needed. Representatives of the World Bank (Ms Quyen Hoang Vu and Mr Minh Van Nguyen) and an experienced international consultant (Mr John Wiggins) have participated in this stage of the work. This work was initiated in November 2011, and the preliminary results were discussed at a series of meetings in December 2011 attended by a member of the PEFA Secretariat (Mr PhillipSinnett). There was then a follow-up mission in March 2012 to enable a complete draft report to be prepared. At MoF discussions were held during both missions with the State Budget Department, State Treasury Department, General Department of Taxation, General Department of Customs, Department of Tax Policy, Accounting and Auditing Policy Department, Department of Debt Management and External Finance, Banking and Financial Institutions Department, Personnel and Organization Department, MOF Internal Financial Planning Department, Public Expenditure Department, Public Asset Management Department, and the National Financial Inspectorate. Discussions were also held with representatives of the Ministry of Planning and Investment, the Ministry of Health, Ministry of Education and Training, the State Audit Agency and the Department of Finance and Budget (Office of the National Assembly). The discussions thus involved a rather wider range of stakeholders than the PEFA Working Group which produced the initial self-assessment material. The experience of provincial Departments of Finance was the subject of discussions with the Budget, Treasury and Tax Departments of Hanoi City. Information about the tax and procurement systems from the point of view of the private sector was sought from the Vietnam Chamber of Commerce and Industry (VCCI) and from accountancy firms providing tax advice.

38. A complete draft text was submitted for review by the PEFA Secretariat and World Bank peer reviewers Jennifer Thomson and Peter Brooke, both of whom had extensive experience in Vietnam. The text was also reviewed by members of the staff of the World Bank Office in Hanoi, who made useful contributions. Comments on this draft were also sought from development partners, and contributions were received from the European Union, SECO and DANIDA. A workshop was organized in early July 2012 with the participation of the Ministry of Finance, related agencies and representatives from development partners for the presentation of the draft report as well as formal feedback from the PEFA Secretariat and other quality reviewers. Direct inputs from the participants were then compiled to feed into this final version of the report. Annex 5 sets out the comments received from the PEFA Secretariat through two official rounds of review (in July and December 2012), and shows how account has been taken of them in revising the text of the report.

## **Methodology**

39. The PEFA methodology is set out in the Public Finance Management Performance Measurement Framework (available at [www.pefa.org](http://www.pefa.org)). It is based on 28 Indicators covering all aspects of a country's PFM system, and on three Indicators, which measure the interaction between the Government concerned and its development partners. It should be emphasised that PEFA is essentially a backward-looking process, based on evidence about actual current public sector financial management practice, taking into account statistical information about different aspects of revenue and expenditure over the most recent 2-3 years. Each Indicator is scored on a scale from A to D. The bases for these ratings are the minimum requirements set out in the methodology. Many Indicators include two or more dimensions, which are "added up" using PEFA-specific methods M1 or M2. For method M1 the weakest link is decisive, i.e.,

the overall rating is based on the lowest score. For M2 the average of the sub-ratings is used to arrive at the score for the overall Indicator (see the PEFA Framework, “Scoring Methodology”).

40. Apart from the self-assessment material already described, the main sources of information that have been used for this report are: (a) official GoV documents and statistics; (b) external evaluations and reports (WB, IMF); and (c) interviews with users and providers of PFM information (including government officials, and professional advisers on aspects of the tax and legal systems). To the limited extent possible the review team has sought to triangulate information, by seeking information from spending Ministries as well as from MoF, and from taxpayers as well as tax collectors.

### **Scope of the Assessment**

41. The PEFA assessment focuses primarily on the national level of a country’s PFM system. At the national level it seeks to cover the entire PFM system, including cross-cutting and overall issues, the revenue side, and the Budget cycle from planning through execution to control, reporting and audit. A number of the Indicators are designed to probe into how the national level interacts with sub-national governments and with public service providers at local level. Each country has its own arrangements concerning these matters: in some federal countries lower tier governments may be completely independent of the central government in the way they finance themselves and in deciding what public services they should provide, and on what terms; while in the most centralised countries administrations at regional level may simply be part of central government and under its direct authority. Vietnam SR is divided into 58 provinces and 5 major cities with provincial status, which in turn supervise 698 urban/rural districts and provincially managed cities/towns; these are further divided into communes, wards and townlets. Each level of government has a People’s Committee which serves as its government, and reports to a People’s Council. Provinces and their subordinate governments are responsible for more than 40% of general government expenditure, and have a substantial measure of autonomy in the way they organise and administer the public services they deliver. Provinces receive a predetermined share of nationally determined taxes collected in their area, together with equalization transfers to ensure that all provinces are able to provide at least a minimum level of services. The expenditure norms which underlie the amounts available to each province are fixed for “stability periods” of 3-5 years. Each level of government supervises the level immediately below, and the National Assembly approves the consolidated State Budget which includes both central government expenditure and the expenditure of all lower level governments. This assessment therefore covers general government as a whole, including all sub-national governments and government-controlled funds which are accounted for separately outside the budget.

42. In addition to the Government revenue and expenditure included in the Budget, there are more than 30 extra-budgetary funds, the most important of which are those responsible for obligatory social insurance, health insurance and unemployment insurance. Since a complete picture of central government revenue and expenditure, such as is required to determine the government’s overall financing needs, can only be given if the extra-budgetary funds and other extra-budgetary spending are taken into account, the assessment reviews available information on these points as well as taking into account net borrowing by state-owned enterprises (SOEs), in order to cover the financing needs of the public sector as a whole. It takes into account statistical information relating to revenue and expenditure during the most recent three fiscal years for which full information is available, i.e. 2008, 2009 and 2010 (the fiscal year in Vietnam runs from 1 January to 31 December).

## 2. COUNTRY BACKGROUND INFORMATION

This section provides information on country and economic context of the Vietnam SR, to allow sufficient understanding of the core characteristics of the PFM system and the wider context in which PFM changes would take place.

### 2.1. CONTEXT AND ECONOMIC SITUATION

43. Vietnam has a total surface area of about 331,211.6 km<sup>2</sup>, and a population of about 88 million, of which nearly a third live in urban areas. Vietnam is divided into 63 administrative units of provinces and centrally managed cities, with Hanoi as the Capital City and Ho Chi Minh City as the leading economic centre. Each province or centrally managed city is divided into urban and rural districts, and provincially managed cities and towns; each urban or rural district or provincially managed city or town is divided into wards or communes and townlets. Vietnam introduced its “DoiMoi” policy since 1986 to follow the principle of strengthening market mechanisms while retaining a socialist orientation.

44. Since the introduction of DoiMoi, Vietnam has experienced almost continuous economic growth, with the average annual growth rate at nearly 7.3% over the period of 1991-2010. Vietnam has weathered the global economic recession from late 2008 to 2010 with only a moderate slackening in its own growth rate to an average of 6% a per year through the steps taken by GoV to accelerate public investment, stimulate domestic demand, and reduce taxes.

45. Vietnam’s economic growth is based on industrialization and modernization of the different sectors of the economy. The industrial share of GDP has rapidly expanded over the years to reach 41% of GDP in 2010. By the same token, the agricultural share has declined to only 21% of GDP, while services account for 38% of GDP. In 2010, the population with incomes below the poverty line (on the national definition) declined to under 10% compared to 58% in 1993. This is an encouraging achievement in poverty reduction in Vietnam, as recognized by international organizations.

46. The annual per capita income in Vietnam has been increasing over the years to reach US\$1,169 (in 2010). This level of income is 10 times higher than the per capita income of US\$118 in 1991 and brings Vietnam into the group of middle income countries.

47. Keeping inflation under control so as to promote macroeconomic stability and productive development has always been a key objective of macro-economic management in Vietnam. In the period of 1996-2006, inflation was always kept below 10%, but in the subsequent period 2006-2010, inflation rose above 10% in the two years 2007-2008, and then with the impact of the global crisis, fell back in 2009 to only 6.5%. However, due to the inflationary pressure from the Government’s stimulus package, inflation rose again to 11.75% at the end of 2010 (and 18.1% in 2011).

48. Vietnam’s growth in recent years has depended on a high rate of capital investment, with gross investment in the economy maintained at over 40% of GDP since 2004., Public investment accounts for a large part of this (averaging of 39% of the gross investment over 2006-2011). In addition, there has been a substantial continuing capital inflow to the country, including foreign direct investment (FDI), Official Development Assistance (ODA), foreign remittances and foreign indirect investment (FII), which all contribute the economic growth of Vietnam.



**Table 2.1: Vietnam: Selected Economic Indicators**

No	Indicators	Unit	2006	2007	2008	2009	2010	Average 2006-2010	Actual 2011 (est)	Plan 2012
<b>1</b>	<b>Average population</b>	Thousand	<b>83,311</b>	<b>84,219</b>	<b>85,119</b>	<b>86,025</b>	<b>86,933</b>	<b>85,121</b>	<b>87,840</b>	<b>88,745</b>
	Population growth	%	1.12	1.09	1.07	1.06	1.05	1.08	1,05	1.03
<b>2</b>	<b>GDP (nominal)</b>	Million USD	<b>60,819</b>	<b>71,003</b>	<b>89,553</b>	<b>91,507</b>	<b>101,611</b>	<b>82,899</b>	<b>120,780</b>	<b>135,000</b>
<b>3</b>	<b>GDP per capita</b>	USD	<b>730</b>	<b>843</b>	<b>1,052</b>	<b>1,064</b>	<b>1,169</b>	<b>972</b>	<b>1,375</b>	<b>1,520</b>
<b>4</b>	<b>Investment to GDP</b>	%	<b>41.5</b>	<b>46.5</b>	<b>41.5</b>	<b>42.7</b>	<b>41.9</b>	<b>42.8</b>	<b>34,6</b>	<b>33.5</b>
<b>5</b>	<b>Total export</b>	MillionUSD	<b>39,826</b>	<b>48,561</b>	<b>62,685</b>	<b>57,096</b>	<b>72,237</b>	<b>56,081.1</b>	<b>96,906</b>	<b>107,350</b>
	Export growth	%	22.74	21.93	29.08	-8.92	26.52	17.36	34,15	13.0
	Ratio of import to GDP	%	65.5	68.4	70.0	62.4	71.1	67.5	80,2	79.5
<b>6</b>	<b>Total import</b>	Million USD	<b>44,891</b>	<b>62,765</b>	<b>80,714</b>	<b>69,949</b>	<b>84,839</b>	<b>68,631.4</b>	<b>106,750</b>	<b>119,160</b>
	Import growth	%	22.12	39.82	28.60	-13.30	21.29	18.21	25.83	13.5
	Ratio of import to GDP	%	73.8	88.4	90.1	76.4	83.5	82.5	88.4	87.6
<b>7</b>	<b>Trade balance</b>	Million USD	<b>-5,065</b>	<b>-14,203</b>	<b>-18,029</b>	<b>-12,853</b>	<b>-12,602</b>	<b>-12,550</b>	<b>-9,844</b>	<b>-11,810</b>
	Trade deficit as % of exports	%	12.72	29.25	28.76	22.51	17,45	22,14	10,16	11.0
<b>8</b>	<b>Price index (compared to previous December)</b>	%	<b>6.6</b>	<b>12.6</b>	<b>19.9</b>	<b>6.52</b>	<b>11,75</b>	<b>11,37</b>	<b>18,13</b>	<b>&lt;10</b>
<b>9</b>	<b>Poverty rate</b>	%	<b>15.5</b>	<b>14.8</b>	<b>13.5</b>	<b>11.3</b>	<b>9,45</b>	<b>12,9</b>	<b>11,76(*)</b>	<b>Reduced by 2%</b>

Source: MoF. Note: (\*) From the year 2010, Poverty rate is measured by the Government's poverty line for the period 2011-2015 which is US\$20 in rural area and US\$25 in urban area.

49. In addition to capital investment, another contributing factor to economic growth in Vietnam has been exports. The ratio of gross exports to GDP reached 71.1% of GDP in 2010. The rapid rate of export growth is due to the development of business and production as well as to the impact of bilateral and regional trade agreements, particularly the ASEAN Free Trade Agreement (AFTA) concluded in 1995, the Vietnam – US trade agreement concluded in 2001, and membership of the World Trade Organization (WTO) achieved in 2006.

50. Apart from the above mentioned economic achievements, the economy of Vietnam also exposes numerous short-comings. The sustainability of economic development is threatened by low productivity, efficiency and competitiveness in the economy, unsustainable macro balances, and poor quality of human resources and infrastructure. Indicators of these problems are (i) the low investment effectiveness as expressed by the Incremental Capital-Output Ratio (ICOR) higher than that in the high growth economies in the region; (ii) continuous high inflation adversely affecting business and production performance and the social living conditions of the people in Vietnam; (iii) substantially negative balances of payments in Vietnam due to high trade deficits which have been increasing over the years; (iv) low value added in Vietnamese exports, low productivity of Vietnam labour, with exports dependent on natural resources and cheap labour.

## **2.2. OVERALL SYSTEM OF GOVERNMENT AND DEVELOPMENT STRATEGY**

51. As already noted, Vietnam is divided into 58 provinces and 5 major cities with provincial status. Each province is divided into districts (698 in total), which are in turn divided into communes, wards and townlets. Each level of government has its elected People's Council, and is administered by a People's Committee. The operations and relations between the People's Council and the People's Committee at sub-national level are similar to those of the National Assembly and the Government at the central level. Principal legislation, including the annual budget, is approved by the NA which meets for two sessions a year. Implementing regulations are issued in the form of Government Decrees and Decisions of the Prime Minister must be consistent with legislation passed by the National Assembly. As well as holding plenary sessions, the NA works through its Standing Committee and other Committees, including the Finance and Budget Committee. This latter Committee, and the Standing Committee, discuss the government's budget proposals before they are formally submitted to the NA. The Finance and Budget Committee draws on the annual report by the State Audit Agency (SAV) in reviewing the work of Government and provinces in the course of a programme of investigatory visits.

52. Social and economic development in Vietnam is pursued through a succession of 5-year Socio-Economic Development Plans (SEDPs): the current plan covers the period 2011-2015. SEDPs have four main elements: improving the business environment, strengthening social inclusion, strengthening environmental and natural resource management, and improving governance. The country has made good progress towards the achievement of the Millennium Development Goals: the incidence of poverty (national measure) has been reduced to about 10%, primary education is almost universal, maternal and child mortality are low, and the expectation of life at birth on average at 75 years is practically on a level with industrial countries. Now that the country has graduated to lower middle income status, it will need to adjust to the progressive reduction of its eligibility for loans from International Financial Institutions (IFIs) on concessional terms, and thus need to rely more on market borrowing. In this context, it will be important to ensure that available financing is not pre-empted by relatively unprofitable investment in inefficient SOEs, and that the selection of infrastructure projects makes the best

contribution to future economic development and social progress. The government's efforts are supported by a Consultative Group of development partners (World Bank, Asian Development Bank, Japan, Australia, European Commission and other bilateral donors).

53. Strengthening PFM has been an important element in the work of the Vietnam government since the Millennium. A system of legislation has been studied and enacted to provide the PFM legal framework; this includes the State Budget Law (2002), the Procurement Law, the Tax Administration Law, the law on Value Added Tax (VAT), which has been successfully introduced, the Public Debt Management Law (2010), the Accounting Law, and the Auditing Law,... all of which have been promulgated and implemented. A new automated electronic Treasury and Budget Management Information System (TABMIS) has now been extended to most provinces, and coverage will be complete in the course of 2012. The State Audit of Vietnam has been made independent of the government, reporting to the NA, and much progress has been made in improving the transparency of government operations, including public procurement. Vietnam has succeeded in reforming the tax system, and accordingly raising the national budget capacity (the ratio of tax and fee revenue to GDP during 2007-2009 is 26%). Nevertheless much still remains to be done: key tasks are modernization of the tax administration system, administrative reform, and improvement of the efficiency of public investment and procurement.

### **2.3. DESCRIPTION OF BUDGETARY OUTCOMES**

54. Vietnam continues to make significant progress in the implementation of its fiscal policies. Its starting point was as a country with about 50% of State budget revenues accruing in the form of aid from the USSR and Eastern Europe in the period prior to 1990. Then, when the USSR and its associates faced numerous difficulties and reduced their aid, Vietnam had to print a large volume of cash for its budgetary expenditure. Since 1986, with the introduction of the DoiMoi policy, and particularly since the promulgation of the State Budget Law in 1996, budget management has been specifically regulated according to that Law which provides for prudent budget management, the strengthening of fiscal decentralization, and defines the powers and responsibilities of the National Assembly and Government agencies in budget management and use. Steps have been taken to implement public disclosure and transparency in budget management. These initiatives have all contributed to better efficiency, effectiveness, transparency and clarity in budget management. Sufficient budget revenues have been collected to meet the recurrent expenditure requirements and increasing resources have been accumulated for capital development.

#### *Fiscal Performance*

55. It is difficult to give a clear picture of budgetary outcomes in Vietnam due to a number of factors stand in the way. The government's definition of the fiscal deficit includes capital repayments as well as interest costs of government debt. Large amounts of "excess revenue" are carried forward from one year to the next, and used to support carried over expenditure where the cash outflow takes place in the following year and is accounted for in that year, but the expenditure is attributed to the earlier year. The difficulty of assessing the fiscal stance is further increased by the absence of any information about the functional or economic breakdown of the carried-over expenditure. In addition, the government issues bonds to finance several sectors such as education, health, irrigation, with the expenditure, although notified to the NA, treated as below the line in the budget and included only in the government's general presentation of outstanding debt.

**Table 2.2: Consolidated Budget Indicators 2007 to 2010, in percent of GDP**

Unit: %

Description	2007	2008	2009	2010
Total Revenue and grants	28.5	28.9	27.3	29.6
Tax revenue	23.5	24.5	22.5	24.4
Non-tax revenue	4.5	3.8	4.3	4.6
External grants	0.5	0.6	0.5	0.6
Total Expenditure	30.7	29.4	34.5	32.7
Current expenditure	20.8	20.3	21.0	21.0
Capital expenditure (incl. off-budget and on-lending)	9.9	9.1	13.5	11.7
Overall Balance	-2.2	-0.5	-7.2	-3.1

Source: IMF(GFS 2001 format)

*Allocation of Resources*

56. The normal presentation of budgetary outcomes in a PEFA report includes a table of the functional allocation of resources during the previous three years. In the case of Vietnam SR this has proved very difficult because the available information about the execution of the State Budget has not hitherto included any functional or economic breakdown of the large amounts of expenditure carried over from the previous year. Although the Chart of Accounts and the system which records the information about every transaction at central, provincial and district level (TABMIS in the case of most provinces) provide for the administrative/locational, functional and economic nature to be recorded in each case, the current reporting arrangements do not provide for the consolidation of any of this detailed information in respect of carried over expenditure which amounts to about 25% of 2009 total expenditure.

57. The share of salaries and wages in recurrent expenditure accounts for well over 20 per cent of total State budget expenditure, as reflected in the table below on budget allocation by economic classification.

**Table 2.3: Actual Budgetary Expenditure by Economic Classification as percentage of total expenditure**

Unit: %

Description	2007	2008	2009	2010
<b>1. Recurrent expenditure</b>	66.8	69.1	64.3	69.1
Of which:				
Wages and salaries	23.3	23.5	21.8	21.0
Purchases of goods and services	16.8	16.5	15.9	16.1
Transfers	2.2	1.6	1.8	2.1
Payments of interest	3.8	4.1	4.0	4.3
Others	20.7	23.4	20.8	25.6
<b>2. Capital expenditure</b>	33.2	30.9	35.7	30.9

Source: MOF

**Table 2.4: Actual Budgetary Expenditure by Function (billion VND)**

Unit: billion VND

Description	2007	2008	2009	2010
Capital Expenditure	104,302	119,462	181,363	183,166
Education, Training, Vocational Training Services	43,997	53,560	69,320	78,206
Health Services	12,688	14,385	19,354	25,130
Family Planning Services	558	594		
Science, Technology Services	2,933	3,191	3,811	4,144
Culture, Information Services	2,237	2,662	6,080	8,828
News, Broadcasting Services	1,340	1,373		
Sports & Physical Training Services	1,048	1,119		
Pensions, Social Protection	27,229	37,138	50,266	64,218
Economic Services	15,936	21,193	27,208	37,632
State Administration	32,071	38,025	40,557	56,129
Price Subsidies	1,599	2,622	3,350	2,863
Salary Reform	21,666	22,891	18,870	17,517
Other Expenditures	55,470	76,161	66,766	82,228
Total Expenditure (as for PI-2)	23,074	394,376	486,945	560,061

Source: MoF: Total excludes debt interest capital repayments and externally financed projects

## 2.4. DESCRIPTION OF THE PFM LEGAL AND INSTITUTIONAL FRAMEWORK

### *Key actors in Vietnam SR's PFM process: roles and responsibilities*

58. The main responsibility for PFM rests with the Ministry of Finance (MoF) and the Ministry of Planning and Investment (MPI). MoF is responsible for revenue, expenditure, financing, accounting, reporting and the overall fiscal stance. MPI prepares the five year Socio-Economic Development Plan (SEDP) and is responsible for economic forecasting and for the planning of capital expenditure, including determination of the list of capital projects approved for the following year presented to the National Assembly as part of the Budget. Within MoF, coordination of the overall fiscal stance is the responsibility of the State Budget Department, which allocates expenditure provision to Ministries and provinces, while the State Treasury manages the cash flow, including receipts and payments. External borrowing (including provision of guarantees and the servicing of external debt) has been the responsibility of the Debt Management and External Finance Department (DMEFD) of MoF, while the Treasury and the Banking and Financial Institutions Department of MoF have been responsible for different aspects of domestic debt management. Recently DMEFD has taken overall responsibility for all debt management, both external and domestic, and has published for the first time consolidated information about all aspects of general government debt, including Guarantees. The Banking and Financial Institutions Department is responsible for measures (i.e. the legal framework, regulation of interest rates, mechanisms in taxes and fees, mechanisms for bond registration, custody, listing, and transaction...) for the development of the domestic bond market, covering Government bonds, Government guaranteed bonds, sub-national bonds and corporate bonds. Revenue is mainly the responsibility of the General Tax Department (corporate and personal

income taxes, domestic product VAT, special consumption (excise) and natural resource taxes, and land use taxes and charges) and the General Customs Department (import and export duties, import VAT, and other taxes collected on imports). The MoF General Department of State Owned Enterprises (SOE) monitors the finances of SOEs; once these have been “equitized” (i.e. turned into joint stock companies in which others can invest) the supervision of their affairs becomes the responsibility of the State Corporation for Capital Investment. The Accounting Policy Department sets the standards for accounting and financial reporting. The State Treasury compiles information for reporting. The Inspection Department has the remit to inspect financial management and financial operations in both MoF and line Ministries, particularly when problems arise.

59. MPI has the responsibility to prepare the economic forecasts which provide the context for the Budget preparation, and to prioritise the investment projects to be approved by the Government. In carrying out this function MPI takes into account the scope for external borrowing (determined by the Debt Management and External Finance Department of the Ministry of Finance in accordance with debt sustainability criteria), and the domestic finance which the Ministry of Finance considers can be made available for investment, given the overall fiscal stance. The selection of projects should also reflect the objectives of the Socio-Economic Development Plan (SEDP), including the Government’s objectives for the reduction of poverty.

60. Responsibility for actually carrying out government activities is shared between the line Ministries and the provinces, districts and communes. The Ministries are responsible for central functions of government and for national institutions like universities and specialist hospitals. But most public services are delivered to the citizens by provincial and district administrations. Provincial budgets are apportioned directly by the National Assembly by reference to expenditure norms which are fixed for “stability periods” of 3-5 years, and take into account the revenues accruing under established sharing arrangements to each province in determining the amounts of equalization transfers each province should receive, in order to be able to provide at least a minimum level of each service. Provinces have a considerable measure of discretion in the allocation of their funds to different functions. Revenue targets are set for each province in the annual budget law; once this has been done in the consolidated State Budget approved by the NA, individual provinces may set higher targets which if achieved provide excess revenues to be spent on investment projects or on some recurrent expenditures including raising the amount for and/or widening the scope of social protection beneficiaries, and on other pro-people policies of the provinces. Each province and district has a Treasury office which functions under the supervision of the central Treasury. Provincial Treasuries keep their accounts in local branches of the State Bank of Vietnam (SBV), while district Treasuries’ accounts are kept in commercial banks. There is no consolidation of cash balances, with each province keeping a target amount reflecting the level and pattern of its expenditure. However, daily reports are made to the central Treasury of all revenue and expenditure transactions.

61. External Audit is the responsibility of the State Audit Agency (SAV) operating in accordance with the 2005 Audit law, with the duty to report to the National Assembly (NA). SAV now has some 1,600 staff working in 8 departments at the centre and in 13 offices in the provinces; staff numbers have doubled over the last four years. An overall report is produced on the execution of the Consolidated State Budget, and in addition reports are produced covering individual entities or particular topics (e.g. government poverty reduction schemes, use of government buildings in Ho Chi Minh City). SAV is currently able to carry out annual audits of only about 60% of central government units and 50% of provinces; it considers that it would need more than 3,000 staff to undertake complete coverage every year of all central government

units and all provinces. SAV reports are used by NA Committees as a basis for discussion in the course of the inspection visits they make each year to a selection of Ministries and provinces to assess different aspects of government activity. SAV is entitled to receive 2% of any detected savings and expenditure recoveries for the State budget achieved by government units as a result of SAV audits. SAV's report on budget execution is published once it has been approved by the NA; elements of its other reports may be published a month after delivery to the NA, if SAV so decides. SAV is assisting the Government in setting policy on internal audit in government institutions.

#### *Budget process and budget calendar*

62. The Budget process is in principle determined by the 2002 State Budget Law and Implementing Decree No. 60/2003, which prescribe the procedures and the calendar to be followed in preparing the Budget for submission to the National Assembly (NA), and its subsequent discussion and approval by the NA. This concludes with the approval by the NA of the outline budget no later than 15 November, which serves as the basis for the Prime Minister's apportionment of the revenue and expenditure mandates for each Ministry and the overall allocations to each province by 20 November. Thereafter the provinces and lower level governments settle their detailed budgets, and Ministries determine the detailed breakdown of their allocations and notify MoF, by the end of the year.

#### **Box 2.1: The PFM Legislation**

Vietnam's main PFM legislation consists of

- State Budget Law, 2002
- Law on Tax Administration, 2007
- Value Added Tax Law, 1997
- Corporate Income Tax Law, 2003
- Personal Income Tax Law, 2007
- Special Consumption Tax Law, 1998
- Procurement Law, 2005
- State Audit Law, 2005
- Public Debt Management Law, 2009
- Accounting Law, 2003
- Social Insurance Law, 2006
- Health Insurance Law, 2008
- State-owned Enterprise Law, 2003

### 3. ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

#### INTRODUCTION

63. The PEFA assessment framework is a set of 31 assessment indicators to be scored, of which 28 indicators relate to the performance of the public financial management system, and 3 indicators relate to donor practices; each indicator is measured by the assessment or scoring for one or more assessment dimensions. The PEFA assessment framework is to provide a snapshot of the public financial management performance in terms of (i) credibility of the budget; (ii) comprehensiveness and transparency; (iii) operation of budget cycle (including budgeting arrangements, predictability and control in budget execution, accounting, reporting and auditing); and (iv) donor practices.

**(i) Credibility of the budget:** covers indicators PI-1 to PI-4, to directly capture the PFM system out-turns in terms of (1) aggregate expenditure out-turn compared to originally approved budget; (2) the composition of expenditure out-turn compared to that of the originally approved budget; (3) revenue out-turn compared to the originally approved budget; (4) stock and monitoring of expenditure payment arrears. The purpose of this group of indicators is to assess the credibility of the budget by measuring the deviation between the out-turns and the originally approved budgets. Good practice requires that out-turns are close to the original budgets, and expenditure arrears are avoided.

**(ii) Comprehensiveness and transparency:** covers indicators PI-5 to PI-10, which consider aspects of (5) budget classification, (6) the comprehensiveness of information included in budget documentation, (7) the extent of unreported financial operations of the Government, (8) inter-governmental fiscal relations, (9) oversight of fiscal risks from other public sector entities, and (10) public access to key fiscal information. The purpose of this group of indicators is to measure the comprehensiveness and transparency of the budget and other public financial operations of the State. Good practice envisages that the definition of the budget will be as comprehensive as possible, that full information should be readily available to both legislature and general public, and that fiscal risks from the operations of sub-national governments and State-Owned Enterprises (SOEs) should be minimized.

**(iii) Budget cycle:** covering indicators PI-11 to PI-18, which consider aspects of the budget cycle, including policy-based budgeting (PI-11 and PI-12); predictability and control in budget execution (PI-13 to PI-21); accounting, recording and reporting (PI-22 to PI-25); external scrutiny and audit (PI-26 to PI-28). Good practice looks (11) for an orderly budget-setting process, including (12) effective medium-term fiscal planning; (13-15) a fair, efficient and transparent tax system; (16) efficient and predictable Treasury operations; (17) prudent and accurate debt management; (18) effective control over payroll; (19) competitive and transparent arrangements for public procurement; (20) effective controls over non-salary expenditures; (21) effective arrangements for internal audit; (22) timely and complete accounts reconciliation; (23) ready availability of information about resources allocated to individual schools, local health services, etc; (24) accurate and timely in-year reports of budget execution; (25) timely issue of accurate and complete annual financial statements of government operations; (26) prompt and effective external audit, including both financial audit of annual statements and a range of performance/value for money reports on different aspects of government operations; (27) thorough scrutiny by the legislature of the government's budget proposals and (28) of the external auditor's reports.



**(iv) Donor practices:** covering indicators D1 to D3, which consider (1) the predictability and transparency of budget support from donors, (2) the provision of information by donors about projects/programmes financed through their loans, and (3) the extent to which the donors use Vietnam's procedures in terms of disbursement and project management,... The inclusion of these indicators in the PEFA assessment report reflects the fact that unpredictable donor practices do not support the improvement of the PFM system of the host country, but rather add to its problems. In an ideal situation donors would keep to a previously indicated quarterly path of budget support payments, inform the host government immediately about all aspects of project execution, and rely exclusively on the host country for procurement, payment, accounting and audit.

64. In the course of the assessment, based on evidence about recent PFM performance (where statistics of annual operations are required, these relate to the 3 years 2008-2010), each indicator is scored in a range from A to D. There are two scoring methods, M1 and M2. Method M1 is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other word, the weakest link in the connected dimensions of the indicator). Method M2 is used for multi-dimensional indicators, and is based on averaging the scores of individual dimensions of an indicator. The rules for the application of Method M1 or M2 to each indicator are set out in the criteria for PEFA assessments published by the PEFA secretariat based at the World Bank in Washington, D.C.

65. Although the PEFA report has a comprehensive coverage, it does not assess specific areas of public financial operations. This means that when considering each specific area of public finance, in addition to the PEFA report, it is important to study in-depth reports on that area.

66. The PEFA report reflects actual PFM system performance in recent years. Where the ratings depend on annual data for particular years, no account is taken in the scoring of reforms implemented subsequently, which have not yet had a measurable impact on the statistics. However, in the descriptive explanation of each indicator, the report seeks to provide sufficient information about both reforms already implemented and further changes currently being prepared.

### **3.1. BUDGET CREDIBILITY**

67. The credibility of the budget estimates and budget management is demonstrated by the difference between the initially approved budget and the actual expenditures and revenues, which provides a measure of the overall performance of the PFM system at a high level. The smaller the deviation, the higher the rating.

#### **PI-1: Aggregate expenditure out-turn compared to original approved budget**

68. This indicator measures the deviation between the actual total expenditure and the originally approved budget, which, on one hand, reflects discipline in compliance with the originally approved budget, and on the other hand, demonstrates the country's ability to implement the budgeted expenditure of the Government. PEFA defines good practice, i.e. qualifying for the highest rating, as avoiding a deviation of more than + or- 5% in at least two of the last three years.

Indicator	Score	Brief Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	C	
The difference between actual primary expenditure and the originally budgeted primary expenditure	C	Actual State Budget expenditure deviated from the initially approved amount by more than 10% in two of the three years analysed.
Scoring method M1		

69. Aggregate expenditure out-turns compared to the original approved State Budget for 2007 to 2010 are shown in Table 3.1 below. The original approved budget is taken to be the total State budget expenditure as approved by the National Assembly excluding debt interest and capital repayments, and also excluding expenditure funded from external loans and grants. In order to arrive at figures which are consistent with the GFS definition of the overall fiscal balance, expenditure out-turns include expenditure carried forward from the previous year, and exclude expenditure carried forward into the subsequent year. This is inconsistent with the principle of budgeting in Vietnam, under which expenditure appropriated for year n but in part carried forward to and executed in year n+1 is none the less accounted for as part of year n, while expenditure carried forward into year n from year n-1 is accounted for as part of year n-1. Permitting expenditure appropriations to be carried over from one year to the next provides incentives for the spending unit to practice expenditure savings, to enhance spending efficiency and avoids the situation of acceleration of expenditure towards the end of each year. However, substantial carry-forward will undermine the meaning of the budgeting exercise as well as the effectiveness of policy targets as presented in the budget documents. Therefore, international best practice suggests that excessive carry-forward should be avoided.

70. Moreover, the accounting practice of the carry-over of revenue-expenditure from one year to the next as described above makes it difficult to have a clear comparison between budgets and out-turns. Expenditure carried forward is spent without being re-appropriated as part of the following year's expenditure. In Vietnam there are 4 types of carry-forward expenditures permitted: (i) from the revenues collected in excess of the original budgets at all budget levels. This part of expenditure is reported to the Standing Committee of the National Assembly and the Standing Committee of People's Councils for reviewing and subsequent reporting in the plenary sessions (Article 63 of the State Budget Law)- this has often constituted the largest element in carry-over; (ii) from savings of the administrative and public service delivery units which received block grant budget in accordance with Decree 130 (2005) and Decree 43 (2006) (Article 62 of the State Budget Law); (iii) from salary reform expenditure that has not been executed in the current fiscal year; and (iv) from multi-year public works and projects. In 2009, the amount of carry-over from the previous year reached about 30 per cent of the new budget allocation for that year.

71. When looking at the budget expenditure data over the period of 2007-2009, it is important to note that in the period of 2007-2008, Vietnam had to cope with the situation of high inflation (the inflation rate increased from an average of 5.1% over 2001-2005, to 6.6% in 2006, 12.6% in 2007, and 19.9% in 2008) which caused numerous difficulties to the population, particularly the working population. In that situation, the Government implemented a number of new social safety net policies, which drove budgetary expenditure for such mandates substantially higher compared to the originally approved budget. Moreover, in order to counter the effects of the global recession the Government implemented a major stimulus package in December 2008 (under Resolution 30/2008/NQ-CP) whereby budgeted expenditure in 2009 was increased by VND118,000billion, and taxes reduced by VND30,000billion. Additional capital

projects were authorized, as well as an acceleration of payments for construction, together with VND18,000billion for interest subsidies and VND11,000billion for additional social security payments. The dimension score is C.

**Table 3.1: Aggregate expenditure out-turn compared to original approved budget**

Year	Original Budget (Dong Billion)	Expenditure out-turn (Dong Billion)	Amount of deviation (Dong Billion)	Deviation from approved total (%)
2007	308,240	323,074	14,834	4.8
2008	347,780	394,376	46,596	13.4
2009	432,500	486,945	54,445	12.6
2010	511,950	560,061	48,111	9.4

Source: MoF. Comparison is between original budget and actual expenditure out-turn within the year, including the expenditure from the receipts carried-over from the previous year and excluding the expenditure to be carried-forward into the following year.

	2007		2008		2009		2010	
	Budget	Outturn	Budget	Outturn	Budget	Outturn	Budget	Outturn
Total State Budget Expenditure	357,400	380,785	398,980	452,766	491,300	561,273	582,200	648,833
Debt Repayments & Aid Provision	49,160	57,711	51,200	58,390	58,800	74,328	70,250	88,772
Total Expenditure (excl. Debt Repayment & Aid Provision)	308,240	323,074	347,780	394,376	432,500	486,945	511,950	560,061
% difference bet. Budget & Outturn		4.8		13.4		12.6		9.4

Source: MoF; Unit: Dong Billion

**Reform Efforts Underway:** MoF are working on a re-representation of the Budget to bring it into line with international norms, and make it consistent with GFS in the context of preparing a new budget law. Other possible changes include strengthening the co-ordination between the planning of current expenditure (the responsibility of MoF) and that of capital expenditure (the responsibility of MPI), and strengthening the budget decision making powers of the People's Councils in provinces and lower tier governments. In addition to ensuring that full functional and economic breakdowns are available covering carried over expenditure in the same way as the rest of expenditure, consideration could be given to restricting amounts carried forward to a small percentage of provision for expenditure on goods and services, and requiring them to be re-appropriated as part of the following year's budget (although spending units concerned would have the assurance that the funds would be available). The practice of permitting additional expenditure out of revenue carried forward should also be reconsidered: additional revenues should in the first instance be used to reduce government indebtedness, and if the economic conjuncture indicates that there is scope for additional expenditure in the following year, this should form part of that year's formal appropriations.

## PI-2: Composition of expenditure out-turn to original approved budget

72. This indicator measures the deviation in the composition of expenditure out-turn compared to the originally approved budget. The originally approved budget reflects the Government's intentions and NA decisions on the relative priority of resources in each function, and major socio-economic mandates. Therefore, substantial variation among the functions between out-turns and amounts of original budget will undermine the original decisions on the relative importance between functions. Two dimensions are considered for this Indicator: (i) the extent of changes in the composition of expenditure between budget and out-turn, and (ii) the extent to which expenditures are charged to a Contingency heading or Vote in the budget.

Indicator	Score	Brief Explanation
PI-2 Composition of expenditure out-turn compared to original approved budget	D+	
(i) Variance in expenditure composition	D	The calculated composition variance exceeded 15% of actual expenditure in each of the three years. Variances were 17.0%, 23.6% and 19.8% in 2008, 2009 and 2010 respectively.
(ii) Expenditure charged to contingency heading	A	The contingency provision subsequently allocated to particular programmes was on average less than 3% of budgeted expenditure each year.
Scoring method M1		

### *(i) Variance in expenditure composition*

73. Variance in expenditure composition is measured by multiplying the original budget for each function by the ratio of the aggregate expenditure out-turn to the original aggregate budget, defined as for PI-1. The actual expenditure for each function is then deducted from the adjusted original provision. Finally these absolute variances (whether positive or negative) are then aggregated and compared with the total expenditure out-turn. The highest rating is achieved when the total variance calculated in this way did not exceed 5% in more than one of the three years analysed. The calculations show variances of 17.0%, 23.6% and 19.8% for the years 2008, 2009 and 2010 respectively. The detailed figures show that these variances particularly reflected in-year decisions to spend more in each of the three years on State Administration functions and subsidies. Particularly in 2009 due to the decision to very substantially boost capital expenditure, the variance reached 23.6%. Because the variance exceeded 15% in each of the three years, the dimension score is D.

74. Although Budget execution out-turn statements have included the functional and economic breakdown of much of the expenditure, hitherto it has been difficult to have the breakdown of carried-forward expenditure, which would require an additional administrative effort. The statistics used to rate this Indicator have been produced specially for this purpose. In addition to ensuring the availability of complete information about the functional and economic breakdown of actual expenditure in any given year, including expenditure carried over from the previous year, the GFS-consistent comparison of budgets and out-turns should be further improved to include in the investment expenditure met out of Government bonds issued to finance transport and irrigation projects of national importance, schools and hospitals. Although

such expenditure is not included in the budget balance, the Government still has to submit it to the National Assembly for the latter's review and decision as with the budget. Therefore it should be treated as in budget balance instead of being treated as "off-budget" and excluded from the presentation of the fiscal deficit.

*(ii) Proportion of out-turn financed from Contingency provision*

75. Good practice requires that contingency provision is only used for contingent and unforeseen items or mandates, and avoids charging an expenditure item to a contingency allocation (i.e. any amounts drawn from the contingency provision should be varied to the relevant budget chapters). The contingency provision was on average less than 3 per cent of the original budget (current and capital expenditure combined) in each of the three years. It appears all to have been allocated to different functions, although MoF were unable to identify the recipients. Because the provision was so small, the dimension score is A.

**Table 3.2: Variance in expenditure**

Unit: billion VND

	2007			2008			2009			2010		
	Budget x 1.048	Actual	Difference	Budget x 1.134	Actual	Difference	Budget x1.126	Actual	Difference	Budget x 1.094	Actual	Difference
Capital Expenditure	104,224	104,302	78	113,094	119,462	6,368	127,013	181,363	54,350	141,313	183,166	41,853
Education, Training Services	49,549	43,997	-5,552	61,304	53,560	-7,745	75,814	69,320	-6,494	95,372	78,206	-17,166
Health Services	15,364	12,688	-2,676	18,873	14,385	-4,489	26,303	19,354	-6,949	34,709	25,130	-9,579
Family Planning Services	618	558	-60	698	594	-104						
Science, technology services	3,752	2,933	-819	4,340	3,191	-1,149	4,943	3,811	-1,132	5,731	4,144	-1,587
Culture, Information Services	2,358	2,237	-121	2,767	2,662	-105	3,085	6,080	2,995	7,336	8,828	1,492
News, Broadcasting services	1,373	1,340	-33	1,610	1,373	-237	1,757					
Sports, Physical Training Services	859	1,048	189	998	1,119	121	1,486					
Pensions, Social Protection	28,086	27,229	-857	40,589	37,138	-3,451	58,474	50,266	-8,208	68,416	64,218	-4,198
Economic Services	17,114	15,936	-1,178	22,149	21,193	-956	30,830	27,208	-3,622	36,611	37,632	1,021
State Administration	25,990	32,071	6,081	32,249	38,025	5,777	37,866	40,557	2,691	53,185	56,129	2,944
Price subsidies	723	1,599	876	865	2,622	1,756	1,047	3,350	2,303	1,379	2,863	1,484
Salary Reform	25,781	21,666	-4,115	32,206	22,891	-9,315	41,212	18,870	-22,342	39,962	17,517	-22,445
Other Expenditure	37,770	55,470	17,700	50,507	76,161	25,654	60,939	66,766	5,827	75,213	82,228	7,015
Total Variance			40,335			67,227			114,965			-17,228
Total actual budget expenditure		323,074			394,376			486,945			560,061	110,783
Variance as % of actualbudgetexp.			12.5%			17.0%			23.6%			19.8%

Source: MOF

### PI-3: Aggregate revenue out-turn compared to original approved revenue budget

76. This indicator assesses the quality of revenue estimation by comparison of the actual revenue and the approved revenue budget. The larger the deviation, the lower the rating.

Indicator	Score	Brief Explanation
PI-3 Aggregate revenue out-turn compared to original approved budget	D	
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	D	Actual State Budget domestic revenue collection exceeded the budgeted amount by more than 16% in two of the three years.
Scoring method M1		

77. Table 3.3 below shows revenue budget estimates and out-turns for each major type of revenue accruing to the State Budget for the period 2008-10. Accordingly, in all three years, actual revenue exceeded the budgeted amount, by 31.8 per cent, 16.1 per cent, and 28.1 per cent respectively.

78. The period 2008-2010 was not unusual in showing the actual revenue collection far in excess of the amounts budgeted. All tax revenue is collected by the central government, with the yield of some taxes accruing wholly to central government (oil revenues and taxes on international trade), the yield of others (taxes on land use) accruing wholly to provinces, and the yield from the remainder (income taxes and VAT) shared between central government and the provinces. Vietnam has for many years always collected revenues in excess of revenue budgets. In addition to the factor of economic growth, the excess revenues are due to some subjective reasons as follows: firstly, the existing mechanism of fiscal decentralization gives the sub-national governments an incentive to underestimate their share of revenue receipts so as to gain advantages: in obtaining additional support from the Central Government, in budget management when they subsequently receive excess revenues, and in certain cases when the targets are overachieved, in qualifying for excess revenue rewards from the Central Government; as well as other political advantages for local leaders. Because of this MoF has difficulty in the course of budget preparation in persuading provinces to accept realistic forecasts of the revenues accruing to them. Secondly, Vietnam's budget revenue is highly dependent on receipts from crude oil sales, on the yield from import and export taxes and on revenues from land use right transfers (which together account for about 40-50% of the revenue) The fact that these sources of revenues are prone to market fluctuation has been used by the Government and sub-national governments as a justification for a conservative approach to revenue forecasting. Thirdly, it is due to limited capacity and modern techniques of revenue analysis and forecasting have not yet been applied in Vietnam.

79. In the period of 2008-2010, the major factor driving excess revenue in 2008 was rapidly rising world oil prices. But in 2009 lower world oil prices and the global recession led to reduced revenues from oil, and lower receipts from corporate income tax. However, revenues from taxes on imports and receipts from land use charges were well above budget. Dimension score: D

**Table 3.3: Revenue out-turn compared to original Budget (in billion VND)**

Description	2007		2008		2009		2010	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total (excl. grants)	278,900	321,899	319,400	421,136	384,900	446,878	456,500	584,574
% deviation from budget	15.4%		31.8%		16.1%		28.1%	
Value added tax on domestic goods and services	47,329	47,860	58,370	60,523	75,373	79,916	94,977	98,739
Balanced budget revenue from import, export duties, special consumption tax and VAT on import	55,400	60,271	64,500	91,457	88,200	105,629	95,500	130,351
Special consumption tax on domestic goods and services	17,110	17,365	19,875	22,123	26,822	29,728	30,140	37,311
Corporate income tax	98,965	104,552	108,121	137,239	111,516	112,164	134,220	148,655
Natural resource tax	19,854	21,461	19,559	26,347	19,568	19,093	19,478	26,316
Personal income tax	6,119	7,415	8,135	12,940	14,545	14,578	18,460	26,276
Land use charges	14,500	28,677	16,500	31,598	21,000	37,695	23,000	49,368
Other taxes and fees	19,623	42,661	24,340	38,909	27,876	48,075	40,725	67,558

Sources: MoF.

**PI-4: Stock and monitoring of expenditure payment arrears**

80. This indicator assesses the extent of expenditure payment arrears of the Government, or in other words, the extent of expenditure obligations that have been incurred by the Government, for which payments are overdue. Good practice is to avoid the incurrence of such arrears. The PEFA framework allows flexible application of the internationally practices in defining the payment period (that payments should be made within 30 days from the date when the Government's receipts of invoices or full documentation of claims) or the local regulations on the payment practices. An outstanding payment of any kind becomes an arrear only when it is overdue, but not paid. By assessing the changes from year to year in the amounts of payment arrears, this indicator also assesses the extent to which any systematic problems are addressed to reduce the incidence of new arrears.

Indicator	Score	Brief Explanation
PI-4 Stock and monitoring of expenditure payment arrears	NR	
(i) Stock of expenditure payment arrears (as % of actual total expenditure for the corresponding fiscal	NR	The Central Treasury and Treasury offices in each province maintain substantial cash balances, to ensure that there are no payment arrears in respect of any eligible expenditure satisfying all conditions for payment in compliance with the provisions of the State



Indicator	Score	Brief Explanation
year) and any recent change in the stock		Budget Law. But there is evidence of commitments being undertaken at province and district level in advance of budgetary provision being made available.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	NR	The extent of the cash float has been seen as rendering arrears monitoring unnecessary. But the evidence from VCCI and other sources of the existence of unregistered commitments suggests that more needs to be done to keep track of the situation.
Scoring method M1		

*(i) Stock of expenditure payment arrears*

81. Current regulations in Vietnam provide that payments should be made within 2 working days for recurrent expenditure and within 7 working days for capital expenditure once all necessary documentation confirming their eligibility has been presented to the Treasury. In general, there is no sign that the Government delays its payments.

82. According to the provisions of the State Budget Law, budget expenditures in principle are only actually paid when all conditions are met, including: (i) being provided for in the allocated budget; (ii) complying with the policies, standards and norms; and (iii) being approved by the authorized persons to make expenditure decisions. Once the spending units or agencies forward full documentation and payment claims to the Treasury within the budgets approved by the competent authorities, the payments will be guaranteed by the State Treasury.

83. To ensure liquidity in the whole system, the Treasury system provides for the maintenance of substantial cash balances both centrally and in each province, and this is facilitated by the normal underestimation of revenue at both central and sub-national levels (although in 2009 in some provinces, the revenues fell significantly short of ambitious targets in the original budget). The Treasury cash balance in each province would normally be sufficient to finance two weeks' expenditure, and special arrangements are made with the central Treasury to ensure that cash is available to meet lumpy payments. Even in the year 2009, when revenues fell substantially while expenditure rose very rapidly in response to the Government's stimulus policy, the Government was able to mobilize sufficient additional borrowings to meet all payments and avoid any cash shortage. As a matter of fact over the last many years, there has been no question of liquidity problem at Treasury offices.

84. However, there have been cases in the past when works have been undertaken, or supplies delivered, without proper budget authorization, and even without the necessary approvals by the relevant authorities in line with investment approval procedures. This arose particularly where building and civil engineering work was undertaken in the provinces without any formal contract or authorization, in the expectation that the Government would eventually pay. According to survey findings in 2005, the outstanding claims for unauthorized capital construction works of this kind amounted to VND 5,000 – 10,000 billion (corresponding to 1.5-3.5% of total budget expenditure in that year). This problem was addressed by the issue of Decision No. 910/2004. No more recent overall enquiries have been made to capture the claims for uncommitted capital construction works. Although the Treasury's view was that the current amounts of such informal commitments are not significant, it is clear that no normal financial accounting and control system can capture automatically the overall extent across the country of deliberate entering into unauthorized commitments outside that system. The intended

introduction of controls over commitments, (including arrangements to ensure that payments in respect of approved commitments are provided for in future years) once the coverage of the TABMIS system is complete, together with a warning to suppliers/contractors to insist on evidence that commitments have been properly approved, should further reduce the risks to government of having to meet such unauthorised contingent liabilities. While the problem of unauthorized commitments for construction works may be on the way to a solution, discussions with the Vietnam Chamber of Commerce and Industry (VCCI) indicated that problems remain in the way contract prices are set and progress payments made, leading to widespread complaints by contractors that unrealistic cost norms are imposed, and payments delayed for long periods by reason of alleged but only minor imperfections in supporting documentation. It appears that such situations may reflect insufficient budgetary provision where payments extend beyond the initial year. These problems are further discussed in relation to PI-20 below.

Dimension score: Not Rated, in view of the evidence of outstanding payments not yet submitted to the Treasury.

*(ii) Availability of data for monitoring expenditure payment arrears*

85. As mentioned above, to the extent that all expenditures can only be paid upon fulfilling all eligible conditions in accordance with the provisions of the State Budget Law, Vietnam actually does not have any problem with formal payment arrears in respect of invoices submitted to the Treasury. But there is evidence of amounts outstanding at provincial level where work done has outrun available budgetary provision.

86. Currently, Vietnam is implementing the new Treasury and Budget Management Information System (TABMIS), which is to be operational throughout the country (in 2012). This will provide for all commitments to be registered at the time purchase orders are made, or contracts entered into. Information should then be more readily available for monitoring the progress of contracts, and ensuring that sufficient budgetary provision is made for payments due after the initial year in which commitments are made.

Dimension score: Not rated

## **3.2. COMPREHENSIVENESS AND TRANSPARENCY**

### **PI-5: Classification of the budget**

87. A robust and consistent budget classification is essential for the control of expenditure and the efficient management of resources in support of policy objectives. The budget classification should enable revenue and expenditure to be broken down by administrative unit, economic nature, function and program.

88. The purpose of this indicator is to assess whether the Government applies a system of budget classification to manage resources by various objectives and whether the system of budget classification is following the Government Financial Statistics (GFS) standard, and if possible, whether it has a programmatic presentation structured toward specific policy objectives. Such a system should make possible to track spending from budget to out-turn, and from one year to the next.

Indicator	Score	Brief Explanation
PI-5 Classification of the budget	D	
(i) The classification system used for formulation, execution and reporting of the State budget	D	The Chart of Accounts underlying the system of budget classification should enable information to be recorded about the economic, functional, administrative unit and, program characteristics of each transaction, in a way which is fully consistent with GFS/COFOG. But the system has not hitherto been used to present consistent breakdowns of revenue and expenditure at budget and out-turn stages.
Scoring method M1		

89. The ability to present budget and out-turn according to different classifications (by administrative unit, function, economic nature, location, etc.) depends on the underlying system through which information is collected. This is often referred to as the Chart of Accounts. This should provide for all the required information to be consistently recorded in respect of each individual revenue or expenditure transaction. Provided that all the necessary information is recorded, it should in principle be possible to present expenditure analyses based on any of the different classifications. The system of budget classification in Vietnam has been regularly updated and amended. There are currently four dimensions of classification: administrative organization (chapters), functional nature of the sector (health, education, etc. including categories, sub-categories), economic nature of State budget revenues and expenditures (group, sub-group, items, sub-items), and national programs, projects (where transactions fall within such programmes/projects, all the other information still needs to be collected). The system of budget classification, which is consistent with GFS 1986 and broadly consistent with COFOG, is used for accounting and reporting. But the system is not yet consistently applied in all the stages of budget preparation, allocation, execution and final account presentation. Specifically, in the budget preparation stage, the budget is presented by line management agencies of budget spending units, levels of management, functional and economic classification (aggregate expenditure, breakdown of capital and recurrent expenditures, of which the capital expenditure has the detailed breakdown by functions such as education, health, science), in compliance with the requirements of Resolution No. 387/2003 of the Standing Committee of the National Assembly.

90. In the stage of budget allocation after the National Assembly has approved the overall totals (and the same process has been undertaken by the People's Councils at sub-national level), spending units have discretion in allocating the apportioned envelope for each function to their subordinate units, but they must notify to Ministry of Finance or its counterparts at sub-national levels for the latter's review and no-objection. The budget execution and final accounts are consolidated and reported on the basis of the budget as approved by the relevant authorities at each level of government. The difficulty currently experienced in Vietnam is not that information does not exist to provide the basis for consistent comparisons between budget and out-turn, but that expenditure carried over from the previous year has not been reported in detail according to the same classifications as are used for the rest of budget expenditure, thereby precluding consistent comparisons of the total actual expenditure. (The Chart of Accounts ensures that all the same information is recorded in respect of transactions financed from funds carried forward as is recorded for other transactions, as well as identifying them as part of carry-over). A separate requirement for disaggregation and compilation had to be undertaken in order to generate the data required to assess PI-2 above. The score for this dimension is D.

**Reform Efforts Underway:** In the future, in the studies for the revision of the State Budget Law, the system of reporting requirements should be revised for the development of reports to be submitted to the National Assembly for more consistency between the stages of the budget cycle, to ensure the ability to compare budget reports consistently from the stage of budget formulation to implementation and final accounting. MoF intend to include full details of the economic as well as the administrative, functional and sub-functional classifications of expenditure in their detailed publication of the [2013] Budget once the detailed allocations have been made by the spending units concerned. It would be desirable to include appropriate provisions in the revised Budget Law to ensure that consistent information is presented about all expenditure at both budget allocation and out-turn stages.

#### PI-6: Comprehensiveness of information included in budget documentation

91. This indicator assesses the comprehensiveness of information in the annual documentation of budget reports and budget drafts to be submitted to the legislative bodies for review and approval. In principle, the budget reports and budget drafts must be documented to allow the legislative bodies to review, scrutinize, and make decisions on the fiscal strategy, budget estimation and budget appropriation. As indicated by PEFA, the documentation of budget reports and budget drafts should contain 9 elements of information, including: macro-economic assumptions and forecasts; budget deficit; deficit financing; debt stock; financial assets; prior year's budget out-turn; current year's budget estimates; budget balance reports; explanation of budget implications of new policy initiatives.

Indicator	Score	Brief Explanation
PI-6 Comprehensiveness of information included in budget documentation	B	
Share of the above listed information in the budget documentation most recently issued by the central government.	B	The budget documentation is considered to contain 5/9 elements of information listed in the PEFA criteria. But inter-fiscal-year transfers of revenues and expenditures preclude consistent comparisons between budget and out-turn and from one year to the next.
Scoring method M1		

92. Based on PEFA guidance, the extent to which information in the budget documentation presented to the National Assembly of Vietnam satisfies the information requirements is set out below.

1. *Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.*

Satisfied: Information about the outlook for growth, inflation and the exchange rate is presented alongside the Budget.

2. *Fiscal deficit, defined according to GFS or other internationally recognised standard.*

Partially Satisfied: The information on the budget deficit is currently reported to the National Assembly in line with the provision of the State Budget Law and required templates in Resolution No. 387/2003 of the Standing Committee of the National Assembly. However, the

definition of the budget deficit in Vietnam is not consistent with the GFS standard, although the budget deficit calculated according to GFS standard is now available on the MOF website.

3. *Deficit financing.*

Satisfied: In the reports submitted to the National Assembly, there is a presentation of borrowing requirements to finance the budget deficit, including domestic and external borrowings. As the definition of the budget deficit is not in line with international standards, some of the data may be misleading. However, to make up for that, the National Assembly (NA) is supplied with projections of opening and ending domestic and external debt stocks for the budget year. The difference can be seen as indicating the required deficit financing.

4. *Debt stock.*

Satisfied: As already noted, the NA receives full information about the debt stock in the documents submitted to it, including the breakdown between foreign and domestic, absolute amounts and comparison to gross domestic product (GDP).

5. *Financial Assets, including at least details for the beginning of the current year.*

Not satisfied: Vietnam does not produce any report on financial assets. No information has been published about financial assets either in the context of the Budget or in the budget execution statements.

6. *Prior year's budget out-turn, presented in the same format as the budget proposal.*

Partially satisfied: In accordance with the applicable provisions of the State Budget Law, the financial statements of budget execution should be submitted to the National Assembly within 18 months after the completion of the budget year in question. Therefore in the annual budget documents, there are only estimated out-turns for the current year and estimates for the budget year ahead, but not the final accounts of the previous year which are not yet complete. But the value of these presentations is undermined by the inadequacy of information about expenditure carried over from one year to the next, which is only captured in the final account stage.

7. *Current year's budget (either the revised budget or the estimated out-turn) presented in the same format as the budget proposal.*

Satisfied: Estimated out-turn for the current year is provided. Again the treatment of carry-over means that the information is incomplete.

8. *Summarised budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year.*

Not satisfied: summarized data for both revenue and expenditure are presented only at a high level of aggregation. But as mentioned in relation to element 6 above, data are only reported for the current year and the forthcoming budget year; the final account data for the previous year is not available until it has received approval from the National Assembly approval in the following June. Again, the comparison between the projected out-turns for the current year and the estimated out-turns of the previous year is undermined by the treatment of expenditure carried-over.

9. *Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes.*

Satisfied: In the documentation of the draft budget as submitted, and particularly in the presentation of the Central budget appropriation plan, there is information about new policies and (major) initiatives including their impact on the budget.

The score for this dimension: B.

**Reform Efforts Underway:** (2) In the revision of the State Budget Law, it is intended to revise the definition of the budget deficit in accordance with international practice. (5) There are ongoing studies for the development of the public accounting standards and consolidation of financial statements for the whole of Government, which would include information about financial assets.(6-8) The revision of the State Budget Law will also provide the occasion to address the problems presented by the current practices in authorising and accounting for expenditure carried over from one year to the next.

### PI-7: Extent of unreported government operations

93. In principle, all operations of the Government using public financial sources should be included in budget reports to ensure transparency, public disclosure, more efficient allocation and use of the resources, as well as budget sustainability. Based on that, this indicator assesses the extent of unreported government operations based on 2 dimensions: (i) the level of extra-budgetary expenditure which is not included in budget reports; (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports, but managed under accounting and recording principles different from the normal budget practices (following respective donors' own procedures).

Indicator	Score	Brief Explanation
PI-7 Extent of unreported government operations	C+	
(i) The extent of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	C	There are over 30 extra-budgetary Financial Funds carrying out functions of government. The two major Funds with biggest spending are the obligatory Social Insurance Fund and the Health Insurance Fund; together they accounted in 2009 for about 95% of the total expenditure of the extra-budgetary Funds. In the period of 2007-2009, expenditure from extra-budgetary Funds, which was reported only at the out-turn stage, was equivalent to approaching 8% of the total budget expenditure.
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	A	In Vietnam, basically all the external loan and grant finance received by agencies and units of the Government is included in the fiscal reports. The only exceptions are the small amounts paid directly by donors to third parties outside Vietnam (e.g. for technical assistance).
Scoring method M1		

*(i) The extent of unreported extra-budgetary expenditure ,i.e. expenditure not included in budget reports submitted to the National Assembly before the beginning of each year and in budget execution report after the year-end.*

94. Good practice envisages that the budget will be as comprehensive as possible, and that all expenditure resulting from government decisions should either be included in the budget or presented to the legislature alongside the budget at both budgeting and out-turn stages. The State Budget Law specifies that all revenues and expenditures decided by the relevant authorities of the State for the implementation of State functions and mandates should be included in the State budget. Nevertheless, there are some major expenditures that are not included in the budget: for example, the capital expenditure under the investment programs financed by Government bonds for transport, irrigation, education and health purposes; capital expenditure financed by national construction lottery revenues, and expenditure financed from earmarked fees and charges. However, in accordance with applicable regulations these expenditures are still executed and controlled by the Treasury; the annual revenue-expenditure data is included in reports submitted to the National Assembly both before and after the event.

95. In addition, Vietnam has more than 30 State Financial Funds established at both central and sub-national level, with diverse scope, nature and scale of operations (a list of selected major funds is provided in Box 3.1). Public Financial Funds are all established on the basis of legislation enacted by the National Assembly, Ordinances of the Standing Committee of the National Assembly, or Decrees/Decisions of the Government or the Prime Minister. Some funds are established by and for the central government, others by and for sub-national governments, with some funds established at both central and sub-national levels. Only certain central level funds - the compulsory social insurance fund, health insurance fund, unemployment fund, job creation assistance credit fund, central SOE restructuring fund (nowadays called SOE restructuring and development fund), the sinking fund and sub-national development investment fund - have substantial own revenue sources and expenditure mandates; together these funds account for 95% of total expenditure of State financial funds. The others are small-sized funds operating in narrow scope or in certain localities only. In general, although some financial funds can mobilize revenues from contributions of beneficiaries (such as the compulsory social insurance fund, health insurance fund, unemployment insurance fund...), the majority of State financial funds are dependent on financing from the State budget (i.e. in initial establishment and during operations), and their non-budgetary sources of revenues are limited. Although budget plans, budget execution reports and end-year financial statements of these funds are submitted to the sponsor Ministries (or their counterparts at sub-national level), and audit reports on their activities are published, there has been no effort to consolidate the revenues and expenditures plans of these funds into the annual budget and budget final account documents.

96. The two most important Funds with biggest expenditures - the Social Insurance Fund and the Health Insurance Fund - accounted for about 95% of the total extra-budgetary expenditure of the funds in 2010-2011. The sources of revenues for these two Funds are mainly contributions from employers and employees with the rates of contributions relative to salaries as follows: 22% (16% and 6%) for the Social Insurance Fund, and 4.5% (3% and 1.5%) for the Health Insurance Fund. From 2010, there is also the Unemployment Insurance Fund, with the rate of contributions at 3% of salaries (of which the employers contribute 1%, the employees contribute 1%, and 1% is from the State budget). In the future, the rates of contributions to these funds will be raised in order to avoid fund deficits. According to the existing laws, the maximum level of contributions is 26% for the Social Insurance Fund and 6% for the Health Insurance Fund.

**Box 3.1: List of Public Financial Funds**

<b>Central Financial Funds</b>	<b>Local Financial Funds</b>
1. Social Insurance Fund	1. Gratitude Fund for National Services & Merits
2. Health Insurance Fund	2. Local Land Development Fund
3. Unemployment Insurance Fund	3. Local Housing Development Fund
4. SOE Re-structuring and Development Fund	4. Flood and Storm Prevention & Control Fund
5. National Science and Technology Development Fund	5. Security and Social Order Fund
6. Environmental Protection Fund	6. Local Development Investment Fund
7. National Fund for Job Creation	7. SME Guarantee Fund
8. Public Telecommunication Services Fund	8. Local Farmer Assistance Fund
9. Vietnam Child Safety Net Fund (Child Protection Fund)	9. Agent Orange Victim Assistance Fund
10. Legal Assistance Fund	10. Local Employment Resolution Fund
11. Overseas Employment Assistance Fund	11. Local Environment Protection Fund
12. Drug Abuse Prevention & Control Fund	12. Cooperative Development Assistance Fund
13. Central Forest Protection and Development Fund	
14. Oil and Petro Price Stabilization Fund	
15. Fund in Support of HIV Carriers	
16. Sinking Fund	
17. Cooperative Development Assistance Fund	
18. Road Maintenance Fund	

**Table 3.4: Social Insurance & Health Insurance payment as percentage of total State budget expenditure**

*Unit: Billion VND*

<b>Indicator</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
1. Total budget expenditure in NA approved budget (excl, principal debt repayments)	336,312	411,836	508,029	607,380
2. Social Insurance Fund (SIF)	33,781	44,871	54,880	64,044
2.1. SIF (State budget contribution)	19,316	23,511	26,461	28,882
2.2.SIF (own funds)	14,465	21,360	28,419	35,162
3. Health Insurance Fund	8,124	10,394	15,481	19,081
4.Unemployment Insurance payment				459
5. Total Social Insurance, Health Insurance, Unemployment payment (SIF own funds)	22,589	31,754	43,900	54,702
Ratio of Social Insurance, Health Insurance, Unemployment Insurance payment to total expenditure: 5/(1+5)	6.29%	7.16%	7.95%	8.26%



97. The Social Insurance Fund (SIF) was split from the State budget fund in 1995, and collects social insurance contributions in respect of employees throughout the country. It is responsible for paying pensions only to people who retired after 1995 (the costs of pensions for all those who retired before 1995 are borne by the State budget which advances the necessary amounts to the SIF). SIF has substantial balances (VND 141,220 billion at the end of 2010), almost all of which is invested in government debt. The income of the Health Insurance Fund, by contrast, has not been sufficient to meet all its obligations in 2009, so that subventions have had to be provided from the Budget. Therefore, in 2010, the rate of contributions to the Health Insurance Fund was adjusted up from 3% to 4.5% of salaries to ensure fund balance, and the Fund's revenue will also increase as minimum salary requirement rises.

The score for this dimension: C

*(ii) Extent of inclusion of information on donor-funded projects included in fiscal reports*

Good practice looks for complete inclusion in budget and out-turn statements of all expenditure financed from external grants and loans. In Vietnam, basically all the external loans and grants received by agencies and units of the Government are included in the fiscal reports with the exception of amounts paid directly by donors to third parties outside Vietnam (e.g. for technical assistance); however, the amounts not included in the budget are very small. During the period 2008-10 capital expenditure accounted for about a third of total government expenditure, of which about a quarter was financed externally. External grants on average met less than 2% of government expenditure.

The score for this dimension: A

## **PI-8 Transparency of Inter-Governmental Fiscal Relations**

98. This indicator assesses the transparency of inter-governmental fiscal relations, by focusing on the 3 criteria: (i) the transparency and objectivity of budget allocations for sub-national governments; (ii) the timeliness of reliable information given to sub-national governments to facilitate their budget preparation and allocations to their subordinate units; and (iii) the extent to which budget data for general government as a whole are collected and reported according to sectoral categories.

<b>Indicator</b>	<b>Score</b>	<b>Brief Explanation</b>
PI-8 Transparency of Inter-Government Fiscal Relations	B+	
(i) Transparent and rules based systems in the allocation of unconditional and conditional transfers from central government to SN governments.	A	<p>Currently, the equalization transfers to sub-national governments are implemented by using a relatively transparent and clearly defined system of budget allocation norms. In addition, most of the supplementary targeted transfers to meet specific recurrent and capital expenditures are also implemented by applying a system of budget allocation norms.</p> <p>However, there are some supplementary targeted transfers to sub-national governments that are not based on objective criteria. These are transfers to meet the costs</p>

Indicator	Score	Brief Explanation
		of specific civil engineering works, projects and special mandates of some sub-national governments. It is estimated that such transfers accounted on average for about 9% of the targeted transfers and about 6% of the total value of transfers from the Central Government to sub-national governments in 2008-10.
(ii) Timely and reliable information to SN governments on their allocations from central government for their budget preparation and allocation	B	Revenues of sub-national governments are largely determined by their share of national tax receipts (fixed for stability periods of up to 5 years) and of equalization and supplementary transfers from central government (largely determined by the operation of objective criteria). Thus sub-national governments have most of the information they need to prepare their budgets in parallel with the budgets of central government agencies. But they only have full information when the State Budget proposals, including all information about central government transfers, are submitted to the National Assembly in October each year. Final decisions are then taken by People's Councils once the NA has approved the State Budget.
(iii) Extent to which budget data are consolidated by sectors and/or functions for all budget levels.	B	The State Budget proposals put to the NA incorporate the Government's expectations about the budgets of provinces and districts, and include a sectoral breakdown of expenditure. The national Treasury system through which budgets at all levels of government are executed collects consistent information about the sectoral and economic breakdown of actual expenditure. However, the consolidation of the expenditure out-turn information currently takes more than a year.
Scoring method M2		

*(i) Transparency of the allocation of resources to provinces and districts*

99. Good practice envisages that almost all the allocation of resources to sub-national governments will depend on the operation of objective criteria. Currently, in the first year of the “stability period” for sub-national budget (which is 3-5 years according to the State Budget Law), the Central Government re-established the expenditure needs of each province using a relatively transparent and rule-based system of budget allocation norms. At the same time, based on the determination of the local collected budget revenues, the Central Government also specifies the amount of equalization transfers to sub-national governments, to make up the shortfalls that the locally collected revenues cannot cover the expenditure needs as defined by the norms; or adjust the ratios of revenue shares for the Central Government, where the revenues are higher than the expenditure needs. In addition, most of the supplementary transfers to meet specific recurrent and capital expenditures are also implemented by applying a system of budget allocation norms. In accordance with the State Budget Law, the system of budget allocation norms is established for the first year of the stability period. The current stability period runs from 2011 to 2015 and the previous period ran from 2007 to 2010. The system of norms used to determine the spending needs of each sub-national government is primarily based on population numbers. In

addition, there are secondary criteria, to reflect the additional needs of sparsely populated areas and mountainous areas occupied by ethnic groups.

100. As already noted, the supplementary transfers are for the most part also implemented in a transparent, clear and rule-based manner. For recurrent expenditures, during the stability period, when the Central Government makes any policy adjustment that implies expenditure increases at sub-national levels, according to the State Budget Law, the Central budget is expected to make a supplementary transfer to the sub-national governments to meet the additional spending needs (with exception of some better-off provinces that can balance their budget, and self-finance their expenditure increases from their own budget sources). Most supplementary transfers for capital expenditures also follow a transparent system of budget allocation norms.

101. However, there are some transfers to the sub-national governments that are not based on objective criteria. These are transfers to meet the costs of National Targeted Programmes (NTPs) made up of specific civil engineering works, projects and special mandates of particular sub-national governments. These transfers accounted on average for about 9% of the targeted transfers and about 6% of the total value of transfers from the Central Government to sub-national governments in the years 2008-10.

The score for this dimension: A

**Table 3.5: Equalisation, Supplementary and Targeted Transfers to Provincial Governments**

	2008	2009	2010
<b>Total</b>	<b>94,679</b>	<b>134,117</b>	<b>134,117</b>
Equalisation transfers	42,026	38,754	52,565
Targeted transfers	52,653	95,363	87,248
<i>Of which targeted transfers that are not based on objective criteria (rule-based)</i>	<i>5,250</i>	<i>10,395</i>	<i>6,378</i>
<i>Ratio of targeted transfers that are not based on objective criteria to total value of transfers</i>	<i>5.54%</i>	<i>7.8%</i>	<i>4.6%</i>
<i>Ratio of targeted transfers that are not based on objective criteria to total value of targeted transfers</i>	<i>9.97%</i>	<i>10.9%</i>	<i>7.31%</i>

Source: MoF

(ii) *Timeliness and reliability of information to lower tier governments on their available resources*

Good practice would provide for sub-national governments to be given reliable information needed to enable them to prepare their budgets at the earliest possible stage. According to the current mechanism of revenue management and decentralization, the Central level sets almost all revenue policies and undertakes uniform management of revenue collection: the sub-national governments have almost no discretion in determining their revenues, while their aggregate budgets are substantially determined by the expenditure norms. At the same time, as mentioned above, most of the equalization and supplementary transfers from the Central budget to sub-national budgets are transparent and rule-based, so enabling sub-national governments to predict the resources prospectively available to them. However, there are also additional

supplementary transfers from the Central level, about which full information is only available to sub-national governments at the time the Government submits the budget to the National Assembly. According to the State Budget Law of Vietnam, after the National Assembly determines the State budget, including the amounts of equalization and supplementary transfers from the Central budget to sub-national budgets, the sub-national governments should hold People's Council Meetings, in which the People's Committee submits the final budget plan to the People's Council for review and decision. The National Assembly decides the overall State Budget by 15 November each year, so enabling sub-national governments to settle their final budget allocations before the beginning of the next fiscal year. Dimension score: B

*(iii) Possibility of consolidation of fiscal data by sectors and/or functions for all budget levels*

102. Good practice looks for the consolidation of fiscal data across all budget levels at both budget and out-turn stages. According to the current provisions of the State Budget Law, and based on the budget revenue and expenditure mandates assigned by the higher level, each sub-national People's Committee is responsible for the formulation of its budget, including the sectoral apportionment, which is submitted for approval by the People's Council and subsequently transmitted to the Ministry of Finance for consolidation into an overall report to the Prime Minister. The Prime Minister has the power to request the provincial People's Council to adjust the budget if the budget allocation at sub-national level is not in line with the decisions made by the National Assembly. This mechanism of reporting and the mechanism of appraising budget allocations by Finance Departments allows the Ministry of Finance to consolidate budgets from the lower levels at the central level by functional sectors. The process of final accounting similarly starts from bottom up, with the responsibility of the Ministry of Finance at the top of the consolidation process for submission to the Government and then to the National Assembly. However, as the sub-national governments have some discretion in the final allocation of their budgets, as long as they remain within their aggregate envelopes, and comply with the minimum ring-fenced amounts for education and training, science and technologies, and environmental protection ( 20%, 2% and 1% respectively of the total budget expenditure), the expenditure out-turns by sectors/ functions may be different from the original budget appropriations by the National Assembly. At present this consolidation process takes many months, as each sub-national government reports to its hierarchical superior. Because of the delay in the preparation of this information, the rating cannot be higher than B.

**Reform Efforts Underway:** The consolidation of information from different levels of government will be much easier once the Treasury and Budgetary Management Information System (TABMIS) is in full operation after 2012. Expenditure norms and revenue shares will be reconsidered for the next stability period, with the aim of achieving greater transparency and more equitable provision for needs throughout the country, and the possibility of incorporating incentive mechanisms to encourage economic development in key areas will be examined.

**PI-9: Oversight of aggregate fiscal risk from other public sector entities**

103. This indicator assesses the extent to which the Government has the ability to oversee financial situation of sub-national governments, autonomous agencies and units (i.e. government bodies whose operations are not integrated into the government budget) and SOEs. These relatively independent entities may pose fiscal risks. For example, sub-national governments or autonomous agencies may be insolvent; or SOEs may default on financial obligations guaranteed by the Government. Good practice would indicate that these organizations should provide the

Government with quarterly financial statements and audited year-end financial results, and enable the Government to monitor their performance against financial targets. While regulations normally require autonomous agencies and SOEs to report to parent Departments, it is desirable also to have a central unit to consolidate information on the financial situation of these organizations, and provide an overall assessment of the risks they pose to the Government. Where sub-national governments can generate fiscal liabilities, their fiscal position should be consolidated and monitored at least on annual basis.

Indicator	Score	Brief Explanation
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C+	
(i) Extent of Government monitoring autonomous agencies, units and SOEs	B	<p>Agencies carrying out Government functions (other than those whose operations are carried out through extra-budgetary funds) are generally subordinate to either central or sub-national governments: their operations are fully integrated into the budgetary system, and their limited financial autonomy does not pose fiscal risks for the Government.</p> <p>For SOEs, the existing regulations require them to submit their financial statements and operational reports to the parent agencies and Finance Departments, and thence to the Ministry of Finance at Central level for consolidation and reporting to the Government and the National Assembly. The latest reports (for 2006-10 and 2011) contain detailed information about the fiscal risks resulting from the capital structures and economic performance of different SOEs. Important steps have already been taken to restrict SOEs' freedom to undertake activities which could pose risks for the Government, detailed reporting has been improved in response to requests from the National Assembly, and further action is being undertaken to strengthen central monitoring and supervision of SOEs.</p>
(ii) Extent of Government monitoring fiscal positions of sub-national governments	C	<p>The outstanding amounts of provincial borrowings, according to the State Budget Law, must be reported annually to the Ministry of Finance for consolidation and reporting to the Government and, the National Assembly. The amounts outstanding are regularly monitored by MoF; the total outstanding debt of sub-national governments was well under 1% of total government debt at the end of 2011. But there is evidence of significant outstanding commitments on capital projects at province/district level, about which the centre does not have full and consistent information.</p>
Scoring method M1		

*(i) Extent of central government monitoring of autonomous government agencies and state-owned enterprises*

104. In Vietnam, agencies and public service delivery units which have financial autonomy still have to submit their budgets and financial reports for approval by their parent organizations at higher level. In the preparation of the budget and consolidation of the final accounts, the parent organizations at higher level are responsible for consolidating information about the activities of their subordinate units into their own submissions to MoF for general consolidation.

105. Good practice in the monitoring of SOEs would involve a central body being established to monitor their operations and assess the fiscal risks SOEs as a whole pose for the Government. In Vietnam SOEs are responsible to provide their business operation reports and financial reports to the parent line ministries or Chairpersons of Provincial People's Committees. Once an SOE has been equitised, the parent department role is taken over by the State Corporation for Capital Investment. Central SOEs are also responsible for submitting audited financial statements to the Ministry of Finance (the Department of SOE Finance) for consolidation and reporting to the Government and the National Assembly (NA). A full consolidated report on the performance of the biggest SOEs– the State Economic Groups and General Corporations– in 2006-10 was submitted to the NA in November 2011, including detailed information about the fiscal risks resulting from the capital structures and economic performance of the SOEs, and a further report on their performance in 2011 was submitted to the NA a year later. Other aspects of supervision of SOEs are undertaken by the Ministry of Planning and Investment (MPI), and the Ministries of Labour and Home Affairs.

106. SOEs generally comply with reporting requirements, which have been tightened up partly in response to requests for more information from the NA, and action was taken through Decree 09/2009/ND-CP to stop SOEs from engaging in operations outside their main field of activity and thereby imposing new financial risks on the Government. MoF produces each year a consolidated report to the Prime Minister and the Government on the financial and business performance of the State-owned Economic groups and State-owned General Corporations (the data has been published in the MOF website). The Prime Minister has recently approved the proposed initiative for SOE restructuring, focusing on State-owned Economic Groups and State-owned General Corporations over the period of 2011-2015. The Government has also instructed MoF and MPI to prepare several new Regulations on the monitoring and supervision of SOE operations which are intended to clarify the responsibilities of their parent Ministries in ensuring that they are prudently and efficiently managed.

The score for this dimension: B

*(ii) Extent of central government monitoring of lower tier governments' fiscal position*

107. Good practice would ensure that any borrowing by sub-national governments is closely controlled from the centre, and coordinated with borrowing by central government. According to the provisions of the State Budget Law, sub-national budgets must in principle be balanced between revenue and expenditure; a budget deficit is not allowed. However, the Law permits provinces (but not districts and communes) to borrow to finance infrastructure development with the cumulative outstanding debt not to exceed 30% of the capital expenditure allocation in the current year. Where provinces borrow, they must make full provision in subsequent budgets for the repayment of outstanding debts. The two largest cities (i.e. Hanoi and Ho Chi Minh City) are permitted to issue bonds under Government supervision for up to 100% of the current year's

capital allocation. Provinces are forbidden to provide guarantees for borrowings by districts or by SOEs for which they are responsible. The borrowings are relatively small compared to the investment requirements. Provinces' total outstanding debts (mobilized in accordance with item 3, Article 8 of the State Budget Law) at the end of 2011 amounted to about 8% of the total provision for capital expenditure of sub-national governments in the 2011 budget (VND 11,506/109,885 billion). According to applicable regulations, sub-national governments have to provide annual reports on their borrowing positions to the Ministry of Finance for consolidation and reporting to the Government and the National Assembly. In practice, provinces' borrowings are closely monitored and supervised by MoF, and the amounts have not implied any significant risks to central government.

108. However, there remains the possibility that sub-national governments may engage in commitments to investment projects without budgetary approval, thereby creating contingent liabilities for the Government. This problem was comprehensively examined in 2005, and since then the National Assembly and the Government have been regularly overseeing the action taken to counter it, so that it should have been largely overcome (see PI-4 above). But information from VCCI indicates that there are still payments outstanding at province/district level where budgetary provision for projects extending beyond a single year has been inadequate, with the result that invoices have not been submitted to the Treasury for payment. There is currently no accurate information available at central level about the extent of this problem.

The score for this dimension: C

**Reform Efforts Underway:** MPI have prepared a draft Government Decree clarifying the responsibilities of parent Ministries and managements of SOEs, and MoF are preparing a draft Decree to strengthen government financial supervision of SOEs and ensure that the risks posed to the government through their operations are recognized and limited. Arrangements for the registration of all commitments through TABMIS will need to be complemented by recognition that once a commitment has been accepted in respect of a project whose execution extends beyond the initial year, payments in subsequent years will have a prior claim on available budgetary appropriations.

#### **PI-10: Public access to key fiscal information**

109. Good practice requires ready public access to key fiscal information. This indicator assesses the public access, or at least related interest groups' access to information about different aspects of budget performance. This is considered as a measure of fiscal transparency. The PEFA assessment framework lists 6 elements of basic fiscal information, including annual budget reports, in-year budget execution reports, year-end financial statements, external audit reports, contract award notices and resources available to primary service units (for example schools or healthcare facilities). The scoring is based on assessment of public access to the number of the above information elements. Enhancing transparency has been a continuing theme of legislation in recent years (see Annex II below).

Indicator	Score	Brief Explanation
PI-10 Public access to key fiscal information	B	
(i) Several factors on public access to information being improved.	B	The general public has full access to information covering four of the six PEFA benchmarks. But the meaning and value of some of this information is undermined by the uncertainties created by the treatment of carry-over (see PI-5 and 6 above), and there are considerable delays before annual financial statements and audit reports on them are published.
Scoring method M1		

110. Public disclosure has been strengthened in the last recent years. The disclosure of Government financial information is required in several laws: the State Budget Law, the Public Debt Management Law, the Procurement Law, the Public Asset Management and Use Law, the State Auditing Law, and other implementation decrees and regulatory guidelines of the ministries and agencies concerned.

111. The National Assembly is fully consulted at the initial stage of the budget preparation about the fiscal stance and economic prospects, and it receives full information about debt and financing, as well as comparable figures for current year and previous years. This information is consolidated and published after approval of the budget by the National Assembly. Aggregate information has recently been published about the domestic debt of the Government (information about government external debt has been published regularly for several years). Information about the Government's financial assets has not been disclosed either to the National Assembly or the general public. Substantial progress has been made in informing the public about procurement plans, tendering opportunities and contract awards through the Procurement Gazette of the Ministry of Planning and Investment (MPI), although not all provinces have been providing complete reports.

Six elements of information to which the public should have access are considered:

*(i). Annual budget documentation (as in PI 6):*

Not satisfied: This material is only released to the public after the National Assembly has made decisions about the budget. As noted in PI-6 above, interpretation of some of the information is difficult because of the treatment of expenditure carried over from one year to the next.

*(ii). In-year budget execution reports.*

Not satisfied: Quarterly in-year budget execution reports are posted on the MoF Website ([www.mof.gov.vn](http://www.mof.gov.vn)) within 4 weeks of the end of the relevant period. The carried over expenditure is included in the (disbursement) progress report of capital and recurrent spending as of the date of reporting. But the information is only at the aggregate level, without administrative or economic breakdowns.

*(iii). Year-end financial statements (budget final account reports).*

Satisfied: Budget final account reports are published within 6 months of the completion of audit. In fact, the budget final account report for year n is prepared by end of February



of year n+2, and the State Audit Agency (SAV) has about 4 months to audit before the report is submitted to the National Assembly in its first annual meeting (usually in May - July). The National Assembly will then review and vote for approval of the budget final account report in June, after which the report is publicly disclosed within no more than 6 months from the completion of audit.

*(iv). External audit reports.*

Satisfied: The annual report on budget execution is published by the State Audit Agency (SAV) a month after its approval by the NA. According with Decree No. 91/2008/ND-CP, the reports of individual audits are published within 30 days from the date of issuance; in cases of objection from the audited agencies to the audit reports, the deadline for publication is within 30 days from the date the appeal is resolved, with the exception of audits in areas where the applicable legislation requires confidentiality. Audit reports are published on the SAV website ([www.kiemtoannn.gov.vn](http://www.kiemtoannn.gov.vn)).

*(v). Contract awards.*

Satisfied: The notices of award of all contracts with a value of VND2,000million (about US\$100,000) or more are now announced in the Procurement Gazette issued daily by MPI and also published on the MPI Public Procurement Website ([www.muasamcong.mpi.gov.vn](http://www.muasamcong.mpi.gov.vn)), in accordance with the Regulations in the inter-Ministerial Circular No.20/2010/TTLT-BKH-BTC.

*(vi). Resources available to primary service units.*

Satisfied: In accordance to the Regulations on Budget and Financial Disclosure (issued in attachment to the Prime Minister's Decree No.192/2004) and implementation Circulars of the Ministry of Finance, the detailed budget allocation at each province, district and commune level must be publicly disclosed. All budget spending units, including public service delivery units such as schools, hospitals and local health services, must publicly disclose their annual budgetary resources, including capital and recurrent expenditures, and expenditures financed from National Target Programs and external donors. Within the overall budget framework, each public service delivery unit (schools, local health facilities...) prepares and implements its budget and keeps accounts of its income and expenditure in accordance with applicable Regulations. In addition to public disclosure of their budgetary resources, governments at all levels and spending units are also obliged to disclose the resources mobilized from the communities and direct State budget support for individual residents (annexes on financial disclosure mechanism - in Annex II attached). Information about the budgets of individual schools and health service operations is published in full, including being posted on their notice boards.

**Reform Efforts Underway:** Elements on budget transparency and public disclosure are being studied to be included in the (revised) State Budget Law in the direction of: linking transparency with public disclosure, strengthening public consultation by spending units, budget management agencies (extending the calendar for budget preparation and budget discussion to facilitate functional bodies of the National Assembly in their review and discussion of the budget drafts). The World Bank is currently conducting a survey to establish how successful the Government has been in its efforts to increase transparency.

### 3.3. BUDGET CYCLE

#### C (i) POLICY-BASED BUDGETING

##### PI-11: Orderliness and participation in the annual budget process

112. To ensure the quality of the budget as eventually formulated, the active and committed participation is needed of many Ministries, agencies, and sub-national governments, overseen by Government leaders. This requires a clear budget calendar and guidance, which allows the related stakeholders sufficient time and necessary information for budget preparation. This indicator assesses the orderliness, clarity and inclusiveness of the budget process and the participation of Ministries, agencies and sub-national governments in the process under 3 dimensions: (i) existence and adherence to a fixed budget calendar; (ii) clarity/comprehensiveness of the budget guidance and Government involvement in providing guidance; (iii) timely budget approval by the National Assembly.

Indicator	Score	Brief Explanation
PI-11 Orderliness and participation in the annual budget process	B	
(i) Existence and adherence to a fixed budget calendar;	B	The calendar for annual budget preparation is clearly specified in the regulatory documents providing implementation guidelines for the State Budget Law. This calendar allows budget spending units six weeks for submission of their budget drafts following receipt of the budget preparation guidance document. However, as the guidance documents are often issued late, plus the time for the circulation of the documents, ministries, agencies and sub-national governments often have only about 4-5 weeks for the preparation of their budget drafts.
(ii) Clarity/ comprehensiveness of the budget guidance and Government involvement in providing guidance;	C	The Prime Minister's Directive and MoF (in respect of recurrent expenditure) and MPI (in respect of capital expenditure) Circulars clearly specify the requirements, contents and timing for budget draft preparation and include the provision by MoF/MPI of indicative revenue – expenditure budgets for ministries, agencies and sub-national governments to facilitate them in their budget draft preparation. However, these indicative budgets are not discussed within the Government and therefore do not serve as ceilings within which spending units should prepare their budgets: rather they serve as a basis for negotiations between MoF/MPI and spending units before the consolidated proposals are approved by the Government and submitted to the National Assembly.
(iii) Timely budget approval by the National Assembly (in the last 3 years)	A	In the 3 most recent years (Budgets for 2010-12), the National Assembly approved the budgets by 15 November in compliance with the applicable legislation.
Scoring method M2		

(i) *Budget Calendar*

113. Good practice requires a budget calendar to be clearly established, and firmly adhered to by all participants, so that decisions can be taken in good order, and final budget allocations can be made to spending units at all levels well before the beginning of the next financial year. The budget calendar of Vietnam is well established in the State Budget Law, the implementation Decree No. 60/2003, and Circular No. 59/2003 of the Ministry of Finance. Accordingly, the calendar starts with the Prime Minister reporting to the National Assembly (NA) by 1 May on the budget allocation norms and spending priorities for the coming year. Thereafter the Prime Minister issues a Directive to Ministries, central agencies and sub-national governments on socio-economic planning and budgeting for the following year prior to 31 May every year. This is the high level guidance of principles as the basis for budget formulation. Based on the Directive, the Ministry of Finance (in respect of recurrent expenditure) and the Ministry of Planning and Investment (in respect of capital expenditure) issue their Circulars, providing more specific guidance on the key points in the budget formulation process as well as notice of the indicative revenue – expenditure budgets. According to applicable regulations, these are to be issued not later than 10 June each year. Based on the Prime Minister’s Directive, Guidelines Circular and Indicative Notices of MoF and MPI the concerned Ministries and sub-national governments are responsible for preparing their budget proposals for submission to MoF/MPI prior to 20 July every year as the starting point of negotiation. Thus according to applicable regulations, concerned Ministries and sub-national governments have over 7 weeks to prepare their budget proposals from the date of issuance of the Prime Minister’s Directive, and 5 weeks from the latest date of issue of the Circulars and Indicative Notices of MoF/MPI. International experience indicates that other countries allow at least 2 months for Ministries and subnational governments to prepare their budgets, and this is the standard set by PEFA for an A rating. Following negotiations in August between MoF/MPI and Ministries and provinces, consolidated budget proposals are submitted to the Government in September, prior to their transmission to the NA by 1 October for consideration initially by specialist Committees and the Standing Committee. The Standing Committee makes its recommendations to the Plenary Session by 18 October, and the NA approves the outline Budget (i.e. the overall allocations to each Ministry and province) by 15 November. The Prime Minister then promulgates the overall allocations to Ministries and provinces by 20 November, on the basis of which the provinces then settle the allocations to districts. Ministries and sectoral departments at sub-national level then notify MoF or its counterparts at subnational level of the detailed breakdown of their allocations by 31 December. Thus the process should finish before the beginning of the next financial year - by which time the budget should have been allocated in detail to the budget spending units at all levels. In general, the milestones in the budget calendar are seriously followed. However, as the guidelines documents are often issued later than the required times and taking account of the additional time needed for the circulation of the documents to the spending units, Ministries, central agencies and sub-national governments often have less than 5 weeks for preparation of their budget submissions. For example, Directive No. 733 on socio-economic development planning and State budget preparation in 2008 was issued on 12 June 2007, which was a 2 week delay from the calendar; Circular No. 64/2007 of the Ministry of Finance providing guidelines for the implementation of Directive No. 733 on State budget preparation for 2008 was issued on 15 June 2007, which was 5 day delay from the calendar.

The score for this dimension: B

(ii) *Priority setting and political foundation for instructions in the Budget Circular*

114. According to the PEFA criteria, it is good practice for the Government to decide the overall shape and content at the political level, before spending units at all levels begin work on their budget submissions. These decisions would then provide the basis for MoF/MPI to issue budget ceilings within which each Ministry or province should work. The general shape of the Budget, and the macro-economic assumptions to be used in determining aggregate expenditure, are set by the Prime Minister at the beginning of the process. According to the Government's regulations, MoF in consultation with MPI is mandated to issue the notice of indicative revenue – expenditure budgets for Ministries, central agencies and sub-national governments to assist these entities in budget preparation. However, these indicative budgets of MoF/MPI have not been previously discussed within the Government, and thus are not yet treated as budget ceilings. If effective medium-term fiscal planning could be established (see PI-12 below), the expenditure projected consistently with the Budget proposals for the next year after the Budget year could serve as the starting point for the next budget exercise. Meanwhile in present circumstances Ministries and sub-national governments often bid higher than the advised indicative budgets. Based on the resource availability from revenue collection (after discussion with Ministries and sub-national governments), MoF/MPI, together with the other Ministries managing National Target Programs have the responsibility to make any necessary adjustments to the expenditure budget proposals of Ministries and sub-national governments; based on that, the Ministry of Finance then consolidates all budget proposals to submit to the Government for review and endorsement before submission to the National Assembly.

The score for this dimension: C

(iii) *Timely budget approval by the legislature*

115. In each of the last three years the NA has approved the Budget by 15 of November, thereby allowing sufficient time for sub-national governments to take final decisions on their budgets in the light of full information about their available receipts, and for spending units at all levels to determine the detailed allocation of their approved expenditure envelopes, which then has to be reported to the Ministry of Finance and its counterpart at sub-national levels for review and no-objection. The NA issues two types of resolutions, one is the budget appropriation for the whole of government, and one is the budget apportionment for the central government. The two resolutions are decided in an interval of 2-3 days. The dates of budget resolutions as issued by the National Assembly are set out below.

The score for this dimension: A

<b>Budget</b>	<b>State budget appropriation</b>	<b>Central budget apportionment</b>
2008	Resolution No. 08/2007/QH12, dated 12/11/2007	Resolution No. 09/2007/QH12, dated 14/11/2007
2009	Resolution No. 21/2008/QH12, dated 08/11/2008	Resolution No. 22/2008/QH12, dated 10/11/2008
2010	Resolution No. 37/2009/QH12, dated 11/11/2009	Resolution No. 38/2009/QH12 , dated 13/11/2009
2011	Resolution No. 52/2010/QH12, dated 10/11/2010	Resolution No. 53/2010/QH12, dated 15/11/2010

**Reform Efforts Underway:** In the future, it is intended to review the budget preparation process, including the calendar for budget formulation, with a view to allowing budget spending units at all levels, together with the National Assembly and People’s Committees at all levels, additional time in the preparation, scrutiny, appraisal and approval of their budgets.

**PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting**

116. In practice, major investment decisions and policy initiatives often have multi-year expenditure implications, and therefore must be considered with the availability of resources in the medium-term perspective. This indicator looks at the links between the annual budget formulation and policy priorities in the medium term. Specifically, it assesses the following dimensions: (i) preparation of multi-year fiscal forecasts and functional allocations; (ii) scope and frequency of debt sustainability analysis; (iii) existence of sector strategies with multi-year costing of recurrent and investment expenditure; (iv) linkages between investment budgets and forward expenditure estimates.

Indicator	Score	Brief Explanation
PI-12 Multi-year perspective in fiscal planning expenditure policy and budgeting	C	
(i) Multi-year fiscal projections and medium-term budget allocations;	D	No forward estimates of fiscal aggregates have been prepared in the context of formulating each successive year’s annual budget.
(ii) Scope and frequency of debt sustainability analysis;	A	Debt sustainability analysis has been undertaken annually, with the assistance of the IMF/World Bank.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure;	C	Sector strategies for the medium-term development of a number of main sectors (Health, Education, Agriculture, and Transport) have been prepared, but these are not consistent with aggregate fiscal projections.
(iv) Linkages between investment budgets and forward expenditure estimates	D	Budgeting for investment and recurrent expenditure are separate processes, and there is still limited coordination in considering the future recurrent costs of maintaining and operating the assets/facilities created as a result of decisions on specific investments.
Scoring method M2		

*(i) Multi-year budget projections and allocation*

117. Good practice looks for realistic projections of government revenue and expenditure, taking into account trends in the development of the economy, within which detailed future budgets can be planned. Starting from a centrally planned economy, Vietnam periodically develops its 5-year plans and 10-year strategies for overall socio-economic development as well as sector development strategies. These strategies and plans all have a section on resource

requirements as well as financing measures. However, they cannot be understood as multi-year fiscal plans, since they do not set a precise yearly path for the achievement of the desired objectives. In the period 2007-2010, Vietnam, with the assistance of the World Bank and UK Department for International Development (DfID), has piloted the development of the medium-term fiscal framework and medium-term expenditure frameworks in a rolling 3-year cycle for a number of the main Ministries (Finance, Planning and Investment, Health, Education and Training, Agriculture, and Transport), and also for three provinces and city (Hanoi, Binh Duong, and Vinh Long). But the sector medium-term expenditure frameworks prepared by the Ministries and Provinces have not been constrained within the overall fiscal envelope, and have often proposed expenditure levels a third higher than the amounts prospectively available. The score for this dimension: D

*(ii) Scope and frequency of debt sustainability analysis*

118. Good practice requires countries to manage their affairs so as to keep total public debt within the amounts which can be supported by the economy. The MoF Department of Debt Management and External Finance has participated in the annual assessments of debt sustainability carried out by the International Monetary Fund (IMF) in the context of the IMF's Article IV consultations, and more recently in a WB Debt Management Performance Assessment. The Government has stated its objectives as keeping total external debt (including private sector and guarantees) below 50 per cent of GDP, keeping the annual costs of public debt service below 30 per cent of revenue, and keeping external debt servicing costs below 25 per cent of receipts from exports. According to the results of the latest assessment, total public sector debt amounted to 54.9% of GDP at the end of 2011, with two thirds of this being external debt, mainly on concessional terms. In the absence of further external shocks this ratio should fall slightly each year, to less than 48% of GDP in 2015 (see WB Debt Management Performance Assessment, October 2011). Simulations indicate that the current level of debt, given existing interest rates and maturity structure, should be sustainable, even in the face of significant adverse economic developments. (The need for changes in the way debt is planned and managed in Vietnam is discussed in PI-17 below). The score for this dimension: A

*(iii) Sector strategies and multi-year costing of recurrent and investment expenditure*

119. Good practice envisages that countries will prepare sectoral and/or functional development strategies whose overall expenditure implications can be contained within the resources shown to be prospectively available in the overall medium-term fiscal projections. As mentioned above, sector Ministries periodically develop their sector development strategies and plans, in which the resource requirements are proposed to provide for the implementation of the sector development targets in the next 5 or 10 years. However, the sum of the resource requirements proposed by the sector Ministries has often been well in excess of what is likely to be affordable. The Ministry of Finance and Ministry of Planning and Investment have not set medium-term budget ceilings for sectors. In addition, the sector development strategies and plans previously only focused on setting investment needs, without consideration of the recurrent expenditure implications of using and maintaining the facilities newly created. As part of the work on piloting the medium-term expenditure frameworks with the assistance of WB and UK DFID, the pilot Ministries and provinces have prepared integrated projections of current and capital expenditure, with the current expenditure consequences of exploiting and maintaining new capital assets fully taken into consideration. But as already noted, these plans do not take into account prospective resource availability, Vietnam is now planning to produce a new medium-term investment expenditure plan for the period 2013-15. The importance of

articulated medium-term planning of investment consistently with available resources is further illustrated by problems currently arising in the scheduling of payments for projects whose execution is spread over a period of years. Even where projects have been fully approved, the spending units concerned have no assurance of the availability of funds in the second and subsequent years. This issue needs to be addressed by on the one hand approving only those investments whose financing can be fitted within the funds prospectively available, and on the other hand providing for commitments to future payments for approved projects in future years. This issue is further discussed under PI-20 below. The score for this dimension: C

*(iv) Linkages between investment budgets and forward expenditure estimates*

120. As already noted, the current State Budget Law does not require the development of the medium-term budget framework. This is one of the reasons why capital budget allocations are fragmented and in both space and time. In addition, the allocations of current and capital expenditure are assigned separately to different Government agencies, current to the Ministry of Finance (MoF) and capital to the Ministry of Planning and Investment (MPI). Therefore, the link between capital budget allocation and estimation of funding needs for recurrent expenditure for the maintenance and operation of completed investment projects remains limited, and unsatisfactory.

The score for this dimension: D

**Reform Efforts Underway:**

The need is generally recognised for the development of the medium-term fiscal and expenditure framework, to ensure that decisions that have expenditure implications are considered within the prospectively available fiscal envelope. Currently, the draft revision of the State Budget Law, which will be submitted to the Government by the end of 2012, already includes new provisions on medium-term budget planning.

So far as debt management is concerned, the Public Debt and National External Debt Strategy for 2011-2020 was approved by the Prime Minister on 27 July 2012. This prescribes that:

- The ratio of external debt outstanding to overall Government debt outstanding should be reduced to below 50%; the ODA debt outstanding should be at least 60% of the total Government external debt outstanding by 2020; there should be a firm commitment to the repayment of all due debt obligations, without any debts becoming overdue.
- Total public debt (including Government debt, Government guaranteed debt and sub-national government debt) will not be higher than 65% of GDP by 2020. Of which, Government debt will not be higher than 55% of GDP, and national external debt will not be higher than 50% of GDP. After 2020, total public debt will be progressively reduced to be no more than 60% of GDP, of which Government debt will not be higher than 50% of GDP and national external debt will not be higher than 45% of GDP.
- The Government's direct due debt repayment obligations (not including borrowings for on-lending) will not be higher than 25% of the annual State budget revenue, and the national external debt repayment obligations will be under 25% of the value of exports of goods and services.

## C (II). PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

### PI-13: Transparency of taxpayer obligations and liabilities

121. Transparent and clear regulations on the duties and responsibilities of the tax payers not only facilitate tax collection by the tax administration but also help taxpayers to comply voluntarily and fully with their tax obligations. This indicator assesses the transparency of the tax system based on the existence of transparent regulations about taxpayer obligations and liabilities, taxpayer access to information on tax legislation, and arrangements for dealing with appeals by taxpayers against their assessments.

Indicator	Score	Brief Explanation
PI-13 Transparency of taxpayer obligations and liabilities	C+	
(i) Clarity and transparency of tax liabilities	B	Taxpayers' rights and duties are generally clearly defined in legislation, including the Tax Administration Law and Laws on major taxes such as the VAT Law, Corporate Income Tax (CIT) Law and Personal Income Tax (PIT) law. The different taxes are being reviewed with the objective of increasing simplicity, understandability, and operability; so that taxpayers can more readily understand and comply with their tax obligations. However, the business community, represented by VCCI and tax advisers, confirms that significant problems remain in the detailed operation of the system, e.g. in determining which VAT rate should be applied to particular goods, or whether particular expenditure is deductible against CIT. In the absence of sufficiently detailed operating instructions and of any central supervision of such questions, different tax offices may give different interpretations on the same question.
(ii) Tax payer access to information on tax liabilities and administrative procedures	C	Most information on tax liabilities and administrative procedures is fully and comprehensively published in many forms (website, publication, leaflets, and mass media). There are Taxpayer Communication and Support Services at the General Department of Taxation whose function is to educate and assist taxpayers in the implementation of tax policies, and tax administration procedures. Information about customs duties is readily available on-line. However, the decentralization of tax administration and the incomplete central integration of information mean that different interpretations may be given by different tax offices.



Indicator	Score	Brief Explanation
(iii) Existence and functioning of a tax appeal mechanism	C	(iii) There is not yet a network of independent bodies to address tax appeals, other than the Administrative Court. Until recently, before any appeal to the Administrative Court, taxpayers had first to appeal to a senior office in the Taxation or Customs Administration hierarchy, in accordance with the process of appeal handling of the Tax and Customs authorities. If they were not satisfied with the result, they could appeal to the Administrative Court. Direct appeals are now allowed to the Administrative Court, which is understood to have heard numerous cases. However, VCCI and tax advisers consider that most taxpayers are reluctant to appeal to the Court, in whose independence they have little trust, because they fear that subsequently they would be more likely to be exposed to difficulties in future dealings with the tax offices, to which they are directly subject.
Scoring method M2		

*(i) Clarity and comprehensiveness of tax liabilities*

122. Good practice requires tax liabilities to be defined as clearly and simply as possible, and all taxpayers to be treated equally, with minimum discretion given to the tax authorities in determining the amounts to be charged. After more than 2 decades of reforms, Vietnam has developed a quite modern tax system, with total taxes and fees collected (excluding social insurance contributions) exceeding 26% of GDP (i.e. aggregated revenue from all the 4 government levels, including revenue from crude oil). Corporate income tax (CIT) and VAT are the two most important taxes, account for over 50% of budget revenue. Revenues from crude oil (including Corporate Income Tax and Natural Resource Tax) grew rapidly up to 2008 (CIT and natural resources tax taken together), but since then the revenue has been declining as oil prices stabilised and production began to decline. The concept of taxable profits in the CIT law diverges significantly from the normal IFRS definition of profits because of restrictions on the deductibility of particular types of expenditure. In addition, there are tax preferences for industries in particular sectors or locations. Since early 2012, VAT is in principle applicable to all taxpayers, with no minimum turnover threshold.

123. In general, the system of tax regulations and procedures are clear and comprehensive for almost all major taxes. Together with the implementation of the mechanism of self-declaration and self-payment of taxes (TKTN), and the implementation of the Tax Administration Law, the major taxes such as VAT, CIT, SCT, PIT have been well defined in Laws, Decrees and Circulars. These legal and regulatory documents specify the rights and duties of taxpayers as well as of responsibility of the tax officers and tax offices in tax collection. However, as Vietnam is undergoing significant transition and reforms, taxes will be further developed in the interests of transparency and clarity; the regulations on tax collection will also be reformed to be more simple, understandable and operable, and published guidelines on tax calculation, declaration and payment will be distributed for free to help taxpayers understand and comply with their obligations. The need for further work on providing for the clear definition of liabilities in all circumstances is illustrated by the differences of perception as between the tax Departments and

taxpayers and their advisers. From the views of tax payers and their advisors, significant ambiguities clearly remain in, for example, the definition of borderlines between different VAT rates, and the precise definition of costs deductible against CIT, where different tax offices may give different interpretations of the general rules. There is at present no central supervision of such decisions and no centralized database to which to refer.

124. The mechanism of self-declaration and self-payment has been applied since 2007, making the taxpayer responsible for the calculation, declaration and payment of his liabilities, and thus accountable for compliance with tax legislation. All the main current taxes i.e. VAT, CIT, SCT, PIT, apply the mechanism of self-declaration and self-payment. As noted above, ambiguities in regulations may cause problems in this process, even where businesses have good accounting records. Where business households and individuals have neither business nor tax registration, or do not have full documentation of accounts, invoices and payments, the Tax authorities will impose a presumptive tax. To determine the amount of the presumptive tax, the Tax Authorities have to base on the data declared by the taxpayers, in collaboration with the ward/commune tax consultation councils for the verification of the integrity and correctness of the tax declaration files, as well as to conduct inspections to re-assess the revenues and incomes where there are doubts about the accuracy of initial declarations concerning turnover and selling prices. To ensure fairness in tax assessment, prior to the notification of the tax liabilities to each household or individual, the Tax Authorities have to publicly list the tentatively presumed turnover and tax liabilities of each business household or individual for feedback from the household or individual, and then consult with the ward/ commune tax consultation councils before determination and notification to the taxpaying household or individual for implementation. However, the amount of tax collected from the business households and individuals subject to the Presumptive Tax is less than 2 per cent of the total budget revenues collected by the Tax Authorities. Dimension score: B

*(ii) Taxpayers' access to information on tax liabilities and administrative procedures*

125. Good practice requires that taxpayers have ready access to full information about all aspects of tax liabilities and administrative procedures, and that these procedures are as user-friendly as possible. Under existing arrangements, the Tax and Customs Authorities publish in full all tax legislation, including Laws, Decrees, Circulars and other tax guidelines documents, and tax administrative procedures. Currently the General Department of Taxation and sub-national Departments of Taxation operate Taxpayer Communication and Support Services, to educate, assist and resolve problems raised by tax payers. However, as noted in (i) above, for domestic taxes, taxpayers may have difficulty in obtaining information on their tax liabilities, since databases are fragmented in local offices, and there is no central apparatus to draw such information together. Even in the case of customs, VCCI cited examples of different decisions being made by different offices about the duty rate to be charged on particular goods where the applicable tariff was not immediately clear. By the end of 2012, the Tax Authorities intend to have rolled out the electronic tax declaration project to 50 Provincial Tax Departments, with the participation of nearly 173,000 enterprises. Each of the enterprises participating in electronic tax declaration will be issued an account incorporating its Taxpayer Identification Number (TIN), so that they can submit tax declaration or declare tax online, look up information on the tax declared to the Tax Authorities and receive notification from the Tax Authorities through the internet. Regarding Customs, electronic customs services have been implemented in 21/34 Customs Departments, processing 84.8% of declarations. It is intended that in 2012, electronic customs services will be implemented in all provinces and cities, so that taxpayers with their tax identification number can access the centralized data base to check, and if they have any

questions, they can contact the Sub-department of Customs for handling. Recently, the Customs authorities have introduced an E-payment system, allowing taxpayers to pay by bank transfers, thereby helping enterprises reduce the time spent on procedures as well as travel costs, and at the same time improving the security and rapidity of customs clearance.

126. Overall, although there have been reform efforts aiming at simplification and reduction of compliance time for taxpayers, there remains much room for improvement in the tax and customs regulations and procedures in Vietnam, in order to improve the business environment. Recent business environment surveys indicate that the current taxation arrangements have a serious adverse impact on the country's standing: in the 2013 WB Doing Business Survey, Vietnam was ranked at 1383 out of 185 countries in terms of taxation (which is a noticeable progress from the ranking at 151/183 in 2012), while its overall Doing Business Survey ranking was 99. Dimension score: C

*(iii) Existence and functioning of a tax appeal machinery*

127. Best practice envisages that there will be a specialized tribunal independent of the tax authorities to deal with tax appeals. (This does not rule out subsequent appeals to a higher court.) In accordance with the Law on Administrative Legal Procedures in 2010 and the Law of Appeals in 2011, taxpayers can choose to directly file their lawsuit to the Court without going through the procedure of initial appeal to the agencies responsible for the administrative decisions. The new legislation creates a more favourable condition for people in exercising their rights to appeal. In 2009 GTD recorded about 4,000 complaints, of which about a quarter were decided wholly or partly in favour of the taxpayer. There were apparently a number of appeals to the Administrative Court, but GTD at the centre do not have any comprehensive statistics of their numbers and results. Customs recorded only 41 complaints in the period 2007-2009; there have been 28 appeals to the Administrative Court, with 10 of the 17 judgments so far given being in favour of the taxpayer. Overall, however, it appears that taxpayers have insufficient confidence in the fairness and effectiveness of these arrangements. VCCI and tax advisers consider that taxpayers are generally reluctant to appeal to the Court, in whose independence they do not have full confidence, because of concern that their local tax office will seek to punish them on future occasions through decisions on matters where individual tax officers have some discretion. GDT and Customs did not have information about the proportion of tax arrears formally disputed by the taxpayers concerned. Dimension score: C

**Reform Efforts Underway:**

- In order to facilitate the identification of VAT taxpayers on the basis of turnover thresholds, the Ministry of Finance issued Circular No. 06/2012/TT-BTC on 11 January 2012. Chapter 25, Article 4 of this Circular specifies that: individual business persons whose monthly revenue from the supply of goods and services is lower than the minimum salary level set by Government regulations for employees in all organizations and businesses nationwide shall not be subject to VAT.

---

<sup>3</sup>Paying tax here also includes procedures of the social insurance agency (which are outside the responsibility of the Tax Authorities – due to the difference in the organization of the collection of taxes and social insurance contributions between Vietnam and other countries).

- In order to improve the objectivity of the presumptive tax assessments imposed on household businesses and individual business persons which have neither business nor tax registration, and do not have an adequate accounting, invoicing and recording system, the Ministry of Finance issued Circular No. 28/2011/TT-BTC on 28 February 2011. This provides guidelines for tax administrations to determine the amounts of presumptive tax assessments in such cases. Assessments should take as their base the documented declarations by taxpayers of their revenues and incomes. These should be checked with the tax advisory councils established in each commune and ward to verify their validity and integrity. Information should be collected to provide a basis for the re-calculation of revenues and incomes of those suspected of making inaccurate declarations. Prior to serving notices specifying the amounts of tax payable by each household or individual, the tax authorities must publicly disclose the estimated revenues and taxes payable by each taxpaying household or individual under the method of presumptive taxation in order to obtain feedback from those concerned, and to provide a basis for consultation with the tax advisory councils in each commune and ward. Once these steps have been taken, notices of the amounts of tax assessments should be served on the taxpayers concerned.
- In parallel with these improvements in the regulatory guidelines, the Government intends to revise the Tax Administration Law so as to give taxpayers greater confidence in the fairness of the system, and proposals are currently under discussion (March 2012) by the Standing Committee of the National Assembly. The Government's stated objective is that Vietnam should be one of the five top performers in South-East Asia by 2015. This is to be achieved by widening the tax base and exploiting improved IT systems. On-line services are to be developed so that by 2015 75% of taxpayers have immediate access to information about tax liabilities, and 60% of enterprises file their tax returns on-line.
- The intention to reduce the frequency of tax declaration for small and medium enterprises has already been given effect through Resolution No.25/NQ-CP, dated 2 June 2010 and Resolution No. 68/NQ-CP, dated 27 December 2010, of the Government, on the simplification of administrative procedures in the management functions of the Ministry of Finance. In accordance with the proposal of the General Department of Taxation, enterprises nationwide with a turnover from sales of goods and services up to VND 20 billion/ year, and business households which file declarations for tax payments, will be allowed to pay VAT quarterly instead of monthly as in the past. This proposal will be included in the Law for the Amendment of the Tax Administration Law to be submitted to the National Assembly for implementation from 1 July 2013.

#### **PI-14: Effectiveness of measures for taxpayer registration and tax assessment**

128. This indicator looks at the effectiveness of the tax payer registration system, at the adequacy of penalties for non-compliance, and at the effectiveness of the tax auditing and inspection system, in order to measure the performance of the tax administration system in the collection of information on taxpayers, the enforcement of compliance with tax obligations, and the maintenance of effective arrangements for tax inspection and audit.

Indicator	Score	Brief Explanation
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C+	
(i) Controls in the tax payer registration system	B	Most registered taxpayers have a unique Taxpayer Identification Number (TIN) which is used for all taxes they have to pay. However, it appears that many small entrepreneurs (whose tax obligations are estimated to account for less than 2% of total State budget revenue) have not registered for business license and tax ID. The Tax Registration System is now centralized in the General Department of Taxation, and links with other information systems of the Ministry of Finance, and the Business Registration System. But there are no links to the Social Security Agency database, or to databases of other agencies.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	Penalties for non-registration and late payment are relatively ineffective. But the penalties for under-declaration can be as high as five times the unpaid tax, and are considered by the tax Departments as effective in the prevention of inaccurate declarations.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	C	Although tax offices were instructed in 2007 to select taxpayers for audit and inspection on the basis of risk factors, it was only in 2011 that the General Department of Taxes issued a centralized model for the application of risk assessment, together with an IT application .The General Department of Taxation has issued Decision No. 1519/QD-TCT, on the use of taxpayer risk analysis application (TPR) in tax inspection planning.
Scoring method M2		

*(i) Controls in the Taxpayer Registration System*

129. Good practice envisages a system where all taxpayers have a unique tax identification number (TIN), and that the relevant database is linked to other related databases, e.g. databases of business licence holders or contributors to social security schemes. The objective of the linkage between the systems is to be able to share information and to ensure that potential taxpayers do not escape the tax net. In Vietnam, most registered taxpayers have a unique TIN which is used for all taxes and for business licenses. The most difficult target group is small business households and individuals. However, the Tax Administration has in recent years striven to educate, communicate to, and encourage this group of taxpayers to complete their tax registration, and the situation is progressing. By now, most business households and individuals already have a TIN; only a certain number of households have not completed their tax registration as they are small households in the category of tax exemptions and reduction in accordance with the law. According to the tax authorities' statistics, the amount of tax collected from these very small business households or individuals accounts for no more than 1.3% of the total State budget revenue. The Tax Registration System is now centralized in the General

Department of Taxation, and links with other information systems of the Ministry of Finance, and the Business Registration System. But this system is not yet linked to the Social Security Agency database system, or to database systems of other Ministries, due to IT limitations in each ministry or agency. Dimension score: B.

*(ii) Effectiveness of penalties for non-registration and tax declaration.*

130. Good practice envisages that penalty sanctions will be developed to give taxpayers an incentive to register with the tax authorities, and subsequently to make full declarations and timely payments of their tax liability. In the current practice, the Tax Administration Law and implementation guidelines already specify clearly and specifically the penalty sanctions for non-compliance to be applied consistently nationwide (Circular No. 61/2007, dated 14 June 2007 of the Ministry of Finance, providing guidance on handling of non-compliance with tax legislation). However, the effectiveness of these arrangements is limited due to the low and non-threatening levels of the penalties to encourage pro-active compliance. Particularly, in accordance with the regulations in Circular 61/2007/TT-BTC, the penalties for non-compliance with tax procedures range from 100,000 VND to 5,000,000 VND, which are relatively unimportant for enterprises with high tax liabilities. In cases of deliberate tax evasion such as insufficient declaration, or non-declaration, Circular 61/2007/TT-BTC also specifies penalties ranging from a minimum of 10% to a maximum of five times the amount not paid, in combination with the overdue penalty at 0.05% per day on the amount of tax outstanding (or 1.5% a month; 18% a year). These penalties should normally be sufficient and effective. However, in the context of high bank interest rates (which sometimes have been higher than 20% a year due to high inflation), the application of the penalties for late payment gradually lost its significance by not deterring enterprises from withholding amounts due to the State, as the penalties for late payments are cheaper than paying bank interest rate. Dimension score: C

*(iii) Planning and monitoring of tax audit programmes*

131. Good practice envisages that tax enforcement will be effectively supported by arrangements for tax audit and inspection which discourage tax evasion, and detect and collect amounts of tax which would otherwise have remained unpaid. A WB study found that in Vietnam only a relatively small proportion of the staff are engaged on tax audit and tax inspection, that taxpayers were not selected for audit and inspection by reference to a consistent application of risk factors, and that IT system support for tax audit and tax inspection was inadequate. These problems are being addressed in the Tax Reform Strategy 2011-20 approved in May 2011 by the Prime Minister (No.732/2011). The General Department of Taxation states that in 2007, they already instructed several tax offices in the selection of taxpayers for auditing and inspection, but it was not until 2011 that they introduced a central model applicable in risk assessment. This new model is supported by an IT application. On 13 October 2011, GDT issued Decision No. 1391/QD-TCT, on the pilot implementation of the “risk analysis application system for tax inspection planning” (referred to as TPR) for the development of 2012 tax inspection plans in 6 units (the Inspectorates of the General Department and 5 provincial Tax Departments). Based on an interim review of initial experience, the provincial Tax Departments generally responded that the application correctly selected risky enterprises to be included in the inspection plans. The inspection planning time was shortened compared to the traditional planning approach, and the enterprises were selected objectively based on risk assessment. Most of the inspected enterprises were cases for unpaid tax collection or recovery of excessive refunds previously paid. The amount of unpaid taxes collected (including the recovery of previous excessive refunds) was higher year on year. GDT has recently issued Decision No. 1519/QD-TCT, dated 08

October 2012 on the use of the taxpayer risk analysis application (TPR) in tax inspection planning.

132. According to the 2011 inspection and auditing reports the Tax Authorities nationwide conducted inspections and audit in 50,210 enterprises, which was 158.3% of the number in 2010. The total amount of unpaid taxes collected (including the recovery of previous excessive refunds) and penalties imposed through inspection and audit was VND 7,626 billion (equivalent to nearly 2% of the total budget revenue in 2011), which was 139.6% of the corresponding amount in 2010. In addition, the downward re-assessment of tax deduction was VND 577.7 billion, re-assessment of business losses was VND 10,842 billion.

**Reform efforts Under way:** The Prime Minister's Tax Reform Strategy aims to strengthen the tax audit and inspection function, ensure sufficient IT support, and introduce a proactive compliance management approach. It provides for the introduction of an Integrated Tax Management System, which would include social security and health contributions, by 2018 (the original target date was 2015). The intention is that at least 50% of enterprises should register on-line, and that at least 95% of tax declarations should be processed by IT application software. It is supported by the WB Tax Administration Modernisation Project (TAMP), which has components focused institutional development, operational modernisation and IT development. As already noted, the Prime Minister's target is that Vietnam's Tax Administration should rank in the top five in South-East Asia by 2015

#### **PI-15: Effectiveness in collection of tax payments**

133. Good practice looks for the operation of tax collection systems to ensure accurate, full and timely collection of all due tax amounts as assessed or imposed, and to minimize overdue amounts. In budget execution, the accumulation of tax arrears not only undermines the availability of resources for budget expenditure, but also undermines confidence in the tax collection processes and in the equal treatment of all tax payers (whether they pay voluntarily or require enforcement). However, a part of the tax arrears are the taxes overdue, but subject to appeals by taxpayers. Therefore, the authorities' efforts to collect tax arrears have to take into account both the handling of complaints and enforcement action against taxpayers who do not comply voluntarily with applicable regulations. The effectiveness of collection also depends on the timely transfers of tax amounts collected to the State Treasury (including regular reconciliations between the two systems to ensure matching of the data), and on regular reconciliations by the tax authorities between the amounts declared by or assessed as due from individual taxpayers, and the amounts actually collected (so enabling arrears to be identified).

134. With that in mind, this indicator assesses the effectiveness of the Tax Authorities in collection for the budget in 2 dimensions: (i) collection ratio for gross tax arrears (including the taxes under appeals); (ii) time for the transfer of tax collections to the Treasury; (iii) frequency of accounts reconciliations both within the Tax Departments, and between the Tax Departments and the Treasury, so as to ensure consistent data in respect of tax assessments, collections and arrears.

Indicator	Score	Brief Explanation
PI-15 Effectiveness in collection of tax payments	C+	
(i) Collection ratio for gross tax arrears (including the taxes under appeals)	C	GDT data show arrears to have fallen from 9.5% of annual collections in 2008 to an estimated 7.9% for 2011. Customs put current arrears at about 2.25% of 2011 collections. There are legal regulations to limit write-offs. According to the Hanoi provincial office, tax arrears are not a significant problem because of the extent of the authorities' coercive powers to freeze bank accounts, withdraw business licenses, etc. But GDT recognise that the identification and management of arrears by local tax offices needs further improvement.
(ii) Time for the transfers of tax collections to the Treasury	B	All tax revenue is paid directly into Treasury accounts on the day it is received, with the exception of small amounts collected in remote areas where there are no banks, where arrangements ensure that funds reach the Treasury within 5 days.
(iii) Frequency of account reconciliation between the Tax Department and the Treasury to ensure reconciled data between systems on tax assessment, collections and arrears.	A	Local tax offices carry out detailed reconciliations daily and monthly between their records of payments received from individual taxpayers and the Treasury records of revenue receipts. Differences between assessments (most of which are self-assessments) and payments are reconciled monthly.
Scoring method M1		

(i) *Collection ratio for gross tax arrears (including taxes under appeal processes)*

135. Good practice looks for tax payment arrears to be minimized - ideally they should be less than 2% of annual collections), and that each year almost all the amounts outstanding at the end of the previous year should be collected during the year .GDT data show that arrears at the end of 2008 were VND 23,877 billion; off-setting the amount already paid to the State budget pending clearance, the net tax arrears were VND 22.707 billion, equivalent to 9.5% of collections (excluding crude oil revenues) of VND 240,076 billion. Corresponding figures for 2010 were VND 26,924 billion arrears; off-setting the amount already paid to the State budget pending clearance, the net tax arrears were 25,993 billion, equivalent to 7.4% of VND 365,347 billion collections. Corresponding figures for 2011 were 35,160 billion arrears; off-setting the amount already paid to the State budget pending clearance, the net arrears are 34,017 billion, equivalent to 7.9% of VND 431,006 billion collection. Customs put 2011arrears at about 2.25% of collections. These figures suggest some improvement in the management of arrears, particularly since there are only limited provisions for writing off uncollected tax arrears. According to the Hanoi province tax office, the coercive powers available to the authorities –such as to freeze bank accounts, withdraw business licenses, etc. – are sufficient to prevent any serious build-up of tax arrears.



But GDT consider the management of arrears to be unsatisfactory, because insufficient staff are assigned to the task.

Given that arrears are significant (more than 2 per cent of annual collections), a rating of C requires that more than 60 per cent of amounts outstanding at the beginning of a year are collected during that year. Data to demonstrate precisely that Vietnam passes this threshold are not available, but the facts that arrears are not increasing as a percentage of collections and that the tax authorities are satisfied with their ability to compel payment strongly suggest that the threshold is passed. Thus the dimension score is C, which reflects the existence of significant arrears, and the need for further improvement in their management.

*(ii) Time for transfer of tax collections to the Treasury*

136. Good practice ensures that all tax revenue is paid into the Treasury with minimum delay, preferably on the day it is received by the tax authorities. In Vietnam all revenue is paid directly into the State Treasury or Treasury bank accounts, most of it on the day it is received or the next day following. Some small amounts paid in remote areas where there are no banks or there are difficulties of access may take up to 5 days in transit to reach the Treasury. It should be noted that revenue flows are into bank accounts at province and district level; although the Central Treasury Department has information on a daily basis about the amounts reaching all these accounts, the Central Treasury Department is not yet able to consolidate them into a Single Treasury Account (TSA). The score for this dimension: B

*(iii) Frequency of accounts reconciliation to ensure reconciled data on tax assessments, collections, arrears and payments into the Treasury*

137. Good practice requires frequent and regular reconciliations between tax authorities' records of payments to the Treasury, and the records of Treasury bank accounts; at the same time, the tax authorities need to reconcile regularly their records of declarations and assessments of due tax amounts with those of actual payments by individual taxpayers. In practice, there are daily and monthly reconciliations between GDT records of the tax payments by individual taxpayers and the Treasury records of tax receipts. (This was confirmed in discussion with the Hanoi provincial tax office.) Any discrepancies result in items being held in suspense until tax offices are able to produce the further information necessary. Reconciliations between amounts in self-assessment declarations of the due tax amounts and actual receipts, from which arrears figures are derived, take place monthly. The score for this dimension: A

**Reform Efforts Underway:** As part of the Integrated Tax Management System the Tax Authorities intend to develop a unified tax accounting system which will capture the tax liabilities of each individual taxpayer on an accrual basis. The objective is to reduce arrears outstanding at the end of each year to less than 5% of actual revenue collected during the year, and to ensure that 80% of arrears outstanding at the end of the previous year are collected during the year.

## PI-16: Predictability in the availability of funds for commitment of expenditures

138. Budget management is more efficient if cash flows are more accurately forecast and monitored, spending units can be confident of the availability of sufficient cash to meet their approved commitments for at least 6 months ahead, and in-year changes in budget allocations imposed on spending units from the centre are avoided.

Indicator	Score	Brief Explanation
PI-16 Predictability in the availability of funds for commitment of expenditures	B+	
(i) Extent to which cash flows are forecast and monitored	B	An overall quarterly cash flow plan is developed by the central Treasury, based on experience and historical patterns as well as information from spending units. All Treasury accounts at the centre and in each province and district are monitored and forecast on at least a quarterly basis, so that action can be taken by the Treasury to ensure that cash is available to meet known exceptional payments.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	The target cash balances kept in each Treasury account, combined with the normal under-estimation of revenue and the central Treasury's ability to mobilise cash whenever necessary, have enabled MoF to assure spending units at all levels of government that cash will be available to meet their approved expenditures throughout the year.
(iii) Frequency and transparency of in-year adjustments to budget allocations decided above the level of spending units.	A	A major in-year revision of the approved Budget must be initiated by the Government and submitted for approval by the National Assembly (Article 43 of Decree 60/2003 on Implementation of the State Budget Law). In urgent cases or for lesser revisions the decision can be made by the Standing Committee of the NA. There have been no recent cases where substantial reductions in approved budgets have been imposed in the course of budget execution without full discussion in the NA.
Scoring method M1		

### (i) Extent to which cash flows are forecast and monitored

139. Good practice envisages that cash flow forecasts will be undertaken each year, with a quarterly or monthly breakdown of cash flows, and that these forecasts will be regularly updated on the basis of actual cash inflows and outflows. In accordance with the applicable regulations in Decision No. 333/2002 on cash flow management in the State Treasury system, cash flow plans are developed quarterly, with cash flow management based on the cash balance targets. The plans take into account information about the cash needs in each Treasury office. The cash flow of each Treasury account at the centre and in provinces and districts has been forecast and monitored on at least a quarterly basis, in order to provide for action to be taken to ensure the

availability of cash to meet any exceptional payments as required. However, central cash planning has been based on a calculation formula combined with experience and historical patterns rather than on the integration of detailed information from spending units and local Treasury offices. A new Decree on cash management is being prepared, which is likely to open the way to more effective aggregate cash flow forecasting and monitoring. Given that there is at least quarterly forecasting of cash flow in every account, dimension score: B.

*(ii) Reliability and time horizon of periodic in-year information to spending units on ceilings for expenditure commitment*

140. Good practice requires that spending units should be able to commit to expenditure at least 6 months ahead with confidence that sufficient cash will be available in the Treasury to meet the payments when they fall due. The combination of target cash balances (i.e. sufficient cash to meet up to two weeks' expenditures) to be kept in each Treasury account, together with the fact that revenues collected have generally exceeded the amounts included in the original budget, and the ability of the Treasury to mobilise cash if necessary through domestic financial markets, has enabled MoF to assure spending units that cash will be available throughout the year to meet payments consistent with their approved budgets. There is thus no question of spending units being constrained within quarterly or even monthly tranches of budget releases. Dimension score: A.

*(iii) Frequency and transparency of adjustments to budget allocations notified to spending authorities*

141. Good practice seeks to avoid situations in which spending units' approved expenditure plans are disrupted by adjustments imposed from the centre during the course of a financial year; and if such adjustments cannot be avoided, they should be made in a transparent way. Article 43 of the Decree 60/2003 requires that any major revision to the approved Budget must be submitted by the Government to the National Assembly (NA) for approval. Spending Ministries reported no instances of MoF taking the initiative in the course of a year to reallocate funds where under-spending was expected to other purposes. In practice in Vietnam, adjustments to the revenue and expenditure budgets rarely happen. If budgetary revenues collected exceed the amounts budgeted the law permits the additional amounts to be used to reduce the budget deficit of the current year, to increase capital expenditure, to make additional debt service payments, to replenish financial funds, or to increase budget reserves; decisions on the specific allocation each year of over-realized revenues are submitted by the Government to the Standing Committee of the National Assembly (or by the People's Committee to the People's Council at sub-national levels) for review and decisions. If revenues fell short of the budget, the National Assembly would decide between increasing the budget deficit and cutting expenditures already approved for the spending units (however, in reality, Vietnam usually make prudent revenue forecasts, so this case is not likely to happen). In urgent cases, or where defence or State security are concerned, or where lesser changes are intended, approval may be given by the Standing Committee of the NA, with a subsequent report to the next Plenary Session. In February 2011 the government – exceptionally- imposed a 10% reduction in non-salary current expenditure as part of its measures to reduce the rate of inflation; this reduction was the subject of full discussion in the Standing Committee of the NA and subsequently in the plenary session. Expenditure carried over from one year into the next (about 30% of the 2009 Budget) is for the most part allocated in accordance with policies previously approved by the NA, and reported to its Standing Committee each March. As noted in relation to PI-2 above, the functional allocation of this expenditure is not available. Dimension score: A

**Reform Efforts Underway:** Currently the Treasury is drafting a new Decree on cash management, including elements on cash flow forecasting. It is expected that after the issue of the Cash Management Decree, the Treasury will further develop its cash flow forecasting process, based on in improved timeliness and accuracy in capturing revenue inflows and payment requirements, which is likely to open the way for better overall cash flow monitoring and forecasting.

**PI-17: Recording and management of cash balances, debt and guarantees**

142. This Indicator reviews whether the Government has full and accurate information about all general government debt (included debt guaranteed by government), whether the government’s cash balances are fully consolidated, and whether the contracting of loans and issue of debt guarantees is uniformly controlled by a single government authority at the centre.

Indicator	Score	Brief Explanation
PI-17 Recording and management of cash balances, debt and guarantees	B	
(i) Quality of debt data and reporting	C	External debt data records, including government-guaranteed debt, are complete subject to a delay of up to 3 months for the receipt of disbursement notifications, and regularly reconciled. Information on domestic debt issuance is fully updated, and MoF has full information about provinces’ debt (updated annually). Consolidated reports on borrowings are submitted to the Government quarterly, and reported to the National Assembly every 6 months Reconciliations between MoF data and corresponding bank data are carried out only annually.
(ii) Extent of consolidation of the government’s cash balances	B	The Treasury has daily information about most government cash balances throughout the country, but holdings by extra-budgetary funds and some balances arising from charges for services are outside the Treasury system. The holding of substantial balances in each Treasury office means that cash management is sub-optimal.
(iii) Systems for contracting loans and issuing guarantees	B	The contracting and guarantee of external loans is the responsibility of the Debt Management and External Finance Department (DMEFD) of MoF. Only in 2011 has the control of guarantees for domestic borrowing been formally systematised under MoF, although in practice MoF has been controlling such guarantees informally, by analogy with the procedure already established for external borrowing. Debt management has hitherto been planned in accordance with the medium term debt management programme 2009-12, which is restricted to external debt. The new strategy for the period to 2020 covers both external and domestic debt, and DMEFD has

Indicator	Score	Brief Explanation
		recently been given the coordinating responsibility for debt management policy as a whole. This strategy is expressed in terms of debt levels in relation to GDP, but it is not directly linked to fiscal targets.
Scoring method M2		

(i) *Quality of debt data recording and reporting*

143. Best practice requires full information to be available about all general government debt (including debt guaranteed by government), with accuracy ensured by monthly reconciliations between data sources. In Vietnam, external loans are managed by the Debt Management and External Finance Department of MoF, which keeps track of loan draw-down, capital repayments and interest payments. There may be a delay of up to three months in the receipt of information about disbursements from donors. The outstanding amount of the Government's external debt corresponds to about a third of GDP. Currently, the Debt Management and External Finance Department (DMEFD) publishes its External Debt Review every 6 months, with quarterly updates and reconciliation of external debt data, to share with international organizations. Domestic borrowing may take the form of Treasury bond issues, Treasury Bills, bank borrowing and borrowing from the Social Security Fund. Total domestic borrowing corresponds to nearly 20% of GDP. Information about domestic debt issues by central government is complete and up to date, and MoF effectively controls sub-national borrowings (with updates once a year). DMEFD has recently been given the overall responsibility for the coordination of debt management policy, covering domestic as well as external debt. A general report on borrowing is submitted to the Government quarterly, and reported to the National Assembly every 6 months. Work currently in progress on the integration of domestic and external debt data into the UNCTAD Debt Management and Financial Analysis System (DMFAS) is likely to improve the accuracy and timeliness of public debt reports. Circular 53/2011 of 27 April 2011 required the publication for the first time in December 2011 of consolidated information about all government and government-guaranteed debt, and total amounts outstanding of external and domestic debt were accordingly made available to the general public. Full publication of the details of both domestic and external debt will be implemented upon completion of the installation of DMFAS, (which should have taken place in June 2012). Although reports are produced quarterly, the full data reconciliation between the Ministry of Finance and creditor banks is only carried out once a year, resulting in the current rating for this dimension: C

(ii) *Extent of consolidation of Government cash balances*

144. Good practice envisages that the government's cash balances will be consolidated in a Single Treasury Account, so that the overall borrowing need is minimized. (The cost of borrowings is often much higher than any return from short-term investment of the cash.) The central Treasury has full authority over Treasury offices at province and district level, and has full information every day about the cash balances held in bank accounts by each Treasury office, and can move money from one account to another in case of need. However, balances held by off-budget funds and some balances arising from charges for services are outside the Treasury system. The government's policy for the time being remains to maintain a target level of balances in each office, so as to ensure the availability of cash to meet obligations as they arise. This practice of each sub-national Treasury office holding substantial cash balances inevitably results in gross government debt being higher than it would be if payments were centralised through a Single Treasury Account (TSA), and thus means that cash management is inefficient. Dimension

score, reflecting the holding of significant government-controlled balances outside the Treasury system: B

*(iii) Systems for contracting loans and issuing guarantees*

145. Best practice envisages that a single Government entity will be responsible for approving the contracting of all loans and the issue of all guarantees, and that the borrowing policy will be implemented within a framework which establishes transparent limits on outstanding debt which are consistent with the government's fiscal targets. DMEFD manages the contracting of external loans (including loans to SOEs for which a government guarantee is given) in accordance with the Medium-term External Debt Management Program for the period 2009-2012. Accordingly, the target is set so as to keep total external debt (including private sector debt) below 50% of GDP (the figure was about 41% at the end of 2011). The Medium-term External Debt Management Program also sets targets to keep Government external debt service costs below 12 per cent of annual revenues, and national external debt service costs below 25 per cent of the value of exports. MOF State Budget Department controls sub-national borrowings. DMEFD is responsible for the issuance of Government guarantees in respect of domestic and external borrowing by the entities entitled to apply for a Government guarantee in accordance with the Public Debt Management Law. The Public Debt Management Law in 2009 officially assigns the Ministry of Finance to uniformly manage public debt (including guarantees of domestic debts). In 2011, with the promulgation of Decree 15/ND-CP, Vietnam has a specific legal basis for the management of all borrowings guaranteed by the Government. DMEFD has recently been given the responsibility for the overall coordination of debt management, domestic as well as external. The issuance of external guarantees by the Government is based on the annual guarantee issuance limits of the Government as proposed by the Ministry of Finance, which take into account the annual commercial borrowing limits of the Government in compliance with the provisions of the regulations. The government has adopted a long-term (2010-2020) debt management strategy, which looks to increase the domestic proportion of total government debt stock from its present roughly 40% to 60% by the end of the decade. This strategy is expressed in terms of debt limits in relation to GDP, but is not integrated into the government's medium-term fiscal planning. Dimension score: B.

**Reform Efforts Underway:** Use of the UNCTAD Debt Management and Financial Analysis System (DMFAS) has hitherto been limited to external debt. Data relating to domestic debt are currently being entered into DMFAS with a view to publication for the first time in December 2011 of a full report on all government debt. The government's long-term debt strategy is to rely relatively more on domestic borrowing, given that as Vietnam's income per head rises the country will progressively lose eligibility to borrow on concessional terms from International Financial Institutions. At the same time the government's policy on cash management is being reconsidered, with the introduction of a Single Treasury Account and the incorporation within it of government-controlled balances currently outside the Treasury system being among the possible changes (see also PI-16 above). Currently, the State Treasury is undertaking a program on cash management reform as well as establishment of a Treasury Single Account (TSA). Its plan is to submit a draft Decree on Cash Management to the Government in April 2013, which will also provide for an inter-bank clearance system and concentrated bilateral settlement system (the implementation of 2 systems is expected to be completed in 2013). Upon completion, the State Treasury envisions prudence and efficiency in cash management, and minimized State Treasury cash balances in banks. It will be important to ensure that the debt and cash management strategies are closely aligned.

## PI-18: Effectiveness of Payroll Controls

146. Effective control of payroll expenditure is essential, since payroll costs may account for two thirds or more of total current expenditure. This Indicator assesses the control of payrolls on the basis of four dimensions: the degree of integration between personnel and payroll records; the timeliness of changes to personnel records and the payroll; the internal controls over changes to personnel records and the payroll; and the existence of payroll audits to identify control weaknesses and/or ghost workers.

Indicator	Score	Brief Explanation
PI-18 Effectiveness of payroll controls	B	
(i) Degree of integration and reconciliation between personnel records and payroll data	B	Personnel management and the payroll are highly decentralised in Vietnam SR, with each Ministry and province being responsible for personnel records and payroll administration. There are no automatic links between personnel and payroll databases in most agencies, with changes to the payroll (reflecting appointments, promotions, etc.) entered manually by payroll staff on instructions from personnel departments on the basis of full documentation.
(ii) Timeliness of changes to personnel records and the payroll	B	Payroll aggregate allocations are fixed for periods of 3 months, with payroll records being fully updated quarterly. In the interim there may be delays in updating the payroll, which result in a limited number of retrospective adjustments to individuals' pay.
(iii) Internal control of changes to personnel records and the payroll	B	There is strict high level managerial supervision of changes to personnel records which can give rise to changes in pay and allowances received by individuals.
(iv) Existence of payroll audits to identify control weaknesses	B	MoF and sectoral Ministry inspectorates carry out regular staff inspections throughout the country, in which personnel and payroll records are checked and reconciled. In addition the State Audit Agency (SAV) as part of its regular audit work selects the pay of a sample of individuals in each Ministry or lower level unit for thorough audit testing each year, including cross-references to personnel records, in order to verify the accuracy of salary payments and their consistency with personnel records.
Scoring method M1		

147. Although the management of pay and personnel is subject to generally applicable government regulations relating to pay and personnel management, in practice the payment of salaries and management of staff is delegated to the individual spending units.

*(i) Linkages between personnel records and payroll operations*

148. Best practice looks for a situation where personnel and payroll records are closely linked in such a way that any decisions of the relevant authorities that imply changes to personnel records (e.g. promotion of a staff member) automatically results in an appropriate change to salary of that person. In some countries, expenditure control and personnel and payroll records are highly centralized, so that a single system covers all or most government employees. In Vietnam, each Ministry or province is responsible for keeping its own personnel records and managing its own payroll, subject to aggregate allocations from the Ministry of Internal Affairs (which controls administrative staff numbers and grading) and the Ministry of Finance (which controls payroll finance). The regulations require close high level managerial supervision of changes to personnel records reflecting promotions, appointments, etc. But there are no automatic links of database systems between personnel and payroll records, and therefore no automatic reconciliation and control between personnel and payroll records. However, there is no evidence of inconsistency in the operation of personnel and payroll management, and there was stated to be regular manual reconciliation between personnel and payroll records. Dimension score: B

*(ii) Timely updating of personnel and payroll databases*

149. Good practice requires the avoidance of frequent retrospective adjustments to individuals' pay, which can easily be the source of error. In Vietnam, although the payrolls are adjusted by the Finance and Planning unit monthly, budget personnel records and payrolls are updated quarterly by the Personnel and Organization unit, there are certainly instances of retrospective record adjustments and retrospective salary payments for individuals, but the numbers are relatively limited. MoF assessed that there were about 40 such adjustments every year in respect of a staff of 300 persons at the Ministry's headquarters. Dimension score: B

*(iii) Internal controls of changes to personnel records and payroll*

150. Good practice requires strong control by senior management to prevent unauthorized changes to personnel and payroll records which would result in unjustified increases in the pay of some individual staff members. In Vietnam, according to the Personnel and Finance and Planning Departments in the Ministry of Finance - one of the largest Ministries in terms of staff numbers, the authorities and basis for changes to personnel records and payroll are clearly specified (i.e. the Ministry of Finance itself refers to Decree No. 24/2010, regulating the recruitment, employment and management of civil servants, and Decree No. 118/2008, regulating the functions, mandates, powers and duties of the Ministry of Finance). In each Ministry, agency, unit and sub-national government, the Organization & Personnel Unit is to make changes to the personnel records, and the Internal Finance & Planning Unit should pay salaries in accordance with adjustments to the salary scales and levels following clear procedures. In addition, the mechanism of publishing the salaries and allowances of each member of a unit in each organization reduces the risk that individuals may be able to arrange unjustified additional payments, or even create ghost workers whose remuneration they can capture. Dimension score: B



(iv) *Effective operation of payroll audits*

151. The PEFA criteria look for the existence of a system of dedicated payroll audits, which will check the existence of each staff member and the underlying justification for elements in personnel records (e.g. certification of the professional qualification as claimed), as well as the accuracy of the calculation of his or her pay. In the Ministry of Finance specific local regulations have been issued providing for the continuing review and internal assessment of personnel and organization management; accordingly, the Ministry of Finance annually conducted review missions to its units and local offices, focusing on personnel recruitment, employment and management as well as the implementation of personnel policies, including salary policy. In addition, according to the audit regulations, SAV carries out detailed checks of the pay of a sample of individuals as part of its normal periodic audit of each Ministry or province. These include inspection of personnel records so as to assess whether the amounts paid are fully justified and supported by all the relevant documentary evidence. In each administrative unit, the pay of all the officials concerned is generally disclosed, so that any unmerited amounts would be visible to the official concerned colleagues. Finally, most Ministries and provinces maintain an internal control unit, which covers pay among other things; although not many lower level organizations have such a unit. The above control mechanism is considered equivalent to the partial functioning of payroll audits. Dimension score: B

**Reform Efforts Underway:** Some units (the MoF General Department of Taxation is an example) have developed software programs on personnel and payrolls for government officers, with the linkage between the Personnel function (for personnel changes) and the function of salary and wage payment for the staff. The objective is to make adjustments more quickly and avoid retrospective adjustments, while ensuring the accuracy of the calculations. In the longer run the Government is examining the possibility of including a Human Resources module alongside TABMIS in its Integrated Financial Management System.

**PI-19: Transparency, competition, and complaints mechanisms in procurement**

152. This Indicator assesses the extent to which applicable laws and regulations are followed in the public procurement system: whether the normal presumption in favour of open competition in the letting of contracts is properly respected; whether tendering opportunities and contract awards are effectively publicized; and whether there is satisfactory machinery for dealing with complaints by tenderers about the behaviour of spending units in letting contracts.

Indicator	Score	Brief Explanation
PI-19 Competition, value for money and controls in procurement	C+	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	C	Three of the six benchmarks relating to the legal and regulatory framework are fully met, but the other three are only partially satisfied.

Indicator	Score	Brief Explanation
(ii) Use of competitive procurement methods	D	The law permits a number of exceptions to the operation of open competition, (with about a third of contracts by value being let directly without competition in 2009 and 2010). Compared with international practice, the threshold for direct contracting is higher, and in many cases direct contracting is applied beyond the threshold.
(iii) Public access to complete, reliable and timely procurement information	B	Procurement plans, tendering opportunities and contract awards (above a threshold of VND 2billion, equivalent to US\$100,000) are published in MPI's Procurement Gazette and on the Ministry's website. However, no information is published about the results of procurement complaints.
(iv) Existence of an independent administrative procurement complaints system	B	A dedicated body has been established to review admissible complaints, referred to as the Advisory Panel, which is chaired by a representative of the State agency in charge of procurement and includes members representing the relevant authorities and related professional bodies. While this body meets the basic requirement for independence, it lacks authority to suspend the procurement process.
Scoring method M2		

(i) *Transparency, comprehensiveness and competition in the legal and regulatory framework*

153. PEFA defines six benchmarks of good practice in the regulatory and legal framework for procurement, all of which should ideally be satisfied.

1. The legal framework for procurement is organised hierarchically, with the principal law, implementing regulations and operating instructions: Satisfied

Responsibility for policy formulation and execution is clearly defined in law and in practice, by the Procurement Law and Implementing Decree (No. 85/2009), and a number of Circulars containing operational guidelines.

2. Procurement laws and regulations are freely and easily accessible to the public through appropriate means: Satisfied

The texts of the law and other documents on procurement are freely available to the general public via the website of the Ministry of Planning and Investment (<http://muasamcong.mpi.gov.vn/>) and other websites containing laws and regulations of the Government, Ministries and sub-national governments and via the nationwide distributed network of official gazettes.

3. The legal framework applies to all procurement undertaken using Government funds (with exception of State-owned enterprises): Satisfied.

Legislation governing tendering and procurement applies for all procurement to be undertaken with government funds, except where the government contribution is less than 30%.

4. The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used: Not satisfied.

Although open competitive procurement is the default method, the law permits a number of derogations from its application, with the result that open competition accounts for less than 60% of total procurement by value.

5. The legal framework provides for public access to procurement information including Government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints: Not satisfied.

While the public have access to procurement plans, information on bidding opportunities and contract awards, there is no publication of the results of complaints against procurement decisions.

6. The legal framework provides for an independent, administrative procurement review process for handling procurement complaints prior to contract signature: Not satisfied

The current system of legislation allows for an independent procurement review process, but this process does not meet all the detailed criteria considered in dimension (iv) below and in particular does not have authority to suspend the award of contracts pending the completion of the review process. (Not satisfied)

Since only the first three benchmarks are fully satisfied, the dimension score is C.

*(ii) Use of competitive procurement methods*

154. PEFA defines good practice as requiring that open competitive tendering should be the default method of awarding contracts, that contracts should be placed through open competitive tendering wherever possible, and that all exceptions should be fully justified under the law. In Vietnam the Procurement law provides for a range of exceptions to the use of open tendering. Conceptually, direct contracting should only be used where it can be proven to be better than open tendering, or to be required to meet particular circumstances. The conditions for direct contracting are considered by the Ministry of Planning and Investment (MPI) as comparable to international practice elsewhere. MPI is responsible for ensuring that the sole selection conditions are met for the projects and contracts it appraises, but it does not have clear data on the compliance of projects outside its direct responsibility, where responsibility rests with the “owner” of each project. MPI’s annual survey of procurement in 2010 recognises that single source selection (direct contracting) has often been used in cases where open tendering would have been perfectly possible. A survey of its members by VCCI indicated widespread unjustified recourse to direct contracting. Responsibility to decide the procurement method in the selection of the successful bidder rests with the investment owner, subject to approval of the relevant authorities. Table 3.3 below shows the number and value of contracts let by different procurement methods in 2009 and 2010. No hard information is available about the extent to which derogations from open competition resulting in the use of other less competitive methods of procurement have been justified under the terms of the current legislation. Dimension score: D.

**Table 3.6: Use of different procurement methods 2009 and 2010**

	2009		2010	
	Number	Value (billion VND)	Number	Value (billion VND)
Open tendering	12,538	171,091	13,959	185,533
Limited tendering	1,079	14,299	1,305	15,640
Direct contracting	67,562	104,220	70,147	113,644
Price comparison	4,716	3,425	4,003	10,415
Other	3,621	9,923	5,655	8,866
<b>Total</b>	<b>89,516</b>	<b>302,988</b>	<b>95,069</b>	<b>334,098</b>

*(iii) Public access to complete, reliable and timely procurement information*

155. Good practice requires maximum transparency in the operation of public procurement, as measured by public access to all relevant information about the operation of the system. In Vietnam, the general public have access to complete information about procurement plans, bidding opportunities and contract awards above a threshold of VND 2billion (about US\$100,000), which are published in MPI's daily Procurement Gazette and on its public procurement website ([www.muasamcong.mpi.gov.vn](http://www.muasamcong.mpi.gov.vn)). This should cover cases where the eventual contracts are let directly, as well as those let by open or limited tender, and thereby ensure that information is available about more than 75 per cent of procurement by value. No information is available about the results of tenderers' complaints against procurement decisions. Dimension score: B

*(iv) Existence of an independent administrative procurement complaints system*

156. PEFA looks for the existence of an independent procurement complaints system, which should satisfy all of seven criteria. The first two (i,ii) require the existence of an administratively independent review system, including independent non-government professionals, none of whose members has been involved in the procurement process or the award of contracts. In Vietnam, an Advisory Panel is set up in accordance with Article 73 of Decree No. 85/2009 to consider each admissible complaint. The Panel is chaired by a representative of the State agency in charge of procurement and includes members representing the relevant authorities and related professional bodies. (iii).The level of fees charged (0.01% of the value of the contract in question, subject to a minimum of US\$100) is not such as to discourage complaints, and (iv) its procedures are clearly defined. It works (vi) to a tight timescale, and (vii) its rulings are binding on all parties, subject to the possibility remaining of an appeal to the courts. But because (v) the Advisory Panel does not have authority to suspend the procurement process, the dimension score is B. VCCI, however, considers that the independent complaints machinery, and the possibility of appeal to the Administrative Court, are of limited practical significance, since potential bidders for public contracts may be reluctant to sour their relations with the authorities who let the contracts by entering into disputes, and may have little confidence in the independence of the Court.

**Reform Efforts Underway:** It is expected that in the newly revised Procurement Law, provisions relating to appeals will be revised to bring them into line with good international practice. This could include establishing a standing independent review body which would have the authority to suspend the procurement process while cases were considered

#### PI-20: Effectiveness of internal controls for non-salary expenditure

157. This Indicator is complementary to PI-18 (controls over payroll expenditure), and assesses (i) whether there are effective arrangements to prevent spending units from entering into commitments involving expenditure beyond what has been authorized in the budget or beyond the limits introduced by the Ministry of Finance for the coming months; (ii) whether other internal controls over capital expenditure, expenditure on goods and services and expenditure on transfer payments are comprehensive and effective; and (iii) whether the rules for the processing and recording of transactions are generally obeyed. PI-19 is concerned only with arrangements for letting public contracts; other aspects of contract management are discussed in relation to dimensions (i) and (ii) of this Indicator.

Indicator	Score	Brief Explanation
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	
(i) Effectiveness of expenditure commitment controls	D	Circular No. 113/2008 of the Ministry of Finance already provides the legal basis for the introduction of commitment controls, but these will only become effective once TABMIS is in full operation throughout the country (it is expected that full implementation of commitment controls will be started from the 2013 budget year). Once the mechanism for commitment controls is in operation, it will play an important role in ensuring that budget allocation priority is given to commitments previously undertaken.
(ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures	C	There are detailed rules in force covering expenditure decisions at different stages, and for different types of payment. Controls within spending units appear to be functioning satisfactorily, in so far as preventing unauthorized payments is concerned. However, there are significant problems in contract management, in determining the amounts of payments under contracts where the managers insist on the application of cost norms inconsistent with market conditions, and in securing prompt payment when managers exploit administrative procedures in order to justify delays in payments. The Treasury point out that some procedural rules in earlier decrees (e.g. Circular 79/2003) have been overtaken by changes in the operational environment.

Indicator	Score	Brief Explanation
(iii) Degree of compliance with rules for processing and recording transactions	A	Clear rules are laid down for the processing and recording of payments by the Treasury. Evidence has to be provided that payments have been correctly authorised within the spending unit concerned, and, where applicable, that correct procurement procedures have been followed. Very few payment instructions are rejected by the Treasury. Data are recorded in the Treasury system such that reports of the aggregate progress of budget execution can readily be produced.
Scoring method M1		

(i) *Effectiveness of expenditure commitment controls*

158. Good practice requires the operation of a separate control over commitments, to ensure that spending units do not undertake commitments which are beyond their budget allocations or beyond the cash prospectively available for a period of months ahead. The system in Vietnam is already able to prevent the making of any payment which falls outside the aggregate provision in the budget available to the spending unit concerned. Spending units have to register their quarterly disbursement requirements in the Treasury offices. This factor, combined with the arrangements made to keep cash reserves in each Treasury office, has so far prevented the build-up of arrears in respect of payment instructions submitted with full documentation to the Treasury. But Circular 113/2008 of the Ministry of Finance providing for the introduction of commitment controls will only become effective once the TABMIS system is in full operation throughout the country. By October 2012, TABMIS has been rolled out nationwide to all 63 provinces and centrally managed cities. It is expected that full implementation of commitment control can officially start from June 1, 2013. There will then be controls over commitments, which will require that purchase orders are registered in the system at the same time the orders are placed, and the system will prevent subsequent payment if purchase orders have not been registered. When commitment controls are introduced, it will be important also to integrate them into medium-term expenditure planning, so that once a commitment to a project extending one or more years into the future has been accepted, the budget allocation for such a project in the subsequent years under the agreed schedule will have a prior claim on available funds. This will require strict discipline from related stakeholders, i.e. fund prioritization on the part of both MPI, in ensuring the availability of funds, and of the spending units/project owners, who will have to plan other spending so as to leave room for the commitments they have previously undertaken.

The State Treasury recommended C for this dimension score. According to the PEFA guidelines, C is only applicable when commitment control procedures exist and are partially effective, but they may not cover all expenditures or they may occasionally be violated. Therefore, at the time being, the dimension score is D.

(ii) *Comprehensiveness, relevance and understanding of other internal control rules/procedures*

159. Good practice requires the existence of clear rules governing other aspects of internal financial planning and control, e.g. the operation of effective hierarchical supervision within spending units. Vietnam has detailed procedures governing different types of expenditure

decision taken by spending units (see in particular Circular 86/2011). Requirements for hierarchical supervision and the separation of duties appear to work satisfactorily. Controls on capital expenditure payments are set out in the attachment to the Treasury Decision 686/2009, and apparently work satisfactorily from the standpoint of the spending units. The Treasury point out, in addition, that some aspects of older regulations which remain in force (see for example Circular 79/2003) but have been overtaken by changes in the operational environment, and will be replaced by new arrangements once TABMIS has been fully implemented.

160. As noted above, this Indicator also needs to take into account aspects of public procurement other than the letting of contracts covered in PI-19. There is evidence of significant problems in project management where payments take place over an extended period, and the amounts of payments are determined on the basis of cost norms which may not reflect real market conditions or take account of inflation. VCCI stated that they were aware of situations where major companies were awaiting the payment of VND11,000 billion pending the settlement of disputed points. It appears that spending units which have undertaken commitments beyond their available resources may use administrative delays in order to bring actual current payments into line with the available budget in any particular year. A further reason for payment delays is the time taken at the beginning of each year for higher level budget spending units, once budget apportionments have been approved by the NA (and People's Councils at sub-national level), to allocate funds to their direct subordinate units, and the process goes on down the spiral until funds are allocated to individual projects. Until this process is complete, further payments cannot be made on the projects concerned. The problems created by inadequate cost recovery and additional borrowing consequent upon delays in receipts can threaten the future viability of enterprises, in addition to giving them an incentive to reduce the standard of work done as a means of reducing their own costs and bringing them into line with the restricted budget provision for the works at the disposal of project owners. The operation of the rules concerning amounts payable under construction and civil engineering contracts may need to be reconsidered in the context of the introduction of commitment controls extending into the medium term. Dimension score: C

*(iii) Compliance with rules for processing and recording transactions*

161. Good practice requires that rules for processing and recording transactions are rigorously complied with, so that unauthorized payments are prevented, and the information on which financial statements will be based is fully correct. The Treasury processes and records payment transactions in accordance with the attachment to MoF Decision No. 120/2008/QD-BTC and Circular No. 212/2009/TT-BTC. The Treasury has to receive full documentation showing that the requisite checks have been made, that the payments have been properly authorised, and that the correct procurement procedures have been followed. The State Audit Agency (SAV) has not uncovered any significant problems in the operation of these controls. Dimension score: A

**Reform Efforts Underway:** MoF have decided to introduce commitments control once TABMIS is in full operation. Other elements of financial control regulations will be revised so as to take full account of the electronic environment in which government financial management now takes place.

## PI-21: Effectiveness of Internal audit

162. This Indicator assesses (i) whether or not an Internal Audit (IA) function exists, and the extent of its coverage; (ii) the frequency and distribution of IA reports; and (iii) the responsiveness of managements to IA findings and recommendations.

Indicator	Score	Brief Explanation
PI-21 Effectiveness of internal audit	D+	
(i) Coverage and quality of the Internal Audit function	D	A separate Internal Audit (IA) function has so far been established only in MoF, the Ministry of Defence and the State Bank of Vietnam (SBV)
(ii) Frequency and distribution of reports	C	A relatively small number of IA reports have so far been issued to the managements of the three pilot agencies concerned. The State Audit Agency said it already makes use of these reports in its audit work in the bodies concerned, but does not receive them automatically, as there is currently no requirement for that.
(iii) Extent of management response to internal audit findings	C	It appears that the recommendations have so far been positively received, and the IA units are making appropriate arrangements for follow-up. But only a very small part of total government activity has so far been covered.
Scoring method M1		

### (i) Coverage and quality of the internal audit function

163. International good practice in public financial management looks for the operation of IA as a service to management, with the function to identify ways of correcting and improving systems, so as to improve the efficiency, economy and effectiveness of the delivery of public services. Hitherto in Vietnam, there are only 3 agencies having IA functions meeting this definition: the Ministry of Finance, the State Bank of Vietnam and the Ministry of Defence. The Ministry of Finance has issued Decision No. 2269/2009, in accordance with which the Internal Finance & Planning Department established an IA unit. The Internal Audit/Inspection services of some Ministries have begun to do work which has some of the character of IA. Currently, the State Audit Agency (SAV) is finalizing a draft Decree on internal audit at the request of the Government, for submission to the Standing Committee of the National Assembly for review, which will set out how IA should be established in all Ministries, agencies and provinces. While it is appropriate for SAV to make recommendations and provide professional guidance about the establishment of the IA function, it would be better to avoid a situation in which SAV takes operational responsibility for the operation and co-ordination of IA functions, since SAV will subsequently audit the operation of IA. Because IA work has so far been extremely limited, current dimension score is D.



(ii) *Frequency and distribution of reports*

164. Good practice envisages that IA units will follow work plans which result in the generation every year of a series of reports covering different aspects of their parent agency's responsibilities, and that these will be submitted to the managements concerned and also to the Ministry of Finance and the external auditor. The MoF IA unit accordingly aims to make 30 reports a year concerning different audits, which then form the basis for a consolidated annual report to the Minister of Finance. So far no decision has been taken about responsibility for supervision and coordination of IA work among agencies across the government, and reports have gone only to the managements concerned. SAV does not receive reports directly, but stated that it has made use of internal audit reports in its audits of the Departments concerned. Given that reports are currently only issued to the managements concerned, and are not sent immediately to SAV, the current dimension score is D.

(iii) *Extent of management response to internal audit findings*

165. Good practice looks to managements to respond constructively to IA recommendations, and for ways to be found to ensure that lessons learned in one area are applied also in others where comparable circumstances apply. It appears that the reports so far produced have received a positive response from the auditees. The IA units are arranging to follow up their recommendations. However, due to the very narrow coverage, dimension score is C.

**Reform Efforts Underway:** Once the Decree which will guide the implementation of the IA function throughout the Ministries, agencies and sub-national governments is approved by the relevant authorities, it is expected that independent IA units will be progressively established over the following two years, reporting in each case to top managements. SAV will only provide professional guidance and support, and it's not clear which agencies will be responsible for central coordination and supervision.

### C (III). ACCOUNTING, RECORDING AND REPORTING

#### PI-22: Timeliness and regularity of accounts reconciliation

166. If accounts and financial statements are to be reliable and correct, steps must be taken to ensure the integrity of the data on which they are based. This Indicator examines two aspects of this issue: (i) the regularity of reconciliations between Government bank account data and the records in each Treasury office: and (ii) whether accounts of advances are regularly cleared, and information obtained quickly about the details of transactions which enables items held in suspense accounts to be posted to the General Ledger.

Indicator	Score	Brief Explanation
PI-22 Timeliness and regularity of accounts reconciliation	B+	
(i) Regularity of bank reconciliations	B	Each Treasury office carries out a daily reconciliation between its records of receipts and payments and the records of the bank accounts through which they pass (at SBV in the case of Ministries and provinces, and at commercial banks in the case of districts). But there is

Indicator	Score	Brief Explanation
		no assurance that comparable reconciliations are carried out in respect of government-controlled bank accounts outside the Treasury system.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	The TABMIS system enables sufficient information to be recorded about each transaction as to largely eliminate the need to keep amounts in suspense accounts, although the position may be less clear in those provinces not yet covered by TABMIS. Advances to officials for travel, etc. have to be cleared within a month, and there are no indications from auditors that this is not being complied with.
Scoring method M2		

(i) *Regularity of bank reconciliations*

167. Good practice looks for regular and frequent reconciliations between Treasury and associated bank account records. The Vietnam Treasury offices in each province and district carry out daily reconciliations between their records (now mainly kept within the TABMIS system or its predecessor KTKB in provinces where TABMIS is not yet in operation) and the bank account records (in SBV for Ministries and provincial Treasuries, and in commercial banks for district Treasuries). Payment instructions cannot be given until transactions have been entered into TABMIS (or KTKB). It should be noted that this dimension only addresses reconciliations between Treasury and bank account records, and is not concerned with reconciliations between the records of spending units and those of the Treasury. Moreover the arrangements reported here apply only to the Treasury, and not to bank accounts outside the Treasury system operated by government bodies of various kinds (see PI-7(i) and PI-17(ii)). Dimension score: B

(ii) *Regularity of reconciliation and clearance of suspense accounts and advances*

168. Good practice requires sufficient information to be recorded about each transaction to avoid items having to remain for any length of time in suspense accounts before being posted to the General Ledger, thereby safeguarding the accuracy of information recorded in the accounts. Similarly, advances, for example, to government officials to meet travelling expenses should be cleared without delay. The information about revenue items collected through TABMIS/KTKB is sufficiently detailed to avoid any significant use of suspense accounts (suspense accounts are accounts in which to place individual transactions pending the receipt of further information about them). Advances to staff should be cleared within a month, a rule whose observance was confirmed by the State Audit Agency (SAV). Advances to contractors for the execution of projects should not exceed 50% of the contract value, (Decree No. 48/2010); Circular No. 86/2011/TT-BTC of the Ministry of Finance allows project holders to advance funds to contractors for necessary works. The amounts advanced will be cleared throughout the schedule of payment claims for completed work in progress under the contracts, starting from the first claim and completely cleared when the value of claims for completed works reaches 80% of the contract value. The project holder and the contractor agree on the schedule of advances and arrangements for them to be cleared, and this forms part of the contract. By the same token, Official Document No. 16989/BTC-DT, dated 13 December 2011 of the Ministry of Finance specifies that: starting from 2012, the maximum amount of fund advance shall be 30% of the contract value. Dimension score: A

### PI-23: Availability of information on resources received by service delivery units

169. This Indicator, which has a character somewhat different from the other Indicators in this section of the report, looks at whether front-line service delivery units (schools, hospitals, local health services) have access to information about resources allocated to them in each year's budget, so that they can check and validate the information.

Indicator	Score	Brief Explanation
PI-23 Availability of information on resources received by service delivery units	A	
(i) Collection and processing of information to demonstrate the resources that were actually received by most front-line service delivery units (focus on primary schools and hospitals) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation of and resource allocation to those units.	A	Each school and health service provider at grassroots level has its own budget set by reference to expenditure norms based on pupil numbers or numbers of patient beds. These budgets and subsequent execution statements are published in accordance with the rules on transparency of Government operations.
Scoring method M1		

170. Good practice indicates that service delivery units should know what resources they can expect to be available to enable them to discharge their responsibilities. In Vietnam public service delivery units are financed according to expenditure norms (amounts per pupil or patient bed) fixed for "stability periods" of 3-5 years, which have to cover the bulk of their current expenditure (universal schools other than those at primary level are also entitled to receive fees for each pupil at rates set by each provincial government, which cover only a small proportion of their recurrent costs). The public service delivery units concerned are responsible under Government Decree No. 43 (which sets out the mechanism for the operation of financial autonomy for spending units) for executing their own budgets, and therefore have some discretion in allocating that part of their budgets which remains after payment of salaries for teachers and other professional positions. Except in sparsely populated areas where there is room for additional pupils, individual schools are not in a position to improve their financial position by recruiting more pupils, since their numbers are essentially determined by the limits of the space available in classrooms and by the pupil/teacher ratio set by the provincial government (which also mandates teachers' salary levels). The Regulation on Financial Transparency of State Budget Levels (attached to Decision of the Prime Minister No. 192/2004) requires the publication of budget and out-turn figures of each level of government down to communes and villages, and applies also to individual service delivery units such as schools. Compliance with this requirement for publication of budgets and out-turns was demonstrated in the case of a secondary school in Hanoi. The regulations on financial disclosure are available to the general public, but there should be a mechanism of regular supervision and monitoring of the implementation of the regulations particularly at grassroots level (wards, communes and budget spending units such as schools and clinics). The World Bank is currently organizing a survey to assess this issue. Dimension score: A

**Reform Efforts underway:** The World Bank survey currently being arranged will provide information about the extent of the success of the Government's actions to ensure the full transparency of budgets at all levels.

## PI-24: Quality and timeliness of in-year budget reports

171. Effective fiscal management requires up-to-date of the ongoing situation in respect of revenue and expenditure, so that corrective action can be taken as soon as the need is identified. This Indicator assesses (i) whether the way information is collected makes possible a detailed comparison between the budget plans and the estimated actual; the timeliness of in-year reports after the end of the period to which they relate; and (iii) the quality of budget execution reports.

Indicator	Score	Brief Explanation
PI-24 Quality and timeliness of in-year budget reports	D+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	The Treasury system (TABMIS throughout most of the country and KTKB where TABMIS has not yet been installed) makes it possible to generate monthly reports of aggregate revenue and expenditure of all levels of government. But since there is as yet no system of controls over commitments, the information on budgetary expenditure is captured only at the payment stage. Moreover the inconsistent reporting of the expenditure carried over from the previous year, and expenditure charged against the current year's appropriations makes it difficult to compare execution reports with the original budget.
(ii) Timeliness of the issue of reports	A	Reports are available monthly in the fourth week of the subsequent month.
(iii) Quality of information	B	The reports are derived directly from Treasury operations, and are reliable where derived from TABMIS. Hitherto the reports have not included any functional or economic breakdown of the expenditure financed by revenue carried forward from the previous year.
Scoring method M1		

### (i) *Scope of Reports in terms of coverage and compatibility with budget estimates*

172. Good practice requires the availability of up-to-date information on expenditure broken down by function, economic nature and administrative unit in the same way as the final budget allocations decided by each Ministry/province/district after approval of the overall sectoral allocations by the National Assembly. Expenditure should be covered at both commitment and payment stages. The Chart of Accounts used by the Treasury system should make it possible to generate monthly (or even daily) reports of revenue and expenditure throughout the country by reference to administrative, functional and economic classifications. This will be greatly facilitated by the TABMIS system whose coverage should extend to the whole country by the end of 2012. However, the system at the moment captures expenditure only at the payment stage, and while detailed comparisons between budget and out-turn have been produced, the absence of a consistent detailed breakdown of both expenditure carried over from the previous year and expenditure charged against the current year's appropriation makes it difficult to compare out-turns with the original budget. Government monthly reports are presented with the same very

limited breakdown as in the annual consolidated report submitted to the National Assembly. Dimension score: D

*(ii) Timeliness of the issue of Reports*

173. Good practice requires in-year reports to be produced at least quarterly, with a delay of less than a month after the end of the period in question. Reports in Vietnam are produced monthly in the fourth week of the following month. Dimension score: A

*(iii) Quality of information*

174. Good practice requires the production of in-year budget execution reports whose accuracy can be relied on. Information produced through the TABMIS system should be complete and reliable. But as long as the installation of TABMIS is incomplete (it should be in use everywhere by the end of 2012), the Treasury has to continue to use two systems, TABMIS and KTKB. Because of this overall national financial reports have to be produced manually, which may result in possible delays and inaccuracy. The problem will be completely resolved once the implementation of TABMIS is completed, provided that comparable information is presented covering both expenditure charged against the current year's appropriations and expenditure carried forward from the previous year. Dimension score: B

**Reform Efforts Underway:** The extension of TABMIS to the provinces not so far covered should remove any doubts about the accuracy of monthly budget execution reports (Dimension (iii)). The introduction of a commitment control into TABMIS should justify a higher rating under dimension (i) provided consistent reports are available covering both expenditure charged against the current year's appropriations and expenditure carried forward from the previous year.

**PI-25: Quality and timeliness of annual financial statements**

175. This Indicator assesses (i) the completeness of the Government's annual budget execution statements; (ii) the timing of their submission for audit; and (iii) the consistency of the accounting standards applied.

Indicator	Score	Brief Explanation
PI-25 Quality and timeliness of annual financial statements	D+	
(i) Completeness of the financial statements	D	A consolidated Budget Execution statement is prepared annually, covering revenue and expenditure at all levels of government including borrowing and debt service. But no information has been included about financial assets, and the treatment of expenditure carried over from the previous financial year adds to the difficulty of interpreting the statements.

Indicator	Score	Brief Explanation
(ii) Timeliness of submission of the financial statements	C	The Budget Execution statement has been submitted for audit 14 months after the end of the year to which it relates.
(iii) Accounting standards used	B	Statements are presented in a consistent format over time in accordance with Vietnam accounting policy regulations which are not consistent with IPSAS.
Scoring method M1		

*(i) Completeness of the financial statements*

176. Good practice looks for the production of annual consolidated statements of revenue and expenditure, including revenues from charges for services (e.g. school fees), which are paid into accounts opened at the Treasury, even if the amounts concerned remain available for use at its discretion by the institution collecting them. The financial statements should also include complete information about all government and government-guaranteed debt, together with information about financial assets held by the government, including Treasury cash positions. Expenditure information and Government debt information (covering both domestic and external debts) now meet these criteria, but there is no information about financial assets. Moreover the interpretation of annual financial statements is made more difficult because of the treatment of expenditure carried forward from the previous year. Dimension score: D.

*(ii) Timeliness of the submission of the financial statements*

177. Best practice looks for consolidated government financial statements, covering both revenue and expenditure, to be published with minimum delay after the end of the financial year to which they relate. Article 75 of the Decree guiding the Implementation of the State Budget Law (No. 60/2003/ND-CP) requires the consolidated State budget execution statement covering all levels of government to be submitted to the NA within 14 months of the end of the year to which it relates, i.e. the statements in respect of year n are to be produced by the end of February of the year n+2.. This relatively long time has been justified by the integrated nature of the budget, where reports approved by the People's Councils concerned (and in some cases audited by SAV) have to be consolidated from the bottom level upwards and integrated with information about budget execution at central level. The State Audit Agency (SAV) then has up to 4 months to audit the consolidated State Budget execution statements prior to making its report on them to the NA in June (i.e. 18 months after the end of the year to which they relate). In practice SAV does much of its audit work in parallel with MoF's work on consolidation of the accounts of lower tier governments, so that its report is available in time to be discussed by NA Committees in April and May prior to the NA session. Once TABMIS is in full operation, it may be possible to short circuit much of the time-consuming manual consolidation of financial statements by lower level governments, by drawing the information directly from TABMIS, and thus considerably speed up the production of the annual financial statements. It should be noted, however, that there has been no pressure from the NA in favour of earlier publication of the budget final account reports (i.e. the audited financial statements for the year in question); for example, publication say 9 months after the end of the financial year would require the NA in its year-end session to review and approve both the next year's budget and the previous year's execution statements. But of course the requirement of early reporting would enable any corrective action recommended by SAV to be implemented a year earlier than is possible under current arrangements. Dimension score: C.

(iii) *Accounting standards used*

178. Best practice looks for the production of annual financial statements in accordance with international standards drawn up by the International Federation of Accountants (IFAC). National accounting standards are currently used for reporting purposes, which are not consistent with International Public Sector Accounting Standards (IPSAS), but do provide for statements to be made on a consistent basis over time. The format of the statements is laid down by Resolution No.387/2003 of the Standing Committee of the NA. Dimension score: B.

**Reform Efforts Underway:** Extension of TABMIS to the whole country should facilitate the production of consolidated financial statements for the State Government as a whole much more quickly than hitherto. MoF has studied the implications of adopting International Public Sector Accounting Standards (IPSAS), and is studying to develop a set of public accounting standards based on IPSAS, so as to facilitate information consolidation and the preparation of a balance sheet.

## C (IV) EXTERNAL SCRUTINY AND AUDIT

### PI-26: Scope, nature and follow-up of external audit

179. This Indicator assesses the quality and impact of the work of the external public auditor, by reference to three dimensions: (i) the scope and nature of audit performed (including adherence to auditing standards; (ii) the timeliness of submission of audit reports to the legislature; and (iii) the extent of follow-up on audit recommendations.

Indicator	Score	Brief Explanation
PI-26 Scope, nature and follow-up of external audit	C+	
(i) Scope and nature of audit performed, including adherence to auditing standards	C	Although the State Audit Agency (SAV) performs a wide range of audit work in accordance with international standards, resource limitations have restricted the annual coverage of its audit to no more than 60% of central government departments and sub-national levels.
(ii) Timeliness of submission of audit reports to the legislature	A	The SAV report on each year's budget execution has been submitted to the NA within three months of its receipt of the budget execution statements from the Government.
(iii) Extent of follow up on audit recommendations	A	SAV findings are discussed with auditees, and SAV keeps track of the extent to which its recommendations are implemented by them. It assesses that its recommendations are basically implemented, and that the consequent savings are several times greater than the costs of the audits.
Scoring method M1		

*(i) Scope and nature of audit, and adherence to auditing standards*

180. Good practice envisages that the external public audit body will undertake a wide range of audit work, including financial audit (particularly in relation to the government's annual financial statements), compliance audit (testing the conformity of Ministries' and provinces' decisions and transactions with applicable legislation), and performance/value for money (VFM) audit where the auditor asks whether the intended results have been obtained effectively and economically. In Vietnam, the State Audit Agency (SAV) at present has some 1600 staff, which are divided into 8 specialised sections at Headquarters, and 13 regional offices in the provinces. Its operational independence is established by the 2006 State Audit Law, under which SAV reports to the National Assembly which elects the State Auditor-General for a 7-year term renewable once. The audit scope extends to all units of Government and State-owned enterprises. In addition to its work on the annual budget execution statements and its general (financial and compliance) audit examinations of Ministries, provinces and districts, SAV undertakes a range of performance/VFM audits directed at specific issues related to the operation of systems. Its audit work meets international public auditing (INTOSAI) standards, and the point of view of audited units is taken into account in its reports. But because of current resource limitations, SAV only covers in detail each year 50-60% of all the Government units at different levels. Dimension score: C

*(ii) Timeliness of submission of audit reports to the legislature*

181. PEFA considers that best practice is marked by the delivery to the legislature of the annual report on the government's financial statements within four months of the auditor's receipt of these statements from MoF, and of other reports within four months of completion of the audit. SAV receives the consolidated budget execution statements in February, which is 14 months after the end of the year to which they relate. It then has 3-4 months to complete its audit before submitting its report to the NA by the end of June. In practice SAV carries out much of the necessary work (including audit of the budget execution statements of some but not all sub-national governments) before the consolidated budget execution statements are received, and submits its report to the NA in April in time for NA Committees to prepare for the discussion of budget execution in the May-June plenary session. Other audit reports are submitted to the NA as they are produced, and are published in accordance with the applicable legislation (see PI-10 (iv)). Dimension score: A

*(iii) Evidence of follow-up on audit recommendations*

182. Good practice envisages that audited units will respond constructively to audit recommendations, which may address how to improve the performance of systems and how to strengthen discipline over employees as well as strictly financial issues, and also that information will be collected about the extent to which recommendations are followed, and the results obtained. Article 57 of the State Audit law requires SAV to organise effective follow-up, to check whether its recommendations are implemented. Article 65(6) of the Audit law puts a duty on audited entities to implement corrective measures recommended by SAV, which is reinforced by the Prime Minister's Directive No. 33/2008 requiring the strict implementation of fiscal policies and of the recommendations of auditors and inspectors. MoF Circular 56/2007 mandates the keeping track of savings achieved through SAV recommendations. The Government mandates the Ministry of Finance to compile a list of SAV recommendations and follow-ups, for inclusion in the annual report to the Government and the National Assembly. According to MOF statistics, the results of State budget audit follow-up over the 3 years 2007-



2009 presented at the time the Government submitted the next year's financial statements to the National Assembly were for 2007 savings and recoveries of VND 5,523 billion ( 77.6% of SAV recommendations), for 2008 VND 3,908 billion ( 81.1% of SAV recommendations), and for 2009 VND 3,356 billion (90% of SAV recommendations). SAV considers that ultimately, most of its recommendations are implemented in practice. Dimension score: A.

**Reform Efforts Underway:** The Standing Committee of the National Assembly has approved a long-term plan for the development of SAV work in the period up to 2020, which should see staff numbers increase from the present 1600 to 3500 at the end of the period. This should make possible the complete coverage of SAV's remit every year. The plan also includes the development and extension of performance audit work, and the introduction of IT techniques to facilitate the examination of data.

### PI-27: Legislative scrutiny of the annual budget law

183. This Indicator assesses whether the legislature is able to contribute effectively to the annual budget-making process. Four dimensions are considered: (i) the scope of the legislature's scrutiny; (ii) the extent to which the legislatures procedures in considering budget proposals are well-established and respected; (iii) whether the legislature has sufficient time for its examination of the government's proposals; and (iv) whether there are clear rules which prevent significant in-year changes in budget execution without the prior approval of the legislature.

Indicator	Score	Brief Explanation
PI-27 Legislative scrutiny of the annual budget law	B+	
(i) Scope of the legislature's scrutiny	B	The outline of the following year's Budget, and the macro-economic background to the proposals is presented by the Government to the NA by 1 October each year, but little attention is paid to the medium-term fiscal framework. Following initial review by the NA Finance and Budget Committee and Standing Committee, MoF makes any necessary revisions before formally presenting the detailed apportionment to the NA at its session beginning on 20 October. Thereafter the NA may propose amendments to the MoF draft before finally approving the Budget by 15 November. Significant amendments have been made to the Government's budget proposals on the insistence of the NA.
(ii) Extent to which legislature's procedures are well-established and respected	A	The procedures for preliminary consultation with NA Committees, following the discussion in plenary session and follow-ups by Committees on possible amendments to the Government's proposals for revenue, expenditure and the fiscal balance, are well-established and respected.
(iii) Adequacy of time for the legislature to consider and respond to budget proposals	B	Allowing that the process starts with the preliminary presentation to NA Committees by 1 October, the NA has at least six weeks to work on the Budget before a final vote on or before 15 November.

Indicator	Score	Brief Explanation
(iv) Rules for in –year amendments to the budget without ex-ante approval by the legislature	B	Article 49 of the State Budget law requires the approval of the NA for major revisions to the overall budget. Less important changes may be approved by the NA Standing Committee and subsequently reported to the plenary session. MoF (and its counterparts at province and lower levels) may authorise expenditure virement as long as it does not increase overall totals of allocations to spending units. Ministries and departments at different levels of government may adjust the allocations of units subordinate to them provided they keep within the overall total allocations and the amounts allocated to each function after obtaining agreement from the MOF or its counterparts at province and lower levels. If revenue exceeds amounts budgeted, MoF is required to submit proposals for the use of the additional funds to the Standing Committee in March the following year; these are subsequently reported to the NA in plenary session.
Scoring method M1		

*(i) Scope of the legislature’s scrutiny*

184. Good practice envisages that the legislature will be able to have an impact on the Government’s fiscal policy proposals, the medium-term budget framework, medium-term budgetary priorities, and budget revenue and expenditure estimates, through its scrutiny and discussion of the budget proposals. In Vietnam the preliminary consultation between MoF and the NA Committees before formal submission of the budget to the NA Plenary Session, and the fact that the NA may be able to secure amendments to expenditure, revenue and the fiscal balance, indicate that the NA’s work on the budget involves consideration of the economic background and prospects as well as the revenue and expenditure figures and budgetary priorities. But the medium-term fiscal framework is not covered. Discussions in the NA of the Government’s 2012 budget proposals resulted in a 3% increase in allocations for expenditure by provinces, and a further reduction in the projected overall deficit. The role of the NA in relation to budget preparation and execution has recently been strengthened by the initiation of fact-finding missions by the Finance and Budget Committee to Ministries and provinces, and by the summoning of representatives of Ministries and provinces to answer the Committee’s questions. Dimension score: B

*(ii) Extent to which the legislature’s procedures are well-established and respected*

185. Good practice requires the legislature’s procedures for their scrutiny of the budget proposals to be firmly established, and generally followed. The Vietnam NA’s procedures for the scrutiny of the budget proposals (and also its procedures for scrutinizing the subsequent budget out-turn statements) are set out in NA Resolution No. 387/2003 of the NA Standing Committee, and provide for the active involvement of the Finance and Budget Committee and the Standing Committee as well as for the plenary discussions. They have been fully observed in recent years. Dimension score: A

*(iii) Adequacy of time for the legislature to respond to the budget proposals*

186. Good practice requires that the legislature should have sufficient time (ideally 2 months, according to the PEFA criteria) to consider the proposals in detail before taking its final decisions. Counting both the initial 3 week period for consultation between MoF and the NA Committees as well as the 3 week period after presentation of the MoF proposals to the plenary session on 20 October each year, the NA has some 6 weeks to discuss and propose changes in the government's budget proposals, for which the PEFA rating is B.

*(iv) Rules for in-year amendment of the budget without prior approval by the legislature*

187. PEFA defines good practice as requiring the existence of clear rules limiting the government's power to make in-year budget amendments without the prior approval of the legislature. Article 49 of the State Budget law stipulates that no major revision to the approved proposals should be made without NA approval. The law also permits lesser overall changes to be made with the approval of the NA Standing Committee, with a subsequent report to the NA. This was the case in February 2011, when the Government reduced provision for current and capital expenditure on the procurement of goods and services by 10% as part of the package to restrain inflation. Prior to giving effect to this, the Government reported the initiative to the Standing Committee of the National Assembly and then reported further to the National Assembly in its plenary session in May 2011. Article 51 of the State Budget Law specifies that where necessary Ministries and departments at all levels may adjust the approved allocations of units subordinate to them, provided that they remain within the overall totals and the amounts allocated to different functions, and subject to the agreement of MoF or its counterparts at lower levels of government for any reallocation between functions. Article 59 specifies that the Prime Minister (or People's Committee Chairperson) is allowed to impose expenditure reductions so as to meet inescapable urgent needs which cannot be met from any available contingency reserve. In addition Article 59 provides for the Government to submit to the Standing Committee its proposals for the use of revenues in excess of budgeted amounts, with a subsequent report to the plenary session. This Article envisages that excess revenue may be used to increase expenditure on capital investment and salary reform, or applied to reducing the government deficit or building financial reserves; at present 50% of excess revenues are devoted to deficit reduction in accordance with the Government's policy to reduce inflationary pressures in the economy. The specific expenditures financed from excess revenues fall within categories broadly approved by the NA. In practice it appears that the Government's submissions concerning the use of excess revenues are not made until after the end of the financial year to which they relate, with the expenditure forming part of that carried forward into the following year. Expenditure execution reports do not provide any functional breakdown of carried over expenditure. Given that there is thus in effect considerable scope for administrative reallocation of expenditure outside the normal budgetary process, a Dimension score of B is proposed.

**Reform Efforts underway:** Consideration is being given to the earlier submission of budget proposals to the NA, in order to increase the time available for discussion, and to the publication of budget proposals at the time of submission to the National Assembly (which is normal practice in most countries).

## PI-28: Legislative scrutiny of external audit reports

188. This Indicator looks at the use the legislature makes of the reports of the external public auditor for the legislature's scrutiny and supervision of budget execution. Three dimensions are considered: (i) the timeliness of examination of audit reports by the legislature; (ii) the extent of hearings on key findings undertaken by the legislature; and (iii) whether actions are recommended by the legislature, and implemented by the government.

Indicator	Score	Brief Explanation
PI-28 Legislative scrutiny of external audit reports	B+	
(i) Timeliness of examination of audit reports by the legislature	A	The NA considers the SAV's report on the antepenultimate year's budget execution at its May- June session each year, within two months of receiving it from the auditor.
(ii) Extent of hearings on key findings undertaken by the legislature	B	The Committee of Finance and Budget Affairs uses the SAV's report on budget execution and its other reports to inform the discussions and enquiries it makes in its annual programme of visits to selected Ministries and provinces.
(iii) Recommended actions by the legislature and implementation by the executive	A	The NA normally endorses the SAV's recommendations in considerable detail in its resolution on budget execution, although it has not formulated any detailed recommendations of its own to the government.
Scoring method M1		

### (i) *Timeliness of Parliamentary examination of audit reports*

189. Good practice envisages that the legislature will pay attention to audit reports as soon as possible after they are received. SAV receives the consolidated final account statements after 14 months after the end of the budget year, and is required to complete its audit of them within 4 months thereafter. In practice SAV undertakes most of the relevant audit work before it receives the consolidated out-turn statements, and thus delivers its report in April each year, in time for the NA to use it in preparing its discussion of budget execution in the year before last during its annual May-June session. The NA then draws on the SAV report in considering its approval of the budget execution statement in plenary session. The discussion is prepared by the NA's Finance and Budget Committee and its Standing Committee. There is thus no significant delay before the NA considers the SAV report, and discussions are completed when the NA votes its approval for the budget execution. In addition, the Standing Committee of the National Assembly also reviews and discusses other audit reports based on case-by-case reporting of the NA Committee of Finance and Budget Affairs. However, there is currently no clearly established timetable for the discussion of these audit reports. Dimension score: A

*(ii) Extent of hearings on key findings*

190. Good practice envisages that the legislature will hold hearings in order to question representatives of organizations and units which have been the subject of audit criticism, particularly where the organizations and units concerned have received adverse or qualified opinions on their financial statements. In Vietnam audit has not yet developed to the point of giving annual qualified or unqualified audit opinions on the accounts of particular Ministries or provinces. But the Committee of Finance and Budget Affairs undertakes an annual programme of visits to a selection of Ministries and provinces, and uses the SAV annual and other reports to inform its discussions and enquiries. Based on the results of these visits the Finance and Budget Committee prepares reports on particular aspects of budget execution. Dimension score: B

*(iii) Recommendations by the legislature and response of the government*

191. Good practice would have the legislature issue recommendations for actions by the government which are based on the work of the auditor, and which the government then accepts. In Vietnam, the NA normally endorses the SAV recommendations in considerable detail in its resolution approving the budget execution for the year in question. At the same time, the National Assembly also has its supervisory mechanism in accordance with the National Assembly Supervisory Operations Law, which requires Government agencies to implement recommendations of inspectors and reviewers, including those of the SAV. SAV recommendations have generally been considered appropriate by the Government agencies concerned which have accepted and implemented them, and taken corrective action in respect of future budget management (see PI-26(iii) above). Dimension score: A.

**Reform Efforts underway:** In the future, the National Assembly intends to strengthen in-depth hearings with the organizations and individuals holding direct responsibilities in budget management and use (sector Ministries). The NA would support a considerable reduction in the time taken to produce the consolidated execution statements for the State Budget, and thus the SAV report, since audit recommendations would then have greater immediacy. The NA is seeking (through its Resolution 387) on-line access to budget execution information, to strengthen its ability to hold government agencies to account.

### **3.4. DONOR INDICATORS**

#### **D-1 Predictability of Direct Budget Support**

192. The three Donor Indicators are essentially addressed to the activities of aid donors/development partners, rather than to the PFM performance of the country concerned. In some countries (Afghanistan is the most conspicuous current example) the government is able to maintain its operations only because a very large part of the costs is met from external grant funding. Reliance on external loan funding carries with it serious risks of disruption if investors' confidence in a country's ability to repay is lost. The objective of these Indicators is to assess the extent to which the activities of donors/development partners assist the governments of the countries concerned in prudent and effective fiscal management.

Indicator	Score	Brief Explanation
D-1: Predictability of Direct Budget Support	D+	
(i) Annual deviation of actual budget support payments from pre-budget donor forecasts	B	Total Budget Support was close to the estimate in 2008, and greatly exceeded it in 2009, but fell more than 10% short in 2010. It fell more than 10% short in only one of the three years over 2008-2010.
(ii) Compliance with aggregate quarterly estimates	D	It does not appear that donors provide any information about the quarterly path of their disbursements.
Scoring method M1		

193. The following table 3.6 provided by the Debt Management and External Finance Department (DMEFD) of MoF shows the budgeted and actual receipts of budget support and project/program loans received for each year 2008 to 2010 ( in USD). Donors providing budget support include: World Bank (WB), Asian Development Bank (ADB), Australian Agency for International Development (AusAID), French Development Agency (ADF), DANIDA, IFAD, Artigiancassa, BNP, China's Export and Import Bank (China Eximbank), European Investment Bank (EIB), the Government of France, IFAD, JBIC, Kuwait Fund(Kf), Nordic Development Fund(NDF), Nordea, Raiffeisen Bank International (RBI).

**Table 3.7: Budgeted and Actual Receipts of ODA (US\$ million)**

	FY 2008		FY2009		FY 2010	
	Plan	Actual	Plan	Actual	Plan	Actual
<b>Budget Support</b>	<b>429</b>	<b>443</b>	<b>427</b>	<b>1,440</b>	<b>1,016</b>	<b>900</b>
Loan	146	210	105	1,223	730	648
Grant	283	233	322	217	286	252
Actual Budget Support as % of Budget Estimate		103.3		337.2		88.6
<b>Project /Program Loans</b>	<b>838</b>	<b>930</b>	<b>1,091</b>	<b>1,249</b>	<b>1,216</b>	<b>1,558</b>
Project/Program loans as a % of budget		111.0		114.5		128.1
Total On-lending	546	727	448	758	669	1144
<b>Total</b>	<b>1,813</b>	<b>2,100</b>	<b>1,966</b>	<b>3,447</b>	<b>2,901</b>	<b>3,602</b>

Source: Ministry of Finance, Debt Management and External Finance Department.

(i) Annual deviation of actual budget support from donor forecast

194. Good practice looks to donors/development partners to provide accurate indications of the budget support payments they expect to make in any given year. As Table 3.5 shows, actual budget support (grants and loans together) was close to the budget estimate in 2008, was more

than three times higher than budget in 2009, but fell about 11% short in 2010. Since the actual fell more than 10% below budget (but less than 15%) in only one of the three years. Dimension score: B

*(ii) Compliance with quarterly estimates*

195. Good practice would see donors stick closely to a previously indicated quarterly path for the payment of their assistance. MoF state that no information is provided about the expected quarterly path of disbursements. Payments are usually made in annual or semi-annual tranches. Major donors provide annual estimates but their fiscal year may not coincide with that of the Government. Dimension score: D.

**D-2 Financial Information provided by donors for budgeting and reporting on project and program aid**

196. This Indicator is primarily addressed to situations where the execution of projects/programmes is effectively controlled by the donors rather than the country concerned. The Indicator asks (i) whether donors provided estimates of future disbursements of project aid in time for them to be taken into account in the recipient country's budgeting, and (ii) whether donors provide timely notification of the payments they make towards the costs of the projects/programmes they are financing.

Indicator	Score	Brief Explanation
D-2: Financial Information provided by donors for budgeting and reporting on project and program aid	B	
(i) Completeness and timeliness of budget estimates by donors for project support	NA	Disbursements primarily depend on the speed of execution of the projects/programmes by the Vietnam authorities concerned. Since the flow of information is primarily from the Vietnam authorities to the development partners, rather than the reverse, dimension (i) is not really applicable to the Vietnam situation.
ii) Frequency and coverage of reporting by donors on actual donor flows for project support	B	Donors responsible for more than 70 per cent of project financing provide immediate reports of their actual disbursements, most of which take place through the Treasury which thus already holds the necessary information
Scoring method M1		

*(i) Completeness and timeliness of Budget estimates by donors for project support.*

197. Good practice looks for comprehensive notification by the most important donors of amounts to be spent each year on general government projects financed from their loans. However, since the execution of projects in the circumstances of Vietnam is essentially

controlled by the Government, not the donors, such notifications in practice contribute only to accounts reconciliations. (NA)

(ii) *Reporting by donors of actual disbursements*

198. MoF receives relatively complete information from donors about expenditure on most projects, which it can then reconcile with information from TABMIS/KTKB about project execution. Much of this is available on line from WB and ADB through the Client Connection Service. As Japan often makes reports without delay, MOF can capture information about well over 70% of donor disbursements within a month of end quarter, justifying a rating of at least B.

**D-3 Proportion of aid that is managed by use of national procedures**

199. This Indicator assesses the extent to which external funding from development partners is managed through the recipient country’s PFM systems rather than by the bodies providing the finance.

Indicator	Score	Brief Explanation
D-3: Proportion of Aid that is managed by use of national procedures	C	
(i) Overall proportion of aid funds to central government that are managed through national procedures	C	The percentage of aid funds from the three main donors managed through national systems was 45.1% for 2008, 57.5% for 2009 and 49.2% for 2010, and on average 50.6% in the three years.
Scoring method M1		

200. Good practice in accordance with the Paris Declaration about the management of aid aims to achieve a situation in which the development partners are content to rely on the recipient country’s PFM systems for procurement, payment accounting and audit in the management and execution of the projects they are financing. In Vietnam only receipts of direct budget support are fully managed according to national procedures in relation to procurement, payment/accounting, audit and reporting. In the case of project/programme loans provided by the three main donors (WB, ADB and Japan) the donors’ procedures are followed in respect of procurement, payment and audit: only in respect of reporting are national procedures followed. Thus aid received as budget support is considered to follow national procedures as to 100%, but project/programme based assistance only follows national procedures as to 25%. The overall average percentages of funding subject to national procedures from the three main donors were 45.1% for 2008, 57.5% for 2009 and 49.2% for 2010. Dimension score: C.



**Table 3.8: Percentage of aid funds managed through national procedures for selected donors**

Unit: US\$ million

	2008		2009		2010	
	Total amount	Amount subj. to natl procedures	Total amount	Amount subj. to natl procedures	Total amount	Amount subj. to natl procedures
WB Budget Support	140,242	140,242	553,068	553,068	657,152	657,152
WB Project Loans	446,758	111,690	620,932	155,233	925,848	231,462
ADB Budget Support	65,666	65,666	192,267	192,267	0	0
ADB Project Loans	202,330	50,580	723,730	180,930	382,000	95,500
Japan Budget Support	31,000	31,000	602,000	602,000	116,000	116,000
Japan Project Loans	635,000	158,750	701,000	175,250	847,000	211,750
Grant Aid (see Table 3.7)	233,000	233,000	217,000	217,000	252,000	252,000
Total	1,753.0	790.9	3,610.0	2,075.7	3,180.6	1,563.9
Overall % subject to national procedures		45.1		57.5		49.2

Source: DMEFD, MoF

## 4. GOVERNMENT REFORM PROCESS

### 4.1 Introduction

201. Over the last period (2006-2011) public financial management reform has been one of the four key components of the public administrative reform program in Vietnam. With the in-country endeavours and the assistance of the international community, significant achievements have been made, in the aspects of strengthening the institutional framework, capacity and management information systems.

202. In the coming period (2012 onwards) public financial management reform will continue to play an important role in contributing to macro-economic stability and development. This report provides a review of the key achievements that have been made in public financial management over the past years, and summarises plans for further improvements. Its findings are fully consistent with the country's Financial Strategy for the period up to 2020 as set out by the Prime Minister in 2012. This strategy specifically identified the absence of a control over commitments, the slow execution of projects, the fiscal risks posed by SOEs, and problems in accounting for and reporting on government operations, as issues to be tackled during the next few years. The strategy looks for greater professionalism in the management of public finances, better accounting and auditing arrangements, better quality statistics, more effective collection of taxes, better planning of investment in health and education services, and the more effective exploitation of information technology in the provision and management of public services.

### 4.2 Elements of public financial management reforms

203. PFM reform continued to have high priority in 2011. In accordance with this both the Tax System Reform Strategy and the Customs Development Strategy toward for the period 2011-2020 were approved by the Prime Minister. In parallel with the development of the Strategy for finance functions over 2011-2020 and component strategies, the Ministry of Finance continued the implementation of its major on-going reforms.

#### (1) State budget expenditure management reform

204. **Improvement of the budget legal framework:** The State Budget Law and its regulatory implementation guidelines are currently under review, with the objective of revising the Legislation in order to overcome the remaining limitations in the current provisions, and to bring State budget expenditure management into line with good international practice. It is intended to add new provisions which will make it possible to address more effectively problems of macro-economic management, including the need to control inflation and respond flexibly to changes in the global economic climate. The review covers all the main elements in the State Budget system, including scope and content of the budget, the sectoral allocation and economic nature of expenditure, the extent of fiscal decentralization, and the integration of the budget process and the medium-term expenditure framework. The review also covers all aspects of the practical arrangements for budget preparation, execution, accounting and reporting, including the classifications used in presenting the budget proposals and reporting the subsequent out-turn. An important objective is to make the budget much more transparent as an expression of Government policy, and the presentation of the fiscal deficit will accordingly be redefined in accordance with good international practice; the new arrangements will also allow for the allocation of budget resources based on the performance of the spending units. There will be clear provisions on the financing of investment, whether directly from the State Budget or paid

for from the proceeds of government and other special bond issues. Finally the revised legislation will cover the responsibilities and powers of the different bodies involved in budget preparation and execution at all levels of government, including the National Assembly, People's Councils, People's Committees, MPI and sector Ministries and their counterparts at sub-national level.

205. **Continued improvement of the State budget reporting and accounting** through implementation of the TABMIS (Treasury and Budget Management Information System) throughout the country, this includes:

- preparation of the administrative processes required for the introduction of expenditure commitment controls once TABMIS is in operation throughout the country (planned for 2013);
- issue of the regulatory documents needed to provide for the operation of TABMIS, together with strengthening the system steering body and initiating the necessary training;
- improvement and simplification of other aspects of budget expenditure control;
- provision for cash for the Treasury to be collected through the banking system, rather than relying on direct handling of cash by the Treasury. This will be covered in a new Government Decree on cash management which should be submitted to the Prime Minister before the end of 2012;
- drawing on the detailed information collected through TABMIS to produce budget execution reports consistent with original budget allocations, and also to produce annual financial statements based on accounting standards consistent with International Public Sector Accounting Standards (IPSAS).

206. **Medium-term fiscal and expenditure framework:** Pilot work has been completed on the preparation of guidelines for the application of Medium-Term Fiscal and Medium-Term Expenditure Frameworks (MTFF and MTEF) and agreement has been reached with the WB on technical assistance for institutional development for the implementation of the medium-term fiscal and expenditure framework in 2012. As noted in relation to PI-12 above, bringing this work to fruition will require the preparation of medium-term sector development plans/strategies consistent with resources available in the overall fiscal envelope, and the integration of the planning of future current and capital expenditure.

## **(2) Tax management reforms**

207. Tax administration

- Continuing the implementation of the Proposed initiative on simplification of tax administrative procedures in State management fields over 2007-2010 (GoV Initiative 30);
- Implementing Decree No. 63/2010ND-CP, dated 08 June 2010, of the Government, on control of administrative procedures: including making arrangement for the monitoring and compiling statistics in the updating of tax administrative procedures for newly issued legislation, and training GDT officers on impact assessment of administrative procedures;

- Compiling and monitoring the implementation results of tax administrative procedure simplification in accordance with Resolution No. 68/2010/NQ-CP, dated 27 December 2010, on simplification of administrative procedures in the management functions of the Ministry of Finance; Resolution No. 25/NQ-CP, dated 2 June 2010, on the simplification of 258 administrative procedures in the management functions of Ministries and agencies;
- It is expected that the "IT application for personal income tax" will be rolled out nationwide by the end of 2012 (as of end of Quarter III, 2012, the General Department of Taxation has rolled out the application to nearly 60/63 provincial Tax Departments);
- Implementing the development, improvement and upgrading of other IT projects in tax administration and support for taxpayers, particularly:
  - Project "Upgrading and Roll-out Implementation of the Online Tax Declaration System";
  - Project "Modernization of the Tax Collection Management Process among Tax Department – State Treasury Department – Customs Department – Finance Department"
  - Free distribution of the software application for tax declaration with 2 dimension bar codes for enterprises;
  - Development and implementation of the non-agricultural tax management application;
  - Implementation of the integrated business registration and tax registration system.
- Continuing development of other IT applications to support tax audit and inspection and to bring housing and land taxes within the coverage of IT systems, together with development of the Tax and Customs websites;
- Resolution No. 68/NQ-CP, dated 27 December 2010 of the Government stipulates that: the Ministry of Finance shall collaborate with the Vietnam Social Insurance, the Ministry of Labor – Invalids and Social Affairs and the Ministry of Health in the studies and preparation of the "Proposal on the mechanism for collaborative collection of personal income tax, social insurance contributions, health insurance contributions and unemployment insurance contributions as well as exchanges of information between the Tax Authorities and Vietnam Social Insurance Agency".

### **(3) Customs modernization**

208. Decision No. 19/2011 and its associated Circular have provided the basis for electronic customs clearance at sea-ports for imports and exports. Circular No. 63/2011 provided for piloting of priority setting in State management of custom services for eligible enterprises.

209. GDC intends to continue to expand the piloting of electronic customs procedures in seven Customs Departments (in ThanhHoa, Nghe An, ThuaThien Hue, BinhDinh, Dak Lac, TayNinh and Long An). Government approval is awaited for a draft Decision on the implementation of the "one-stop-shop" mechanism in three ministries: Ministry of Finance, Ministry of Industries and Commerce, Ministry of Transports.

210. GDC is currently developing the Model of national administrative and commercial data, version 1.0 to submit to the Steering Committee of National Single Window; having installed screening equipment in the Ports of HaiPhong, Ho Chi Minh City and some major border gates.

#### **(4) Public debt management reforms**

211. The Government has recently approved the National External Debt and Public Debt Strategy over 2011-2020 with vision toward 2030 submitted by the DMEFD of MoF, together with a number of implementing Decrees and Circulars. Accordingly Decree 01/2011 has been promulgated on the issuance of Government bonds; Government guaranteed bonds, and sub-national government bonds. DMEFD is developing Circulars to guide the implementation of this Decree, and collecting comments and feedback from individuals and organizations. Decree 15/2011 covers the issuance and management of Government guarantees. Circular 53/2011 sets out how public (external and domestic) debt and total (public and private) external debt are to be reported and published. Circular 56/2011 provides necessary instructions on calculation methods and organization of the monitoring of public debt and national external debt. Aggregate information about domestic and external public debt has recently been published for the first time, and detailed publication of the breakdown of all government and guaranteed debt is planned in the quarter IV of 2012.

#### **(5) Public asset management reforms**

212. A number of steps have been taken to improve the management of public assets of different kinds. Thus Circular No. 06/2011 covers the standards, norms, and regime for the management of vehicles in State agencies, public service delivery units and State owned corporations, and Circular No. 39/2011 revises the arrangements for the management of State-owned houses and lands. A national database of public assets through the State asset registration management program, version 1.0 has been completed. Preparations are under way for strengthening financial supervision of the activities of SOEs, and minimizing the financial risks they pose for the Government, as well as clarifying the management responsibilities of their parent Ministries (see PI-9 above).

#### **(6) Public Procurement**

213. Currently, Vietnam is preparing a revised Public Procurement Law (which is expected to be submitted to the National Assembly in 2013) aimed at increasing competition and transparency in tendering, and strengthening the monitoring of non-compliance. The draft revised Public Procurement Law is available on the website [www.muasamcong.mpi.gov.vn](http://www.muasamcong.mpi.gov.vn).

#### **(7) Auditing - Accounting regime**

214. The National Assembly has approved the development plan for the State Audit Agency (SAV) for the period 2011-2020, which will provide for an increase in staff from the present 1600 to 3500. This will make it possible for SAV to audit all Ministries, provinces and SOEs every year (instead of the 50-60% coverage currently achieved), as well as extending its work on performance audits.

215. A draft Decree has been submitted to the National Assembly on the extension of internal audit from the three institutions currently covered (MoF, SBV and Ministry of Defence) to all Ministries and provinces. This extension is bound to take several years before it is fully effective.

**ANNEX I: SUMMARY OF PFM PERFORMANCE INDICATORS  
AND SOURCES OF INFORMATION/DATA**

<b>Indicator</b>	<b>Brief Explanation</b>	<b>Score</b>
PI-1 Aggregate expenditure out-turn compared to original approved budget (Scoring method M1)	Actual expenditure deviated from the initially approved amount by more than 10% in two of the three years analysed. (C)  <i>Source: Budget disclosure for 2008, 2009, 2010 <a href="http://www.mof.gov.vn">www.mof.gov.vn</a></i>	C
PI-2 Composition of expenditure out-turn compared to original approved budget (Scoring method M1)	(i) The calculated composition variance exceeded 15% of actual expenditure in one of the three years. Particularly in 2009, in budget management, due to the decision to sharply increase capital expenditure as part of the package to weather the global crisis, the variance increased up to 23.6%. Variances were 17.0%, 23.6% and 19.8% in 2008, 2009 and 2010 respectively. (D)  (ii) The contingency provision subsequently allocated to particular programmes was on average about 3% of budgeted expenditure each year. (A)  <i>Source: Budget disclosure for 2007, 2008, 2009 <a href="http://www.mof.gov.vn">www.mof.gov.vn</a>.</i>	D+
PI-3 Aggregate revenue out-turn compared to original approved budget (Scoring method M1)	Actual domestic revenue collection exceeded the budgeted amount by more than 16% in each of the three years. (D)  <i>Source: Budget disclosure for 2007, 2008, 2009 <a href="http://www.mof.gov.vn">www.mof.gov.vn</a>.</i>	D
PI-4 Stock and monitoring of expenditure payment arrears (Scoring method M1)	(i) No payments are outstanding where fully documented instructions have been submitted to Treasury offices, But there is evidence of amounts outstanding in the provinces where work has run ahead of budgetary provision available to spending units. (Not Rated)  (ii) Consistent information is not available about the amounts outstanding where payment instructions have not been submitted to the Treasury. (Not Rated)  <i>Source: Recommendations from Vietnam CFFA Report 2007, discussion with State Treasury – MOF.</i>	NR
PI-5 Classification of the budget (Scoring method M1)	The CoA provides for information to be recorded about the economic, functional, administrative unit and, program characteristics of each transaction, in a way which is consistent with GFS/COFOG. But because of inconsistency between the reporting of carried over expenditure and expenditure from the current year's appropriations, no consistent comparisons between expenditure at budget and out-turn stages have been possible. (D)	D

Indicator	Brief Explanation	Score
	<p><i>Source: State Budget Classification issued in attachment to Decision No. 33/2008/QD-BTC, dated 02 June 2008 of MOF. Budget disclosure for 2007, 2008, 2009 <a href="http://www.mof.gov.vn">www.mof.gov.vn</a>.</i></p>	
<p>PI-6 Comprehensiveness of information included in budget documentation (Scoring method M1)</p>	<p>The budget documentation contains 5 of the 9 elements of information as required in PEFA. But the value of a number of elements is undermined by the problems arising from the treatment of expenditure carried forward from the previous year. (B)</p> <p><i>Source:</i></p> <ul style="list-style-type: none"> <li>- <i>Documentation of Budget plan in 2010 of the Government submitted to the National Assembly.</i></li> <li>- <i>Resolution of the 13<sup>th</sup> Ordinary Meeting of the National Assembly Session 11 (Resolution No. 137/NA, dated 9 July 2009).</i></li> </ul>	B
<p>PI-7 Extent of unreported government operations(Scoring method M1)</p>	<p>(i) Expenditure from extra-budgetary Funds, which was reported only at the out-turn stage, was equivalent to approaching 8% of the total budget expenditure. In addition it appears that not all the own revenue of service delivery units is fully reported. (C)</p> <p>(ii) In Vietnam, all external loan and grant finance received by agencies and units of the Government is included in the fiscal reports. The only exceptions are the small amounts paid directly by donors to third parties outside Vietnam (e.g. for technical assistance). (A)</p> <p><i>Source: Recommendations from Vietnam CFFA Report 2007, discussion with the Public Expenditure Department, SOE Finance Department, DMEFD, SBD (MOF)</i></p>	C+
<p>PI-8 Transparency of Inter-Government Fiscal Relations (Scoring method M2)</p>	<p>(i) Equalization transfers and most targeted transfers to sub-national governments are implemented by using a relatively transparent and clearly defined system of budget allocation norms. However, there remain some supplementary targeted transfers to sub-national governments that are not based on objective criteria. It is estimated that such transfers accounted for about 6% on average of the total value of transfers from the Central Government to sub-national governments in 2008-2010. (A)</p> <p>(ii) Sub-national governments only have full information about the prospective amounts of transfers to them and their share of tax receipts when the State Budget proposals are submitted to the National Assembly in October each year. Final decisions are then taken by People's Councils once the NA has approved the State Budget by mid-November. (B)</p>	B+

Indicator	Brief Explanation	Score
	<p>(iii) The State Budget proposals include a sectoral breakdown of expenditure by provinces and districts as well as central government. Consolidated expenditure out-turn information for the State Budget as a whole is produced about 14 months after the end of the year to which it relates.(B)</p> <p><i>Source: 2002 State Budget Law, and implementation guidelines, PM Decision on budget allocation norms for capital and recurrent expenditures</i></p>	
<p>PI-9 Oversight of aggregate fiscal risk from other public sector entities (Scoring method M1)</p>	<p>(i) Government Agencies, including those operating through Extra-Budgetary Funds, are sufficiently controlled not to pose fiscal risks. SOEs, although required to report to sponsor Ministries or provinces, can create contingent liabilities. Reporting obligations have been strengthened, and reports are now made to the National Assembly about the fiscal risks arising from the capital structures and economic performance of different SOEs. (B)</p> <p>(ii) Provinces' market and bank borrowings are closely controlled by MoF, but there is evidence of significant amounts owing to contractors where available budget appropriations have fallen short of work done on ongoing projects. (C)</p> <p><i>Source: MOF website publishing SOE financial supervision reports and Budget disclosure for 2006- 2010, and 2011.</i></p>	C+
<p>PI-10 Public access to key fiscal information (Scoring method M1)</p>	<p>The general public has full access to information covering four of the six PEFA benchmarks. (B)</p> <p><i>Source: MOF website</i></p>	B
<p>PI-11 Orderliness and participation in the annual budget process (Scoring method M2)</p>	<p>(i) Adherence to Budget Calendar works well, but it would be desirable to give a bit more time to prepare Budget submissions. (B)</p> <p>(ii) Budget Circular does not set budget ceilings previously agreed by the Government as a whole. (C)</p> <p>(iii) National Assembly approves Budget well before year-end. (A)</p> <p><i>Source:</i></p> <ul style="list-style-type: none"> <li>- 2002 State Budget Law and implementation guidelines</li> <li>- NA Resolution on State budget appropriation in 3 years 2009, 2010, 2011.</li> </ul>	B
<p>PI-12 Multi-year perspective in fiscal</p>	<p>(i) Multi-year fiscal projections with sectoral allocations have not yet been produced.(D)</p>	C



Indicator	Brief Explanation	Score
<p>planning expenditure policy and budgeting (Scoring method M2)</p>	<p>(ii) Debt sustainability analysis has been undertaken annually, with the assistance of the IMF/World Bank. (A)</p> <p>(iii) Sector strategies for the medium-term development of a number of main sectors (Health, Education, Agriculture, and Transport) have been prepared, but these are not consistent with aggregate fiscal projections. (C)</p> <p>(iv) Recurrent and investment expenditures are planned separately, without regard to their interactions. (D)</p> <p><i>Source: Discussions with MoF and MPI</i></p>	
<p>PI-13 Transparency of taxpayer obligations and liabilities (Scoring method M2)</p>	<p>(i) There are some inconsistencies in the determination of tax liabilities, and in the operation of tax preferences. (B)</p> <p>(ii) Although much information is available about tax liabilities, taxpayers may be given different interpretations by different tax offices. (C)</p> <p>(iii) There is a tax appeals system, but it does not yet command the confidence of taxpayers. (C)</p> <p><i>Source: Interview with the GDT, GDC (MOF); interview with tax consultants, accountants, VCCI.</i></p>	C+
<p>PI-14 Effectiveness of measures for taxpayer registration and tax assessment (Scoring method M2)</p>	<p>(i) Each taxpayer has a unique Taxpayer Identification Number (TIN) used for all taxes and linked to the Business Registration System. But there are no links to the Social Security Agency database, or to databases of other agencies. (B)</p> <p>(ii) Penalties for non-registration and late payment are relatively ineffective. But the penalties for under-declaration can be as high as five times the unpaid tax, and are considered sufficient by the tax Departments (C)</p> <p>(iii) Tax audit and inspection only became subject to a consistent risk-based methodology in 2011. Previously not much extra revenue was collected through these operations. (C)</p> <p><i>Source: Interview with the GDT, GDC (MOF); interview with tax consultants, accountants, VCCI.</i></p>	C+
<p>PI-15 Effectiveness in collection of tax payments (Scoring method M1)</p>	<p>(i) Arrears still 6.9 per cent of GDT collections in 2011, although trend improving. More effort needed. (C)</p> <p>(ii) All tax revenue is paid directly into Treasury accounts, but in remote areas it may take a week to reach them. (B)</p> <p>(iii) Bank and Treasury records are reconciled daily. There are monthly reconciliations between tax offices' records of</p>	C+

Indicator	Brief Explanation	Score
	<p>individual assessments and payments. (A)</p> <p><i>Source: Interview with the GDT, GDC (MOF); interview with tax consultants, accountants, VCCI.</i></p>	
<p>PI-16 Predictability in the availability of funds for commitment of expenditures (Scoring method M1)</p>	<p>(i) Central Treasury prepares a quarterly cash flow forecast based on experience and on information from spending units, which is updated quarterly.(B)</p> <p>(ii) Spending units can commit their full budget allocations at any time during the year. (A)</p> <p>(iii) There have been no recent cases where substantial reductions in approved budgets have been imposed in the course of budget execution without full discussion in the NA. (A)</p> <p><i>Source:</i></p> <ul style="list-style-type: none"> <li>- <i>Budget plan 2009-10</i></li> <li>- <i>2002 State Budget Law; and Official Journals</i></li> </ul>	<p>B+</p>
<p>PI-17 Recording and management of cash balances, debt and guarantees (Scoring method M2)</p>	<p>(i) Debt data should be complete and accurate, but reconciliations between MoF data and corresponding bank data are carried out only annually. (C)</p> <p>(ii) The Treasury has daily information about cash balances throughout the country. But extra-budgetary funds and some own revenues of service providers are held outside the Treasury system. (B)</p> <p>(iii) Loans and guarantees are all controlled by MoF. Debt limits are set by reference to GDP rather than fiscal targets. (B)</p> <p><i>Source: Interviews with the Treasury, DMEFD</i></p>	<p>B</p>
<p>PI-18 Effectiveness of payroll controls (Scoring method M1)</p>	<p>(i) There are no direct links between personnel and payroll databases, which are highly decentralised. But payrolls are updated monthly supported by full documentation.(B)</p> <p>(ii) Payroll records are fully updated quarterly, resulting in a small number of retrospective adjustments to individuals' pay. (B)</p> <p>(iii) There is strict high level managerial supervision of changes to personnel records which can give rise to changes in pay and allowances received by individuals. (B)</p> <p>(iv) MoF and line Ministries carry out regular staff inspections throughout the country to ensure the correctness of pay and allowances. (B)</p> <p><i>Source: Interviews with the Organization &amp; Personnel Dept.,</i></p>	<p>B</p>

Indicator	Brief Explanation	Score
	<i>Internal Finance &amp; Planning Dept., MOF, SAV</i>	
PI-19 Competition, value for money and controls in procurement (Scoring method M2)	<p>(i) Three of the six benchmarks relating to the legal and regulatory framework are satisfied, but the system leaves too much scope for direct contracting, results of procurement complaints are not published, and appeals process does not suspend conclusion of contracts. (C)</p> <p>(ii) 70 per cent (by number) and 40 per cent (by value) of 2009 and 2010 contracts were let directly. MPI and VCCI both consider that more contracts should be subject to competition. (D)</p> <p>(iii) Procurement plans, tendering opportunities and contract awards (above a threshold of US\$100,000) are published daily in MPI's Procurement Gazette and website, but there are doubts about the completeness of information from provinces, no information is published about the results of procurement complaints. (B)</p> <p>(iv) Independent complaints machinery exists, but is not much used and lacks authority to suspend issue of contracts. (B)</p> <p><i>Source: Interviews with the MOF's procurement supervision offices; New standard procurement documents</i></p>	C+
PI-20 Effectiveness of internal controls for non-salary expenditure (Scoring method M1)	<p>(i) Regulations already in place to institute commitment controls once TABMIS is in full operation throughout the country. Meanwhile in the absence of controls, rating is D.</p> <p>(ii) There is evidence of problems in the management of payments on contracts extending beyond a year, but no sign of payments without proper authorisation. (C)</p> <p>(iii) Transactions are correctly presented to the Treasury with supporting documentation, recorded and executed. (A)</p> <p><i>Source: Interview with the Treasury, Inspectorate, MOF, VCCI</i></p>	D+
PI-21 Effectiveness of internal audit (Scoring method M1)	<p>(i) A separate Internal Audit (IA) function has so far been established only in MoF, Ministry of Defence and the State Bank of Vietnam (SBV). (D)</p> <p>(ii) IA units are making reports in the institutions concerned, but the State Audit Agency (SAV) only sees them when it audits these institutions, as there is currently no requirement otherwise. (C)</p> <p>(iii) Reports are useful, and followed up. But range is very limited. (C)</p> <p><i>Source: Interview with the Internal Finance &amp; Planning Dept,</i></p>	D+

Indicator	Brief Explanation	Score
	<i>Inspectorate, MOF, SAV</i>	
PI-22 Timeliness and regularity of accounts reconciliation (Scoring method M2)	<p>(i) There are daily reconciliations between Treasury and bank (SBV at centre and in provinces, commercial banks in districts) records. But there is no assurance that similar reconciliations are carried in respect of transactions by government bodies which do not pass through the Treasury (see PI-7(i) and 17(ii)). (B)</p> <p>(ii) SAV satisfied with arrangements to clear suspense accounts (used pending full information about the transactions concerned) and advances. (A)</p> <p><i>Source: Interview with the State Treasury – MOF</i></p>	B+
PI-23 Availability of information on resources received by service delivery units (Scoring method M1)	<p>Each school and local health service has its own budget set by reference to expenditure norms based on pupil numbers or numbers of patient beds. These budgets and subsequent execution statements are published in accordance with the rules on transparency of Government operations. Satisfactory performance was observed in the case of a Hanoi school. (A).</p> <p><i>Source: Discussions with SBD, Public Expenditure Dept., Public Asset Dept., Hanoi Department of Finance, Hanoi Department of Education, Thang Long Upper Secondary School of Hanoi.</i></p>	A
PI-24 Quality and timeliness of in-year budget reports (Scoring method M1)	<p>(i) TABMIS should collect all information needed for detailed comparison between extent of execution and original budget. But information is still lacking about commitments, and carry-over problem undermines comparisons between budget and execution. (D)</p> <p>(ii) Aggregate execution reports are available monthly within four weeks of the end of each month. But the carry-over problem undermines their value. (A)</p> <p>(iii) Reports generated by TABMIS should be accurate, but there could be minor inaccuracies where TABMIS is not yet operational. Hitherto the reports have not included any functional or economic breakdown of the expenditure financed by revenue carried forward from the previous year. (B)</p> <p><i>Source: Interview with the Treasury, quarterly templates provided by the Treasury.</i></p>	D+
PI-25 Quality and timeliness of annual financial statements (Scoring method M1)	<p>(i) Financial Statements are significantly incomplete, notably because of omission of information about financial assets. (D)</p> <p>(ii) The Budget Execution statement has been submitted for audit 14 months after the end of the year to which it relates. (C)</p>	D+

Indicator	Brief Explanation	Score
	<p>(iii) Statements are presented in a consistent format over time in accordance with Vietnam accounting policy regulations which are not consistent with IPSAS. (B)</p> <p><i>Source: Interview with the Auditing &amp; Accounting Policy Dept. (MOF) and SAV; State audit report disclosure.</i></p>	
<p>PI-26 Scope, nature and follow-up of external audit (Scoring method M1)</p>	<p>(i) SAV performs a wide range of audit work in accordance with international (INTOSAI) standards, but resource limitations restrict the annual coverage of its audit to not much more than 60% of central government departments and sub-national governments. (C)</p> <p>(ii) The SAV report on each year's budget execution has been submitted to the NA within three months of its receipt of the budget execution statements from the Government. (A)</p> <p>(iii) Government supports the work of SAV, and MoF tracks the implementation of SAV recommendations. (A)</p> <p><i>Source: Interview with SAV, Budget – Finance Dept. – Office of the National Assembly.</i></p>	C+
<p>PI-27 Legislative scrutiny of the annual budget law (Scoring method M1)</p>	<p>(i) National Assembly's (NA) scrutiny covers all aspects of fiscal policy as well as main headings of revenue and expenditure, but there is no consideration of the medium term fiscal framework. (B)</p> <p>(ii) NA's procedures are well-established, and respected in practice.(A)</p> <p>(iii) NA has less than two months for its scrutiny of the Budget proposals.(B)</p> <p>(iv) There are clear rules governing in-year changes to approved budgets, but they allow extensive discretion to the Executive. (B)</p> <p><i>Source: Interview with the Secretariat of the Committee of Finance and Budget Affairs of the National Assembly.</i></p>	B+
<p>PI-28 Legislative Scrutiny of external audit report (Scoring method M1)</p>	<p>(i) NA Committee considers SAV report on budget execution without delay, and also other reports as they are received. (A)</p> <p>(ii) NA Committee uses SAV reports as basis for enquiries in its supervisory visits to Ministries and provinces. (B)</p> <p>(iii) NA endorses SAV recommendations in detail in its resolution on budget execution. MoF tracks follow-up. (A)</p> <p><i>Source: Interview with SAV; NA Resolution on approval of 2008 budget final account statements and 2010 budget plan as published in Official Journal</i></p>	B+

Indicator	Brief Explanation	Score
<p>D-1: Predictability of Direct Budget Support (Scoring method M1)</p>	<p>(i) Actual direct budget support fell more than 10 per cent below forecast in only one of the three years 2008-2010, and in 2009 greatly exceeded it. (B)</p> <p>(ii) Donors do not provide a forecast of the quarterly path of their disbursements. (D)</p> <p><i>Source: Planned and actual ODA finance in FYs08-10 (DMEFD, MOF) and interview with DMEFD, MOF</i></p>	D+
<p>D-2: Financial Information provided by donors for budgeting and reporting on project and program aid (Scoring method M1)</p>	<p>(i) Execution of externally financed projects is under Government, not donor control, so Government already has information on disbursements. (N/A)</p> <p>(ii) Donors responsible for more than 70% of project financing provide immediate reports of actual disbursements, most of which take place through the Treasury. (B)</p> <p><i>Source: Interview with DMEFD, MOF and list of donors with their quarterly disbursement report and project disbursement plans in budget (EFD, MOF).</i></p>	B
<p>D-3: Proportion of Aid that is managed by use of national procedures (Scoring method M1)</p>	<p>The percentage of aid funds from the three main donors managed through national systems was 45.1% for 2008, 57.5% for 2009 and 49.2% for 2010.(C)</p> <p><i>Source: Interview with DMEFD, MOF and information from WB, ADB and JICA.</i></p>	C

## ANNEX II: LIST OF DOCUMENTS

No.	Documents
<b>A</b>	<b>Legislatios on State Budget Management</b>
1	State Budget Law No. 01/2002/QH11 dated 06 December 2002
2	Anti-corruption Law No. 55/2005/QH11, dated 29 November 2005, and Law No. 01/2007/QH12, dated 04 August 2007 for the revisions and additions of certain articles to the Anti-corruption Law.
3	Law on Thriftiness and Prevention of Wasteful Practices No. 48/2005/QH11, dated 29 November 2005
4	Resolution No. 387/2003/NQ-UBTVQH11, dated 17 March 2003 of the Standing Committee of the National Assembly promulgating the Regulations on the formulation, appraisal and submission to the National Assembly for decisions on State budget, central budget appropriation plans and approval of State budget final account statements
5	Decree No. 60/2003/ND-CP, dated 06 June 2003, of the Government, providing detailed specification and guidelines for the implementation of the State Budget Law
6	Decree No. 73/2003/ND-CP, dated 23 June 2003, of the Government, promulgating Regulations on review and decision-making on sub-national budget and budget appropriation plans, and approval of sub-national budget final account statements
7	Circular No. 59/2003/TT-BTC, dated 23 June 2003, providing guidelines for the implementation of Decree No. 60/2003/ND-CP, dated 06 June 2003, of the Government, providing detailed specification and guidelines for the implementation of the State Budget Law
8	Circular No.108/2008/TT-BTC, dated 18 November 2008 of the Ministry of Finance, providing guidelines on year-end book closing and annual budget execution reporting
<b>B</b>	<b>Legislation on Management Mechanisms for State administrative unit and public service delivery units</b>
9	Decree No. 130/2005/ND-CP, dated 17 October 2005, of the Government, providing regulations on the self-accountability and self-financing regimes on the use of personnel and administrative costs for State administrative units
10	Decree No. 43/2006/ND-CP, dated 25 April 2006, of the Government, providing regulations on the self-accountability and self-financing regimes on the service delivery, organization, use of personnel and cost financing of public service delivery units
<b>C</b>	<b>Legislation on State Budget Public Disclosure</b>
11	Decision No. 192/2004/QD-TTg, dated 16 November 2004, promulgating the Regulations on financial disclosure of all budget levels, budget spending units, and other budget supporting organizations, budget financed capital construction projects, State-owned enterprises, and budget financed financial funds, and funds financed by people's contributions

12	Circular No. 03/2005/TT-BTC, dated 06 January 2005, of the Ministry of Finance, providing guidelines for the implementation of the financial disclosure regulations for State budget levels and regime for the reporting of financial disclosure implementation
13	Circular No. 10/2005/TT-BTC, dated 02 February 2005, of the Ministry of Finance, providing guidelines for the implementation of the financial disclosure regulations in the allocation, management and use of capital construction finance from the State Budget
14	Circular No. 19/2005/TT-BTC, dated 11 March 2005, providing guidelines for the implementation of the financial disclosure regulations for Funds financed from the State budget and Funds financed by public contributions
15	Circular No. 21/2005/TT-BTC, dated 22 March 2005, providing guidelines for the implementation of the financial disclosure regulations for budget spending units and other State budget recipient organizations
16	Circular No. 29/2005/TT-BTC, dated 14 April 2005, providing guidelines on the financial disclosure information of State-owned enterprises
17	Circular No. 54/2006/TT-BTC, dated 19 June 2006, providing guidelines for the implementation of the Regulations on public disclosure of State budget direct supports for individuals and communities
18	Decree No. 91/2008/ND-CP, dated 18 August 2008 on disclosure of auditor's findings and follow-up of audit findings and recommendations of the State Audit Agency
19	Circular No. 89/2010/TT-BTC, dated 16 June 2010, providing guidelines on the reporting regime in the disclosure of State asset management and use at State agencies, public service delivery units, organizations assigned for the management and use of State assets
<b>D</b>	<b>Legislation on cash management, fund release and payment of State budget expenditures through the State Treasury</b>
20	Decision No. 333/KB/QĐ-KH-Th, dated 23 April 2002 on cash flow management and regulation within the State Treasury system
21	Decision No. 686/QĐ-KBNN, dated 18 August 2009, of the State Treasury, promulgating the business processes of control for capital expenditure and public service expenditure of domestic investment nature through the State Treasury system
22	Decree No. 112/2009/ND-CP, dated 14 December 2009, of the Government on the management of the costs of construction work investments
23	Decree No. 48/2010/NĐ-CP, dated 07 May 2010, on contracting for construction
24	Circular No. 86/2011/TT-BTC, dated 17 June 2011, of the Ministry of Finance, providing regulations on the management and payments of capital funds and public service funds of capital nature from the State budget.
25	Circular No. 164/2011/TT-BTC, dated 17 November 2011, of the Ministry of Finance, providing regulations on cash inflows and outflows in the State Treasury System
26	Circular No.161/2012/TT-BTC, dated 02 October 2012, providing regulations on the mechanism for the State budget expenditure and payment controls through the State Treasury



<b>E</b>	<b>Legislation on Public Debt Management</b>
27	Decree No. 134/2005/ND-CP, dated 1 November 2005, of the Government, promulgating the Regulations on External Borrowings and Debt Services;
28	Public Debt Management Law No. 29/2009/QH12, dated 17 June 2009 of the National Assembly
29	Decree No. 79/2010/ND-CP, dated 14 July 2010 of the Government on public debt management operations
30	Decree No. 01/2011/ND-CP, dated 05 January 2011 on the issuance of Government bonds, Government guaranteed bonds and sub-national government bonds
31	Decree No. 15/2011-ND-CP, dated 16 February 2011, on the issuance and management of Government guarantees
32	Circular No. 53/2011/TT-BTC, dated 27 April 2011, of the Ministry of Finance, providing guidelines on templates for reporting and disclosure of information on public debt and external debt of the nation
33	Circular No. 56/2011/TT-BTC, dated 29 April 2011, of the Ministry of Finance, providing guidance on the methods, indicators, and organization for the monitoring of public debts and national external debts
<b>G</b>	<b>Legislation on State Accounting</b>
34	Accounting Law No. 03/2003/QH11, dated 17 June 2003, of the National Assembly
35	Decree No. 128/2004/ND-CP, dated 31 May 2004, of the Government providing detailed regulations and guidance for the implementation of certain articles in the Accounting Law applicable in the area of State accounting;
36	Decision No. 94/2005/QD-BTC, dated 12 December 2005, of the Ministry of Finance for the promulgation of the "commune finance & budget accounting regime "
37	Circular No. 146/2011/TT-BTC, dated 26 October 2011, of the Ministry of Finance, providing guidance on the revision and addition to the Commune Finance and Budget Accounting Regime issued in attachment with Decision No. 94/2005/QD-BTC, dated 12 December 2005 of the Minister of Finance
38	Decision No. 19/2006/QD-BTC, dated 30 March 2006, of the Minister of Finance, promulgating the accounting regime for administrative and public service delivery units
39	Circular No. 185/2010/TT-BTC /TT-BTC, dated 15 November 2010, of the Ministry of Finance, providing guidance on the revision and addition to the Public Service Delivery Accounting Regime issued in attachment to Decision No. 19/2006/QD-BTC, dated 30 March 2006 of the Minister of Finance
40	Decision No. 51/2007/QD-BTC, dated 22 June 2007 of the Ministry of Finance for the promulgation of the Social Insurance Accounting Regime
41	Decision No. 120/2008/QD-BTC, dated 22 December 2008, of the Ministry of Finance, for the promulgation of the State Budget and Treasury Operations Accounting Regime
42	Circular No. 213/2009/TT-BTC, dated 10 November 2009, of the Ministry of Finance providing guidelines for accounting for State Inventory Reserves

43	Circular No. 212/2009/TT-BTC, dated 06 November 2009, of the Ministry of Finance, providing guidelines for the implementation of State plan applied on the Treasury and Budget Management Information System (TABMIS)
<b>H</b>	<b>Legislation on Organization &amp; Personnel Management</b>
44	Decision No. 2981/QD-BTC, dated 15 September 2004, of the Minister of Finance, on the decentralization in the management of civil servants, government officers and employees of administrative and public service delivery units of the Ministry of Finance
45	Decision No. 14/2006/QD-BNV, dated 06 November 2006, of the Minister of Internal Affairs, promulgating the regulations on the management of civil servants and government officer records
46	Decree No. 178/2007/ND-CP, dated 03 December 2007, of the Government, regulating the functions, powers and organization structures of Ministries and ministerial agencies
<b>I</b>	<b>Legislation on Taxation</b>
47	Tax Administration Law No. 78/2006/QH11, dated 29 November 2006, of the National Assembly
48	Decree No. 85/2007/ND-CP, dated 25 May 2007, of the Government, providing detailed regulations for the implementation of certain articles of the Tax Administration Law
49	Circular No. 28/2011/TT-BTC, dated 28 February 2011, of the Ministry of Finance, providing guidelines for the implementation of certain articles of the Tax Administration Law, and guidelines for the implementation of Decree No. 85/2007/ND-CP, dated 25 May 2007 and Decree No. 106/2010/ND-CP, dated 28 October 2010 of the Government
50	Decision No. 78/2007/QD-BTC, dated 17 September 2007, of the Ministry of Finance, promulgating regulations for the guidance and explanation of queries in tax policies, tax administration, and handling of tax administrative procedures for tax payers under the “one stop shopping” mechanism;
51	Decision No. 460/QD-TCT, dated 05 May 2009, promulgating the business processes of tax inspection
52	Decision of the General Department of Taxation No. 1395/QD-TCT, dated 14 October 2011, promulgating the business processes of tax arrears management
53	Decision No. 2864/QD-TCT, dated 21 December 2011, promulgating the business processes of tax declaration, payment and tax accounting
<b>K</b>	<b>Legislation and reports on Supervision of State-owned Enterprises</b>
54	Decision No. 224/2006/QD-TTg, dated 06 October 2006, of the Prime Minister, promulgating the Regulations on SOE performance monitoring and evaluation
55	Circular No. 115/2007/TT-BTC, dated 25 September 2007, of the Ministry of Finance, providing guidelines on some elements of SOE performance monitoring and evaluation
56	Government Reports to the National Assembly No 262/BC-CP of 23 November 2011 and 336/BC-CP of 12 November 2012 on the Financial Situation, Business and Production Performance of State-Owned Economic Groups and General Corporations in 2006-10 and 2011 respectively
<b>L</b>	<b>Legislation on State Auditing</b>

57	State Audit Law No. 37/2005/QH11, dated 14 June 2005, of the National Assembly
58	Resolution No. 927/2010/UBTVQH12, dated 19 April 2010 for the issuance of the State Audit Development Strategy toward 2020
<b>M</b>	<b>Legislation on Procurement/Tendering</b>
59	Procurement Law No. 61/2005/QH11, dated 29 November 2005, of the National Assembly;
60	Investment Law No. 59/2005/QH11, dated 29 November 2005, of the National Assembly;
61	Law No. 38/2009/QH12, dated 19 June 2009, of the National Assembly for the revision and addition of certain articles relating to capital construction investment, of the Construction Law No. 16/2003/QH11, the Procurement Law No. 61/2005/QH11, the Enterprise Law No. 60/2005/QH11, the Land Law No. 13/2003/QH11, and the Housing Law No. 56//2005/QH11;
62	Decree No. 85/2009/ND-CP, dated 15 October 2009, of the Government, providing guidelines for the implementation of the Procurement Law and selection of construction bidders in accordance with the Construction Law;
63	Decree No. 108/2009/ND-CP, dated 27 November 2009, of the Government, on investment in the form of Build – Operate – Transfer Contracts, Build – Transfer – Operate Contracts, Build – Transfer Contracts;
64	Circular No. 20/2010/TTLT-BKH-BTC, dated 21 September 2010, providing detailed regulations on tender information disclosure for publication in the procurement review;
<b>N</b>	<b>Legislation on ODA Management</b>
65	Decree No. 131/2006/ND-CP, dated 9 November 2006, of the Government, promulgating the Regulations on management and use of official development assistance (ODA);
66	Circular No. 82/2007/TT-BTC, dated 12 July 2007, of the Ministry of Finance, providing guidelines on the regime of State financial management of external non-refundable grant as revenue of the State budget;
67	Circular No. 108/2007/TT-BTC, dated 07 September 2007, of the Ministry of Finance, providing guidelines on the financial management regime for programs, projects of official development assistance (ODA);

### ANNEXIII: LIST OF PEFA WORKING GROUP MEMBERS

*(Promulgated in attachment to Decision No. 1500/QĐ-BTC, dated June 20, 2011  
of the Minister of Finance)*

No.	Full name	Position and Organization	WG Membership
<b>I</b>	<b>Ministry of Finance</b>		
1	Huỳnh Quang Hải	Director of the State Budget Department	Group Leader
2	Võ Thành Hưng	Deputy Director of the State Budget Department	Deputy Group Leader
3	Đặng Thái Hùng	Director of the Auditing and Accounting Policy Department	Member
4	Nguyễn Ngọc Anh	Deputy Director of the Banking and Finance Institution Dept.	Member
5	Đặng Quyết Tiến	Deputy Director of the SOE Finance Dept.	Member
6	Nguyễn Văn Phụng	General Deputy Director of the Tax Policy Dept.	Member
7	Nguyễn Tân Thịnh	General Deputy Director of the Public Asset Management Dept.	Member
8	Nguyễn Thị Hồng Yến	General Deputy Director of the DMEFD	Member
9	Đỗ Thị Thuý Hằng	Deputy Director of the Public Expenditure Dept.	Member
10	Đặng Thị Kim Hoa	Deputy Director of the Organization & Personnel Dept.	Member
11	Nguyễn Bá Toàn	Deputy Director of the International Cooperation Dept.	Member
12	Vũ Hồng Long	Director of the Tax Collection Estimation Dept., GDT	Member
13	Nguyễn Ngọc Hưng	General Deputy Director of the Import & Export Taxation Dept., GDC	Member
14	Lưu Hoàng	Deputy Director of the Legal – General Dept., State Treasury	Member
15	Nguyễn Văn Quang	Deputy Director, Legal – General Dept., State Treasury	Member
16	Đinh Thị Mai Anh	Deputy Division Head, State Budget Department	Member
17	Vũ Đức Hội	Deputy Division Head, State Budget Department	Member
18	Dương Tiến Dũng	Deputy Division Head, State Budget Department	Member
19	Nguyễn Tri Phương	Deputy Division Head, State Budget Dept.	Member
20	Nguyễn Văn Phòng	Deputy Division Head, State Budget Dept.	Member

No.	Full name	Position and Organization	WG Membership
21	Lê Xuân Hải	Deputy Division Head, Vocation Dept.	Member
22	Chu Thị Thủy Chung	Chief of Office of the Public Asset Management Dept.	Member
23	Lê Thị Soa	Deputy Division Head, Organization & Personnel Dept.	Member
24	Vũ Anh Tuấn	Deputy Division Head, Internal Finance – Planning Dept.	Member
25	Nguyễn Bảo Thanh	Deputy Division Head, International Cooperation Dept.	Member
26	Phùng Đức Quang	Inspector, MOF Inspectorate	Member
27	Trần Thọ Hải	Officer, Banking & Finance Institution Dept.	Member
28	Lê Minh Khiêm	Officer, Tax Policy Dept.	Member
29	Khúc Thu Phương	Officer, DPEFD	Member
30	Ngô Văn Thịnh	Officer, Public Expenditure Dept.	Member
31	Nguyễn Tiến Hưng	Officer, Tax Reform & Modernization Committee, GDT	Member
32	Nguyễn Thanh Hoà	Officer, Internal Finance & Administration Dept., General Department of Customs	Member
33	Trịnh Thị Thanh An	Officer, Internal Finance - Planning Dept.	Member
34	Trần Phương Linh	Officer, Auditing & Accounting Policy Dept.	Member
<b>II</b>	<b>Office of the National Assembly</b>		
35	Nguyễn Minh Tân	Deputy Director, Finance & Budget Affairs Dept.	Member
36	Nguyễn Thị Lê Na	Officer, Finance & Budget Affairs Dept.	Member
37	Lê Thị Huyền Trang	Officer, Finance & Budget Affairs Dept.	Member
<b>III</b>	<b>State Audit Agency</b>		
38	Trần Khánh Hoà	Deputy Director, General Affairs Dept.	Member
39	Hoàng Văn Lương	Head of Division, General Affairs Dept.	Member
<b>II</b>	<b>Ministry of Planning and Investment</b>		
40	Hoàng Việt Khang	Deputy Director, External Economics Dept., Directorate member in charge of Mekong River Sub-Region Affairs	Member
41	Vũ Ngọc Hưng	Deputy Director, Monetary & Financial Dept.	Member
42	Nguyễn Xuân Đào	General Deputy Director, Procurement Management Dept.	Member

No.	Full name	Position and Organization	WG Membership
43	Trần Ngọc Lâm	Officer, External Economics Dept.	Member
44	Phan Thị Quỳnh Vân	Officer, Procurement Management Dept.	Member
<b>III</b>	<b>Ministry of Transports</b>		
45	Vũ Xuân Cựu	Deputy Director, Finance Dept.	Member
46	Trần Văn Bồng	Principal Officer, Finance Dept.	Member
<b>IV</b>	<b>Ministry of Health</b>		
47	Nguyễn Nam Liên	Deputy Director, Finance - Planning Dept.	Member
48	Cao Ngọc Ánh	Principal Officer, Finance - Planning Dept.	Member
<b>V</b>	<b>Ministry of Education &amp; Training</b>		
49	Bùi Hồng Quang	Deputy Director, Finance - Planning Dept.	Member
50	Đinh Minh Tùng	Officer, Finance - Planning Dept.	Member
<b>VIII</b>	<b>Bac Ninh Department of Finance</b>		
51	Nguyễn Quốc Chung	Director, Provincial Department of Finance	Member
52	Ngô Thị Huyền Nga	Division Head, Budget Management Division	Member
<b>IX</b>	<b>Ha Nam Department of Finance</b>		
53	Bùi Ngọc Đĩnh	Deputy Director, Provincial Department of Finance	Member
54	Phạm Văn Tạo	Deputy Division Head, Budget Consolidation Division	Member

## **ANNEX IV: LIST OF EXTERNAL CONTRIBUTORS AND COMMENTATORS TO THE ASSESSMENT**

### **1. Formal Quality Reviewers**

- Phillip Sinnett, Head, PEFA Secretariat
- Helena Maria Grandao Ramos, Senior Public Finance Specialist, PEFA Secretariat
- Jennifer K. Thomson, Chief Financial Management Officer, Operations Policy and Country Services, World Bank
- Peter Brooke, Senior Public Finance Specialist, World Bank Consultant

### **2. Other Contributors/Commentators**

- John A. Wiggins, Senior Public Finance Specialist, GoV Consultant
- Quyen Hoang Vu, Economist, World Bank
- HabibRab, Senior Economist, World Bank
- Minh Van Nguyen, Senior Public Finance Specialist, World Bank
- Duc Minh Pham, Senior Economist, World Bank
- Robert J. Gilfoyle, Financial Management Hub Leader, World Bank
- Cung Van Pham, Senior Financial Management Specialist, World Bank
- Brigitte Bruhin, Deputy Country Director, Swiss State Secretariat for Economic Affairs (SECO)
- Giang Hong Nguyen, Senior Programme Officer, SECO
- Sion Morton, Programme Officer, European Union (EU)
- IrajTalai, EU Consultant
- Goran Steen, EU Consultant
- Duong Hong Loan, Senior Program Manager, the Australian Agency for International Development (AusAid)
- Nguyen QuangAnh, Programme Officer, AusAid
- JoannePindera, Senior Analyst/Counselor, Embassy of Canada to Vietnam
- Nguyen HoaiChau, Analyst, Embassy of Canada to Vietnam
- Chu ThiTrungHau, Programme Manager, Danish Embassy in Vietnam
- Pham Ai Nhan, Policy Officer, Royal Netherland Embassy in Vietnam

## ANNEX V: EVALUATION OF RESPONSE TO THE PEFA SECRETARIAT COMMENTS

(December 21, 2012 and January 18, 2013)

This note provides a follow up to the PEFA Secretariat comments of July 5, 2012 on the Socialist Republic of Vietnam PEFA final draft report assessment that was submitted to the Secretariat on December 19, 2012 and again on January 18, 2013. It assesses the changes made to the draft following the Secretariat’s comments and any other changes to indicator scores which the Secretariat had considered appropriate during its original review (but does not address issues raised by other reviewers).

*A Summary of the Comments and Suggestions from peer-reviewers and the team’s response* was provided. All of the suggested improvements of the Secretariat’s previous comments are listed in the table below along with our corresponding assessment of the response. The revised version of the report has in general addressed the comments from the Secretariat; only in one instance there was a partial response.

PEFA Secretariat comments of on evidence and rating (and comparison)	Assessment team’s response	Secretariat’s evaluation of the response
<b>Overall impression</b>		
This is a good draft report with extensive supporting detailed explanations that shows a good understanding of the PEFA methodology and closely follows the Framework outline. Although a substantial amount of information is provided more could be said on the methodology of the assessment (e.g. donor coordination, Government involvement, Quality Assurance arrangements, etc.). The ratings are in general well supported by the evidence provided with the exception of some cases where further information is still required to justify the score given. A paragraph describing on-going reforms was included under each individual indicator which is very useful.	The draft report has been amended throughout and sometimes extensively; additional information and data have been provided.	
Since detailed explanation is provided in the text of individual indicators, in some cases the “brief explanation” could be summarized; this would also contribute to shorten the report.		



PEFA Secretariat comments of on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
<b>General observations</b>	Team response - <i>The revised text incorporates amendments responding to all these suggestions</i>	
The sources of information are specified indicator-by-indicator in annex I and listed in annex II; the list of people interviewed (annex III) does not show private sector/civil society interviewed, however, page 2 of the report provides information about these interviews; the same about interviews with donors. It would be useful to include them in the list.	Previous comment from Secretariat not accurate (list shows PEFA Working Group members). Narrative indicates meetings with VCCI and accounting firms (Introduction). It would be useful to mention which donors have been interviewed (D-1 shows an extensive list of donors providing BS).List of acronyms extended but still acronyms in the list (e.g. GDT). Team response - <i>The revised elaborated the needed information.</i>	Full response
Basic information (currency, exchange rate) is provided at the beginning of the report but the fiscal year is not specified (FY not defined till later in the text) and some acronyms are missing from the list.	Team response - <i>The revised text addressed this.</i>	OK
A summary table of scores is included in Annex 1 (at dimension level) and at the beginning of Section 3 (at indicator level). The overview table (in Section 3) would be better placed in the Summary Assessment.	Team response - <i>The overview table was moved to the Summary Assessment.</i>	OK
<b>Section 1 - Introduction</b>	Team response - <i>The revised text incorporates amendments responding to all these suggestions</i>	
The purpose of the report is well explained but the scope of the assessment could be better specified: most data and ratings appear to cover general government, i.e. including SNG. An overview of the public sector is provided but information regarding AGAs and a breakdown of the public sector by number of entities and percentage of total public expenditures is missing.	The scope was specified as <i>This assessment therefore covers general government as a whole, including all sub-national governments and government-controlled funds which are accounted for separately outside the budget.</i> A breakdown of the public sector was not included.	Partial response

PEFA Secretariat comments of on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
	Team response - <i>We make clear that sub-national governments are responsible for 40 per cent of State Budget expenditure.</i>	
It is unclear if this is a self-assessment assisted by the WB; it would be useful to specify it. Donor coordination for the assessment could be further explained. There are several references to developments partners and to the consultative group but there is no explanation how these agencies coordinated among themselves and with the authorities.	PEFA working group produced the initial self-assessment material. No additional information on donor coordination although they have participated in the workshops and peer-reviewed the report.  Team response – <i>Information on donor coordination was added.</i>	OK
It would be useful to describe the arrangements for quality assurance of the report, to define the timing of the assessment (snapshot date) and to provide information about the team composition and resources.	QA arrangements are described. List of PEFA WG members in annex but list of WB staff and experienced international consultants that provided assistance not provided.  Team response – <i>Information external contributors and commentators including WB staff and international consultant was added (Annex 4).</i>	OK
<b>Section 2 – Background information</b>		
The country's economic context is described, and key economic and social data is included.		No response required
Information on budgetary outcomes is provided for the government budget, but is incomplete – only by economic classification (no functional classification is available). While fiscal policy is explained, there is insufficient information to assess the links between the budgetary outcomes and the operation of the PFM systems.	<i>The difficulty of obtaining satisfactory information about the functional allocation of expenditure (which results from arrangements for the carry-over of expenditure) makes it difficult to say more on this point.</i>	Full response

PEFA Secretariat comments of on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
The links between the executive, judiciary and oversight institutions are all described, as are the institutional arrangements for PFM. The legal framework is well explained including the division of responsibilities within the Ministry of Finance. The information describing the budget process and calendar could be sent to PI-11.	Calendar included in PI-11	Full response

**Section 3 – Assessment of PFM systems, processes and institutions**

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
PI-1	Appears correctly rated as C on the basis of evidence provided. The calculation appears to be based on general government expenditure, rather than central government. This should be made clear. It would be useful to include in annex tables with detailed calculation.	<i>Detailed tables included in the text.</i> Narrative revised and a table included. Question: is the table a result of the PI-1 & PI-2 calculation spread sheet available at the PEFA Secretariat <a href="http://www.pefa.org">www.pefa.org</a> ?References to State Budget added to narrative.	Full response
PI-2 (i)	Rated C, but calculation appears incorrect. Sum of adjusted budgets do not add to total expenditure, and total of absolute variances does not appear correct (should be 22,635 in 2007) – may be due to the omission of 'Other Expenditure', which is to be rectified. Same comment as above on the inclusion of LG expenditure. Rating uncertain.	Calculation was corrected. Rating downgraded from C to D.	Full response
(ii)	Appears correctly rated as A on the basis of evidence provided		
Overall	Appears correctly combined to C+ but now uncertain	Overall D+	OK

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
PI-3	Appears correctly rated as D on the basis of evidence provided. Not clear if the data include LG revenue	<i>Data include LG revenue. Figures are for State Budget which includes all sub-national governments. Most revenue collection is the responsibility of CG, even where the revenue in question accrues to provinces.</i>	Full response
PI-4 (i)	Rated A, but paragraph 164 indicates some arrears on contract expenditures. Uncertain rating.	Narrative revised and rating changed to NR (detailed explanation available at the <i>Summary of Comments and Suggestion from peer-reviewers and team response</i> ).	Full response
(ii)	Rated A, but in the total absence of arrears the dimension is not applicable.	Idem and NR	Idem
Overall	Correctly combined to A but now uncertain	NR	Idem
PI-5	Appears correctly rated as D on the basis of evidence provided (text shows D+, table: D)	Typo corrected	Full response
PI-9 (i)	Rated B but narrative informs that consolidated report so far have not included assessment of overall financial risk (in particular SOEs). Rating uncertain	<i>It was raised at the July 2012 workshop that this dimension should be rated C because of the absence of any overview of fiscal risks from SOE operations. However, the MoF subsequently drew attention to the consolidated reports on performance of the State Economic Groups and General Corporations submitted to the National Assembly in November 2011, in respect of the period 2006-10, and November 2012, in respect of 2011. Since these reports do provide information about the risks resulting from SOEs' capital structure and financial performance, it was agreed with the Secretariat that the rating should be B.</i> Narrative revised and score remained B.	Full response
(ii)	Rated A, but no evidence of annual report on overall SNG fiscal risk, and possibility of unapproved commitments by SNGs. Uncertain	<i>It was agreed at the July 2012 workshop that this dimension should be rated C because of the evidence of provinces'/districts' outstanding obligations to</i>	Full response

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
	rating. Rating uncertain.	<i>contractors on ongoing projects.</i> Narrative revised and score downgraded to C.	
Overall	Appears correctly combined to B+, but now uncertain	C+	OK
PI-15 (i)	Rate C may be correct but there is no quantitative data to support the score given as required by the methodology (% of tax arrears at the beginning of the year collected during the last two fiscal years?). Information provided is insufficient. Rating uncertain.	<p><i>The data strictly required for dimension (i) cannot be provided. In the view of GDT the rating C reasonably acknowledges that arrears are a significant problem, but one on which some progress is being made.</i></p> <p>Amendments to the narrative show that, in 2011, Customs arrears about 2.525% of collections (main text) and arrears still 6.9% of GDT collection in 2011 (Annex). Likely a D.</p> <p>Team response - <i>A D rating implies both that arrears exceed 2 per cent of collections and that less than 60 per cent of arrears at the beginning of a year are collected during that year. Although it cannot be precisely demonstrated that the 60 per cent threshold is passed, the facts that arrears are not increasing, and that GDT are confident of their ability to collect, suggest that D would be too severe. This argument was inserted into the text to justify a C score.</i></p>	OK
(ii)	Appears correctly rated as B on the basis of evidence provided		
(iii)	Appears correctly rated as B on the basis of evidence provided	<p><i>The position on reconciliations (iii) appears to meet the criteria for A.</i></p> <p>Minor amendments to the narrative. Score upgraded to A (daily and monthly reconciliation)</p>	OK

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
Overall	Appears correctly combined to C+, but now uncertain.		
PI-17 (i)	Appears correctly rated as C on the basis of evidence provided		
(ii)	Rated A, but cash balances are not consolidated, as defined in clarification 17-f in Field Guide. Rating may be C.	<i>It was agreed at the workshop that dimension (ii) should be rated B, reflecting the existence of significant deposits by government organizations in accounts outside the Treasury system. The central Treasury has daily information about all its balances even though they are not consolidated in a Single Treasury Account. Rating downgraded to B.</i>	OK
(iii)	Appears correctly rated as B on the basis of evidence provided		
Overall	Appears correctly combined to B, but now uncertain.	B	OK
PI-18 (i)	Appears correctly rated as B assuming payroll totals are reconciled with the previous month.	Narrative and explanations revised See Comment on Overall.	Full response
(ii)	Appears correctly rated as B on the basis of evidence provided		
(iii)	Appears correctly rated as B on the basis of evidence provided		
(iv)	Rated C, but insufficient evidence that SAV and Internal Control Units actually do dedicated payroll audits. Rating uncertain.	Narrative and explanation revised state that <i>MoF and sectoral Ministry inspectorates carry out regular staff inspections throughout the country, in which personnel and payroll records are checked and reconciled.</i> Rating upgraded to B.	Full response

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
Overall	Appears correctly combined to C+, but now uncertain	<i>Final overall rating is B, which was the subject of extensive discussion at the workshop. The B ratings for the first three dimensions reflect the collective understanding about actual current practices. The B rating for (iv) reflects the operation of regular staff inspections in each Ministry, and the work of Internal Control Units in larger spending units. This is a consideration which only emerged at the workshop.</i>	Full response
PI-19 (i)	Appears correctly rated as C on the basis of evidence provided		
(ii)	Rated C, but no data on the % of non-competitive contracts that are not justified. (MPI and VCCI surveys may provide).	<i>It was agreed at the workshop that (ii) should be rated D.</i>	Full response
(iii)	Appears correctly rated as B on the basis of evidence provided		
(iv)	Appears correctly rated as B on the basis of evidence provided		
Overall	Appears correctly combined to C+	C+	OK
PI-20 (i)	Rated C, but there is no system for commitment controls. This corresponds to a D.	<i>It was agreed at the workshop that the rating for (i) should be D.</i> Narrative amended and rating downgraded to D.	Full response
(ii)	Appears correctly rated as C on the basis of evidence provided		
(iii)	Rated A, but para 164 says that some spending units commit more than the resources available, causing delays of payment until the following year. Rating uncertain.	<i>The auditors were challenged at the workshop about evidence of compliance with the correct procedures for processing and recording transactions, and confirmed that there are not significant problems at the stage where documentation is submitted to the Treasury for</i>	OK

PI/dim	PEFA Secretariat Comments on evidence and rating	Actions Taken by Assessment Team	Secretariat's evaluation of the response
		<i>payment to be made (Dimension (iii)).</i>	
Overall	Appears correctly combined to C+ but now uncertain.	D+	OK
PI-21 (i)	Appears correctly rated as D on the basis of evidence provided		
(ii)	Rated D, but dimension refers to the 3 audited entities only (clarification 21-d). May meet requirements of C rating. Rating uncertain.	<i>It was agreed at the workshop that the requirements for C are met on dimension (i).</i> Narrative amended and rating upgraded to C.	Full response
(iii)	Appears correctly rated as C on the basis of evidence provided		
Overall	Appears correctly combined to D+ but now uncertain	D+	OK
PI-23	Rated A, but the indicator refers to information from the service delivery level on what resources were actually received, not what budgets they were given or central data on what was provided. Rating uncertain.	<i>Direct evidence was obtained at a school of compliance with the requirement to receive and to publish full information about resources allocated in the budget and about the actual expenditure out-turn. The results of the World Bank survey will be of great interest.</i> Narratives amended; score A maintained.	Full response
D-2 (i)	NA as GoV has the necessary information	Corrected to N/A.	Full response
(ii)	Appears correctly rated as B on the basis of evidence provided		
Overall	Combined to NA but should be B	B	OK
D-3	Appears correctly rated as C assuming the 25% is an average of the 4 areas (procurement, payment/accounting, audit and reporting).	<i>Table 3.8 was corrected.</i> Table corrected and shows the % in the 3 years under assessment.	Full response



#### Section 4 – Government Reform process

PEFA Secretariat comments on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
Past and current reforms are described in detail but information about the institutional factors supporting reform planning and implementation process is missing (e.g. management of the PFM reform program, coordination, etc).	Narrative amended to elaborate on the Financial Development Strategy 2010-2020.	Full response

#### Summary Assessment

PEFA Secretariat comments on evidence and rating (and comparison)	Assessment team's response	Secretariat's evaluation of the response
The Summary Assessment explains well the impact of the main strengths and weaknesses of the PFM system across the six critical dimensions, and the implications of these weaknesses for each of the three main budgetary outcomes are well explained. However, the SA is rather long and could be shortened (includes details that would fit under the indicators).	<p><i>The Summary Assessment has been considerably shortened.</i></p> <p>The SA has been revised and is now shorter than previously.</p>	Full response
A clear 'story line' shows significant improvement in PFM underpinned rapid growth and poverty reduction.		None required