

INTERNAL AUDITS IN THE PUBLIC SECTOR
AND LESSONS FOR VIETNAM

Nguyen Vu Hiep^a

Le Hung Son^b

^aPolicy and Legal Affairs Department,
Vietnam State Treasury

Email: nguyenvuhiep262@gmail.com

^bTrung Vuong University

Email: lhsonkbnn@gmail.com

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Globally, internal auditing has developed over the past 70 years and is recognized in over 165 countries as a professional practice. In Vietnam, internal auditing is gradually affirming its importance in the public sector, especially after the government issued Decree No.05/2019/Decree-Government on internal audit. This paper analyzes the current state of internal audit implementation in the public sector, focusing on the case of the State Treasury and proposes solutions to enhance the efficiency of internal audit activities in the context of building a modern public administration system in Vietnam.

Keywords: Internal Audit, State Treasury, Public Sector.

1. Introduction

In the context of increasingly complex economic development, the role of internal audit (IA) in ensuring effective risk control for organizations has been widely recognized. IA is not merely an inspection and supervision activity but also serves as a consulting function, supporting the governance and operational management of organizations.

Globally, IA has existed and developed for over 70 years and is acknowledged in more than 165 countries as a professional career, with the mission of “enhancing and protecting organizational value by providing risk-based assurance, advisory services, and objective insights”. Particularly in the public sector, IA plays a crucial role in ensuring efficiency, transparency and accountability in government agencies and organizations.

In Vietnam, awareness of the importance of IA has seen positive changes in recent years. On January 22, 2019, the government issued Decree No. 05/2019/Decree-Government on internal audit, establishing a legal framework for the implementation of IA in the public sector. Subsequently, the Ministry of Finance issued Circular No. 67/2020/ Circular-Ministry of Finance on July 10, 2020, providing model regulations for IA in government agencies, and Circular No. 08/2021/ Circular-Ministry of Finance on January 25, 2021, setting forth Vietnamese IA standards and ethical principles for IA professionals.

The State Treasury (ST) under the Ministry of

Finance, responsible for managing state funds, has been a pioneer in studying and piloting IA since 2020. This effort aligns with the ST’s development strategy up to 2030, aimed at building a modern, streamlined and efficient “digital treasury”.

However, the implementation of IA in the public sector, in general and at ST, in particular, still faces many challenges regarding organizational models, human resources, audit methods and audit tools. Therefore, studying IA in the public sector and drawing lessons for Vietnam is practically significant, contributing to the completion of an effective and transparent public governance system.

2. Literature Review

2.1. Definition and Role of Internal Audit

According to the Institute of Internal Auditors (IIA), IA is “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. IA helps organizations accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

In the public sector, IA plays a particularly important role as it manages and utilizes state assets and budgets, impacting the entire society. IA helps public agencies:

- Evaluate and improve the effectiveness of the internal control system

- Enhance efficiency and effectiveness in managing and using public resources
- Ensure compliance with laws and regulations
- Providing consulting services to improve operations

- Prevention and detection of fraud and corruption

2.2. Common internal audit models and frameworks

2.2.1. COSO Internal Control Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework is one of the most widely applied internal control frameworks globally. It provides a foundation for establishing and evaluating internal control systems, including five components: control environment, risk assessment, control activities, information and communication, and monitoring.

2.2.2. IIA's New Three Lines Model

The Institute of Internal Auditors (IIA) introduced the New Three Lines Model, which defines three lines of defense in risk management:

- First Line: Operational management and frontline staff, responsible for risk management and controls in daily activities.

- Second Line: Risk management and compliance functions, providing support, oversight and challenge to the First Line.

- Third Line: Internal audit, offering independent and objective assurance on the effectiveness of governance, risk management and internal control.

2.3. International Experience in Public Sector Internal Auditing

In developed countries, IA has become an integral part of public governance systems. Countries such as the United States, the United Kingdom, Canada and Australia have established robust legal frameworks and professional standards for public sector IA. Key characteristics of public sector IA in these countries include:

- High independence: IA departments often report directly to top leadership (Ministers, Agency Heads) or independent audit committees.

- Risk-based auditing: Resources are focused on high-risk areas.

- Strong investment in human resources: Internal auditors receive extensive training and continuous professional development.

- Integration of technology: Use of data analytics, continuous auditing tools and artificial intelligence in audit procedures.

3. Research approaches and methods

3.1. Research Approach

This study combines theoretical and practical research approaches based on dialectical materialism and historical materialism methodologies.

This approach allows for:

- Studying internal audit (IA) from the perspective of international and national theoretical and legal frameworks.

- Analyzing the practical implementation of IA in Vietnam, particularly in the State Treasury.

- Comparing with international experiences to draw lessons for Vietnam.

3.2. Research Methods

The study employs the following fundamental research methods:

- Analysis and Synthesis Method: Reviewing theoretical and practical documents on IA.

- Comparative Method: Comparing Vietnam's IA model with international models.

- Statistical Method: Collecting and analyzing data on IA activities in the State Treasury from 2020 to 2023.

- Generalization and Reasoning Method: Drawing lessons and proposing solutions based on practical results.

4. Research findings

4.1. Overview of the Legal Framework for IA in Vietnam's Public Sector

The legal framework for IA in Vietnam's public sector includes:

- Decree No.05/2019/Decree-Government dated January 22, 2019: The first fundamental legal document regulating IA in Vietnam, providing the legal foundation for the establishment and operation of IA in both public and private entities.

- Circular No.67/2020/ Circular-Ministry of Finance dated July 10, 2020: Issued by the Ministry of Finance, this sets out a model IA regulation applicable to state agencies and public service units.

- Circular No.08/2021/ Circular - Ministry of Finance dated January 25, 2021: Establishes Vietnam's IA standards and ethical principles for IA professionals.

These regulations have created a relatively comprehensive legal framework for IA implementation in the public sector, aligning with international practices.

4.2. The current situation of implementation of IA at the State Treasury

4.2.1. *Research and pilot implementation process*

Since 2020, the State Treasury has actively researched and piloted the IA, with specific activities:

- Developing regulations and procedures for the pilot IA
- Learning from international IA experiences with advisory support from organizations such as the IMF and OTA.
- Conducting pilot internal audits to evaluate, learn from experience and select an appropriate IA organizational model
- Pilot audits have been carried out on several important professional processes of the State Treasury such as the process of managing the state budget, the process of electronic payment of banks and public investment expenditure control.

4.2.2. *Challenges in the implementation of IA at the State Treasury*

The process of implementing IA at the State Treasury faces several challenges such as:

- Lack of human resources with deep expertise in IA
- Absence of a standardized IA organizational model.
- Limited experience and skills in IA
- Need to update and adjust IA methods to align with State Treasury's digitalization direction.

4.3. International experiences on IA in the public sector and lessons for Vietnam

From the experience of developed countries, some important lessons can be drawn for the implementation of SA in the public sector in Vietnam:

4.3.1. *Organizational model*

- IA should be organized independently and report directly to the highest leadership to ensure objectivity and efficiency
- Adoption of the Three Lines Model of the Institute of Internal Auditors (IIA) to clearly define roles and responsibilities.
- Harmonizing IA activities with other inspection, audit and oversight functions.

4.3.2. *Audit methods*

- Implementing risk-based auditing methods.
- Developing a long-term audit plan (3-5 years) and an annual plan based on risk assessment.
- Developing risk assessment tools tailored to different sectors.

4.3.3. *Human resources development*

- Investing in high-quality IA training and development.
- Encouraging IA professionals to obtain international certifications like Certified Internal Auditor (CIA).
- Establishing clear career development paths for IA professionals.

4.3.4. *Technology Applications*

- Promoting the application of information technology in the IA
- Developing data analysis and ongoing audit tools
- Utilizing artificial intelligence and machine learning in anomaly detection and risk assessment.

5. Discussion

5.1. Proposing an appropriate IA organizational model for the State Treasury

From the current situation and international experience, it is possible to propose an appropriate IA organizational model for the State Treasury as follows:

- The Internal Audit Division should be organized independently, report directly to the General Director of the State Treasury and have a contingency reporting channel to the Minister of Finance (through the Audit Committee, if any)
- Organize the IA according to the centralized model at the Central State Treasury, with groups of full-time auditors by fields (treasury management, electronic payment, expenditure control, information technology, etc.)

- Clearly define the relationship between the IA and other supervisory functions within the State Treasury system following the Three Lines Model.

5.2. Solutions to improve the efficiency of internal audit in Vietnam's public sector

5.2.1. *Completing the legal framework*

- Reviewing and updating IA-related regulations to align with practical needs.
- Developing specific implementation guidelines for IA in different sectors.
- Establishing coordination mechanisms between IA, the State Audit, and inspection agencies.

5.2.2. *Human resource development*

- Establishing in-depth training programs for IA professionals.
- Organizing workshops and training sessions with international IA experts.

- Implementing competitive recruitment and compensation policies to attract IA talent.

- Encouraging IA personnel to obtain international professional certifications.

5.2.3. Application of technology in IA

- Developing and deploying specialized IA software.

- Establishing big data analytics systems for risk assessment and audit planning.

- Implementing continuous auditing based on digital platforms.

- Researching AI applications in IA, particularly for fraud detection and anomaly identification.

5.2.4. Improving the quality of internal audit activities

- Establishing and implementing a quality assurance and improvement program for IA.

- Conducting internal and independent external IA quality assessments.

- Developing Key Performance Indicators (KPIs) to measure IA effectiveness.

- Strengthening knowledge-sharing and best practice exchanges with international IA organizations.

5.3. Roadmap for implementation of IA at the State Treasury

It is possible to propose a roadmap for the implementation of SA at the State Treasury in accordance with the State Treasury Development Strategy to 2030 as follows:

- Phase 2023-2025:

+ Finalizing the legal framework and specific IA regulations for State Treasury.

+ Establishing an official IA department at State Treasury headquarters.

+ Training and capacity-building for internal auditors.

+ Conducting formal IA audits in key operational areas.

- Phase 2026-2030:

+ Expanding IA coverage to all State Treasury operational areas.

+ Enhancing IA quality and effectiveness.

+ Integrating IA with risk management and internal control systems.

+ Applying AI and machine learning in IA.

6. Conclusion

Internal audit is increasingly proving its crucial role in modern public governance, ensuring efficiency, effectiveness and accountability in state agencies and organizations. Although IA in Vietnam's public sector is still relatively new, significant progress has been made in building a legal framework and piloting IA at pioneering units like State Treasury.

This study analyzed the current IA implementation at State Treasury and proposed solutions to enhance IA effectiveness in Vietnam's public sector. The proposed solutions focus on four key areas: improving the legal framework, developing human resources, applying technology and enhancing IA quality.

Effective IA implementation requires strong leadership commitment, close coordination among relevant agencies and a professional, competent IA workforce. In the context of Vietnam's public administration reform, modernization and digital transformation, IA will play an increasingly vital role in ensuring transparency, compliance and good governance.

Future research directions could explore IA's impact on public financial management efficiency, IA's role in combating corruption and IA applications of AI and big data analytics in Vietnam's digital transformation era.

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KIỂM TOÁN NỘI BỘ TRONG KHU VỰC CÔNG VÀ BÀI HỌC CHO VIỆT NAM

Nguyễn Vũ Hiệp^a

Lê Hùng Sơn^b

^aVụ Chính sách và Pháp chế, Kho bạc Nhà nước Việt Nam

Email: nguyenvuhiep262@gmail.com

^bTrường Đại học Trung Vương

Email: lhsonkbnn@gmail.com

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TÓM TẮT:

Trên toàn cầu, kiểm toán nội bộ đã phát triển trong 70 năm qua và được công nhận tại hơn 165 quốc gia như một hoạt động chuyên môn. Tại Việt Nam, kiểm toán nội bộ đang dần khẳng định tầm quan trọng của mình trong khu vực công, đặc biệt là sau khi Chính phủ ban hành Nghị định số 05/2019/NĐ-CP về kiểm toán nội bộ. Bài viết này phân tích thực trạng triển khai kiểm toán nội bộ trong khu vực công hiện nay, tập trung vào trường hợp của Kho bạc Nhà nước và đề xuất các giải pháp nâng cao hiệu quả hoạt động kiểm toán nội bộ trong bối cảnh xây dựng hệ thống hành chính công hiện đại tại Việt Nam.

Từ khóa: Kiểm toán nội bộ, Kho bạc Nhà nước, Khu vực công, Trường Đại học Trung Vương.