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Research on Internal Audit at Bao Viet Bank

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Abstract

Internal audit (IA) is an important part of the system of economic management tools for businesses in general and commercial banks in particular. The specific nature of banking business activities has many potential high risks, so building a strong internal control system is an urgent task to control risks. IA is an indispensable part, the third layer of protection, the final control point of an internal control

system to help prevent and limit risks. For banks to operate safely and effectively, commercial banks in general and Bao Viet Joint Stock Commercial Bank (BVB) are required to perfect the organization and operations of IA. The following article will present research on the current status of IA activities at BVB and then propose solutions to improve IA at this bank.

Keywords: Internal Audit, Bao Viet, Bank, Risk

1. Introduction

Internal audit serves as an essential control tool to help managers operate and manage businesses effectively. IA is also a tool to check, analyze, and evaluate the quality of the accounting system and internal control system to limit negative effects and ensure the reliability of economic and financial information. IA has been applied in many commercial banks in developed and developing countries around the world, becoming a core requirement of Basel II. IA was born and developed as an objective necessity to strengthen governance and supervision in the context of strong and unpredictable economic and social fluctuations. In the new business context with many fluctuations and risks, along with strict management requirements from the government and state banks, most financial institutions, especially banks, have to build and develop IA to achieve a balance between risk management, profit maximization, and compliance with strict regulations in the field of currency business. In Vietnam, research on IA in general and in the banking sector in particular mainly discusses the internal control system and IA function. The research articles mainly focus on aspects such as the necessary change of IA in Vietnam; risk-oriented IA orientation; and evaluation of the effectiveness of IA in commercial banks. BVB is a small-scale commercial bank and was the latest in the system of commercial banks. During its operation and development, although BVB has achieved certain successes, there are still many limitations in operation and management. Although BVB has repeatedly adjusted, restructured, and changed its model, IA still has many limitations in the organization of the audit apparatus, methods, audit implementation process, and quality of human resources. These shortcomings show that BVB has not met international practices that affect the safe and healthy development of this bank. Based on the above reasons, the author has conducted research on IA to detect shortcomings and propose solutions to overcome and adjust limitations to improve the effectiveness of IA at BVB.

2. Theoretical Framework

Up to now, in the world, there have been many different concepts about internal audit. The concepts of internal audit were developed by many researchers, professional organizations as well and scholars around the world.

The concept of internal audit is presented in the work "Modern Internal Audit" by Griffiths (2006) [4]. In this concept, the author pointed out the attributes of internal audit including independence, objectivity, and opinions of internal audit. Independence means that internal audit activities should be located outside the normal management hierarchy, have the operational responsibility of the highest level within the enterprise, and report directly to the Chairman of the Audit Committee. In addition, internal audit must be outside the processes and activities being audited and have the right to be

proactive in its work.

Objectivity means that the internal audit's opinion does not depend on its managers. Opinions must be based on evidence, unbiased, and free of any interference. Ultimately, the goal of internal audit is to communicate to management, and through them to stakeholders, how well risk is being managed. It can be said that Griffiths' definition is quite simple and provides a clear relationship between organizational goals, internal control, and the goals of internal audit.

For professional associations, the concept of IA is defined by ACCA as follows: "IA is an independent and objective assessment of the internal control system to effectively manage risks according to the unit's risk appetite. This concept shows that the object of IA is the entire Internal Control system in the unit, with the role of Risk Management.

Expanding on the objectives and roles of internal audit, the North American Internal Audit Association has given the following definition of internal audit: "Internal audit is an independent, objective assurance and consulting activity, designed to create additional value and improve organizational performance. It helps organizations achieve their goals by providing a systematic and disciplined approach to evaluate and improve the performance of risk management, control, and governance processes. In this concept, internal audit has the role of evaluating and improving the performance of not only internal control but also the risk management and governance processes in the enterprise.

The International Federation of Accountants has a more direct view: "Internal auditing is an assessment activity established within an enterprise as a service for that enterprise, with the function of checking, evaluating and monitoring the appropriateness of the enterprise and the effectiveness of the accounting and internal control systems".

IIA (Institution of Internal Audit), a global international organization specializing in research on internal audit, has provided a comprehensive definition of internal audit, considering "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes". The IIA's 1999 definition of internal audit can be seen as a pivotal, key definition that describes all the necessary goals, nature, and scope of internal audit. This definition is widely accepted and used around the world and has expressed the spirit of internal audit, from the content of activities to the meaning and role of internal audit.

3. Research Methodology

The article uses a qualitative research method. The research is based on secondary information sources and collected data to learn basic theoretical issues about internal audit. The document includes theories as well as practical research works related to internal audits at commercial banks that have been published in books, newspapers, and magazines by domestic and foreign authors. Research data is fully and reliably cited, and is synthesized, analyzed, and evaluated by the author team to make recommendations for the article. In

addition, the article also conducts a direct survey to find out the current status of the internal audit at BVB, thereby assessing the advantages and disadvantages and proposing appropriate solutions.

4. Current Situation of the Internal Audit at Bao Viet Bank

Current Status of the Internal Audit Organizational Structure

The internal audit Department was established at the time of BVB's establishment and was organized in the form of the internal audit department. The internal audit Department is under the Board of Supervisors, independent of professional departments and units in the BVB system. The head of the audit department and full-time auditors of the internal audit Department do not concurrently undertake other jobs of BVB. internal audit activities include inspection, control, and audit of business activities, financial reports, and accounting at the Head Office and branches. Internal audit activities are carried out objectively, honestly, and promptly, to ensure that BVB's business activities comply with the provisions of law and internal management regulations. internal audit evaluates the compliance with Resolutions and decisions of the General Meeting of Shareholders, Board of Directors, and Board of General Directors; and control, limit risks, and protect asset safety in BVB's operations. The staff of BVB's internal audit Department has 9 auditors who undertake audit work for the entire system of 60 branches and transaction offices distributed across the country.

Current Status of Internal Audit Content at Bao Viet Bank

The duties of the internal audit Department are specified in Article 12, Regulation No. 804/2015/QC-HĐQT dated April 13, 2015 including the following activities: (1) Assessing the completeness, effectiveness and efficiency of the internal control system and (2) Carry out a review and assessment of: (i) The application and effectiveness of BVB's risk management policies and processes, including the processes implemented by information technology system; (ii) Completeness, accuracy and security of management information systems and financial information systems, including electronic information systems and electronic banking services; (iii) Completeness, timeliness, honesty, reasonableness and accuracy of the accounting system and financial reports according to the provisions of law; (iv) Mechanism to ensure compliance with legal regulations, internal regulations, processes, operational rules, professional ethics rules, and regulations on ensuring safety in operations; (v) Mechanisms, policies, processes, internal regulations, and organizational structure of BVB; (vi) Measures to ensure asset safety, making recommendations to improve the effectiveness of systems, processes, and regulations, ensuring BVB's operations are safe, effective, and legal; (vii) Evaluate the economy and efficiency of activities and use of resources, thereby determining the level of compatibility between achieved operational results and set operational objectives; (viii) Carry out other contents related to the functions and tasks of internal audit as requested by the Supervisory Board and the Board of Directors.

The internal audit Department still mainly focuses on conducting audits in the direction of compliance testing but has not oriented audits in the direction of evaluating the completeness, effectiveness, and efficiency of the internal

control system. Consulting value for the Supervisory Board, Board of Directors, and Executive Board is not effective.

Current Status of the Internal Audit's Approach at Bao Viet Bank

In Article 13 of Regulation No. 804/2015/QC-HĐQT dated April 13, 2015, of the Board of Directors, it is clearly stated that the method of implementing internal audit at BVB is a "risk-oriented" method. This method prioritizes focusing resources on audit units, departments, and processes that are assessed to have a high level of risk. Internal audit must identify, analyze, evaluate risks, and build risk profiles for each BVB activity. The risk profile includes all potential risks, the possible impacts of those risks on BVB's operations, and the likelihood of those risks occurring. Based on the assessment of impact and likelihood of occurrence, risks are classified as high, medium, or low risk. Risk assessment and classification must be performed at least once a year. The results of risk assessment are the basis for the Head of Internal Audit to report to the Supervisory Board, General Director, Board of Directors, and Board of Members to make annual internal audit plans. Risky activities will be ranked in order from high to low, in which activities considered high risk will be prioritized to focus more resources, and time, and perform audits first, often more frequently than lower-risk activities. The audit plan must be built based on the results of risk assessment and must be updated, changed, and adjusted following developments and changes in operations. The audit method used by the internal audit Department of BVB does not fully meet the requirements of the "risk-oriented" audit method. Before conducting the audit, the internal audit has not yet evaluated, classified, and profiled risks for each activity and operation. Internal audit's activities only focus on detecting violations, and consider regulations and procedures as standards to evaluate the effectiveness of professional performance.

Current Status of the Internal Audit Process at Bao Viet Bank

Through direct research and results of checking audit records at BVB, it is shown that the internal audit department is mainly responsible for organizing the construction and implementation of the audit process. The internal audit process at BVB is organized to include the following steps: (i) Prepare annual audit plan, (ii) Perform audit, (iii) Prepare and send audit reports, and (iii) Supervise implementation recommendations of the internal audit. The audit plan at BVB includes the annual audit plan and the plan for each specific audit. For the annual audit plan, the time to prepare the annual internal audit plan usually starts from the end of the previous fiscal year and is approved at the beginning of the next fiscal year. The annual audit plan determined by the internal audit department includes (1) Organizing the identification of audit subjects and scope; (2) Organizing a draft annual internal audit plan and (3) Organizing discussion, approval, and promulgation of the annual internal audit plan. Regarding planning for each internal audit, based on the approved annual internal audit plan, the head of the internal audit Committee assigns the internal audit team to organize detailed planning for each audit. The Head of the internal audit Committee assigns auditors to develop plans for each audit and submit them to the Head of the internal audit for approval to ensure

consistency in content, resources, and audit objectives before announcing the plan. Regarding the time plan for each audit, it is usually developed, drafted, approved, and announced by the auditor 1 month before implementation. Regarding the content of the audit plan, it is required to ensure the main contents such as object, scope, audit method, personnel, implementation time, budget, and general information about the object being audited, and some other necessary information. The main tasks in organizing the planning for each audit include: (1) Organizing the determination of the object, scope, object, and purpose of the audit; (2) Organization determines audit time and resources; (3) Organize and develop the audit program and (4) synthesize the audit plan.

5. Comments and Discussions

During its operation, the internal audit department detected errors and fraud, contributing to ensuring the safety of the bank's assets, improving business efficiency, and contributing to the development of BVB. These achievements are thanks to the results that BVB has achieved in the organization and activities of internal audit. The legal position of the internal audit department ensures the necessary independence and objectivity. The internal audit Department is managed by the Board of Supervisors, allowing the internal audit Department and internal auditors to have independence, limit interventions that affect objectivity, and comply with international standards. The team of internal auditors has the capacity, good qualities, training, professional qualifications, experience and skills necessary to complete assigned tasks. Internal recruitment policy combined with external recruitment not only creates stability and strives to contribute to employees, but also brings the internal audit department many new thoughts and creativity in work. The scope of internal audit is increasingly expanding, in addition to auditing traditional activities such as credit operations and capital mobilization, other activities such as auditing executive management and capital construction have also been audited. The "risk-oriented" auditing approach has also been initially applied to high-risk activities, operations, and processes. The higher the risk of activities, processes, and operations, the higher the audit frequency. Information technology has been applied by the internal audit Department to internal audit work, contributing to improving work productivity.

Besides the achieved results, BVB's internal audit activities still have many limitations, specifically as follows: First, internal audit work has not been developed according to the direction of internal audit standards and international practices. Second, internal audit innovation is still slow, there have not been many changes and improvements to promote the benefits of internal audit for the development of BVB. Third, compared to other banks of the same scale, the qualifications of internal audit are still limited and do not fully meet the requirements.

6. Solutions to Improve the Internal Audit at Bao Viet Bank

To achieve the set goals, BVB needs to focus resources, mobilize the strength of the entire system to effectively and synchronously deploy solutions, and strengthen the internal control system. Based on the limitations analyzed above, the requirement for BVB right now is to have a strategy to stabilize the organization and perfect the content, methods,

and processes of internal audit. Therefore, BVB needs to implement the following solutions:

Completing audit content: The internal audit Department not only conducts compliance audits or financial statement audits but also needs to focus more on operational audits to evaluate the effectiveness of banking processes and governance frameworks, risk management, and internal control systems. Internal audit needs to expand in many areas, including risky and unaudited operations such as information technology, capital business, and financial investment.

Improve audit's approach: Implement a risk-oriented audit method to replace the previously applied compliance method. This method needs to be fully implemented from the stage of annual audit planning to planning for each audit, and audit program... To implement, the internal audit department needs to build a foundation, solid foundation, and necessary conditions. First of all, internal audit needs to identify, analyze, measure, evaluate risks, and build risk profiles for each audited object. This profile includes all potential and control risks, as well as the possible impact of these risks on the bank's operations. Based on the assessment of the impact and likelihood of risks occurring, each branch, operation, and process will be classified according to high, medium, or low-risk level. For risk assessment activities to be organized scientifically and reliably, BVB needs to quickly build an appropriate risk assessment model based on the identified risk appetite.

Completing the internal audit process: Audit planning needs to be completed each year to ensure that internal audit activities closely follow the bank's risk portfolio and are conducted cost-effectively and reasonably. Risk assessment is the first important stage of the audit planning process, serving as a basis for performing audit activities in the financial year. Based on the results of risk assessment, an internal audit creates an audit plan, which determines the subjects, frequency, and personnel for the audits. Business processes that are assessed as having a high level of risk should be audited regularly, at least once a year. In addition to the results of risk assessment, internal audits can rely on several other factors to plan, such as problems discovered in previous audits, and specific requirements of management or the audit committee. Control, or of the banking supervision agency. Internal audit standardizes the internal audit process based on the audit plan and program to perform audits by combining tests and professional techniques to collect audit evidence.

Strengthen the coordination of audited departments: Employees and leaders of the audited department need to create all conditions for internal audit to have unlimited access to the database without hindrance. These departments need to have a positive and constructive attitude and provide adequate documents, records, and information. When auditors discover errors and limitations, they need to request corrections and overcome the unit's shortcomings. Then, it is necessary to find all measures to correct those limitations in the shortest time according to the auditor's recommendations.

Strengthening auditor personnel: In fact, the personnel working in the internal audit department are all people with experience in the banking sector. However, their professional qualifications are uneven, most auditors come from other departments and do not have a foundation in knowledge and working methods regarding internal audit

work. To meet the requirements, the internal audit department needs to have a periodic training plan for auditors. With the increasingly expanding scale of operations, the current number of auditors cannot meet the requirements of audit activities. Therefore, the Supervisory Board and the Board of Directors also need to have a plan to increase staffing and recruit more auditors to meet the increasing workload. In addition, new audit areas also need to be strengthened and supplemented, such as information technology auditing.

7. Conclusion

Internal audit is an important part of the inspection and supervision system of commercial banks. In recent years, due to the global financial crisis, the world banking system in general and in Vietnam in particular, has revealed major limitations, one of the causes is related to internal audit.. The article explores the current situation of Internal Audit, clarifies the advantages and disadvantages, and proposes solutions to help businesses adjust to improve the operational efficiency of Internal Audit at BVB.

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