

MANUAL ON APPLICATION OF INTERNAL CONTROLS AND CODES OF CONDUCT IN BUSINESS

(Reference for Vietnamese Businesses)





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HANOI - 2020

FOREWORD

Addressing corruption and strengthening governance systems requires a more active role of the private sector - both in developing and complying with the spirit and letter of laws and regulations, and ensuring that business practices promote values of fairness, inclusiveness, integrity, transparency, accountability and contribute to the principle of "leaving no one behind" of Agenda 2030. Strengthening business integrity, thus, can contribute to improved governance, and specifically to the achievement of Sustainable Development Goal 16 or SDG16.

The Manual on "**Application of Internal Controls and Codes of Conduct in Business**" is a publication developed for Vietnamese businesses by the Vietnam Chamber of Commerce and Industry (VCCI) as part of the "**Government-Business Integrity Initiative - GBII.**" The GBII is supported by the UK Prosperity Fund, ASEAN Economic Reform Programme, within the framework of the Regional Project on "Promoting a Fair Business Environment in ASEAN" implemented by the United Nations Development Programme (UNDP), and aims to improve corporate governance and sustainable development in Vietnam.

In order to help businesses develop a responsible business culture in line with international standards and good practices on business ethics, VCCI has worked closely with stakeholders to publish the Manual as a reference guide for Vietnamese businesses, offering guidance on the development of standards and good practices relating to business integrity and transparency.

Business integrity forms the backdrop for interactions among businesses, constituting an important component of sustainable development and international economic integration, providing a safeguard for business expansion with decent investors, and making significant contributions to national economic growth. Sound leadership, proper anti-corruption procedures and effective monitoring efforts play a key role in ensuring business integrity. At a corporate level, business integrity can deliver explicit and long-term benefits when businesses adopt good governance and professional management standards. Application of a coherent internal control (IC) mechanism enables businesses to conduct risk assessments and estimate business costs more accurately. In addition, the adoption of a code of conduct not only can improve the reputation of a business in working with its partners, and other stakeholders but can contribute to increasing revenue and profit growth, while helping to bolster the reputation of the country as a reliable partner in the global supply chain and as an attractive destination for foreign investors.

This Manual is intended as a useful reference for Vietnamese businesses on how to develop and apply internal controls and codes of conduct in order to improve corporate governance and anti-corruption procedures.

The contents of this Manual are selected and adapted from international good practices for application by Vietnamese businesses. The views in this Manual are not necessarily those of VCCI, UNDP and the British Embassy in Hanoi.

VCCI, UNDP AND BRITISH EMBASSY IN HANOI

ACKNOWLEDGMENTS

We would like to express our sincere thanks to the experts, partners, and supporting units for their extremely hard work in recent months to develop this Manual.

Firstly, special thanks are given to experts who have been directly involved in development of this Manual:

- Dr. Vu Thi Phuong Lien - Academy of Finance (Chief author)
- Professor Dr. Nguyen Van Thang - National Economics University
- Assistant Professor Dr. Vu Cuong - National Economics University
- Mr. Brook Horowitz - CEO of IBLF Global and UNDP Business Integrity Adviser
- MA. Tran Lan Anh - TDI Company

Secondly, we are very grateful for the technical assistance from business partners within the network of VCCI and UNDP, specifically:

- Deloitte Vietnam Company Limited for designing and delivering project training activities based on this material.
- Standard Chartered Bank, especially Mr. Michael Linnitt, CFE, CAMS - Regional Head of Anti-Bribery & Corruption, Conduct, Financial Crime Compliance, China and ASEAN, for his valuable comments on the first draft of the Manual.
- Experts from various companies including PWC Vietnam Limited, Ernst & Young Vietnam Limited, and the Association of Chartered Certified Accountants (ACCA) for their very helpful feedback.

Thirdly, our thanks also go to the project management team for their enormous support to publication of this Manual:

- Mr. Stephen Taylor, Head of Internal Political Section, British Embassy Hanoi;
- Ms. Dang Thi Huyen, Programme Manager for Economic Reform and Global Trade, British Embassy Hanoi;
- Dr. Catherine Phuong, Assistant Resident Representative, United Nations Development Programme Vietnam (UNDP Vietnam);
- Ms. Do Thuy Van, Programme Manager, UNDP Vietnam;
- Mr. Nguyen Quang Vinh, VCCI Secretary General cum Director of Office for Business Sustainable Development (SDforB), Vietnam Chamber of Commerce and Industry (VCCI);
- Ms. Dinh Thi Bich Xuan, Deputy Director of SDforB, VCCI.

Finally, we would like to thank the UK Foreign and Commonwealth Office and the Prosperity Fund ASEAN Economic Reform Programme for their generous financial and technical support for the development and publication of this important material.



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ABBREVIATIONS

BOD	Board of Directors
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organisations
ERM	Enterprise Risk Management
FCPA	Foreign Corrupt Practices Act
GBII	Government-business Integrity Initiative
OECD	Organisation for Economic Co-operation and Development
UNDP	United Nations Development Programme
VCCI	Vietnam Chamber of Commerce and Industry
CoC	Code of conduct
COSO	Committee of Sponsoring Organisations

1. Purpose and users of the manual

The Manual on "**Application of Internal Controls and Codes of Conduct in business**" provides corporate management teams including the Board of Members, the Board of Directors, the Board of Management, etc., as well as shareholders, stakeholders, members of the Supervisory Board, members of the Internal Audit Board, and other individuals with important information on internal controls and codes of conduct in line with international standards and good practices in Vietnam.

The Manual is intended to provide general guidance for businesses to develop and apply internal controls and codes of conduct, ensuring effective and transparent corporate governance, promoting sustainable development and integration with the regional and global economy.

The Manual provides readers with the following content:

- General principles of good corporate governance;
- International practices on internal controls and codes of conduct;
- Methods of development and application of internal controls and codes of conduct;
- Templates of internal controls and codes of conduct for reference and application by businesses.

The purpose of the Manual is to support Vietnamese businesses in development of their internal controls and codes of conduct, enhancing corporate governance, managing risks, and preventing violations of laws and in this way ensure that the business community is contributing to improve a fair and transparent business environment in Vietnam, in line with the principles and commitments of the 2030 Sustainable Development Agenda and its 17 SDGs. The technical contents of the Manual are tailor-made for small and medium-sized businesses under different forms of ownership, such as private businesses, state-owned businesses, and foreign-owned businesses. As the Manual introduces international good practices, it is also a useful reference guide for larger businesses under all forms of ownership.

The Manual provides managers and policy makers in governmental agencies with information on internal controls and codes of conduct for effective policy making and management. At the same time, this Manual is expected to become a useful reference for university students who are studying accounting, business administration, economics, and law.

2. Guide to use of the manual

The Manual on "*Application of Internal Controls and Codes of Conduct in Business*" consists of three chapters as follows:

CHAPTER I. DEVELOPMENT OF INTERNAL CONTROLS

CHAPTER II. DEVELOPMENT OF CODES OF CONDUCT

CHAPTER III. NEXT STEPS

Each chapter focuses on key issues of internal control and codes of conduct in business. Each key issue is analysed in detail according to the provisions of Vietnamese law and internationally recognized good practices.

Rather than studying the entire content of the Manual in order, readers may begin with any topic of interest. It is easier for readers to understand the contents of the Manual by reviewing its examples and templates.

While the Manual is published to provide businesses with well-informed guidance for easy application in practice, the Manual may have certain limitations and thus may not cover every topic area of interest to a given reader. As the contents of the Manual are for reference only, they should be used flexibly and creatively by readers depending on the specific conditions of their business.

3. Background, current international practice in internal controls and codes of conduct in Vietnam, benefits to businesses

BACKGROUND

In the context of international integration, it is important that Vietnamese businesses, especially small and medium-sized businesses (SMEs), improve their management capacity, reforming management systems for effective operation, mitigate risks, respond to unexpected changes in business environment, enhance the business's reputation, and bolster the confidence of national and international partners.

The revised Anti-corruption Law (2018) was approved by the National Assembly on 20 November 2018 and came into force on 1 July 2019. The scope of the Law has been expanded to cover anti-corruption in the private sector. Specifically, Section 1 (Article 78, Article 79) of Chapter VI provides for the development of transparent business culture, encouraging companies to issue and apply codes of conduct/ethics and internal controls to prevent corruption.

In practice, business activities have profound impacts on the economy.

Therefore, businesses should develop a culture of integrity through applying codes of conduct and improving internal controls, promoting the principle of transparency and openness in organisation and operation, controlling conflicts of interest, improving accountability, and specifying the responsibilities of heads of companies and their deputies.

Report on current situation

Prior to development of this Manual, a survey on the current situation of **Application of internal controls and codes of conduct at Vietnamese businesses**¹ was conducted and the survey results were published in March 2019. The survey showed that businesses were basically aware of internal controls and codes of conduct but had low interest in their application. About 40-50% of interviewed businesses (239 businesses) did not fully or correctly understand the definitions of codes of conduct and internal controls. At many businesses, especially Vietnamese ones, internal controls and codes of conduct were not properly developed, or had been applied with limited effect. These challenges were partly due to lack of specific guidance and resources for implementation.

Many aspects of internal controls were not fully applied, including, for example, the assessment of work performance, risk identification, resources for internal controls-related functions, staff capacity building. One of reasons for these shortcomings included the lack of specific guidance and training for staff on the benefits of these efforts and how to effectively apply internal controls and a code of conduct in their work. For codes of conduct, an assessment of compliance with the code was not included in year-end appraisals; it was not considered an important part of doing business.

The survey report concluded that it would be useful to develop a manual on how to apply internal controls and codes of conduct. The Manual and training materials should not only specify roles relating to and benefits from internal controls and codes of conduct in corporate governance and the responsible involvement of relevant parties during their application, but also provide specific guidance and templates for reference and effective use by businesses.

The survey report also concluded that the high commitment of the board of management and active participation of managers at all levels, officers and staffs were key to the successful application of internal controls and codes of conduct.

¹. <https://kdcl.vn/an-pham-va-cong-cu/doanh-nghiep-ap-dung-co-che-kiem-soat-noi-bo-va-bo-quy-tac-ung-xu.html>

It is observed from international good practice that most regional and multinational corporates have applied codes of conduct and internal controls.

Good practices in internal controls have been developed by the Committee of Sponsoring Organisations (COSO) under the US National Commission on Financial Reporting (commonly known as the Treadway Commission) since 1985. COSO standardised and issued principles, requirements, contents of internal controls in its first report in 1992 (COSO 1992 report). Many laws (such as the US Sarbanes-Oxley Law (SOX)), international auditing standards, internal auditing standards, and regulations of securities commissions in many countries have leveraged the COSO 1992 report as a standard. The COSO 1992 report is the first step for businesses in development of internal controls.

Twenty years after the first COSO report was issued, globalisation with drastic changes in business environment and development of information technology has substantially affected how businesses operate, identify and respond to risks. In May 2013, COSO issued an updated report, "Internal control - integrated framework" (or the COSO 2013 report, effective on 15 December, 2014) to replace the COSO 1992 report which included a new definition of internal controls as *"a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance"*. The standards of the COSO 2013 report have been applied in many countries for the design and development of internal control frameworks and for detailed guidance on internal controls, risk management and fraud prevention in order to mitigate fraud risk and to improve corporate performance and governance.

Relating to codes of conduct, the Asia - Pacific Economic Cooperation (APEC) issued a code of conduct focusing on anti-corruption and principles of integrity and transparency in the private sector (2007). The US Department of Commerce also issued the *"Manual for managing a responsible business in emerging market economies"* (2004), guiding businesses in development and delivery of ethical conduct in compliance with international standards and good practices. Therefore, depending on their priority and strategy, each business might structure the code of conduct in its own way in line with the specific conditions of the business.

Benefits of internal controls and codes of conduct

Development and application of internal controls and codes of conduct are considered an effective measure for good corporate governance, ensuring sustainable development through realising commitments with relevant parties.²

If a business has weak internal controls and an ineffective code of conduct, its governance and control functions will be less effective, increasing opportunities for fraud or non-compliance with the laws and regulations. On the contrary, strong internal controls together with a strict code of conduct will help improve monitoring functions for the timely detection and prevention of fraud/non-compliance.

In addition, effective internal controls and codes of conduct also enable the board of management to identify risks and responsible parties for mitigation and control of future activities. Internal controls and codes of conduct help to prevent fraud/non-compliance with the laws (including bribery) by reducing disguised opportunities, controlling motivations and justifications for such acts, and promoting anti-corruption.

4. Good corporate governance

The term "corporate governance" was mentioned for the first time in research on risk management and corporate controls in the context of the separation of "ownership" and "control" by F. Fama and C. Jensen (1983)³. After a series of economic crises, including the financial crisis in Asia in 1997, the global crisis in 2001 and the financial crisis in 2007-2008, etc., corporate governance, especially that of listed companies, has been an issue of great interest in all countries.

According to OECD Principles of Corporate Governance (2015), corporate governance is a set of internal measures to manage and control a company, focusing on relationships between the company's management, its board, its shareholders and other stakeholders.⁴

². <https://www.unodc.org/unodc/en/corruption/WG-Prevention/private-sector-and-public-private-partnerships.html>

³. Eugene F. Fama; Michael C. Jensen (1983). "Separation of Ownership and Control". *Journal of Law and Economics*, Vol. 26, No. 2, pp. 301-325.

⁴. https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en

The Organisation for Economic Co-operation and Development (OECD) is a forum of governments of 37 most developed countries in the world and 100 non-member countries to discuss and share experiences on economic issues and other general issues.

The OECD Principles of Corporate Governance issued in 2015 are considered standards in corporate governance, and are referred to by many countries as these principles provide detailed guidance for policy makers and cover most of issues in corporate governance.

On 6 June 2017,⁵ the Ministry of Finance issued Decree No. 71/2017/ND-CP guiding the application of corporate governance in public companies, specifying "corporate governance" as a set of principles to ensure the effective management and control of companies for the benefit of shareholders and relevant parties. Principles of corporate governance under the Decree include:

- 1) ensuring appropriate management structure;
- 2) ensuring the effective operation of the Board of Directors and the Supervisory Board;
- 3) ensuring the benefits of shareholders and relevant parties;
- 4) ensuring the equal treatment of shareholders; and
- 5) ensuring transparency in all business activities.

At the micro level, good corporate governance helps increase business efficiency, making good use of rare natural resources, easily accessing long-term sources of capital, ensuring benefits and equal treatment of shareholders, and protecting interests of concerned parties.

At the macro level, good corporate governance helps the country to strengthen ownership, reducing transaction costs and capital costs, creating good conditions for development of the stock market, mitigating damage caused by unexpected changes, promoting sustainable economic development. This

⁵. In Vietnam, corporate governance was introduced in 2007 in the regulation on corporate governance applicable to companies listed on Stock Exchange/Securities Trading Centre and has been regularly updated in line with international practices.

has become an important issue as Vietnam is actively integrating into the regional and global economy.

Good corporate governance plays a key role in development of a reliable, transparent, and responsible business environment, promoting long-term investment, stabilising finance and promoting business integrity, contributing to comprehensive social development.⁶



(Illustration)

To build good corporate governance, businesses need to ensure the following elements:

- (1) set a clear development strategy;
- (2) design and operate full business control systems;
- (3) develop human resources with appropriate capacity for business activities, and
- (4) develop appropriate technological infrastructure.

To ensure good corporate governance, the board of management plays a key role in setting strategy, vision, and core values as well as building trust and business culture. A good manager is not only good at management skills but also is able to consider, predict, and assess changes in business environment to propose appropriate reforms for business survival and development.

⁶. <http://www.oecd.org/corporate/>

"Business manager is the manager of the company or manager of sole proprietorship, who is either an owner of a sole proprietorship, a general partner, the Chairperson of the Board of Members, a member of the Board of Members, the company's President, the Chairperson of the Board of Directors, a member of the Board of Directors, the Director/ General Director, or a person holding another managerial position who is entitled to enter into the company's transactions on behalf of the company according to the company's charter." ⁷

A business manager is responsible for effectively designing, planning, organising, managing and monitoring human resources, finance, material resources, information to realise business targets.

To this end, a manager should effectively oversee all activities by designing strong internal controls and applying them effectively. In addition, in the context of the development of a market economy and globalisation, building a robust business culture is an essential task and should be maintained throughout a company's operations. Therefore, a manager should build business culture through the development of a code of conduct, shaping the firm's leadership style and the working style of staff.

Ensuring gender balance at the senior management/leadership level as a key element for good governance. The linkages between women in managerial positions and boards being linked to stronger corporate governance standards and practices also points for the need to strengthen the link and case for gender diversity with greater transparency and promotion of accountability in business practices/integrity⁸.

⁷. Point 18, Article 4, Law on Enterprises No. 68/2014/QH13 issued by the Chairman of the National Assembly on 26 November, 2014

⁸. FairBiz report on Good Corporate Governance and Gender Diversity in ASEAN

5. Business integrity and compliance with a code of conduct

The definition of integrity refers to a comprehensive approach to business activities relating to management procedures, employees, shareholders in performing work and applying anti-corruption and anti-abuse-of-power standards⁹. Doing business with ethics and integrity has become a globally recognised standard in order to secure and maintain the confidence of investors, business partners and employees.

According to the survey report on application of internal controls and codes of conduct in Vietnamese businesses¹⁰ in 2019, 57% of 239 businesses interviewed by VCCI believed that payment of unofficial costs would bring about better results in working with civil servants, while 11% objected the payment and 32% had no idea. Moreover, 74% of interviewees also believed that businesses in the same industry had paid unofficial costs in 2017 and 2018. To explain the situation, most businesses thought that provisions of the laws were overlapping and/or contradictory with each other and were constantly changed, making it difficult for them to comply and they were lacking human resources to update and monitor the changes. As a result, payment of unofficial costs would facilitate their work. In addition, the study also pointed out costs of personal relations or unofficial costs were disguised in various forms, accounting for 25% to 30% of business transactions. Accordingly, one third of interviewees confirmed that they never applied competitive procurement process. This shows that extraordinary business activities account for a large proportion of businesses participating in the survey - and this is considered a threat to business integrity in Vietnam.

Absence of business integrity may violate the basic principles of economics, encourage illegal business practices, and weaken the competitiveness of businesses and the overall economy. After all, business integrity is a basic principle for sustainable development. Without adhering to this principle, businesses lose opportunities for increasing competitiveness and improving labour productivity, thus isolating themselves from inevitable trends of international and regional economic gains, especially in the context of the increasing economic integration of Vietnam.

Ensuring business integrity based on strong codes of conduct will help businesses achieve sustainable development through:

⁹. <https://kdlc.vn/uploaded/file/Xay%20dung%20cac%20he%20thong%20liem%20chinh.pdf>

¹⁰. <https://kdlc.vn/an-pham-va-cong-cu/doanh-nghiep-ap-dung-co-che-kiem-soat-noi-bo-va-bo-quy-tac-ung-xu.html>

- (1) improving internal strength and coherence by sharing core values;
- (2) strengthening internal controls and business accountability;
- (3) increasing firms's reputation in the market, expanding business opportunities;
- (4) reducing the risk of violations in business activities and breaches of law; and
- (5) maintaining and adhering to code of ethics and conduct in business, contributing to a transparent business environment for sustainable development (say NO to corruption and negative acts).

Effective internal controls and strong codes of conduct are useful tools for ensuring business integrity.

This Manual focuses on technical issues to help businesses develop and apply effective internal controls and strong codes of conduct meeting the specific conditions of their business activities.

CHAPTER 1

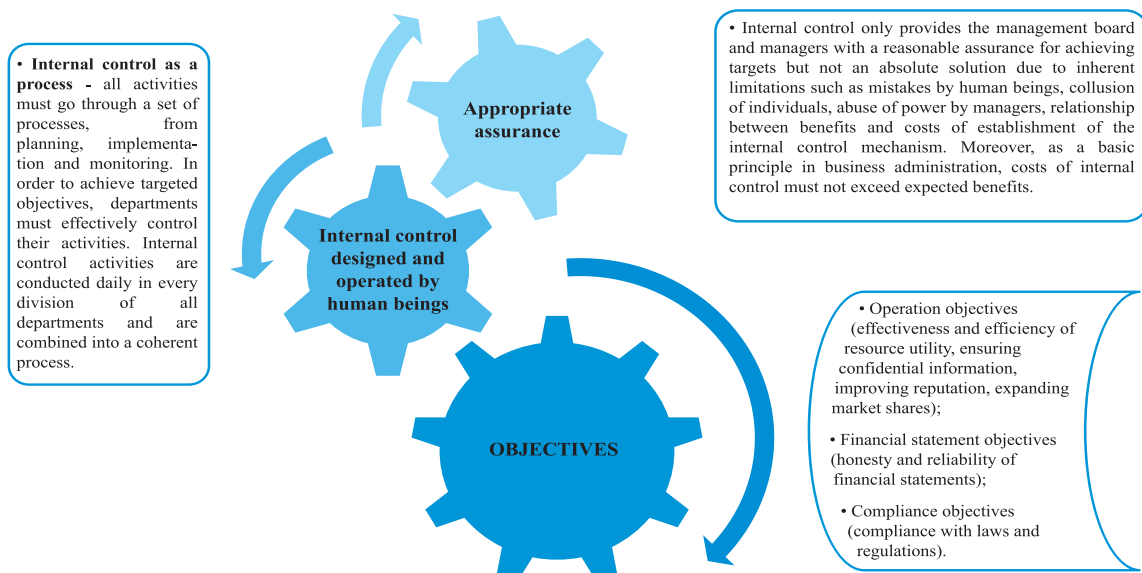
DEVELOPMENT OF INTERNAL CONTROLS



1. Definition

The definition of internal controls is considered from various aspects such as business administration, accounting and finance, etc. In general, during its development, the definition of internal control has extended beyond procedures of asset protection and accounting records. Prior to issuance of the COSO report (1992), internal controls were considered a tool for auditors to audit financial statements. By 1992, with an increasing number of frauds causing severe consequences to the economy, a number of committees were established to recommend effective measures to prevent fraud, including COSO. Consisting of 4 parts, the COSO report was the first framework in the world with full and systematic analysis of internal controls, forming the backdrop for subsequent theories of internal control. Until now, the standards of the COSO 2013 report are still applied by companies in many countries to design and develop internal controls as well as detailed guidance on risk management and fraud prevention, improving business productivity and corporate governance.

The COSO 2013 report defines internal controls as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance,"¹¹ especially to ensure effective implementation of activities and the reliability of financial statements in compliance with provisions of the laws and regulations.



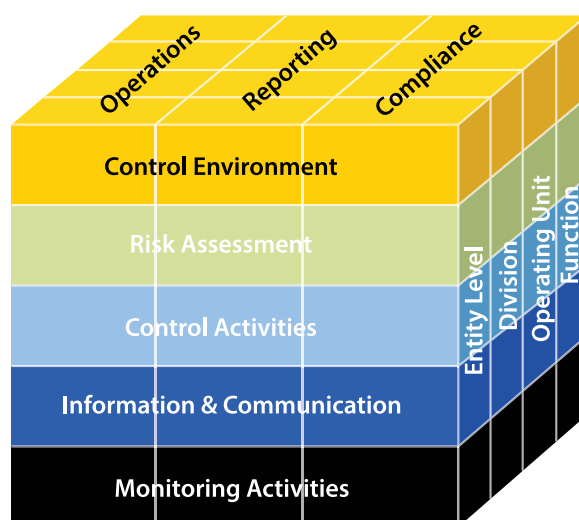
¹¹. <https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf>

Internal controls are designed and operated by the BOD, the board of management, managers and staff. Individuals set out objectives, developing and operating the internal controls to achieve the objectives. Therefore, in order to ensure effective internal control, it is important that all members in the organisation must be fully aware of their responsibilities and authorities, identifying relations, tasks, and ways to achieve objectives of the organisation.

2. International and Vietnamese laws on internal controls in business

International law on internal controls

The most common internal control framework applied by businesses in many countries is issued by COSO. The COSO 1992 report is widely considered by relevant stakeholders as a standard for internal controls.



COSO 2013 report

In 2013, COSO issued an updated report called "Internal control - Integrated Framework" to replace the COSO 1992 report in response to dramatic changes in the business environment and the development of information technology, business organisation, risk assessment and mitigation in the context of globalisation. Accordingly, COSO defines internal controls as "a process, effected by an entity's board of directors, management, and other personnel,

designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance". Substantial changes include: principle-based approach in designing internal controls; replacing control procedures by compliance requirements for internal controls; expanding control objectives; increasing control procedures and risk management; ensuring criteria of an effective internal control framework. The COSO 2013 report confirms the close linkage between internal controls and risk management¹² (ERM - Business Risk Management) and corporate governance. Under the COSO 2013 report, internal controls consist of 5 components: the control environment; risk assessment; control activities; information and communication; and monitoring activities.

Consequently, these components of internal control are closely linked to each other, underlining the importance of managers in the assessment of risks that might adversely affect the achievement of objectives. Internal controls help to mitigate these risks in practice. Meanwhile, integrated information must be collected and disseminated smoothly across the whole organisation. This process is monitored to ensure that the internal control framework is adjusted to achieve objectives of the organisation if necessary.

Despite widely recognised international standards on internal controls, accounting and risk management based on COSO 2013 report, each country still issues their own standards, regulations and laws on corporate governance and accounting. For example, in the US, the principles and methods applied in COSO closely comply with provisions of the laws. US businesses use these principles to ensure compliance with the Foreign Corrupt Practices Act (FCPA) and other laws. Apart from the US, other countries have also issued their own laws and regulations on corporate governance, accounting standards and internal control.

For instance, the UK is a typical example of how a country develops its own internal control principles and application methods through issuance of guidance for directors on the combined code (1999), also known as the "Turnbull report", a report drawn up with the London Stock Exchange for listed companies. The guidance provides assistance to directors of listed companies on implementing effective internal controls or sufficient auditing and control to ensure the quality of financial statements and to identify potential frauds and to prevent occurrence of such frauds. The guidance was revised in 2005 and

¹². Despite similarities in structural principle, the COSO 2013 framework and COSO EMR 2017 framework are totally different and complementary to each other. Meanwhile, COSO - ERM helps businesses identify risks more promptly or explicitly, opening up more options for risk management.

replaced by guidance from the Financial Reporting Council - FRC¹³ - issued in September 2014.

So far, COSO 2013 standards are still applied by many countries in the world in the design and development of internal control frameworks and provide detailed guidance on risk management and fraud prevention, improved productivity and corporate governance. From a top-down approach, a business should first develop a corporate governance model, followed by establishment of a risk management system, then finally maintaining an internal control mechanism to ensure consistency of corporate vision, strategy and specific action plans. However, due to limited resources, small and medium-sized businesses (SMEs) often just focus on development of an internal control framework without the three categories of objectives mentioned above.

Comprehensive integrated systems like the COSO framework are often used by public companies - listed companies or state-owned companies. Private companies develop their own internal control frameworks based on the COSO standards. Small-sized companies often do not have complete and comprehensive internal controls. Nevertheless, even the smallest companies also apply certain internal control measures. According to international good practices, internal control frameworks often reflect the scale, risk profile and complexity of the business's activities.

Vietnamese laws on internal controls

In Vietnam, the legal framework on corporate governance and internal controls has been issued by the State and businesses. The term of internal control is prescribed in a number of laws such as the Law on anti-corruption (No. 36/2018/QH13), Law on Businesses (No.68/2014/QH13), Law on Accounting (No. 88/2015/QH13), Law on Securities (No. 54/2019/QH14)¹⁴; Law on Securities (No. 70/2006/QH11); Law on State Audit (No. 81/2015/QH13), and Law on Thrift Practice and Waste Combat (no. 44/2013/QH13).

In addition, the term of internal control is also mentioned in a number of by-laws:

¹³. <https://www.frc.org.uk/about-the-frc>

FRC (Financial Reporting Council) is an independent UK regulatory body responsible for promoting high quality corporate governance and financial reporting, consisting of following boards: Accounting Standards Board (ASB), Auditing Practices Board (APB), Professional Oversight Board (POB), etc.

¹⁴. This law enters into force as from 1 January, 2021 as a replacement for the Law on Securities No.70/2006/QH11

Decrees: Decree No. 59/2019/ND-CP issued on 1 July 2017, effective on 15 August 2019 guiding the implementation of a number of articles of the Law on anti-corruption; Decree No. 71/2017/ND-CP on 6 June 2017 on corporate governance of public companies effective on 1 August 2017; Decree No. 87/2015/ND-CP on monitoring of state capital investment in businesses issued on 6 October 2015, effective on 1 December 2015;

Circulars: Circular No. 13/2018/TT-NHNN dated 18 May 2018 of the State Bank of Vietnam on internal control mechanisms in commercial banks, branches of foreign banks; Circular No. 44/2011/TT-NHNN dated 29 December 2011 of the State Bank of Vietnam on internal control and internal audit systems of credit institutions and branches of foreign banks; Circular No. 16/2011/TT-NHNN dated 17 August 2011 of the State Bank of Vietnam on internal control and internal audit systems of the State Bank of Vietnam; Circular No. 214/2012/TT-BTC of the Minister of Finance dated 6 December 2012 on issuance of Vietnam audit standards, effective on 1 January 2014 (Audit Standard No. 315). (See *Annex for further information*)

Consequently, while internal controls are not consistently described in the above-mentioned legal documents, they are basically defined as the development and application of internal mechanisms, policies, and regulations in compliance with provisions of the laws to ensure efficiency and effectiveness of business operation, information accuracy, and compliance with the laws. Under Circular No. 214/2012/TT-BTC dated 6 December 2012 on Vietnam Audit Standards (Audit Standard No. 315), the definition of internal control is almost identical to that of COSO with 5 components.

The Law on Accounting No. 88 (2015) and the Law on Anti-corruption No. 36 (2018) govern all types of business, and encourage businesses to develop internal control systems for effective use of resources and provision of reliable information (Law on Accounting, 2015), preventing conflicts of interest and corrupt acts, building a strong business culture (Law on Anti-corruption, 2018). Most other laws only govern a specific sector/group of businesses. For example, the Law on Securities (No. 54/2019/QH14) and the Law on Thrift Practice and Waste Prevention (No. 44/2013/QH13) require securities companies and state-owned companies to develop internal control systems. This requirement is mandatory to public companies, state-owned companies, and financial companies. For these types of business, the laws clearly provide for roles of each section (such as the Board of Directors, the Supervisory Board or other professional departments) and internal auditors. For other types of business, requirements are still general when businesses have discretion in developing their internal control systems.

In brief, most provisions of the laws provide for general requirements on the development of internal control systems by businesses. Some certain types of businesses, such as state-owned companies, public companies or financial companies, comply with more specific requirements on internal controls. For other types of business, the laws only focus on compliance and businesses have the discretion in developing their own internal control frameworks to meet specific conditions. This is a reasonable approach as the effectiveness of internal controls mostly depends on the specific conditions of each business.

3. Role of internal controls in mitigation of common risks in business

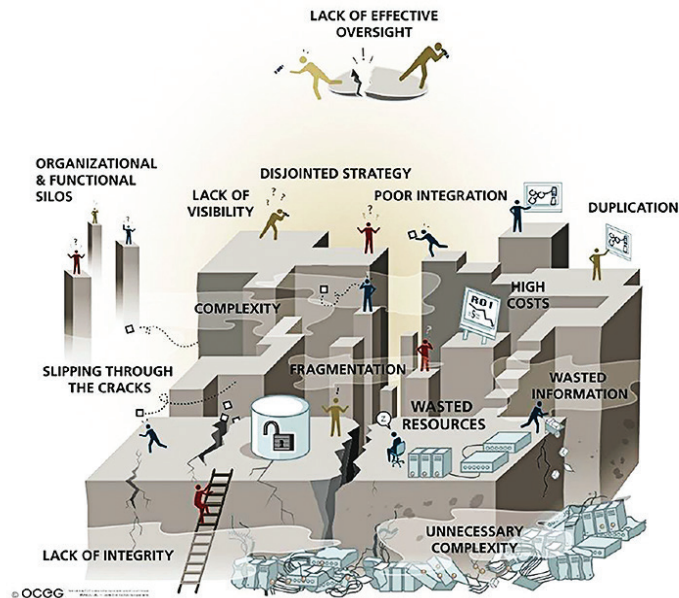
Internal controls play an important role in business administration, especially in decision-making by the management team. It is one of five management functions: (1) setting objectives; (2) planning; (3) implementing; (4) coordinating; and (5) controlling.

Through internal controls, managers identify gaps in organisational structure and propose remedial measures. Internal controls provide managers with sufficient information for making decisions to respond to changes in order to reach these objectives.

Businesses have to face various challenges during operations such as ineffective performance, waste of resources, lack of effective oversight, organizational and functional silos, lack of visibility, disjointed strategy, poor integration, duplication, complexity, high costs slipping through the cracks, fragmentation, waste of information, lack of integrity, unnecessary complexity, etc. Basically, internal controls integrate activities, measures and mechanisms to mitigate potential risks. This system is often mainstreamed into business management and administration

In operation, effective internal controls help:

- Improve business efficiency: efficient internal controls require integration and standardisation of business operation processes, avoidance of time wasting, increased productivity, and reduced inefficiency.
- Improve quality of business activities: effective internal controls help managers to mitigate and prevent unnecessary risks or damages, reduce errors, and increase accuracy of data.
- Ensure consistency and accuracy of financial, accounting, and statistical data for production, business or investment.



(Illustration - Source: Deloitte Vietnam)

In management, effective internal controls help:

- Manage resources more effectively: ensure efficient operation, maximising resources to achieve objectives; keep assets free from damage; prevent fraud, theft, corruption and and abuse of resources in a timely fashion.
- Provide sufficient information for planning and decision-making: thanks to the timely provision of information on all business lines and the strict control of costs, decisions are made promptly; responding to changes in the business environment more efficiently.
- Improve management efficiency at all levels: internal controls are required in all stages of operation and at all levels in order to control, monitor and provide useful information for effective management.
- Create a smooth, transparent and effective operation and management mechanism.
- Protect rights and interests of investors and shareholders as well as to build their confidence (especially for joint stock companies).

In organisation, effective internal controls help:

- All members to comply with business regulations, procedures, working process, and provisions of the laws through individual views, ethics and motivations as well as through the cooperation of staff. This creates a business culture where all members strive for overall objectives based on professional and responsible working styles.

- In the context of international integration, corruption has been recognised a threat for Vietnam in particular and the world in general, especially in terms of its nature, characteristics and danger, not only in public sector but also in private sector, reducing competitiveness, widening inequality, reducing confidence of investors in businesses - which are considered important factors for maintaining and developing social and economic relations. It is important to find effective solutions in a timely manner to create a transparent and competitive business environment, forming the backdrop for sustainable development. In order to meet the requirements of the development of a market economy and to promote international integration, provisions of anti-corruption laws are being reformed with a multi-dimensional and flexible approach. Provisions of relevant laws are being revised, giving businesses and organisations discretion in preventing corruption in a more autonomous and effective manner.

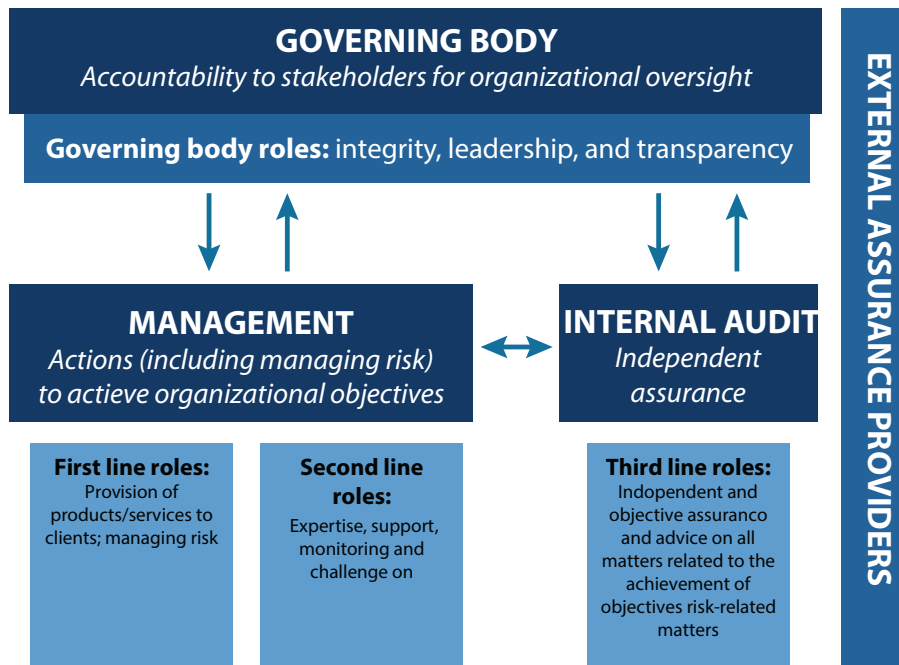
The Law on Enterprises is one of most effective legal tools to provide for internal anti-corruption measures in businesses. The Law on Enterprises (2014) encourages businesses to develop internal control mechanisms to manage their activities. The Law on anti-corruption (2018) provides for *"Businesses and other economic organisations should issue and apply codes of conduct and internal control mechanism to prevent conflict of interest, deterring corrupt acts, and developing a transparent and non-corrupt business culture."*

This confirms that development of a strong internal control system for effective risk management and prevention of corruption is an issue of great interest. Internal controls are developed and applied for prevention, detection, and dealing with potential fraud or errors to ensure strict compliance with provisions of the laws, reliability of published financial information, efficiency and effectiveness of business activities with a focus on encouraging shareholders or people with interests in public companies and credit institutions to detect corruption and apply necessary procedures to protect their own rights and interests.

4. Internal controls and three lines model

This model is designed to better identify and structure interactions and responsibilities of management, internal audit, and those charged with governance to achieve more effective alignment, collaboration, accountability, and objectives.

Roles are clearly defined in the model for various leaders within an organization, including oversight by the board or governing body; management and operational leaders including risk and compliance (first- and second-line roles); and independent assurance through internal audit (third-line role).



Source: <https://na.theiia.org/>

The first line includes internal control measures applied to production - business activities at different departments. This line of defence includes "Control of the Management Board" and "Internal Control Measures". Each department has professional operations (production, analysis, designing) and control activities (timesheet recording, quality checks, approvals, etc., as control activities to ensure compliance). This line is managed and directed by the Board of Managers who are responsible for realising objectives set by the Board of Directors through control measures.

The second line consists of control and supervisory functions established by the board of management to ensure compliance and efficiency of procedures including financial control, security assurance, risk management, quality control, inspection, compliance, etc. Decisions on financial targets, security and quality are based on the scale, conditions, complexity of business activities and risk appetite of each department. This line is also under operational function (board of management).

The third line is internal audit. This line ensures efficiency of corporate governance, risk management and internal control, including independent review of the first two lines on risk management and internal control. This is the last line to report directly to the BOD on any arising issue before detection of such issue by independent agencies (independent audit, state management authorities).

Thus, in terms of lines model, internal controls exists in all three lines model to ensure that all business activities follow the set targets. However, in practice,

as strict control often constrains robust growth, it is important for businesses to harmonise between fast growth targets and internal control targets to minimise risks and ensure business development.

5. Components of internal control

5.1. Control environment

The control environment includes both internal and external factors relating to integrity, ethical values of managers, management philosophy and style; organisational structure; division of labour; human resource management policy; planning; involvement of the BOM and other factors as follows:

*** Integrity, ethical values, management philosophy and style of managers:**

Integrity and ethical values are bases for taking all actions and decisions as well as for the development and application of internal controls. Effectiveness of an internal control framework cannot exceed the ethical values and integrity of the people who develop, manage and monitor it.

Businesses might develop codes of conduct to provide for standards of conduct, working style, responsibility of staffs, promoting good values, creating specific characteristics and branding value. These should be documented as standards, ethical norms, conducts in doing business, working relationships between employees, and dealing with violations. These standards should be disseminated to staffs in various forms such as written confirmation of compliance with business regulations signed by employees; contests on business culture, art performance, plays; communication by word of mouth, banners, music shows, etc. Managers should set good examples for staffs in communication and in doing business, timely rewarding staffs effectively complying with ethical standards, applying strict disciplines against frauds, lack of responsibility, dishonesty that adversely affect business benefits.

The maintenance and promotion of integrity and ethical values of the people involved in the internal control framework are the responsibility of senior managers through:

- Development and issuance of written documents on internal ethical standards in the form of a code of conduct.
- Dissemination of these documents to all members of the business (Information on ethics and values of the company shall be included in on boarding programmes for all new staff and associates of the business)
- Senior managers should set a good example - in general on compliance with regulations and good conduct; and
- Minimising pressure or the conditions that may result in dishonest acts by staff.

*** Organisational structure and determination of power and responsibilities**

Organisational structure reflects both independent and dependent working relations, specifying tasks implemented by individuals and departments, linkages with other individuals and departments in order to ensure smooth cooperation to achieve overall objectives.

Organisational structure helps staff work together effectively through:

- *Assigning human resources and allocation of other resources for activities;*
- *Specifying tasks and power of each staff, promoting cooperation among staff through job descriptions, organisational charts, and regulations on division of labour;*
- *Allowing staff to understand what managers are expecting from them through rules, working procedures and job criteria; and*
- *Development of procedures for collecting and assessing information to inform managers in decision-making.*

Internal procedures and regulations on determination of power and responsibilities are developed to facilitate business activities, as well as to control, prevent, and mitigate risks including:

- Financial regulation, internal expenditure regulation;

- Centralised authorisation system for investment and procurement, etc.;
- Regulation on management and use of fixed assets;
- Regulation on management and use of funds;
- Regulation on management of receivable debts (specifying collective and individual responsibilities in management, monitoring, and collecting debts);
- Regulation on management of payable debts (specifying collective and individual responsibilities in monitoring, cross-checking, confirming and paying debts);
- Procedures of financial monitoring and assessment of business performance, including: budget planning and estimation, accounting, preparation of financial statements, financial risk management, production and business planning, financial monitoring and assessment of business performance;
- Regulation on assignment of tasks and responsibilities of departments, cooperation among departments, especially between supervisory departments and internal control divisions, and the organisation of internal financial monitoring in business;
- Issuance of templates for financial monitoring;
- Establishment of targets for financial monitoring, assessing efficiency of capital investment in line with specific situations of businesses;
- Issuance of regulations on operation, management and use of capital and assets; and
- Setting targets for monitoring production and business performance, efficiency of capital investment of projects, etc.

**** Human resources policies and capacity building***

Human resources policies include all human resource management methods and policies, regimes, procedures and regulations on employment, assignment, training, assessment, rewarding, disciplining, dismissal and promotion of staff. Human resource policies have significant effects on the survival and growth of businesses and effectiveness of internal control activities. A good human resources policies also needs to ensure gender balance leadership, to create diversity and also ensure fair opportunities of growth and contribution to the workplace for people of all genders.

In the human resource management strategy, businesses should:

- *set payroll targets based on development strategy and annual production and business plans;*
- *develop job descriptions and job criteria based on job requirements, assessing current human resources based on qualitative criteria of work quality and work volume in order to issue appropriate policies: new employment, rearrangement of works, training/re-training, dismissal of staff, etc.*
- *develop criteria for work performance assessment with a focus on using qualitative criteria and minimising the use of quantitative criteria. It is possible to develop staff appraisal systems based on KPIs. Assessment of work performance based on KPIs is documented regularly/quarterly/annually.*
- *develop regulations on human resource policies, using results of performance assessment to align with policies on training, promotion, rewards, and discipline.*
- *develop policies to attract leading scientists and technicians.*
- *develop a plan on the classification of human resources prioritising capacity building, providing additional training for weak sections, improving governance and the control capacity of leaders in businesses.*
- *reform of training methods by using online advanced technologies such as e-learning, virtual classrooms, simulator equipment and software*

* **Planning**

Planning includes strategic and tactical planning of all business activities, such as technology development, production, sales, human resource management, finance, etc., based on business strategy. Planning is a process of identifying and selecting objectives, defining implementation steps to achieve the objectives by managers. Planning not only provides guidance for business activities but also acts as a tool to monitor implementation of these activities. Therefore, businesses should:

- issue procedures and regulations on planning, setting targets and assessing completion of plans in order to standardise planning processes, ensuring plans reflecting business capacity as much as possible and practical context but still creating momentum for development.
- issue specific regulations on different types of plan such as annual plans, 5-year and 10-year long-term plans, production and business plans, financial plans, investment and procurement plans, human resource management and training plans, initial plans, detailed plans, etc., in line with specific conditions and business management criteria. Planning processes must include details of orders and timing.

Planning process often includes:

- *methods and orders of planning;*
- *duration of planning and implementing targets;*
- *planning targets; and*
- *assessment of the implementation of plans.*

* **Involvement of management control**

Management control consists of internal controls and internal audit, acting as a monitoring and management tool of business owners. Therefore, it is important to improve the efficiency of the internal control system and of internal audit to ensure effectiveness of internal controls.

In order to ensure effectiveness of management control, a basic framework for improvement of capacity, qualification and knowledge of controllers should be developed. While doing their jobs, controllers must ensure best interests for business owners, cooperating and giving advice to the Management Board. In addition, controllers should closely work with inspection and internal control teams to collect information in a timely manner and to carry out inspection

activities. Contents and timing of reporting by the Supervisory Board should be standardised or an internal audit team under the Supervisory Board of the General Meeting of Shareholders (General Meeting of Shareholders or owners) should be established as a superior level of the Board of Directors or the Board of Members and the Board of Management. Under this model, through the internal audit team and the Supervisory Board/controllers, the General Meeting of Shareholders monitor and manage all business activities including monitoring of the Board of Directors/Board of Members, the Board of Management and other management levels, giving directions on changes to improve business performance, prevention of risks and dealing with violations. Moreover, in order to improve quality and ensure efficiency of the control environment, it is important that businesses develop and issue regulations on settlement of violations and lack of awareness and responsibilities of staff in fulfilling assigned tasks such as regulations on types of fines and disciplines against staff.

*** External factors**

The control environment of businesses also includes external factors. While these factors are beyond the control of the business management board, they can have substantial impact on the management style of managers as well as on designing and applying internal control procedures. The factors include, but are not limited to, the general economic situation, the influence of relevant state agencies, the legal environment, the influence of creditors and concerning legal responsibilities, national development strategy, etc. Businesses should actively assess the impact of these external factors on internal controls through regular risk assessments.

In summary, in order to design and apply an effective internal control framework, business managers must understand importance of the control environment factors as the basis for the development of other components of the internal control system.

5.2. Risk assessment

Regardless of their scale, structure, type or geographical location, all businesses have to face different types of risks. In order to minimise damages caused by these risks, managers should follow risk assessment process as follows:

- set business targets;
- identify current and potential risks that might affect achievement of business targets;
- analyse risk impacts and occurrence frequency; and
- apply measures to manage and mitigate negative impacts.

Step 1. Risk identification

Risk identification is a process of identifying risks in business activities in a regular and systematic manner in order to create a full list of risks and facts that might affect business targets and strategies.

In order to identify risks, managers often use tools as follows:

- risk assessment questionnaire: questions are arranged according to sources or impact environment (micro, macro, internal, external), etc., focusing on issues such as risks faced by businesses, loss, frequency in a certain period of time, prevention measures and their effectiveness;
- risk portfolio: common risks are listed. However, as the portfolio could not cover all risks that business might encounter, it should be combined with other tools;
- insured risk portfolio: this portfolio can be obtained from insurance companies to identify which risks can be transferred or shared by insurance contracts; and
- expert systems: using risk identification processes developed for certain areas, combining the three tools above.

Risks are identified and/or detected to collect information on subjects at risk (human beings, assets, legal responsibilities of businesses), sources of risks, dangerous factors, threats, losses and potential risks to business. Professional departments (sales, accounting, production, etc.) must be involved in identifying risks. Normally, risk identification is conducted periodically and when a factor arises (internal and external factors).

Risk dictionary									
Operational risks				Strategic risks			External risks		
Risks related to business	Risks related to human resources	Risks related to information technology	Financial risks	Risks related to compliance	Risks related to governance	Strategic information and decision-making	Risks related to political and economic environment	Natural risks	Risks related to markets
Product quality/ compliance/ security	Social and psychosocial risks	Data protection	Accounting	Law and regulations	Relationships with managers/ shareholders/ investors	Strategy definition/ monitoring	Country risk	Climate risks and natural disasters	Financial markets
Safety of people	Replacement	IT sustainability	Financing/Treasury	Litigation management	Relationships with third parties	Budget and planning	Political and economic situation	Pandemic	Consumer behaviour
Business disruption/ interruption	Skills		Financial communication	Taxation	Ethics		Competitors		
Asset management	Performance and compensation		Insurances		Fraud				
			Pension obligations						

Step 2. Risk analysis

Point	Impact level	Finance	Reputation	Market share	Business interruption	Law	Human beings
5	Very serious	Reduce 30% of profit after tax in the previous year	Long-term negative impact on international media	Reduce more than 30% market share	Business suspension for more than 30 consecutive days	Legal violation leads to dissolution, bankruptcy	Serious impact on life and health of staff
4	Serious	Reduce from 25%-under 30% of profit after tax in the previous year	Long-term negative impact on national media	Reduce from 20% - under 30% market share	Business suspension from 15 to under 30 consecutive days	Substantial fines or special supervision	Large-scale impact on health of staff
3	Medium	Reduce from 15%-under 25% of profit after tax in the previous year	Short-term negative impact on national media	Reduce from 15% - under 20% market share	Business suspension from 07 - to under 15 consecutive days	Warning by competent authorities	Minor injury at work
2	Low	Reduce from 5% - under 15% of profit after tax in the previous year	Affect reputation at local level	Reduce from 5% - under 15% market share	Business suspension from 03-07 consecutive days	Minor fines	Bad mood at work, no impact on health
1	Incon-siderable	Reduce under 5% of profit after tax in the previous year	Negative impact in very short period of time at local level	Reduce to under 5% market share	Business suspension for under 03 consecutive days	No violation	Incon-siderable impact

5-Level risk assessment scale

Point	Probability	Occurrence
5	Very serious	Once per month
4	Serious	At least once per quarter
3	Medium	At least once every 6 months
2	Low	At least once per year
1	Inconsiderable	At least once every 2 years

Risk analysis is a process to identify the level of impact and the likelihood of risks. As there are many types of risk, it is important to analyse risks to understand which risks have high and low frequency of occurrence, which risks cause less or more serious consequences, etc., in order to apply appropriate measures for risk mitigation. Risk analysis and assessment aim to measure the severity of risks to prioritise mitigation options.

The maximum loss level and the probability of occurrence are two criteria used by managers to assess the severity or scale of loss. Based on the impact assessment scale, risks are assessed quantitatively (financial aspects) or qualitatively (non-financial aspects). Businesses need to develop and agree on their risk impact assessments and probability scales. The scale describes the risk impact level from financial aspects (revenue, profit, cost, etc.) or non-financial aspects (reputation, branding, law, human resource, etc.). While analysing risks, one should notice that a risk might have different consequences and affect many business targets. Therefore, it is important to consider all aspects affected by such risk.

Step 3. Risk assessment

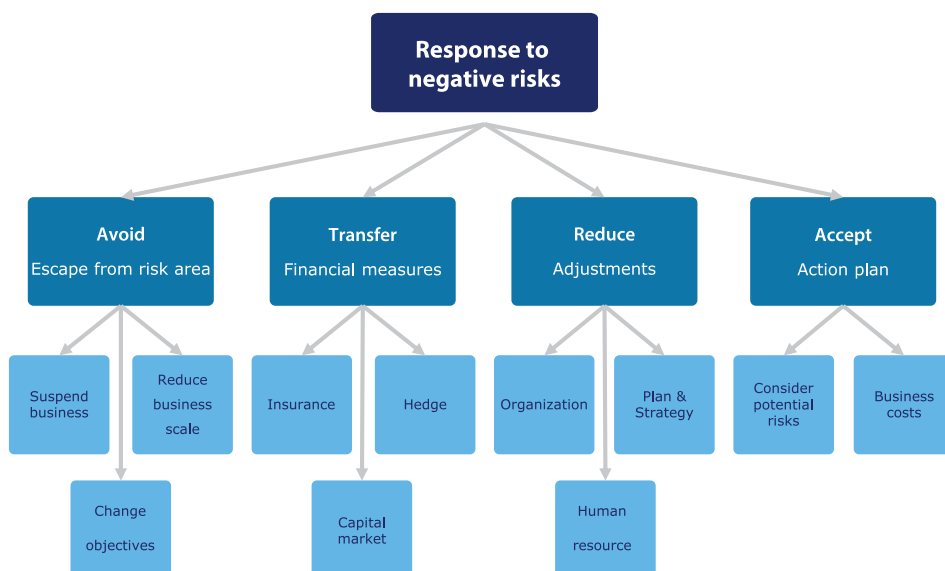
Impact	Devastating	5	10	15	20	25
	Serious	4	8	12	16	20
	Significant	3	6	9	12	15
	Medium	2	4	6	8	10
	Low	1	2	3	4	5
		Special	Rare	Seldom	Annual	Regular
		Low risk: 1-4				
		Medium risk: 5-12				
		High risk: 15-25				
		Frequency				

A risk rating informs decision-making on which risks need to be mitigated and prioritised using mitigation measures based on the results of risk assessment. Businesses use criteria of risk rating to compare risks analysed in the previous step. A risk heat map is one of the measures to assess and compare risks based on impact level and probability. Risk heat maps are developed by businesses in line with their risk appetite.

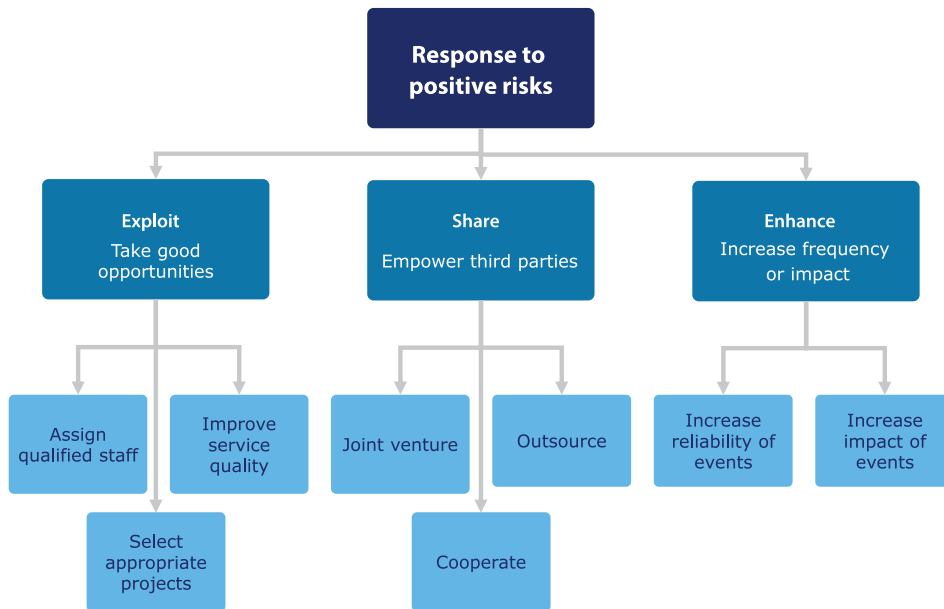
Step 4. Risk mitigation

Risk mitigation aims to select risk mitigation options in order to maximise business activities and ensure that risks fall within an acceptable range. Risk mitigation identifies options, assessing, preparing and implementing risk mitigation plans. Risk mitigation measures include: prevention (deinvestment, ceassation of specific activities, project appraisal, prohibition, removal and prevention as soon as the processs is designed); acceptance (maintaining current risk level, self-insuring the risks through contingency funds, adjusting prices to include insurance fees, compensating risks of concerned parties); mitigation (allocation of assets by geographical location and business lines, controlling risks through procedures, checking and testing products, re-designing business models, narrowing down activities causing risks, improving governance capacity, etc.); and transfer (insurance, re-insurance, outsourcing, participation in joint ventrure to invest in new markets and new products, etc.)

Risk mitigation measures



Risk mitigation measures



5.3. Control activities

Control activities include policies and procedures to assist managers to prevent, avoid or mitigate errors, losses, and unexpected impacts of risks in order to achieve targets. Therefore, it is important to develop and apply appropriate control procedures in line with specific conditions of businesses for each level and each business line.

*** Control procedures**

Main control procedures include:

- control of the division of labour: meaning an individual or department is not allowed to perform an entire professional process.
- control of the information processing and professional operations: strict control of receipts and accounts, appropriate approval of professional processes or activities, and control of information processing in the whole system or in each specific application.
- physical control: compare and collate between accounting books and actual assets, including invoices numbered but not yet published, limit access to information technology programmes and data records.
- independent control of implementation: controllers are independent from implementers in order to detect violations subject to independent control and inspection.

Money control:

- *develop procedures and processes to manage cash flows, specifying methods of cash flow management, analysis indicators, key issues in management of cash flows, timing and frequency of reporting (weekly/monthly/quarterly/annually), responsibilities of relevant individuals and departments in management of cash flows, and sanctions against violations.*
- *develop regulations on management and use of capital, principles to identify time of depositing, minimum duration in between two consecutive money deposit activities (possibly from two days to one week), and the deposit value in each term to ensure optimum efficiency for businesses in using idle money.*

Debt control

- *set credit limits for customers: classify and rate customers based on financial and non-financial information to decide which customers might enjoy debt or not, debt limits for each customer, time limit for payment after issuance of invoice.*
- *design a subsystem on debt management in accounting software with warning functions relating to debt risks*
- *develop strict procedures for debt settlement and collection.*
- *internal audit /internal control team need to review and assess debt portfolio, customer classification and rating, setting limits, management of debts of relevant departments, analysing financial indicators of debts to issue warnings of potential risks as well as to propose appropriate measures to deal with bad debts or debts of high risks.*

- analysis, check or review of implementation: completed works are reviewed by comparing actual costs with estimates, costs of previous period, relevant data, linkage with overall plans in order to assess implementation, detecting extraordinary changes, finding out reasons, etc....

*** Control principles**

- principle for the division of labour: this principle requires specific and clear division of labour for each department and each individual, creating specialisation in business. Errors, if any, are cross-checked and resolved in a timely manner while responsibilities of each department/individual are identified.
- principle of not holding several positions at the same time: this principle requires appropriate separation of responsibilities in professional operations, allowing cross-checking in fulfilling tasks, avoiding the situation where the person who makes mistakes and violates regulations might hide such mistakes or the situation where mistakes are under responsibilities of nobody (without control). Separation of functions depends on the scale of businesses. However, it is important to separate the approval function and the implementation function, the implementation and the control function, and the recording function and asset maintenance function.
- principle of authorisation and approval: authorisation means assignment of tasks by higher authorities to subordinates within a certain scope. The higher authorities are still responsible for the tasks and must maintain a certain control. Authorisation continues to expand to lower levels, resulting in a system of division of responsibilities and power but still focussed in the whole businesses. In addition, to comply with control processes, all activities must be approved properly, approval reflects in general approval (implemented through development of general policies on specific activities for subordinates), specific approval (according to private professional operations).

Businesses may develop a matrix of risk control and assessment procedures by choosing types of risk and control procedures as follows:

Control purpose	Goods purchased at right categories and specifications	Goods purchased in optimal quantity		Good quality	Reasonable/optimal price		Actual purchase
Control risk Risk procedure	Goods purchased at wrong categories and specifications	Insufficient quantity	Excessive quantity	Bad quality	Unreasonable price	Without discount	Purchase without pay
Independent goods purchase department	X	X	X	X	X	X	X
Authorisation and approval	X	X	X	X	X	X	X
Goods purchase request	X	X	X				X
Goods purchase order	X	X	X	X	X	X	
Quotation/bidding document				X			
EOQ/ROP/JIT/LEAN		X	X				
Supplier selection				X	X	X	
Operation indicator	X	X	X	X	X	X	X

In order to ensure effectiveness of internal control process, it is important that the internal audit should:

- *fully and properly apply the principle for division of labour, not holding several positions at the same time, authorisation and approval in designing and performing control activities. To facilitate the control, businesses should develop Charter, Financial Regulation and other internal processes, regulations, procedures in compliance with laws and specific business conditions, focusing on designing control criteria in all professional operations; developing technical and social norms as bases for cost control; developing regulations on jobs not being held at the same time with other jobs; revising and amending the regulations on division of labour in all business lines, assigning specific tasks for employees to fully understand their tasks and power as well as for*

tracing responsibilities for violations.

- the internal control department should control all business activities, ranging from finance, accounting, planning, investment, procurement to human resource management, salary, efficiency of the board of management, and the assessment of effectiveness of internal control activities.*
- develop a manual on control procedures for each business line to ensure that control procedures are fully followed by any employee using appropriate methods and technologies, following guidance developed by experienced controllers. Control procedures should focus on internal control of key financial areas.*

5.4. Information and communication

An effective information and communication system must meet requirements as follows:

- make all employees understand their roles in the organisation and how to cooperate with other people in the business.*
- maintain good relations among employees, between employees and managers to create a reliable working environment.*
- information from external stakeholders (customers, suppliers, banks, etc.) are received and recorded fully and honestly.*
- information to external stakeholders (the Government, shareholders, etc.) are communicated in a timely fashion and are reliable and in compliance with the laws.*

The information system receives information, processing, recording, complying, and preparing reports on business activities and information from external stakeholders. Communication supports exchange of information between internal and external stakeholders and among internal stakeholders, conveying messages, transferring results within a unit, circulating information from lower to higher level and vice versa, and from one department to another in a consistent manner.

The information system of a business include: market information, statistical information, professional and technical information, accounting, financial and non-financial information, etc. Among these, accounting and financial information play a key role in asset management and decision-making. Therefore, it is possible to divide the information system into two basic categories: the general information system and the accounting information system.

General information system

For the general information system, in order to improve efficiency of internal control, businesses should apply information technology in management and connecting information to ensure information is transmitted continuously, accurately, and effectively as follows:

- development of an online filing system which is directly connected to all departments, allowing incoming and outgoing documents to be delivered promptly, saving time and costs of printing and mail delivery, contributing to more effective and timely work performance.
- application of information technology in management: in addition to accounting software, there is other software with high applicability to the support of managers in business administration, such as human resource management software, business planning and monitoring software, sales management software, etc. Businesses may use Business Resource Planning (ERP) software, an internationally recognised governance method which integrates all functions of financial and non-financial software. Financial statements and governance reports are directly transmitted to online servers, ensuring timely and accurate updating of information, meeting corporate governance requirements.

Accounting information system

The information system of a business includes: market information, statistical information, professional and technical information, accounting, financial and non-financial information, etc. Among these, financial and accounting information play a key role in asset management and decision-making. Therefore, in addition to application of technologies in accounting, it is important for businesses to develop a logical and integrated accounting

information system in order to improve efficiency of internal control. The accounting information system includes: an accounting record system, accounting book system, accounts and financial statements.

An effective accounting system must have detailed control objectives: reality (fictional transactions must not be recorded in accounting books); approval (ensuring all operations are properly approved); sufficiency (ensuring all arising operations are sufficiently recorded); assessment (ensuring that there is no violation in computation and assessment); classification (ensuring that information is recorded accurately into proper accounts and books in accordance with accounting regime); accrual accounting (transactions arising in the time period are recorded on accrual basis); and accurate data transmission and compilation (data in accounting books are accrued, closing balance is produced, accrued balance is accurately transferred and compiled into financial statements).

5.5. Monitoring

Monitoring is the process of assessment of quality of the internal control system by managers. Monitoring helps businesses to investigate whether the internal control system is properly operating as designed, or whether it is necessary to revise the system to meet requirements of each development period. Monitoring plays a key role in internal controls as it maintains efficiency of internal controls in different periods.

To ensure efficiency, managers should implement regular and periodical monitoring activities. These two types of monitoring activities should be implemented at the same time to prevent and detect errors and fraud in a timely fashion.

Regular monitoring activities: implemented in daily operations by managers and staff when performing their tasks within their power through receiving feedback from customers and suppliers, or detecting extraordinary changes when reviewing daily reports. Employees monitor each other.

Periodic monitoring activities: implemented through periodic audit by internal or independent auditors. If businesses are not able to conduct an audit, they can assign independent supervisors to monitor activities conducted by other staff. However, this independent supervision is not as effective as internal independent audit to conduct regular assessment and monitoring.

In addition to the professional monitoring team, it is important to develop monitoring and cross checking requirements in each department and for each operation to complement the control monitoring.

Together with monitoring activities, in order to ensure effective control, it is also important to issue internal regulations on the settlement of violations. Sanctions against each violation should be specified as basis for enforcement. These regulations should be strictly implemented but should also be flexible enough to adapt with practical situations. Monitoring should be used as a tool for the overall benefits but not for detecting faults, applying sanctions or for benefits of certain groups. Results of monitoring activities must be publicly communicated in each department/division/unit or the whole business for everyone to be aware of and adjust their operations. Such results can serve as reference for other departments/divisions/units to review their working procedures.

6. Steps to set up a good internal control system

The process of developing internal control procedures requires a change of mind-set of leaders, a change in habit of staff and employees and a few company practices. Therefore, information sharing and communication to each employee, in order to help every employee to be clearly aware of the usefulness of internal control procedures in the unit, fully aware of its position, role and duties are one of the prerequisites for the success of development and implementation of internal control procedures in the business.

The development of internal control procedures in the unit should be carried out in two stages with the following specific steps:

**Preparation
phase
on initial
conditions**

- Establish a steering committee comprising the company's top management and key employees who will develop internal control procedures.
- Plan to implement an internal control process development program
- Provide training of leaders and key personnel involved in internal control
- Hire consultants for internal control design (if necessary)
- Assess status of internal control at the unit
- Implement steps to re-establish or perfect an internal control process (this process is a regular process, there is always a re-evaluation, risk update and update and adjustment of internal control activities)

**Development
phase -
establishing
internal
control
procedures**

- Define business philosophy, vision of the business.
- Identify the mission, core values that the business aims to
- Identify corporate goals in the short and long term
- Identify risks that the business may face
- Identify the general control mechanism of the business
- Identify the organisational structure of the entire enterprise
- Identify the functions, tasks and goals of each department and each employee in the business
- Identify risks for each component
- Identify control mechanisms for each department and for each employee
- Regulate and document the control mechanisms in all units' regulations and in each specific job description
- Identify all business processes of the enterprise
- Identify the functions of each process
- Identify risks of each process
- Identify risk control mechanism for each process
- Regulate control mechanisms of each process in the operational regulations
- Set up communication channels (internal / external)
- Select a communication method
- Make regular and periodic internal audit evaluation plans
- Set the minimum benchmark
- Report poor control activities
- Monitoring and supervising the remedy process

7. Participation of stakeholders in the establishment and operation of an internal control system

In order to effectively design and operate an internal control system in business, all individuals and departments need to be aware of their position and role, because an internal control framework are not only the process manuals that staff at all levels of the organisation must follow. It is a well-designed process, a means to an end, but does not stop there by itself, because it should be assured that internal controls go in line with with the need to achieve the goals of the business. There are many resources to support employees to manage internal control systems and processes, in which the main resources include: Board of Directors, Board of Management and Internal Audit Department, etc.

Board of directors

The Board of Directors (BOD) is responsible for ensuring a robust internal control system, devising appropriate policies to maintain internal controls, regularly ensuring that internal controls work effectively and adequately in terms of risk management.

Board of management

The Board of Management is mostly responsible for leading all business activities, and the most important factor affecting the sufficiency, integrity, ethics and other attributes of the control environment of the business. The board of management is responsible for deploying and implementing the policies by the BOD; identifying and assessing key risks; designing, operating and tracking internal control activities. CEOs of large businesses perform internal controls by providing leadership and direction to senior managers, and considering how they control their business units. In smaller businesses, the influence of the CEO (usually the owner manager) is more direct on the internal control activities of the entity.

Audit committee

Audit committee member responsibilities are separate and separate from the responsibilities of ordinary board members. The audit committee is usually responsible for overseeing internal control processes in the business, and reporting findings to the BOD. Audit committee activities should be focused on (1) understanding the risks and (2) verifying that managers, auditors and relevant departments have focused appropriately on the risks.

Internal audit

Internal audit department (if present in the business) is mainly responsible for supporting the BOD in supervising and operating tasks through audits and comments by independent consultants to evaluate and promote the effectiveness of internal control activities. Therefore, the task of internal audit focuses on evaluating the effectiveness of the internal control process. Due to the organisational position and authority of the internal audit, the internal audit function often plays a significant role in monitoring control activities.

Staff of the business

Officials and employees in the business: Almost all officials and employees in the business have the responsibility to conduct internal control activities in their own positions, especially in awareness and reporting on non-compliant

activities, laws, behaviors, rules of non-compliance and other illegal activities.

Independent audit

Independent audit through the audit process will have an independent and objective view, supporting direct control through the audit of financial statements and indirectly by providing useful information to managers and the board in carrying out their responsibilities. In addition, according to the requirements of the audit standards, the auditor must contact the audit committee to verify information as necessary or weaknesses in the internal control system.

Other stakeholders

Lawmakers and regulators, customers and others who do business with enterprise, financial analysts, bond approvers and media, etc. can all provide useful information for businesses in terms of internal control. However, these external entities are not responsible for the operation of internal control systems, nor are they part of the internal control system.

As such, internal control is an indispensable part in management of businesses. The board of management should be well advised to mobilize all resources to review the current status of internal control processes from time to time. The results of these tests will help identify continuous improvement measures in the short and long term. However, it is necessary to clearly identify an effective internal control system that only provides reasonable assurance, not absolute guarantee of asset preservation, maintaining the reliability of financial information and compliance with laws and regulations. Reasonable assurance is the concept that confirms that it is necessary to develop and implement internal control activities to give the board of management the balance between the risks of a certain business activity and the degree of control necessary to meet the business objectives. However, the cost of a control measure should not be higher than the benefits gained from that measure.

8. Case study

GENIUS Corporation, a major Japanese manufacturer of optical images, laboratories and medical devices, is listed on the Tokyo Stock Exchange. GENIUS's assets are worth ¥1 trillion (13.3 billion USD) as of March 31, 2011, with nearly 40,000 employees worldwide. Under the leadership of Takashi Hirose, who became president in 2001, the company's revenue increased from ¥467 billion to ¥847 billion while profit was relatively stable at ¥35 billion. In the 1980s,

GENIUS invested in derivative financial instruments and other risky investments to increase profits. In 1991, GENIUS suffered a loss of ¥2.1 billion for the value of its investment after the end of the investment. In June 1998, GENIUS suffered from market rumors that it had made a large loss of trading in derivatives, causing its stock to plummet by 11%. The rumors were denied by GENIUS, which then announced a record profit.

Michael Brook, of British descent, was the first non-Japanese president of GENIUS, had worked at Genius for nearly 30 years and was the former CEO of GENIUS's European medical device business. In 2008, Brook noticed that the 'weirdness at the company', such as the acquisition of Gyrus, which should have been done by him, but was instead handled by the office in Tokyo. Brook said he had asked Hisashi Mori, the Deputy Chief Executive, and several other employees of Genius's compliance department and they had said that Hirosawa had ordered the staff not to speak to Brook, saying that Brook is 'too busy' dealing with other issues. Brook began writing a series of six letters to Mori and Hirosawa about his issues regarding the company's M&A activities.' Brook copied the letter and sent it to internal auditors, announcing his resignation if he did not receive a satisfactory response to the 2008 acquisition of Gyrus and a loss of about \$600 million in that year relating to other acquisitions.

On April 1, 2011, Brook was promoted to president and CEO, replacing Mr. Ahmedawa and becoming the first non-Japanese president of GENIUS. Six months after Brook was appointed CEO and President, on October 1, 2011, GENIUS appointed him as CEO, saying that since being appointed chairman/CEO, "The Board was extremely pleased with the progress under Mr. Brook's leadership in this role." Yet Brook also said that Hirosawa reminded him privately when appointing the chairman: "I am the person who has the authority to hire and fire, and decide the remuneration for the board and management members."

Brook persistently questioned suspicious transactions, and because he thought that doing an internal investigation would not receive all the necessary answers, he also discussed the matter with the external auditors, that had made acquisitions in Japan, Europe and the United States. However, Hirosawa convened an emergency board meeting on October 14, 2011, and asked the board to consider removing Brook from the position of executive director. Brook was not allowed to speak or vote; Hirosawa circulated an email to every employee on the same day, saying that the departure was due to differences in management style, and Brook had "bypassed decision-making processes and created more gaps between managers in the organisation, which is much different from what the company expects."

After Brook was removed, Hirosawa was reappointed as president and CEO of GENIUS. In a conference call with investors on October 17, GENIUS Executive

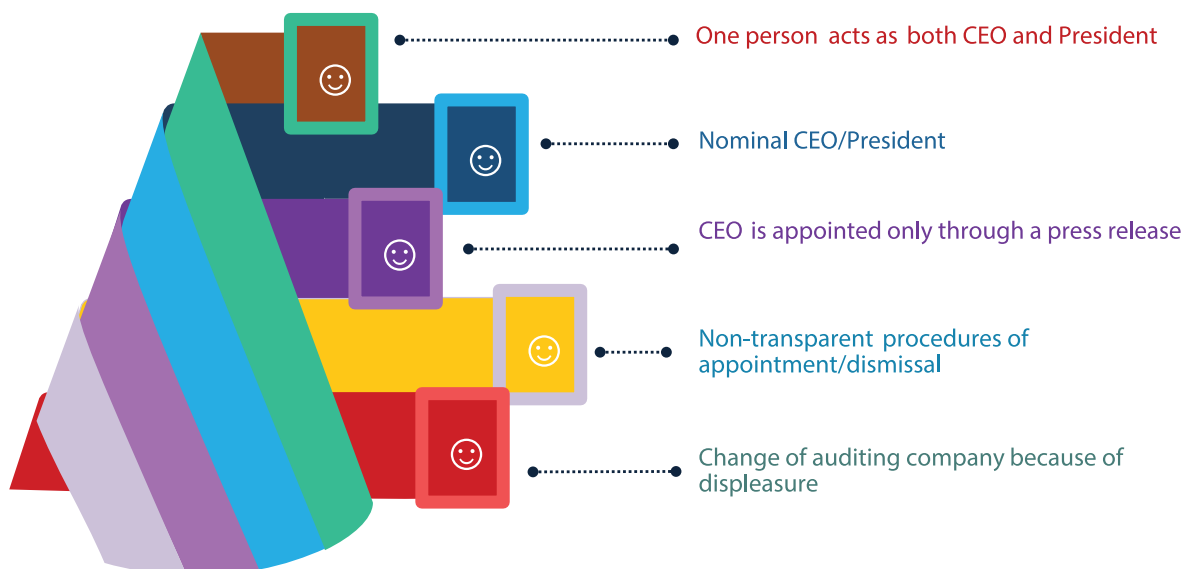
Vice President Hisashi Mori said the company could sue Brook for disclosing insider information to the media. During a press conference in Tokyo on October 27, President Genius blamed Brook for reducing the company's share price, saying "If this confidential information were not leaked, there would be no change about our business value." On November 6, GENIUS announced that Hisashi Mori had been dismissed and the chief internal auditor - Hideo Yamada - resigned.

During a press conference, GENIUS announced that they were "completely oblivious" to the plan until Mori announced it earlier in the week, and suggested that Mori and Yamada were not responsible for the initial investments, but had concealed the losses of the company. According to GENIUS, eight executives have been on a 30 to 50% pay cut since December having been held responsible for the accounting scandal. While GENIUS's accounts had been audited by leading auditing companies, they had not reported any major issues. However, the auditing company in 2010 and 2011 had raised a number of questions with GENIUS and released an audit opinion that did not fully accept the financial statements of 2010 and 2011. Immediately, GENIUS replaced this audit firm with another one and expressed disagreement with the accounting firm's handling of the acquisition of Gyrus.

Please evaluate the internal control system at the GENIUS Group.

Suggestions:

Shortcomings of GENIUS's Internal Control system include:



9. Evaluation criteria of internal control systems

Control environment

CONTROL ENVIRONMENT	Complete	Not complete	Not available
1. Business has ethical values (regulation, labour rules, code of conduct, etc.) – dissemination to departments (staff training, regular catch-ups, etc.).			
2. Business has policies and procedures to monitor compliance with integrity and ethical values.			
3. Business has policies and procedures to deal with violations of integrity and ethical values.			
4. Business has details/descriptions on requirements of qualification, skills for each staff (for example, in Staff Regulation).			
5. Business pays attention to qualification and capacity of recruited staff.			
6. Business develops measures to deal with unqualified staff in a timely manner.			
7. Members of the BOD are independent from the board of management.			
8. The BOD includes experienced members with high reputations.			
9. The BOD often participates in important activities, setting good samples in compliance with regulations.			
10. Important issues and violations are reported to the BOD in a timely manner.			
11. Business has confidential information channels to report on violations of the company's code of conduct and ethical standards.			
12. The BOD meets regularly or periodically and meeting minutes are issued in a timely manner.			
13. The BOD supervises performance of the BOD.			
14. The BOD supervises working relations between the BOD and the internal audit and external audit teams.			
15. The board of management pays attention to development and application of effective internal controls.			
16. The board of management has clear views on preparing and presenting financial statements, processing information, and accounting work.			
17. Organisational structure reflects objectives, scale, business lines and geographical locations of the business.			
18. Business has policies and procedures on authorisation and approval of operations at appropriate levels.			
19. Business conducts appropriate monitoring and inspection of work authorised to staff.			
20. Staff understand clearly their tasks and other people relating to their works.			

21. People responsible for control and monitoring are given sufficient time to perform their work.			
22. The principle of not holding several positions at the same time is applied properly.			
23. Business has policies on recruitment, training, appraisal, promotion, and dismissal – policies are reviewed, updated, and disseminated to staff.			
24. Work performance of each staff is reviewed and appraised periodically.			

Risk assessment

RISK ASSESSMENT	Complete	Not complete	Not available
1. The board of management/BOD develops procedures to assess risks of financial statements (including: risk assessment, impact assessment, probability, action plans, etc.).			
2. The board of management sets operational and financial objectives in line with the scale and complexity of the business.			
3. Business objectives are regularly reviewed, updated, and approved by the BOD and the board of management.			
4. Assessment of risks of financial statements involve qualified staffs.			
5. Business takes into account risks relating to fraud in the financial statements as well as violations of law, conducting review of the financial statements, accounting entries, and other transactions to mitigate fraud risk.			
6. Assessment of auditors on risks of material errors caused by fraud relating to accounting entries/control of accounting entries and other adjustments/contents, schedule, scope of control of accounting entries and other adjustments.			
7. Description of business risks relating to financial statements identified by the board of management, impact assessment, probability, action plans of the board of management. (For example, change of business environment, laws, competition; new personnel with different interests in internal control issues; changes and updates to the IT system; fast growth and business expansion; new technologies; new business model; change of business administration; expansion of business abroad; change of accounting regulations and/or interpretations, etc.).			

Control activities

CONTROL ACTIVITIES	Complete	Not complete	Not available
1. Specific control of each operation, account balance, publication of information in order to prevent or detect and fix material errors.			
2. Appropriate procedures of approval of hardware and software installation including assignment of project task forces to monitor IT projects, pilot operation, assessment of gaps, checking and approval of users, and filing.			
3. Are all programme changes approved and records of those approvals kept in the files?			
4. IT staff receive proper guidance and training on key issues.			
5. Control measures relating to access to appropriate information systems (including measures to protect equipment, policies, procedures and technologies to access the information system).			
6. Control of access to data, updating data, data input into accounting books, and printing data.			
7. Data is checked before entering into accounting books (comparing with original invoices of operations with a clear sign of checking).			
8. Easement of entries must be saved and approved.			
9. Backup copies are regularly printed and saved in a safe locked cabinet.			
10. Backup copies are available immediately after a disaster or emergency.			
11. Backup plans for damage to hardware/software.			
12. Anti-virus software is installed and regularly updated.			

Information and communication

INFORMATION AND COMMUNICATION	Complete	Not complete	Not available
1. Clearly identify business transactions important to financial statements.			
2. Procedures are processed through the IT system, or manually, to create, record, process, adjust transactions, enter into accounting books and input into the financial statements.			
3. Relevant accounting documents, supporting information, specific items in the financial statements are used to create, record, process, and report on transactions, including revision of incorrect information and method of reflecting data into the ledger.			
4. Procedures of preparing and presenting financial statements, including estimates and important illustrations are clearly specified.			

5. Control of entries, including common book entries in order to record irregular transactions, extraordinary transactions or adjustments.			
6. Business has procedures to collect important information to achieve objectives of financial statements, preparing and presenting financial statements.			
7. Appropriate IT system, IT staff, IT procedures, for example, data processing or ensuring safety of data, etc.			
8. Relevant staff such as financial officers, accountants, IT staff and professional staff are clearly informed of important issues relating to financial statements and internal controls.			
9. Financial information is timely and clearly disseminated to external stakeholders and competent authorities.			
10. The process of performing unusual problems in buying, selling ...			
11. The reporting mechanism for unusual findings occurring in purchasing, selling, inventory...			

Monitoring activities

MONITORING ACTIVITIES	Complete	Not complete	Not available
1. Business has policies to regularly review internal controls and assess effectiveness of the internal controls (describe the assessment – if any, focusing on source of information for monitoring and basis for the board of management to rely on this source of information for control purposes).			
2. Business has policies to regularly review control activities, master contracts, policies and procedures, etc., to assess their relevance (such review might be conducted by internal audit, or the board of management, independent members of the BOD, or even a third party).			
3. Business has policies and procedures to apply measures to fix errors in internal controls in a timely manner.			
4. The board of management regularly takes into account recommendations on internal control system made by external auditors (or internal controllers) and realises these recommendations.			

CHAPTER II

ESTABLISHING A CODE OF CONDUCT



1. Definition of a code of conduct

A Code of Conduct (CoC) is composed of principles and standards of conduct promulgated uniformly by businesses to ensure the realization of the company's core values, prevent violations of business and professional ethics, and promote fair and responsible entrepreneurship. Therefore, the CoC reflects the expectations, standards of conduct, and core values of the company.

In fact, all businesses must demonstrate acceptable values, standards in decision making, and the fundamentals for their conduct. Therefore, CoC always exists in the business, whether it is written or not. Most CoCs are "unwritten", while some businesses have a CoC in writing, which often stipulates the "allowed"/"not allowed" behaviors promulgated by the top leaders.

	Regulations	Code of ethics	Code of conduct
Purpose/function	Regulate internal operation	A tool for internal operation, promotion of branding and image, guideline for ethical issues	A tool for internal operation, promotion of branding and image, guideline for conduct
Scope of application	Internal (staffs and employees)	Internal, partners, customers, society	Internal, partners, customers, society
Content	Provide for specific behaviors, not focusing on values but provisions of labour laws	Provide for principles, values and approaches for decision making. Broad content	Provide for specific conduct standards, specifying framework for detecting and dealing with violations, applying sanctions. Specific content. Link to core values of the business.

A CoC in a business can be called by many different names, for example Code of Ethics, Code of Business, Code of Values, etc. Some companies also add a core value, for example CoC on Transparency, Transparent Activities, or CoC - The way we do business. In summary, they are official statements about the organisation's core values and conduct.

CoCs are voluntary commitments created by companies, associations, and unions to set standards, and codes of conduct related to business activities. Principles, core values, and standards shall guide organisations's decisions, processes, and systems that contribute to the satisfaction and prosperity of the parties.

There are many viewpoints about CoCs:

- *The code of conduct consists of "the principles, values, standards or codes of conduct that guide an organisation's decisions, processes and systems in a way that (1) contributes to the welfare of key shareholders / stakeholders, and (2) respects the rights of all trustees affected by the activities of that organisation." (International Federation of Accountants, 2007)*

Definition:

Code of conduct is "a set of principles and standards of conduct issued and applied by businesses in order to achieve core values; preventing violations of professional and business ethics; promoting a fair and responsible business spirit". - VCCI.

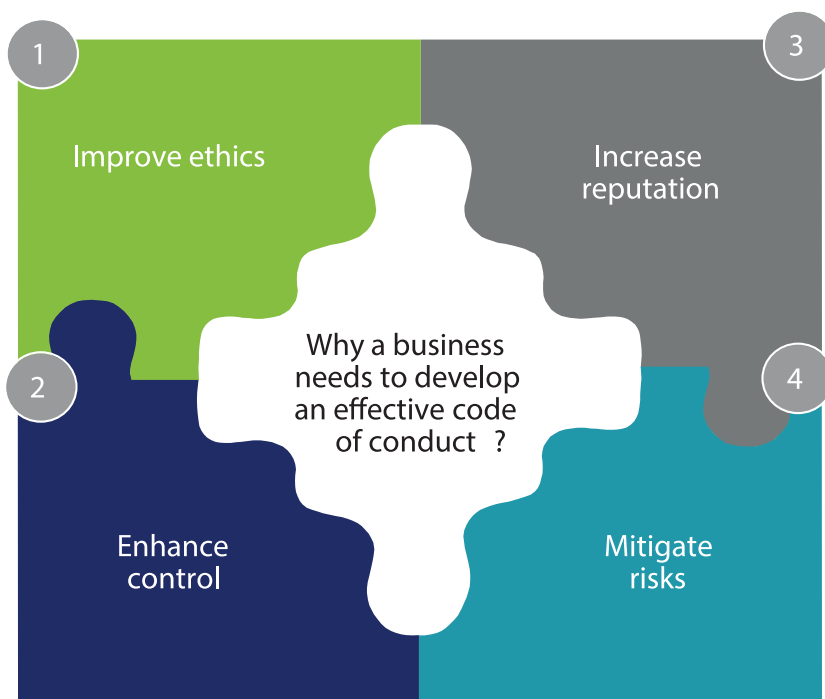
- *The Code of Conduct is a basic tool through which management gives guidance to employees and agents about what they expect of employees, and agents to conduct in the business (Handbook on Administration of Responsible businesses in emerging market economies - US Department of Commerce, 2004).*

Within the scope of this Handbook, the Code of Conduct is understood to be "the principles and standards of conduct promulgated uniformly used by businesses to ensure the realisation of the core values of the business; prevent mistakes in professional ethics and business ethics; and promote a fair and responsible entrepreneurial spirit."

It should be assured that a CoC needs to cover the following major contents, namely:

- convey the message and direction of leadership;
- clearly define the legal framework and professional ethics; and
- identify behaviors to be performed and prohibited for all employees.

Businesses should have a CoC, with a view to:



- serving as a basis for compliance checks as well as sanctions mechanisms, and as a basis for sanctioning of violations; and
- asserting that the business attaches great importance to ethics, business compliance and the working environment, helping to increase its reputation in the domestic and international market.

Minimizing legal risks, given that dealing with violations absorbs a great deal of time and resources, is a priority.

2. International and Vietnamese perspectives

Large multinational corporations may have either a Code of Ethics and a CoC or just one of them. In some cases, some companies have a Code of Ethics which is also considered as a CoC or vice versa.

For example, there is a 'Shell General Business Code'¹⁵ on the Shell Group website, which is the Code of Ethics and the 'Code of Conduct' in the 'Our

¹⁵. https://www.shell.com.vn/about-us/our-values/_jcr_content/par/textimage_dd16.stream/1519787681925/5003138fa511f112398bd8832f85523d89dd206c/codeofconduct-english-2015.pdf

Values' section, using the Code of Conduct to support the Code of Ethics. In order to provide more detailed guidance for Principle 3: Business Integrity in the 'Shell General Business Rules', the company wrote a nine-page chapter, "Managing Third-Party Risks and International Transactions" that has clarified the responsibility of each employee in ensuring the integrity of Shell Group in all business activities.

Johnson & Johnson launched not only 'Our Credo'¹⁶ as its Code of Ethics, but also issued a separate CoC in many different languages. These rules are always present in the activities of employees. It can be printed on the back of a business card, or appear first on the intranet home page when a staff's computer is turned on.

Businesses also always focus on training in compliance with the CoC. For example, GE has required employees to attend a compliance training course (not only on anti-corruption) and sign a copy of the CoC agreement 'The Spirit and the Letter'¹⁷. In other words, the commitment to comply with the CoC takes effect as a contractual obligation. Even when the CoC is not signed, participation in compliance training is often required. For the compliance department, with the support of the human resources department, the organisation of this training can be quite complex. For multinational corporations operating in many countries around the world, this message is translated into each local language and local trainers are trained before they can retrain their staff in the country.



Source: "Applying internal control and Code of Conduct in Vietnam businesses"

¹⁶. <https://www.jnj.com/credo/>

¹⁷. <https://www.ge.com/in/sites/www.ge.com.in/files/TheSpirit&TheLetter.pdf>

In Vietnam, a research report on "Applying Internal Controls and Codes of Conduct in Vietnamese Businesses"¹⁸ conducted in 2019 said that of 239 surveyed businesses, 62% of businesses had heard or referred to a CoC, only 50% of businesses have chosen the right concept of the CoC, 52%-56% of businesses said that they have a mission statement and core values. Survey respondents were asked whether their company's CoC provided guidance on attitudes and behaviors, about 77%-80% of businesses said that they had guidance on internal conduct, dealing with public sector partners and business partners, 50% of businesses said that their guidance addresses the most important issues such as behaviors accepted/encouraged, conflicts of interest, wrongdoing and/or processes relating to individuals facing high risk situations.

Different from the regulations on internal controls, the regulations on the CoC in business are not explicitly or systematically mentioned in the current legal documents of Vietnam. The Prevention and Anti-Corruption Law (2018) refers to the CoC for the first time, but it is only recommended for anti-corruption purposes, rather than requiring compliance. The Anti-Corruption Law (2018) with the scope of coverage being extended to non-state sectors, by actions and cooperation of the business community, the participation of the whole society and the Government's efforts will be considered as an important foundation to promote the implementation of business integrity, contributing to part of pushing back risks leading to corruption and bribery in business transactions in Vietnam. Businesses are recommended to start by:

- establishing and complying with the CoC in business activities: through raising the awareness of the need of the CoC, developing the CoC and fully complying with the set rules.
- raising awareness and forming law-abiding habits in business activities by raising awareness of the rights and obligations of each party; identify the right position in relations with state agencies; choosing the right way to protect rights and perform obligations; and enhancing the responsibility to comply with the law.

¹⁸.<https://kdcl.vn/an-pham-va-cong-cu/doanh-nghiep-ap-dung-co-che-kiem-soat-noi-bo-va-bo-quy-tac-ung-xu.html>

3. Role of a code of conduct

Code of conduct in businesses plays an important role in:

- directing behaviors and decisions in the business;*
- ensuring the accountability and integrity of management decisions and interactions with related partners;*
- setting a standard basis for all business members to compare and apply to their specific jobs; and*
- conveying positive values, commitments, and images of the business to customers, partners and society.*

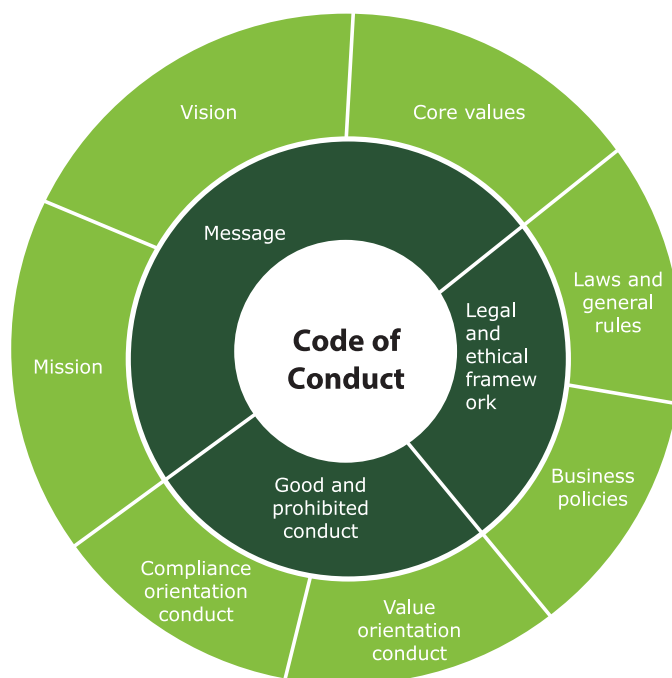
Each organisation has its own purpose and business principles. Therefore, there will be different ways to design the CoC. However, in general, the CoC often focuses on issues of ethics, social responsibility and how it applies to individuals in the business. Therefore, CoC plays a major role in building and maintaining professional ethics. In a business, the CoC may play several roles, such as:

- a tool to organize and guide employees how to behave properly in case of doubt or embarrassment. Users may consider the CoC as a reference and instruction that supports their daily decision-making activities.
- a reference document to emphasize the mission, values and principles of the business, and linking these factors to professional standards of conduct. The CoC may also be used to allocate documents, services and human resources related to ethical issues within the business.
- examples to the organisation to show their operation in line with the announced values and standards. A well-designed and drafted set of rules can be used as a communication tool and reflects the organisation's agreement on the values that the organisation values the most.

Many business executives have shown a positive attitude towards the CoC because the tool is very useful. In addition to the roles and effects of the CoC for a business, the CoC also creates trust and confidence in the public and society. In the context that the government and the whole of society are promoting a business environment built on integrity, transparency and anti-bribery, the CoC is an important tool to conduct business with integrity and ethical compliance.

4. Scope of application of a code of conduct

The CoC applies to all members of the business, including from the BOD to official employees, service contract staff, and affiliated entities. Businesses also need to train their agents to follow the rules of business ethics that businesses deem necessary.



The scope of application of the CoC may also include third parties such as suppliers, customers, other stakeholders, etc. In this case, the purpose is to clearly state the rules and views of businesses with respect to external activities, in order to ensure professionalism and enhance their credibility with the parties. For example, businesses can sign rules of conduct with customers and suppliers in refusing price deposits, informal commissions, etc. or other law violations.

5. Contents of a code of conduct

Businesses can choose the contents so that they are suitable to the reality of each company, but, basically, an effective CoC will include specific elements, including:

5.1. Missions, visions and core values of businesses

This part may be presented in the form of a message from the Chairman of the BOD or the General Director of the business, and usually includes the following main information:

- **Mission:** expresses the purpose of existence of the business. Specifically, does the business exist to serve or contribute to society? Mission answers the "why" question: Why does the business exist?
- **Vision:** is the image of the organisation in the future (for example in 10 years). Vision answers the "what" question: What will the organisation become?
- **Core values:** showing what businesses really value and believe in, and how they behave? Core values answer the "how" question: How does the organisation behave or how it is characterized?

5.2. Scope of legal framework and standards for compliance by businesses: risks of non-compliance

This section should name the regulations related to business ethics, professional ethics related to the production and industry of the business; anti-corruption laws and regulations to which businesses are governed, including:

- professional ethics standards;
- business ethics (business standards);
- laws and regulations on anti-corruption and bribery; and
- documents about industry standards and good practices that businesses encourage to follow.

In addition, this section outlines the types of procedures that may occur if staff members do not comply, such as:

- warnings and reminders;
- deduction of evaluation points, affecting salaries and bonuses;
- transfer or demotion;
- dismissal; and/or
- criminal prosecution.

5.3. Basic principles for conduct of businesses

This section outlines the basic principles of corporate conduct and usually includes two main parts:

The first item: Declares the most common basic principles that businesses will commit to implementing. These are the basic principles of business and the key principles in corporate conduct. Usually, depending on the business's priority, orientation, and culture, these are basic principles that are very important and essential for their organisations.

In the current context, businesses should put "Integrity" as the fundamental principle in their Code of Conduct.

"Integrity" may be specified as follows:

- *complying with laws;*
- *following agreed upon, committed goals;*
- *taking personal responsibility for work results;*
- *being honest in providing information within its jurisdiction;*
- *not using confidential or privileged information of the business to gain benefits for individuals or for acquaintances;*
- *not taking part in any business agreement or practice that is contrary to laws enacted to combat unfair competition; and*
- *not giving false, dishonest information in advertising, marketing, sales, and purchasing activities etc.*

The second item: Implementing core values. Normally businesses will select several of the most core values of the business. These values express how the businesses are committed to behaving.

For the value of "cooperative union", it can be developed into principles of conduct such as:

- working closely with partners and colleagues; and
- be willing to be sensitive and open-minded to engage in constructive debate to find the optimal solution.

For the value of "social responsibility", it can be developed into principles of conduct such as:

- *ensuring occupational safety and time to restore health for employees;*
- *expressing an interest in community benefits (balancing profit growth with serving community interests); and*
- *promoting production solutions, friendly services, environmental protection and regeneration etc.*

5.4. The do's and the don't's

In addition to the basic fundamentals committed to by businesses, this section specifically addresses the main codes of conduct for each target group, including staff, business partners, customers, or state agencies. To avoid repeating the basic principles outlined in the previous section, this section outlines specific rules and focuses on each type of audience.

See Appendix - Form 6: "Guidelines for forming a code of conduct for each target group" to know how to select the focus points of the code of conduct for each target group. The principles of conduct are developed based on the following basic content groups:

- Professional ethics standards
- Business ethics (business standards)
- Social practices, rules and norms
- Preventing corruption and bribery
- Conflicts of interest

Based on the analysis of the guidance sheet in Appendix - Form 6, a business operating in the real estate brokerage industry can establish the following standards of conduct for business partners and customers as follows:

TO CUSTOMERS	TO BUSINESS PARTNERS	TO STATE BODIES
<ul style="list-style-type: none"> - Information provided to customers must ensure fairness to all customers. No prejudice or bias in all behaviors with customers (standards belong to the group of "professional ethics"). - Do not be bossy, harassing, causing difficulties and troubles when working with customers (standards under the group of "social norms"). 	<ul style="list-style-type: none"> - No speaking ill or giving false information about business partners (standards belong to the group of "business ethics"). 	<ul style="list-style-type: none"> - All gifts and entertainment for a State agency must be approved by the Board of Directors (in terms of level, and value limits). - Money, gifts and entertainment are only for the purpose of building positive, healthy partnerships, and not for the purpose of influencing unbiased decision-making.

Prohibited acts / behaviors are often related to violations of professional ethics, violations of business ethics and corruption and bribery.

• ***Prohibition of corruption and bribery:***

This section sets out the types of conduct that are prohibited by law or by a business in relation to corruption, bribery, money exchange, nepotism, cronyism, extortion etc. For example:

- No paying or offering to pay in cash or value in-kind - either directly or through intermediaries - to civil servants in order to influence a public agency's decision, to make a profit for themselves, their relatives or to any other third party, or to gain illegal or improper benefits; and
- No offering bribes or kickbacks - whether directly or through a third party.

• ***Conflicts of interest:***

This section sets out the types of conduct that are prohibited by law or by the business in relation to conflicts of interest. For example:

- Do not allow decisions, transactions affected by personal or group interests to harm the interests of the business; and
- Do not allow yourself or your loved ones to receive unwarranted benefits

stemming from the position of the business, at the business or from the relationships of the business.

In addition, some businesses may regulate the types of conduct prohibited by law or by businesses related to the aspect of business secrets.

If you find yourself or a colleague facing a conflict of interest or a situation of corruption or bribery, employees may consider applying one of the following methods:

- Always put the interests of the business first, in business agreements, decisions or management;
- Consistently apply the CoC and refusing to receive illicit benefits;
- Report to competent persons, for example, the direct manager, the Human Resources manager, or the BOD for concerns about corruption, bribery or conflicts of interest;
- Refuse to participate in a situation or refuse to participate in decision making; and
- Do not intentionally influence business or management decisions for self-interest.

Also issues such as sexual harassment and discrimination, including in the language, shall be included in the code of conduct.

5.5. Action plans

This section lists the action programs that businesses periodically conduct to ensure the implementation of the CoC, such as trainings, leadership communication, and internal communications.

Trainings:

- Training on the CoC in orientation program for new employees

Periodic, repeating training (eg, annual) of CoC (available online) Communication leadership:

- Leaders lead by example on the implementation of the CoC in the decision-making process.
- Leaders share the vision and goals as well as the principles and values of the business during meetings or at annual company meetings.

Internal communications:

- Dedicate a column in the periodic newsletter of the business to talk about the CoC in the form of actual events, typical stories, videos or inspirational pictures of value.

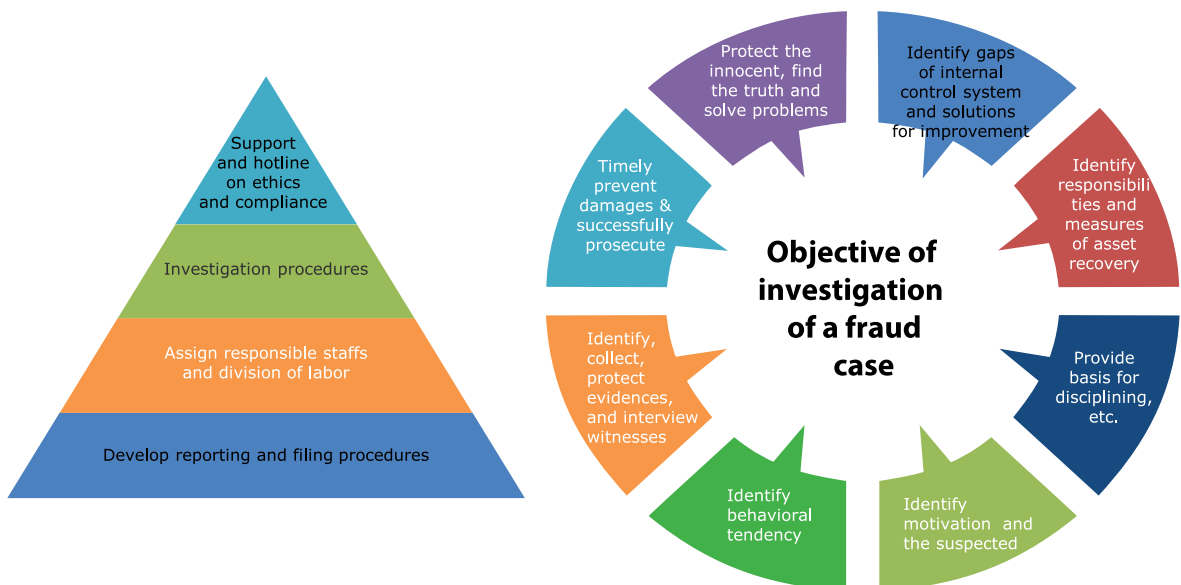
- Team-building programs are integrated in awareness raising and commitment to the implementation of the CoC
- Experience sharing forum to evaluate and rectify instances of aberrational conduct, including sharing anonymized information about particular violations
- Improving evaluation tools for implementing the CoC
- Working with external partners (suppliers, distributors, sales representatives, manufacturing or marketing subcontracting units, etc.)
- Training with suppliers, distributors, etc.
- A memorandum of understanding of the CoC with suppliers, distributors, etc.

5.6. Detecting and handling of violations

In order to detect violations, businesses need to perform the supervision and control function to ensure that the regulations have been fully implemented at all levels in the unit.

If operating on a large scale with abundant resources, businesses can set up a compliance control unit or outsource compliance control services to ensure the rules are enforced and followed effectively.

Establishment of a unit responsible for ethics and compliance



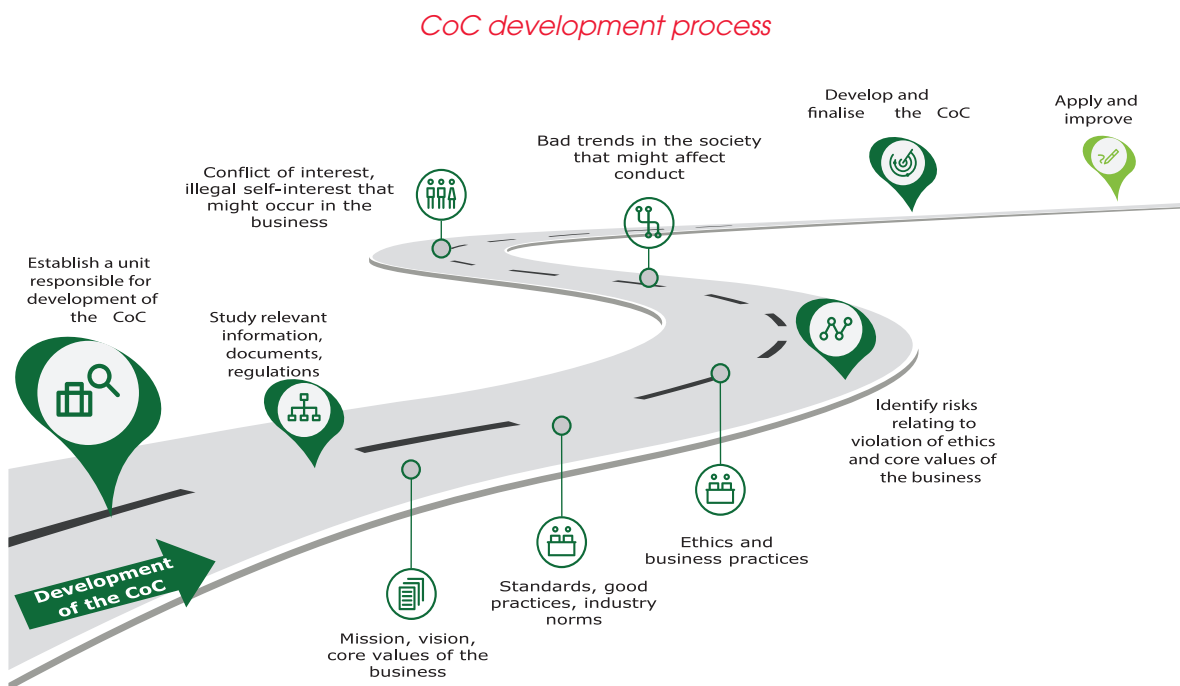
After reviewing and assessing, if a violation has been detected, depending on the severity of the violation, the business may choose to offer the following remedial measures:

- Reminders and warnings
- Evaluating and grading in the final evaluation form
- For serious violations, violator shall be handled according to the regulations of the business.

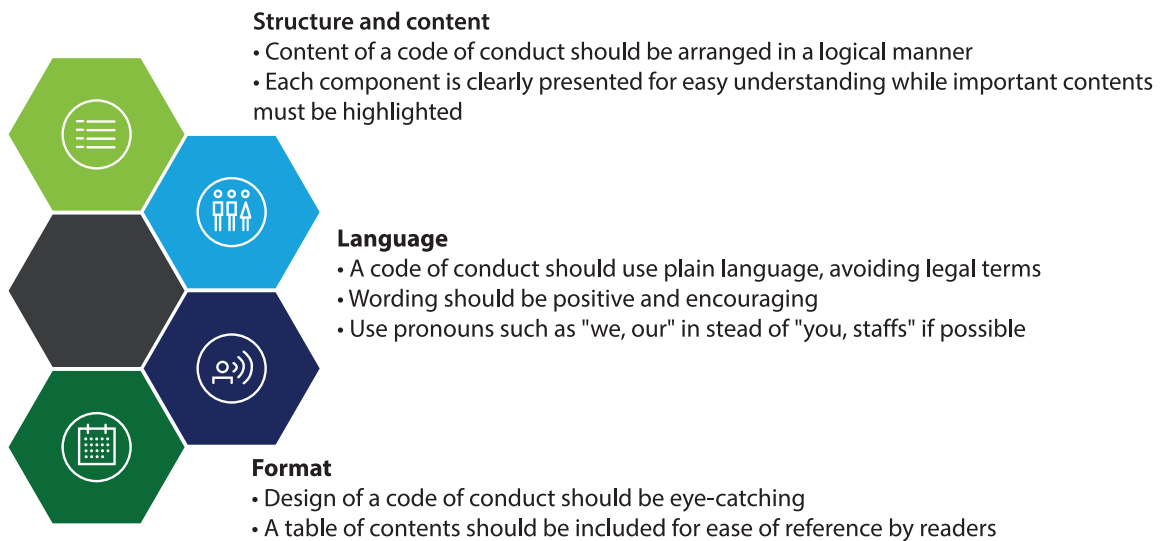
6. Steps to develop a code of conduct

With an aim to develop a good code of conduct, a business should take essential steps, namely:

- Form a team to develop the code of conduct. The team should be as much balanced as possible in terms of gender representation, ethnicity, function, etc.



- Identify the vision, mission, and core values of the business and the rules and good practices of the code of conduct of businesses in the same field, with the same scale, as well as ethical standards and common industry rules
- Identify risks leading to violations of ethics or core values of the business
- Develop and improve the draft code of conduct
- Issue the code of conduct
- Evaluate and improve the code of conduct.



In order to develop a good Code of Conduct, a business should first clearly identify the mission, vision, and core values that it is pursuing as well as the corporate culture that the leaders aim at, and then select the components of the Code of Conduct accordingly.

Based on references to good practices in the Code of Conduct and business ethical standards of the company's sector, the team in charge will draft the code of conduct, undertake discussions, and gather additional comments from the stakeholders before officially circulating it to employees and third parties (if any).

Basic requirements of a code of conduct should include the appropriate organisational structure and content, an easily understandable language and a visual-friendly format, making it easier for employees to comprehend.

The Code of Conduct can only work effectively if the business makes this content available to all employees through annual training programs (including posting documents on the business website, providing off-line training, signing the commitment documents, or giving instructions via the internal email system, etc.). In addition, testing and assessing the staff's knowledge as well as their practical application of the Code of Conduct are absolutely necessary.

The Code of Conduct also needs to be updated regularly if there appear to be shortcomings during its implementation, or should new legal issues or situations arise.

7. Participation of stakeholders in the application of a code of conduct

In this section, businesses clearly define the responsibilities of the stakeholders involved in the operation of the Code of Conduct. Refer to the rules of obligations outlined below:

Employees:

- Comply with the Code of Conduct.
- Provide information to the BOD, the Supervisory Board, or direct managers in cases of a violation of the CoC, corruption, bribery, or conflict of interest.

Board of directors and managers at different levels of businesses:

- Comply with the CoC in terms of making management and business decisions.

- Disseminate and share the commitment to follow the CoC with staff and partners (in meetings, conferences, workshops, etc.).
- Provide resources and conducive environment for effective implementation of the CoC in departments and businesses (e.g., request and encourage staff to attend training sessions on the CoC, spend time with employees on listening to their related questions or doubts, etc.).
- Assessing the employees' application of the CoC.

Human resource department:

- Provide training on development and operation of the CoC.
- Design and make known management tools to put CoC into practice at businesses.
- Store and retrieve information about the staff's evaluation of the CoC implementation and provide it to the BOD and other stakeholders when needed.

Supervisory board:

- Develop a procedure for detecting and dealing with bribery, corruption, violations of business ethics, and conflicts of interest in the implementation of the CoC.
- Check, control and propose measures to handle the violations mentioned above.

8. Case study

In the Code of Conduct of ABC corporation - the leading corporation in agriculture - it is stated clearly: One of the core values that this group aims to: "Staff safety first". The ABC corporation regularly organizes training and awareness raising for staff around the world on their Code of Conduct. The leaders of the ABC corporation are also regularly committed to respecting the value of "Staff safety first" through email/speeches at the major events and annual meetings.

In June 2020, ABC Vietnam Co., Ltd. - a subsidiary of ABC corporation based in Thang Long Industrial Park - Hanoi - was implementing a fire protection training at the company with the participation of all leaders, employees, many journalists, firefighters and police. At that moment, Mr. Nam - an employee in the packaging department of ABC Vietnam - had an accident while unloading in the warehouse. According to company's safety regulations, the

person in the accident must be taken to a hospital within 45 minutes.

However, the director of ABC Vietnam thought that if he took his staff to the hospital, many journalists would publish information about the accident, and the company's reputation would be negatively affected. He decided to wait for the fire prevention training to finish before taking the injured staff to the hospital.

Therefore, Mr. Nam was not taken to the hospital until four hours after the accident. Thankfully, Mr. Nam's condition was able to be stabilised and he did not have life-threatening health problems.

If you were the Director of the Asia Pacific Region of ABC Corporation, how would you handle this situation?

Suggestions:

As the Director of the Asia Pacific Region of a leading business, after this incident, you should take the following specific actions:

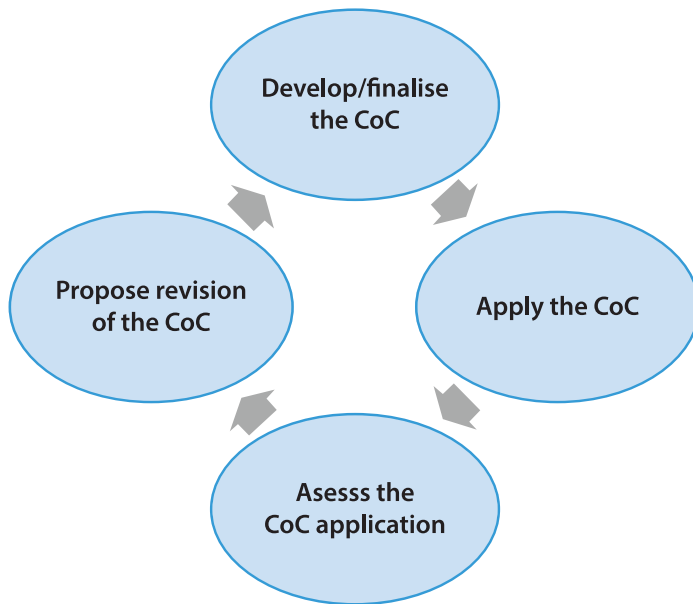
- (i) report the incident;
- (ii) apologize to all the staff about the unfortunate incident that happened;
and
- (iii) announce appropriate punishment for the people involved. Depending on the seriousness, the penalty can be up to the dismissal.

ABC corporation needs to add a number of principles to the code of conduct to guide their employees how to handle when encountering similar situations. Content added to the code of conduct should include:

- issues relating to staff protection;
- methods of communication; and
- specific sanctions/penalties for conduct that harms the company's assets and human resources in particular, and conduct contrary to the principles set out in the code of conduct in general.

9. Criteria for assessing the application of a code of conduct

For businesses to maintain a healthy, positive business and conduct culture, the implementation of a code of conduct should be considered a process which must be maintained and strengthened. Therefore, monitoring and evaluation of compliance with the code of conduct to ensure conformity and the timely implementation of improvements are necessary.



Process of monitoring and evaluating the code of conduct

The review and evaluation of proposed Code of Conduct improvements may include:

- Is the code of conduct appropriate? Are elements of the code somewhat out-dated?
- Is the code of conduct sufficient or in need of add-ons?
- Is the presentation of the code of conduct reasonable?
- Are the accompanying tools appropriate and complete?
- Is it difficult for staff to practise the CoC?

CHAPTER III

NEXT STEPS



HOW TO MAINTAIN THE INTERNAL CONTROL FRAMEWORK AND THE CODE OF CONDUCT?

In order to maintain the internal control framework and the Code of Conduct effectively, it is necessary to take the following steps:

1. Implement the formulation and promulgation of the Code of Conduct applied to all levels - from leaders to employees. Each manager must be an example to their subordinates in their daily behaviour. Commend employees who demonstrate good performance regarding ethical standards in a timely manner and impose strict discipline on those who are dishonest or involved in fraud, negatively affecting the interests of the business.
2. In recruitment policy, skills and knowledge for job vacancies need to be specified and job description sheets for each position must be completed. Performance evaluation criteria must be established.
3. Managers shall disseminate thorough information to their subordinates and staff about the role of internal controls in risk management; assess the internal controls regularly and make commitments regarding the guarantee of effective internal controls.
4. Ensure an appropriate organisational structure, guarantee the transparency and consistency from top to bottom in decision-making, examine the execution of decisions within the whole section; review and promulgate written regulations, prescribe clearly the function, mission and relationship among departments and sections.
5. Enforce policies on recruitment, training, commendation, discipline, promotion, appointment and dismissal effectively; Ensure salary, bonus and other welfare policies for staff. It is especially important to establish a system to evaluate staff efficiency and capacity.
6. Attention should be paid to effective identification, analysis, assessment, and control of risks. Define goals in each field (including both general and specific goals, as well as those that are short-, medium- and long-term);

Identify each type of risk from inside and outside the business; Implement the process of analysing and evaluating risk to determine the impact of risk towards the business purpose, define which risk to avoid, to minimize or to accept. Effectively implement the reward policy for employees proposing effective solutions to cope with risks; Establish preventive measures and procedures to control and restrict risks; Designate the person who is responsible for risk management; Establish a system for reporting, examining and evaluating compliance with the risk management process.

7. Maintain and improve the general control operation, control key activities, regularly or periodically. First of all, control principles such as assignment of duties, part-time assignment, and non-assignment, and authorisation must be well implemented. Designate qualified and competent officials to carry out control activities.
8. Information must be made public and transparent to all sections and external entities. It is important to communicate information and receive feedback in order to effectively control and to enhance the reputation of the business. It is also essential that a company's website should give visibility to the corporate image and all other necessary information of the business.
9. Issue regulations on providing information among different parts within and outside the unit. There must be a hotline available 24 hours a day and a direct communication channel connected to leaders of all levels to ensure the transmission of confidential and urgent information.
10. Set up control at all levels - from employees to leaders. It is necessary to build up a combination of both regular and periodic monitoring through the establishment of a system of compliance control standards¹⁹ to guarantee that all regulations are implemented in accordance with the regulations which have been set. It must also be clearly specified that supervisors have in-depth knowledge in the field of supervision to improve efficiency. If all of the above guidelines are followed, the resulting internal control framework will definitely bring about benefits for businesses.

¹⁹. ISO 19600:2014 at <https://www.iso.org/obp/ui/#iso:std:iso:19600:ed-1:v1:en>

BALANCE BETWEEN RISKS AND OPPORTUNITIES

In every business activity, the balance between the goal of sales growth and profits, or the balance between risks and opportunities, always needs to be taken into full consideration in order to be more likely to achieve established goals. There are several types of risk which businesses will face. Readers can learn about the types of risks and how to control them in detail through this Manual.

Risks can come from outside the business. There may be risk arising from changes in Vietnamese law and policy, for instance the Law on Anti-corruption which has been amended recently. There may also be risks involved in changes in international business conventions affecting multinational business operations; or changes in the preferential tax policy of the Government, or the influence of climate change, new technology or the global pandemic on your traditional business market. It is widely suggested that it is impossible to control external risks, however, with prudent considerations, we may still anticipate when these risks may approach. For example, businesses may get accustomed to new legal regulations and predict the influence of these changes on their businesses. Or if businesses want to attract foreign investment, or to be part of a multinational supply chain, they can adopt these management practices in their policies and procedures.

Risks can come from inside the business. These types of risks may be controlled by businesses. One of the greatest risks is fraud perpetrated by staff or business partners, for example, stealing, fraudulently manipulating data, or giving bribes to officials and business partners. Such conduct could create financial problems, increase the risk of legal obligations and damage the reputation of the business. These internal risks always exist in every activity of a business but it would still be hard to prevent and detect the activity without a complete, appropriate internal control framework and a specific Code of Conduct in accordance with goals and values that the business pursues.

Nevertheless, risks often come along with opportunities. For instance, if a change in market relations or legal regulations is foreseen, a business could change its

business model to gain advantage over competitors; if a business gets to know new rules in the law on anti-corruption and could predict part of the upcoming impact on business activities, it would be able to protect its assets and at the same time - gain a competitive advantage by designing and executing some control procedures recommended in this Manual. A business having developed a Code of Conduct that has been disseminated widely to its staff and partners may achieve higher reliability from all stakeholders. With a greater reliability and more competitiveness, a business is likely to gain bigger profits!

Building the internal control framework and the Code of Conduct would help businesses to control risks, improve monitoring, enhance responsibility in business, work towards goals and sustainable values, especially help to prevent and minimize violations, to formulate, maintain and comply with moral rules in business. Notwithstanding, as it would cost both time and budget to develop the internal control framework and the Code of Conduct, it is necessary to take in to full consideration between risks and benefits.

CONCLUSION: BUSINESS INTEGRITY HELPS BUSINESSES TO ACHIEVE SUSTAINABLE DEVELOPMENT

Without business integrity, a business is likely to confront several risks that impair its competitiveness, and negatively impact the entire economy, because, after all, business integrity is the root of sustainable development. Failure to act with integrity will make businesses lose opportunities to enhance competitiveness and to improve labour productivity. It will also result in businesses excluding themselves from the inevitable trend of the above rules on regional and international markets.

So why is applying internal controls and the Code of Conduct important and essential, leading to integrity and sustainable development? The answer is: the establishment and regular maintenance of these systems would maximize the value of the business. Lack of an appropriate internal control framework will make businesses unable to prevent and detect business risks nor to identify problems, nor to quickly detect fraud and theft by employees, nor to detect external threats such as unofficial/illegal payments/bribery, which could threaten their reputation and raise legal troubles. Without a robust internal control framework, businesses will have difficulty in attracting investment, reducing its chance to participate in global supply chains. Without a suitable Code of Conduct, businesses will not be able to guarantee that their staff and business partners will behave in a professional manner and maintain a focus on maximizing benefits for the business.

Acting with integrity, on the basis of moral compliance, enables sustainable development: to build strength and internal cohesion; to create a leading position and strong reputation in the market; to expand integration and take advantage of business opportunities; to avoid violations or legal problems; to build up a healthy business environment; and to contribute to the SDGs through the business operations.

Code of conduct

The code of conduct means "regulations and behaviour standards that have been consistently issued by business to guarantee the implementation of its core values; to prevent violations in professional ethics and business ethics; and to promote a fair and responsible entrepreneurial spirit".

Internal controls

Internal controls are a process governed by the Board of Directors, managers and staff of a business section, designed to provide an appropriate assurance in order to achieve goals regarding activities, reporting and compliance. In particular, its purpose is to guarantee that all activities are executed effectively, to ensure the reliability of financial statements and compliance with regulations and laws.

Corporate governance

Corporate governance is a system, which consists of internal measures to manage and control the company. It focuses mainly on the relationship between Board of Management, Board of Directors, shareholders and other stakeholders.

Control environment

The control environment of internal controls shall include all factors inside and outside the business, which are relevant to integrity and moral values of managers, including their philosophy and leadership style; organisational structure; allocation of rights and responsibilities; human resources policies; working plan; the participation of Board of Management and other factors.

Risk assessment process

The risk assessment process involves: the identification of the goals of the business; the identification of existing and potential risks which could impact the achievement of these goals; the analysis of these risks, including the frequency of occurrence, and the development of measures that should be taken to manage and minimize their damaging effect.

Control activities

Control activities are all policies and procedures, which are implemented to support business managers in preventing and minimizing errors, damage, and unexpected influence of risk towards businesses.

Information and communication systems

Information systems are systems for collecting, processing, recording information and synthesizing, reporting economic operations within the business and other external information. Communication helps to exchange information inside and outside of the business, between internal businesses; to transfer orders and results within a section from superiors to subordinates and vice versa, between sections in a unified whole.

Supervisory control

Supervisory control is a process of the manager evaluating the quality of the internal control framework. Supervision requires businesses to determine whether internal controls operate as designed and whether it is necessary to amend the controls as to make the system more suitable for each development stage of the business.

Managers

Managers in businesses are people who take responsibility for working on ideas, planning, organising, leading and controlling personnel, finance, material, information in an effective way to achieve business goals.

APPENDIX

RELATED LEGAL DOCUMENTS

Legal documents	Main regulations
Law	
Law on Anti-corruption no.36/2018/QH14 issued on 20/11/2018, taking effect on 01/07/2019	Businesses and economic organisations <i>"enact, implement code of conduct, internal control mechanism to prevent conflict of interest, corrupt behaviour and build up healthy, incorruptible business culture."</i> - Article 79
Law on Accounting no.88/2015/QH13 issued on 20/11/2015, taking effect on 01/01/2017	<p><i>"Internal control is the establishment and implementation within the accounting unit of internal mechanisms, policies, procedures, rules which are in accordance with the law in order to prevent, detect, handle risks promptly and meet the set requirements"</i> - Article 39</p> <p>This law also requires units to set up an internal control system within the unit to ensure these following requirements: (a) The assets shall be secured, avoid misuse and being used ineffectively; (b) Transactions/Operations are approved by the authority and fully recorded as a basis for preparing and presenting financial statements honestly and reasonably.</p>
Law on Securities no.54/2019/QH14 issued on 26/11/2019, taking effect on 01/01/2021	Securities companies, fund management companies are officially allowed to operate after meeting these following regulations: (a) finish business registration according to regulations; (b) have operational procedures, risk management, internal control; (c) the Charter has been adopted by the General Meeting of Shareholders, the board of members or the company owner. - Article 84

Law on State Audit no.81/2015/QH13 issued on 24/6/2015, taking effect on 01/01/2016	During the audit process, a state auditor shall <i>"conduct survey, collect information about the internal control system, the financial situation and other information related to the audited entity; evaluate the internal control system and collect information about the audited unit to determine the target, content, scope of audit and appropriate methods"</i> . - Article 45
Law on Business No.68/2014/QH13 issued on 26/11/2014, taking effect on 01/07/2015	Responsibilities and obligations of the Control Board in supervising, evaluating the efficiency of the internal control system, internal audit, risk management and warning of the business - Article 165
Law on thrift practice and waste combat No.44/2013/QH13 issued on 26/11/2013, taking effect on 01/07/2014	The head of a state-owned business must be responsible for organizing internal inspection and control, executing self-inspection, revision and financial supervision reports to promptly detect violations in managing capital and fund of the business - Article 61
By-law documents	
DECREE	
Decree No.59/2019/ND-CP dated 01/07/2019, elaborating on a number of articles and measures for implementation for the Law on Anti-corruption, taking effect on 15/08/2019	Regulates criteria to evaluate the implementation of anti-corruption measures in businesses, organisations of the non-state sector, including: (a) the result of establishing and implementing the Code of conduct and internal control mechanism; (b) the result of implementing public and transparent measures; (c) control conflicts of interest and (d) the responsibility regime of the head person/the one in charge - Section 2, Article 18, Chapter III
Decree No. 71/2017/ND-CP dated 06/06/2017, guidelines on corporate governance of public companies, taking effect on 01/08/2017	Guidelines on corporate governance of public companies, involving specific guidelines regarding rights and responsibilities of the supervisor in executing internal control missions in public companies.

Decree No. 87/2015/ND-CP dated 06/10/2015, relating to the supervision of state capital on business and finance, taking effect on 01/12/2015	Regulates responsibilities of businesses in assigning missions and responsibilities among departments, developing mechanism of cooperation between departments, especially among those with the function of supervision and internal control, and financial monitoring. - Article 12
CIRCULAR	
Circular No. 13/2018/TT-NHNN dated 18/05/2018, taking effect on 01/01/2019	"Internal control is the inspection and supervision towards individuals and departments in implementing mechanisms, policies, internal regulations, professional ethical standards, control culture to control conflict of interest and control risks; to ensure the operation of commercial banks, foreign bank branches could achieve the set goals and comply with the provisions of law." - Article 3, Chapter I
Circular No. 121/2012/TT-BTC dated 26/07/2012 of Finance Minister (Invalidated, replaced by Decree No. 71)	Regulations regarding corporate management applied to public companies, refer to responsibilities of the Control Board in examining reports about internal control system before being submitted to the Board of Management. - Article 33
Circular No. 44/2011/TT-NHNN dated 29/12/2011 of the State Bank of Vietnam	Regulates the internal control system and internal audit of credit institutions and foreign bank branches as follows: <i>"Internal control system is a set consisting of mechanism, policies, procedures, internal rules, organisational structure which is implemented to prevent, detect, handle risks promptly and to meet set requirements of the organisation"</i> - Article 3, Chapter I.

<p>Circular No. 16/2011/TT-NHNN dated 17/08/2011 of the State Bank of Vietnam</p>	<p>Regulates the internal audit system and internal control of the State Bank. Accordingly, "the internal control system of the State Bank is a set of mechanism, policies, procedures, internal rules, organisational structure of units and departments under the State Bank which is implemented to ensure that resources are managed, used legally, effectively and economically for the purpose of preventing, detecting and handling frauds and errors promptly; providing accurate information for decision making; ensuring the achievement of the set goals". - Article 3, Chapter I.</p>
<p>Circular No. 06/2020/TT-NHNN dated 30/06/2020 of the State Bank of Vietnam</p>	<p>"The internal control system of the State Bank is the overall mechanism, policies, procedures, internal regulations, organisational structure established and implemented in the units of the State Bank in accordance with the provisions of law of the State Bank and the provisions of this Circular in order to control, prevent, detect and promptly handle possible risks, ensure the operation of the unit to be safe, efficient and achieve the set objectives". Article 3, Chapter I.</p>

APPENDIX

LIST OF RELEVANT ORGANISATIONS

List of agencies, organisations with an anti-corruption function or that are able to support businesses in anti-corruption in Vietnam.

No.	Agency/Organisation	Address
1	Government Inspectorate (Anti-corruption Agency - has the function of state management regarding anti-corruption and receiving information, accusation about corrupt behaviors)	D29, Pham Van Bach Road, Yen Hoa, Cau Giay District, Ha Noi (thanhtra.gov.vn)
2	The Ministry of Public Security (The Police General Department - Police department on economic and corruption crimes investigation)	No. 40 Hang Bai, Hoan Kiem District, Hanoi (togiactoi.pham@canhsat.vn)
3	The Supreme People's Procuracy of Vietnam (Department of Public Prosecutions and Supervision over the investigation of corruption and position-related crimes)	No. 44 Ly Thuong Kiet, Hoan Kiem District, Hanoi (www.vksndtc.gov.vn)
4	The People's Supreme Court	No. 48 Ly Thuong Kiet, Hoan Kiem District, Hanoi (www.toaan.gov.vn)
5	Vietnam Chamber of Commerce and Industry	No. 9 Dao Duy Anh, Dong Da District, Ha noi (www.vcci.org.vn; www.vcci.com.vn)

6	Vietnam Bar Federation (VBF)	1st-2nd CT13B Building, Nam Thang Long Industrial Zone, Vo Chi Cong Street, Tay Ho District, Hanoi (liendoanluatsu.org.vn)
7	Vietnam Lawyers Association (VLA)	3th Floor, Star Tower, Duong Dinh Nghe, Yen Hoa, Cau Giay District, Hanoi (hoiluatgiavn.org.vn)
8	Vietnam Business Forum (VBF)	Unit 08, 3B Floor, Pullman Hotel, No.40, Cat Linh, Hanoi (http://www.vbf.org.vn/vi/)
9	Associations of domestic business, associations of foreign business, chamber of commerce of countries and territories	Addresses and information of associations, business associations, domestic and foreign chambers of commerce are available on the web portal of Vietnam Business Forum (VBF).

APPENDIX

TEMPLATES

FORM 1. REGULATION ON THE INTERNAL CONTROL OF BUSINESS

NAME OF UNIT

No:/.....

SOCIALIST REPUBLIC OF VIETNAM

Independence- Freedom - Happiness

... .., date ... month ... year ...

DECISION

On the establishment of the internal control regulations of the company

BOARD OF MANAGEMENT/MEMBERS' COUNCIL /DIRECTOR...

Pursuant to....

Pursuant to the Charter of ...

Pursuant to the practical needs of the unit...

DECIDE:

Article 1: Establish the internal control regulations of ... (attached to this decision)

Article 2: This decision comes into effect on ...

Article 3: Mr/Mrs..... (*subjects of application of regulations*) are responsible for implementing this decision.

Recipients:

- As Article 3

- Archived in HR Department

-...

BOARD OF MANAGEMENT/MEMBERS'
COUNCIL /DIRECTOR

(Signed, full name written)

CHAPTER 1

GENERAL RULES

Article 1: Scope of regulation and subjects of application:

1.1. Scope of regulation

This regulation prescribes organisation, functions, missions, rights, working regime of ... (parties that have been assigned or relevant to internal control activities, commonly are board of internal control (if any), supervisor (if any), internal auditor (if any), leaders of relevant departments...)

1.2. Subjects of application

This regulation is applied to:

- Board of Management/Members' Council (if any)
- General Director/Director/Vice Managing Director/Deputy Director
- Departments
- Subordinate units
- Members of Board of Internal Control, Board of Internal Audit
- Representative of state capital ownership ...

Article 2: Definitions and terms

1. Law: List of some legal documents that must be followed, for instance: Law on Business, Decree on internal audit ...
2. Charter: Clearly state the basis and the number of decision on promulgating the charter and operation regulation
3. Companies, subordinate sections
4. Departments
5. Members of Board of Internal Control, Board of Internal Audit
6. Representative of state capital ownership
7. Other terms (explained in Code...)

CHAPTER 2

INTERNAL CONTROL SYSTEM OF THE COMPANY

Article 3: Goals of the internal control system

The company could determine goals of the internal control system, including:

- Group of goals regarding operation (the efficiency of using resources, information security, reputation enhancement, market share expansion);
- Group of goals regarding compliance (comply with laws and rules);
- Group of goals regarding financial statements (honesty and reliability of financial statements).

Article 4: Factors of the internal control system

4.1. Control environment

The control environment of the company should include statements regarding: "...statements regarding: goals, mission of the business; operating philosophy and style; organisational structure; the distribution of powers and responsibilities; personnel HR policies; planning; the participation of Board of Management a number of other factors.

Specifically, there must be basic goals as follows:

1. *Mission of the business*
2. *Goal & business vision*
3. *Business culture (the Code of conduct)*
4. *Organisational structure and method used to assign rights and responsibilities of departments*

Internal rules must be regulated in detail, for example:

- Financial regulations, internal spending rules;
- Decentralization authority system for making decisions in investment, bidding, ...
- Regulations on management and the use of fixed assets;
- Regulations on management of the use of funds;
- Regulation on the management of receivable debts (specifying responsibilities of groups and individuals in managing, monitoring and recovering debts);
- Regulations on the management of liabilities (specifying responsibilities of groups and individuals in monitoring, collating,

confirming and paying debts);

- Management processes for monitoring finance and evaluating the efficiency of business activities, including: budget planning and forecasting process, accounting process, financial statement preparation, financial risk management process, business plan, financial monitoring regulation and performance evaluation ;
- Regulations on assigning tasks, responsibilities of departments, co-ordination regime between departments, especially among those with the function of supervision and internal control, financial monitoring;
- Creating form to monitor finance;
- Creating criteria to monitor finance and the efficiency of capital investment in accordance with the characteristics and operation situation of the business;
- Creating regulations on operations, management and the use of capital and assets of the business;
- Creating criteria to monitor the results of production and business, capital investment efficiency for investment projects ...

5. Human resources policy

HR policy would involve all HR management methods and policies, regimes, procedures and rules of managers regarding recruitment, arrangement, evaluation, reward, discipline, dismissal and promotion towards staff:

- Methods to determine staffing quota based on development strategy and annual production and business plan;
- System of job description and title criteria based on job requirements and HR assessment is now based on quantification of job performance criteria, job assignment volumes, suggesting appropriate options and policy: new recruitments, staffing re-arrangement; training/retraining; redundancy/ job cuts
- System of indicators to evaluate working results in the direction of prioritizing the use of quantitative indicators, limiting the use of qualitative indicators;
- System of regulations on HR policy, attaching the result of performance evaluation to training, promotion, reward and discipline policies;
- Policies to attract leading and highly qualified technological experts and scientists;

- HR grouping and division plan for prioritization in development and additional training for the missing stages, support to improve the management capacity and control capacity of business leaders.

6. *Work plan*

Planning system includes strategic-level plans and tactical-level plans on all aspects of business activities such as technology development, production, sales, HR management, and finance, which are built on the basis of the business strategy. Therefore, in this section, the company may declare or refer to related documents on:

- processes, regulations on setting, giving and evaluating the completion of a plan in order to bring work plan into standard, to ensure that plans would be made as close as possible to the capability and situation of the business but still able to bring encouragement.
- particular regulations on types of plans shall be made, such as annual plans, five or ten years long-term plans, production plans, financial plans, investment plans, procurement plans, HR plans, training plans, which are appropriate to the characteristics and management requirements of the business. The planning process must be clear and detailed in time and order.

Basically, regulations on working plan shall consist:

- Methods and order
- Setting and giving time
- Targets
- Implementation assessment of the plan

4.2. Risk assessment

1. *Framework of risk assessment process*

2. *Working steps to evaluate risk*

Step 1 - Determine risk

Step 2 - Analyse risk

Step 3 - Assess, classify risk

Step 4 - Tackle risk

4.3. Control activities

Principles and control policies of the company:

- Principles of assignment;
- Principles of non-concurrent duties; and

- Principles of authorization and approval.

Contents which are under control:

- Control budget, financial plan, sources of capital, and funds;
- Control items of financial statement: revenue, receivables, expense, funds, personnel salary, procurement - liquidation of fixed assets;
- Capital control; and
- Control accounting books and records.

Control procedures mainly include:

- Control full distribution of responsibilities;
- Control processes of handling information and operations;
- Materials control;
- Independent inspection; and
- Review, analyze the implementation.

The summary of this section should be referred to as a manual of inspection and control procedures for each field.

4.4. Information, Communication

1. Requirements relating to information and communication activities:

- Making sure that all staff understand their role in the organisation and how to work with other;
- To maintain good relationships among staff, between staff and managers in order to create reliability the in work environment;
- External information (from customers, suppliers, banks...) must be received and recorded honestly and integrally; and
- External information (from the State, shareholders...) must also be promptly transmitted and guaranteed its reliability and compliance with requirements of law.

2. Communication within the unit:

- Department/Person in charge;
- Content; and
- Methods of communication and connectivity.

3. Communication outside the unit:

- Department/Person in charge;
- Content; and

- Methods of communication and connectivity.

4. Training programme

- Department/Person in charge;
- Content; and
- Methods of communication and connectivity.

5. System providing internal information

- Department/Person in charge;
- Content; and
- Methods of communication and connectivity.

4.5. Control supervision

1. Contents that must be supervised;

2. Department/Person in charge;

3. Supervisory methods;

- Regular/Periodic supervision
- Self-supervision/Independent supervision/outsource...

4. Evaluation report

CHAPTER 3

ORGANISATION, RESPONSIBILITIES, RIGHTS, WORKING PRINCIPLES OF PARTIES TOWARDS INTERNAL CONTROL

Article 5: Organisation, responsibilities, rights, working principles of Board of Management/Members' Council

- 5.1. Organisational structure of Board of Management/ Members' Council
- 5.2. Standards, conditions of the Chairman of the board/Members' Council
- 5.3. Functions, missions of Board of Management/ Members' Council
- 5.4. Rights and responsibilities of Board of Management/ Members' Council
- 5.5. Operating cost, salary and other benefits of the Chairman and members of the Board of Directors / Members' Council
- 5.6. Relationship of parties towards Board of Management/ Members' Council

Article 6: Organisation, responsibilities, rights, working principles of the Board of Control and its members (if any)

- 6.1. Organisational structure of the Board of Internal Control
- 6.2. Standards, conditions of Head, Deputy Head, experts of the Board of Internal Control
- 6.3. Functions, missions of the Board of Internal Control
- 6.4. Rights and responsibilities of the Board of Internal Control
- 6.5. Operating cost, salary and other benefits of Head, Deputy Head, experts of the Board of Internal Control
- 6.6. Relationship of parties towards the Board of Internal Control
- 6.7. Reporting modes

Article 7: Organisation, responsibilities, rights, working principles of the Audit Committee (if any)

- 7.1. Organisational structure of the Audit Committee
- 7.2. Standards, conditions of Head, Deputy Head, experts of the Audit Committee
- 7.3. Functions, missions of the Audit Committee
- 7.4. Rights and responsibilities of the Audit Committee
- 7.5. Operating cost, salary and other benefits of Head, Deputy Head, experts of the Audit Committee
- 7.6. Relationship of parties towards the Audit Committee

7.7. Reporting modes

Article 8: Organisation, responsibilities, rights, working principles of the Board of Directors

- 8.1. Organisational structure of the Board of Directors
- 8.2. Standards, conditions of General Director/Director, Vice Managing Director/Deputy Director
- 8.3. Functions, missions of the Board of Directors
- 8.4. Rights and responsibilities of the Board of Directors
- 8.5. Operating cost, salary and other benefits of the Board of Directors
- 8.6. Relationship of parties towards the Board of Directors
- 8.7. Reporting modes

Article 9: Organisation, responsibilities, rights, working principles of the Internal Audit Committee (if any)

- 9.1. Organisational structure of the Internal Audit Committee
- 9.2. Standards, conditions of Head, Deputy Head, experts of the Internal Audit Committee
- 9.3. Functions, missions of the Internal Audit Committee
- 9.4. Rights and responsibilities of the Internal Audit Committee
- 9.5. Operating cost, salary and other benefits of Head, Deputy Head, experts of the Internal Audit Committee
- 9.6. Relationship of parties towards the Internal Audit Committee
- 9.7. Reporting modes

CHAPTER 4

RELATIONSHIP BETWEEN PARTIES AND CONTROLLER/ INTERNAL AUDITOR (IF ANY)

Article 10: Relationship between Board of Control and controller/internal auditor

- Coordinating in making proposal
- Preparing documents and reports
- Assign people to participate in supervising and evaluating internal control

Article 11: Relationship between the Internal Audit Committee and controller/internal auditor

- Combining and giving proposal
- Preparing documents and reports
- Assign people to participate in supervising and evaluating internal control

Article 12: Relationship between independent auditor, government authorities and controller/internal auditor

- Combining and giving proposal
- Using results of independent auditor, government authorities

CHAPTER 5

IMPLEMENTATION

Article 13: Effect

This regulation will come into effect as of... promulgated with regulations..... according to decision No....

Article 14: Responsibility for implementation

Members of Board of Management/Members' Council/ General Director/ Director/Vice Managing Director/ Deputy Director/Departments/ Subordinate units/ Members of the Board of Internal Control/ Representative of state capital ownership... shall take responsibility of implementing this decision.

Article 15: Amendment and supplement

- During the implementation of this internal control regulation, if there is any change in legal regulations or operation, production and business management of the company, Members of Board of Management/ Members' Council/ General Director/Director/Vice Managing Director/ Deputy Director will take amendment and supplement into consideration accordingly.
- During the implementation, if there is any difficulty, departments shall report to the Board of Management/ Members' Council to consider amending...

**ON BEHALF OF BOARD OF
MANAGEMENT/MC/BOD**

(Signed, full name and sealed)

FORM 2. SELF-INSPECTION, INTERNAL CONTROL ASSESSMENT

NAME OF UNIT

No:/.....

SOCIALIST REPUBLIC OF VIETNAM

Independence - Freedom - Happiness

... .., date ... month ... year ...

REPORT ON INSPECTION RESULTS AND INTERNAL CONTROL ASSESSMENT (Year...)

Dear:

A. Status of internal control implementation:

1. For control activities:

- a) Describe internal control activities by following the three lines of defence principle;
- b) Internal regulations:
 - (i) List of issued internal regulations;
 - (ii) Suitability, compliance of internal regulations towards State regulations and provisions of relevant laws (*result of self-assessment*);
 - (iii) Status of compliance with internal regulations from individuals, departments;
- c) Self-inspection results, internal control assessment (*following five elements of internal control: control environment, risk assessment, control activities, communication, supervisory control on three targets: efficiency, compliance, reliability of financial statements*) - refer Appendix 8 - Table of questions evaluating internal control system).

2. For information exchange mechanism and information management system:

- a) Describe the information management system;
- b) Information exchange mechanism; and
- c) Evaluate the information management system and the information exchange mechanism regarding internal control.

3. Restriction of internal control:

.....

B. Result of remediating restrictions of internal controls following requests from the controller, internal auditor, independent auditor and other authorities

C. Recommendations:

REPRESENTATIVE

(Signed, full name and sealed)

FORM 3. QUESTIONNAIRE ON INTERNAL CONTROLS OF THE UNIT

ELEMENTS OF INTERNAL CONTROL	Yes	No	N/A	Note	Ref
1. CONTROL ENVIRONMENT					
1.1 Transmit information and request to implement integrity and ethical values within the business					
- The business has regulations on ethical values and these values have been transmitted to other parts of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The business has regulation on monitoring the compliance of principles regarding integrity and ethical values	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The business has specified and applied measures to handle violations of integrity and ethical values	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.2 Commitment towards competence and qualification of staff					
- The business has established requirements regarding the qualifications and skills required for each position	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The business has focused the qualifications and competence of staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The business has measures to handle promptly staff who are incapable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.3 The participation of the board of management					
- Members of board of management are independent from BOD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of management involves experienced members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of management often participates in important activities of the business and sets an example in obeying regulations for staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

- Important issues and violations are promptly reported to the board of management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The business has established a private information channel to report violations regarding standards and regulations on work ethics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of management has regular or periodic meetings and these meeting minutes are prepared in a timely manner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of management has monitored the implementation of BOD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of management has monitored how BOD works with internal audit/ independent audit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.4 Leadership style and philosophy of BOD					
- Attitude of BOD towards internal controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Risk management approach of BOD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Compensation for BOD is based on work results	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Level of BOD participation in reviewing the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- BOD viewpoint towards making and presenting financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- BOD viewpoint towards information handling, accounting and HR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.5 Organisational structure					
- The organisational structure is consistent with the objectives, size, business activities and geographical location of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The organisational structure is different from that of businesses with the same size	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.6 Distribution of rights and responsibilities					
- The business has policies and procedures for authorisation and approval at each appropriate level	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

- The business has appropriate supervision and inspection towards decentralised activities for staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Staff has a clear understanding about his/her mission and that of the others whose works are related	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Person in charge of monitoring has enough time to fulfil their work	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Non-concurrent duty principle is implemented appropriately	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
1.7 HR policies and routines					
- The business has policies and standards regarding recruitment, training, evaluation, promotion and dismissal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- These policies are reviewed and updated regularly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- These policies are transmitted to staff of all units	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- New staff are aware of his/her responsibility and the expectations of the BOD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Work result of each staff is evaluated periodically	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
2. RISK ASSESSMENT PROCESS					
Business risk relating to preparing and presenting the financial statements					
- BOD/board of management has established a risk assessment process relating to the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Board of leaders has given targets and finance in accordance with size and complexity of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Targets of the business are reviewed, updated regularly and approved by the board of management and BOD	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- The risk assessment process towards the financial statements involves participation of appropriate personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

<ul style="list-style-type: none"> - The business considers fraud risk factors relating to the financial statements, including the possibility of fraudulent accounting entries and other illegal actions <p>Auditor's assessment of risks of material errors due to fraud relating to journal entries/controls taken over journal entries and other adjustments/content, schedule process, scope of checking journal entries, and other adjustments</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<ul style="list-style-type: none"> - Describe the risks related to the financial statements which have been identified by BOD, estimate the level of influence, possibility and corresponding actions of BOD 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
3. INFORMATION SYSTEM					
3.1 Learn about information system relating to preparing and presenting financial statement					
<ul style="list-style-type: none"> - Determine groups of transaction within the unit activities that are essential towards financial statement 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<ul style="list-style-type: none"> - Procedures implemented through IT system or manually to create, note, handle, amend transactions, to record into accounting books and to present the financial statements 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<ul style="list-style-type: none"> - Relevant accounting documents, supporting information and specific sections on financial statements which are used to create, record, process and report transactions, including correcting inaccurate information and how the data is reflected in the ledger 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<ul style="list-style-type: none"> - How the information system inputs and records events and situations which are important to the financial statement 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<ul style="list-style-type: none"> - The process of preparing and presenting the financial statements of the unit, including accounting estimates and important disclosures 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

- Controls over journal entries, including those that are not commonly used to record irregular transactions, unusual transactions or adjustments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
3.2 Learn how the unit exchanges information regarding roles, responsibilities and other important matters related to the financial statements					
3.3. Evaluate internal control measures of information system					
- The business has a process of collecting important information to achieve the financial statement goals, and to prepare and present the financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- IT system, HR of IT group, and IT procedures are suitable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Important issues relating to the financial statements and internal controls are transmitted clearly to related positions such as personnel of finance, accounting, IT and other departments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Financial information is transmitted promptly and clearly to entities outside the business and authorities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
4. CONTROL ACTIVITIES					
4.1 Gather an understanding of the specific controls for types of operations, account balances or disclosure to prevent or detect and repair critical errors					
4.2 Gather an understanding of how the unit deals with risks arising from IT					
- Have appropriate procedures in approving the installation of hardware and software, including assigning group to monitor IT projects, to test and evaluate shortcomings, to check and to accept users. These matters are saved on file	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- All amendments are saved and approved	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Staff of IT group has been guided, trained and has appropriate knowledge regarding main issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Control measures regarding the access to the information system are suitable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

- Accessing to data, updating data into accounting book and printing data are under control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Figures are checked before being updated into accounting books	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Accounting entries could be deleted without journal entries approved	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Back-up copies are implemented regularly and saved in locked cabinet in a safe place	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Back-up copies are re-used promptly when there is emergency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Back-up plans are made in case hardware/software is damaged	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Anti-virus software is installed and updated regularly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Using business computers for personal purposes is forbidden	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
5. CONTROL SUPERVISION					
5.1 Regular and periodic monitoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Having a policy to review internal controls periodically and to evaluate their efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Having a policy to review whether controls, framework contracts, policies and procedures are still suitable to the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
5.2 Reports on shortcomings of the internal controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- Having policies and procedures to guarantee the implementation of corrective measures against shortcomings of internal controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
- BOD considers requests relating to the internal control framework and implements these proposals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

FORM 4. GUIDANCE ON CONTENTS OF THE CODE OF CONDUCT

1. Message from the President/Chairperson of the business

This part declares mission, vision, core value of the business and how leaders and staff need to comply with the Code of Conduct.

- **Mission:** to express the purpose/rationale of the business. In particular, does the business exist to serve or to contribute anything to the society? Mission would answer the question "Why": why does the business exist?
- **Vision:** the image of the organisation in the future (for instance within 10 years). Vision would answer the question "What": what does the organisation aspire to become?
- **Core Values:** demonstrates what the business truly believes in, and how the business behaves? Core values answers the question "How": how does the organisation behave or what are its characteristics?

2. Scope of the legal framework and professional ethical standards with which the business shall comply

This part mentions related regulations regarding business ethics, professional ethics of production and lines of the business; anti-corruption, anti-bribery laws and regulations to which the businesses is subject. In addition, this part also clearly states types of penalties that may apply if staff do not comply.

3. Fundamental principles of conduct

This part clearly mentions fundamental principles of conduct, and commonly includes two main sections:

First section: Declares the most basic principles that the business would be committed to implementing. These are basic principles of business and key principles in corporate conduct. Commonly, depending on their priorities, orientation and culture of the business, they can set forth some basic but extremely important and essential principles.

Second section: Implement core values. A business will often choose three to five of the most essential expressions to show each of its core values. These examples indicate the way in which the business is committed to behaving.

4. Good behaviour/conduct and prohibited behaviour/conduct

Besides basic principles committed below, this part also clearly states main regulations of conduct for each group of subjects, including: staff, business partners, customers, and state agencies. To avoid repetition, this part would only mention specific rules towards each type of subjects.

5. Regulations on anti-corruption, anti-bribery and conflicts of interest

- *To implement integrity:*

This part regulate types of conduct that a business need to implement, which are related to the value "integrity", for example:

- Obey the law;
- Fulfill commitments;
- Individual responsibility for work results;
- Be honest in providing information within the competent scope of work (about products, services, finance, HR ...);
- Using confidential information of the business for personal interest is not allowed;
- Do not participate in any agreement or business practice which is, according to the law, against fair competition (i.e., participate in cartel links); and
- Do not give wrong and dishonest information in advertising, marketing, sales, and purchasing activities.

- *Prohibit corruption and bribery:*

This part regulates types of conduct which are forbidden by law or by the business regarding bribery and corruption. For example:

- *Do not pay or suggest payment of amounts or valuable assets - either directly or through intermediary channels - for state officials to affect decisions of public agency, to create self-interest or interest of a third party, or to gain illegal or unwarranted benefits; and*
- *Do not request/suggest bribery or kickbacks - either directly or through a third party.*

- *Conflicts of interest:*

This part regulates types of conduct which are forbidden by law or by the business regarding conflicts of interest. For example:

- Do not let decisions or transactions to be influenced by personnel or group interests leading to damage to the interest of the business; and
- Do not let yourself or your relatives gain unwarranted benefits from your position or other relationships with the business.

In addition, some businesses may wish to regulate types of conduct which are forbidden by law or by the business relating to trade secrets.

6. Action plans

This part lists action plans which are followed periodically by the business to ensure the implementation of the Code of Conduct, for instance: training, communication among leaders, internal communications...

7. Responsibilities of parties in implementing the Code of Conduct

In this section, the business specifies the responsibilities of related parties in implementing the Code of Conduct.

8. Contact address for answering questions about the Code of Conduct and reflecting alleged information

This part clearly states the department, email address, name of person receiving questions regarding the Code of Conduct in the business; receiving reflections and allegations about violations. Commonly, the HR department or the legal department would receive questions about the implementation of the Code of Conduct to provide support; the Internal Control department and the Board of Leaders would receive reflections and allegations regarding violations.

9. Control the implementation of the Code of Conduct and handle violations

In case that a violation of the Code of Conduct is detected, staff shall notify the related individual or department in charge mentioned in part III.2. "Answering queries about the Code of Conduct and receiving reflections and allegations about violations". This part provides guidance on particular stages regarding "the process of handling violations."

FORM 5. CHECKLIST OF BACKGROUND INFORMATION FOR BUILDING A CODE OF CONDUCT

This part provides a list of the documents that the business has issued or the actions that the business has taken before building its Code of Conduct:

No.	QUESTION	YES/NO
	Information/Document	
1	Mission, vision and core values	<input type="checkbox"/>
2	Latest documents regulating moral standard of the industry	<input type="checkbox"/>
3	Latest documents and regulations regarding anti-corruption and anti-bribery	<input type="checkbox"/>
4	Practice/performance regarding moral standard of other businesses in the same industry (including both domestic and foreign businesses)	<input type="checkbox"/>
5	Related regulations regarding social responsibilities and environmental responsibilities (especially towards businesses operating in fields that may affect the environment)	<input type="checkbox"/>
6	Understanding social standards of where the business is operating, understanding conflicts of interest that may appear in fields of action	<input type="checkbox"/>
	Resources and participation	
7	Does the Board of Leaders truly pay attention and take their time to create and implement the Code of Conduct?	<input type="checkbox"/>
8	Establishing working groups on building/implementing the Code of Conduct	<input type="checkbox"/>
9	Assessments of the Code of Conduct compliance/violations are attached to the periodic performance evaluation	<input type="checkbox"/>
10	Having function/position specializing in guiding how to implement the Code of Conduct	<input type="checkbox"/>

FORM 6. GUIDELINES FOR FORMING RULES OF CONDUCT FOR EACH SUBJECT

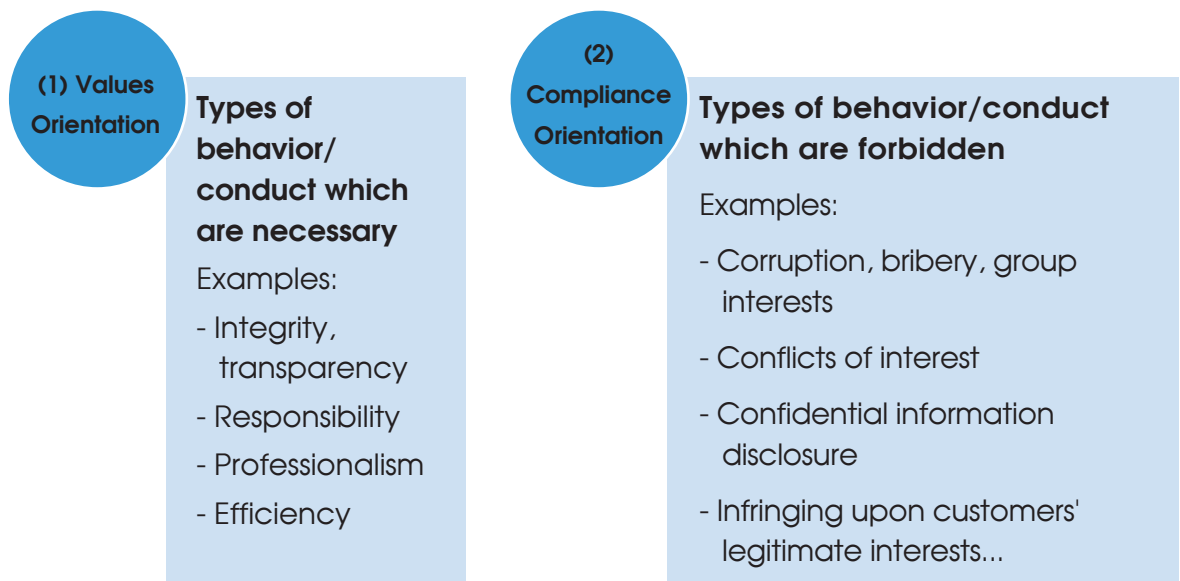
No	SUBJECT	Staff	Business partners	State agency	Customer, products, society
	CONTENT				
1	Standards of work ethics - Medical ethics - Ethics in advertising - Ethics in food production and business	X	X		X
2	Business ethics - Fair competition - No cheating, no forgery		X		X
3	Practice, rules, social standards - Responsible - Professional - Non-discrimination	X			X
4	Anti-corruption, anti-bribery			X	
5	Conflicts of interest - Information security - Conflicts of interest	X		X	

Notice: The above table is just an example used as a basis to develop a Code of Conduct for each subject, not a standard table applied to all businesses. Depending on its target of each period and context, a business could supplement/subtract headings on horizontal row (content) for each subject.

FORM 7. METHOD AND EXAMPLE TO ASSIST IN FORMING STANDARDS OF BEHAVIOUR CONDUCT

In the Code of Conduct, there are two types of conduct used:

- Behavior/conduct which is necessary: types of behavior/conduct developed from core values of the business; or positive behavior developed from standards of job ethics, business ethics, good practices of the society ...
- Behavior/conduct which is forbidden: types of negative behavior, violations of law and/or morality, business standards,



To develop standards of conduct, there are two focuses:

- What: choose typical conduct which shows value.
- How: behavior shows value

Example:

If the value is "cooperation", behaviors/conducts that may be developed include:

- To cooperate closely with partners and colleagues.

- Be willing to use acumen and an open attitude to participate in constructive arguments to find out optimal solutions.

If the value is "integrity", behaviors/conducts that may be developed include:

- To fulfill commitments.
- Be honest and open while working with others.

If the value is "social responsibility", behaviors/conducts that may be developed include:

- To implement regulations regarding labor safety and working time prescribed by the law and the business.
- To pay attention to community benefits (to keep balance between profit growth and community service)
- To promote production solutions, friendly services, to protect and regenerate the environment.

The business could also create two sides/columns to show behaviors which should be done and which should be avoided regarding some values/standards, the table below is an example of "integrity".

The DO's(+)	The DON'Ts (-)
To implement plan as committed.	To put personal interest and/or group interest above interest of the business during the decision-making process related to interest, profit, and expense of the business.

FORM 8. LIST OF QUESTIONS RELATING TO THE USE OF THE CODE OF CONDUCT

No matter how perfect a Code of Conduct is, it would never be able to cover all specific matters that each member of a business may face. Therefore, when making decisions, besides using the Code of Conduct as a guide, we also need to apply common sense and the ability to recognize and evaluate situations properly.

In case of difficult situations, you can consult a manager or a specialist in Code of Conduct.

The questions below would help you to response and to make correct decisions:

No.	QUESTION	YES	NO	Not Applicable
1	This conduct/decision follows the Code of Conduct	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	This conduct/decision is rightful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	This conduct/decision is suitable with standard of work ethics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	I have enough information and data to make a wise decision	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	I am confident in my ability to defend my decision/ conduct in front of colleagues, leaders and authorities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	This conduct/decision seems to be immoral and unwarranted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	I have had the necessary assistance from my company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	I have discussed problems with my manager/person in charge of the Code of Conduct	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	This conduct/decision would become a difficult issue if my friends/relatives came to know about it	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	This conduct/decision would become a difficult issue if it were to be widely publicised	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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**MANUAL ON APPLICATION OF INTERNAL CONTROLS AND
CODES OF CONDUCT IN BUSINESS**
(Reference for Vietnamese Businesses)

**Author: Vietnam Chamber of Commerce and Industry
A Fair business Environment in ASEAN
UK Government
United Nations Development Program**

Associate partner: Viet An Art Joint Stock Company

Editor: Le Thi Anh Thu
Cover and layout designed by: Nguyen Thi Thu

Printing 500 copies, size 19 x 26.5cm at Ha Thanh Printing Company Limited.

Address: No. 40, lane 20, lane 460 Khuong Dinh, Ha Dinh ward, Thanh Xuan district, Hanoi

Publishing licence No: 4604-2020 / CXBIPH / 2-111 / TC

Publishing decision No: 266 / QD-NXBTC dated November 9, 2020

International standard book No - ISBN: 978-604-79-2593-3

Completed printing and deposited in 2020

