

LEGAL FRAMEWORKS FOR ASSURANCE ENGAGEMENT RELATED TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING (ESG) IN VIETNAM: CURRENT SITUATION AND SOLUTIONS

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Abstract: *ESG (Environmental, Social, and Governance) reports are becoming an increasingly important standard for evaluating corporate sustainability and responsibility. However, in Vietnam, the legal framework and specific standards for assurance engagement ensuring the transparency of ESG reports still have many limitations. This article will analyze the current situation in more detail and propose solutions for building a more complete and comprehensive legal system.*

• Keywords: *ESG, legal framework, standards, assurance services, Vietnam.*

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1. Introduction

ESG (Environmental, Social, and Governance) reports are important tools that help businesses make their environmental, social, and corporate governance impacts transparent. Key elements of an ESG report include: Environmental (E): Issues such as greenhouse gas emissions, energy consumption, waste management, and biodiversity. Social (S): Human rights, working conditions, labor safety, and relationships with the community. Governance (G): Corporate governance structure, business ethics, risk management, and transparency of information.

An ESG report is seen as proof of a company's commitment to social responsibility, and its reliability is higher when it is assured through assurance service. The issue in Vietnam is that the implementation of assurance engagement for ESG reports is still not widespread due to several reasons, including the lack of a comprehensive legal framework and standards in this field. Therefore, studying and analyzing the current status of legal regulations regarding assurance engagement for ESG reports is crucial for the development of this type of service in Vietnam.

2. What is an assurance engagement for ESG reports?

An assurance engagement for ESG reports is an agreement between an assurance firm (usually external audit) and a business. Under this engagement, the assurance firm gather evidence on the completeness and consistency of the information presented in the business's ESG report. An ESG report assured by an independent third party will enhance the credibility

of the information, thus strengthening the business's reputation with investors, customers, partners, and other stakeholders. An assured ESG report helps the business build an image as a socially and environmentally responsible organization, attracting entities interested in economic transactions with the company. Additionally, providing assurance services for these reports helps businesses reassess their processes and management systems, thus improving operational efficiency and corporate governance.

3. Current status of legal regulations regarding assurance engagement for ESG reports

In an assurance engagement for ESG reports, assurance providers should assess whether the information in the report is in accordance with ESG reporting standards. Therefore, to implement this engagement, they need to determine standards or legal regulations which are used as basis for preparation ESG reports in Vietnam. Thus, the legal regulations regarding ESG reports and assurance engagement are closely relationship. To evaluate the current legal situation regarding assurance engagement for ESG reports, it is essential to examine and assess the status of legal regulations concerning ESG reports.

3.1. Current legal regulations regarding ESG reports

In Vietnam, legal regulations on sustainable development are being developed in line with international standards, but they are still in the early stages of completion. These regulations primarily focus on environmental, social, and governance issues (ESG), aiming to promote sustainable production and

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business activities. Below are some legal regulations regarding ESG reporting in Vietnam:

Circular No. 96/2020/TT-BTC issued on November 16, 2020, is a prominent regulation guiding information disclosure on the stock market. Although it does not mandate ESG reporting, it encourages listed companies to disclose information about environmental, social, and governance aspects, laying the groundwork for sustainable development and integration with international corporate governance standards.

Other Vietnamese regulations also encourage or require businesses to report information related to their environmental, social, and governance impacts, either separately or in combination. For example:

Environmental Aspect: Reporting on environmental issues is regulated under Article 114, Clause 1 of the Environmental Protection Law No. 72/2020/QH14. Information related to greenhouse gas emissions is regulated under Decree No. 06/2022/ND-CP on Greenhouse Gas Emission Reduction and Ozone Layer Protection.

Social Aspect: Reporting on labor usage is regulated under Clause 1, Article 4 of Decree No. 145/2020/ND-CP on labor conditions and labor relations. Reports on labor safety and hygiene are regulated under Circular No. 97/2016/TT-BLDTBXH.

Governance Aspect: there are regulations for state-owned enterprises, listed companies, and joint-stock companies related to corporate governance.

Recognizing the importance of creating ESG reporting guidelines, the Vietnam Securities Commission and the IFC (International Finance Corporation) jointly developed a guide for preparing sustainability reports for businesses, focusing on environmental and social information. However, this remains a voluntary guideline, not a mandatory requirement. Because there are no official regulations on the comprehensive disclosure of ESG reports in Vietnam, some companies are currently using international ESG reporting frameworks such as the Global Reporting Initiative (GRI), the IFC Sustainability Framework, the IFRS Sustainability Disclosure Standards, the United Nations Sustainable Development Goals (SDGs), the International Integrated Reporting Council (IIRC), the AccountAbility Principles (AA1000AP) for Sustainable Development, ISO 26000:2010, the Global Impact Investing Rating System (GIIRs), the Corporate Sustainability Reporting Directive (CSRD), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD) standards.

In Vietnam, according to the 2022 ASEAN Climate Report, the most widely used ESG reporting frameworks are the Global Reporting Initiative (GRI) and the United Nations Sustainable Development Goals (SDGs).

The report studied the top 100 companies by market capitalization listed on the Ho Chi Minh Stock Exchange, of which only 40 companies published sustainability reports containing climate-related information. The table below lists the reporting frameworks used in climate-related disclosures in Vietnam:

Framework	GRI	IIRC	SASB	SDG	TCFD
Vietnam	65%	8%	2%	42%	0%

Source: ASEAN Climate Report 2022

This status indicates that Vietnamese regulatory authorities are still in the process of researching and developing mandatory ESG reporting requirements for businesses, especially as international investor demands continue to grow. Vietnam's legal regulations on sustainable development are gradually being improved and aligned with global trends in social responsibility, environmental protection, and governance (ESG). This is crucial for organizations providing assurance services for ESG reports, as it will offer clear guidelines and criteria for assessing the information disclosed in ESG reports.

3.2. Current legal regulations regarding assurance services for ESG reports

After identifying the standards used by businesses to prepare ESG reports, assurance providers should determine which assurance standards to follow. These standards define the nature, requirements, and guidelines for carrying out an assurance engagement. Without these standards, assurance providers would not be able to implement assurance engagement scientifically and effectively.

Currently, in Vietnam, legal regulations related to ESG assurance services are still under development, and there is no official legal framework requiring them. Audit regulations primarily apply to environmental information disclosure, such as the Environmental Protection Law. This law, updated in 2020, expanded environmental protection scope, requiring businesses to report on environmental issues and undergo environmental audits. However, there are no specific guidelines on how to audit or provide assurance for ESG reports.

The market for ESG assurance services in Vietnam is still relatively new, with only a few companies providing these services, primarily large audit firms (Big Four: Deloitte, PwC, EY, and KPMG). These firms often refer to international assurance standards such as:

First: The AA1000AS v3 Assurance Standard

The AA1000AS v3 (AccountAbility Assurance Standard, Version 3) is an internationally recognized standard designed to provide assurance on sustainability and Environmental, Social, and Governance (ESG) reports. Developed by AccountAbility, the AA1000AS v3 focuses on ensuring the reliability, transparency,

and accountability of the information disclosed by organizations. This standard is particularly valuable for organizations aiming to strengthen their commitment to sustainable practices and enhance stakeholder trust.

Applying the AA1000 Assurance Standard (AA1000AS) v3 offers significant benefits but also presents certain limitations. The primary advantage lies in its ability to enhance the credibility and transparency of ESG reports by ensuring that they align with the principles of inclusivity, materiality, responsiveness and impact. This fosters stakeholder trust and demonstrates an organization's commitment to accountability and continuous improvement. Additionally, the standard's focus on stakeholder engagement provides valuable insights into the expectations and concerns of key groups, aiding in better decision-making. However, its limitations include the complexity and resource-intensive nature of the assurance process, which may pose challenges for smaller organizations with limited budgets or expertise. Furthermore, the qualitative emphasis on principles can lead to subjectivity in evaluation, potentially affecting consistency in assurance outcomes across different practitioners. In regions like Vietnam, there may be a shortage of qualified assurance providers familiar with AA1000AS v3, hindering widespread adoption.

Despite these challenges, the AA1000AS v3 remains a robust framework for enhancing the quality of ESG disclosures. By adhering to its principles and processes, organizations can build stakeholder trust, focus on critical sustainability issues, and align with global best practices. Although challenges exist, the benefits of adopting AA1000AS v3 far outweigh the difficulties, making it a valuable framework for organizations committed to sustainable development.

Second: The International Standard on Assurance Engagements (ISAE3000)

The International Auditing and Assurance Standards Board (IAASB) developed a set of general auditing and assurance standards, particularly for professional audit members, when performing audits or other assurance engagements, such as reviewing historical financial information (ISAE 3000, 2008). However, audit entities can use this standard either independently or in combination with the AA1000AS. ISAE3000 primarily provides guidance on assurance standards for financial information (O'Dwyer, Owen, & Unerman, 2011). Therefore, ISAE3000 applies a verification-focused approach to data accuracy (O'Dwyer & Owen, 2005). In 2014, New Zealand published a counterpart standard (ISAE (NZ) 3000), equivalent to ISAE3000.

From the above context, it is evident that current legal regulations on ESG and assurance services for ESG are still limited. Specifically:

- Lack of a specific legal framework: Vietnam currently does not have a dedicated law or decree exclusively regulating ESG reports and related service contracts. Existing regulations are scattered across various legal documents, making consistent application challenging.

- Inconsistent ESG reporting standards: As outlined above, the regulations and guidelines for ESG reporting are not consistent or specific, allowing different enterprises to apply varying standards.

- Lack of specific assurance standards for ESG reports: Vietnamese enterprises are using diverse assurance standards for ESG reports, resulting in inconsistencies in evaluating and comparing reports. This poses challenges for investors and stakeholders in making decisions.

- Limited awareness among businesses: Some businesses do not fully understand the importance of ESG reporting and the necessity of assurance service contracts. This lack of awareness leads to incomplete and unprofessional ESG reporting practices.

4. Solutions for improving legal regulations in Vietnam regarding ESG and assurance services for ESG

To enhance the legal framework and ensure effective Environmental, Social, and Governance (ESG) reporting and assurance services in Vietnam, a comprehensive, structured approach is necessary. Addressing the challenges in this domain requires targeted solutions spanning legal frameworks, institutional mechanisms, capacity building, and technological advancements. The following measures are proposed to create a robust and reliable system that aligns with international standards while catering to Vietnam's unique socio-economic conditions.

Developing a Comprehensive Legal Framework

Vietnam must enact a dedicated law or decree focusing on ESG reporting and assurance. This legal framework should clearly define principles, standards, and procedures to ensure consistency and accountability across industries. Such legislation would establish mandatory disclosures, timelines, and the scope of reporting while clarifying the obligations of businesses. Developing unified national standards tailored to Vietnam's socio-economic context and aligning with global frameworks such as the Global Reporting Initiative (GRI), AA1000 Assurance Standard (AA1000AS), and International Standard on Assurance Engagements (ISAE 3000) is critical.

Strengthen the activities of a specialized regulatory authority

Currently, Vietnam has established the National Council for Sustainable Development under Decision No. 560/QĐ-TTg dated June 25, 2024. This council

is tasked with strengthening its role in research, consultation, recommendations, and proposals to the Prime Minister in formulating and implementing policies, strategies, mechanisms, and frameworks for sustainable development at the national level. It is also responsible for implementing global commitments on sustainable development in Vietnam, including effectively executing the National Action Plan for the 2030 Agenda for Sustainable Development. Additionally, the council will assess and summarize the results of sustainable development efforts nationwide and organize regular National Conferences on Sustainable Development. The council should establish a specialized subcommittee to address the following issues:

Developing robust ESG standards is critical to align Vietnam's sustainability initiatives with global best practices while addressing its unique socio-economic conditions. Ensuring compliance with these standards requires regular oversight and monitoring, enabling businesses to adhere to ESG regulations effectively. Providing guidance is another key issue, where technical assistance and clear explanations of ESG requirements foster a better understanding of compliance measures among organizations. Training programs and certification courses enhance the expertise of professionals involved in ESG assurance services, ensuring the quality and reliability of their work. Additionally, fostering international collaboration by partnering with global organizations allows Vietnam to adopt proven practices and frameworks for ESG reporting and assurance, strengthening its integration into the global sustainability landscape.

Enhancing the capacity of assurance providers

The reliability and credibility of ESG reporting depend significantly on the expertise of assurance providers. Enhancing their capacity involves several dimensions, including training, certification, and access to advanced tools and technologies. Comprehensive training programs covering global ESG standards such as GRI, AA1000AS, and ISAE 3000 are essential. These programs should include methodologies for data collection, evaluation, and validation. Specialized certification programs ensure that assurance providers meet globally recognized competency standards. They should be introduced to advanced tools, including big data analytics, blockchain for traceability, and AI-driven insights, can improve the efficiency and accuracy of ESG evaluations. Another way to significantly enhance the quality of ESG assurance services in Vietnam is Partnering with experienced international firms for mentorship and knowledge exchange.

Raising awareness among businesses and assurance providers

Educational campaigns, workshops, and seminars are essential for raising awareness about ESG reporting

and assurance requirements. These initiatives should target both businesses and assurance providers to foster a culture of transparency and accountability. Networking forums can enable assurance providers to share insights, challenges, and innovations, promoting collaboration and continuous improvement.

Introducing incentives and enforcement mechanisms

Introducing a balanced approach of incentives and penalties can motivate businesses to prioritize ESG compliance. Tax benefits, public recognition, or certifications can serve as positive reinforcements, while penalties for non-compliance ensure adherence to regulations. This dual approach ensures that businesses take ESG reporting seriously while reaping tangible benefits for their efforts.

Strengthening collaboration with international partners

Vietnam can benefit greatly from collaborating with international organizations and stakeholders. By adopting proven practices and frameworks, such as AA1000AS and ISAE 3000, the country can align its ESG regulations with global standards. These partnerships can also facilitate knowledge transfer and capacity building, ensuring that Vietnam's ESG initiatives are effective and credible.

Promoting digital solutions for ESG management

Technology plays a vital role in streamlining ESG reporting and assurance processes. Leveraging AI and blockchain technologies can improve data accuracy, traceability, and transparency. Digital platforms for ESG data collection, submission, and tracking can significantly enhance efficiency while reducing administrative burdens. Advanced analytics tools can provide valuable insights for decision-making, ensuring that businesses remain aligned with their ESG goals.

Conclusion: To summary, improving the legal framework and standards for assurance engagements related to Environmental, Social, and Governance (ESG) reporting in Vietnam is both a pressing necessity and a strategic opportunity. By developing comprehensive legal frameworks, Vietnam can provide clear and consistent guidelines for businesses, ensuring uniformity and transparency in ESG reporting practices.

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