



Received: 04-12-2023
Accepted: 14-01-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Internal Audit in Businesses: Research in Vietnam

Thi My Linh Dang

University of Labour and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Thi My Linh Dang**

Abstract

Internal audit plays a very important role in the business operations of an enterprise. However, up to now, internal audit has not received much attention and attention from Vietnamese businesses. Internal audit activities play an important role in ensuring publicity and transparency of financial information, helping to detect, prevent and

promptly handle fraud and weaknesses in management at companies. Business units-public. To create conditions for the internal audit system in these units to operate effectively, Vietnam needs to research and summarize more international experiences.

Keywords: Internal Audit, Enterprise, Business

Question

Internal audit plays a very important role in the business operations of an enterprise.

Recently, the Government issued Decree No. 05/2019/ND-CP regulating internal audit, including a number of regulations on internal audit at enterprises, expected to create motivation for businesses. State-owned enterprises and private enterprises apply internal audit substantially in their operations.

The importance of internal audit in businesses

According to the International Federation of Accountants (IFAC), internal audit is “an evaluation activity established within an enterprise as a service, with the function of checking, evaluating and monitoring the appropriateness and effectiveness of accounting and internal control systems. According to the Institute of Internal Auditors (IIA): “Internal auditing is an independent assessment and consulting activity within an organization, designed to improve and add value to that organization's activities.” Helps organizations achieve their goals by systematically and systematically evaluating and improving the effectiveness of governance, control and risk management processes.

According to Decree No. 05/2019/ND-CP dated January 22, 2019 of the Government, internal audit has the following tasks: Check the suitability, effectiveness and efficiency of the internal control system; Check and confirm the quality and reliability of economic and financial information of financial reports and management accounting reports before submitting for approval; Check compliance with operating principles, management, compliance with laws, financial and accounting regimes, policies, resolutions and decisions of accounting unit leaders; Detect loopholes, weaknesses, and frauds in the management and protection of the unit's assets; Propose solutions to improve and perfect the management and operations system of the accounting unit.

Dang Van Thanh (2017) ^[4] said that internal audit has 3 major functions ^[4], which are: Analyzing current strategies and predicting the future; Risk management and preventing and overcoming the consequences of risks in economic, financial and business activities of the unit, through the organization and control of information and communication systems; Control financial activities. According to Dang Van Thanh (2017) ^[4], the essential requirements of financial activities are to be safe, effective, and transparent. Each economic organization must establish and maintain the existence and effectiveness of three rounds of control, including internal audit. This is a management tool for leaders, state financial managers, as well as businesses to control, evaluate, analyze the situation of state financial activities, corporate finance, evaluate and Adjust operating strategies and business strategies to be effective, ensure asset and capital safety and increase business competitiveness. Internal audit is also a tool to analyze and evaluate the quality of the accounting system and internal control system.

Internal audit function has become an indispensable need for corporate governance, internal control and risk management activities of businesses in the current context. Internal auditors can perform audits to evaluate and make recommendations to

improve governance processes or provide consulting on governance issues implemented by businesses. In fact, internal audit is considered the "eyes and ears" of business management through inspection and review of all departments and functions in the business.

In the market economy, internal audit has gradually expanded its scope across all areas of organizational activity within the enterprise and directed its activities toward improving management methods within the enterprise. Internal audit can be understood as the department in charge of periodically reviewing the measures that the Board of Directors and managers apply to manage and control the enterprise. The main goal of internal audit is to check the reasonableness and effectiveness of organizational and structural procedures, the reliability and truthfulness of accounting information, and the reasonableness and legality of business operations. International.

It can be said that internal audit is a tool that helps business leaders analyze investment and business activities, control and evaluate the business development strategies of the business and management behaviors. Internal audit provides the basis for business leaders to operate production and business effectively and dominate the market.

Businesses are required to have internal audits:

According to Decree 05/2019/ND-CP on internal audit, businesses are required to have internal audit, including:

1. Listed company;
2. Enterprises in which the State owns more than 50% of charter capital are parent companies operating according to the parent company - subsidiary model;
3. State-owned enterprises are parent companies operating according to the parent company - subsidiary model.

The remaining businesses are encouraged to perform internal audit work.

Businesses can hire an independent auditing organization qualified to conduct auditing activities according to the provisions of law to provide internal audit services.

However, in case a business hires an independent audit organization to provide internal audit services, it must ensure the basic principles of internal audit and the requirements to ensure compliance with the basic principles. Internal audit version specified in Article 5 and Article 6 of Decree 05/2019/ND-CP.

Internal audit workers must meet the following requirements:

- Have a university degree or higher in majors suitable to audit requirements, have full knowledge and are always updated in the assigned fields of internal auditing.
- Have worked for 05 years or more in the training major or 03 years or more working at the unit currently working or 03 years or more working in auditing, accounting or inspection.
- Have general knowledge and understanding of laws and operations of the unit; have the ability to collect, analyze, evaluate and synthesize information; Have knowledge and skills in internal audit.
- Have not been disciplined at a warning level or higher due to violations in economic, financial, or accounting management or are not currently under disciplinary sentence.
- Other standards prescribed by the unit.

Professional qualifications and independence of auditors

Many studies have demonstrated that internal audit has become an indispensable control mechanism in public sector units. In particular, the professional qualifications and independence of internal auditors are factors that affect the effectiveness of internal audit activities.

According to Schyf's research on internal auditing at a South African Government agency, the lack of qualifications and expertise of auditors is a factor that hinders the implementation of the internal audit function in the public sector. From there, the author recommends that audit committees in the public sector should initiate a plan to target internal auditors. These plans will provide authorities with insight into the current state of internal audit in the public sector and take measures to optimize operations through sourcing human resources, meeting customer expectations. Stakeholders and overcome the situation of having to hire internal auditors from external audit service providers.

Another study by Ahmad and his colleagues in the public sector in Malaysia shows that internal audit activities in this area face many barriers. Auditors still lack knowledge and have not received much professional training. The negative view of internal audit has led to management not only discouraging but also neutralizing the positive contributions of internal audit. In addition, internal auditors also have difficulty performing their tasks due to lack of capacity and independence. Research results have shown that, if internal auditors lack independence in their operations, audit reports will not be valuable and meaningful in improving accountability and transparency of the organization. Public area.

And research by Dessalegn G. Mihret and Yismaw on internal audit in a public educational organization in Ethiopia clearly shows that ineffectiveness in internal audit activities will affect budget control. Therefore, to improve efficiency, internal audit needs to expand the scope of audit combined with appropriate risk analysis. In addition, the fact that management agencies pay attention to the recommendations of internal auditors and have good human resource policies will significantly impact the effectiveness of internal audit activities.

According to a study on the effectiveness of internal audit in the public sector in Kogi State, Nigeria conducted by Emmanuel *et al.*, internal audit can detect fraud in the public sector. Thereby, the research team recommends that the Government maintain a favorable environment to help internal auditors have enough independence to complete their tasks well. The research team also made separate recommendations for internal audit personnel issues. Accordingly, the internal auditor recruitment process needs to be transparent to ensure the participation of qualified employees; the management boards of organizations need to promote the team of internal auditors to fully and seriously implement internal audit procedures; regularly train to improve skills for internal auditors.

Trends in the development of internal audit activities in Vietnam

Auditing began to form and develop in the world in both theory and practice in the 1940s of the last century. In Vietnam, on October 28, 1997, the Ministry of Finance issued Decision No. 832-TC/QD/CDKT on internal audit

regulations applicable to businesses. This is Vietnam's first legal document on internal audit. However, due to insufficient awareness and inconsistent views, at that time, this Document was not seriously implemented.

After nearly 20 years, faced with inadequacies in inspection and control of state financial activities, corporate finance and the demands of international economic integration and market economy, the issue of control Internal control and Internal Audit have officially put it into legal regulation in the amended Accounting Law in 2015. In particular, on January 22, 2019, the Government issued Decree No. 05/2019/ND-CP regulations on internal audit, including some regulations on internal audit at enterprises.

Accordingly, the following types of businesses must carry out internal audit work: Listed companies; Enterprises in which the State owns more than 50% of charter capital are parent companies operating according to the parent company - subsidiary model; State-owned enterprises are parent companies that operate according to the parent company - subsidiary model. Enterprises not falling into the above categories are encouraged by the State to carry out internal audit work. Currently, the process of opening up international economic integration and with the development of the capital market with the participation of foreign investors, internal audit has just begun to receive more attention.

In particular, many famous businesses in the financial market began to effectively use internal audit tools, including Bao Viet Group. The Group's Sustainable Development Report is highly appreciated by many international organizations and is prepared separately as a Sustainable Development Report according to the International Standards on Sustainable Development Reporting and Integration 17. The United Nations' sustainable development goals in Bao Viet's strategy, along with auditing financial indicators by Ernst & Young, Bao Viet also audits non-financial indicators. Bao Viet Group's Internal Audit Department has pioneered in participating in ensuring the Sustainable Development Report according to the contents of the Standards to ensure compliance with Bao Viet's strategies and plans and in accordance with international practice...

However, currently, most business owners in Vietnam are not properly aware of the role, tasks and functions of internal audit in their business operations. The reason is because businesses have not realized the importance and role of internal audit. B. The role of internal audit is quite blurred, partly due to the management system of Vietnamese businesses. The South is not synchronized. The field of internal auditing has not really attracted highly specialized human resources, along with that the human resources have not been properly and in-depth trained, the specific audit content is audit programs. Model audits applicable to this type of internal audit have not been issued, so to audit companies are having to build their own, so it is difficult to evaluate quality control...

Lessons learned for Vietnam

Based on the study of international experience, the article draws a number of lessons for Vietnam in building and developing internal audit at public service units using the state budget:

Firstly, to strengthen management of internal audit activities, the State needs to develop and promulgate

regulations on internal audit appropriate to new conditions, accompanied by instructions for units to set up internal audit departments. Internal audit department. At the same time, the State needs to have sanctions forcing units to establish internal audit departments. The Ministry of Finance will soon complete and issue specific instructions on internal audit activities as well as regulations on the legal status, independence, professional ethics, powers and responsibilities of internal audit.

Second, training institutions need to focus on equipping learners with knowledge about internal auditing, and can include the subject internal auditing in the mandatory curriculum for students majoring in accounting. Audit. Organizations and professional associations should also regularly organize training classes to grant certificates and foster internal auditing skills according to international standards and practices. In addition, it is necessary to consider cooperating with leading audit organizations in the world to exchange experiences, train high-quality human resources, and update new trends and standards when applied. At public service units.

Third, the internal audit department must ensure separation and independence from other functional departments of the unit to be able to complete audit tasks. The purpose, authority and responsibilities of the internal audit department also need to be clearly stated in official documents. In addition, the operating regulations of the units must clearly define the status and scope of activities of internal audit, allowing this department to access information sources to perform related work. Threats to independence must be managed at the level of each auditor, both departmental and organizational.

Fourth, internal auditors need to strengthen cooperation with external auditors in joint planning, exchanging information, opinions and reports to facilitate improved audit quality.

Fifth, leaders of public service units need to have a correct awareness of the role of internal audit in controlling, preventing and detecting violations, thereby providing necessary support to help the internal audit department can maximize operational efficiency at the unit. In addition, managers need to build an open and transparent recruitment process for internal auditors, to ensure the recruitment of employees with professional qualifications and professional ethics. At the same time, the head of the internal audit department should regularly attend meetings with unit managers to grasp policies that affect the unit's goals. In addition, managers need to pay attention to funding issues and create conditions for the internal audit department in the unit to operate effectively.

Some recommendations

For management agencies

- Strengthen the organization of propaganda information about the role of internal audit in enterprise operations, and at the same time organize propaganda about the contents of Decree No. 05/2019/ND-CP on related contents. Related to internal audit activities at enterprises. - Strengthen inspection and supervision of internal audit activities for businesses regulated by Decree No. 05/2019/ND-CP. At the same time, there are forms of warning and deterrence for businesses that do not comply with these regulations. For the business community

- Changing the perception of performing internal audit for business operations in the context of integration, including businesses not regulated by Decree No. 05/2019/ND-CP, from which owners actively carry out internal audit work in your enterprise. - To promote the role of internal audit in risk management, businesses need to organize and maintain the internal audit function in the business appropriately. First of all, in terms of approach orientation, a risk-oriented internal audit approach will be the best solution for businesses in the current context. Internal audit based on a risk approach is a trend and is increasingly proving its progress and effectiveness in the role of accompanying business management. In addition, internal audit can expand the scope and content to operational audit in the direction of conducting joint audits, in which the focus is on auditing performance, efficiency, and effectiveness.
- For businesses that are required to perform internal audits, they can hire an independent auditing organization qualified to conduct auditing activities according to the provisions of law to provide internal audit services. In case an enterprise hires an independent audit organization to provide internal audit services, it must ensure the basic principles of internal audit and require compliance with the basic principles of internal audit regulations. Specified in this Decree.

For business leaders

- For the Board of Directors, Council of Members, and President of the company: Responsible for promulgating regulations on internal audit of the unit; Create favorable conditions to ensure the internal audit department fully implements its powers and duties according to regulations; Review, check, and evaluate the effectiveness and efficiency of the internal audit department; Responsible for ensuring the quality of internal audit activities; Equip the internal audit department with necessary resources; Decide on the implementation of internal audit recommendations; Urging and monitoring departments to implement internal audit recommendations; Take timely measures when there are recommendations and proposals from internal audit; Approve and adjust the annual internal audit plan to ensure the internal audit plan is risk-oriented...
- For the General Director (Director) of the enterprise: Create favorable conditions for internal audit to perform assigned tasks and direct departments to coordinate work with internal audit according to the provisions of the Law. regulations on internal audit; Urge units and departments to implement recommendations agreed with the internal audit department or according to the direction of the Board of Directors and Council of Members; Notify the internal audit department on the implementation of recommendations agreed with the internal audit department; Ensure the internal audit department is fully informed about changes and new issues arising in the unit's operations to early identify related risks...

For people doing internal audit work

Internal audit work does not audit the regulations, internal policies, procedures, and processes, but he or she is the main

person responsible for developing the regulations, internal policies, and procedures. That custom and process.

Internal audit workers do not have conflicts of rights and economic interests with the audited unit or department; internal auditors are not allowed to audit the unit or department to which the operator of that unit or department is a related person.

Internal auditors are not allowed to participate in auditing activities, departments that they are responsible for implementing, or managing that department within 03 years from the date of decision not to perform. Operate or manage that department.

- Ensure internal audit professional ethical principles: Integrity, objectivity, professional capacity and prudence, confidentiality, and professional conduct. The person in charge of internal audit, in addition to ensuring professional ethical principles, must also have monitoring, evaluation and management measures to ensure that internal audit workers comply with professional ethical principles. Internal audit profession.

References

1. National Assembly. Accounting Law, 2015.
2. Government. Decree No. 05/2019/ND-CP dated January 22, 2019 regulating internal audit, 2019.
3. Ministry of Finance. Decision No. 832-TC/QD/CDKT dated October 28, 1997 on promulgating internal audit regulations, 1997.
4. Dang Van Thanh. Internal Audit - Essential financial control tool, Accounting and Auditing Magazine, July 2017 issue, 2017.
5. Dang Thi May. New regulations on internal audit at enterprises today, Finance Magazine, 2019.
6. International Organization for Standardization. Risk management - Principles and guidelines, 2009. ISO 31000.
7. The Committee of Sponsoring Organizations of the Treadway Commission. Enterprise risk management framework, 2004.
8. IFAC. International Standard on Auditing 610 - Considering the Work of Internal Audit, 2003.