



International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2023; 6(2): 183-187
www.allfinancejournal.com
Received: 15-07-2023
Accepted: 24-08-2023

Nguyen Huynh An
Department of Accounting,
Huynh Khuong Ninh
Secondary School, Vietnam

Determining factors affecting the effectiveness of the internal control system of finance companies in Ho Chi Minh City

Nguyen Huynh An

DOI: <https://doi.org/10.33545/26175754.2023.v6.i2b.267>

Abstract

The integration into the international economy presents challenges for managers in financial companies, requiring them to navigate the involvement of multinational financial corporations armed with financial, technical, and technological prowess. To thrive in this dynamic environment, financial companies must leverage effective and timely accounting tools, empowering decision-making and enhancing their competitive edge. From its inception, internal control in audit activity has proven to be a valuable managerial tool, fostering control within the company and serving as a supportive mechanism to enhance the efficiency and effectiveness of corporate governance, ultimately aiding the company in achieving its operational goals. The efficacy of internal control systems in financial companies remains a compelling topic, particularly amidst Vietnam's deepening and broader integration with regional and global counterparts. Conducting a comprehensive review of pertinent research, the author advocates for a model study examining the factors influencing the effectiveness of internal control systems in financial companies in Ho Chi Minh City (HCMC). The objective is to equip managers in financial companies with insights to identify the optimal conditions for successfully applying internal control system efficiency within their organizations.

Keywords: Influencing factor, effectiveness, internal control, finance company

Introduction

Internal control is a process undertaken by the board of directors, managers, and employees to establish a reasonable assurance of achieving the organization's goals. The internal control system serves as the primary tool for executing control functions in all management processes within an organization. It provides information to both internal and external stakeholders. The effectiveness of internal control systems in financial companies has been a subject of great interest, particularly in the context of Vietnam's deepening and broader integration with countries in the region and worldwide. The challenges posed by integration into the international economy include the involvement of multinational financial corporations with formidable financial, technical, and technological capabilities. In response to this scenario, financial companies and commercial banks in Vietnam must undertake strategic reforms to strengthen their competitiveness against foreign counterparts.

Over the years, Vietnam has maintained a steady pace of economic growth, and legislation has positively evolved to align with the integrated economy. The political security situation is stable, providing a prerequisite for the development of Vietnam's financial markets. Alongside ongoing innovation, the economic development of the country has led to the continuous growth of financial companies in terms of scale, transaction network, financial capacity, executive capability, and the diversity of products and services. Financial companies play a crucial role in consumer finance, contributing significantly to the transition from an export-dependent to a domestically consumption-driven economy. The anticipated increase in consumer credit in the coming period is expected to provide access to credit for every citizen, particularly those in the low-income class. This plays a pivotal role in promoting economic development, enhancing the quality of life, and increasing residents' understanding of economic finance.

Correspondence
Nguyen Huynh An
Department of Accounting,
Huynh Khuong Ninh
Secondary School, Vietnam

With the implementation of the government-approved "Restructuring of Credit Institutions of State Banks" scheme, Vietnamese commercial banks and financial companies have progressively enhanced their organizational and business models to consistently meet international standards. Consequently, this study was conducted to assess the factors influencing the effectiveness of the internal control system in financial companies within HCMC territory. The aim is to provide managers in these financial companies with insights into determining the appropriate conditions for successfully applying internal control systems within their organizations.

Theoretical Basis

To explain the factors affecting the effectiveness of the internal control system in financial companies in HCMC, the author argues on the following theoretical basis:

Agency Theory: Agency Theory examines the dynamic between the principal party (e.g., shareholders and owners) and the agent party (e.g., managers) in the administration of a business or organization. This theoretical framework aims to safeguard the interests of shareholders by promoting efficient management and risk control within the company (Jensen and Meckling, 1976). In my research, I employed the Mandate Theory to scrutinize the correlation between

various factors, including the control environment, risk assessment, control operations, surveillance, information and communication, and information technology, and their impact on the performance of internal control systems within financial companies in Ho Chi Minh City.

Contingency Theory: Contingency Theory delves into the examination of organizational behavior within the framework of technology, culture, and external influences that shape the functional design of an organization. This theory underscores the variations in the efficacy of media across diverse business types and workforces. Consequently, the organizational functional design needs to be customized to align with the distinctive characteristics of each enterprise (Amudo and Inanga, 2009).^[1] In this study, the variable power theory is employed to elucidate the interplay among factors such as information technology, controlled environments, and information and communication within the internal control system of financial companies in Ho Chi Minh City.

Literature Review and Research Gap

This research carried out a documentary overview of studies related to the topic of factors affecting the effectiveness of internal control systems in financial companies; the results of literature review are presented in table 1 as follows.

Table 1: The results of the literature review

Author	Controlled environment	Risk assessment	Control operations	Information and communication	Surveillance	Information technology
Ho Tuan Vu (2016) ^[7]	x	x	x	x	x	
Vo Thi Hong Vi (2017) ^[16]	x	x	x	x	x	
Tran Van Dat (2019) ^[17]	x	x	x	x	x	
Duong Thi Huyen Tran (2020) ^[6]	x	x	x	x	x	x
Amudo and Inanga (2009) ^[1]	x	x	x	x	x	x
Charles (2011) ^[4]	x	x	x	x	x	
Sultana and Haque (2011) ^[13]	x	x	x	x	x	
Mahadeen and <i>et al</i> (2016) ^[10]	x	x	x	x	x	
Suárez (2016) ^[12]	x	x	x	x	x	
Trieu Phuong Hong (2016) ^[14]						x

Source: author synthesizer, 2023

The results of the literature review reveal that, although prior studies on the research issue have highlighted a variety of crucial factors influencing the effectiveness of internal control systems in financial companies, such as the controlled environment, risk assessment, control operations, information and communication, surveillance, and information technology, there are still discernible research gaps.

Firstly, there is a need for specific research to delve into how factors such as the controlled environment, risk assessment, control operations, information and communication, surveillance, and information technology interact. Gaining an understanding of these interactions can significantly enhance the overall effectiveness of the internal control system.

Secondly, previous research primarily focused on foreign contexts. The internal control system in Vietnam is currently grappling with unique challenges and factors. Consequently, targeted research on how to apply and identify the relationship between these factors in the Vietnamese context

can offer valuable insights for financial companies in HCMC. Such research can serve as a practical reference to address the distinctive challenges faced by the internal control system in Vietnam.

Research Hypotheses and Models

Amudo and Inanga (2009)^[1], Charles (2011)^[4], Trieu Phuong Hong (2016)^[14], Ho Tuan Vu (2016)^[7], Vo Thi Hong Vi (2017)^[16], and Vo Ngoc Trang Dai (2017)^[15] acknowledge that the control environment significantly impacts an organization's decisions and operations, serving as the cornerstone for the entire internal control system. If this foundation is weak or, understandably, if the control environment is not conducive, the entire internal control system may not operate as efficiently as intended. This viewpoint is encapsulated in the first theory, defined by the author as follows:

Hypothesis H1: The controlled environment has a positive impact on the effectiveness of the internal control system at

financial companies in HCM city. Authors like Sultana and Haque (2011) ^[13] and Ho Tuan Vu (2016) ^[7] contend that risk assessment is the systematic process of identifying, evaluating, and deciding how to address potential issues. Both internal and external risks can impede the attainment of established goals across all organizational levels. Consequently, management must proactively take measures to mitigate these risks, with a fundamental prerequisite for risk assessment being the establishment of clear targets. The second hypothesis concerning the risk assessment factor is:

Hypothesis H2: Risk assessment has a positive impact on the effectiveness of the internal control system at financial companies in HCM city.

Amudo and Inanga (2009) ^[1], Charles (2011) ^[4], Ho Tuan Vu (2016) ^[7] and Vo Ngoc Trang Dai (2017) ^[15] identified control activities as tools that help prevent or mitigate risks that may hinder the achievement of the organization's goals and missions. The impact of this factor on the effectiveness of the internal control system is also explained by agency theory. Management should establish controls to effectively implement the goals and tasks that the organization has set. The third hypothesis is defined as:

Hypothesis H3: Control operations has a positive impact on the effectiveness of the internal control system at financial companies in HCM city.

According Mahadeen *et al.* (2016) ^[10], Trieu Phuong Hong (2016) ^[14], Ho Tuan Vu (2016) ^[7], Vo Thi Hong Vi (2017) ^[16] and Vo Ngoc Trang Dai (2017) ^[15] information and communication focuses on the nature and quality of information, it is necessary to effectively control information systems to provide quality information and provide the reports necessary to communicate to the audience that uses the information. At the same time, this information should be communicated to the right audience in a form and within a specified time frame as requested, thus helping the audience to use the information to fulfil their responsibilities and the fourth hypothesis is as follows:

Hypothesis H4: Information and communication has a

positive impact on the effectiveness of the internal control system at financial companies in HCM city.

Mahadeen *et al.* (2016) ^[10], Ho Tuan Vu (2016) ^[7] and Vo Ngoc Trang Dai (2017) ^[15] said that monitoring is the evaluation of the control activity that the unit is performing, monitoring includes continuous monitoring and separate evaluations. Continuous monitoring activities include regular monitoring and management activities, which can, for example, continuously monitor customer complaints or review the rationality of management reports. From the above results, the author develops the fifth hypothesis as follows:

Hypothesis H5: Surveillance has a positive impact on the effectiveness of the internal control system at financial companies in HCM city.

Amudo and Inanga (2009) ^[1] argued that the information technology factor must exist and operate effectively in order to create the effectiveness of the internal control system that the organization will apply it in its internal audit activities. Besides, Trieu Phuong Hong (2016) ^[14], Bui Quang Hung (2019) ^[2], Duong Thi Huyen Tran (2020) ^[6] affirmed that besides the five components of the internal control system, the information technology factor must exist and work effectively in order to create the effectiveness of internal control systems. Based on the my research's conclusion to the construction of the sixth hypothesis is:

Hypothesis H6: Information technology has a positive impact on the effectiveness of the internal control system at financial companies in HCM city.

Based on the study of models relating to factors affecting the effectiveness of internal control systems in financial companies in HCMC and the research hypotheses, the research conducted a synthesis to form the research model as presented in Figure 1. Hereditary model results from influence factors of previous studies and is combined with expert methods to verify the reliability of the model, including factors: controlled environment, risk assessment, control operations, information and communication, surveillance, and information technology.

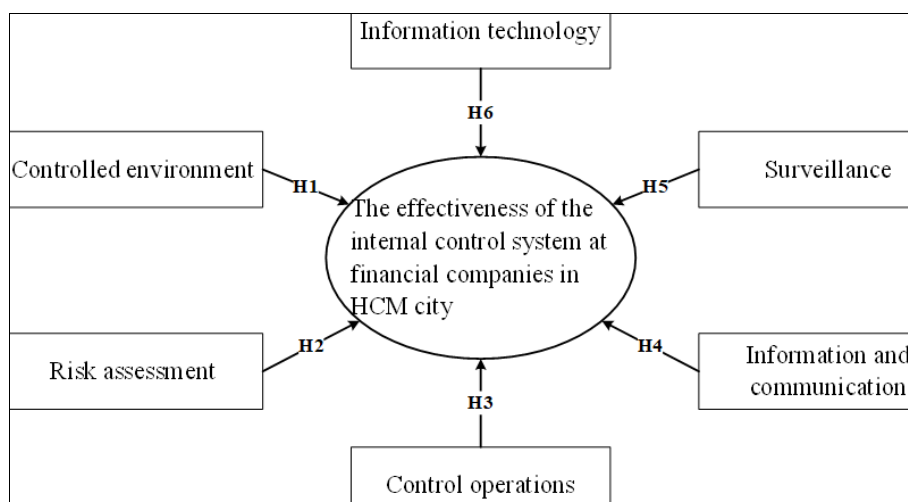


Fig 1: Proposed Research Model (Source: Proposed Author, 2023)

The scale of measurement of the independent and dependent variable

The official scales of the model study of factors influencing the effectiveness of internal control systems in financial companies on the territory of HCMC are based on the research model, including the factors.

Scale of the factor "Controlled environment"

This scale is inherited from the results of Amudo and Inanga (2009) ^[1], Charles (2011) ^[4], Ho Tuan Vu (2016) ^[7], Trieu Phuong Hong (2016) ^[14], Tran Van Dat (2019) ^[17], Duong Thi Huyen Tran (2020) ^[6] and expert opinion consisting of six observational variables: (1) MTKS1: The corporate leadership recognizes and appreciates the role of the internal control system in the financial company; (2) MTKS2: Leadership creates a corporate cultural environment suitable for the profession in order to enhance the integrity and ethical qualities of the board of directors and employees; (3) MTKS3: Provisions on professional ethics issued in writing; (4) MTKS4: Distribution of responsibilities and powers of each department; (5) MTKS5: Regular rotation of personnel in sensitive positions; (6) MTKS6: The unified text system specifies in detail the recruitment, training, evaluation of employees, bidding, pay, allowance to encourage workers to work fairly, efficiently.

Scale of the factor "Risk assessment"

This scale is inherited from the results of research by Sultana and Haque (2011) ^[13], Ho Tuan Vu (2016) ^[7], Vo Ngoc Trang Dai (2017) ^[15] and expert opinions consisting of four observational variables: (1) DGRR1: Set overall objectives as well as detailed objectives so that every employee can take them as a reference when deploying work; (2) DGRR2: Management takes measures to ensure that all employees are clearly aware of the harmful effects of the risks that may affect the company; (3) DGRR3: The leadership proposes specific measures, plans, and action processes to minimize the risk to a certain acceptable limit; (4) DGRR4: Consider potential fraud such as fraud in financial statements, loss of assets and other fraudulent behaviour that may occur during risk assessment.

Scale of the factor "Control operations"

This scale is inherited from the results of research by Amudo and Inanga (2009) ^[1], Charles (2011) ^[4], Trieu Phuong Hong (2016) ^[14], Ho Tuan Vu (2016) ^[7], Vo Thi Hong Vi (2017) ^[16], Vo Ngoc Trang Dai (2017) ^[15] and expert opinions consisting of four observational variables: (1) HDKS1: Review by senior managers of operations; (2) HDKS2: Assessment of operations by middle-level managers; (3) HDKS3: Control the processing of information within the company; (4) HDKS4: A review of the effectiveness of each periodic department with a plan to determine the level of achievement of the target.

Scale of the factor "Information and communication"

This scale is inherited from the results of research by Mahadeen *et al.* (2016) ^[10], Trieu Phuong Hong (2016) ^[14], Ho Tuan Vu (2016) ^[7], Vo Thi Hong Vi (2017) ^[17], and expert opinions consisting of four observational variables: (1) TTT1: Ensure that information is provided in a timely manner and accurately to the authorized level in accordance

with the regulations; (2) TTT2: Internal communication work ensures that employees at all levels can understand and understand the directives, regulations and regulations of the company; (3) TTTT3: Plans to improve and develop the information system on human resources in the company; (4) TTTT4: External communication works to help the public fully understand the company's products and services.

Scale of the factor "Surveillance"

This scale is inherited from the results of research by Mahadeen *et al.* (2016) ^[10], Ho Tuan Vu (2016) ^[7], Vo Ngoc Trang Dai (2017) ^[16] and expert opinion consisting of four observational variables: (1) HDGS1: Regular monitoring of company activities; (2) HDGS2: Periodic monitoring of objects performed within the company; (3) HDGS3: Evaluation of the internal control system of independent audit; (4) HDGS4: Create conditions for employees and departments to monitor each other in their work.

Scale of the factor "Information technology"

This scale is inherited from the results of research by Amudo and Inanga (2009) ^[1], Trieu Phuong Hong (2016) ^[14], Bui Quang Hù=ung (2019) ^[2] and expert opinion consisting of five observational variables: (1) IT1: The company's computer system is ready to operate at any time; (2) IT2: The Company adopts security procedures to access critical electronic data; (3) IT3: There is decentralized access in the enterprise's electronic data system; (4) IT4: Implement ERP software to improve operational efficiency in internal control systems; (5) IT5: Improve information technology skills for management and staff to respond to the changes and requirements required when enterprises use internal control platforms in the industrial era 4.0.

Scale for dependent variable "The effectiveness of the internal control system at financial companies in Ho Chi Minh city"

This scale is inherited from the results of the research by Mahadeen *et al.* (2016) ^[10], Duong Thi Huyen Tran (2020) ^[6] and expert opinion consisting of three observational variables: (1) THH1: The financial statements in the enterprise are obtained in a reliable manner; (2) THH2: Minimize risk in the process of business operations; (3) THH3: Increase business resource efficiency.

Conclusion

In light of existing theories and the literature review, the author has developed a research model proposing factors that influence the effectiveness of internal control systems within financial companies in the HCMC territory. The designated participants for data collection, as per the proposed research model, include managers and accountants employed by financial companies in HCMC. Upon processing the collected data, the authors proceed with conducting evaluations using Cronbach's Alpha, performing Exploratory Factor Analysis, estimating the model through multiple regression, testing hypotheses, and assessing the model's suitability. The research model serves as a tool to gauge the impact of each factor on the effectiveness of internal control systems within financial companies in HCMC.

References

1. Amudo và Inanga. Evaluation of internal control systems: A case study from Uganda. *International Research Journal of Finance and Economics*. 2009;1(27):125-144.
2. Bui Quang Hung. Researching the relationship between accounting software quality and accounting activities, response capacity and business performance in Vietnam. Doctoral thesis, Ho Chi Minh City University of Economics; c2019.
3. Cao Thanh Binh, Vuong Duc Hoang Quan, Dinh Ba Hung Anh. A Case Study on the Relationship between Organizational Culture, Knowledge Sharing and Job Performance of Bank Employees. *Journal of Logistics, Informatics and Service Science*. 2023;10(2):125-137.
4. Charles. Evaluation of internal control system of banks in Nigeria. Being a dissertation submitted in partial fulfilment of the requirements for the award of the Doctor of philosophy (Ph.D.). Accounting of St. Clements University, Turks and Caicos Islands; c2011.
5. COSO. The 2013 Internal Control – Integrated Framework; c2013. Truy xuất từ <https://www.coso.org>
6. Duong Thi Huyen Tran. Factors affecting the effectiveness of the internal control system in SMEs operating in the trade and service sector in Ho Chi Minh City. Master's thesis, Ho Chi Minh City University of Economics; c2020.
7. Ho Tuan Vu. Factors affecting the effectiveness of the internal control system in commercial banks in Vietnam. Doctoral thesis, Ho Chi Minh City University of Economics; c2016.
8. Jensen và Meckling. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*. 1976;3:305-360.
9. Le Thu Hang. Research on the role of accounting information systems: For internal control and business performance. *Journal of Accounting and Auditing*. No 04/2022: 126-131; c2022.
10. Mahadeen, Al-Dmour, Obeidat, và Tarhini. Examining the effect of the Organization's Internal Control System on Organizational Effectiveness: A Jordanian empirical study. *International Journal of Business Administration*. 2016;7(6):22-41.
11. Pham Huy Hung, Tran Manh Dung, và Nguyen Manh Cuong. The effectiveness of internal audit in listed companies in Vietnam. *Journal of Economics and Development*. No. 301(2), 07/2022: 27-37; c2022.
12. Suárez. Best Management Practices: SMEs' Organizational Performance Management Based On Internal Controls in Mexico. *Journal of International Business and Economics*. 2016;4(2):41-58.
13. Sultana và Haque. Evaluation of Internal Control Structure: Evidence from Six Listed Banks in Bangladesh. *ASA University Review*. 2011;5:69-81.
14. Trieu Phuong Hong. Measuring the influence of elements on the effectiveness of the internal control system in construction companies in Ho Chi Minh City. Master's thesis, Ho Chi Minh City University of Economics; c2016.
15. Vo Ngoc Trang Dai. Factors affecting the effectiveness of the internal control system at Marriott International Group in Vietnam. Master's thesis, Ho Chi Minh City University of Economics; c2017.
16. Vo Thi Hong Vi. Factors affecting the effectiveness of the internal control system at Vietnamese commercial banks in Binh Thuan province. Master's thesis, Ho Chi Minh City University of Economics; c2017.
17. Tran VD. Does Cooperative Learning Increase Students' Motivation in Learning? *International Journal of Higher Education*. 2019;8(5):12-20.
18. Luca M, Priami C, Thanh VH. Simulation algorithms for computational systems biology. *Texts in theoretical computer science*; c2017.