

## Examining the Influence of Group Interests on the Effectiveness of Internal Audit in Enterprises in Vietnam, a Theoretical Study



MAc. Le Thi Huong Tram<sup>1</sup>, Student. Vu Thi Hong<sup>2</sup>, Student. Phan Thu Giang<sup>3</sup>

<sup>1</sup>Accounting Department, University of Labour and Social Affairs, Vietnam

<sup>2</sup>D16KT7, ID. 1116020437, Accounting Department, University of Labour and Social Affairs, Vietnam

<sup>3</sup>D16KT7, Accounting Department, University of Labour and Social Affairs, Vietnam

**ABSTRACT:** The article is a theoretical study. The research team has systematized the theoretical basis of group interests, internal audits, and internal audit effectiveness. The factors affecting the effectiveness of internal audit mentioned by other authors are (1) Capacity and number of employees in the internal audit department, (2) The relationship between external audit and internal audit department, (3) Management support to the internal audit department, (4) Internal audit independence. However, in order to make internal control more and more effective, we have found new factors that we believe affect internal control. Our hypothesis in this study is that the group interest factor has a negative impact on the effectiveness of internal audits. In other words, we seek to show that group interests reduce the effectiveness of internal control in Vietnamese firms. The results of empirical research through interviews with 92 accountants and internal audit staff show that group interests have a negative impact on the effectiveness of internal control. Group interests make the internal audit system not as effective as it should be. Fraud in financial statements at businesses is continuously increasing. Group interests cause some internal auditors to overlook the risk and possibility of material misstatement in the financial statements. In conclusion, the research team said that group interests have formed, strongly affecting most businesses. The resulting collusion of interest group members harms investors, damages and reduces market stability. Therefore, enterprises and management agencies need to be determined to control group interests in enterprises.

**KEYWORDS:** Capture theory, Interest-group theory, internal audit effectiveness, Regulatory theory,

### 1. INTRODUCTION

Internal audit activities have appeared and developed strongly in many countries around the world. In Vietnam, internal audit has been organized in large-scale enterprises and public sector units, but in reality, internal audit in Vietnam has not really promoted their effectiveness and revealed many shortcomings access and many weaknesses. The sharp downturn of Vietnam's economy in recent years due to the impact of the pandemic combined with the trend of financial management reform requires an internal audit of Vietnamese enterprises to be effective. The assessment of factors affecting the effectiveness of internal audits is the basis for businesses to come up with solutions to overcome the inadequacies and weaknesses of this department. Therefore, the study and identification of factors affecting the effectiveness of internal audits of enterprises, aiming at assessing the timeliness of information, and assessing the reliability and usefulness of forecasts is very important and necessary. With the aim of understanding the factors affecting the effectiveness of internal audits in Vietnamese enterprises and considering whether the group interest factor has an impact on the effectiveness of internal audits, we have conducted a study on this.

### 2. THEORETICAL BASIS OF RESEARCH

#### 2.1. Interest groups

Group interests are interpreted according to the encyclopedia as a collective of many individuals and organizations. They share a common interest and advance those goals by influencing government policies. According to the Electoral System document in the UK, France, and the US (2009), an interest group or otherwise known in Vietnam as an interest group is a collective consisting of many individuals or organizations with similar interests. According to author Ha (2015), an interest group is a group of all members participating voluntarily, having the same purpose and common interests. The mode of operation of interest groups is to find ways to influence plans and policies to bring them the greatest benefits. Interest groups have two-way effects, positive and negative.

## **Examining the Influence of Group Interests on the Effectiveness of Internal Audit in Enterprises in Vietnam, a Theoretical Study**

For the group of positive interests are often public and their common goals do not affect the common interests of society. In contrast, negative interest groups only work for their own purposes, when they gain benefits, it will cause loss to society (p.63). According to author Danh's research, negative group interests in Vietnam are characterized by group members often consisting of influential people in the political apparatus such as law and finance (p.277-278). In the document Some opinions on group interests in Vietnam today, it is said that in Vietnam's economic and social activities, there are many negative group interests. It is expressed in many forms such as creating relationships through giving bribes to superiors and competent people; Connecting between investors, enterprises and competent authorities for the purpose of making benefits to share; Creating businesses operating in disguise to circulate capital and assets; Establishing beneficial relationships with employees in units with inspection, examination, supervision and investigation agencies to perform illegal acts in order to gain benefits. According to author Chung (2020), the causes of forming interest groups include both objective and subjective causes. According to him, objectively, the group of interests formed due to the reverse side of the market mechanism and the rapid international integration made the legal system many loopholes and did not ensure transparency. On the subjective side, he said that the interest group formed and thrived because the thought and cultivation consciousness of those individuals was still poor (para 1). From the above observations, we can see that group interests do not mean negative, there are many group interests that are bringing more benefits to the community and society. However, in this article, we orient our research on negative group benefits and negative group benefits impact on internal control systems in enterprises.

### **2.2. Internal audit**

Internal audit was born mainly to meet the management needs of companies, non-governmental organizations and non-profit organizations such as stock exchanges and organizations, banks, the public sector and the private sector multinational corporations. According to The Institute of Internal Auditor [IIA], an internal audit is an independent, objective assurance and consulting activity designed to increase and improve activities within an organization. Internal audit is an important part of helping an organization achieve its planned objectives by applying systematic and disciplined approaches to evaluate and improve the effectiveness of management processes risk, control and governance in the enterprise. Internal audit links with the risk control management system to improve organizational efficiency through criticism, construction and recommendations on the state of the organization. Since then, Internal Audit helps to reduce asymmetric information in decision-making, it serves as an important assurance in the business process and financial statements of corporations (Soh et al., 2011, pp.605-622). Article 57 stipulates the responsibilities of units with public interests in Law No. 67/2011/QH12 of the National Assembly: The Law on Independent Audit clearly stipulates that "Organize internal audit in accordance with the law. to protect property safety; assess the quality and reliability of economic and financial information, the observance of laws, regimes and policies of the State and regulations of the unit". In Decree No. 05/2019/ND-CP on Internal Audit, it is stipulated that the objectives of internal audit are: Through inspection, evaluation and consulting activities, the internal audit independent, objective assurances and recommendations on the establishment and operation of the internal control system; The entity's governance and risk management processes ensure high efficiency and effectiveness; Operational goals and strategic objectives, plans and work tasks achieved by the entity. According to research by Soh et al. (2011), Internal Audit is particularly interesting and developed after fraudulent activities of financial statements of large enterprises, causing the global crisis in 2008. The legal action focuses on strengthening disclosure requirements related to corporate governance. This has raised awareness and the need to ensure internal processes and corporate governance such as internal control, and internal audit. In addition, given its special role in the organization, Internal Auditing (IAF) helps to provide information assurance and is an integral part of the corporate governance system (pp.605). -622). Thus, Internal Audit is an important part to control and direct the activities in the enterprise to accomplish the set goals. Enterprises almost always have to carry out internal audits, for example, listed companies, enterprises in which the state owns more than 50% of charter capital, and state-owned enterprises which are holding companies and subsidiaries operating under the corporate model.

### **2.3. Internal audit effectiveness**

According to Unegbu & Obi (2007), the effectiveness of internal audits is analyzed and evaluated as an effective control tool established by managers to ensure a smooth and controlled management process, minimizing costs, and ensuring maximum capacity and benefits. Effective internal audit contributes to the organization's compliance with applicable laws and regulations and facilitates the work of external auditors (Simunic, 1984; Wallace, 1984; Xiangdong, 1997). weaknesses in business processes (Sawyer, 1995) and provide independent assessments of business operations and procedures (Kinney, 2000; 2001). Effective internal audit strengthens organizational governance structure (Roth & Espersen, 2002; Hay et al. (2008), Helps organizations in strategic management planning (led by Dung (2016). At a senior management level, the effectiveness of internal audits lies in the ability to control and manage risks within the organization. Effective internal audit requires internal auditors to independently

## **Examining the Influence of Group Interests on the Effectiveness of Internal Audit in Enterprises in Vietnam, a Theoretical Study**

improve and objectively quality public services, achieve a good internal control system, prevent corruption, ensure good governance, and demonstrate accountability and good corporate governance. The audit results determine that the results lack independence, the test results will be invalid, no matter how high quality the audit results are performed. The auditor must be honest and accountable to the users of the audit results, but the auditor has access to the company's documents and reports. As a general rule, during the audit, the auditors Accountants must not be influenced or influenced by material or spiritual interests that compromise their objectivity and professional independence.

### **3. METHODS**

This is a theoretical study, so we use the literature review method. Through an internet search engine, we include the phrases Internal Audit, Group Interest, and Internal Audit Effectiveness in Vietnamese and English. From the found documents, we have built a theoretical basis for the study including the theoretical basis of interest groups, also known as interest groups, internal audit and its effectiveness. To evaluate the relationship and influence of interest group factors on internal audit effectiveness, we use the empirical interview method. Interview results are used by us to analyze and synthesize research methods to evaluate and make objective statements.

### **4. RESULTS**

#### **4.1. Factors affecting the effectiveness of internal control**

The factors affecting the effectiveness of internal control are synthesized through the results of document research. Accordingly, in Vietnam, there are very few studies on the factors affecting the effectiveness of internal audits. The influencing factors presented below are synthesized by the research team from the research of authors around the world. According to Soh & Martinov-Bennie (2011), the effectiveness of an internal audit is affected by the structure, status, relationships of internal audit, personnel and capacity (pp.605- 622). Research by Alzeban et al, (2013) (2014) suggests that the effectiveness of internal audit is affected by three factors: capacity and number of internal audit staff; The relationship between internal auditors and external auditors; Management support for internal audit and Internal Audit Independence. Research by Baharud-din et al. (2013) and George et al. (2015) suggests that the factors contributing to the effectiveness of internal audit include three factors: Internal audit independence, Internal auditor capacity and Internal audit management support. Thus, the study that identified 4 factors affecting the effectiveness of internal control is the study with the largest number of identified factors. Therefore, we apply the results of Alzeban et al. (2013) (2014) to use in this study. Accordingly, the factors affecting the effectiveness of internal audits in Vietnamese enterprises are (1) Capacity and number of internal auditors; (2) The relationship between the internal auditor and the external auditor; (3) Management support for internal audits and (4) Independence of internal audit.

#### **4.2. Theory of regulation**

Group interest is a normative theory, so we will consider Regulatory Theory before proceeding to examine the influence of group interest on internal audit performance in enterprises in Vietnam. Regulatory theory is represented by three main theories namely public-interest theory, capture theory and private-interest theory. Accordingly, Public-interest theory talks about content that meets social requirements in correcting the unfairness or inefficiencies of market prices, thereby protecting the common interests of society through establishing regulations determined. Capture theory is also known as interest-group theory. This theory indicates that interest groups in society often require the establishment of rules that maximize the interests of group members. Finally, there is the private interest theory, which is primarily based on the assumption that those in charge in regulatory organizations often behave based on their self-interest. Regulation theory explains the supervision mechanism and legal operation mechanism of Vietnamese enterprises. This theory also explains the foundation of the formation of group interests in enterprises from individuals in regulatory organizations. The activities of Vietnamese enterprises still have a lot of group interests such as illegal mergers and acquisitions of enterprises by a group of large shareholders. Group interests in the financial activities of enterprises are closely linked with group interests in financial institutions in various forms to simplify credit activities. Many businesses are joint-stock businesses but are owned by family members making it easy for group interests to flourish. Large corporations and enterprises also set up subsidiaries and branches to manipulate and cheat data on financial statements. When considering the relationship of group interests to the effectiveness of internal control, we hypothesize that group interests always exist in enterprises and the more developed group interests, the lower the effectiveness of internal audit.

#### **4.3. Hypothesis evaluation**

To examine the impact of the group interest factor and the effectiveness of internal control, we conducted semi-structured interviews with 92 employees holding the positions of accountants and internal auditors at enterprises. Interviewees were asked

## Examining the Influence of Group Interests on the Effectiveness of Internal Audit in Enterprises in Vietnam, a Theoretical Study

by us "Do you think group interests have an impact on the effectiveness of internal audits in enterprises". The results of the interview participants showed that group interests have a negative impact on the effectiveness of internal control. Many opinions also believe that the internal audit system is not effective as expected. The evidence they give is that financial reporting frauds at businesses are constantly increasing. Many businesses turn from profit to loss business after their financial statements are re-audited by State auditors. There are many opinions that the internal audit department has ignored some risks and potentially erroneous data and lacked transparency in reporting because the business leaders and the audit staff are related to the interests of the company useful. These are some results from empirical research, but in reality, in Vietnam, there are many group interests in enterprises that have been discovered, such as the case of former Minister of Transport Ho Nghia Dung joining the enterprise to make the Deo Ca tunnel. After Mr. Dung left the leadership position in the transport sector, he joined "as an advisor" and then was a member of the Board of Directors of a company operating in the field that he was responsible for when he was a member of the Board of Directors Minister. Or in 2017, Vietnam's central inspection committee discovered an interest group between Cuong Hung limited liability enterprise and an official holding an important position in the state apparatus (Deputy Secretary of Dong Nai; Director of the Department of Industry and Trade; Secretary of Nhon Trach District Party Committee). Accordingly, business owners and senior officials have a marital relationship. This official signed many documents to facilitate her husband's company to invest in many projects; This officer even signed documents not in his/her field of responsibility. Thus, both empirically and empirically show that group interests have a negative influence and reduce the effectiveness of internal audits. This result indicates that there exist types of group interests in the form of individual interests in enterprises, including: cross-ownership in enterprises, illegal mergers and acquisitions, building regulations that can benefit the interest group, building a group of products and services to serve a group of interests, it is difficult to ensure the effectiveness of internal audit in enterprises and make the internal audit department useless brand.

### 5. CONCLUSION

Detecting, controlling, and preventing group interests in enterprises is an important solution to transparency in Vietnam's financial sector. Currently, group interests have formed, deeply ingrained, and strongly affected all branches and fields of social life at all scales and levels, especially in policy making and implementation. Members of interest groups closely collude with each other to the detriment of investors, damaging and decreasing the stability of the market. Therefore, we need to be determined to control group interests in enterprises through the issuance of specific regulations to guide investment in credit institutions, which clearly state the methods and methods of investing in credit institutions. , order and limit rate of capital contribution in credit institutions. Implement well the supervision of the implementation of regulations on capital contribution and capital transfer in credit institutions, develop regulations, and strengthen control and supervision of the heads of enterprises to avoid the formation of interests. Group. Implement a regime of rotation and regular mobilization of employees in sensitive positions such as the Internal Audit or internal control department.

### REFERENCES

- 1) Doanh, L.D., Innovation in thinking and institutional reform requirements from practice", From macro instability to the road to restructuring, Project "Support to improve consulting, verification and monitoring capacity" Project macroeconomic policy" chaired by the Economic Committee of the National Assembly with funding from the United Nations Development Program in Vietnam (UNDP), pp.277-278.
- 2) "Some opinions on "group interests" in Vietnam today".
- 3) Ha, N. N. (2015), Interest groups and interest groups in Vietnam today, Publishing House. Social Sciences, Hanoi, 2015, p. 63).
- 4) The electoral system in UK, France, USA - National Program Publishing House 2009
- 5) [Chung, N.V. (2020), Control and prevent "interest groups" in Vietnam today, Communist Journal accessed from <https://www.tapchiconsan.org.vn/web/guest/chinh-tri-xay-dung-dang/-/2018/816206/kiem-soat%2C-ngan-chan-%E2%80%9Cnhom-loi-ich%E2%80%9D-o-Viet-nam-hien-nay.aspx>
- 6) "The interests of the group are at risk of becoming gangs, threatening the survival of the nation". viettimes. Retrieved 2016-13-04. Check date value in: `|access-date= (help)`
- 7) Soh, DS, & Martinov-Bennie, N. (2011). Internal audit function: Awareness of the role, effectiveness and evaluation of internal audit. *Journal of Management Auditing*, 26 (7), 605-622.
- 8) Alzeban, A., & Gwilliam, D. (2014). Factors affecting the internal audit effectiveness: A survey of the Saudi public sector. *Journal of International Accounting, Auditing and Taxation*, 23(2).

## Examining the Influence of Group Interests on the Effectiveness of Internal Audit in Enterprises in Vietnam, a Theoretical Study

- 9) Alzeban, A., & Sawan, N. (2013). The role of the internal audit function in the public sector context in Saudi Arabia. *African Journal of Business Management*, 7(6).
- 10) Decree No: 05/2019/ND-CP on Internal Audit, January 22, 2019. National Political Publishing House
- 11) Law No. 67/2011/QH12, Law on Independent Audit. National Political Publishing House
- 12) Law No: 59/2020/QH14, Enterprise Law, June 17, 2020. National Political Publishing House



There is an Open Access article, distributed under the term of the Creative Commons Attribution – Non Commercial 4.0 International (CC BY-NC 4.0) (<https://creativecommons.org/licenses/by-nc/4.0/>), which permits remixing, adapting and building upon the work for non-commercial use, provided the original work is properly cited.