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Financial audit at foreign - invested enterprises

Tax Alert - Tax and Legal

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On 24 July 2017, the Ministry of Finance issued Decision No. 1381/QD-BTC ("Decision 1381") promulgating regulations on coordinating audit of performance of corporate finance mechanisms and policies at foreign-invested enterprises ("FIEs"). Decision 1381 took effect on 24 July 2017.

Accordingly, the Department of Corporate Finance under the Ministry of Finance shall assume the prime responsibility for, and coordinate with relevant authorities such as the General Department of Customs, Department of Tax Policy, Department of Finance, Department of Planning and Investment, provincial Tax and Customs Departments in conducting annual audits or irregular audits of the financial status of FIEs.

Such a financial audit shall include the following eight issues:

1. Value of assets contributed as capital by parties (value of land use rights, value of tangible assets such as machinery, equipment, factories, intangible fixed assets, etc.)
2. Use of machinery and equipment imported duty free to form fixed assets for proper purposes.
3. Provision of loans (bank loans, issuance of corporate bonds, etc.).
4. Making and use of provisional funds, fixed asset depreciation, accounting of exchange rate differences.
5. Share of profits from state-contributed capital in foreign-invested economic organisations or projects.
6. Preservation of capital contributed by state-invested economic organisations and projects.
7. Transfer of capital, projects of parities holding capital contribution to enterprises.
8. Implementation of commitments and satisfaction of conditions for entitlement of financial incentives and investment support (exclusive of tax incentives) after projects commence operation.

This is considered an enhanced audit plan compared to the annual plan for tax audits and inspections in businesses. FIEs should pay attention to the aforementioned regulations and prepare for upcoming audits. Contact KPMG for assistance with reviewing your circumstances, risk mitigation and preparing for a financial audit.

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