

The Relationship between the Control Environment and Effectiveness of Internal Control, Research in Vietnamese Life Insurance Companies



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ABSTRACT: The article has presented the theoretical basis of the control environment and the factors that make up the control environment in the enterprise. Building a controlled environment is one of the principles of internal control, these two factors have a relationship, support, and promote the completion and effectiveness of each other. Research results have shown the importance of internal control for businesses. Identify limitations in the control environment such as insurance enterprises not issuing specific policies on integrity and ethical values; the element of commitment on capacity not being guaranteed; The internal control department is not completely independent from the business management apparatus or the policy on training and retaining personnel has not been respected. Along with the new regulations in the Law on Insurance Business, the life insurance industry development project developed by the Vietnamese government has provided a solid basis for businesses to improve the control environment, thereby improving the quality-of-life effective internal control. The research team also based on the existing points and the ability to improve the effectiveness of internal control to propose some solutions to improve the control environment. Accordingly, creating a controlled environment in the insurance business, focusing on business ethics, perfecting the organizational structure in a compact direction, ensuring the efficiency of each department, and ensuring the good implementation of the objectives of the unit, separating the activities of the Board of Directors and the internal control department, limiting the overlapping task assignment and regularly renewing the human resource policy are the solutions offered.

KEYWORDS: Control environment, internal control, Life insurance enterprises, Vietnam

1. INTRODUCTION

Internal control is the set of processes implemented and maintained by management, management and all other individuals in the design entity to provide reasonable assurance about the effectiveness of operations reliability of financial information, control, prevention of risks, and compliance with relevant laws and regulations. Internal control in the insurance business applies six principles which are control environment, risk management, control activities and assignment of tasks, information and communication, information and communication technology and supervision. In particular, the principle of control environment plays an important role, it is the foundation of the internal control system in the enterprise. In other words, to have an effective internal control system, it is necessary to firmly strengthen the control environment in the enterprise. Strengthening the control environment will help the enterprise strengthen its ability to cope with internal events and external events and detect possible errors and omissions in the processes and structure? The objective of the article is to learn about the control environment and internal control in life insurance businesses. How does the control environment relate to and affect internal control? The current situation of building the control environment in insurance enterprises, the remaining points, and what solutions are capable of completing the control environment and improving the effectiveness of internal control. These issues are clarified in turn in the content of the article.

2. THEORY BASIS

2.1. Control environment

According to Ramos (2004), the control environment is the foundation of the consciousness and culture of the organization. It reflects the general nuances of an organization, affecting the sense of control of all employees in the organization. The control environment is the foundation for internal control, helping to build the right operating principles and structure for the organization. The control environment includes the perceptions, attitudes and actions of management within the entity regarding

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control and its importance. He considers that the control environment has an important influence on the implementation and results of control procedures.

According to the report of COSO (2013), building a good control environment can limit the lack of control procedures. The report also shows that the control environment includes seven factors. The first factor is integrity and ethical values. The culture of an organization is the integrity and ethical behavior of all employees in the organization. This is an important factor in the control environment because it affects the design, implementation and monitoring of other elements of internal control. The second factor is a commitment to competence. Competence, or knowledge and skills, are required to properly perform a task. Managers define organizational goals and strategically plan to achieve those goals, forming the knowledge and skills required for each task. Managers have clearly defined competency requirements and specific knowledge and skills requirements for each specific job function. The third element is the board of directors and the audit committee. The board of directors and the audit committee have a significant impact on the control environment. The more independent and experienced the board of directors and audit committee are involved in and overseeing the company's activities, the more effective the audit environment will be. In addition, if there is coordination between the board, audit committee and management, the control environment becomes more effective. The fourth factor is management philosophy and working style. The running of the business; Developing and selecting accounting policies and estimates; Assigning tasks to employees are influenced by the philosophy and operating style of the manager. The fifth element is organizational structure. All activities in a company, including planning, implementing, controlling and monitoring, are structured through organizational structures. An organizational structure is considered adequate when it defines the authority and responsibility for each activity and reporting level in the organization. There is not common organizational structure template for all units because it depends on the size and characteristics of each unit. The sixth element is the division of authority and responsibility. The rights and obligations of individuals or groups must be defined in order to be able to properly perform their duties. To allocate authority and responsibility, managers should develop policies that indicate resources for performing tasks related to the knowledge, experience, and activities of key employees. Managers often tend to empower subordinates to make their work easier through delegation. The benefits of delegation are to simplify the company's organizational structure, encourage creativity, increase employee initiative, enhance competitiveness, and meet the needs of partners. A disadvantage of delegation is that it requires more management oversight than delegation, as it requires more individual competence and responsibility on the part of employees to respond. The seventh factor is personnel policy. Human resources policies include managers' policies on recruiting, training, evaluating and classifying employees, motivating, rewarding and disciplining. These are the requirements that managers place on their employees regarding the competence and ethics of their employees.

2.2. Internal control

According to CEIOPS (2003), internal control has the effect of improving the performance of the entity in favorable or unfavorable situations and conditions. It helps to implement business plans, exploit opportunities in business and minimize risks from internal and external influences. In addition, internal control supports the creation of added value for the enterprise (p.10). Also according to CEIOPS (2003), from the perspective of the insurance industry, internal control is also an opportunity for enterprises to improve their operational efficiency internally and externally. Internally, an effective internal control system helps to improve the ability to recognize and prevent risks. This is an important thing in the Insurance sector because these businesses look for business opportunities in risk. In addition, appropriate control measures not only in the short term but also in the long term help promote competitiveness. In addition, it helps to minimize the impact of unexpected events, or even eliminate them (p.10). Externally, appropriate systems of Internal Control will have a positive impact on policyholders, custodians and shareholders (CEIOPS, 2003, p.11). The COSO report (1992) states that internal control is a process governed by an entity's management, board of directors and employees, that is designed to provide reasonable assurance to achieve the following objectives: to ensure the reliability of financial statements; ensure compliance with regulations and laws; ensure operations are carried out effectively" (p.186). Moeller (2009) argues that internal control is a process established by business managers to ensure the reliability of operations, and compliance with policies, rules, regulations and laws (p. 24). The Vietnam Accounting Law (2015) stated that "Internal control is the establishment, organization and implementation of internal mechanisms, policies, processes and regulations within the accounting unit in accordance with the provisions of the Law on Accounting. legislation to ensure timely prevention, detection and handling of risks and to meet the set requirements". After reviewing the various existing definitions at both legislative and academic levels, the team decided that the concept should include several elements namely Board and Management Accountability, ideas underpinning structures of commitment to the benefit of the company, as well as key objectives of Internal Control.

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2.3. The impact of the control environment on the effectiveness of internal control

We have cited the statement of Ramos (2004), who believes that the control environment is the foundation for internal control. Or according to the document of CEIOPS (2003), one of the principles of internal control is the control environment. This principle holds that the Board of Directors is responsible for promoting a level of honesty and establishing a corporate culture that emphasizes and demonstrates to all levels of employees the importance of internal control. Business leaders are responsible for implementing the principles and culture of Internal Control. All employees should understand their roles and participate fully in the internal control process (p.15). Thus, in order to have an effective internal control system, insurers need to perfect the control environment in all parts of the company. All members of the enterprise must be conscious and aware of the importance of internal control. The Board of Directors and management have to uphold the importance of internal control through their actions and words. The control environment should review insurance commitments and assess compliance with applicable Vietnamese business laws and the Law on Insurance Business. The control environment also helps to strengthen integrity and limit insurance fraud. It requires all employees in the insurance company to have Internal Control responsibilities following the company's regulations. There, they must understand the importance of internal control and participate actively in this process according to their specific responsibilities and duties. Rules of conduct are drawn up in writing. Responsibilities, accountability, procedures, information and reporting channels are documented. In addition, the control environment helps to reduce the risk of negative impact on the corporate image. Corporate image is the result of the company and is based on aspects such as customer relationships, service and product quality, transparency, and returns to shareholders.

3. METHODS

The article uses a qualitative research method. In the process of qualitative research, the research team uses methods of analysis, synthesis, comparison, and systematic approach to generalize theories related to the content of the control environment and internal control. Data related to the research objectives include secondary data collected from sources of reports summarizing the implementation of the Vietnam Insurance Market Development Strategy 2011-2020 period of the Ministry of Finance, the above article journal on internal control, scientific research has been published on the control environment and internal control. The research team collects and assembles research works according to each topic and research period. Based on these data, the research team has drawn up theoretical issues about the control environment, internal control system and their relationship. Based on the limitations in internal control identified by the Ministry of Finance, and the actual situation at enterprises, the research team used the method of analysis and synthesis to propose possible solutions to the problem complete control environment.

4. RESULTS

As analyzed above, the control environment affects the control consciousness of all members of the enterprise. Building a good control environment will be the foundation for the rest of the internal control system. The control environment in the life insurance business includes the perception, attitude and actions of the leadership team towards control and the recognition of the importance of control. When the insurer builds a good control environment, the lack of control procedures can be minimized.

4.1. The ability to improve the control environment and improve the effectiveness of internal control at insurance enterprises

On June 16, 2022, the XV National Assembly passed the Law on Insurance Business (Law No. 08/2022/QH15). Effective January 1, 2023. Law on Insurance Business No. 08/2022/QH15 has agreed and synchronized with newly amended and supplemented regulations in relevant legal documents such as Civil Code, Enterprise Law, and additional provisions specific regulations applied to the insurance business to protect the legitimate rights and interests of the subjects participating in the insurance business relationship, such as insurance contracts, especially in the era industrial revolution, settlement of disputes in the field of insurance, and insurance fraud. In this law, the drafting agency has added provisions on the internal control system of insurers. This is a step forward in the legal system for the insurance and reinsurance industry. Accordingly, Article 84 of this law specifically states: Insurance enterprises must implement internal control to ensure efficiency and safety requirements in the operation, protection, management and use of assets and resources. The truthfulness, completeness, completeness and timeliness of the financial information system and management information. Comply with laws, regulations, procedures and company policies. Second, insurers must establish internal control standards, processes, and procedures. Make sure managers, controllers and employees understand and take these seriously. Third, the internal control activities of insurance enterprises must be evaluated annually through internal audits.

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Along with the promulgation of the Law on Insurance Business No. 08/2022/QH15, the Strategy for the development of the insurance market to 2030 has also been developed to create a foundation for the sustainable development of Vietnam's insurance market in the future next time. Specific objectives are defined in the strategic plan. Accordingly, the insurance industry's revenue is expected to grow at an average growth rate of 15% from 2021 to 2025, reaching about 3% to 3.3% of GDP in 2025. With an average growth rate annual growth rate of 10% from 2026 to 2030, expected to reach about 3.3% to 3.5% of GDP by 2030. By 2025, 15% of the population will have life insurance coverage. By 2030, 18% of the population will have life insurance. The average growth rate of total assets, total investment, total employee welfare and total capital is expected to grow at a rate of 15% in the period 2021-2025 and 10% in the period 2026 to 2030. Revenue growth from providing insurance products online is expected to average 10% annually from 2023 to 2030. Per capita premium is expected to reach VND 3 million by 2025 and 5 million dong by 2030. A series of solutions have been identified in the Strategic Project on developing the insurance market to 2030 to achieve the above goals. Ministries and branches need to focus on implementation, including: Perfecting the legal system in the insurance business. Enhance insurance company financial performance, risk management, corporate governance, public relations and transparency. Product development and diversification of insurance products. Diversify and specialize in insurance distribution channels. Human resource development and quality improvement. Promote insurance advertising. Promote the application of information technology in the insurance business. Strengthen the effectiveness of state management and the effectiveness of inspection, examination, supervision and sanctioning of administrative violations in the insurance sector.

4.2. Current status of the control environment in life insurance enterprises in Vietnam

Most life insurers in Vietnam have not paid much attention and have not issued specific policies related to integrity and ethical values. The control environment at insurance companies only stops at checking whether employees and distribution agents commit fraud or misbehave in their respective functions, but they also do not understand the role of integrity. Integrity and ethical values will greatly affect the consciousness and behavior of these employees.

The rapid development of the insurance market in recent years has caused the problem of recruiting understaffed personnel. Therefore, recruitment enterprises do not have high requirements for the knowledge, professional qualifications and skills of personnel. This affects the ability to perform tasks and assigned tasks. Thus, the commitment factor of the control environment's competence is influenced by the group of personnel recruited for this sufficient number.

Most enterprises in Vietnam have not separated internal inspection and control activities from operating and business activities. This reduces the effectiveness of internal control and makes it difficult to timely assess and detect risks that have the potential to adversely affect the efficiency and operational objectives of the insurer.

There is also overlapping assignment of duties. The internal control department does not have a full-time officer but is only assigned part-time. This limitation prevents the rights and obligations of individuals or groups from being defined in order to properly perform their duties and indirectly reduces the effectiveness of internal control.

The policy of training and retaining personnel has not been taken seriously by insurance companies. The phenomenon of staff turnover and new hires affects the revenue of insurers and significantly increases recruitment and training costs.

4.3. Some solutions to perfect the control environment

In the assessment of existing aspects of the control environment such as life insurance enterprises in Vietnam, they have not paid much attention and have not issued specific policies related to integrity and ethical values. The quality of the enterprise's human resources has not yet ensured the commitment of capacity. An internal control department independent of the enterprise's apparatus and management has not yet been built. Division of duties and powers is not transparent and fraudulent and profiteering activities are still common. To reduce the above situation and increase the effectiveness of the internal control system in life insurance enterprises in Vietnam, the research team proposes the following solutions:

Firstly, create a controlled environment in insurance enterprises and focus on business ethics. Insurance business leaders need to really attach importance to the role of the internal control system by establishing a full control mechanism for the entire company's activities, creating a comprehensive control culture in the organizations, in which, special attention is paid to ethical issues in business when the frequency and extent of damage of business ethics violations in the insurance field are increasing and refined.

Secondly, perfecting the organizational structure of insurance enterprises in a compact way, ensuring the efficiency of each department and ensuring the good implementation of the objectives of the unit. Regularly renewing human resource policies in the direction of rejuvenating the team, focusing on in-depth training and skills for employees, and creating effective motivation with reasonable salary, bonus and remuneration policies.

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Third, separate the activities of the Board of Directors and the internal control department. As mentioned above, the Board of Directors and the audit committee have a strong impact on the control environment. The board of directors and audit committee are independent, experienced, and involved in and oversees the company's activities, the more effective the control environment is.

Fourth, in order to limit the overlapping assignment of tasks, enterprise management should develop a separate human resource development policy for tasks related to building a control environment and internal control. Empowering employees to make their jobs easier helps encourage creativity and initiative.

Fifth, regularly renew human resource policies in the direction of rejuvenating the team, focusing on in-depth training and skills for employees, and creating motivation to promote efficiency with reasonable salary, bonus, and remuneration policies.

5. CONCLUSION

From the theoretical basis and analysis results of the control environment at the insurance enterprise, we have realized its relationship and importance to the internal control system. The results also show that the control environment in enterprises still has many limitations. However, under the regulations on internal control in the newly promulgated Insurance Business Law and some of the solutions we propose in this article, we hope to help perfect the control environment, thereby improving the efficiency of internal control at life insurance enterprises in Vietnam.

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