

**MINISTRY OF EDUCATION AND TRAINING**

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**DO QUOC VIET**

**COMPLETING THE INTERNAL AUDIT  
ORGANIZATION IN SONG DA CORPORATION**

**Majors : Accounting**

**Code : 62.34.03.01**

**SUMMARY OF ECONOMIC DOCTORAL THESIS**

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**Contradiction 1: .....**  
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**Contradiction 2: .....**  
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**Contradiction 3: .....**  
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**The thesis will be presented to The Examining Board of Academy of Finance on ..... at .....**

**The research is available at:.....**

## INTRODUCTION

### 1. The necessity of the topic

Through the development process, along with the achievements achieved, in the apparatus organization and governance model at Song Da Corporation, there are some points that have not caught up with the development of the market economy; some projects invested by the Corporation have not been effective; Inspection and control activities at the parent company and subsidiaries are limited. The necessity to complete the internal audit organization at Song Da Corporation in terms of two basic aspects as follows:

*a. The objective necessity to complete the Internal Audit organization at Song Da Corporation*

- Internal Audit provides timely and important information to serve managers in decision making
- Internal Audit is a tool to discover and improve weaknesses in the internal control system of enterprises, ensuring sustainable development.
- Generated from the task of restructuring corporate governance in a modern way, in accordance with international practice..

*b. The necessity to complete the Internal Audit organization comes from the need to improve the governance efficiency of Song Da Corporation*

- Generated from the actual situation at Song Da Corporation.

Over the past years, the business situation of Song Da Corporation has met many difficulties, some large investments did not bring the expected results, making the financial situation of The Corporation very bad.

- The main productions and business sectors of The Corporation have many potential risks.
- Improve the reliability of information for investors and shareholders during and after the equitization process.

The effective construction and operation of the Internal Audit Department in Song Da Corporation is an urgent requirement in the process of restructuring and integration. Recognizing this problem, the PhD student selected the topic "**Completing the internal audit organization in Song Da Corporation**" to study the PhD Thesis.

### 2. Overview of research projects of the topic

#### 2.1. About the Internal Audit Organization department

The first foundation for the theory of modern Internal Audit must include the book "*Modern Internal Auditing: Appraising Operations and Controls*" published by Victor Z. Brink and Herbert Witt in early 1941, the Vietnamese translation was published in Finance Publishing House in 2000. The book clarified the basic issues of Internal Audit such as: concepts, functions, tasks, relationships with internal departments, staff arrangement and training ... Also, mentioned the important of internal audit in the enterprise that is: under the

direct direction of the Audit Committee under the Board of Directors. Sharing same point of view with Victor Z. Brink and Herbert Witt about the important of Internal Audit in the enterprise, author Dang Van Thanh, Le Thi Hoa in the book *"Internal Auditing - Theory and Professional Guidance"* (Finance Publishing House, 1998) also stated: *"The Internal Audit Department is organized independently of the administration departments and business management in the enterprise (including the accounting and finance department); under the direct direction and orders of the (General) Enterprise Director"*.

In addition, similar researches can be mentioned : Ann Neale (1991) with *"Auditing system: Theory and practice"*; John A. Edds (1980) with *"Management audit: Concept and implementation"*; Author J.C. Shaw (1980) with *"Internal Auditing - An essential element for effective management"*; Lawrence B. Sawyer, Mortimer Dittenhofe, James H. Scheiner (2003) with *"Practicing modern internal audit"*; Robert Moeller (2005) with *"Modern Internal Audit according to Brink's point of view"* ... Basically, these researches have not mentioned the organizational models of the Internal Audit organization as well as the possible position of the Internal Audit in the enterprise structure, thus assessing the advantages and disadvantages, independence, objectivity in operation corresponds to each model and there is no plan to determine the number of personnel of the Internal Audit.

However, there have been some researches on the organization of internal audit such as: Monograph: *"Internal audit"* (author Thinh Van Vinh and Pham Tien Hung, Finance Publishing House, 2012); Economic doctoral Thesis of the authors: Phan Trung Kien (2008) with the topic *"Completing the Internal Audit organization in Vietnamese construction enterprises"*, Nguyen Thi Hong Thuy (2010) with the topic *"Internal Audit Organization in Vietnamese economic corporations "*, Le Thi Thu Ha (2011) with the topic *" Internal audit organization at financial companies "*; Vu Thuy Ha (2017) with the topic *" Completing the Internal Audit at the Corporations under the Vietnam National Coal And Mineral Industries Holding Corporation Limited"*... in terms of apparatus organization of the Internal Audit, the content of the above research projects has been focused. into the content:

- Study the generalization, systematizing and theory developing of Internal Audit, clearly define the basic content of the Internal Audit organization in enterprises including organizing apparatus and activities, giving some new points about the role, functions and tasks of the Internal Audit in which focus on improving the efficiency of risk management, leading Internal Audit to Operational Audit, Associating Audit (Thesis of Phan Trung Kien);

- Generalize the current models of internal audit organization, analyze the advantages and disadvantages and the influence of the organizational model to

the Internal Audit activities ... at the same time propose building the Internal Audit model;

- Provide the basic requirements needed when establishing Internal Audit Department: objective independence, requirements for internal auditors, the relationship between Internal Audit department and other departments, between units inside and outside the enterprise. ;

- Besides, for the group of doctoral Thesis, the authors have made recommendations and proposals on the internal audit organization in enterprises so that these units can deploy applications immediately.

## **2.2. About Internal Audit Organization activities**

Most research projects in the world as well as in Vietnam focus mainly on completing the audit process and methods as well as the orientation of developing content, approach and types of internal audit.

For the Internal Audit approach, the book "*Risks-based Internal Auditing*" by Phil Griffiths (2005) clearly stated the necessity and rationale for accessing the Internal Audit on the basis of risks analysis and assessment. The author showed a way to approach the Internal Audit in four stages: (1) Tradition; (2) Approaching the system; (3) Risk orientation and (4) Looking forward to the future. Besides, the book also developed the process of implementing the Internal Audit according to the approach based on risk analysis (make audit plan and implement Audit) and guiding the risk control in the auditing process. Sharing the same viewpoint of approaching the Internal Audit based on risk analysis, the doctoral Thesis of author Le Thi Thu Ha (2011) with the topic "*Internal Audit Organization at financial companies*" stated: "*Approach by Risk orientation can be applied throughout the audit process, not only for the annual audit plan, but also in the entire audit process* " accompanied by relatively specific and detailed instructions. The author also has orientations and basic guidelines on risk assessment, classification and quality control of audit activities.

The book "*Modern Internal Auditing: Appraising Operations and Controls*" by two authors Victor Z. Brink and Herbert Witt gave specific instructions in the process of implementing audits for each areas of activity that the Internal Audit is interested in (production, business, administration) such as auditing the process of purchasing - transporting - receiving goods - storage and scrap; production - Maintenance activities, Quality control - technical ... In addition, the book also refers to Internal Audit in government agencies and non-profit organizations. Although the work has affirmed the importance of Internal Audit in supporting management, however, it has only focused on the financial aspect.

The book "*Internal Audit Handbook*" by Martin Grimwood (translated by Dang Kim Cuong - Transport Publisher - 2007) provided guidelines for determining the risk index: "*Auditors must combine elements with their*

weights in a formula can be used to calculate a risk index. In choosing the weight, auditors must avoid putting an unfair trend into the formula. An example of a usable formula is:

$$\text{Risk index} = Aa + Bb + Cc + Dd + Ee + Ff$$

A-F: elements

a-f: weight”.

Economic doctoral Thesis of the authors: Phan Trung Kien (2008) with the topic "*Completing the Internal Audit organization in Vietnamese construction enterprises*", Nguyen Thi Hong Thuy (2010) with the topic "*Internal Audit Organization in Vietnam Economic Groups*", Vu Thuy Linh (2014) with the topic "*Completing the process and organization of the Internal Audit apparatus in Vietnamese state-owned commercial banks*": Although the authors have directed the Internal Audit approach based on risk analysis, however, the research content still carries many characteristics of the system approach, focusing on financial audits and has not yet provided models for risks assessment, analysis and rating.

And many other research projects focus on different aspects of Internal Audit Organization activities in enterprises.

### **2.3. Research results e valuation of the works related to the Thesis**

#### **2.3.1. The achieved results**

It can be seen that there are many research projects in the world in general and in Vietnam in particular. In a comprehensive way, the research works have rich and diverse contents, including comprehensive research on theories such as: "*Modern internal audit - Assess activities and control Systems*" By two authors Victor Z. Brink and Herbert Witt, "*Internal Audit Handbook*" by Martin Grimwood, "*Risks-based Internal Audit*" by author Phil Griffiths ... also there are some researches on an aspect of Internal Audit such as: "*Researching and building the content of internal audit of transport enterprises*" by author Le Thu Hang (2007); "*Completing the content, process, methods of internal audit in Vietnamese insurance enterprises these day*" by Dr. Giang Thi Xuyen and colleagues (2010); "*Environmental audits and audit rules*" of a Group of INTOSAI ... and application research projects for a specific areas of business sectors such as construction, finance and banking, state-owned enterprises ... The achieved results can be assessed according to the following aspects:

#### *\* About the organization of the Internal Audit apparatus*

The researches provide basic elements of the Internal Audit organization apparatus including: Model of organization and personnel organization of Internal Audit, specifically:

- Conducted research on models, apparatus organization of the popular Internal Audit department in the world, in accordance with modern Internal Audit theory. At the same time, analyze the decisive influence of the

organizational model on the internal audit activities, then point out the advantages and disadvantages of each model and propose the practical applicability to organizations and enterprises;

- Determine the functions, tasks, powers and relationships of the Internal Audit with other departments. Set out the basic requirements of objective independence in the implementing Internal Audit's tasks.

- Provide basic requirements for internal auditors such as: qualifications, skills, experiences and additional personnel source for the Internal Audit Department.

*\* About Internal Audit Organization activities*

- Researched and proposed an internal audit approach based on risk analysis applied to the entire audit process; orientation of developing performance audit and compliance audit;

- Specify the audit process, including steps: audit preparing, audit implementing, making audit report and checking the implementation of audit recommendations;

- Initially, there were guidelines for assessing, analyzing and classifying risks as a basis for making annual audit plan, risks assessment when planning and implementing audit procedures;

- Set requirements for audit quality control in all stages: Specify the responsibilities of the leader, the responsibilities of the departments involved in audit quality control.

**2.3.2. Determine the research gap**

In addition to the above results, there are still some issues that have not been studied, including:

Study Internal Audit organization in Song Da Corporation as an enterprise with a multi-level organizational model (including level I, II, and III companies), operating in a field with many potential risks and Research results towards high practical applications.

Study the determination of the number of internal auditors on the basis of a scientific and rational calculation method.

Specific guidance on the making of job descriptions, criteria for each title of internal audit.

Guidance on building model of risk assessment and analysis to select audited units and activities (operational group) applied to a specific unit to improve practical applications.

Analyze and guide the determination and selection of performance audit topics for the audits of the Internal Audit, and at the same time guide the making of the performance audit assessment criteria.

Instruct to complete the Internal Audit Handbook to guide the operation, and at the same time serve as a basis to improve the efficiency of the Internal Audit operation; complete the system of sample records and audit quality

control to improve the professionalism of the Internal Audit Department.

### ***2.3.3. Researching questions***

The content of the Thesis is to answer the following questions:

- What are the basic theories about the internal audit in the enterprise, what is the content of the internal audit organization in the enterprise?
- The approach of Internal Audit, advantages of the approach based on risk analysis compared to other methods?
- What are the specific characteristics of the production and business activities of Song Da Corporation, what types and their influence on the organization of the Internal Audit?
- Current situation, advantages and disadvantages, causes of the disadvantages of Internal Audit Organization in Song Da Corporation?
- What are the solutions for completing the Internal Audit organization in Song Da Corporation?

### ***2.3.4. The issues that the Thesis need to focus on***

Study, analyze, select the optimal model of internal audit organization, in accordance with the capital ownership characteristics of enterprises in general, enterprises with state capital in Vietnam in particular and the reality at Song Da Corporation. Research and propose some contents related to recruitment, appointment as well as the relationship of the Internal Audit with other departments to improve the independence and objectivity of this department;

Study the method of determining labor margins, building a model of labor margin for the Internal Audit Department at Song Da Corporation;

Orientation of building and developing sample of job descriptions, titles standards of some auditors;

Study and develop a model of assessment, analysis and risk classification towards two main groups of activities: (1) Risk assessment in the process of making annual audit plan; (2) Risk assessment in the process of making detailed audit plan, designing audit program, developing criteria for assessing performance audits;

Study and propose orientations for developing the Internal Audit Handbook; build a system of records and forms applicable to internal audits;

Study theory, propose complete plan to control the quality of audit from planning to inspection of implementing audit recommendations.

## **3. Research objectives**

### ***3.1. Overall objectives***

- Study and systematize theoretical and practical issues about Internal Audit organization, contributing to clarifying the scientific and practical bases of internal audit organization in enterprises;
- Study the experience of Internal Audit Organization in the world and point out lessons of experience when applying to suit the conditions of



Vietnam;

- Research and develop theoretical issues of Internal Audit, especially the approach of Internal Audit based on risk analysis.

### ***3.2. Detailed objectives***

- Study the characteristics of the production and business activities of Song Da Corporation affecting the Internal Audit organization, in which focus on the group of characteristics with high potential risks, different from other enterprises.

- Analyze and assess the current status of Internal Audit Organization; identify and assess the actual status of the Internal Audit function (Internal Audit controlling, inspection, checking), compare with the Internal Audit theory to see: Characteristics of Internal Audit in internal controlling, checking; limitations in the Internal Audit Organization, the inspection and control of Corporation when not establishing the Internal Audit department.

- Specify the necessity of establishing an Internal Audit department at Song Da Corporation, propose solutions to complete the apparatus organization and Internal Audit Organization activities with a focus on orienting the Internal Audit activities based on the approach, risk assessment, focusing on performance audits.

## **4. Subjects and scope of research of the topic**

### ***4.1. Research subjects***

- The Thesis studies basic theories of Internal Audit and Internal Audit organization in enterprises. Within the scope of this Thesis, the term "Organization" is understood to include two contents: apparatus organization and operational organization.

- + At the Parent Company: Study and assess the apparatus organization and operational organization of the Internal Control Board, inspection activities of professional departments;

- + At the Subsidiaries: (1) For the units that have established the Internal Audit Department: Study, assess apparatus organization and operational organization of Internal Audit activities; (2) For the units that have not established the Internal Audit Department: Study, assess the apparatus organization and operational organization of the Internal Control Board, inspection activities of specialized or part-time departments.

### ***4.2. Research scope***

- *In terms of space*: The study focuses on the apparatus organization and process of Internal Audit and at the Parent Company and subsidiaries of Song Da Corporation; identify and assess the current status of organization and operation of the Internal Audit function (Internal Control, Inspection) in Song Da Corporation.

- *In terms of time*: The topic mainly focuses on researching the status of organization of the Internal Audit, Internal Control and Inspection of the above units in the period of 2012 - 2015, with some important results until 2017

## **5. Research method**

**5.1. General methodology**: dialectical materialism method, historical materialism method.

### **5.2. Specific method:**

- Methods of collecting documents: including collecting primary and secondary documents.

- Methods of information analysis: methods of synthesizing, classifying, analyzing, comparing and systematizing information ....

## **6. New contributions of the Thesis**

In theory: The study clarifies the basic issues of the Internal Audit theory in enterprises.

In reality: The Thesis has surveyed, researched, analyzed and assessed the current status of Internal Audit activities and the implementation of Internal Audit functions at Song Da Corporation. Assessment results show the achievements, especially the problems and causes of the them, from which proposes the plan of Internal Audit Organization at Song Da Corporation

## **7. Structure of the Thesis**

In addition to the introduction, conclusions, works of the authors related to the Thesis, list of references and appendices, the main content of the Thesis is divided into 3 chapters:

*Chapter 1*: The basic issues of Internal Audit Organization in the enterprise.

*Chapter 2*: Current status of Internal Audit Organization in Song Da Corporation

*Chapter 3*: Solutions to complete the Internal Audit Organization in Song Da Corporation.

## **CHAPTER 1**

### **THE BASIC ISSUES OF INTERNAL AUDIT ORGANIZATION IN THE ENTERPRISE**

#### **1.1. Overview of Internal Audit.**

##### **1.1.1. The formation and development of Internal Audit theory.**

##### **1.1.2. Concept and classification of Internal Audit.**

The author gives the definition of Internal Audit as follows: *Internal Audit is an independently built part under the highest management level, with the function of inspecting and assessing all activities of the enterprise. Thereby giving advices to improve the quality of the Internal Control System and effectively use the resources to achieve the objectives of the enterprise.*

##### **1.1.3. The role, functions and purposes of the Internal Audit.**

###### **1.1.3.1. The role of the Internal Audit**

- Internal Audit is a tool to support the implementation of managers's responsibilities
- Internal Audit is a tool to help discover and improve weaknesses in Internal Control Systems of enterprises.
- Internal Audit helps balance and regulate the conflicts of interest that often happen between shareholders and business managers.
- The Internal Audit provides assurance from which to increase the confidence of users of information related to the enterprise.
- Internal Audit is an effective tool to contribute to improving the efficiency of using the resources of the unit, participating in the strategic planning process, advising administrators to choose the most optimal plan.

#### *1.1.3.2. The functions of the Internal Audit*

Internal Audit has three basic functions: inspection, assessment and advising.

#### *1.1.3.3. The purposes of the Internal Audit*

- Internal Audit activities are to ensure that published informations are in accordance with established standards and regulations.
- Assess the level of compliance with regulations and policies of all activities in the enterprise, assess the influence level, indicate the causes and propose handling plans;
- Assess the economics, efficiency, effectiveness of activities in the enterprise, propose measures to improve the efficiency of using resources;
- Internal Audit is a tool of managers to check and review to detect weaknesses of the Internal Control System, to propose countermeasures;
- Advise managers in developing plans and strategies; risk identification and assessment; provide options for managers to have a overview before making a decision.

#### ***1.1.4. The independence, authority and responsibility of the Internal Audit***

##### *1.1.4.1. The independence of the Internal Audit Department*

About the position of the Internal Audit Department: The position of the Internal Audit organization must be high enough to complete the audit tasks.

About the objectivity in implementing Audits: Auditors can not have prejudices, bias or be dominated by high-ranking leaders' opinions, compromises and emotional relationships with audited units .

##### *1.1.4.2. The Authority of Internal Audit*

*Firstly*, the Internal Audit has the right to be independent of professional skills.

*Secondly*, Internal Audit is fully equipped with auditing resources;

*Thirdly*, Internal Audit has the right to request relevant departments and individuals to provide information and documents to serve the audit work;

*Fourthly*, Auditors were allowed to sign Internal Audit report conducted

by individuals or responsible for implementing the assigned audit tasks, reserve the opinions presented in the audit report.

*Fifthly*, the Internal Audit offers conclusions, assessments and advices; recommendations;

*Sixthly*, supervising the process of making petitions and reporting to competent authorities for compliance with conclusions and recommendations;

#### *1.1.4.3. The Responsibility of Internal Audit*

*Firstly*, the Internal Audit implement auditing according to approved plan;

*Secondly*, the Internal Auditor must comply with the law, the principles and professional standards, the current policies of the State and the processes and regulations of the enterprise being applied;

*Thirdly*, the Internal Audit is responsible for assessing the Internal Control System regularly and continuously to detect and remedy weaknesses of Internal Control Systems in time.

*Fourthly*, the Internal Audit is responsible for giving advice;

*Fifthly*, take responsibility before competent authorities and person giving audit decision makers on the results of Internal Audit work;

*Sixthly*, Internal Auditors must always show honesty, independence and objectivity; constantly improving professional capacity, updating knowledge, maintaining auditing professional ethics.

#### ***1.1.5. The content, scope and technical methods of the Internal Audit***

##### *1.1.5.1. The Content of the Internal Audit*

Each different classification can be divided into different types of audits, and each type of audit has different contents, scope and audit methods. Currently, the popular approaching method is according to the audit objectives, whereby the audit contents are attached to the goal.

##### *1.1.5.2. The Scope of the Internal Audit*

The scope of the Internal Audit is the entire business activities.

##### *1.1.5.3. The Methods of the Internal Audit*

- Basic audit method;
- Compliance audit method.

##### *1.1.5.4. The techniques for collecting evidences for Internal Audit*

Techniques for collecting evidence for Internal Audit include: physical examination; Get confirmation; Verify documents; Observe; Interview; calculation method; Analysis

#### ***1.1.6. Distinguish the Internal Audit with Independent Audit and State Audit***

### ***1.2. Internal Audit Organization in enterprises.***

#### ***1.2.1. Contents of Internal Audit Organization in enterprises***

- Organize the Internal Audit apparatus: specifying the position of the Internal Audit in the organizational structure of the enterprise; organizational

model of the Internal Audit; personnel structure, standards of titles and relationships of Internal Audit with internal and external departments;

- Organize Internal Audit activities: determine the approaching method of the Internal Audit, develop and implement an appropriate audit process and maintain the Audit Quality Control System to ensure that the objectives are met.

### *1.2.2. Organizing the internal audit apparatus*

#### *a. How to organize an internal audit*

Currently there are three ways to organize the Internal Audit apparatus including: Internal Audit under the Board of Directors; Internal Audit under the Administrative Council and Internal Audit under the Audit Committee.

#### *b. Internal Audit Organization model*

*Firstly*, the centralized Internal Audit Model, according to this model, the enterprise only organizes the Internal Audit Department at the head office but does not organize Internal Audit at branches or subordinate units.

*Secondly*, the dispersed internal audit model, the Internal Audit department is set up at the head office and at all branches and subordinate units.

*Thirdly*, the combined model: is the model of Internal Audit Organization based on a combination of concentrated model and distributed model.

#### *1.2.2.2. Internal audit human resources organization*

- Build labor margins for Internal Audit Department: Margin can be built according to three methods including: Correlation rate; Labor norms; According to frequency and duration.

- Basic requirements for Internal Auditors include: Skills and qualification; professional ethics, independence, respect for law, respect for secrets.

- Recruitment of Internal Auditors: including human resources from inside and outside the enterprise.

#### *1.2.2.3. The relationships of Internal Audit*

- The relationship between the Internal Audit and other departments in the enterprise;

- The relationship between the Internal Audit and the unit outside the enterprise.

### *1.2.3. Organize internal audit activities*

#### *1.2.3.1. The approaching method of Internal Audit basing on risk analysis*

Approaching method based on risk analysis is the method that the Internal Audit starts from the identification and assessment of risks to identify objects, content, methods, procedures ... and allocate resources to implement auditing. This approaching method can be applied to the entire audit process, specifically:

- When developing an annual audit plan, the risk assessment is carried out primarily with the goal of selecting audited units and topics through grading

and rating risks among audit units and subjects.

- When developing a detailed audit plan for the audit, the risk assessment is carried out with the main purpose of: assessing the effectiveness and consistency of the Risk Management Model, Internal Control System and Corporate Governance, at the same time, identify high-risk activities from which focus time, personnel with qualifications, experience and use appropriate auditing methods and procedures.

- When auditing, risk identification and assessment must be carried out for each professional department, and at the same time it is the review, assessment of efficiency and consistency in risk Management of each department. On that basis, Internal Auditors determined appropriate audit procedures.

#### *1.2.3.2. Building the Internal Audit process*

The audit process includes four stages: Audit Preparing; Audit Implementing; End of audit; Monitor implementation of audit recommendations.

#### *1.2.3.3. Quality Control of Internal Audit*

The quality control of the Internal Audit is the activity of checking and monitoring audit activities to ensure the quality of the audit. The quality control of the audit must be performed in all stages of the audit process.

### **1.3.. Factors affecting the Internal Audit Organization in the enterprise.**

#### *1.3.1. The objective factors*

*1.3.1.1. The law of Internal Audit:* in some countries, the establishment of an Internal Audit Department is mandatory and specified by specific laws.

#### *1.3.1.2. State management for organization and Internal Audit activities*

*Firstly*, the state orients and creates necessary conditions for the management mechanism through the development and issuance of the Internal Auditing Standard System.

*Secondly*, the State creates opportunity for training Internal Auditors to ensure the development of the Internal Audit.

*Thirdly*, if this type provide information to another third party or an Internal Audit built in economic Groups or state-owned Corporations, the quality of Internal Auditors must be ensured and specified by legal documents.

#### *1.3.1.3. The development of professional associations*

The Association of Internal Auditors, as a bridge between the Internal Audit and other types of audits, between the Internal Audit and foreign Internal Audit Organizations ... will enhance the communication and exchange of experiences, work coordination through that improve the qualification for Internal Auditors; raise awareness of managers, social and management in different levels about Internal Audits, affirm the necessity of the Internal Audit activities in the enterprises.

#### *1.3.1.4. Risk factors in the operation of the enterprise*

The risk factors in the operation of the enterprise will have a great impact on the Internal Audit Organization in enterprise in terms of:

*Firstly*, impact on the views of managers in establishing, regulating functions, authorities, responsibilities... of the Internal Audit Department;

*Second*, decide the audit approaching method of the Internal Audit;

*Third*, decide the Apparatus Organization and Internal Audit Organization activities.

### ***1.3.2. The subjective factors***

#### *1.3.2.1. Administrator's point of view on Internal Audit*

If the manager thinks that the Internal Audit is an effective tool to assist management activities, which is indispensable in the operation of the business, they are always interested in the organization and operation of the Internal Audit department; arranging personnel, fulfill the resource requirements to implement auditing ... and vice versa.

#### *1.3.2.2. Model of organization and operation of the Internal Audit*

The organizational model affects: the appointment and dismissal of the Chief of Internal Audit and recruitment of Internal Auditors; decide the annual plan, scope and contents of the each audit; validity in the process of implementing audit conclusions and recommendations.

#### *1.3.2.3. Internal Auditor*

Internal auditor is the person who directly carries out the Internal Audit. In order to ensure the effectiveness and quality of the audit, the Internal Auditors must also meet certain criteria: professional qualifications, personal qualities, professional ethics ...

#### *1.3.2.4. Auditing cost factor*

Although the Internal Audit activity is an auditing activity without charge, however the expenses to maintain and operate this department are always exists and they also are the expenses incurred by the enterprise. Therefore there is always a comparison between the benefits provided by the Internal Audit and the cost to implement the audit.

## **1.4. Some models of Internal Audit in the world and lessons learned for Vietnam**

### ***1.4.1. Internal Audit at General Motor Group***

### ***1.4.2. Internal Audit at Italian Post Corporation - Poste Italiane***

### ***1.4.3. Internal audit Organization in international governance practices***

### ***1.4.4. Lessons learned for Vietnam***

*Firstly*, enterprises can actively choose the Internal Audit model, however, it is necessary to ensure independence and objectivity and not be limited to the scope of the Internal Audit;

*Secondly*, it is possible to choose one of three forms: centralized, dispersed or combined to ensure that it is suitable to the scale and area of operation to avoid complicating the management model;

*Thirdly*, when developing an audit process, it is necessary to point out an approaching method to Internal Audit based on risk analysis to avoid wasting resources.

*Fourthly*, there should be an initial training process on Internal Audit as well as updating and supplementing knowledge for Internal Auditors frequently;

*Fifthly*, develop and issue regulations on the relationship between the Internal Audit and other departments of the enterprise.

## **CONCLUSION OF CHAPTER 1**

### **CHAPTER 2**

#### **CURRENT SITUATION OF INTERNAL AUDIT ORGANIZATION IN SONG DA CORPORATION**

##### **2.1. History, development and management traits of Song Da Corporation affecting to Internal Audit Department.**

###### **2.1.1. History and development of Song Da Corporation**

###### **2.1.2. *Traits of Song Da Corporation that affect Internal Audit Corporation.***

*First*, Song Da Corporation operates on many industries containing hidden risks at high level.

*Second*, as for restructuring and the traits of executive management activities of Song Da Corporation, in 2016, the Corporation will change from Ltd. to JSC. This is considered to be leverage for establishing and organizing Internal Audit organization into operation.

*Third*, since construction requires a large amount of capital, this has set the Internal Auditors focus into the operating auditing with the approaching method that is based on the risk analysis basis.

*Fourthly*, due to specific production areas, it will make some impacts on the standards of Internal Auditors and auditing process.

*The fifth*, the investment activities of Song Da Corporation. In recent years, the parent company and member units of Song Da Corporation have been the investors of some major projects such as hydropower, construction materials, urban, etc. This activity is set the requirements for the Internal Audit to be the pre-audit and performance audit activities.

*Last but not least*, the relationship between the parent company and subsidiary. Since the parent company is merely a shareholder of the subsidiary, this is an act of control in terms of compliance and efficiency through contribution capital ratio.

##### **2.2. Identification and status of activities to perform the function of Internal Audit in Song Da Corporation**



According to the surveys conducted at the Parent Company and 12/13 subsidiaries of Song Da Corporation, it can be seen that the Internal Audit Department has not been established. However, there are similarities between some inspection and control activities and Internal Audit in terms of functions and tasks. In particular, the activities of the Internal Control Board at the Song Da parent company carry most of the basic characteristics of the Internal Audit. With such characteristics, in this section, the author deeply identifies and assesses the status of activities of the internal audit function at the parent company and subsidiaries of Song Da Corporation considering the structure and organization to see the difference, the need to establish and maintain the Internal Audit Department in Song Da Corporation.

### ***2.2.1. At the parent company- Song Da Corporation***

#### ***2.2.1.1. Internal Audit Structure***

##### ***a. The model***

##### ***➤ Positions in the Internal Audit Board at the Parent Company – Song Da Corporation***

The Internal Control Board is a specialized department within the organizational system of Song Da Corporation under the Members' Council. The Board is responsible for control activities and operating independently, directly conducting inspection and control activities including direction and administration activities of the Board of Directors, the activities of member units and reporting the results directly to the Members' Council.

##### ***➤ Operating code of the Internal Control Board***

Principles of operation of the Internal Control Board are: independence, objectivity and professionalism.

##### ***➤ Code of professional ethnics***

The Internal Control officers at Corporation must follow and comply with the code of professional ethnics: Integrity, Objectivity, Security, Responsibilities.

##### ***➤ Functions of the Internal Control Board***

There are three main functions: checking, evaluating, confirming and consulting. The Internal Control Board already has similarities with Internal Auditors, specifically consulting and completing the Internal Control system.

##### ***➤ Tasks of the Internal Control Board***

The tasks of the Internal Control Board include: (1) Conduct inspection and supervision with the main purpose of appraising financial statements, governance reports, assess legal compliance, decisions of the Board of Members, processes and regulations for parent companies and subsidiaries and associated companies; (2) Propose measures to correct errors, improve the effectiveness of the internal control system; (3) Focal point to build annual training program.

##### ***➤ Rights of the Internal Control Board***

The Internal Control Board has been granted many rights to be eligible to control: the right to access without limitation for professional processes, documents, interact with individuals related to control activities. ; be proactive in work and professionally independent, give reservations if necessary; check and supervise the process of implementing recommendations for control.

➤ *Responsibilities of the Internal Control Board*

The responsibilities are compliance with laws, organization and operation charters, regulations and internal management regulations of the Corporation; be responsible to the Board of Directors of Corporation on the results, assessments, conclusions, recommendations in the internal control reports. Moreover, the Board has to monitor results of implementing post-control recommendations; secure documents and information according to current regulations of law; promptly report to the Board of Members of the collection of information related to ensuring safety in the operation of the Corporation.

➤ *Relationships between the Internal Control Board and other departments at Song Da Corporation*

The relationships of the Internal Control Board have been stipulated including: with the Member Council; with the General Director; with the controller, the representative of the Corporation's capital in other enterprises; operating units and departments.

*b. Human resources organization of the Internal Control Board*

➤ *About labour margin*

The labour margin of the Internal Control Board is approved by the Board of Members according to the proposal of the Head of the Internal Control Board. However, no method has been developed and issued to determine the labour margins and the actual number of employees of the Internal Control Board.

➤ *Standards of Internal Controller*

Professional qualifications and experience of the staff of the Internal Control Board have basically met the requirements set out in the Regulation. However, at the present time, the Internal Control Board has not yet developed the job description table and specific title standards for each position.

➤ *Human resources*

- The Head and the Vice head of Internal Control Board are appointed and dismissed by the General Director after being approved by the Board of Members;

- Specialists of the Internal Control Board are under the General Director's influence at the request of the Head of the Internal Control Department.

➤ *Training for Internal Controller*

There are no specific regulations on training time for at least one year for each position of Internal Controller and the implementation of training has not

been conducted regularly, methodically, and concentrated, but mainly self-study and research.

### *2.2.1.2. Operation of Internal Control*

#### *a. Procedure of Internal Control*

Internal control process includes 04 steps: Planning internal control; Conduct internal control; Prepare the report and Check the implementation of recommendations of the internal control.

#### *Step 1: Planning internal control.*

##### *Plan a yearly Internal Control plan*

*First is risk evaluation.*

##### *Overall risk evaluation*

General risk assessment comes from the review of risks that have occurred in the sectors, fields, macroeconomic environment, etc. that are related to the main business activities of Corporation and methods of handling those risks in the previous year.

##### *Environment risk evaluation*

Information from the internal environment should be reviewed and evaluated, including changes in personnel structure and review of the performance.

##### *Evaluation and classification of risks*

On the basis of reviewing risks, the Internal Control Board will conduct the risk assessment and classification at all levels as a basis for planning the control scale. Such method, however, probably fails to make a correct assessment of risk level for the relevant units due to the different significance of each intended risk criteria resulting in an incorrect selection of the units in question.

##### *Secondly, choosing an controlled unit*

Based on the results of risk assessment and compared with the regulations on control frequency for units with risks, the Internal Control Board will list in the annual plan the number of units to be controlled and the field of operation needed to be control.

##### *Thirdly, allocate resources for control activities*

The regulations have not specified the human resources allocation, especially the arrangement of personnel. There has not been any information about the HR becoming the head of the team and the number of staff participating in each delegation controls in the annual Internal Control plan.

##### *➤ Internal control plan for each control*

The internal control plan for each control is set up by the Head of the Internal Control Board or the Head of the Delegation. Then it will be submitted to the Board of Members for approval before implementation. The plan consists: Collecting information; analysing and processing it; detailing the Internal Control plan. After that, the Internal Control Board will evaluate it

including: assessing Internal Control system, determining the focus point and control risks and perfect the detailed control plan.

*Step 2: Conduct the control*

*First*, a meeting will be scheduled before conducting: time, composition, and content of the meeting; Meeting objectives

*Second*, control methods in the plan are Basic control methods and Compliance control methods;

*Third*, Principles for controlling are Comply with control plans and programs; Record and store records; Report on the progress of implementation; Compliance with the law;

*Fourth*, the content of control implementation is Risk assessment and control testing design; Perform tests of control; Final assessment of control risks and basic test design; Select control sample;

*Finally*, the draft of the Internal Audit will be submitted and conclude.

*Step 3: Make Internal Control report*

As soon as the Minute of Control is completed, the Delegation shall prepare a Control Report to the Board of Members of the Corporation together with a Control Record. The steps include: Preparing the control report, presenting the Control Report; Completing, issuing and archiving the control reports.

*Step 4: Checking the implementation of recommendation*

The inspection of the implementation of control proposals is carried out promptly and fully in the indirect form: the control units send dossiers, documents, and evidence proving that they have conducted the recommendations or explained in detail the difficulties and problems that lead to the implementation.

*b. Quality control of Internal Control*

The Head of the delegation and Leader of the Internal Control Board is in charge of conducting the review to ensure the completeness of the work, consistency, and comprehensiveness of the control in accordance with the control plan.

The Head of the Internal Control Board is responsible for developing and maintaining the quality management program that covers all aspects of the Internal Control Board and regularly monitoring the effectiveness of the control program.

**2.2.2. At member units**

Through actual surveys at 13 units, only 01/13 units (accounting for 7.7%) has an internal audit organization; 04/13 units (accounting for 30.8%) have established the Internal Control Board as similar to Song Da Corporation's parent company; the remaining 8 units have no departments to perform specialized inspection and control functions.

*2.2.2.1. About apparatus of Internal Audit*

*a. The model*

Song Da 5 Joint Stock Company is the only unit that has Risk Management Room and Internal Audit under the Board of Directors.

- There are 04/13 units that have Board of Internal Control: 03/4 units have Board of Internal Control under Administrative Council; 01/4 under the Board of Directors. The regulations on functions, duties, and authorities, etc. of the Internal Control and Management Board at these 4 units are not significantly different from the Internal Control and Management Board at the Parent Company.

- For 8 units that have not established the Internal Audit and Internal Audit Division, the inspection and control tasks are assigned to the departments that perform professional operations.

*b. Human resources for Internal Audit*

For the units that have established the Internal Audit and Internal Audit Division, the labour margin is only regulated from 03 to 05 people, however, the building of labour margin is not yet methodical, the personnel of the Internal Audit Department / Internal control is decided by the General Director to recruit, appoint and dismiss.

*2.2.2.2. About the operations of Internal Audit Department*

*a. Procedure of implementing the functions*

*At units that have Internal Audit Department*

At Song Da 5 Joint Stock Company (Song Da 5), a Regulation on organization and operation has been issued. However, the Company has not yet issued the Auditing Process, Audit Handbook, a system of forms and auditing documents, etc.

*At units that have Internal Control Department*

All four units have developed and issued regulations on the organization and operation of the Internal Control Board. The Process and Control Manual have not been issued and yet applied the Process and Handbook issued by the Board of Internal Control of the Corporation.

*At units that do not have inspection department.*

Since these inspections are not frequent, the officers who perform the inspection are not the full-time officials, the regulations on functions, tasks, and authorities are only mentioned in the decision of setting up inspection teams. The steps of direct inspection at the unit have not been issued specifically, so the results rely heavily on the qualifications of the officers who directly inspect at the unit.

*b. Monitoring and quality management activities during the implementation of the Internal Audit functions*

These units have initially implemented Quality Control work by reviewing the report whether is met with content and objectives are set out. However, through the survey, among the 5 units that have established the Internal Audit and Internal Control, there are no units that have issued

regulations, procedures, and instructions for implementing Quality Control steps.

### **2.3. Result evaluation of Internal Audit at Song Da Corporation**

#### **2.3.1. Results**

##### *2.3.1.1. About the organizational apparatus of Internal Audit*

*Firstly*, the inspection and control work has been taken seriously by managers and initially shown their role in improving the effectiveness of management and administration.

*Secondly*, the Regulations on functions, tasks and contents of inspection and control activities have been built relatively close to the theory of Internal Audit, specifically:

- *Functionality*: it is divided into three basic functions: inspection, evaluation, and advice;

- *Mission and tasks*: check and evaluate the reliability, effectiveness, and efficiency of the internal control system; verify the authenticity and reliability of management information and financial information; assess the compliance with laws and the internal regulations, etc.

- *The content*: The content of inspection and control has been aimed at assessing the compliance with laws, internal regulations, and the economy, efficiency and effectiveness of activities.

*Thirdly*, , the Board of Internal Control operates under the direction and reporting directly to the Board of Members (at the parent company of Song Da Corporation) or the Board of Directors (at 04 subordinate units that facilitate the position, authority, and independence, objectivity of the Board of Internal Control.

*Fourthly*, most of the personnel under the Internal Audit and Internal Control are the senior staff that is deeply knowledgeable about the main business areas of Song Da Corporation.

##### *2.3.1.2. About activities organization of Internal Audit*

*Firstly*, the internal audit and internal control processes have been built even though they are not very detailed. However, they still mention the steps to implement the internal audit and internal control activities at the parent company and some subordinate units.

*Secondly*, internal control activities have initially approached according to the risk assessment method.

*Thirdly*, basic control methods and compliance control methods are used to set out and analyse. Basically, the analysis has given content similar to audit theory.

*Fourthly*, the advantages from the establishment of the Control Report on the basis of the Control Minutes are ensuring sufficient legal basis, having the head of the unit under control with the content in the Control Minutes, ensuring the timeliness in the providing information on control results to the Board of Members or the Board of Directors.

*Fifthly*, inspection activities to implement petitions, record keeping and supervision and quality control of internal control have been regulated and initially implemented.

### ***2.3.2. Shortcomings and limitations***

#### *2.3.2.1. About the organizational apparatus of Internal Audit*

*Firstly*, the Internal Audit Department has not been fully organized at the Parent Company and its subordinate units.

*Secondly*, the Internal Audit theory has not been widely spread and fully understood; therefore it is hard to tell the difference between the Internal Audit and Internal Audit.

*Thirdly*, the staff working on internal control and internal audit have not received specialized training in auditing or acquiring the certificate of Internal Auditor.

*Fourthly*, the appointment and dismissal of leaders and members of the Internal Control Board which the General Director did at the parent company have not ensured the objectivity and independence.

*Fifthly*, labour norms have not been based on the clues, workloads, and foundations;

*Sixthly*, there is no suitable mechanism, policy, and remuneration mechanism for staff working on internal control and internal audit.

*Seventhly*, No work description has been developed, standards of titles for the staff of Internal Audit and Internal Control.

#### *2.3.2.2. About activities organization of Internal Audit*

*Firstly*, the contents of internal control and internal audit have not focused on assessing the economics, efficiency, effectiveness in using resources, making decisions related to management and executive or audit and control before.

*Secondly*, detailed guidelines for controlling and auditing specific contents have not been issued.

*Thirdly*, the annual plans of internal control and internal audit have only been set up in one way direction and have not yet taken the opinions of the controlled units and it is still heavily characterized by administrative procedures.

*Fourthly*, the orientation of the internal audit and internal control approach basing on the risk analysis is still limited.

*Fifthly*, the shortly time to implement internal control, internal audit process is difficult to ensure the quality of the proposed content.

*Sixthly*, the inspection and implementation of the recommendations on internal audit and internal control have not been proactive and timely; there are no regulations to handle units that deliberately do not perform.

*Seventhly*, a system sample records of Internal Control and Internal Audit has not yet developed.

*Eighth*, the quality control system of Internal Audit and Internal Control

has not been built and operated

### ***2.3.3. Causes of shortcomings and limitations***

#### ***2.3.3.1. Objective cause***

*First*, the history of auditing formation and development in general and the Internal Audit in particular in Vietnam is not wide-spread.

*Secondly*, the system of legal documents on Internal Audit is incomplete.

*Thirdly*, the Internal Audit Standards has not yet been issued and there are no professional associations of internal auditors.

*Fourth*, the theory of Internal Audit is not really popular; the units that focus on training and issuing the Internal Audit certificate are fewer than expected.

#### ***2.3.3.2. Subjective cause***

*Firstly*, it is the inadequate awareness of managers and related departments about the organization and operation of the Internal Audit.

*Secondly*, the organization of internal audit and internal control staff is still limited. The work of forming labour margins for the Internal Control Department, Internal Audit Department at the Corporation and the subordinate units has not been focused and yet scientific; There are no specific construction methods. Internal audit and internal control staffs have not been trained in audit, Internal Audit field

*Thirdly*, organizing internal audit and internal control activities is lack of professionalism.

*Fourthly*, information technology application for internal control and internal audit is still limited

## **CONCLUSIONS OF CHAPTER 2**

### **CHAPTER 3**

#### **SOLUTIONS TO COMPLETE THE INTERNAL AUDIT ORGANIZATION IN SONG DA CORPORATION**

#### **3.1. Development strategy orientation for Song Da Corporation and issues in completing the internal audit organization**

##### ***3.1.1. Development strategy orientation for Song Da Corporation in 2016-2020***

##### ***3.1.2. Issues in completing the internal audit organization in Song Da Corporation***

*The first issue* that needs to be considered is improving the knowledge of leaders and officials in the Corporation on Internal Audit matters that emphasize the values it offers and the need to establish and effectively operate the Internal Audit Department;

*Secondly*, the process of restructuring the organizational model requires the Internal Audit department, which includes: (1) Determining the position and model of the Internal Audit organization effectively, without overlapping, and maximizing independence and objectivity; (2) Implementing an in-depth audit according to 03 business and production lines of Corporation, along with



the requirements of quantity and quality of professional of the technical staff internal auditor;

*Thirdly*, the Audit aims to focus on assessing the economics, efficiency and effectiveness of activities of Corporation and its member units;

*Last but not least*, the Internal Audit department operates effectively and professionally in terms of the improvement of the internal control system, risk management and most importantly, the quality of corporate governance in accordance with international governance practices.

### **3.2. Principles and orientations to perfect Internal Audit in Song Da Corporation.**

#### ***3.2.1. Principles for the completion of Internal Audit in Song Da Corporation***

*Firstly*, it is undeniably important for the Internal Audit established in accordance with the current regulations of the law.

*Secondly*, Internal Audit must be consistent with the characteristics and development strategy of Song Da Corporation.

*Thirdly*, the Internal Audit Organization must ensure the economy and efficiency.

#### ***3.2.2. Orientations for the completion of Internal Audit in Song Da Corporation***

*First of all*, the Internal Audit must meet the needs for management and administration in terms of information. Moreover, the Department ought to focus mainly on performance audits and compliance audits.

*Secondly*, internal audit will be adjusted based on organizational structure and professionalism in operation.

*Thirdly*, the Internal Audit structure will be completed in accordance with international practices, and most importantly, Internal Audit approach will be changed based on risk analysis.

### **3.3. Solutions to complete the internal audit organization in Song Da Corporation**

#### ***3.3.1. Improvement in the acknowledgment of Internal Audit in Song Da Corporation***

The solutions can be suggested through seminars; training courses about Internal Audit. Moreover, by exchanging experience in modern management with one and another in terms of the functions, tasks, and values that are brought by the Internal Audit, resolutions can be formed.

#### ***3.3.2. Solution to complete the organization of internal audit apparatus***

##### ***3.3.2.1. Completing the organizational model of the Internal Audit***

###### ***a. In Parent Company of Song Da Corporation***

Since the establishment of an Internal Audit Committee that is under the influence of the Board of Directors and the direct leadership of the Audit Committee is crucial, it is possible to convert/merge the existing Internal

Control Board into the Internal Audit Committee on a specific basis of the functions, duties, authorities and relationships of the Internal Audit with the relevant departments..

Internal Audit Regulation is promulgated with some basic contents as follows:

*About the functions, tasks and authorities when being an Internal Audit*

- The main job is: checking, evaluating and consulting.

- The primary tasks and *authorities* of an Internal Audit are: they are the right hand of Board of Directors. They work for the interest of state owners and their basic tasks is evaluating the adequacy in compliance, economy, effectiveness and efficiency in maximizing all resources of Corporation. Moreover, it is important to entitle the Internal Audit the authority that is large enough to access limited information, documents, interact with individuals and organizations that are relevant to audit operations based on the plans approved by Board of Directors/Audit Committee.

*About the relationships formed between Internal Audit and other departments*

Since internal Audit is directly inferior to Board of Directors and Audit Committee, their operations and activities are in the hands of their superiors and the results must be gone through Audit Committee before handed to Board of Directors.

In addition, the connections established between the Internal Audit and other departments at the Parent Company of Corporation, subsidiary, the representative of affiliate, etc. all of them are all specified clearly so that the audit process can be unified and the cooperation between Internal Audit and audited unit can be managed well.

*About independence, moral standards and manners of Internal Audit*

The process of forming independence, objectivity, moral standards and manners of Internal Audit is applied wholly at Corporation and all Auditors are requested to sign the commitment stating that they must comply with all rules during the auditing process.

*b. At member units*

If Internal Audit unit is formed at member units, they will likely use the concentrated Internal Audit model (only established at head office) which is under the influence of the Board of Directors. Depending on the size, the units may establish an Audit Committee or arrange a non-specialized and independent member of the Board of Directors in charge of Internal Audit activities. The regulations on functions, duties, powers, independence, objectivity, ethical rules and conduct of the Internal Audit can be similarly applied in the Parent Company or customized to suit the actual situation.

*3.3.2.2. The completion of Internal Audit organization*

*First and foremost, developing the calculation method of labour margin*

of Internal Audit Department is a must.

The calculation model of the internal labour division of the Internal Audit is based on the basis of inputs as follows: frequency of auditing; the number of auditing days of each audit; audit personnel; the number of unexpected audits; the number of management leaders; other regular monitoring activities. And with the assumptions given, the labour margin of the Internal Audit Department at the Parent Company is 12 people, including 02 leadership positions (01 Chief of Internal Audit, 01 Deputy Chief of Internal Audit).

*The second factor is recruitment, appointment and remuneration regimes of Internal Auditors.*

The recruitment, appointment and remuneration regimes of Chief of Internal Auditors and the others must be decided by the Board of Directors.

*Thirdly, the requirements of knowledge and experience of Internal Auditor*

*Lastly, building the job description and the standards for each title is necessary.*

The job description and standards for each title include: Job description, title criteria include the content: tasks; power; scales in wage and payroll; relationship; summary of job title; details of the job ; standards for each titles (including qualifications, experience, skills and other qualities).

### **3.3.3. Solutions to complete the Internal Audit Organization**

*3.3.3.1. The completion of the Internal Audit process focuses primarily on the type of audit that works with the Internal Audit approach based on risk analysis*

The internal audit process is approved by the Board of Directors or Audit Committee and it is issued in accordance with the proposal of the Chief of Internal Audit. The process consists of 4 stages: Preparation of audit; Conduct the audits; End of audit; Monitoring the implementation recommendations for audit.

#### **a. Stage 1: Preparation of audit**

The main task of the Internal Audit is to solely conduct surveys, collect additional information and update it in time to develop the annual audit plan and analyse in details of each audit. In this stage, risk assessment and rating model includes the following steps:

##### *Step 1: Collecting information*

Internal Audit uses suitable methods to collect information that is relevant to audited unit such as: economy environment, politics, society, legality, palling and plans for next stages, the changes in the structure and system, the current state of the operating activities and investments in constructions, etc.

##### *Step 2: Risk analysis based on group of elements*

Based on the collected information, Internal Audit will conduct the risk analysis to each audited unit. The table will be divided into each business (EPC,

electricity, housing and urbanization) since they are different from each other and under influence of difference elements.

#### Step 3: Overall risk analysis

According to the risk analysis that is based on group of elements, Internal Audit will conduct an overall risk analysis by determining the level of each target group. On the basis of the operating activities of each industry, Internal Audit will build an appropriate scale to convert risk points by group of factors into the overall risk of the business.

#### Step 4: Risk ranking

According to the results of the overall risk in step 3, the Internal Audit will rank the risk for audited units in terms of topics and activities. The risk rank can be divided into 03 levels: 0-40, 40-70; and 70-100, corresponding to low, average, and high, respectively.

Based on the classification, when setting up the annual audit plan, the Internal Audit determines the audited unit and the frequency of auditing; when planning in details, the Internal Audit determines the operation/group of activities in the enterprise with high risks to focus time and human resources to perform the audit.

For detailed planning, based on the results of the risk assessment, the Internal Audit will design suitable audit procedures and methods; choose the subject of audit; determination of auditing objectives and contents; and then develop a set of evaluation criteria for the operation audit, etc. and complete the detailed audit plan.

#### **b. Stage 2: Conduct the audits**

When conducting the audit, the Internal Auditors must comply with and apply all the /methods and procedures following the approved plan. If there are risks or factors arising unexpectedly, they must immediately report to the head of the audit team to take measures in time.

#### **c. Stage 3: End of audit**

This phase consists of four steps: (1) Summary of audit results, drafting of Audit Minutes; (2) Exchange, discuss with the audited units, complete the draft of the Audit Minutes; (3) Meeting to approve the Audit Minutes; (4) Prepare and issue an audit report.

#### **d. Stage 4: Monitoring the implementation recommendations for audit**

Internal Audit requires the audited entity to report on the implementation state and evidence proving the implementation of the audit recommendations.

##### *3.3.3.2. Completing internal auditor handbook*

For audit content, it is possible to edit in the following directions: (1) Request documents for auditing; (2) Method of audit; (3) Common errors; (4) Evaluate governance. Each content group should be presented to ensure high consistency and searching during the audit process.

### *3.3.3.3. Completing the organization and activities of quality control of internal audit*

The Corporation should promulgate clearly the following contents: Purpose of Quality Control activities; Principles of organization and operation of Quality Control; and build and organize its system.

Quality Control of Internal Audit work should be carried out from the audit preparation stage to the end of the audit. The auditing system must be reviewed and evaluated periodically to ensure efficiency.

### *3.3.3.4. Completing the system of files and forms of Internal Audit*

The system of audit files is developed with the aim of helping the Internal Audit Department to record the working process from the annual planning process to the archive of audit records; standardize and improve professionalism for audit activities; ensure consistency in records, documents, auditing evidence and assisting the Internal Auditors in controlling the quality of auditing, archiving and searching documents when necessary.

## **3.4. Proposals and conditions to complete the internal audit organization at Song Da Corporation.**

### ***3.4.1. From the State and the authorities.***

*First*, the Government might consider assigning the Ministry of Finance to handle sanctions for enterprises that failed to comply the Decree No.05/2019/ND-CP. In particular, pay attention to sanctions for representatives of state capital in economic groups, state corporations, enterprises with the dominant state capital.

*Second*, The Ministry of Finance completes the system of regulations on organization and internal audit activities by establishing the Internal Audit Professional Association; Issuing the Internal Audit Standards system and professional ethics rules in accordance with international practices; Standardizing the Internal Audit method, issuing sample regulations on Internal Audit for units to use as a basis to build the Internal Audit Regulation of their units; training and granting certification for Internal Auditors.

*Thirdly*, The Ministry of Finance builds a system of forms, criteria to assess the quality of internal audit activities in enterprises to avoid the situation where Internal Audit activities operate badly leading to reaching the objectives of the Decree No.05/2019/ND-CP not fully and not enhancing the transparency in the stock market.

*Last but not least*, The Ministry of Education and Training, the universities and institutes of economics and research introduces the IA application to the training program.

### ***3.4.2. From Song Da Corporation***

*First*, Song Da Corporation must raise awareness of the managers and key officials of Internal Auditors.

*Second*, it is important to form an Internal Audit Department at the Parent

Company and member units which specialize in high risk industries including: Construction, EPC contractor, housing and urbanization.

### **CONCLUSION OF CHAPTER 3**

#### **CHAPTER 3**

To achieve the research purpose, the thesis has concretized and clarified the basic theoretical issues of internal audit in enterprises. Moreover, it analyses the role, functions, and tasks of Internal Audit in enterprises; shows consideration Internal Audit according to two aspects of organizational structure and operational organization. And it systematizes the internal audit process in the enterprise. Through the surveys conducted at the Parent company and 13 enterprises belong to Song Da Corporation, the author has analysed clearly the current status of organization and operation of the internal audit at the Corporation under two factors: apparatus and activities of Internal Auditors. Since then, the author has embraced the advantages and shortcomings of the Internal Audit, and deeply analysed the objective and subjective causes leading to these shortcomings. The above assessments are the basis for proposing solutions to perfect the internal audit organization in Song Da Corporation.

In order to effectively maximize the solutions, there are some basic recommendations offered in the thesis can be used by the States, authorities and Song Da Corporation to create favourable conditions for construction and operation of Internal Audit.

During the research process, although the author has made many efforts, the thesis cannot avoid certain shortcomings, the author hopes to receive the contributions from teachers, friends and colleagues to make the thesis be more complete and more valuable in theory and practice.

**Thank you, sincerely!**