

## The Relationship between Political Institutional Factors and Internal Audit Effectiveness in Vietnamese Enterprises



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**ABSTRACT:** Using qualitative research methods, we have clarified the content of internal audits and the effectiveness of internal audits. A literature review has shown that the Political Institutions factor has not received much research attention in Vietnam. That's why we identified the gap and conducted this research. Data collected from interviews with 20 experts working in the field of accounting and auditing were analyzed using King's (2004) format and Cresswell's (2003) analysis process. The analysis results have shown that the Political Institutions factor, and its measurement factors are regulatory capacity, political stability, legal effectiveness, police accountability, and corruption control impact on internal audit effectiveness. Next, the study conducted a survey with 80 employees working in the field of accounting and auditing. This is a research step to ensure transparency in determining influencing factors. The results of this survey are consistent with the direct interview method. This means that the effectiveness of internal audits is affected by political and institutional factors.

**KEYWORDS:** Enterprises; Internal audit effectiveness; Political institutions; Relationships

### 1. INTRODUCTION

Internal audit has appeared and developed strongly in many countries around the world. Previously, only large-scale Vietnamese enterprises focused on organizing Internal Audit activities. Internal audit activities have not really been effective and have revealed many inadequacies and weaknesses in Vietnam for a long time. Influenced by the economic recession and the 2008 financial crisis, businesses in Vietnam have moved towards management reform and stricter control of business activities. The above reasons have led to the establishment of internal audit departments in many businesses and in different types and sizes of businesses. Internal audit helps businesses manage risks and increase business performance. Therefore, studying the effectiveness of internal audits is increasingly valued by businesses. Determining the relationship and influence of factors on internal audit effectiveness is a way for businesses to improve their internal audit system, finding errors and limitations in the enterprise's production process. Identifying influencing factors is a qualitative research content and is carried out according to a process. The purpose of this study is to build a theoretical basis for internal auditing and its effectiveness. Evaluate the relationship between political institutional factors and the effectiveness of the internal audit.

### 2. THEORETICAL BASIS

#### 2.1. Internal audit

According to the Institute of Internal Auditor [IIA], internal audit has two main contents. First, "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations". Second, it helps the organization achieve its objectives by applying a "disciplined" and "systemic" approach to evaluating and improving the effectiveness of its risk management processes, control and administration. The main activities of internal audit, according to ILA, are to meet four roles in business operations: Providing risk management capabilities, and identifying and evaluating the effectiveness of processes. , internal control system, corporate governance and corporate accounting; Consulting on process development, consulting on control of new projects, consulting and assessment, and risk management; Ensuring the process of conducting inspection activities to provide objective assessments of compliance, effectiveness and control performance; Evaluate the financial and business situation and other issues of the enterprise and report directly to the Board of Directors and Board of Directors. Therefore, a business's internal audit system requires continuous testing, updating and improvement.

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## 2.2. Internal audit effectiveness

Effectiveness is a concept determined to evaluate the level of implementation of predetermined goals and objectives for an activity or program that has been implemented (achieving satisfactory results from the use of organizational resources and activities). Therefore, the important point in evaluating effectiveness is to consider between expected results and operational results. Each different researcher, with different evaluation systems, will have their own views on effectiveness, but the common point in their views is the accomplishment of goals or activities to meet the goal. Research by Unegbu & Obi (2007) suggests that the effectiveness of internal audits is evaluated as an effective control tool. It is built by business leaders, and it helps the process run smoothly, saves costs and brings maximum benefits to the business. According to Simunic (1984), the effectiveness of the internal audit system helps businesses comply with the law and facilitates supervision of the work of independent auditors. Sawyer (1995) believes that the effectiveness of internal audit helps businesses find weaknesses in their operations. Thus, while the internal audit is a process, the effectiveness of an internal audit is the state of that process at a certain time. Evaluating the effectiveness of an internal audit is judgmental. Besides, to evaluate internal audit effectiveness, we need evaluation criteria.

## 2.3. Overview

Research by George (2015) on factors associated with internal audit effectiveness in the business environment. The author conducted an empirical study and realized that there are four factors that affect internal audit effectiveness: the quality of the internal audit, the capacity of the internal audit team, and the independence of the auditor. Internal audit and support from management (pp.113-122). Salehi's (2016) research on factors affecting internal audit effectiveness. The results show that there are five main influencing factors: The capacity of internal audit staff, the number of employees in the internal audit department, and communication between the internal auditor department and the audit department external auditors, and management support for the internal audit department. In Vietnam, there have been quite a few authors researching internal audits. Although these studies are mainly about perfecting the internal audit system at an enterprise, there are also some studies evaluating the influence of factors on internal audit effectiveness. The group of factors identified by the authors includes 5 factors: Information and communication, Supervision, Control activities, Control environment and Risk assessment. Through the research overview, we can see that most of the studies we have studied have not paid attention to the influencing factor, political institutions. Therefore, understanding the relationship between political institutions and internal audit effectiveness is a gap for us to proceed with this research.

## 2.4. Institutional theory

We easily confuse Institutional theory and Institution theory. According to Scott (1995), institutions here are "social structures" that have achieved a high level of resilience. These social structures include normative, regulatory, and cultural elements along with related activities and resources that provide stability and meaning to society. Institutions are conveyed in many forms such as symbols, relationships, habits and events (p.33). In the study *Institutions and Organizations: Ideas and Interests*, this author also introduced institutional theory as "a widely accepted theoretical perspective that emphasizes productivity, ethics, and legitimacy" (Scott, 2008). The author's Marquis et al. (2016) drew on Scott's (2008) perspective to emphasize the important point of institutional theory as "ethics". According to the authors, "rather than necessarily optimizing their decisions, practices, and structures, organizations look to their peers to signal appropriate behavior" (pp.1325–1341). Authors studying institutional theory point out that an organization will be influenced by two factors: "technical factors related to the way daily activities are handled to make it more effective and efficient". High performance and institutional factors relate to expectations and values from the external environment rather than from the unit itself" (cited by Vu, 2016, p.48). Currently, Vietnamese businesses operate under the shape of laws issued by the state. Economic and investment activities must comply with operating regulations for businesses. This shows that institutions have explained the behavior, methods of movement and control between businesses and the State. In addition, people and society always expect regulatory and supervisory organizations in countries to promulgate legal systems as a legal foundation for business operations in a harmonious direction under current conditions integration to enhance the position and reputation of that regulatory and supervisory organization. Therefore, institutional theory in this study explains the political-institutional factors that impact the effectiveness of internal audits. Our purpose when using institutional theory to study the relationship of political institutional factors to internal auditing in businesses is to build the hypothesis that "If political institutions are guaranteed, the effectiveness of internal audit as possible".

## 3. METHODS

We use qualitative research methods in this study. The purpose of using qualitative research is to review and evaluate the relationship between political and institutional factors and internal audit effectiveness. This study is a prerequisite study so we can conduct quantitative research in future studies. Qualitative research using the method of hand-to-hand interviews with

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qualified and experienced experts who have worked and operated for many years in the field of accounting and auditing in Vietnam. The purpose is to determine whether political institutional factors are a factor affecting internal audit effectiveness. After confirming and agreeing with experts on the possibility of the existence and impact of political institutional factors, we use the average statistical method to check the qualitative research results. This step is to ensure objectivity and increase the value of the results collected by the survey. The data used in the research are secondary data and primary data. Secondary data was searched from documents related to political institutions, institutional theory, and internal audit. Documents selected for use in research must have clear origins and have been published, without legal disputes. Primary data sources are collected from interviews with experts with experience in the fields of accounting, auditing and business management.

### **4. RESULTS**

#### **4.1. Political institutions**

Political institutions are a broad category. Currently, there are many authors giving views on institutions. According to North (1991), institutions include rules and standards set by humans to limit and shape the behavior of each individual (pp.97-112). The studies by the authors Greif et al. and Caporaso et al. all share this view with North (1991) (p.635, p.1-15). Research by Streeck & Thelen (2005) suggests that in the most general sense, institutions are the building blocks of social order. Institutions represent social recognition of certain activities (pp.9-11). The rational choiceist concept of institution according to Knight (1992) is "a set of rules that structure social interactions in particular ways" and that "knowledge of these rules must be shared by members of the community or society concerned" (pp.1-3). Agreeing with North's (1990) assertion about the importance of institutions and institutions as determinants of economic efficiency. It has a strong impact on costs and production, and institutions can be altered by history and culture. Acemoglu et al. (2005) argue that the economic body plays a role in keeping the economic growth trajectory because it shapes opportunities and controls investment activities. He also observed that economic incentives "shape political behavior," where certain groups "receive more benefits" from economic outcomes than others, which allows them to gain "political control" (pp.385-472). Also in this study, the authors presented the relationship between institutions and economic development. Institutions create equality in economic relationships and equality in competition, which is a key element of economic growth (Acemoglu et al., 2005, pp.385-472). The author group Keohane (1988), Knight (1992) and Acemoglu (2014) share the same opinion after studying many perspectives on institutions and realizing that institutions require persistent and continuous implementation to bring about success. effective (pp.379-396, pp.1-3, pp.875-912). Mahoney (2009) believes that institutions represent laws, rules, conventions and social norms (p.4). Levitsky et al. (2009) assess that institutional strength depends on two factors: "stability and enforcement" (pp.115-133). Among the studies by Vietnamese authors, there are some outstanding studies such as the study of Tan et al. (2000), these authors believe that "political institutions, on the one hand, are regulations, rules, standards, norms, and legal principles that regulate and establish political relationships. On the other hand, they are organizational structures and functional components of a political subject or political system. Ngoc & An (2003) also provide comments on political institutions. The authors believe that political institutions are a system of institutions, values, and norms that combine to form organizational principles and a method of operating a political regime. According to the authors, political institutions have three main contents. First, it is a system of institutions and values that form the organizing principles and operating methods of a political regime and political system. Political institutions include: "state institutions, political party institutions, and socio-political organizations". State institutions are "legal institutions" that "force" everyone and all organizations to "respect and comply". Institutions of political parties and socio-political organizations are "charters, decrees, stipulating organizational principles and methods of operation" of those organizations. Second, it has two sides: the expression of the political system's elements of the superstructure and the socio-political base that regulates the nature and content of the social regime. Third, effectiveness and state institutions play an important role in political institutions. The role of each political institution and its operating mechanism determines the role of political institutions (cited by Vu, 2016, p.62). From the above observations of foreign and Vietnamese studies, we can see that an institution is a set of rules, regulating standards in society that all individuals must comply with. Insurance institutions include many aspects, including a group of institutions that represent the law and manage economic development. In our opinion, representing the laws, rules, and regulations at a specific historical period to shape society is a political institution.

#### **4.2. Qualitative research results**

As we already know, we use the expert interview method. With a list of 20 experts in the field of accounting and auditing, selected include audit managers, experts and auditing lecturers. We provided the experts with the full purpose and reason for the interview, and only those experts who agreed were interviewed as planned. Outline of discussion with experts, edited by the author after receiving comments from experts and built into in-depth discussion questions with the aim of finding the relationship

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between political institutional factors and the effectiveness of factors affecting the effectiveness of the internal audit. The questions used are "According to you, what factors affect the effectiveness of Internal Audit in Vietnamese enterprises" and "How do you comment on internal audit activities?" of today's businesses". The survey was conducted with 3 groups of subjects. Group 1 includes experts in the field of auditing. Through discussion with 5 experts in this group, we found that the Political Institution factor was proposed and identified as a factor that positively impacts internal audit effectiveness. The second group of subjects we discuss is the group of managers belonging to audit management agencies. As a result of interviews with 3 experts in this group, we also see that political institutional factors are identified as factors that have a relationship and impact on internal audit effectiveness. The third group is a group of experts including lecturers, teaching accounting and auditing subjects. Among the factors identified by this group as affecting internal audit effectiveness, political institutional factors are also mentioned. Thus, through interviews with 3 groups of experts, we received consistent assessment results on political institutional factors. Accordingly, this factor has an impact on the effectiveness of internal audits at Vietnamese enterprises. Based on the results of interviews with 3 groups of experts and the modal analysis method of King (2004) and the analysis process of Cresswell (2003). Measurement factors, political institutions and content are presented in Table 1.

**Table 1. Results of qualitative research on political institutional factors and measurement variables**

Factor	Concept	Measurement factor
Political institutional	Political institutions are a system of institutions, values, and norms that constitute the organizational principles and methods of operating a political regime. It represents laws, rules, and regulations at a specific historical period that shape society.	Regulatory ability
		Political stability
		Legal effectiveness
		Policy accountability
		Control corruption

*Source: Analysis of qualitative research results by the authors*

### 4.3. Evaluate the compatibility of qualitative research results on political institutional factors and internal audit effectiveness

After collecting opinions and analyzing the results of interviews with experts, we continued to survey by questionnaire with 80 employees working in the field of accounting and auditing. This activity will reaffirm the qualitative research results and the relevance of both research activities. The results help us ensure objectivity and convincingness in the research results. The questionnaire for this target group uses the question format "Yes" and "No". Respondents will answer whether they agree or disagree with the political institutional factor and its measurement factors that affect the effectiveness of internal control. The valid survey returned 62 votes. Of these, 46 respondents chose the answer "yes", accounting for 74.2%. The group choosing "No" includes 16 people, accounting for 25.8%. The remaining eighteen votes did not meet the requirements, the respondents were still hesitant, so they did not give an answer. These votes were eliminated before data analysis. Those who chose the agree option discussed with us more about the "regulatory ability" and "anti-corruption" of the current political institutions. Accordingly, they assess that many legal documents are very effective in limiting current financial fraud. The legal document system has basically been completed and created a legal corridor for businesses to operate. However, these survey subjects also brought up a number of factors that cause difficulties in "regulatory activities" and "legal effectiveness", which is the "overlap" of legal documents. Thus, the results of the two surveys have confirmed the objectivity of using the Political Institution factor and its ability to impact research on internal audit effectiveness in Vietnamese enterprises.

## 5. CONCLUSION

The research results have clarified the goals set for this study. Build a theoretical basis for internal audit and the effectiveness of internal audit. Apply institutional theory in research and hypothesize that "The more secure political institutions are, the better the effectiveness of internal audit." Based on qualitative research methods, we also built a research process and conducted interviews with groups of experts and surveys with personnel groups in the field of accounting and auditing. Qualitative research results have proven that the Political Institution factor is a factor related to and affects the effectiveness of internal audits.

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