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**FINANCIAL MANAGEMENT OF PUBLIC  
HOSPITALS UNDER THE MINISTRY OF  
HEALTH IN VIETNAM**

**Area of Study : Finance - Banking**

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**THESIS SUMMARY**

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- The National Library
- The Library of the Academy of Finance

## LIST OF RELEVANT PUBLICATIONS

1. Pham Thu Trang (2016), The current issue of equitization of public non-business units, *Journal of Finance and Accounting Research*, 02 (151), 57.
2. Pham Thu Trang (2018), Reforming the accounting regime in public non-business units based on enterprises accounting policies, *Review of Finance*, 01 (694), 100.
3. Pham Thu Trang (2020), Examining asset management at Tuyen Quang general hospital through financial statement analysis, *Journal of Finance and Accounting Research*, No. 06 (203), 37.
4. Pham Thu Trang (2020), Current situation of revenue management in public hospitals in Vietnam, *Journal of Finance and Accounting Research*, 10 (207), 86.

## INTRODUCTION

### 1. Research Motivation

Reforming the financial management mechanism for the administrative units in general and public hospitals in particular is one of the key tasks of the public finance reform in Vietnam. Resolution 19/NQ-TW issued in the 6th National Conference of the 12<sup>th</sup> Central Committee affirmed *“Continuing to renovate the organizational and management system, improving the quality and efficiency of public non-business units are one of the top key tasks, an urgent and long-term political task for all party committees, authorities and the entire political system”*; in which *“Improve the quality of financial management and public assets of the unit. Promulgate regulations on the management of public finances and assets, clearly define the competence and responsibilities of each department and individual, especially the responsibility of the leaders. Complete the accounting regime, implement the regime of audit and control, ensure the publicity and transparency of financial operations of public non-business units. Apply a management model similar to the corporate management model, which can guarantee financial self-sufficiency for recurrent and investment expenditure in non-business units”* is considered one of the breakthrough solutions. Financial management in public hospitals, along with organizational and personnel management, is considered very important, as public hospitals select and make financial decisions and operate in compliance with their business model to achieve their goals.

In addition to the achievements in the implementation of healthcare tasks, financial management of the public hospitals still faces certain difficulties, problems and limitations. In the previous period, financial management is not conducted effectively, the legal environment is incomplete, the financial decisions that hospitals made are not reasonable, the decision-making process was not delivered timely and lacks coordination. In the system of public hospitals in Vietnam, the public hospitals under the Ministry of Health, which are the frontline central hospitals that lead the adoption of financial autonomy, comprise a full range of hospitals according to the

degree of autonomy and volume of services, as well as the diversified and complex financial activities. Therefore, the hospitals under the Ministry of Health are highly representative of hospitals adopting financial management.

Stemming from the above theoretical and practical basis, the author chooses "*Financial management of public hospitals under the Ministry of Health of Vietnam*" as the research topic of this doctoral thesis.

## **2. Literature Review**

There have been many research conducted in the world and Vietnam on financial policy, healthcare financial management, financial management of public hospitals and autonomy of public hospitals. However, no research has comprehensively discussed financial management from the perspective of the management subject or theorized the principles, content and instruments of financial management of public hospitals. At the same time, there are no studies on the current situation of financial management at public hospitals, so there has not yet any overall assessment of the current financial management situation at the public hospitals. The new solutions only focus on reforming the financial management system for public hospitals but not on financial management solutions for the improvement of the performance of public hospitals. Therefore, the research topic "*Financial management of public hospitals under the Ministry of Health of Vietnam*" is an independent selection of the author, as it does not overlap with any studies in terms of topic, spatial or temporal scope. The suggestions regarding the theoretical and empirical foundations of the mentioned studies are adopted, incorporated, and developed by the author in the thesis to ensure the theoretical and empirical significance and the compliance with the current regulations.

## **3. Research aims and research objectives**

### ***3.1. Research aims***

The research aims to build principles and solutions for sound financial management on a theoretical and practical ground to help hospital managers make financial decisions that are associated with the process of developing and utilizing

financial resources and funds to achieve their goals in the strategy and operational plans.

### ***3.2. Research objectives***

The research will fulfil the following tasks:

- (i) systematizing, analyzing and clarifying the theoretical framework for studying public hospital finance and financial management of public hospitals;
- (ii) summarizing the experiences of financial management in public hospitals of some countries in the world, drawing lessons learned for public hospitals under the Ministry of Health of Vietnam;
- (iii) synthesizing, analyzing and demonstrating the current situation of financial management of public hospitals under the Ministry of Health of Vietnam in the period 2015 - 2019; showing achievements, limitations and fundamental causes of the limitations in financial management of public hospitals under the Ministry of Health of Vietnam;
- (iv) given the existing limitations of financial management in public hospitals under the Ministry of Health, proposing feasible principles of and solutions for improving financial management in each group of public hospitals under the Ministry of Health in the future.

## **4. Research Object and Scope**

### ***4.1. Research Object***

The object of this research is the theoretical and practical issues of financial management in public hospitals.

### ***4.2. Research Scope***

*Research topic:*

In the research scope, the author studies financial management practices at the public hospitals under the Ministry of Health according to the operational process from financial planning, financial planning implementation, to financial control and decision-making. The author approaches the topic of financial management of public hospitals by analyzing each of the stages through (i) asset and capital management; (ii) revenue, costs and surplus management.

*Spatial Scope:*

The research focuses on financial management at 36 public hospitals under the Ministry of Health of Vietnam; of which 08 hospitals in Hanoi City were selected by the author, including Bach Mai Hospital, Viet Duc University Hospital, E Hospital, Huu Nghi Hospital, National Children's Hospital, Central Otolaryngology Hospital, National Lung Hospital, National Psychiatric Hospital No. 1. Another focal point is the relevant experience and theses on public hospitals in Singapore and China.

*Temporal Scope:*

The research focuses on assessing the current situation of financial management in public hospitals under the Ministry of Health of Vietnam in the period 2015 - 2019, perspectives of and solutions for sound financial management applied to the period until 2025, with a vision until 2030. The relevant experience and theses selected for the research should be about the period 2010-2019.

**5. Methodology**

The theoretical framework for this research is drawn from the principles of dialectical and historical materialism. The research methods include investigation, document collection, statistical analysis, comparison, synthesis and system analysis, etc. Based on the survey data, the author would produce the analysis, comparison and evaluation of the financial management situation of public hospitals under the Ministry of Health of Vietnam.

**6. Contributions of the research**

*In terms of theoretical significance*, the thesis systematizes and clarifies the theoretical foundation of financial management of public hospitals on aspects: concepts, objectives, principles, content and instruments for financial management of public hospitals; while also identifying factors influencing financial management of public hospitals in Vietnam.

*In terms of empirical significance*, the dissertation offers a number of practical lessons that can be studied and applied to Vietnamese public hospitals after summarizing and studying the experiences of financial management of public hospitals in several countries in the world; synthesizes, analyzes and draw comments

and conclusions about the achievements, limitations and its causes of the financial management situation of public hospitals under the Ministry of Health.

*Regarding proposals and recommendations*, the dissertation proposes principles of and solutions for the sound financial management of public hospitals under the Ministry of Health of Vietnam on both theoretical and empirical grounds and suitable for the socio-economic conditions and process of reforming public financial management in Vietnam. The results could serve as a reference for the public hospitals in Vietnam, and a useful document for the Government, ministries and sectors in the development of financial management mechanisms and policies for public hospitals in Vietnam.

## **7. Thesis Outlines**

The thesis is divided into three main chapters, exclusive of the sections of Introduction, Conclusion, List of References and Appendices:

*Chapter 1:* Theory and experiences of financial management of public hospitals;

*Chapter 2:* Current situation of financial management in public hospitals under Ministry of Health of Vietnam;

*Chapter 3:* Achieving sound financial management for public hospitals under Ministry of Health of Vietnam.

## **Chapter 1**

### **THEORY AND EXPERIENCES OF FINANCIAL MANAGEMENT OF PUBLIC HOSPITALS**

#### **1.1. Public hospitals and financial management of public hospitals**

##### ***1.1.1. Overview of public hospitals***

###### ***1.1.1.1. Definition and characteristics of public hospitals***

A public hospital is a hospital established by a competent state agency, with recognized legal status, providing medical care and health care services to the society and performing professional medical duties according to the law. The principal



purpose of public hospitals is to provide health care and health protection for the people, to prioritize people's health care over profit targets.

*Characteristics of public hospitals:*

*First*, public hospitals are state-owned hospitals and distributed in accordance with the administrative decentralization by region, territory and by professional-technical level, etc.

*Second*, public hospitals operate to provide health care and health protection for the people, so people's health care should be prioritized over profit targets.

*Third*, health care services provided by public hospitals are a special type of public service.

*Fourth*, public hospitals must implement social policies assigned by the Government.

*Fifth*, investment costs of public hospitals are funded by the government, which is the basic differences between public hospitals and other types of hospitals.

*1.1.1.2. Classifications of public hospitals*

(i) Based on the field of expertise, the hospitals are classified into general hospitals and specialized hospitals; (ii) based on the administrative level, public hospitals are classified into central/national hospitals and local/provincial hospitals; (iii) based on the degree of financial security, there are four types of BV; (iv) based on the criteria and scoring, non-business healthcare units are divided into different types of public hospitals.

***1.1.2. Finance of public hospitals***

*1.1.2.1. Definition and features of public hospital finance*

Public hospital finance refers to the recording on a cash basis of revenue and expenses, which are associated with generating and using financial resources to provide healthcare services.

*1.1.2.2. Funds*

The funds of hospitals come from revenues from healthcare services provision; including services purchased and fully paid by the state; fees and charges as stated in the law on deducted fees and charges for recurrent expenses, investment costs,

purchase and repair of assets and equipment used in fee collection; support from the state budget for expenses that are not included in service prices; state-funded recurrent expenditures according to the budget allocation, criteria and norms approved by competent authorities; allocations from the state budget for irregular assignments; loans, grants, sponsorships and other legal sources of income.

#### *1.1.2.3. Utilizing funds in public hospitals*

According to the current autonomy mechanism of public hospitals, the utilization of financial resources in public non-business units is determined by source. Depending on the level of financial autonomy, the costs could be divided into recurrent expenditures; irregular expenditures; investment expenditures from the public non-business development fund, loan and other lawful financial sources.

#### *1.1.2.4. Distribution of surplus in public hospitals*

The annual surplus of a public hospital is the difference between revenue and expenditures (when the former exceeds the latter) after taxes and other duties are paid, as regulated by the Government. Depending on the level of financial autonomy, public hospitals are allowed to set up a non-business development fund, an income supplementary fund, a bonus fund, a welfare fund and other special funds within the minimum or maximum amount regulated by the State.

### **1.2. Theories of financial management in public hospitals**

#### ***1.2.1. Definition, objectives and principles of financial management of public hospitals***

##### *1.2.1.1. Definition and objectives of financial management of public hospitals*

Financial management in a public hospital refers to the process of financial planning, implementing, control and decision-making, adjusting the process of creating and utilizing financial resources and funds to achieve the operational goals of the hospital.

Financial management in public hospitals includes selecting and making financial decisions; implementation of financial decisions; financial controlling and decision-making. The financial goals of public hospitals should be connected to the goals of performing the functions and tasks of healthcare provision.

There are two models of *financial management organization in public hospitals*: establishing separate departments for financial management and accounting, or merging finance and accounting into one finance-account department.

*The objectives of financial management of public hospitals* include (i) ensuring compliance of financial activities; (ii) mobilizing and utilizing funds to fulfill the functions and tasks of healthcare services provision of the hospital; (iii) contributing to risk management and prevention, and optimizing operations.

#### *1.2.1.2. Principles of financial management of public hospitals*

The management of public hospital finance should conform with the following principles: (i) Observing government's regulations in financial management of public hospitals; (ii) Developing and keeping to plans; (iii) Ensuring transparency; (iv) Achieving cost-saving and efficiency

#### ***1.2.2. Financial planning of public hospitals***

Planning is the process of defining goals and determining methods to achieve them. Public hospitals are typically organized and managed as described in both the strategic plan and the operational plan. There are two methods of financial planning: inductive method and interpretive method.

##### *1.2.2.1. Asset and capital planning*

The asset planning for a public hospital includes: capital planning (cash reserves and cash flow), accounts receivable planning, inventory planning, financial investment planning and fixed asset planning (plans to increase or reduce, use, repair and maintain fixed assets). Capital planning in public hospitals includes net asset planning and liabilities planning.

##### *1.2.2.2. Revenue, cost and surplus planning*

*Revenue planning*: Revenues of public hospitals come from the provision of government-funded services and services that are not funded by the government. Revenue planning for public hospitals usually adopts the following methods to recognize revenue: historical method, non-historical method, completed contract method and cost recovery method.

*Cost planning:* Public hospitals estimate their costs based on economic-technical norms, macroeconomic situation, hospital situation, etc. The cost plan demonstrates costs and products, including detailed cost tables for each activity.

Cost planning is similar to revenue planning, where two methods are usually adopted: the historical cost method and a non-historical cost method. The cost plan must provide details for each activity.

*Surplus planning:* The purpose of surplus planning is to determine the difference between revenue and cost of each hospital activity, as well as the distribution and use of the result.

### ***1.2.3. Implementation of financial plan of public hospitals***

#### ***1.2.3.1. Implementation of asset and capital plans***

Public hospitals manage assets by issuing regulations and processes of managing and using assets, inventories, etc. and implementing asset management plans, which detail the following categories: cash, accounts receivables, inventory, fixed assets and financial investments.

Public hospitals manage capitals by category, including management of business capital, accumulated surplus (deficit), setting up and using funds and liabilities.

#### ***1.2.3.2. Implementation of plans for revenue, expenditure and surplus***

Organizing the implementation of the revenue plan is the process of detailing the tasks in the proposed plan to achieve the operational goals of the hospital, managing and allocating sufficient funding for hospital activities, while increasing the sources of revenues.

The implementation of the cost plan should be in conjunction with the operation of public hospitals. The methods of costing include job costing, process costing, activity-based costing

The implementation of the financial plan is a process of implementing both cost and revenue plans to achieve the goals of surpluses and income of public hospitals.

### ***1.2.4. Financial control and decision-making in public hospitals***

Public hospitals should establish and develop a control process and implement internal control fully, effectively and efficiently. Internal control is an integral part of

the hospital management process, including control steps, control policies and control procedures established and implemented by hospital managers in order to fulfill their tasks and objectives. Internal control is carried out by the managerial units such as the Management Board, the Board of Directors, heads of departments, Internal Auditor, or staff members.

The object of internal control of finances in public hospitals is all cash-basis revenues and expenditures associated with the development and utilization of financial resources to serve the functions and tasks of providing health services.

Internal audit is an independent control function, which refers to regular examination, monitor and evaluation of every activity in a hospital, and control of the internal control system. Internal audit can evaluate the result of the inspecting and evaluating process for public hospitals activities (including financial activities such as assessing and advising on the economy and efficiency of financial resources )

#### *1.2.4.1. Management of assets and capitals*

Public hospitals control and give decisions on assets and capitals, particularly cash capital, accounts receivables, inventories, fixed assets, financial investments, business capitals, accumulated deficit or surplus, funds and liabilities.

#### *1.2.4.2. Management of revenues, expenditures and surpluses*

Revenue control and revenue decision-making refer to the system of methods and instruments used in the process of examining and controlling revenues in public hospitals. Cost control and cost decision-making are done both before, during and after the implementation of the cost plan.

Public hospitals should take the following factor into account for good financial control and decision-making: the balanced scoreboard used in measuring and evaluating the performance of public hospitals, cost accounting reporting system; cost analysis for decision-making (short-term and long-term decisions).

### ***1.2.5. Factors influencing financial management of public hospitals***

#### *1.2.5.1. External factors*

The external factors include: (i) The Government's mechanisms and policies for public hospitals; (ii) Economic development (iii) Science - technology development

and international integration; (iv) Economic - technical characteristics of healthcare services.

#### *1.2.5.2. Internal factors*

The internal factors include: (i) Development strategy; (ii) Trademarks; (iii) System of financial management instruments; (iv) Organizational structure; (v) Financial management capacity; (vi) Information system for decision support.

### **1.3. Financial management of public hospitals in Singapore and China and lessons for public hospitals under Vietnam's Ministry of Health**

#### *1.3.1. Financial management of public hospitals in other countries*

##### *1.3.1.1. Experience of Singapore*

##### *1.3.1.2. Experience of China*

#### *1.3.2. Lessons in financial management for public hospitals under Vietnam's Ministry of Health*

There are 04 lessons, which are drawn from the practices of financial management in other countries, for public hospitals under the Ministry of Health of Vietnam: (i) Improving financial management by adopting financial autonomy and self-accountability; (ii) Strengthening the role of financial management in financial planning; (iii) Determining the price of healthcare services on the basis of correct and sufficient cost calculation and good cost control; (iv) Linking financial management closely with human resource management in public hospitals.

## **Chapter 2**

### **CURRENT SITUATION OF FINANCIAL MANAGEMENT IN PUBLIC HOSPITALS UNDER MINISTRY OF HEALTH IN VIETNAM**

#### **2.1. Overview of public hospitals under Vietnam's Ministry of Health**

##### *2.1.1. Establishment and development of public hospitals under Vietnam's Ministry of Health*

##### *2.1.2. Organization, functions and duties of public hospitals under Vietnam's Ministry of Health*

## **2.2. Current financial situation of public hospitals under Vietnam's Ministry of Health**

### ***2.2.1. Funds***

The revenues of public hospitals come from allocations from state budget, non-business revenues, financial aids and donations, and other sources.

### ***2.2.2. Utilization of funds***

The hospitals classified expenses into regular and irregular operating expenses, and established the following four cost categories based on the economic nature: personal spending, professional expenses, procurement, maintenance of fixed assets, and other expenses.

### ***2.2.3. Distribution of surpluses***

After implementing financial autonomy, public hospitals under the Ministry of Health generally enjoyed better surpluses, while the hospitals actively distributed the results in compliance with their regulations on internal financial control.

## **2.3. Financial management of public hospitals under Vietnam's Ministry of Health**

### ***2.3.1. Legal framework for financial management of public hospitals under Vietnam's Ministry of Health***

#### ***2.3.2. Current situation of financial planning***

The hospitals formulated their financial plans according to the guidelines of the Ministry of Health, which identified the financial plans as part of the long-term strategic plans and the annual operational plan. Financial planning adopted the historical-based method, which built targets for a plan year based on the plan of the previous year and the average growth rates of the expenditure categories.

##### ***2.3.2.1. Planning assets, capital resources***

The asset plans included cash and cash equivalents (cash, bank deposits, treasury bills), accounts receivable from customers, inventories, fixed assets. Financial investment items are only available in a few hospitals, accounting for a small proportion and generating revenue mainly from interest on bank deposits. The funds of the public hospitals consisted mainly of hospital liabilities and net assets

from hospital funds. The cash funds was managed by the finance and accounting department in coordination with the general planning department.

#### *2.3.2.2. Planning of revenue, costs and surplus*

*Revenue Planning:* The general planning department and the finance and accounting department estimated the number of patients coming for medical examination and treatment in the coming year based on the data of previous years, the government's roadmap for structuring hospital prices according to the State's regulations, while the department of finance and accounting calculated and develops a revenue plan based on hospital fees and other revenue sources of the plan year.

*Cost planning:* The complete annual cost plan was developed by the hospital based on their balance of revenues and expenditures. The cost plan elaborated in detail the expenses of each task, e.g. expenses for medical examination and treatment, personnel, professional duties, construction and procurement, and other categories.

*Surplus planning:* Based on the revenue and cost plans, the hospital estimated the tentative surplus, which combined with the relevant regulations to form the basis for estimating budgetary allocation.

#### **2.3.3. Current situation of implementing financial plan**

##### *2.3.3.1. Implementing asset and capital plans*

On the basis of the asset plan and capital plan, which were part of the annual financial plan and the overall financial plan, there were different ways to execute the plans for each type of asset and capital.

##### *2.3.3.2. Implementing revenue, cost and surplus plans*

The revenue plan is implemented according to the revenue sources: state budget, non-business revenue and other sources.

*Implementation of the cost plan:* The cost management was assigned to the finance and accounting department, which created a specialized management unit for this duty. The costs were usually managed through the approval of the cost plans and the settlement of expenses. The hospitals usually applied the process costing method or patient-based costing method.



*Managing surplus:* The surpluses of hospitals depended greatly on the annual revenues and expenses.

### **2.3.4. Current situation of financial control and decision-making**

In addition to external control (the monitoring of State Treasury spending, periodic inspection by state agencies such as the Ministry of Health, State Audit, and financial inspectors), hospitals must establish an internal inspection team which consists the People's Inspection Committee, trade union, and professional financial staff members, to conduct financial and accounting inspection annually.

Regarding the application of the Balanced Scorecard to evaluate the hospital's performance, the activities related to the strategic goals of the hospitals showed signs of the four perspectives in the Balanced Scorecard model, but the hospitals have not adopted the model fully and consistently.

## **2.4. Evaluation of financial management of public hospitals under Vietnam's Ministry of Health**

### **2.4.1. Achievements**

*First*, in terms of financial planning, the hospitals have prepared long-term and annual plans according to the instructional documents of the Ministry of Health.

*Second*, in terms of implementation of financial plans, the internal expenses regulations established spending norms and set out regulations to control "*economical-effective*" expenditures.

The hospitals developed and followed the proper process of asset procurement, the procurement and repair of fixed assets were carried out according to strict bidding methods and in accordance with the regulations; the documentation and management of hospital assets were strictly implemented. The hospitals all issued regulations on the management and use of assets.

Hospital funds were recorded and monitored in detail, set aside according to regulations and used for the right purposes. Accounts payable to suppliers were closely monitored, recorded, and periodically reconciled with each supplier.

The hospitals managed the government budget allocations in accordance with the law and the state budget's management cycle. Non-business revenues increased

continuously over the years, playing an important role in the total revenue of the hospital. The hospitals managed their annual surpluses in accordance with Government's regulations, the funds were set up and used in accordance with the internal management regulations of each hospital.

*Third*, in terms of financial control and decision-making, the internal inspection of finance and accounting in the hospitals was conducted by a specialized department under the direct management of the director, the internal financial inspection reports are made according to the instructions. Inventories were controlled in both quantity and value, by type of medicine, chemical and consumable. Fixed assets were controlled and used in accordance with the regulations. The hospitals set up a complete financial and settlement reporting system as regulated by the government.

#### ***2.4.2. Limitations and constraints***

*First*, in terms of financial planning.

Financial planning has not received sufficient attention and is still a heavily administrative duty. The hospitals only developed short-term financial plans, while long-term strategic plans for finance were not well-prepared, so the hospitals have not showed clear signs of a modern hospital management model. The estimate method adopted by the hospitals was not suitable, since it relies on the average growth rate and intuition, so the estimation of revenue and expenditure lacks accuracy.

The hospitals have not prepared the capital plan for cash and receivables, nor have they studied and applied any model for determining optimal reserve, they have not paid attention to the unit capital planning, and have not developed appropriate capital plans or built an optimal capital structure according to the level of autonomy. The planning of inventory has not considered the provision of inventory devaluation.

The hospitals have not focused on planning for depreciation and amortization, the use and duration of fixed assets during the year, and they have not proactively utilized the non-business development fund to develop procurement and repair plan, opting instead to mobilize allocations from the state budget.

*Second*, in terms of implementation of financial plans.

The hospitals have not performed liability analysis and set aside provisions for receivables. The collection of receivables from health insurance payments was slow and fell behind schedule, the debt at the end of the year was high and tended to increase over the years, which affected the medical examination and treatment process.

The hospitals did not actively promulgate regulations on inventory management, procedures for medicine management, and consumption norms of chemicals and supplies, leading to the improper management and use of medicines, supplies and chemicals in some hospitals.

The regulations on management and use of properties did not specify the disciplinary actions. The management and use of medical equipment from joint ventures and associates have not been fully and strictly implemented, many hospitals do not comply with the regulations due to commercial reasons.

Hospital fee revenue accounted for a large proportion of the hospital's funds, but the fees were not "*collected correctly and completely*". Some hospitals still charged fees outside of the service prices, some of which were not regulated, so there were differences between the category and the price of the services, which brought additional burdens on the patients.

The hospitals did not calculate all the cost components, particularly the depreciation/amortization component. The hospitals all used the method of process costing method and patient-based costing method, so the service prices were not calculated accurately. Hospitals that were fully funded by the state budget and assigned mandatory medical care tasks faced many difficulties in implementing the cost plan because the established norms were no longer consistent with the reality.

Although the clause on distribution of incremental revenues in the internal expense regulations was designed to avoid equal distribution, it has not yet encouraged officials and public employees of the hospitals to work and dedicate themselves. The provision for public non-business development fund in many hospitals has not seen positive changes, since it depended on the annual surplus and the hospitals tended to prioritize funds that were set aside for spending purposes.

***Third***, on financial control and decision-making.

The understanding and application of “*internal control*” and “*internal audit*” in the hospital were still ambiguous. The control of medicine inventories in the emergency cabinets was not carried out properly to ensure the medicines were used before the expiration date. The assets were not used effectively because the hospital did not develop the criteria to check and evaluate assets, and did not focus on asset inventory to identify liquidated or unused assets

The inspection and control of hospital revenue and expenses were not conducted thoroughly and effectively. In the internal expense regulations, there were few regulations on revenues, service fees, rentals, investment in joint ventures and associates, etc., which could encourage negative and corrupt behaviours.

Hospitals have not studied and applied the Balanced Scorecard to evaluate hospital performance; nor have they focused on building the accounting reporting system for cost management or implementing the accounting reporting analysis tool.

### ***2.4.3. Causes of limitations***

#### ***2.4.3.1. External causes***

(i) The legal framework was not comprehensive and consistent; (ii) The development and approval of the list and the economic-technical norms as a basis for the pricing of healthcare services encountered many problems.

#### ***2.4.3.2. Internal causes***

*First*, the financial management capacity of public hospitals is still limited.

(i) The public hospitals were not prepared to innovate their thinking, management decisions were mainly made based on experience; (ii) Managers were usually doctors who got promoted to management positions, without training in management in general and financial management in particular.

*Second*, the organization hospitals lacked a suitable organizational structure. The current organizational structure in the hospitals did not have the CFO position, there was only the Chief Accountant position, while the finance department was merged with the accounting department, resulting in a single finance-accounting department.

*Third*, the instruments of internal financial management were not really effective.

(i) The internal documents on financial management mainly comprised the general regulations of the State, while the hospitals did not have consistent policies that cover financial management; (ii) The managerial accounting system had not been fully understood, so the hospitals did not focus on or implement it.

*Fourth*, the hospitals lacked a decision support system.

### **Chapter 3**

## **ACHIEVING SOUND FINANCIAL MANAGEMENT FOR PUBLIC HOSPITALS UNDER MINISTRY OF HEALTH OF VIETNAM**

### **3.1. Development objectives and orientation of public hospitals under Vietnam's Ministry of Health**

#### ***3.1.1. Development objectives of public hospitals under Vietnam's Ministry of Health***

#### ***3.1.2. Development orientation of public hospitals under Vietnam's Ministry of Health***

*First*, the system of public hospitals should be fundamentally, comprehensively and synchronously reformed to ensure a suitable structure, the public hospitals should reform their management methods, strengthen their autonomy and governance capacities, operate effectively and efficiently, and lead the provision of increasingly high-quality healthcare services to meet the needs of the society.

*Second*, public hospitals should make the transition from the professional management model to the business management model. This transition could entail the reasonable organization of economic norms and the strict management of inputs, costs and revenues. The focus should be shifted from "doctors" to "patients".

*Third*, public hospitals should diversify and synchronizes their services to fulfil the needs of patients and society. It is particularly necessary for hospitals to actively reach out to the patients and the community by conducting social surveys and

establishing a marketing system, instead of passively receiving and treating patients.

*Fourth*, qualified public hospitals can make the transition to the mechanism of autonomy and self-responsibility by learning from the corporate model for management and accounting activities.

*Fifth*, hospitals should proactively adapt to the competitive environment by relying on human, technical and economic factors; renovating medical techniques and technologies to converge technologies and reach regional and international standards.

*Sixth*, the provision of healthcare services to the people should be socialized, quality of healthcare and treatment should be improved, patient satisfaction should be ensured before, during and after the treatment process. The quality of healthcare services should be of equal value to hospital fees that patients have to pay. Modern hospitals that meet regional and international standards should be established.

*Seventh*, hospitals should be oriented towards the community, which means they can fulfill community needs and rely on the community, function as community health centers, assist the development of health equity in the community, and become technology transfer centers in the community.

### **3.2. Principles for sound financial management for public hospitals under Vietnam's Ministry of Health**

*3.2.1. Observing Government's regulations on financial management and adapting to characteristics of healthcare services for sound financial management of public hospitals.*

*3.2.2. Synchronizing with every hospital activity for sound financial management of public hospitals*

*3.2.3. Applying corporate management methods for sound financial management of public hospitals*

*3.2.4. Considering the development level of public hospitals under Ministry of Health for sound financial management of public hospitals*

### **3.3. Solutions for achieving sound financial management in public hospitals under Ministry of Health in Vietnam**

*3.3.1. Solutions for complete financial planning*

*First*, hospitals need to focus on achieving sustainable growth when they develop the overall financial plan.

The public hospitals should create proper plans and especially have the proper awareness of the importance of financial planning. The financial plan should establish the relationship between the developmental goals and the financial needs of the hospital.

*Second*, hospitals need to actively develop a detailed plan of assets and capital

- The hospitals need plans for cash reserves and cash flow in order to make sound decisions to ensure their solvency.

- The hospitals should focus on analyzing and assessing their ability to pay health insurance receivables and consider arranging provision for health insurance payments and detailing their structure, ratio, and sources of payment in their plan for these receivables.

- The hospitals can study and use the inventory planning method that applies an economic ordering model in conjunction with the traditional planning methods.

- The hospitals need to study and develop plans for provisions for devaluation of inventories. The inventories could be medicines and medical supplies for healthcare services.

- When developing fixed asset plans, the hospitals need to effectively perform three steps: identify the need for asset investment; determine funding sources and asset formation methods; develop investment plans and make the investments.

- The hospitals need to actively plan their capital sources through the assessment by proportion to determine the main sources for asset formation of the hospital, thereby assessing the capacity and status of the hospital and make sound management decisions.

*Third*, public hospitals should complete the identification and classification of the public hospital expenses.

The public hospitals need to continue to identify and classify costs according to the relationship between costs and cost objects, and add criteria for classifying hospital costs by activity level.

*Fourth*, public hospitals should finalize their cost norms and cost plans.

- When setting the norms in the internal regulations of the hospital, it is necessary to ensure that the hospital can fulfill its assigned functions and tasks, while still ensuring effective use of financial resources and strengthening financial management practices.

- It is necessary to proactively develop the base of economic-technical norms for the professional activities of the hospitals.

- For cost planning, the hospital should pay attention to estimating the number of patients receiving medical care by disease type.

### ***3.3.2. Solutions for effective implementation of financial plans***

To implement the financial plans successfully, the hospitals should:

- Implement the assets and capital plans effectively, develop an asset management system that meets requirements for the hospital's development.

- Diversify and manage revenues effectively, develop the revenue from healthcare services provided by the hospital; develop revenue sources through enhanced socialization forms such as investments in joint ventures and associates, borrow loans from banks and credit institutions; generate revenues through the research and development activities; increase revenue from aid grants.

- Impose the correct and full fees and charges of healthcare services according to the State's regulations, avoid abusing technical services to increase healthcare costs for patients.

- Apply the activity-based costing and management (ABC method) to calculate the correct full costs.

- Implement the cost plan in conjunction with the revenue plan in order to achieve the target operational results.

- Ensure the balance between efficiency and fairness in the distribution of operating results; Distribute incomes based on the performance results and commitment of staff members in each department of the hospital.

### ***3.3.3. Solutions for strengthening financial control and decision-making***

The hospitals could:



*First*, complete the internal control system, the hospitals need to have specific regulations to develop and guide the implementation of an effective and efficient internal control system that connects to the functions of evaluation and risk management, ensuring the inclusion of 5 components constituting the internal control of the unit.

(i) Actively improve the control environment to facilitate the internal control activities of the hospital; (ii) Improve the risk assessment of hospital activities; (iii) Improve hospital control policies and procedures; (iii) Complete the information and communication system; (iv) Improve the monitoring and evaluation system to raise awareness of internal control activities.

*Second*, establish and strengthen the internal control system

(i) Ensure the publicity and transparency of financial information; (ii) Improve the efficiency and economy of hospital operations; (iii) Ensure the compliance with regulations and regulations of the hospital.

*Third*, strengthen asset control, improve the efficiency of hospital assets.

*Fourth*, apply the Balanced Scorecard to measure and evaluate the performance of public hospitals.

*Fifth*, complete the management accounting reporting system in public hospitals.

*Sixth*, use financial analysis instruments in hospital financial management.

### **3.3.4. Other solutions**

#### *3.3.4.1. Development of complete management system of public hospitals*

The solutions are (i) Developing a complete accounting management system of the hospitals; (ii) Separating the finance department and accounting department in the organizational structure of public hospitals.

#### *3.3.4.2. Human resource development*

The solutions are (i) Strengthening management capacity for hospital administrators; (ii) Improving professional qualifications of healthcare professionals and staff; (iii) Improving the working environment and working methods.

#### *3.3.4.3. Decision support system*

Hospitals can optimize the process of providing healthcare services and take advantage of information technology by employing a hospital management software system (Enterprise Resource Planning) and customizing it for each type of hospital.

### **3.4. Recommendations**

#### ***3.4.1. Recommendations for the Government***

#### ***3.4.2. Recommendations for the Ministry of Health***

#### ***3.4.3. Recommendations for the Ministry of Finance***

## CONCLUSION

In the context that the operating mechanism of public hospitals in Vietnam is being renewed today, the thesis on "*Financial management of public hospitals under the Ministry of Health of Vietnam*" has a practical significance, as this helps public hospitals practice financial management to improve the efficiency and quality of the healthcare services provided to the people. By applying research methods of systematizing theories and analyzing practices, the thesis focuses on solving the following problems:

*First*, the thesis systematizes and analyzes the theoretical foundation of financial management of public hospitals. The author draws four practical lessons from the practices of financial management in Singapore and China that can be examined to apply to public hospitals under the Ministry of Health of Vietnam.

*Second*, through the detailed and credible analysis of every step from planning, implementing, control and decision-making, and the assessment of financial management aspects of public hospitals under the Ministry of Health of Vietnam, the research evaluates the achievements, limitations and causes of limitations of financial management in public hospitals under the Ministry of Health in Vietnam.

*Third*, taking into account the limitations and the causes of such limitations, as well as the objectives and development orientations of public hospitals under the Ministry of Health of Vietnam, the research proposes fundamental principles of financial management and four groups of solutions and some recommendations to improve the financial management of public hospitals under the Ministry of Health of Vietnam by 2025, with a vision until 2030.

The author has received enthusiastic supports from her beloved teachers and colleagues while conducting this research. However, due to limitations in many aspects, certain shortcomings are unavoidable. The author hopes to receive comments and feedback from researchers and managers to improve the thesis further.