



Setting up an Internal Audit function in private sector

October 2020

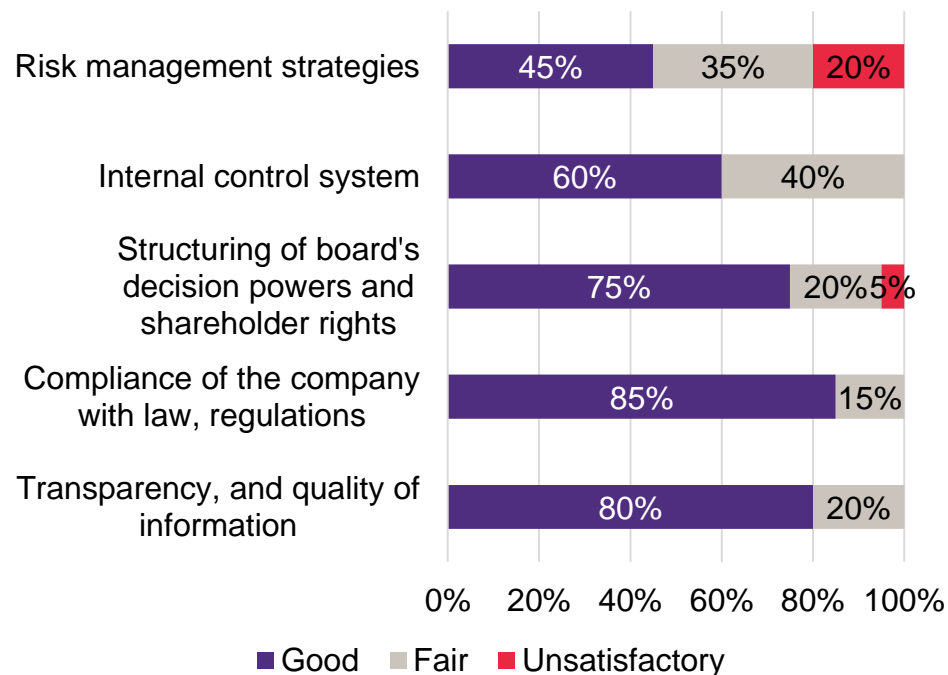


Corporate governance in Vietnam's private sector

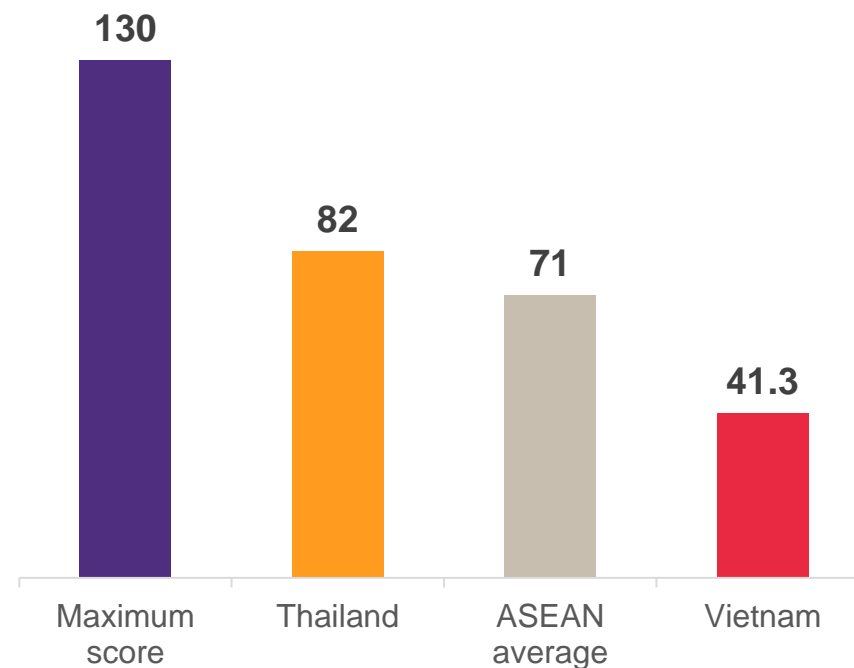
Our 2019 Private Equity Survey revealed that most private companies are over-confident in their corporate governance. However, in the view of experts, corporate governance in Vietnam is still poor.

Improper management practices and lack of effective corporate governance are hindering Vietnamese firms' competitiveness, making Vietnamese businesses "slow to grow".

View of most private companies on their corporate governance



... while experts revealed contradiction



Source: Grant Thornton Private Equity Survey 2019

Source: Corporate governance scorecard 2017-2018 by VIOD, VCGI – Report on Corporate Governance in Vietnam

Internal Audit – the requirement and need

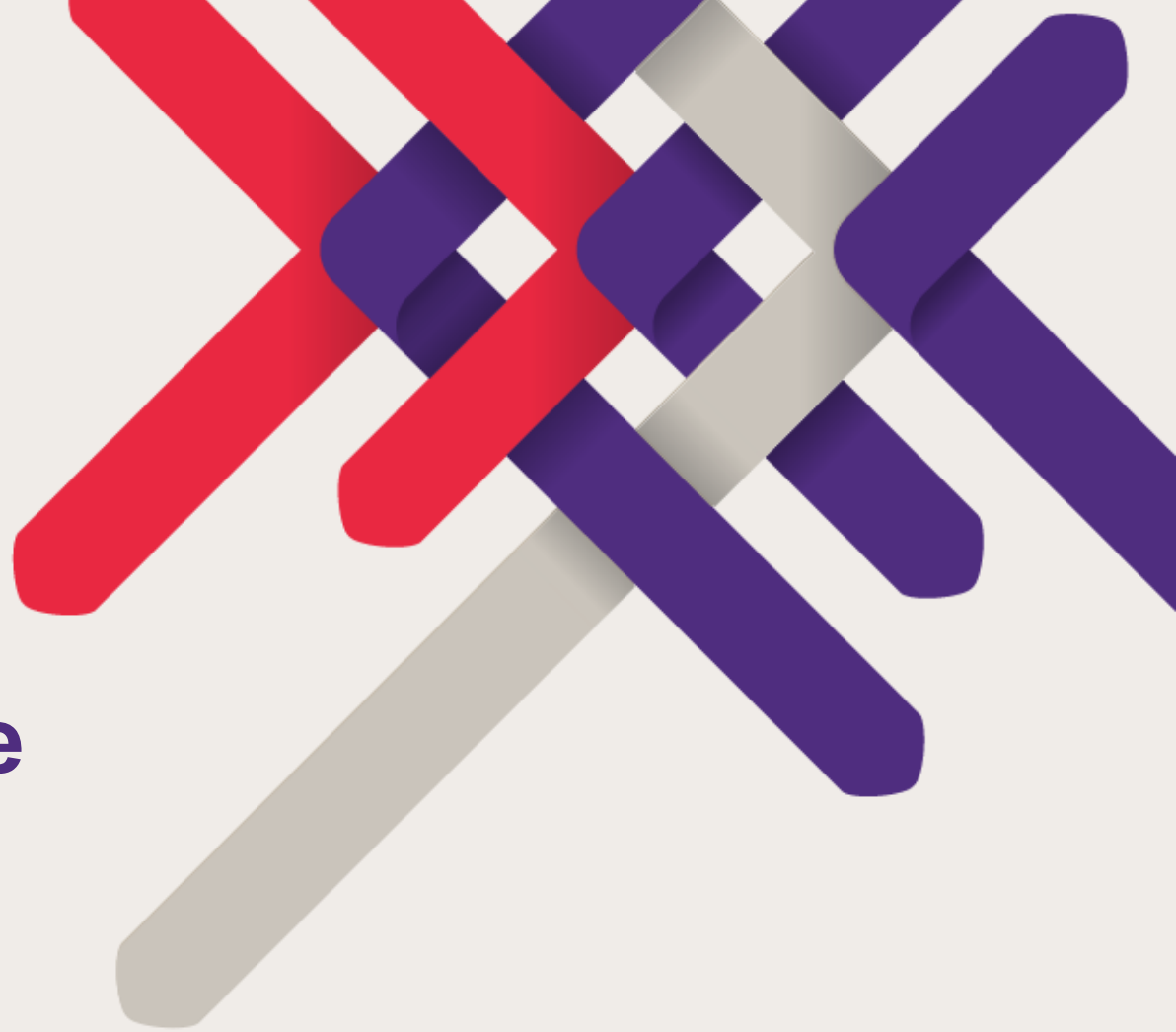
Internal Audit plays a key part in the corporate governance. With effort to enhance corporate governance in Vietnam market, the Government issued Decree 05/2019/ND-CP (“Decree 05”) on Internal Audit (“IA”) which came into effect on 1 April 2019. The Decree 05 applies to state regulatory authorities, state-owned public service organisations as well as listed companies and state-owned enterprises to implement and adopt IA practices.

While the requirement is not compulsory for private companies, setting up an appropriate Internal Audit function is one key part in enhancing corporate governance, especially when your operation reaches a sizable level, or when external funding is needed for growth.

In this publication, we would like to provide you with a step-by-step guidance on setting up a new IA function, focusing on:



Internal Audit's value proposition



Internal Audit is an independent, objective **assurance** and **consulting** activity designed to **add value and improve** an organisation's operations.

It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to **evaluate and improve** the effectiveness of **risk management, control and governance processes**.

There are three core elements of value that IA function can deliver to an organisation:



Assurance

Governance, Risk & Control

IA provides assurance on the organization's governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.



Insights

Catalyst, Analyses, & Assessments

IA is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process



Objectivities

Integrity, Accountability, & Independence

With commitment to integrity and accountability, IA provides value to governing bodies and senior management as an objective source of independent advice.

Sources: The Institute of Internal Auditors



Steps for setting up a new Internal Audit function

Based on Vietnamese regulations and in reference with best practices on IA, we would recommend following steps to establish a new IA function.



Step 1

Understand stakeholder's expectations

- At early stage, the Head of IA function should identify and talk to relevant stakeholders to obtain **their view on the role of IA** within the organisation.
- Stakeholders may include, but not limited to, members of Board of Directors, Audit committee, senior management, departments, external auditor, local authorities, etc.
- Stakeholder's expectations are also **important input for developing IA strategic plan** at later stage.
- The Head of IA function should maintain **regular communication** with stakeholders to manage their expectations, to gain business and operational understanding as well as to develop working relationship.

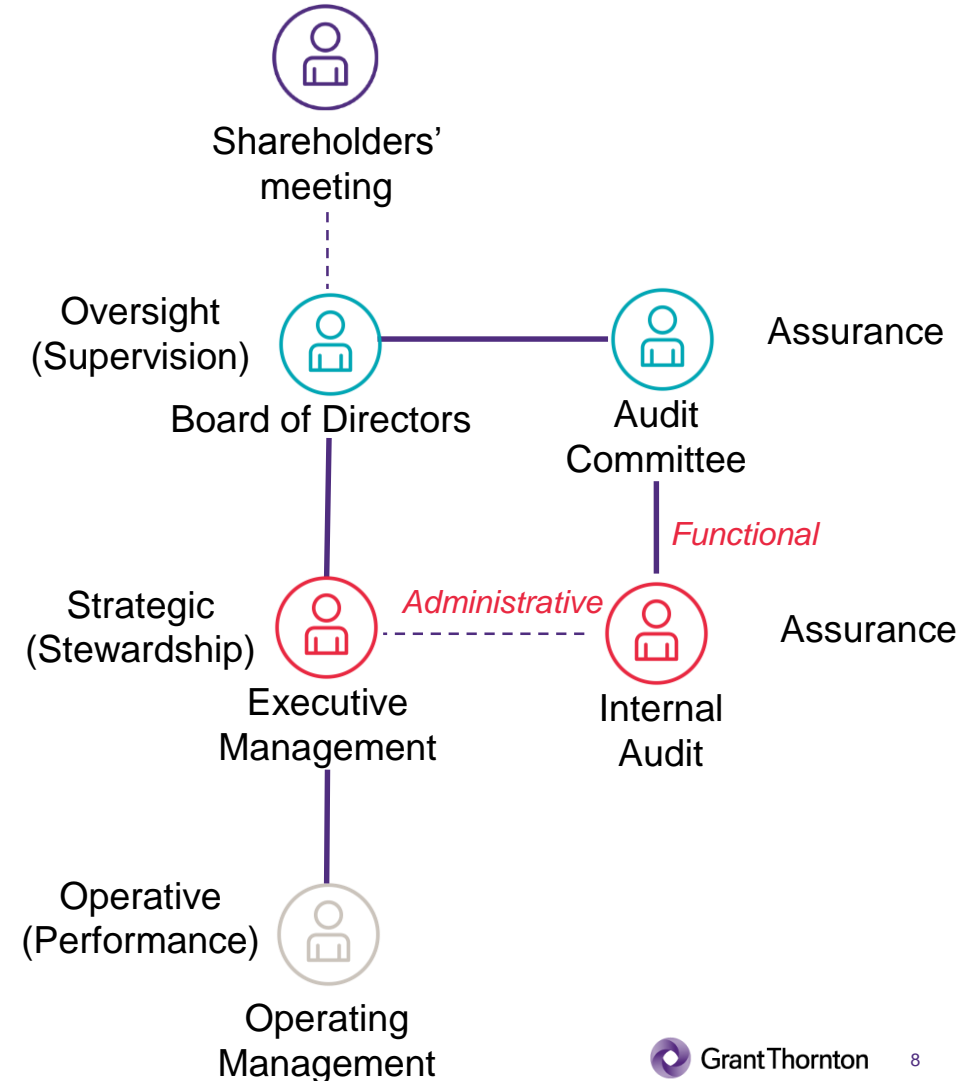
← Regular communication with relevant stakeholders →



Step 2

Identify IA's position

- Decree 05 regulates that **the Head of IA function reports directly to the Board** (and is silent on the role of Audit Committee with regards to IA function).
- According to best practices, in order to maintain independence, the IA function should **report functionally** to Audit Committee or directly to the Board and **report administratively** to Senior management, as presented in adjacent chart.

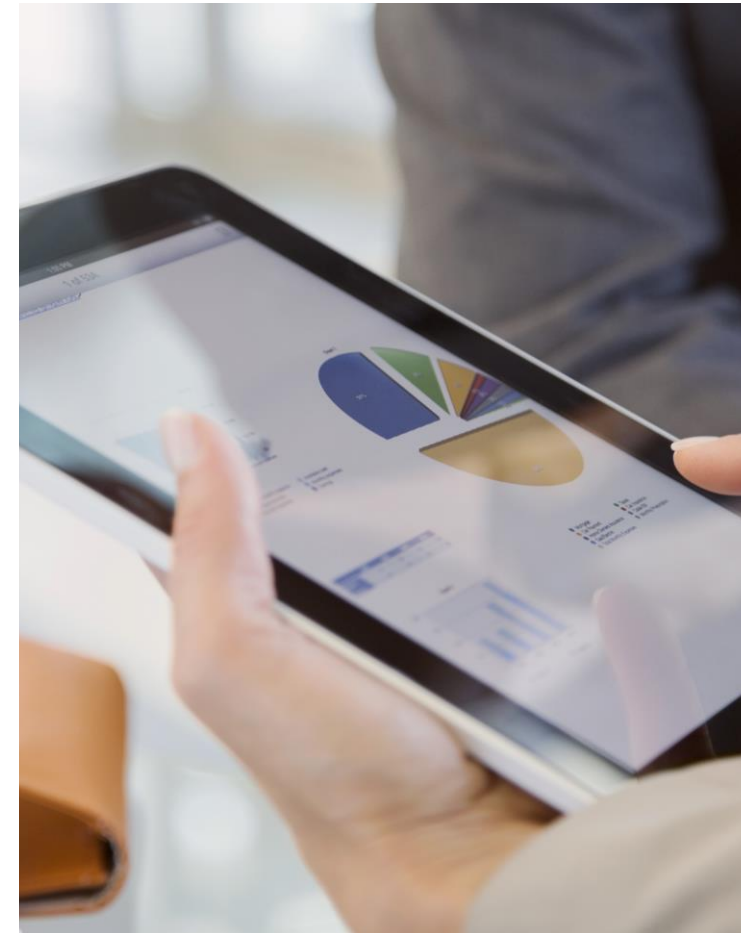




Step 3

Develop and get approval of IA Charter

- **IA Charter** is a governing document to enable IA function to effectively carry out their roles in the organization. It documents IA's purpose, authority, roles and responsibilities, rights, position within the organisation, reporting lines and defines the scope of internal audit activities as well as ethics requirements, etc.
- The Head of IA can develop IA Charter based on Model IA charter issued by Ministry of Finance in Circular 66/2020 / TT-BTC dated 10 June 2020
- IA Charter shall be **approved by the Board**, according to Decree 05.



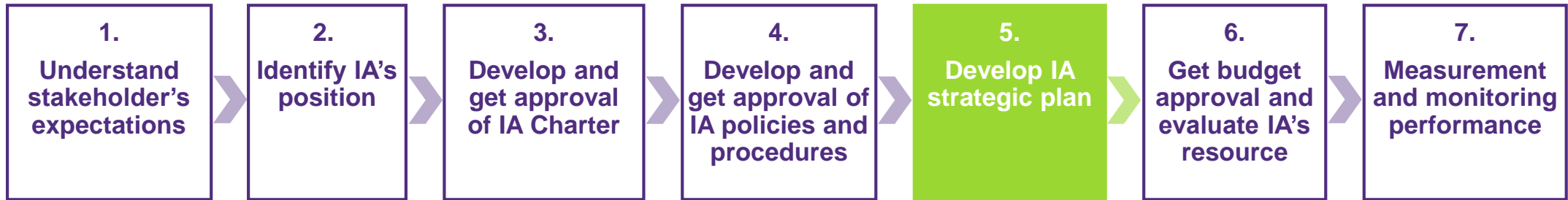


Step 4

Develop and get approval of IA policies and procedures

- **IA policies and procedures** regulate and provide detailed guidance for IA activities. It should cover following processes, but not limited to, risk assessment, annual IA plan, engagement plan, audit execution, audit reporting, follow-up, filing, etc. Relevant tools, templates, automated procedures should be taken into consideration when developing IA policies and procedures.
- According to best practices, the Board/Audit Committee shall approve IA policies and procedures. However, Decree 05 is silent on this matter.

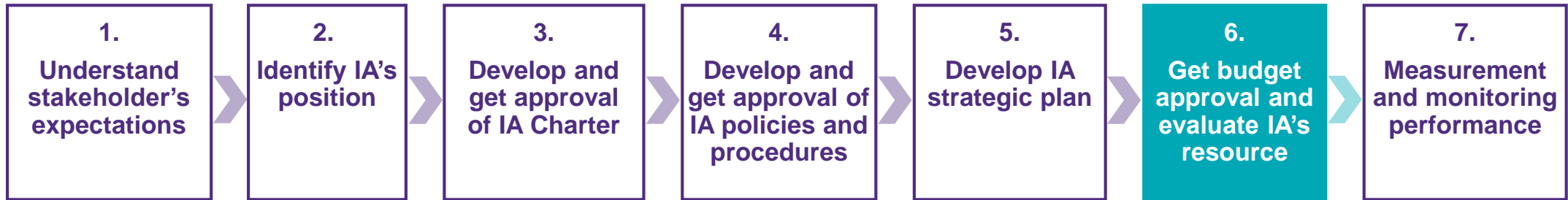




Step 5

Develop IA strategic plan

- In order to align with the organization's overall strategy, **IA strategic plan** should be developed for a defined timeframe (i.e 3 years).
- The Head of IA should discuss with relevant stakeholders to agree on key areas of high risk and priority to incorporate them in the strategic plan. It should also include IA's key objectives, approaches, methods, outputs, resources, success measurement, etc.
- **Internal Audit Annual Plan** is drilled down from IA strategic plan and gives a clear indication of timetable for internal audit work over the course of the coming year, which is approved by the Board.



Step 6

Get budget approval and evaluate IA's resource

- Based on the IA annual plan, the Head of IA should access **its IA resource** to determine whether talent recruitment is needed or external support is required, such as co-sourced, out-sourced. Capacity building program should also be taken in to account to develop IA's resource to meet the requirement of IA strategic plan.
- According to best practices, the Board/Audit Committee shall approve **budget**, sufficient enough, for the IA to operate its functional activities while Decree 05 is silent on this matter.



Step 7

Measurement and monitoring performance

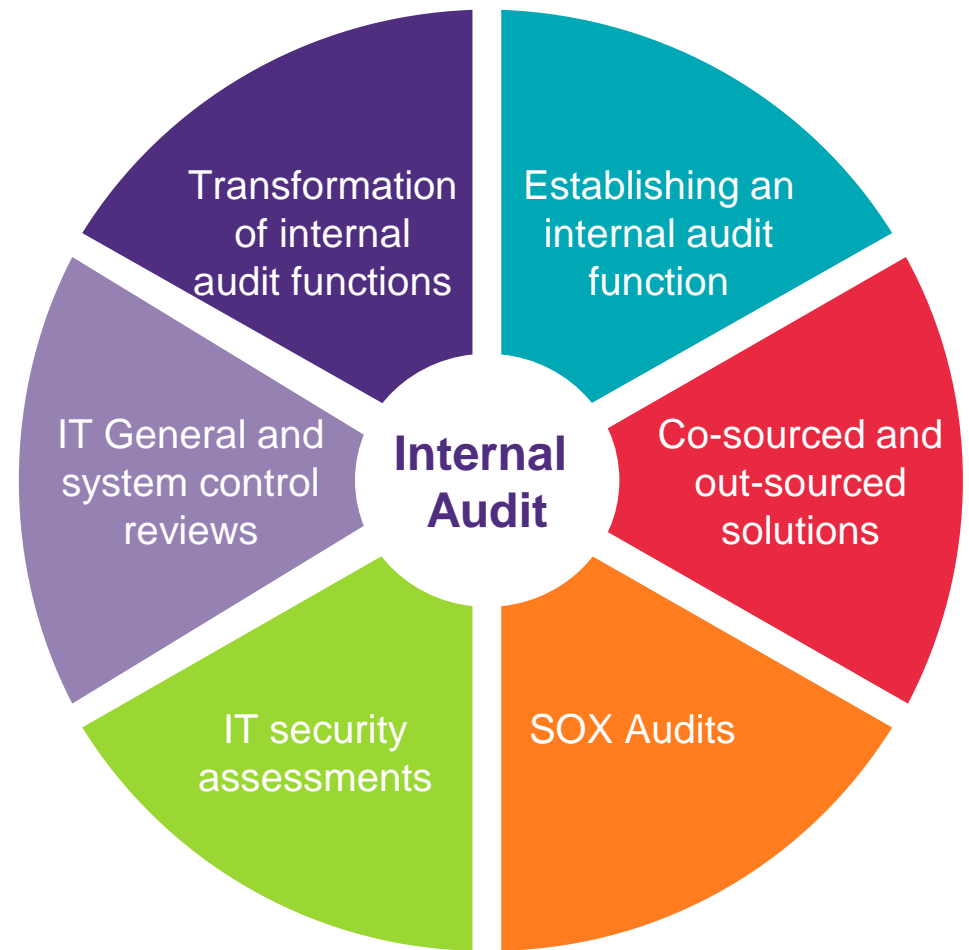
- The Internal Audit function should agree on **measurement KPIs** with the Board/Audit Committee to evaluate the performance of IA activity. There should have qualitative (i.e. satisfaction level of relevant stakeholders) and quantitative KPIs (i.e. number of engagements vs. annual audit plan)
- For quality assurance, the IA function is required to carry out **quality assessment at the end of each engagement and on annual basis** that covers all aspects of the internal audit activity. The Company can also have qualified third party to provide quality assurance service.



**Seek professional support
when needed**

Internal audit is about much more than compliance. **It's critical to good governance and business performance.** It provides confidence to manage key risks, informs good decision making and improves organisational performance.

Our internal audit services provide you with the independent and objective support you need in designing, implementing and operating your controls effectively.



Contact

Please contact our professional advisors at Grant Thornton Vietnam for assistance with internal audit, internal control review, process improvement as well as other issues you may have during your business operation.

Please visit our [website](#) to view more information

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