

Improving the quality of internal control at Airports Corporation of Vietnam

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Abstract

Internal Auditing has a significant role to play in every type of organization. It helps the organizations to direct and control their operations and fully to understand their corporate objectives and the impact, both socially and environmentally, which these objectives may have. In addition, it supports the organizations to assess and manage the risks, which may prevent the attainment of objectives and convince its stakeholders that outputs of product or service have been achieved as economically, efficiently and effectively as is practical. In Airports Corporation of Vietnam (ACV), Internal Auditing is a relatively new concept and its application is only reaching Internal Control that mainly focuses on the control of implementing regulations and policies issued by board of Members, Management, and of complying with process and procedures of member organizations.

This study aims at proposing some solutions to improve the quality of Internal Control at Airports Corporation of Vietnam.

Keywords

Internal Control, Internal Auditing.

1. Introduction

Airports Corporation of Vietnam founded on February 8, 2012 based on the integration of three Northern Airport, Southern Airport and Middle Airport. With the main purposes of managing and operating 22 airports of Vietnam and units, ACV must implement many different managerial functions, in which internal control is important and indispensable. Internal control is “*a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.*” (COSO). It enables management to deal with rapidly changing economic and competitive environments; shifts customer demands and priorities, and restructures for future growth. In addition, internal controls also promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

With such important purposes, but internal control activities of ACV are currently limited, mainly focusing on the control of policies performance and compliance of procedures of airports and units. Therefore, to establish set objectives, ACV should improve the quality of these control activities as well as complement other critical control activities.

This research aims at evaluating the mature of control activities ACV has been implementing; finding out the causes leading to the weakness of these control activities, and giving some recommendations to improve them.

2. Method and results

In order to evaluate the mature of control activities of ACV, the author has developed a self-assessment checklist based on a main component “Control activity” and its elements that are approval and authorization, verification, supervision, safeguarding assets, separation of duties, and the control over IT of internal control model by COSO (Figure 1). These elements are grouped into three key headings: written policies and procedures, control procedures, and controls over information systems of the checklist.

A 5-level scale Linkert is used to measure the mature degree of control activities of ACV with:

- Level 1: good;
- Level 2: Quite good;
- Level 3: Fair;
- Level 4: Quite weak, and
- Level 5: Weak.

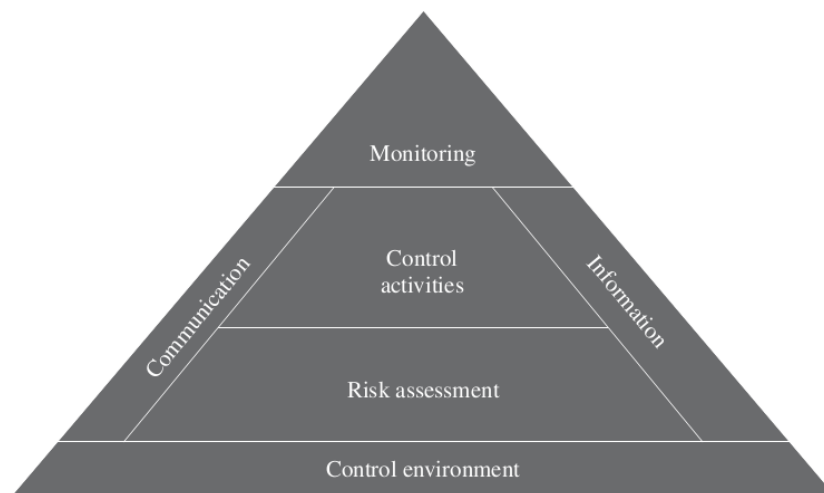


Figure 2.1: Model COSO

After evaluating, the author receives these results:

Table 2.1: Control Activities

Assessment Factors	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
			1	2	3	4	5
1- Written Policies and Procedures							
1.1 Access to policies and procedures.	Unit staff has available up to date policy and procedures and know how to use them.	Policy and procedures are not available or are rarely used.			3		
1.2 Unit policies and procedures.	The unit has documented its own policies and procedures. They are well understood by unit staff.	Unit policies and procedures do not exist.			3		
Total			6/10=60%				
2- Control Procedures							
2.1 Senior management reviews.	Senior management monitors the unit's performance against objectives and budget.	Senior management does not monitor unit performance.				4	
2.2 Top level (unit-wide) objective performance reviews by unit management.	Reviews are made of actual performance compared to objectives and previous periods for all major initiatives. Management analyzes and	Analyses are not performed or management does not follow up on significant deviations.				4	

Assessment Factors	Indication of Stronger Controls	Indication of Weaker Controls	Assessment					
			1	2	3	4	5	
	follows up as needed.							
2.3 Top level (unit-wide) financial performance reviews by unit management.	Reviews are made of actual performance versus budgets, forecasts, and performance in prior periods for all major initiatives. Management analyzes and follows up as needed.	Analyses are not performed or management does not follow up on significant deviations					4	
2.4 Direct functional or activity management by unit management.	Performance reviews are made of specific functions or activities, focusing on compliance, financial or operational issues.	No performance reviews occur.					4	
2.5 Performance indicators.	Unexpected operating results or unusual trends are investigated.	Operating results and trends are not monitored.			3			
2.6 Accounting statements and key reconciliations.	Accounting statements and key reconciliations are completed timely. Management performs a diligent review and signifies approval by signature and date.	Reconciliations are not performed timely or regularly. Management does not carefully review or formally approve statements or reconciliations.					4	
2.7 Information processing.	Controls exist to monitor the accuracy and completeness of information as well as authorization of transactions.	No information processing controls are in place.			3			
2.8 Physical controls.	Equipment, supplies, inventory, cash and other assets are physically secured and periodically counted and compared to the amounts shown on control records.	Equipment, supplies, inventory, cash and other assets are not protected. Control records do not exist or are not up to date.					4	
2.9 Training and guidance for asset custodians	Adequate guidance and training are provided to personnel responsible for cash or similar assets.	No training or guidance is provided.					4	
2.10 Separation of duties.	Duties are divided among different people (responsibilities for authorizing transactions, recording them and handling the asset are separated).	No significant separation of duties among different employees.					4	
2.11 Record retention.	Unit employees understand which records they are responsible to maintain and the required retention period. Records are appropriately filed.	Unit employees do not understand which records they are responsible for maintaining. The filing system is inadequate.			3			
2.12 Disaster response plan.	A disaster response and recovery plan has been developed and is understood by key personnel.	No disaster response or recovery plan exists.		2				
Total			43/60=71,6%					

Assessment Factors	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
			1	2	3	4	5
3- Controls over Information Systems							
3.1 Local information systems and LANs.	System operations are documented; software is appropriately acquired and maintained; access to the system, programs and data is controlled; the system is maintained in a secure environment; applications are appropriately developed and maintained.	Inadequate controls over local information systems or LANs.					
3.2 Application controls.	The unit controls its computer applications by diligent and timely response to edit lists, rejected transactions and other control and balancing reports. Controls ensure a high level of data integrity including completeness, accuracy, and validity of all information in the system.	Application controls are not used.					
3.3 Back Up.	Key data and programs on LANs or desktop computers are appropriately backed up and maintained. Off-site storage is adequate considering possible risks of loss.	No formal back up procedures exist. Management has not informed staff of back up requirements.					
Total			9/15=60%				
Total			58/95=68,2%				

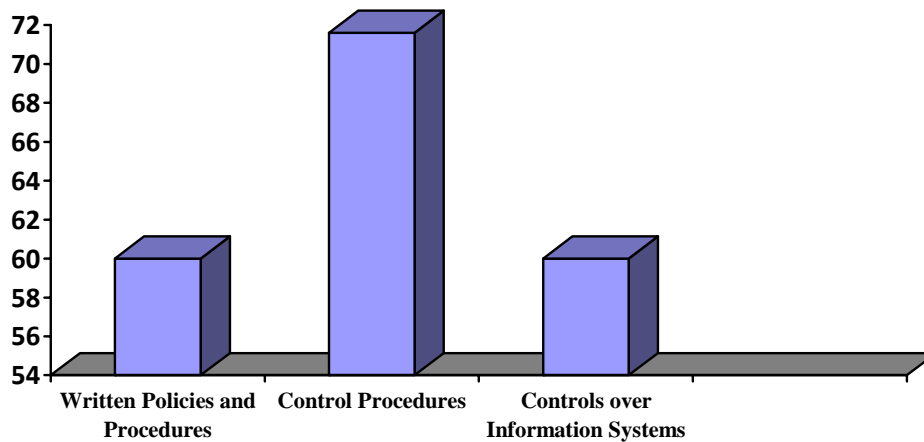


Figure 2.2: The criterias: Written Policies and Procedures, Control Procedures and Controls over Information Systems

Through the column chart above, we can see that the criteria: Written Policies and Procedures, Control Procedures, and Controls over Information Systems gain low percentages that succession ally are 60%, 71,6 and 60%. The causes have resulted from:

- ACV has not developed a formal written documentation of policies and procedures. These documents set forth the fundamental framework and the underlying methods and processes all employees rely on to do their jobs. They provide specific direction to and help form the basis for decisions made every day by employees. Without this framework of understanding by employees, conflict can occur, poor decisions can be made and serious harm can be done to the organization's reputation. Further, the efficiency and effectiveness of operations can be adversely affected.
- ACV has not implemented the control processes effectively and efficiently that are follows:
 - Approval and authorization (confirming or sanctioning employee decisions, events or transactions based on a review and granting the power by management to employees to carry out certain duties, based on approval received from supervisors);
 - Verification (determining the completeness, accuracy, authenticity and/or validity of transactions, events or information);
 - Supervision (the ongoing oversight, management and guidance of an activity by designated employees to help ensure the results of the activity achieve the established objectives);
 - Safeguarding assets (restricting access to resources and information to help reduce the risk of unauthorized use or loss);
 - Reporting (providing information on issues such as timely achievement of goals, budget status and employee concerns).
- ACV has not yet implemented well the control over IT to ensure complete and accurate information processing.

3. Recommendations

In order to improve control activities of ACV, turn it into processes that really helps ACV identify, prevent or reduce the risks that can impede accomplishment of its objectives, Management of ACV should improve their control activities that represent such specific activities as:

- For documentation of policies, objectives and procedures, Management of ACV should establish, document, implement and maintain documentation according to requirements of the clause 4.2 of the standard ISO 9001:2008.
- For the process of approval and authorization, Management of ACV should clearly document its approval requirements and ensure that employees obtain approvals in all situations where management has decided they are necessary. In addition, Management of ACV should also ensure that the conditions and terms of authorizations are clearly documented and communicated, and that significant transactions are approved and executed only by persons acting within the scope of their authority.
- For the process of verification, Management of ACV should determine what needs to be verified, based on the risk to the organization if there were no verification. Management of ACV should clearly communicate and document these decisions to those responsible for conducting the verifications.
- For the process of supervision, Management of ACV should assure that those with the responsibility for supervision should:
 - Monitor, review and approve, as appropriate, the work of those performing the activity to ensure the work is performed correctly;
 - Provide the necessary guidance and training to help minimize errors and waste and to ensure that employees understand and follow management directives; and
 - Clearly communicate the duties and responsibilities assigned to those performing the activities.
- For the process of separation of duties, Management of ACV should divide key tasks and responsibilities among various employees and sub-units of an organization in order to reduce the risk of error, waste, or wrongful acts. Especially, the various activities related to a purchase (initiation, authorization, approval, ordering, receipt, payment and recordkeeping) should be done by different employees or sub-units of an organization. In cases where tasks cannot be effectively separated, management can substitute increased supervision as an alternative control activity that can help prevent or reduce these risks.
- For the process safeguarding assets, Management of ACV should protect the organization's equipment, information, documents and other resources that could be wrongfully used, damaged or stolen by limiting access to authorized individuals only. Access can be limited by various means such as locks, passwords, electronic firewalls and encryption. Management should decide which resources should be safeguarded and to what extent. Management should make this decision based on the vulnerability of the items being secured and the likelihood of loss.
- For the process of reporting, Management of ACV should provide information on issues such as timely achievement of goals, budget status and employee concerns. Reporting also helps to promote accountability for actions and decisions.

- For the process of control over IT, Management of ACV should:
 - For Establish a plan that clearly describes the organization’s security management program and policies and the procedures that support it, including procedures for the secure storage and disposal of sensitive information. Management of ACV should also establish a structure to implement and manage the security program with security responsibilities clearly defined; monitoring the effectiveness of the security program and making changes as needed.
 - For access security, Management of ACV should put restrictions on users allowing them to access only to the system functions they need to perform their assigned duties; software and hardware “firewalls” to restrict access to assets, computers, and networks by external persons. Besides, Management of ACV should also change passwords frequently and deactivate former employees’ passwords.
 - For application software development and change, Management of ACV should document requirements of system documentation; authorizations for undertaking projects; and reviewing, testing, and approving development and modification activities before placing systems into operation.
 - For system software, Management of ACV should control and monitor the access to use and changes made to system software by establishing security procedures over the acquisition, implementation, and maintenance of all system software; databased management systems; telecommunications; security software; and utility programs.
 - For the division of key tasks and responsibilities among various employees and sub-units of the computer operations, Management of ACV should specify that no one individual could control all of the primary elements of a transaction, event or process. In addition, Management of ACV should identify incompatible duties and implement policies to separate those duties can be monitored, using access controls as well as by implementing operating procedures, supervision, and the review of employee activities.
 - For service continuity, Management of ACV should develop backup and recovery procedures, and contingency and disaster plans. Data center and client-server operation controls involve steps to prevent and minimize potential damage to hardware and software and the interruption of service, using data and program backup procedures. Such procedures include off-site storage of backup data; environmental controls; staff training; and hardware maintenance and management. In addition, Management of ACV should develop, document and periodically test their contingency plans.
 - For application controls, Management of ACV should take into account the whole sequence of transaction processing from the preparation of the initial source document or online data entry, to the creation and use of the final output. As such, application controls consist of input, processing, and output controls:
 - + Input controls include processes for verifying data accuracy and completeness upon data-entry to a system. These controls also provide specific mechanisms for input authorization, data conversion, data editing and error handling.
 - + Processing controls help ensure that data remains complete and accurate during updating, and that the application programs perform as intended.
 - + Output controls help ensure that system-generated information is accurate, properly recorded, and received or reviewed by authorized individuals only.

Conclusion

Through the research of control activities of ACV presented above, we can summarize that Generally, ACV has deployed control activities but the degree of achieving objectives set is rather modest. Therefore, in order to achieve objectives that are (1) effectiveness and efficiency of operations; (2) reliability of financial reports; and (3) compliance of laws and regulations, ACV should establish a formal system of internal control based on COSO model, the most popular one in the world nowadays. In addition, ACV should also establish a group of competent internal auditors. They themselves will help finding out risks of achieving objectives; proposing solutions to mitigate them as well as monitoring the suitability of the control set. The contributions will partially maintain the sustainable success of ACV.

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