

AUDIT OF MINERAL RESOURCES FOR SUSTAINABLE DEVELOPMENT IN VIETNAM: RECOMMENDATIONS FOR THE STATE AUDIT AND INTERNAL AUDIT

Asso. Prof. Dr. Nguyen Thi Phuong Hoa

phuonghoaneu@gmail.com

*School for Accounting and Auditing,
National Economics University, Hanoi, Vietnam*

Dr. To Van Nhat

tonhat07@avinaa.com

*School for Accounting and Auditing, N
ational Economics University, Hanoi, Vietnam*

Abstract

Natural resources have long been argued to be an important input for economic growth. Vietnam is rich in natural resources but it has been claimed for excessive usage. Sustainable usage is thus called for. Regarding mineral resource exploitation and usage in Vietnam, there remain many problems however. Audit for mineral resources has recently been raised by the State Audit of Vietnam. The paper aims at analysing the current status of audit of mineral resources in Vietnam then providing recommendations on audit of mineral resources for sustainable development purposes.

Keywords: Audit, mineral resources, sustainable development

1. Introduction

Natural resources have long been argued to be an important input for economic growth (Badia - Miro edited, 2015). Vietnam is very rich in natural resources, both in terms of quantity and kinds. However, recent research results show that economic growth of Vietnam depends heavily on capital in general and natural resources in particular (Nguyen Van Hau edited, 2012; Vu Van Phuc edited, 2012; Vo Tri Thanh and Nguyen Tri Dung, 2012). Reforming economic growth models of Vietnam thus focuses on increasing the efficiency of capital usage. In the context of limited mineral resources, efficient usage of mineral resources helps increase economic growth at the present and preserve resources for the future generations thereby serving sustainable development. In practice, management of mineral resources in Vietnam reveals many problems such as extracting mineral resources without licences, extracting mineral resources more than quotas granted, underreported extraction volume, insufficient recovering methods generating adverse impacts on environment and civil livelihood, late submission of environment tax and natural resource fees...

Audit of managing natural resources has been conducted every year by the State Audit of Vietnam (SAV) and internal auditors of mining corporations. Given the existing

problems in mineral resources management in Vietnam, research on the practice of audit of mineral resources is conducted so as to identify and suggest improvements for mineral sustainable management.

2. Method

The authors use literature reviews, and interviews of state auditors and internal auditors to gather information on research issues.

State auditors interviewed are the head of Auditing Departments/ Regional Offices of the SAV. They are in charge of making decisions to select the Department of Resources and Environment in cities and provinces to be audited. They also evaluate the necessity of the audit and approve audit plans and contents, verify audit evidences and draw audit opinions and recommendations. Other state auditors interviewed are senior auditors in the State Audit headquarter in Hanoi. They describe the audit practice and challenges in auditing the theme. Internal auditors interviewed are working at the mining corporations of Vietnam.

Literature review is used with documents on managing and using mineral resources, audit files and audit reports of the SAV and internal auditors of mining corporations.

3. Results

Literature review helped the authors summarize the legal framework for auditing mineral resources in Vietnam.

Audit of mineral resources is stipulated in the Law on State Audit and other documents of the SAV. According to the 2015 Law on State Audit, the SAV has functions of evaluating and asserting the true and fair presentation of financial statements, compliance to rules and regulations and the economy, efficiency and effectiveness¹ (3Es) of management and usage of public assets and finance (Article 4 of the 2015 Law). As mineral resources are national assets and managed by the state so the management and usage of mineral resources should be objects of the SAV. The State Audit, rather than independent audit or internal audit, is in a right position to verify the management and usage of mineral resources for the sustainable development strategy of Vietnam.

Relating to the management and usage of mineral resources, auditees include (i) managing entities and (ii) extracting and using companies. Managing entities comprise the Ministry of Natural Resources and Environment, the Ministry of Construction, the Ministry of Industry and Trade, the Ministry of Finance, the People Committee in cities and provinces, the Department of Natural Resources and Environment, the Department of Construction, the Department of Industry and Trade, the Department of Tax in cities and provinces. Extracting and using companies include large corporations such as the Vietnam National Coal and Mineral Industries Holding Corporation Limited, Vietnam National Oil and Gas Group, Petrol Vietnam and other smaller mineral exploring, extracting, processing

¹ Effectiveness of an activity means the degree that outcomes of the activity meet the target, efficiency of an activity means the relationship between the output and input of such activity, economy of an activity means saving inputs for such activity while outputs achieve the target (Nguyen Quang Quynh et al. 2009; Nguyen Quang Quynh - Nguyen Thi Phuong Hoa et al. 2017; Moeller 2009; Pickett 2010)

and trading companies. These companies can be state owned companies, foreign invested companies, or private companies.

At the SAV, Department 2 conducts audits of economic Ministries such as the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Construction, the Ministry of Natural Resources and Environment. Department 6 audits corporations funded totally or partly by the national budget. Regional Office audits the budget of local People Committees (in city/province and lower levels), companies and investment projects funded totally/partly by the local budget. The selection of auditees is on the rotation basis, every 2-3 years the auditee will be included in the audit plan.

Following the international trend concerning about audit of extractive industries which is led by INTOSAI and basing on the current demand in Vietnam, the SAV early organized many international and national conferences in audit of management and usage of minerals. Supreme audit institutions of countries that are rich in minerals were invited to discuss and to share experiences to the SAV. Very shortly then, in the mid of 2012, the General Auditor of the SAV issued Decision 719/2012/QD-KTNN dated April 24, 2012 on auditing management and usage of minerals. This Decision covers a wide range of important aspects from audit objectives, audit contents, auditees, materiality, audit risks, audit methods to collect audit evidences, working papers, audit files and audit report forms. Hence, this Decision is a very comprehensive framework and provides an excellent guideline for state auditors to conduct audits of management and usage of minerals. The stipulations in Decision 719/2012/QD-KTNN are much in line with international practices which are summarized and suggested by INTOSAI Working group on extractive industries - WGEL.

Specifically, objectives in auditing management and usage of minerals are stipulated to include: (i) evaluation of the economy, efficiency and effectiveness (3Es) in management and usage of minerals, (ii) in time detection of corruptions, waste and mistakes in management, licence issuance, extraction and trading of minerals by managing entities and companies, identification of responsibility of individuals; (iii) informing auditees about mistakes and correcting management of minerals, tax and fee collection, and informing authorities to deal with violations, and correcting policies on management and extraction and trade of minerals, (iv) providing the Standing Committee of the National Assembly with statistics that help the Standing Committee oversight management, extraction and trading of mineral resources. General contents of audit of management and usage of minerals by the State Audit are to verify and assess the management, licence issuance and the practice of mineral extraction in relation with environment protection; compliance of management and extraction of minerals in localities; regulation issuance of local authorities in management, licence issuance, extraction and processing of minerals in localities; licence issuance for exploration and extraction in locality; implementation of plans and environmental preservation; regulation compliance in extraction and processing minerals; tax compliance of extracting and trading mineral resources. Hence, the audit contents are very comprehensive, based on the features of managing and using mineral resources. With these audit contents stipulated, it can be

seen that auditors will evaluate much the effectiveness of management, and then reliability of information concerned, the economy and efficiency of using mineral resources. After describing the general audit contents, Decision 719/2012/QĐ-KTNN also points out audit contents at each auditee so as to provide detailed guidelines for auditors.

Practice of auditing management and usage of mineral resources for sustainable development in Vietnam by the State Audit of Vietnam and internal auditors of mining corporations.

Using the literature review over audit files and audit reports, and interviewing state auditors and internal auditors of mining corporations, the current practice of auditing management and usage of mineral resources in Vietnam has following features:

Financial audits are conducted to all the auditees aforementioned. Auditing the Ministry of Natural Resources and Environment (MNRE), the Ministry of Industry and Trade, the Ministry of Construction, the Ministry of Finance, the General Department of Geology and Minerals (GDGM), Department of Survey and Mapping, Institute of Geoscience and Mineral Resources, Hanoi University of Natural Resources and Environment is conducted on a rotation basis of every 2-3 years by Department 2 of the SAV. The audits have so far basically been financial audits. Auditors check the reported expenditures and revenue in the financial statements for their reliability and compliance to the public finance regulations. In this aspect, auditors have been also concerned with economy and effectiveness of spending and revenue. Actual expenditures are compared with budgeted expenditures and overspendings or out-of-budget spending will be claimed back to the state budget. Reported revenue is verified for the possibility of omission or understatement.

Nonetheless, evaluation of effectiveness of MNRE and other such auditees in doing their functions such as resource projection, licencing, supervision, etc. remains limited. Auditors did not assess how high the results achieve the established targets. Assessment for efficiency of resources used by MNRE and other managing entities has not been carried out as well. This is partly because Department 2 has to cover many other Ministries, partly because evaluating effectiveness and efficiency are very complicated relating to many aspects and assessment criteria to be used, and they remain new to the SAV. Theoretically speaking, identification of comprehensive, suitable and feasible assessment criteria for effectiveness and efficiency of each auditee still a thorny issue in operational and integrated audits. In summary, auditors mainly assess the reliability of financial statements and economy, and compliance to financial regulations but not 3Es of managing entities yet.

The local People Committee in cities and provinces, the Department of Natural Resources and Environment (DNREs), the Department of Construction, the Departments of Industry and Trade, the Departments of Tax in cities and provinces are subject to be audited by the Regional Offices of the SAV. There are 13 Regional Offices throughout the country and they are together responsible for audit all cities and provinces of Vietnam. Auditing these Departments is not conducted on a yearly basis but based on judgment of necessity and materiality by the Head of the Regional Offices. The audits are mainly

financial audits similarly to the audit of MNRE and other national managing entities. Auditors assess the reliability of reported expenditures and revenue and the compliance to public finance rules.

Corporations and national companies that extract and use mineral resources are subject to be audited by Department 6 of the SAV. Major corporations in this field are Vietnam National Coal and Mineral Industries Holding Corporation Limited, Vietnam National Oil and Gas Group, Petrol of Vietnam, and other state-owned companies operating in this area. Department 6 audits corporations, and so far mainly their financial statements. Auditors therefore focus on the reliability of reported financial statements, including reported revenue, reported expenses, reported profit and reported tax and fees payables. Tax and fee payables include corporate income tax, value added tax, mineral levies (stipulated in Resolution 712/2013/NQ-UBTVQH) and environment fees (Decree 74/2011/ND-CP). Auditors verified the fairness of extraction volume reported, the correctness of unit prices applied, recorded revenues, and expenditures, profit and tax and levies payables. The appropriateness of tax rates and types has not been addressed yet.

Compliance audit conducted by Department 6 at corporations remains limited. Actual extraction volume of corporations was assessed in comparison with the licence granted. However, other industrial regulations, technology used, environmental impacts were not focused on. This may be due to the complexity of technical issues and no experts to be incorporated in the audit team yet.

Mineral exploring and using companies that are funded by local budgets are subject to be audited by SAV's Regional Offices. The audits are much similar to the audits conducted by Department 6. Regional offices select auditees based on assessment of necessity and materiality. Audits are mainly financial audits and audits of compliance to public finance regulations and licences granted.

Since 2012, the SAV has been starting operational audits on managing and using minerals. The operational audit aims at 3Es purposes: evaluating economy, efficiency, and effectiveness (Nguyen Quang Quynh et al. 2009, Nguyen Quang Quynh – Nguyen Thi Phuong Hoa 2017). In 2012, the integrated audit on management and usage of mineral resources were started in a sample of 15 localities. In 2013, the operational audit on licence issuance during 2009-2012, management of mineral extraction by the MNRE and local People Committees and DNRE, recovering and preservation of environment, compliance to government regulations of local authorities in issuing local regulations was conducted for all cities and provinces. The auditors found and withdrawn licences that were out of date; ceased licences that were issued by unauthorized persons; recommended authorities about closing mines and environmental rehabilitation; reported resources levies and environmental fees and late and inappropriate submission, management and usage of revenue from mineral operations.

Regarding internal audit at mining corporations, internal auditors have mainly conducted compliance audit, such as audit for compliance with exploitation quota, environmental regulations, labour safety regulations, etc. This is because of many

regulations over mining companies and compliance will be a concern of top management. Operational audits have not been conducted yet. Efficiency of technology used, efficiency of processing etc. have not been done. Independence of internal auditors remains weak as they belong to the Board of Directors, not the Board of Management.

4. Discussion and Conclusion

In the practice of Vietnam, not only licencing and extracting mineral resources reveal problems, but also the use of minerals, preservation and habilitation of environment, ... The operational audit over mineral resources should therefore be enhanced. Rampant exports of raw minerals without deep processing as stipulated in the Mineral Strategy and environmental impacts of mineral processing activities require the SAV and internal auditors to expand their scope of operational audits. In future operational audit of management and usage of mineral resources, the Ministry of Industry and Trade should be included. Given the good philosophy in Circular 41/2012/TT-BCT of the Ministry of Industry and Trade on limiting export of raw mineral resources and advanced extracting and processing technology should be used, the enforcement seems rather weak (Phong Lam, 2013). Therefore, the SAV should give *a priority* on auditing how does the Ministry of Industry and Trade conduct its inspection over mineral exports; and how are the findings of inspection dealt. Other contents such as auditing the planning of minerals with criteria for processed products, advanced technology used, and exports of minerals can be included. This also holds true with internal auditors. This may help achieve the objective of efficient and economical use of mineral resources of the Strategy for Minerals, thereby preserving mineral resources for the future generations.

The mineral royalties and environmental fees stipulated by the Ministry of Finance. Right now the mineral royalties in Vietnam are claimed to be at the very high level as compared with international practices, but the purpose of increasing state revenue has not been achieved due to the tax avoidance (Hong Lam, 2015). Hence, the SAV should focus more on the effectiveness and efficiency of tax inspection. SAV may also cooperate with internal auditors of mining corporations to verify the mineral extraction amounts and types, and tax payables corresponding.

The Ministry of Construction should be added in the audit of management and usage of mineral resources. Given the widespread extraction of limestone for cement production and illegal extraction of sand in some provinces generating adverse impacts on environment and civil livelihood surrounding, there is a question for planning and oversight of construction material extraction. The SAV and internal auditors should audit the planning for exploring, extracting and using raw materials for construction; audit the management of the Ministry of Construction on extracting, processing, exporting raw materials for construction and cement production; audit the preservation of environment, landscape and labour safety during extracting raw materials for construction.

Regarding usage of mineral resources of extracting and processing companies, the SAV should emphasize more on the inspection of local People Committee over technology used and labour policies of exploring and processing companies. These contents have not

been addressed yet. Since large extracting corporations funded by the state are audited by the SAV, other groups such as foreign extractive and processing companies and Vietnamese private companies are not auditees of the SAV. Hence, the SAV should focus more on the regulation and rule compliance of these companies by having scrutiny over the inspection and punishment of local People Committees and local authorities.

Besides, the use of environment fee collected which are left for local People Committees should be verified by the state auditors as well. According to Decree 74/2011/ND-CP on environment fee of mineral extraction, 100% of environment fees from non-oil minerals is left to locality to prevent and limits adverse impacts on environment of mineral operations, recover degradation and pollution due to mineral operations, preservation and rehabilitation environment. 100% of environment fee from oil and gas extraction is submitted to the central budget for environment preservation and investment stipulated in the Law for Environment Protection and the Law for State Budget. Thus, auditors have to examine the compliance in using these environment funds. Auditors may be concerned with appropriateness of rates as well, especially when there is high inflation.

Similarly, money from granting rights to extract mineral resources will be left 100% and 30% for local authorities if licences are issued by local and central authorities, respectively. This money left to local authorities is to serve basic inspection of mineral deposits and to protect mineral resources in locality. Compliance in using this fund should be covered by the SAV in the future.

In short, for sustainable development, extraction and usage of mineral resources in Vietnam should be verified and improved. The paper analyses the practice and gives some recommendations to the SAV and internal auditors in mining corporations in the hope that they can contribute more to the sustainable extraction and usage of mineral resources in Vietnam.

5. References

1. Badia - Miro, M. edited (2015) *Natural Resources and Economic Growth: Learning from History*, Routledge, London and New York
2. Bích Liên (2013) Quản lý, khai thác tài nguyên khoáng sản minh bạch và hiệu quả, *Báo điện tử Đảng Cộng Sản Việt Nam*, có tại: http://dangcongsan.vn/cpv/Modules/News/NewsDetail.aspx?co_id=30089&cn_id=623819, (truy cập ngày 8/3/2014)
3. IFAC (2009) *International Standard on Auditing No.500 Audit evidence*, available at: <http://www.ifac.org/system/files/downloads/a022-2010-iaasb-handbook-isa-500.pdf>
4. Hong Lam (2015) Should not Increase Tax on Mineral Resources to Compensate for Tax Reduction in the Integration Process, available at: <http://cafef.vn/vi-mo-dau-tu/khong-nen-tang-thue-ta-i-nguyen-de-bu-da-p-tha-t-thu-do-gia-m-thue-khi-ho-i-nha-p-20150905113357561.chn> (accessed on October 5, 2015)
5. Moeller R. (2009) *Brink's Modern Internal Auditing: a Common Body of Knowledge*, 7th edition, John Wiley & Sons

6. Nguyen Hai Yen (2012) Organising Audits of Management, Extraction and Trading of Mineral Resources, *Journal of Auditing Science Studies*, Vol. 61, November 2012, Hanoi (in Vietnamese)
7. Nguyen Quang Quynh et al. (2009) *Operational Audit*, National Economics University Publisher, Hanoi (in Vietnamese)
8. Nguyen Quang Quynh – Nguyen Thi Phuong Hoa (2017) *Auditing Theory*, National Economics University Publisher, Hanoi (in Vietnamese)
9. Nguyen Thi Phuong Hoa (2011) *Management Control*, National Economics University Publisher, Hanoi (in Vietnamese)
10. Nguyen Thanh (2016) Collecting Tax from 02 Gold - Extracting and Processing Companies: Afraid of Being Sued, *Tien Phong Newspapers*, available at: <http://www.24h.com.vn/tai-chinh-bat-dong-san/doi-no-thue-o-2-cong-ty-vang-vua-doi-vua-lo-bi-kien-c161a804452.html> (accessed on June 15, 2016)
11. Nguyen Van Hau ed. (2012) *The Economic Growth Model in Vietnam since 2001: Theory and Practice*, The National Politic Publishing House, Hanoi (in Vietnamese)
12. Pham Duc Binh (2014) Audit of Management and Usage of Minerals with sustainable development, *Journal of Studies on Finance and Accounting*, Academy of Finance, Hanoi, April 2014 (in Vietnamese)
13. Pham Huong (2016) Inspect comprehensively the mineral company poisoning Cam Dan river, available at: http://vnexpress.net/tin-tuc/thoi-su/kiem-tra-toan-dien-cong-ty-khoang-san-dau-doc-song-cam-dan-3432343.html?utm_source=detail&utm_medium=box_recommend&utm_campaign=boxtracking (accessed on March 28, 2016)
14. Phan Thu (2013) Extracting Mineral Resources: Widespread Issuance of Licences, Overlapping Management, *Custom Newspaper*, available at: <http://www.baomoi.com/Khai-thac-khoang-san-Cap-phep-tran-lan-quan-ly-chong-cheo/45/12355677.epi> (accessed on 2/6/2015)
15. Phong Lam (2013) Mineral Exports: no Benefits but Harm, Enterprise Information Portal, Ministry of Planning and Investment, available at: <http://business.gov.vn/tabid/96/catid/384/item/11629/xu> (accessed on March 6, 2016)
16. Pickett S. (2010) *The Internal Auditing Handbook*, 3rd edition, Wiley, John Wiley & Sons
17. Vo Tri Thanh and Nguyen Tri Dung (2012) Chapter 6: Foundations of Growth, in: *Macroeconomic Report 2012: from Macroeconomic Unstability to Restructuring Road*, edited by To Trung Thanh - Nguyen Tri Dung (2012), The Knowledge Publishing House (in Vietnamese)
18. Vu Van Phuc ed. (2012) *Renovating the Growth Model - Restructuring the Economy*, The National Politic Publishing House, Hanoi (in Vietnamese)