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Enhancing the Effectiveness of Internal Audit in State-Owned Enterprises in Vietnam: Current Status and Strategic Solutions

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Abstract

State-owned enterprises (SOEs) play a significant role in Vietnam's economy, yet their governance has historically faced challenges, including weak internal controls and oversight. In recent years, Vietnam has introduced regulations mandating internal audit functions in SOEs and listed companies (e.g. Decree 05/2019), aiming to align with international best practices. This paper explores the current status of internal auditing in Vietnamese SOEs and proposes strategic solutions to enhance its effectiveness. Using a qualitative analysis of existing literature, Vietnamese regulations, international standards, and case evidence, we identify several key issues: nascent implementation of internal audit, structural and organizational obstacles to auditor independence, limited adoption of risk-based auditing, capacity gaps in human resources, and inadequate integration of technology. While the new regulatory framework has laid groundwork for internal audit, many SOEs still struggle with unclear internal audit roles, overlapping supervisory bodies, and a lack of trained

personnel. We argue that strengthening internal audit effectiveness requires a multifaceted approach. Recommended solutions include refining the regulatory framework to clarify internal audit's mandate and reporting lines, establishing stronger organizational support and independence (such as empowering audit committees), investing in human capital through training and professional certification, and leveraging technology and data analytics in audit processes. Aligning internal audit practices with international standards of the Institute of Internal Auditors (IIA), INTOSAI guidance, and OECD governance principles is crucial. Enhanced internal audit in Vietnamese SOEs is expected to improve risk management, transparency, and accountability, thereby supporting better governance and performance. The findings have important implications for policymakers in refining regulations and for SOE leadership in implementing best practices, and the paper suggests directions for future research on internal audit development in emerging markets.

Keywords: Audit, Enterprises, INTOSAI guidance, OECD

Introduction

Internal auditing is widely recognized as a cornerstone of good corporate governance, providing independent assurance on risk management, control, and governance processes. In the context of state-owned enterprises (SOEs), effective internal audit functions are particularly critical. SOEs often manage vast public resources and are subject to agency problems, where the interests of government owners (and the public) must be safeguarded against managerial misbehavior. Agency theory suggests that mechanisms like internal audit can help reduce information asymmetry and monitor management on behalf of the owners. By evaluating internal controls and compliance, internal auditors can detect inefficiencies or fraud, thereby protecting stakeholder interests and adding value to organizational performance. Moreover, institutional theory posits that organizations adopt structures such as internal audit under external pressures – for example, regulatory mandates or normative expectations – to gain legitimacy. In Vietnam, both theoretical drivers are evident: the push for internal audit in SOEs stems from concerns over oversight (agency considerations) as well as coercive pressure from new laws and international integration.

Vietnam's economy features a substantial SOE sector. Recent estimates indicate that SOEs (including wholly and majority state-owned firms) account for a large share of national output – roughly 30–40% of GDP by various measures and dominate many key industries. These enterprises historically enjoyed monopolistic advantages but have also been associated with problems of inefficiency, financial under-performance, and corruption. High-profile incidents of mismanagement in major

SOEs over the past two decades underscored weaknesses in internal controls and oversight, prompting the government to pursue governance reforms. Strengthening internal audit is viewed as a crucial step to improve accountability in SOEs and to prevent fraud and waste of state asset. Recognizing international best practices, Vietnam has undertaken significant regulatory changes to institutionalize internal auditing across the public and corporate sectors. Notably, the Government issued Decree 05/2019/ND-CP on internal audit, effective April 1, 2019, which for the first time requires many organizations – including ministries, large public service units, and enterprises with substantial state ownership – to establish an internal audit function. Enterprises subject to this decree (such as listed companies and firms with over 50% state capital) were given 24 months to set up internal audit units as prescribed. This move aligns with global governance norms and was commended for enhancing transparency and investor confidence.

The introduction of mandatory internal audit represents a paradigm shift for Vietnamese SOEs, many of which previously lacked a formal internal audit department. Historically, the role of internal auditing in Vietnam was often limited and compliance-focused. As noted by Lam (2020) ^[7], internal auditing in Vietnamese companies traditionally concentrated on checking financial records and monitoring internal controls, with a relatively narrow scope. In recent years, however, there has been growing awareness of the value internal audit can bring to risk management and corporate value – a change driven by both regulatory impetus and the influence of multinational investors and professional bodies. Despite this progress, the actual implementation of internal audit in SOEs remains at an early stage. Many companies are still in the process of defining the internal audit function's role and hiring qualified auditors, as the April 2021 compliance deadline has only recently passed. Initial observations suggest that compliance is uneven: while some large SOEs and listed firms have established internal audit units or outsourced the function, others face delays or minimalistic compliance due to resource constraints and limited expertise.

This study sets out to examine the current status of internal audit in Vietnam's state-owned enterprises and to identify strategies to enhance its effectiveness. The key research questions include: *What are the main characteristics and challenges of internal audit practices in Vietnamese SOEs at present?* and *What strategic solutions can improve the effectiveness and added value of internal audit in these organizations?* Addressing these questions is significant for several reasons. Practically, as Vietnam deepens SOE reforms and integrates into international markets, effective internal auditing will be essential to bolster financial discipline, transparency, and trust in SOEs. For regulators and policymakers, understanding the gaps in current practice can inform refinements to laws and guidance (for instance, clarifying internal audit's mandate or strengthening enforcement). For SOE executives and audit professionals, identifying best practices and common pitfalls can help in building more robust internal audit functions that contribute to organizational objectives. Academically, this research contributes to the literature on internal audit effectiveness in emerging markets and transitional economies, an area where empirical evidence has been relatively scarce.

The remainder of this paper is organized as follows. Section

2 (Literature Review) reviews international and Vietnamese literature on internal audit effectiveness, including theoretical frameworks such as agency theory and institutional theory, and highlights commonly noted challenges. Section 3 (Methodology) explains the qualitative, document-based approach used to gather and analyze information from regulations, prior studies, and reports. Section 4 (Results and Discussion) presents an analysis of the current state of internal audit in Vietnamese SOEs, covering aspects such as organizational structure, human resources, independence, integration with governance, use of technology, and key challenges. Section 5 (Strategic Solutions) proposes a set of strategic measures – regulatory, organizational, technological, and human capital – to enhance internal audit effectiveness, with reference to international standards (IIA, INTOSAI, OECD) and best practices. Section 6 (Conclusion and Implications) summarizes the findings, discusses their implications for policymakers and practitioners, and suggests directions for future research on this topic.

Literature Review

Internal Audit Effectiveness: Concepts and International Evidence

Definition and Role of Internal Audit: The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization's operations”. By evaluating and improving risk management, control, and governance processes, internal audit helps organizations achieve their objectives in a systematic, disciplined manner. An effective internal audit function provides assurance to the board and senior management that key risks are being managed and that organizational processes are reliable. In practice, internal audit effectiveness is often understood in terms of the function's ability to deliver the assurance and insights that stakeholders need (e.g. audit committee, executives) in a timely and useful way, and to prompt improvements through its recommendations. Various measures have been used in prior research to gauge internal audit effectiveness, such as the implementation rate of audit recommendations, the quality of audit plans and reports, and stakeholder satisfaction with audit services. Crucially, effectiveness is linked not just to compliance with professional standards but to the tangible impact internal audit has on strengthening internal controls and organizational performance.

Key Factors Influencing Effectiveness: A considerable body of international research has examined factors that affect the effectiveness of internal audit functions. Studies across different countries and sectors consistently highlight a core set of determinants, including internal audit independence, management support, auditor competence, and quality of audit work or processes.

- *Independence and Objectivity:* Organizational independence of internal audit – meaning freedom from undue influence by management – is widely viewed as fundamental to its effectiveness. According to agency theory, internal auditors serve as agents of the board or owners in monitoring management, so they must be able to report findings candidly without fear of reprisal. Research supports this: for example, Mutchler (2003) and Al-Akra *et al.* (2016) found that independence is a critical factor for internal audit effectiveness. Empirical

studies in various contexts (e.g. Greece, Tunisia) have shown that greater internal audit independence – often reflected in reporting to the board/audit committee rather than management – positively influences the audit function's effectiveness. Recognizing this, the IIA's International Standards emphasize that the chief audit executive (CAE) should have direct and unrestricted access to senior management and the board, and administrative reporting lines should preserve objectivity. INTOSAI's guidelines similarly call for internal audit services in the public sector to be as functionally and organizationally independent as possible, noting that an independent, well-resourced internal audit is a “*fundamental feature of good governance*” in the public sector.

- **Management Support:** The support of top management for internal audit – in terms of providing adequate resources, commitment to act on audit findings, and fostering an appropriate culture – is another decisive factor. Studies have found that when senior management values internal audit and responds to its recommendations, the audit function is perceived to be more effective and impactful. For instance, interviews in a Saudi Arabian study (Alzeban & Gwilliam 2014) [8] indicated that strong management support was associated with higher internal audit effectiveness in public organizations, mainly by ensuring that audit findings lead to improvements. Management support also ties into the audit function's mandate – if management involves internal audit in strategic risk discussions and seeks its advice proactively, the function can contribute beyond traditional compliance checking. Conversely, lack of support can marginalize internal audit, reducing it to a perfunctory role.
- **Competence of Internal Auditors:** The professional proficiency of internal audit staff – including their education, experience, certifications, and training – is frequently cited as a crucial element for effectiveness. If auditors have strong expertise in auditing techniques, industry knowledge, and relevant regulations, they are better equipped to identify issues and add value. Al-Twaijry *et al.* (2003), examining internal audit in Saudi Arabia, concluded that auditor competence was the most important factor affecting internal audit activities. Similarly, research in emerging markets (e.g. a study on Tunisian companies by Dellai & Omri 2016) emphasized that an adequately skilled internal audit team is essential for producing quality audit work and credible recommendations. Competence extends to areas like IT auditing and data analysis, given the growing complexity of organizational systems. Without continuous development of skills, internal auditors may be unable to effectively audit complex areas or may miss emerging risks.
- **Quality of Audit Work:** The internal audit department's methodology and execution quality – such as risk-based planning, thorough fieldwork, and clear reporting – also influence its effectiveness. High-quality internal audit work means that audits are focused on relevant risks, findings are valid and well-supported, and reports are constructive. Mihret and Yismaw (2007) [9], in a study of an Ethiopian public enterprise, found that the quality of internal audit (measured by factors like scope and audit communications) had a direct impact on its

perceived effectiveness. Likewise, a history of reliable audit results can build trust with stakeholders, thereby increasing the likelihood that audit advice is heeded. Prior studies suggest that when internal audit adheres to professional standards (such as the IIA's International Professional Practices Framework) and continuously improves its practices, it is more effective in improving organizational processes. Effective internal audit often entails establishing a risk-based audit plan (targeting the areas of highest risk to the enterprise), issuing timely audit reports with practical recommendations, and following up to ensure issues are resolved.

Beyond these internal factors, external variables can also play a role. For example, the existence of an audit committee or equivalent governing body to which internal audit reports is associated with greater effectiveness. Studies in developed markets have found that close interaction between internal auditors and audit committees strengthens audit independence and influence. Regulatory environment is another factor: in countries where corporate governance codes or laws mandate certain internal audit practices, organizations are more likely to empower their internal audit functions (though mere mandate without enforcement may lead to symbolic compliance). Indeed, institutional theory has been used to explain how internal audit functions evolve under regulatory and normative pressures. Al-Twaijry, Brierley & Gwilliam (2003) applied an institutional perspective to internal audit development in Saudi Arabia, observing that while coercive pressures (e.g., government regulations) led companies to formally adopt internal audit, actual effectiveness depended on deeper changes in organizational support and culture. In some firms, internal audit existed only “on paper” as a ceremonial compliance to regulation, lacking real impact – a phenomenon of decoupling consistent with institutional theory when external norms are not internalized.

Internal Audit in Vietnam: Research and Context

Research on internal audit in Vietnam has been relatively limited, as the formal practice is still emerging. Until recently, Vietnam did not require companies (apart from banks and certain public-sector entities) to maintain internal audit departments, and as a result, many firms had either no internal audit or only ad hoc internal control staff. Academic and professional literature note that many Vietnamese companies – including some listed firms – historically lacked a clear understanding of the internal auditor's function and responsibilities. A 2021 study by Nguyen *et al.* published in the *International Journal of Financial Studies* investigated internal audit effectiveness in non-financial listed companies in Vietnam. The authors highlighted that, prior to the new internal audit decree taking full effect in 2021, many listed firms did not have effective internal audit practices due to low awareness and unclear regulations. Their empirical findings, based on a survey of 144 internal auditors, revealed that among the factors studied, *independence of internal audit* and *management support* had a significant positive influence on perceived effectiveness, whereas auditor competence and quality of audit procedures did not show a statistically significant impact. The latter result was somewhat surprising given international evidence, and may reflect the context: if many internal audit functions were newly established primarily to comply with regulation, even competent auditors might be constrained by

lack of authority or support, making independence and top management backing the differentiating factors in effectiveness.

Vietnamese authors and practitioners have pointed out persistent challenges facing internal audit implementation.

Regulatory framework: Decree 05/2019 and subsequent guidance have laid a foundation, but detailed guidelines are still evolving. As of 2020, the Ministry of Finance had issued Circular 66/2020/TT-BTC providing a sample internal audit charter/regulations for enterprises and Circular 08/2021/TT-BTC introducing Vietnamese Internal Auditing Standards and a Code of Ethics, largely aligned with the IIA standards. These instruments are meant to operationalize the decree's requirements. However, experts note that certain aspects remain vague. The decree itself "is not prescriptive" and gives SOE governing bodies latitude in defining internal audit's scope, reporting lines, and activities. Without strong enforcement or clear benchmarks, some companies may institute only minimal internal audit processes. A 2019 joint report by the Vietnam Chamber of Commerce and Industry (VCCI) and the UK Government observed that Vietnamese companies often conflated internal audit with internal control and lacked clarity on role.

Governance structure: Vietnam's corporate governance system influences internal audit arrangements. Under the Law on Enterprises, many large companies (especially those with significant state ownership or not yet equitized) have a Supervisory Board – often called the Board of Controllers (BoC) – which is a statutory body overseeing financial reporting and compliance. This BoC, appointed in wholly state-owned enterprises by the state owner's representative (e.g., the State Capital Management Committee), exists in lieu of an audit committee. The presence of the BoC can complicate the internal audit function's positioning. In theory, an internal audit unit should report functionally to a board-level committee to ensure independence. In practice, the decree allows companies to choose how to structure internal audit, either as a dedicated department or as part of an existing control body. Many SOEs have set up an "Internal Control Board" or similarly named committee that includes the internal audit function. However, this Internal Control Board often reports to the executive management (Board of Management) rather than being truly independent. OECD (2022) found that in Vietnamese wholly-owned SOEs, internal auditors typically sit on an Internal Control Board subordinate to management, which undermines their autonomy compared to a model where they would report to an independent audit committee. The literature suggests that this structural issue – the lack of an independent governance body for internal audit in many SOEs – is a major challenge for internal audit effectiveness in Vietnam. Some joint-stock companies with state ownership have opted to establish audit committees (which Vietnamese company law now permits as an alternative to the BoC), and stakeholders report that this tends to simplify oversight and improve internal audit's clarity of role.

Common challenges in Vietnam: Several authors have outlined the typical hurdles internal audit faces in Vietnam, which mirror those found in other developing or transitional economies. These include: (1) *Regulatory and awareness gaps* – Until recently, internal audit was not mandatory and thus not widely understood; even now, compliance with the new decree is a learning process for many SOEs, and guidance on advanced practices like risk-based auditing is

still being disseminated. (2) *Lack of qualified personnel* – There is a shortage of internal audit professionals with the necessary experience and certifications (e.g., Certified Internal Auditor). Many companies initially assign accounting or inspection staff to perform internal audit roles, who may need extensive training to meet IIA standards. (3) *Cultural factors* – Vietnamese corporate culture has traditionally placed less emphasis on independent oversight and more on hierarchical control. Internal auditors may face reluctance or non-cooperation from auditees, especially if the concept of internal audit as a constructive advisor is not yet ingrained. The willingness of management to accept and act upon internal audit findings is variable; some see it as a mere compliance exercise rather than a value-adding function. (4) *Limited scope and focus* – As noted by local experts, internal audit in Vietnam has tended to focus on financial reporting accuracy and basic compliance checking. The move towards a more risk-based and strategic audit approach is gradual. If internal audit functions remain stuck in a traditional "policing" mindset, they may not effectively address emerging risks or provide insights on operational and strategic issues.

In summary, the literature indicates that internal audit effectiveness is a multidimensional concept influenced by structural, organizational, and environmental factors. For Vietnam's SOEs, the introduction of internal audit requirements is recent, and the effectiveness of these internal audits will depend on how well companies can overcome challenges related to independence, capacity, and integration into the governance framework. Theoretical frameworks like agency theory underscore the need for internal audit to be empowered to check management, while institutional theory reminds us that formal adoption of internal audit must be accompanied by genuine commitment to its principles to avoid superficial compliance. These insights from the literature set the stage for examining the current reality in Vietnamese SOEs, which we turn to in the results and discussion.

Methodology

This research employs a qualitative, exploratory approach to analyze the effectiveness of internal audit in Vietnamese state-owned enterprises and to develop strategic solutions. Given the context – where internal audit regulations are new and comprehensive empirical data are limited – a qualitative methodology centered on document analysis and secondary data was deemed appropriate. The study draws on multiple sources of evidence, including legal and regulatory documents, academic and professional literature, survey reports, and case studies, to construct a holistic view of the current state of internal auditing in Vietnam's SOE sector.

Data Collection: We collected data from both primary documents and prior studies. Key Vietnamese regulatory documents were examined, such as Decree 05/2019/ND-CP on internal audit and related Ministry of Finance circulars (e.g., Circular 66/2020 on internal audit regulations and Circular 08/2021 on internal audit standards). These texts provided insight into the formal requirements for internal audit in SOEs, the scope of applicability, and the intended structure and duties of internal audit functions. We also reviewed the Law on Enterprises (2020) and other relevant laws to understand the corporate governance context (for instance, the role of Supervisory Boards in SOEs, which intersects with internal audit oversight). International

standards and guidelines were referenced, including the IIA's International Professional Practices Framework (IPPF) and INTOSAI publications, to benchmark Vietnamese regulations against global best practices in internal auditing and public-sector governance.

In addition to regulatory texts, we gathered a wide range of scholarly and practitioner literature. This included academic journal articles (both international studies on internal audit effectiveness and Vietnamese context-specific research), such as the study by Nguyen *et al.* (2022) ^[6] on internal audit in listed companies and other empirical works identified through research databases. Reports and reviews by international organizations were another important source; notably, the OECD (2022) ^[4] Review of Corporate Governance of SOEs in Viet Nam provided in-depth analysis based on interviews and assessments of Vietnamese SOEs' governance structures. Such reports function as quasi-case studies, highlighting real-world implementation issues in multiple enterprises. We also considered professional surveys and insights – for instance, the PwC Global Internal Audit Study 2023 (Vietnam Cut), which offers data on internal audit practices and trends in Vietnam relative to global peers, and commentary pieces by consulting firms (e.g., RSM Vietnam's article on assessing internal audit effectiveness). These provided contemporary evidence of how internal audit functions operate and are perceived in Vietnam.

Analytical Approach: The methodology can be described as a *documentary analysis combined with comparative benchmarking*. We performed content analysis on the collected documents and literature to extract themes related to internal audit structure, independence, resources, processes, and challenges in SOEs. Key themes of interest (guided by the research questions and literature review) included: the organizational placement of internal audit in SOEs, the qualifications and training of internal auditors, the extent of risk-based auditing, the interaction between internal audit and other governance entities (like Boards of Controllers or Party committees), and the usage of technology in audit activities. For each theme, we coded evidence from sources and then synthesized findings. For example, to assess independence, we compiled information on reporting lines and authority of internal audit units from regulations and the OECD review, identifying whether internal auditors in SOEs truly operate without interference. We adopted a comparative perspective by juxtaposing Vietnam's situation with international standards and experiences. By referencing IIA and INTOSAI principles (e.g., on independence, competency, professional practices), we evaluated where Vietnamese internal audit practices converge or diverge from global expectations. We also compared findings from Vietnamese sources with known challenges in other countries' SOEs or emerging markets, as documented in the literature, to see if similar patterns (such as ceremonial adoption of internal audit or capacity shortfalls) occur. This comparison helped in formulating solutions that are informed by what has worked elsewhere or by the standards that Vietnam aspires to.

Validity and Reliability: Using multiple sources (triangulation) enhances the validity of the findings. For instance, if a challenge is noted in an OECD report and echoed in a local professional article, we can be more confident in its significance. By relying on official documents for factual information (like what the law

mandates) and on scholarly studies for analytical insights, we reduce bias that might come from a single source. However, it is acknowledged that this research is largely based on secondary data. One limitation is the potential gap between documented information (e.g., what regulations state or what interview-based reports claim) and on-the-ground practice. To mitigate this, we interpreted results cautiously and, where possible, integrated anecdotal or qualitative insights (such as stakeholder remarks from the OECD review) to illustrate practical realities.

No new surveys or interviews were conducted for this study due to resource constraints and the broad scope of the inquiry. Instead, the approach was to aggregate and critically analyze existing knowledge. The qualitative nature of this research means that the results are interpretative. The aim is to provide a comprehensive understanding of internal audit effectiveness in Vietnamese SOEs and propose well-justified solutions, rather than to test a hypothesis or quantify relationships. The strategic solutions drawn in the later section are derived from the issues identified through this analysis, combined with best-practice recommendations from international frameworks.

In summary, the methodology relies on extensive literature and document review, content analysis for thematic extraction, and an evaluative comparison against international standards. This approach is suitable for the exploratory aims of the paper, given that internal audit in Vietnam's SOEs is a developing area where qualitative insights are valuable for forming a baseline understanding and guiding further improvements.

Results and Discussion

Current State of Internal Audit in Vietnamese SOEs

Implementation and Coverage: Following the promulgation of Decree 05/2019, Vietnamese SOEs have been in the process of establishing internal audit functions. As of April 2021 – the deadline by which affected entities were to comply – all parent companies that are wholly or majority state-owned were formally required to have an internal audit unit or function in place. This regulatory push has led to the creation of internal audit departments in many large SOEs and state-owned groups for the first time. In practice, compliance has varied. Some prominent SOEs took proactive steps: for example, several listed state-owned enterprises appointed Chief Audit Executives and set up internal audit charters even before the deadline. Other entities, especially smaller provincial SOEs or those less familiar with internal audit, reportedly struggled to meet the requirements, seeking extensions or interim solutions such as outsourcing. The decree explicitly allowed organizations to outsource or co-source internal audit if they lack in-house resources and expertise. This provision has been utilized by certain companies that turned to professional services firms or state audit companies to perform internal audits while they build internal capacity.

It is important to note that the decree's scope also includes government ministries, large public service units (like hospitals, universities meeting certain size criteria), and any enterprise with over 50% state capital or that is listed. Thus, the internal audit mandate spans beyond classic commercial SOEs to a broad range of public-sector entities. Many of these organizations had no prior tradition of internal audit. By the end of 2022, the Ministry of Finance indicated that a majority of central-level SOEs had formally set up internal

audit units or assigned the function within an existing department (often under finance or inspection divisions), though the maturity of these units varies widely. Some were essentially one- or two-person teams at inception.

Structure and Organizational Placement: The organizational structure in which internal audit operates within Vietnamese SOEs is a defining factor for its independence and effectiveness. As highlighted in the literature review, Vietnam's corporate governance framework has historically relied on Supervisory Boards (Boards of Controllers - BoC) as an internal check mechanism, rather than independent audit committees. Under the new internal audit regime, SOEs had the discretion to decide how to "situate" the internal audit function in their organizational structure. Many SOEs chose to integrate internal audit into existing oversight bodies. A common model is the establishment of an Internal Control Board (ICB) or similarly named committee at the company level, which encompasses internal audit, internal control, and sometimes inspection or compliance roles. This ICB typically reports to the CEO or the executive Board of Management (BoM), and includes the head of internal audit as a member. For example, in a large state-owned conglomerate, one might find an "Audit and Supervision Department" that acts as the ICB, led by a director who is effectively the CAE, but that director might be an employee who reports to an executive VP or the CEO.

The presence of the BoC (Supervisory Board) adds complexity. In theory, internal audit should also interface with the BoC, since the BoC is tasked by law with overseeing financial reporting and compliance. Decree 05/2019 implicitly recognizes this by requiring companies to clearly define the roles and responsibilities between the Board of Directors/Board of Members (management side) and the BoC regarding internal audit, including to whom internal audit reports and how it coordinates with the BoC. However, in practice many SOEs have not clearly delineated these responsibilities. The OECD (2022) review found that the distinction between the BoC's oversight functions and the internal audit function was often blurry or not documented. In some cases, BoC members themselves assume certain audit tasks, or internal audit submits reports both to the CEO and to the BoC without a structured process, leading to confusion and potential conflicts.

Notably, some joint-stock companies with state ownership have taken advantage of a provision in the Enterprise Law allowing the replacement of the BoC with an Audit Committee (under the board of directors). Those that instituted an Audit Committee (often with independent directors) reportedly achieved "a higher degree of assurance over control activities" because the oversight structure became simpler and internal audit could report directly to this committee. However, this model is currently the exception rather than the norm in Vietnam's state sector, since fully independent boards with outside directors are still rare in SOEs.

Independence and Governance Support: The independence of internal audit in Vietnamese SOEs is constrained by the organizational structures described above. Ideally, internal auditors should report functionally to the highest governing body (board or audit committee) and have no managerial responsibilities in the operations they audit. Under Decree 05/2019, internal audit units are expected to report to the Board of Directors (or Members'

Council) and also coordinate with the Supervisory Board/BoC. The decree also stipulates that the appointment, removal, and remuneration of the head of internal audit should not be under the authority of the BoM (executive management) to safeguard independence. In theory, this means the board or the BoC should approve the chief internal auditor's appointment and salary, insulating them from management.

In practice, compliance with these stipulations appears uneven. Many SOEs still have management playing a key role in hiring internal audit staff or determining their budget, which can compromise independence. The OECD review noted that members of Internal Control Boards (which include internal auditors) are hired and fired by the BoM in most cases. The head of internal audit often does not have direct access to the company's Board of Directors or Members' Council except through the BoC or an executive channel. While on paper internal auditors "appear to have access" to top governance via the Internal Control Board structure, in substance this body has been "more of a subservient role than would be afforded by an independent Audit Committee", raising doubts about true autonomy.

Management and board support for internal audit varies across enterprises. In some forward-looking SOEs, the leadership has embraced internal audit as a tool for improvement and risk management. These organizations provide sufficient resources, a clear mandate, and encourage internal auditors to speak up about deficiencies. In others, internal audit is treated perfunctorily – e.g., conducting a few audits to satisfy the requirement, with limited engagement by senior management. There are anecdotal reports (captured in the VCCI-UK study and OECD interviews) of internal auditors feeling pressured to alter or soften their findings. One stakeholder mentioned that if a BoC detects issues or irregularities, "they are not the ones to blow the whistle," instead taking cues from top executives or even the Communist Party committee within the company. This suggests an environment where internal oversight bodies might censor themselves if they fear repercussions or if higher-ups signal that certain matters should not be escalated.

Another unique aspect in SOEs is the role of the Communist Party's internal control. Most SOEs have an embedded Party Committee that also monitors activities. The Party's presence can act as an additional check on management – indeed, some stakeholders credit Party oversight with helping to prevent corruption in some cases. For example, the Party Committee of PetroVietnam (PVN) claims to regularly direct measures to prevent waste and corruption, including pressing for improved internal processes. However, this dual governance structure can be a double-edged sword. The Party mechanism might fill gaps where formal risk management is weak, but it can also cause internal audit and other control functions to defer to "internal political forces". In some instances, internal audit or management may relinquish part of their responsibilities in favor of Party oversight, which is not a formal substitute for professional assurance functions. The net effect is a complex web of oversight in SOEs – involving internal audit, BoC, state inspectors, and Party committees – that unfortunately can dilute accountability. Rather than each body reinforcing the others in a cohesive control system, the overlapping mandates sometimes result in confusion or

passivity, where each assumes another will handle certain risks.

Human Resources and Competence: A significant challenge for internal audit in Vietnamese SOEs is the shortage of skilled and experienced internal auditors. Since the requirement for internal audit is new, there is not a deep pool of professionals in the local market with extensive internal audit backgrounds. Many internal auditors in SOEs have been transitioned from related fields – such as financial controllers, external auditors, or internal inspectors – and are learning on the job. Decree 05/2019 specified that internal auditors should have at least 3–5 years of experience and possess knowledge of law, finance, and the business operations of the unit. It also implies familiarity with IT and data analysis is desirable. These criteria set a high bar, which in practice many current internal audit staff may not fully meet initially.

Training and certification are gradually being emphasized. The State Audit and the Ministry of Finance have organized workshops and training courses to help internal auditors understand the new standards (e.g., Vietnamese Internal Audit Standards issued in 2021, which mirror the IIA standards). Professional bodies like the Vietnam Association of Certified Public Accountants (VACPA) and a local IIA chapter (established in recent years) are also becoming active in offering internal audit courses. Nonetheless, uptake of certifications like the Certified Internal Auditor (CIA) remains limited in Vietnam. The number of CIA holders in Vietnam is growing but still modest relative to the need; many SOEs do not yet require their auditors to obtain such certifications.

One telling indicator of the skills gap is in technology use and advanced audit techniques. According to PwC's 2023 survey, only 7% of internal audit functions in Vietnam have invested in or are applying technologies like Robotic Process Automation (RPA) or artificial intelligence in their audit processes, compared to 27% globally. Furthermore, when Vietnamese executives were asked about their internal audit's capabilities, only 7% rated their internal audit as proficient in technology tools (RPA, AI, governance, risk and compliance software) – a much lower figure than the global average (17%). These statistics highlight that most internal audit teams in Vietnam are still relying on traditional, manual auditing methods, and lack expertise in data analytics or automated control testing. The talent shortage extends to soft skills as well: only 7% of Vietnamese respondents felt that their internal audit had strong ability to “challenge constructively” (professional skepticism), vs 23% globally. This points to cultural and skill issues – internal auditors may be junior or less confident to speak up, or less trained in critical thinking and communication with senior stakeholders.

The implications of limited human capital are that many internal audit functions cannot yet tackle complex audits (for example, in IT systems, large projects, or specialized operations). They may stick to simpler compliance checklists or financial verifications. Some SOEs are indeed initially focusing their internal audits on financial statement accuracy, regulatory compliance, and asset safeguarding – areas that existing accounting-trained staff can handle. However, this leaves a gap in coverage of strategic and operational risks. It also raises concern about the quality of audits performed. If internal auditors are not well-versed in audit methodology, they might not identify root causes or

might issue recommendations that are not impactful. Several Vietnamese authors have noted that an ongoing effort is needed to build up the “professional capacity” of internal auditors, including continuous education on new regulations and auditing techniques.

Scope of Activities and Risk Orientation: The current focus areas of internal audits in SOEs tend to be on familiar territory – financial control, compliance with spending regulations, and basic operational procedures. The traditional mindset of internal audit in Vietnam (and indeed in many developing contexts) has been compliance-driven. For example, internal auditors might check adherence to procurement rules, accuracy of accounting entries, or compliance with internal policies. This aligns with the previous role of many internal audit predecessors (the internal inspectors) who primarily looked for errors or rule violations. However, an effective modern internal audit function is expected to be risk-based, meaning its plan and efforts are directed towards the most significant risks to the enterprise's objectives (be it strategic, operational, financial, or compliance risks). The concept of risk-based internal auditing is still gaining traction in Vietnam. Decree 05/2019 itself did not mandate risk-based planning explicitly, but it encourages organizations to adopt international standards. The Ministry of Finance's guidance and training reportedly emphasize creating an annual internal audit plan that considers the entity's risk assessment.

At present, evidence suggests that many internal audit units are still developing their risk assessment capabilities. A symptom of limited risk orientation is the anecdote (provided by Lam, 2020) ^[7] that some internal audit departments pride themselves on completing 95% or 100% of their annual audit plan, but upon scrutiny, this may indicate inflexibility – they continued auditing what was in the plan even if new risks emerged during the year. In a dynamic risk environment, a highly effective internal audit function would adjust its plan to address emerging issues rather than stick rigidly to a set list of audits. If Vietnamese internal auditors lack a strong background in enterprise risk management, they may not be fully aware of or aligned with the top risks facing their organizations. Indeed, the OECD noted that in interviews, many Vietnamese stakeholders conflated “internal control” with “internal audit” and could not speak in detail about risk management practices, “*suggesting a total absence of risk management practices*” in some SOEs. This indicates that internal audit might be the only active risk/control function in some companies, and it is likely overburdened with basic control monitoring rather than higher-level risk advising.

Integration with Governance and Management: For internal audit to be effective, it should be well-integrated into the organization's governance framework, while retaining appropriate independence. In Vietnamese SOEs, integration is a work in progress. Positive signs include the fact that internal audit is now formally recognized and often required to report to leadership. Some SOEs have started to incorporate internal audit findings into management's decision-making. For instance, internal audit reports might be discussed in management meetings or used by the board (or BoC) to question management on certain issues. Additionally, internal audit could play a role in anti-corruption efforts – aligned with the Anti-Corruption Law requirements for improved transparency in SOEs. It was mentioned that some SOEs list the existence of internal

audit as part of their anti-corruption measures, which implies a link between internal audit activities and the broader ethics/compliance program.

However, full integration is hampered by the earlier-mentioned unclear division of responsibilities. When multiple bodies are responsible for overlapping aspects of control (BoC, Internal Control Board, Party Committee), coordination is essential but not always effective. Communication channels need improvement: for example, ideally, the internal audit should share its risk findings with the risk management function (if one exists) and with the external auditors and state auditors to ensure comprehensive coverage. In Vietnam, external auditors and internal auditors *“are permitted to consult, but this does not happen often in practice”*. The State Audit of Vietnam (SAV), which audits SOEs from an external perspective, could potentially rely on or liaise with internal audit, but historically the SAV treated internal audit as either non-existent or not reliable. As internal audit functions mature, there may be opportunities for better synergy – such as SAV reviewing the work of internal audit for guidance, or internal audit preparing the SOE for external audits by addressing issues proactively.

Use of Technology: The adoption of technology in internal audit processes in Vietnamese SOEs is at an early stage, reflecting the overall digital maturity in governance. Most internal audits are still conducted using manual approaches – e.g., auditors manually checking samples of transactions, reviewing documents in paper or basic electronic form (PDF, Excel). The PwC 2023 Vietnam data shows a stark gap in advanced technology use, as cited earlier: only a tiny fraction have started using RPA or AI, and presumably a similarly low fraction are using data analytics tools at scale. Some larger companies have begun exploring audit software. A few subsidiaries of multinational companies in Vietnam (which are not SOEs but provide an example of best practice) use global audit management platforms that their internal audit teams access. In the state sector, some banks and financial institutions (which have had internal audit requirements for longer) have started using automated working papers and sampling tools. SOEs in industries like telecommunications or oil & gas, which handle large volumes of data, have an incentive to eventually incorporate data analytics in internal auditing – for instance, continuous auditing of billing systems or procurement transactions for anomalies. But capacity and budget constraints mean progress is slow.

The low current use of technology limits internal audit effectiveness in several ways: it constrains the scope of audits (auditors can only sample a limited set of data manually), makes audits less efficient (time spent on routine checks that could be automated), and may fail to detect patterns that analytics could catch (like subtle fraud indicators across big datasets). It is encouraging that many SOE leaders are increasingly aware of these benefits – the PwC study found a majority of Vietnamese respondents (64%) believe that internal audit could better guide the business if it improved, and many see the need to invest in technology for internal audit. However, turning this awareness into action will require overcoming budgetary limitations and building the necessary skillset, as addressed in the next section on solutions.

Strategic Solutions

Improving the effectiveness of internal audit in Vietnam’s

state-owned enterprises requires a comprehensive strategy that addresses regulatory framework, organizational structure, human resources, technological capability, and alignment with international standards. The following strategic solutions are proposed, structured into key areas of intervention:

1. Strengthen and Refine the Regulatory Framework

A more robust and clear regulatory environment can provide the foundation for effective internal auditing in SOEs. While Decree 05/2019/ND-CP was a crucial starting point, enhancements and stronger enforcement are needed:

- **Clarify Internal Audit’s Mandate and Reporting Lines:** Regulators (Ministry of Finance or state ownership agencies) should issue additional guidance or amendments to stipulate unambiguously how internal audit should be positioned. For instance, regulations could require that internal audit *functionally* reports to the highest governing body (e.g., the Members’ Council or Board of Directors) or its designated audit committee, and only *administratively* to the CEO for day-to-day matters. The existing allowance for companies to choose their internal audit structure should be coupled with minimum standards: any chosen structure must guarantee the internal auditor’s independence (e.g., head of IA not removable by the CEO alone). These provisions exist but could be made more enforceable by requiring companies to include them in their charters and report compliance annually.
- **Mandate Audit Committees for SOEs:** Drawing from OECD recommendations, Vietnam could consider requiring large SOEs or listed SOEs to establish Board-level Audit Committees comprised of non-executive (and preferably some independent) members. An audit committee can effectively replace or complement the BoC’s role in overseeing internal audit. Having such a committee would simplify internal audit’s reporting channel and protect it from management interference. If immediate mandatory implementation is difficult, regulators could at least encourage pilot adoption in major SOEs or include it in corporate governance codes, with an aim to gradually transition away from the BoC model for oversight of audit and control matters.
- **Enhance Enforcement and Monitoring:** It is not enough to prescribe rules; enforcement is key. The State Capital Management Committee (CMSC) and line ministries, as representatives of the state owner, should actively monitor SOEs for compliance with internal audit requirements. This could involve requiring SOEs to submit annual reports on their internal audit activities, including details like audit plans, significant findings, number of recommendations, and implementation status. The Ministry of Finance can develop a compliance checklist for internal audit (e.g., whether the IA charter exists and follows Circular 66/2020, whether the IA plan is risk-based, whether reports were submitted to the board). Entities found non-compliant or with ineffective internal audits could be subject to warnings or additional oversight. Such monitoring will signal that internal audit is not just an internal matter but of interest to the state owner in ensuring sound governance.
- **Issue Detailed Guidance on Risk-Based Auditing:** The MoF should follow through on its intention to

provide more specific documents guiding internal audit implementation. A key guidance would be on conducting a risk assessment and formulating a risk-based internal audit plan. This could be done via a Circular or official handbook drawing from the IIA's practice guides. It should train internal auditors and management on identifying risk areas and prioritizing audits accordingly, rather than using a rote cyclical approach. Templates for risk assessment matrices and sample audit plans focusing on high-risk areas (like investment projects, IT systems, or procurement) in an SOE context could be included.

- **Integrate Internal Audit with Anti-Corruption and Corporate Governance Policies:** Vietnam's legal framework on anti-corruption (Law on Anti-Corruption 2018) already indirectly references internal audit as a measure. This link can be strengthened by issuing joint guidance or directives that instruct SOEs to leverage internal audit as part of their anti-corruption programs and internal control systems. For example, require that internal audit annually evaluate the effectiveness of anti-corruption controls and report on any weaknesses (this aligns with OECD guidelines urging SOE boards to implement internal controls and ethics measures). Policymakers can also ensure alignment between corporate governance regulations (like the forthcoming SOE governance code) and internal audit standards, making internal audit a pillar of SOE governance evaluations.
- **Facilitate Professional Oversight and External Reviews:** Regulators could encourage or require periodic external quality assessments of SOE internal audit functions (perhaps every 5 years, consistent with IIA Standard 1312). This could be done by accredited third parties (like IIA Vietnam or auditing firms). External reviews would provide independent feedback on how well the internal audit adheres to standards and how it can improve. To implement this, the MoF or CMSC might create a panel of approved reviewers or partner with the IIA to conduct such assessments for key enterprises. Moreover, INTOSAI's guidance suggests Supreme Audit Institutions (in this case, SAV) can play a role in strengthening internal audit through collaboration. SAV might, for instance, share common internal control issues it finds in SOEs, which internal audits should then address proactively.

2. Improve Organizational Structure and Governance Support

On an organizational level, SOEs need to create an environment in which internal audit can operate effectively and deliver value:

- **Establish Clear Internal Audit Charter and Authority:** Every SOE should have an internal audit charter (as already recommended by regulations) that is approved by the Board or Members' Council. This charter must clearly define internal audit's purpose, authority, and responsibility, including unrestricted access to records, personnel, and assets. The charter should also specify the dual-reporting relationship: to whom the CAE reports functionally (e.g. Chair of the Board/Audit Committee or Head of BoC) and administratively (e.g. CEO for logistics). Ensuring that the charter is robust and adhered to will empower

internal auditors to act without undue hindrance.

- **Empower the Board (or BoC) in Oversight of Internal Audit:** Company boards (or supervisory boards) need to actively support and oversee internal audit. They should be involved in approving the internal audit plan, reviewing significant findings, and ensuring management addresses recommendations. Training programs for board members and BoC members could be implemented so they understand how to utilize internal audit effectively (for instance, training on reading internal audit reports, asking the right questions, and following up on issues). If an Audit Committee exists, its members may need capacity building on internal audit oversight, possibly by learning from Audit Committees in other countries or from guidelines like the OECD's best practices for audit committees.
- **Realign the Internal Control Function:** If an Internal Control Board (ICB) or similar exists, companies should evaluate its role. To avoid overlap and conflicts, one solution is to transform the ICB into a management-level risk management or compliance committee, while isolating the internal audit function to maintain independence. The head of internal audit could attend management's risk committee meetings as an observer or advisor, but report audit results directly to the top. In cases where a BoC remains, protocols should be set: for example, internal audit could send its reports to both the CEO and the BoC simultaneously, ensuring the BoC can act on issues even if management is slow. Ultimately, moving towards an Audit Committee model, as recommended, would simplify these relationships; in the interim, clearly defined workflows and reporting templates can minimize confusion.
- **Cultivate Management's Tone at the Top:** SOE leadership must set a tone that internal audit is a valued partner rather than an adversary. This involves cultural change. CEOs and executives should openly endorse the internal audit function, encouraging departments to cooperate fully with audits and to treat audit recommendations as opportunities for improvement, not as criticisms. One practical measure is to incorporate internal audit findings into management performance evaluations – e.g., if a department repeatedly has unresolved audit issues, this should reflect in its manager's appraisal. Conversely, acknowledge and reward areas that, thanks in part to internal audit, have improved controls or efficiencies. Management can also demonstrate support by providing adequate budget and resources to internal audit, and by not interfering with audit schedules or scopes.
- **Internal Audit's Involvement in Strategy and Projects:** To increase internal audit's relevance, SOEs should involve internal auditors in major initiatives in a consultative capacity. For instance, if an SOE is embarking on a large IT system implementation or a new investment project, internal audit should be consulted on control aspects from the planning stage. This doesn't mean internal audit loses independence; rather, it provides advice on risk and control setup (a recognized role under the IIA's consulting activity). By being involved early, internal audit can help design better controls and later audit those areas more effectively. This integration ensures internal audit is

seen as adding value beyond after-the-fact checking.

- **Strengthen Follow-Up Mechanisms:** Organizationally, ensure that there is a rigorous follow-up on internal audit recommendations. Many effective audit functions have a tracking system and require management to respond with action plans and deadlines for each audit finding. The SOE's board or audit committee should periodically review the status of audit issues. A high closure rate of audit recommendations is a sign of impact. If certain recommendations are not implemented, management should be asked to justify why (perhaps they disagree and have an alternate solution, or resource constraints – but these discussions need to happen). This process can be formalized by policy: e.g., "Management must respond to internal audit reports within 30 days with an action plan, and internal audit will conduct a follow-up audit or verification within 6 months to ensure issues are resolved."
- **Leverage External Support and Co-sourcing:** Organizational capacity for internal audit can also be bolstered by judicious use of external expertise. The decree already allows outsourcing; beyond initial compliance, co-sourcing arrangements could be a long-term strategy for specialized audits. For example, an SOE could co-source its IT audits to a firm with technical experts, pairing them with internal staff. This not only gets the audit done at a higher quality, but also transfers knowledge to internal auditors. Similarly, for fraud investigations or complex engineering operations, co-sourcing can be employed. The organization benefits by exposing its internal audit team to global best practices and technical know-how, building their competence over time.

3. Human Capital Development and Professionalization

Addressing the human resource challenge is perhaps the most critical long-term solution. Building a cadre of competent internal auditors in Vietnam's SOEs will significantly elevate audit effectiveness.

- **Comprehensive Training Programs:** There should be systematic training for internal auditors at multiple levels. At entry and junior levels, training should cover internal audit fundamentals, Vietnamese Internal Audit Standards, IIA Code of Ethics, risk-based auditing, and report writing. For more experienced auditors or the CAEs, advanced training in areas like strategic risk management, IT auditing, data analytics, and leadership/communication skills is needed. The Ministry of Finance and state ownership entities can sponsor annual training workshops for SOE internal auditors, possibly in partnership with international organizations. There has been collaboration in the past (e.g., projects with World Bank or ADB) to strengthen financial oversight in Vietnam; such projects could include components for internal audit capacity building. Additionally, internal auditors can be encouraged to attend the IIA Global or regional conferences to gain exposure to new ideas.
- **Certification and Qualification:** SOEs should incentivize their internal audit staff to obtain relevant professional certifications (CIA – Certified Internal Auditor, or local certifications if any). For instance, companies could offer pay increments or promotions for staff who achieve the CIA designation. The government could facilitate this by perhaps subsidizing some costs or collaborating with the IIA to conduct exams in Vietnam. Over time, aiming to have a significant proportion of internal auditors certified will raise professional standards. It may also be worth developing a local certification program in Vietnamese (through VACPA or a new Internal Audit Association) to certify internal auditors on national standards and regulations, which could complement international certifications.
- **Career Path and Talent Attraction:** One issue is attracting and retaining talent in internal audit. Historically, internal audit has not been seen as a prestigious or lucrative career in Vietnam compared to, say, external audit or finance. To change this, SOEs should establish clear career pathways for internal auditors, including the possibility of reaching senior management ranks (e.g., Chief Audit Executive being on par with other senior executives). If internal auditors see that their role is valued (with competitive salaries, opportunities for advancement, and recognition), the field will attract better talent, including graduates from accounting and auditing programs. The state could also consider a rotational program where talented accountants or external auditors are seconded into SOE internal audit departments for a period, bringing fresh perspectives.
- **Knowledge Sharing and Communities of Practice:** Encourage the formation of an internal audit community among Vietnamese SOEs. Regular forums or roundtables could be organized where CAEs of major SOEs meet to discuss common challenges and share best practices. Peer learning can be powerful – for example, an SOE whose internal audit has successfully implemented a risk-based plan or audit analytics can showcase their approach to others. The Institute of Internal Auditors Vietnam (IIA Vietnam) can play a central role in creating networking opportunities, newsletters, or publications in Vietnamese that disseminate guidance tailored to local SOE issues. The goal is to gradually build a professional culture around internal auditing in Vietnam, where continuous improvement and adherence to standards become norm.
- **Improve Soft Skills and Audit Communication:** Training and development should also focus on soft skills that internal auditors need: effective communication, negotiation, and critical thinking. The earlier statistic that only 7% of Vietnamese executives find internal audit able to challenge management constructively points to a need for internal auditors to be trained in how to present their findings persuasively and confidently. Role-playing exercises in training (e.g., simulating an audit closing meeting with a difficult manager) can help auditors practice asserting their points diplomatically. Also, report writing skills should be honed so that audit reports are clear, concise, and business-relevant, increasing the likelihood that management pays attention.
- **Embed Ethics and Integrity in the Profession:** Given internal audit's role in fraud and corruption prevention, internal auditors must uphold high ethical standards. Vietnam's issuance of a Code of Ethics for Internal Auditors via Circular 08/2021 is a good step. Ensuring

that internal auditors internalize these ethics – through training on ethical dilemmas, signing annual ethics declarations, etc. – will reinforce independence and objectivity. Creating a culture where internal auditors feel it is their duty to report honestly (and giving them protection when they do) will strengthen the function's credibility. Perhaps introduce “whistleblower” protections or at least clear escalation paths if an internal auditor finds senior management involved in wrongdoing; they should be able to go to the audit committee or even higher (like the state inspectorate) without fear. INTOSAI GOV 9150 emphasizes that internal auditors in the public sector should be shielded from political pressure to maintain independence, which is very pertinent to Vietnam's context.

4. Leverage Technology and Tools for Enhanced Auditing

To modernize internal audit functions and make them more effective, embracing technology is imperative:

- **Adopt Audit Management Software:** SOEs should gradually move from manual audit documentation to using audit management systems (there are many, ranging from simple ones to comprehensive GRC – Governance, Risk, Compliance – platforms). These systems help in planning audits, tracking work papers, issues, and recommendations. They also facilitate creating a risk-based audit universe and ensure no key area is overlooked over time. The investment in such software might be a hurdle for smaller SOEs, but larger ones can lead the way. The government could negotiate bulk or enterprise licenses for common software to reduce costs, or even develop a basic audit management tool centrally that SOEs could use.
- **Implement Data Analytics:** Internal audit departments should start integrating data analytics into their work. A practical approach is to identify a few key areas where analytics can quickly add value – for example, analyzing 100% of transactions for red flags instead of sampling. Common scenarios include searching for duplicate payments in accounts payable, outlier transactions in procurement, or unusual patterns in overtime or payroll (to detect ghost employees). Training internal auditors in using tools like ACL, IDEA, or even Excel's advanced functions and Power BI for visualization can enable them to perform such analyses. Some SOEs have robust IT departments; internal audit could collaborate with them to extract necessary data from ERP systems. Over time, more sophisticated techniques like continuous auditing (automated scripts running periodically) can be introduced for critical systems.
- **Leverage RPA and AI in the Long Term:** While the current adoption of RPA (robotic process automation) or AI in internal audit is minimal, planning for the future is wise. RPA could automate repetitive audit testing (for instance, checking every user access change in a system monthly against authorization protocols). AI could be used to analyze text (like contract terms) for risks or to predict where control breakdowns might occur based on historical data. To get there, internal audit functions should follow global developments and possibly run small pilot projects in controlled environments. Partnering with technology providers or

participating in global IIA tech forums could keep Vietnamese internal auditors abreast of these trends. Given resource constraints, the emphasis in the near term should be on low-cost, high-impact tools (like using the data capabilities already present in the organization's existing software) before venturing into expensive AI solutions.

- **IT Auditing and Cybersecurity:** As SOEs digitize, internal audit must expand into IT and cybersecurity audits. Developing or hiring IT audit expertise is crucial. A strategic solution is to have at least one or two team members specialized in IT audit in each large SOE's internal audit department. They would focus on areas such as access controls, data integrity, system implementation reviews, and cyber risk assessments. The government could create an IT audit support unit at a central level (for example, under the State Audit or MoF) that can assist or guide SOE internal audits in performing these technical audits. This is in line with international best practices where specialist skills are pooled to support various audit teams.
- **Monitor and Measure Tech Adoption:** As part of enhancing internal audit, organizations should set goals for technology adoption. For example, a target could be that within 3 years, the internal audit function analyzes 100% of transactions in at least two high-risk processes annually (rather than sampling). Another target could be moving to a paperless audit within 2 years. By setting such objectives and reporting progress, it creates an impetus for continuous improvement. Achieving technological competence in internal audit will not only improve effectiveness but also efficiency – freeing up auditor time to focus on investigating anomalies and providing insights rather than routine checking.

5. Align with International Standards and Best Practices

Ensuring alignment with globally recognized internal audit standards and governance best practices will provide a benchmark for Vietnamese SOEs to aspire to and guide improvements:

- **Full Adoption of the IIA's International Professional Practices Framework (IPPF):** The newly issued Vietnamese Standards for Internal Auditing (VSIA) essentially mirror the IIA standards. SOEs should formally adopt these in their internal audit charters. This means internal audit activities should be conducted in accordance with the core principles, code of ethics, and the performance and attribute standards. For example, Standard 2010 requires a risk-based plan – internal audit charters should explicitly mention this and internal auditors should document how their plan is risk-based each year. Standard 1100 emphasizes independence – internal audit annual reports could include a section affirming how independence is maintained (or flagging concerns if any). By internalizing these standards, internal audit functions in Vietnam will gradually reach parity with their international counterparts in terms of rigor and professionalism.
- **Implement the Three Lines Model:** The IIA's updated Three Lines Model (formerly Three Lines of Defense) provides a useful framework for clarifying roles in risk management and control. According to this model, management (first line) owns and manages risks, the

risk management/compliance functions (second line) oversee and facilitate risk management, and internal audit (third line) provides independent assurance. SOEs can adapt this model: clearly delineate that operational management is responsible for maintaining effective controls, possibly strengthen or establish a second line (risk management department or compliance department) especially in larger SOEs, and position internal audit as the independent third line that validates what the first and second lines do. Educating the organization on this model can reduce confusion – people will understand internal audit is not duplicating management's job but is there to independently verify and advise.

- **Follow OECD Guidelines on SOE Governance:** The OECD Guidelines on Corporate Governance of State-Owned Enterprises (2015) stress, among other things, the need for SOE boards to ensure strong internal controls, internal audit, and audit oversight. Vietnam, having undergone an OECD review, can take those recommendations on board. For example, one guideline is that SOE boards should establish audit committees or equivalent mechanisms and ensure the independence of the internal audit function. Aligning with these practices might require legislative changes or at least internal adoption. The State Capital Management Committee could issue internal governance codes for the enterprises under its purview, including specific best practice recommendations for internal audit (like requiring direct board access, a certain proportion of audit committee members to be independent, etc.).
- **Collaboration with INTOSAI and State Audit:** INTOSAI encourages Supreme Audit Institutions (SAIs) to work with internal auditors to improve overall public sector audit effectiveness. In Vietnam, the State Audit (SAV) could be more engaged in mentoring or evaluating internal audit in SOEs. This might seem unconventional, but some countries have SAIs that issue guidelines for internal audit in government entities. SAV could develop a framework for assessing internal audit units during their external audits of SOEs, providing feedback or even training for internal auditors as part of their audit exit meetings. This kind of synergy ensures internal and external audit efforts are complementary – for instance, SAV could rely on some internal audit work if deemed reliable, and internal audit could prepare SOEs to meet SAV expectations. Such alignment would ultimately improve accountability of SOEs.
- **Regional and International Peer Learning:** Vietnamese SOEs can also learn from similar economies that have more experience with internal audit in state enterprises. For example, Malaysia and Indonesia have large SOE sectors and have instituted internal audit and governance reforms (Malaysia's GLC Transformation program, Indonesia's push for better SOE governance). Exchange programs or case study sharing can be very instructive. The ASEAN Supreme Audit Institutions or the Asian Organization of Supreme Audit Institutions (ASOSAI) often share best practices – Vietnam could use these networks to glean insights into how internal audit has been strengthened in other jurisdictions. Applying relevant lessons (contextualized for Vietnam's unique environment) can accelerate

improvements without reinventing the wheel.

- **Continuous Improvement and Future Research:** Finally, aligning with best practices means fostering a mindset of continuous improvement. Internal audit departments should not remain static; they should periodically assess themselves against new developments (e.g., new IIA advisories, changes in COSO internal control framework, etc.). Commissioning independent reviews or academic studies on internal audit effectiveness within Vietnam over time can help gauge progress. Future research could involve, for example, surveys of audit committee members on internal audit performance or analyzing correlations between internal audit strength and SOE performance indicators. These efforts will help keep internal audit evolution evidence-based and focused on adding measurable value.

By implementing the above strategic solutions, Vietnamese SOEs can make significant strides in enhancing their internal audit functions. The solutions are interrelated: a clearer regulatory push empowers organizational changes; better training and resources enable technology use; aligning with standards provides a roadmap for both regulators and practitioners. It is an ambitious, multi-year agenda, but incremental steps can start immediately – such as training programs, pilot audit committees, or initial analytics projects. The ultimate goal is to have internal audit become an indispensable element of SOE governance – one that stakeholders trust to provide early warnings of issues, to assure the effective use of public resources, and to contribute to the overall performance and integrity of Vietnam's state-owned enterprises.

Conclusion and Implications

This study examined the nascent landscape of internal auditing in Vietnam's state-owned enterprises, highlighting its current status, challenges, and potential improvements. The analysis makes clear that Vietnam has taken an important step by mandating internal audit functions in SOEs – aligning with a global recognition that internal audit is critical for good governance and risk management. However, the journey from establishing internal audit on paper to achieving truly effective internal audit in practice is ongoing. As of 2025, the effectiveness of internal audit in Vietnamese SOEs is hindered by several intertwined factors: regulatory ambiguities, underdeveloped oversight structures, constrained auditor independence, limited skilled human resources, a nascent risk culture, and inadequate use of modern audit tools. These challenges reflect both the early stage of internal audit implementation and deeper governance issues within the state enterprise sector.

The key findings indicate that many SOEs have complied with the letter of the law by setting up internal audit units, but the quality and impact of those units vary. In some organizations, internal audit still functions as a low-profile compliance checker, whereas in others, there is movement towards a more strategic, risk-focused audit role. Independence is a crucial concern – without clear reporting lines to the top governing bodies and insulation from management pressure, internal audit cannot fulfill its watchdog role effectively. The overlapping roles of Boards of Controllers and internal audit units create confusion that needs resolution. Additionally, the lack of skilled internal auditors and analytical capabilities means some significant

risks might go unchecked. The presence of these gaps underscores the need for concerted strategic interventions. The proposed strategic solutions form a multi-dimensional roadmap to enhance internal audit effectiveness. Strengthening the regulatory framework (through clearer guidelines and enforcement of internal audit standards) will provide the necessary top-down impetus for SOEs to empower their internal audit functions. Organizational measures, such as establishing audit committees, clarifying internal audit charters, and fostering management support, are essential to operationalize independence and ensure internal audit is integrated into governance processes. Building human capital – via training, certification, and career incentives – addresses the foundational need for competent practitioners who can carry out quality audits. Technological advancement in internal audit, though currently limited, must be a priority for SOEs to keep pace with the scale and complexity of modern operations; adopting data analytics and audit management tools will significantly broaden internal audit's reach and effectiveness. Lastly, adherence to international standards (IIA, INTOSAI) and best practices (like the Three Lines Model and OECD guidelines) will help ensure that Vietnam's internal audit practices evolve in line with global expectations, facilitating external credibility and investor confidence.

Implications for Policymakers: The Vietnamese government and relevant regulatory bodies (Ministry of Finance, State Capital Management Committee, etc.) have a pivotal role in enabling these improvements. They should view internal audit as a strategic function that safeguards state assets and bolsters economic efficiency in the SOE sector. Policy implications include the need to possibly refine legislation (e.g., revising the Law on Enterprises or issuing new decrees to reinforce internal audit's position and audit committee structures). Allocating budget and resources for capacity-building programs is another implication – investments in training and developing internal audit professionals will yield returns in better governance outcomes. Policymakers may also consider creating forums for oversight institutions (like SAV, Inspectorate) to coordinate with internal auditors, forming a more cohesive public financial control ecosystem. In essence, a clear message and support from the top echelons of government that effective internal audit is integral to SOE reform would accelerate adoption of the recommended solutions.

Implications for SOE Leaders and Practitioners: For SOE boards and management, the findings highlight that internal audit should not be seen as a perfunctory compliance unit, but rather as a valuable ally in improving operations and preventing losses. Leaders of SOEs are encouraged to actively implement the recommended organizational changes. This might involve tough decisions, such as relinquishing some control to allow internal audit to report independently, or investing in IT systems and staff training in the face of budget pressures. However, these steps are investments in long-term sustainability. A robust internal audit function can help management sleep better at night, knowing that there is an in-house mechanism to catch problems early and provide assurance on the functioning of controls. For internal audit practitioners, the study's insights suggest a need for professional growth and adaptability. Internal auditors in Vietnam should pursue continuous learning, embrace new methodologies, and build soft skills

to elevate their role. They should also proactively communicate their value to management – for example, by quantifying the impact of their audits (such as cost savings from implementing recommendations or risks mitigated).

The broader implication is that enhancing internal audit is aligned with Vietnam's economic and governance objectives. As Vietnam aims to attract foreign investment and possibly equitize more SOEs, having strong internal audit and internal control systems in these enterprises will increase transparency and trust for investors. It also aligns with anti-corruption efforts, by institutionalizing internal oversight that can deter and detect corrupt practices within companies. Over time, effective internal audits contribute to better financial performance and efficiency in SOEs by identifying waste, improving processes, and ensuring compliance with laws (thereby avoiding fines or losses). This resonates with the government's broader public finance reforms and the emphasis on SOE accountability.

Future Research Directions: While this paper provided a comprehensive exploratory analysis, further research could empirically test and expand on these findings. One avenue is to conduct surveys of internal auditors, SOE managers, and board members to gauge perceptions of internal audit effectiveness and pinpoint areas of improvement. A quantitative study could examine if there is any correlation between the maturity of an SOE's internal audit function and its performance metrics or incidence of irregularities – this would provide evidence of internal audit's value proposition in Vietnam. Case studies of individual SOEs that have successfully enhanced internal audit (or those that faced failures due to weak internal audit) can yield practical lessons and reinforce the recommendations. Additionally, comparative studies with other countries' SOE internal audit reforms can identify external factors or best practices relevant to Vietnam.

As internal audit in Vietnam's SOEs evolves, there will be new dynamics to explore: for example, the effect of digital transformation of SOEs on internal audit, the role of internal audit in sustainability and ESG (environmental, social, governance) reporting which is increasingly important, and the interplay between internal audit and state audit in a changing accountability landscape. Researchers and practitioners should collaborate, where possible, to monitor progress – perhaps establishing a periodic “internal audit effectiveness index” for Vietnamese companies that can track improvements over years.

In conclusion, strengthening internal audit in state-owned enterprises is a strategic imperative for Vietnam. The challenges identified are not insurmountable; with targeted reforms and sustained commitment, internal audit in Vietnamese SOEs can transform from a nascent compliance function into a mature pillar of corporate governance. Doing so will not only help safeguard public assets and enhance corporate value but also support Vietnam's goals of transparency, efficiency, and integration into global markets. The journey will require concerted efforts by regulators, SOE leaders, and the internal audit profession itself. Yet, the payoff – in terms of more resilient enterprises and reduced risk of financial mismanagement – is well worth the investment. As Vietnam continues on its path of economic development and reform, an effective internal audit mechanism within its prominent state sector companies will be an essential component of success, fostering a culture of accountability and continuous improvement across the

board.

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