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### DIGITAL TRANSFORMATION, COOPERATION AND GLOBAL INTEGRATION IN THE NEW NORMAL

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## TABLE OF CONTENT

### APPLICATION OF TECHNOLOGY AND BIG DATA IN THE FIELDS OF FINANCE, ACCOUNTING AND AUDITING IN THE CONTEXT OF GLOBALIZATION

BANK RUN AND SILICON VALLEY BANK .....	1
Lam Dang Xuan Hoa, Ho Minh Khoa, Huynh Vo Nhat Linh .....	1
BIG DATA AND INTELLECTUAL PROPERTY RIGHTS.....	14
Le Thi Minh, Vo Trung Hau .....	14
THE EFFICIENCY OF THE INTERNAL CONTROL SYSTEM IN RISK MANAGEMENT AT THE NAM A COMMERCIAL JOINT STOCK BANK .....	23
Truong Thanh Loc, Tran Ngoc Thanh.....	23
VIETNAM - AUSTRALIA ECONOMIC AND TRADE COOPERATION IN THE NEW NORMAL: OPPORTUNITIES AND CHALLENGES FOR VIETNAMESE INVESTORS.....	30
Nhu Nguyen Phuc Quynh*, Anh Nguyen Thi Nguyet, Duy Nguyen Anh .....	30
IMPACTS OF CREDIT GROWTH AND CREDIT RISK ON THE PROFIT OF VIETNAM JOINT STOCK COMMERCIAL BANKS .....	43
Dao Le Kieu Oanh*, Tran Thi Huong Ngan .....	43
FACTORS AFFECTING CUSTOMERS' DECISIONS TO USE E-BANKING AT JOINT STOCK COMMERCIAL BANKS IN HO CHI MINH CITY .....	57
Nguyen Duy Khanh <sup>1</sup> , Pham Quoc Tham <sup>2</sup> .....	57
HOW CHINA_USA POLITICAL TENSIONS AFFECT STOCK MARKET RETURN OF CHINA AND THE USA? A QUANTILE VAR CONNECTEDNESS APPROACH .....	70
Hao Wen Chang <sup>1</sup> , Tsangyao Chang <sup>2</sup> and Mei-Chih Wang <sup>3</sup> .....	70
BANKING HUMAN RESOURCES BEFORE THE DEVELOPMENT OF ARTIFICIAL INTELLIGENCE AI .....	92
Nguyen Huynh Chi.....	92
IMPROVE THE QUALITY OF TRAINING THROUGH IMPROVEMENT OF STUDENT TESTING AND ASSESSMENT – CASE IN ACCOUNTING BRANCH, UNIVERSITY OF ECONOMICS AND FINANCE .....	102
Thuy Thi Ha .....	102
ACTIVITIES OF DIGITAL TRANSFORMATION IN VIETNAMESE COMMERCIAL BANKS: AN OVERVIEW DURING THE COVID-19 RECOVERY PERIOD.....	109
Nguyễn Thị Quỳnh Châu, Đào Lê Kiều Oanh .....	109
OPPORTUNITIES AND CHALLENGES FOR VIETNAM IN ATTRACTIVE FDI IN GLOBAL MINIMUM CORPORATE TAX IMPLEMENTATION .....	117
Ngo Hoang Thong .....	117

IMPACTS OF STATE OWNERSHIP AND BUSINESS CHARACTERISTICS ON TAX AVOIDANCE: EVIDENCE IN VIETNAM.....	128
Huyen Ngoc Nguyen, Thanh Dan Bui .....	128
RUSSIA'S IMPACTS AND SCENES ON BEING BANNED FROM SWIFT .....	143
Lam Dang Xuan Hoa <sup>1</sup> , Phan Ngoc Anh <sup>2</sup> .....	143
THE ROLE OF ACCESS TO FINANCE AND THE ENTREPRENEURIAL INTENTION OF YOUNGERS IN THE SOUTHWESTERN PROVINCE, VIETNAM.....	151
Vu Truc Phuc*, Nguyen Dang Hat, Nguyen An Phu, Dao Le Kieu Oanh .....	151

## **DIGITAL ECONOMY IN VIETNAM, TRENDS AND POTENTIABILITY**

DEVELOPING SMART HOME MODEL FOR APARTMENTS IN HO CHI MINH CITY BASED ON INTERNET OF THINGS (IoT) TECHNOLOGY .....	182
Dang Thanh Thuy <sup>1</sup> , Nguyen Thanh Dien <sup>2</sup> .....	182
TRANSPARENCY OF ACCOUNTING INFORMATION OF CONSTRUCTION ENTERPRISES IN HO CHI MINH CITY – CASE STUDY OF APPLICATION OF ACCRUAL ACCOUNTING .....	193
Truong Thanh Loc <sup>1*</sup> , Pham Thi Yen Nhi <sup>2</sup> .....	193
FACTORS AFFECTING THE QUALITY OF FINANCIAL STATEMENTS OF MANUFACTURING ENTERPRISES IN HO CHI MINH CITY .....	207
Truong Thanh Loc <sup>*</sup> , Dang Nguyen Tuong Han, Nguyen Ngoc Mai Phuong, Nguyen Thi Quynh Huong .....	207
THE CRITICAL FACTORS OF COLLEGE STUDENTS' INTENTION TO USE METAVERSE TECHNOLOGY FOR SUBJECTS RELATED TO IMPORT-EXPORT LEARNING .....	221
Van Thuy Nguyen Ho, Chau The Huu, Luan Thanh Nguyen <sup>*</sup> .....	221
CONSUMER PERCEPTION ABOUT THE SUSTAINABILITY COMMITMENT OF LUXURY BRANDS IN VIETNAM AND CHINA MARKETS.....	233
Tran Minh Tu <sup>1</sup> .....	233
INFLUENCE OF WOM AND EWOM IN MAKING DECISION BUYING GOODS .....	247
Doan Anh Tu <sup>1</sup> , Kim Phi Rum <sup>2</sup> , Nguyen Pham Hai Ha <sup>3</sup> .....	247
DIGITAL ECONOMY AND DEVELOPMENT POTENTIAL IN VIETNAM.....	257
Hoang Thi Chinh, Nguyen Hoang Phan .....	257
BLOCKCHAIN APPLICATION IN MODERN LOGISTICS: INTERNATIONAL EXPERIENCE AND SOME RECOMMENDATIONS FOR VIETNAM .....	266
Nguyen Nu Tuong Vi.....	266
FACTORS AFFECTING THE DEVELOPMENT OF THE DIGITAL ECONOMY IN VIETNAM .....	272
Vo Tien Si .....	272
LEGAL FRAME FOR THE OPERATION OF THE REAL ESTATE BUSINESS UTILIZING THE BLOCKCHAIN PLATFORM IN VIETNAM.....	284
Le Thi Khanh Linh.....	284

## **DIGITAL TRANSFORMATION – COOPERATION – GLOBAL INTEGRATION IN BUSINESS**

FACTORS INFLUENCING BUSINESS ACCEPTANCE OF INDUSTRY 4.0 TECHNOLOGY APPLICATIONS IN DONG NAI PROVINCE.....	291
Thanh-Thu Vo*, Minh-Huong Tang.....	291
DIGITAL ORIENTATION, INNOVATION CAPABILITY AND FIRM PERFORMANCE: A PROPOSAL RESEARCH MODEL .....	298
Nguyen Van Hau .....	298
PREDICTION OF STUDENT'S BEHAVIORAL INTENTION TO USE SMART LEARNING ENVIRONMENT: A COMBINED MODEL OF SELF-DETERMINATION THEORY AND TECHNOLOGY ACCEPTANCE .....	309
Nguyen Thi Hai Binh <sup>1</sup> , Dao Y Nhi <sup>2</sup> , Nguyen Thanh Luan <sup>3</sup> , Dang Quan Tri <sup>4</sup> .....	309
THE PEDAGOGICAL IMPACT OF GRAMMARLY ON EFL WRITING COMPETENCY: AN EMPIRICAL INVESTIGATION IN HIGHER EDUCATION CONTEXT. ....	323
Nguyen Thi Hong Lien <sup>1</sup> , Nguyen Truong Gia Minh <sup>2</sup> , Nguyen Ngoc Vu <sup>3*</sup> .....	323
FACTORS AFFECTING PURCHASING DECISION OF THE YOUTH ON TIKTOK .....	336
Ngoc Pham <sup>1</sup> , Thanh Cong Tran*.....	336
FACTORS AFFECTING OCCUPATIONAL SAFETY BEHAVIORS OF WORKERS DIRECT PRODUCTION AT CU CHI POWER COMPANY.....	345
Minh Luan Le, Thi Trang Tran.....	345
CORPORATE SOCIAL RESPONSIBILITY AND EMPLOYEES' ORGANIZATIONAL CITIZENSHIP BEHAVIOUR.....	355
Nguyen Xuan Hung <sup>1</sup> , Ha Le Thu Hoai <sup>1</sup> , Nguyen Huu My Truc <sup>2&amp;3</sup> , Pham Tan Nhat <sup>2&amp;3</sup> .....	355
THE INNOVATION CAPACITY - THE ROLE OF LEADERS OF SMALL AND MEDIUM ENTERPRISES IN HO CHI MINH CITY, VIETNAM.....	365
Huynh Nhut Nghia .....	365
PEOPLE'S THOUGHTS ON THE IMPACT OF ARTIFICIAL INTELLIGENCE ON BUSINESS .....	376
Ton Nguyen Trong Hien, Bui Tuyet Anh .....	376
FACTORS AFFECTING BRAND SWITCHING INTENTION IN THE CONTEXT OF HIGHER EDUCATION IN VIETNAM .....	382
Ly Dan Thanh, Nguyen Phu Quoi, Tran Hoang Nam, Vo Hong Son, Nguyen Ngoc Thuy Tien .....	382
ENHANCE THE DIGITAL COMPETITIVENESS .....	398
Tran Quang Canh, Hoang Thi Chinh.....	398

ASSESSING PATIENT SATISFACTION (BRAND) AFTER THE COVID-19 PANDEMIC AT THU DUC CITY HOSPITAL.....	408
Nguyen Hoang Dung <sup>1*</sup> , Nguyen Huynh Bao An <sup>2</sup> , Van Phuong Trang <sup>2</sup> .....	408
INDUSTRIAL AND HUMAN RESOURCES FORM THE FOUNDATION FOR BINH DUONG'S SUSTAINABLE ECONOMIC DEVELOPMENT .....	408
Hoang-An Nguyen .....	417
IMPACT OF ORGANIZATIONAL FAIRNESS ON THE EMPLOYEES' KNOWLEDGE SHARING IN TRAVEL AND TOURISM ENTERPRISES IN HO CHI MINH CITY .....	426
Le Thi Nhu Quynh <sup>1,2</sup> , Le Thi Giang <sup>2</sup> , Truong Quang Dung <sup>1</sup> .....	426
THE EFFECT OF PERSONAL MOTIVATION ON THE TACIT KNOWLEDGE SHARING BEHAVIOR OF 5-STAR HOTELS' EMPLOYEES IN HO CHI MINH CITY .....	440
Le Thi Giang, Nguyen Bach Hoang Phung.....	440
DIGITAL COMPETITIVENESS AND OPERATIONAL EFFICIENCY OF ENTERPRISES IN THE DIGITAL ERA: THE CASE OF VIETNAMESE ENTERPRISES .....	453
Diep Nguyen Thi Ngoc <sup>1*</sup> , Canh Quang Tran <sup>2</sup> , Anh Bach Hoang Ngoc <sup>1</sup> .....	453
FACTORS INFLUENCING PARENTS' SELECTION OF PRIVATE PRESCHOOLS IN THU DUC CITY .....	466
Thi-Trang Tran <sup>1</sup> , Thi-My-Dung Pham <sup>2</sup> , Thi-Bich-Diep Le <sup>1*</sup> .....	466

## **RECOVERY COMMUNICATIONS IN THE TOURISM AND HOSPITALITY INDUSTRY AFTER THE COVID-19 PANDEMIC**

DEVELOPING A SPIRITUAL TOURISM DESTINATION IMAGE MEASUREMENT SCALE OF AN GIANG .....	474
Nguyen Vuong Hoai Thao <sup>1</sup> , Nguyen Quyet Thang <sup>2</sup> .....	474
PROSPECTS OF VIRTUAL REALITY TOURISM APPLICATION IN VIETNAM TOURISM PROMOTION .....	487
Nguyen Thi Hong Ha, Pham Thi Huong Giang.....	487
PERSONALIZATION TRAVEL TRENDING IN HO CHI MINH CITY IN THE CONTEXT OF POST COVID-19 .....	497
Duong Bao Trung.....	497
IMPACTS OF MEDIA ON CUSTOMERS' DECISION TO CHOOSE FOOD AND BEVERAGE SERVICES POST THE COVID-19 PANDEMIC .....	511
Nguyen Thi Bich Van .....	511
DIGITAL TRANSFORMATION APPLICATION TO PROMOTE THE RECOVERY AND DEVELOPMENT OF INBOUND TOURISM IN HO CHI MINH CITY .....	521
Tran Trong Thanh .....	521
VIETNAM TOURISM AFTER COVID-19 PANDEMIC .....	527
Nguyen Hoang Phan <sup>1</sup> , Hoang Thi Chinh <sup>2</sup> .....	527
NAVIGATING THE EVOLVING LANDSCAPE OF SOCIAL MEDIA DATA MINING AND PRIVACY .....	537
Pham Thai Hien .....	537
THE CORRELATION BETWEEN STUDENT SELF-REPORTED GENERAL WELL-BEING AND PERCEIVED SUPPORT FROM FRIENDS, TEACHERS, AND UNIVERSITY .....	545
Virginia Kelsey <sup>1</sup> , Đặng Thị Mai Ly <sup>2*</sup> , Nguyễn Anh Khoa <sup>2</sup> , Nguyễn Văn Tường <sup>2</sup> .....	545

## **DIGITAL VERSUS NON- DIGITAL**

PROVIDING CONVENIENCE TO CUSTOMERS IN THE DIGITAL MARKETING ERA: OBSERVATIONS FROM COMMERCIAL BANKS IN HO CHI MINH CITY .....	556
Nguyen Quang Trung .....	556
VIRTUAL REALITY: AN INNOVATIVE TOOL IN TOURISM EXPERIENTIAL MARKETING .....	564
Thanh Nguyen Ngoc Le <sup>1</sup> , Khuong Thanh Nguyen <sup>2</sup> .....	564
THEORETICAL CONCEPTS OF STRATEGIC POSITIONING FOR PLACE BRANDING: A CASE STUDY OF DONG THAP PROVINCE .....	580
Phan Bao Giang.....	580
LITERATURE REVIEW ON THE IMPACT OF DIGITAL MARKETING ON VIETNAM'S SMALL AND THE MEDIUM BUSINESS ENTERPRISES (SMEs) .....	587
Lê Kim Nguyên * .....	587



## **CHALLENGES FACED BY TEACHERS IN NON-TRADITIONAL EDUCATION**

PROPOSE AN ONLINE TEACHING COMPETENCE SCALE FOR UNIVERSITY LECTURERS .....	596
Duong Thi Kim Oanh*, Dang Thi Dieu Hien .....	596
EXAMINE USAGE OF LEARNING MANAGEMENT SYSTEMS (LMSS) BY FACULTY STAFF AT UNIVERSITY OF ECONOMICS (UEF) AND FINANCE WITH EXPANDED TECHNOLOGY ACCEPTANCE MODEL (TAM).....	608
Ha Truong Minh Hieu, Ngo Minh Hai*, Mach Tran Huy.....	608

**DIGITAL TRANSFORMATION**  
**AN INDISPENSABLE EVOLUTION FOR SUSTAINABLE CORPORATES**

FACTORS AFFECTING THE APPLICATION OF STRATEGIC MANAGEMENT ACCOUNTING AT MANUFACTURING ENTERPRISES IN BINH DUONG PROVINCE .....	618
Truong Thanh Loc <sup>1*</sup> , Nguyen Thi Thanh Truc <sup>2</sup> .....	618
HRM DIGITAL TRANSFORMATION: TAKING A ROAD OF SUCCESSION PLANNING ..	629
Trương Phan Hoàng Anh, Giang Ngọc Anh.....	629
THE IMPLICATION OF CONTACTLESS SERVICE AS A TOOL TO IMPROVE CUSTOMER REVISIT INTENTION .....	640
Linh, Nguyen Duy Yen* .....	640
TOURISM BRAND LOVE IN THE DIGITAL AGE: THE ROLE OF ONLINE TOURIST EXPERIENCES, TOURIST-BRAND RELATIONSHIP QUALITY AND SUSTAINABILITY .....	651
Thanh Nguyen Ngoc Le .....	651
CONDUCTING FOCUS GROUPS IN CROSS-CULTURAL SCHOLARSHIP OF TEACHING AND LEARNING (SoTL): A COMPARATIVE CASE STUDY .....	662
Punithan Moganathas <sup>1</sup> , Jenny Hill <sup>2</sup> , Andy V.-M. Kok <sup>2</sup> , Matt Barr <sup>2</sup> , Ruffin Relja <sup>2*</sup> , Philippa Ward <sup>2</sup> , Duong Tran Quang Hoang <sup>3</sup> , Quynh Phuong Tran <sup>3</sup> .....	662
LEVERAGING DIGITAL TRANSFORMATION FOR SUSTAINABLE CORPORATE EVOLUTION IN VIETNAM .....	677
Nguyen, Tan Dat <sup>1</sup> , Le, Dinh Thang <sup>2</sup> .....	677

## INFORMATION TECHNOLOGY AND APPLICATIONS

FB-PROPHET MODEL FOR TIME SERIES FORECASTING IN SALES .....	691
Thanh Cong Tran .....	691
USING AI CODE IN C# PROGRAMMING .....	698
Nguyen Ha Giang.....	698
DETERMINANTS OF CONTINUANCE USAGE INTENTION OF MOBILE FOOD ORDERING APPLICATIONS (MFOAS) AMONG VIETNAMESE USERS: THE MEDIATING ROLE OF E- SATISFACTION .....	705
Lam Hoang Phuong <sup>1*</sup> , Nguyen Thi Kim Lien <sup>2</sup> , Tien Hung Nguyen <sup>3</sup> , Vinh Long Nguyen <sup>4</sup> .....	705
DECODING MARKETING INSIGHT: INSIGHT FROM OUTSIDE.....	718
Hoàng Thị Hằng, Trần Thành Công* .....	718
DIGITAL DISRUPTION AND DATA SECURITY: HOW FINTECH IS RESHAPING BANKING ...	724
Hoàng Văn Hiếu, Trần Ngọc Thiên Ngân.....	724

## **TRENDS AND ISSUES IN ENGLISH LANGUAGE EDUCATION AND RESEARCH**

EFL LEARNERS' ATTITUDES AND LEARNING ENGAGEMENT IN COMMUNICATIVE GAME-BASED GRAMMAR TEACHING .....	736
Nguyen Thi Thanh Huyen <sup>1</sup> , Tran Quoc Thao <sup>2</sup> .....	736
APPROACHES TO TEACHING L2 LISTENING:.....	749
CLOSING THE GAP BETWEEN REAL-LIFE AND CLASSROOM-BASED LISTENING .....	749
Luu Thi Mai Vy .....	749
DEFINING ROLES OF STUDENT ENGAGEMENT IN THE 21ST CENTURY LANGUAGE CLASSROOM .....	755
Ho Xuan Tien, Duong My Tham.....	755
EFL STUDENTS' ATTITUDES AND LEARNING INVESTMENT IN PORTFOLIO - BASED ENGLISH WRITING LEARNING: A LITERATURE REVIEW .....	763
Ly Gia Huy <sup>1</sup> , Tran Quoc Thao <sup>2</sup> .....	763
EXPLORING EFL LEARNER IDENTITIES IN PROJECT-BASED LANGUAGE LEARNING AT A HIGH SCHOOL IN AN GIANG PROVINCE .....	774
Nguyen Hong Thien <sup>1</sup> , Tran Quoc Thao <sup>2</sup> .....	774
THE VALUES OF SYNTACTIC COMPLEXITY IN ACADEMIC WRITING: A LITERATURE REVIEW .....	791
THE ISSUE OF AMBIGUITY IN THE ENGLISH LANGUAGE.....	801
Nguyen Dinh Tuan .....	801
RESEARCH PERSPECTIVES ON JUNIOR HIGH SCHOOL EFL STUDENTS' MOTIVATION IN ENGLISH LANGUAGE LEARNING .....	812
Huynh Thanh Nhon <sup>1</sup> , Tran Quoc Thao <sup>2</sup> .....	812
EXPLORING THE INFLUENCE OF WRITING ANXIETY ON VIETNAMESE ESL UNDERGRADUATES' WRITING PERFORMANCE: A QUANTITATIVE STUDY.....	821
Nguyen Ngoc Nguyen, Nguyen Hoang Phan.....	821
THE APPLICATION OF THE "FLIPPED CLASSROOM" MODEL IN TEACHING ENGLISH IN THE VIETNAMESE UNIVERSITY EDUCATION ENVIRONMENT .....	838
THE USE OF RESOURCE MANAGEMENT STRATEGIES IN EFLFLIPPED CLASSROOMS .....	847
Nguyen Quynh Thao Vy <sup>1,*</sup> , Duong My Tham <sup>2</sup> .....	847
INSIGHTS INTO ENGLISH MAJOR STUDENTS' USE OF PHRASAL VERBS IN ACADEMIC WRITING.....	860
Do Thi Thanh Thuy, Tran Quoc Thao .....	860

## **LAW IN THE CONTEXT OF INTERNATIONAL INTEGRATION**

LEGALISING INTELLECTUAL PROPERTY INFRINGEMENTS IN RUSSIA – A WAR TACTIC IN THE CONTEXT OF RUSSIA’S INVASION OF UKRAINE.....	869
Bui Thi Hong Ninh* .....	869
MODEL OF ASSET REGISTRATION WORLDWIDE AND LESSONS FOR VIETNAM IN IMPROVING ASSET REGISTRATION LAWS.....	880
Vu Anh Sao <sup>1,2</sup> , Nguyen Thi Xuan Mai <sup>2</sup> .....	880
LEGAL ISSUES ARISING FROM THE DEVELOPMENT, IMPLEMENTATION, AND USE OF ARTIFICIAL INTELLIGENCE (AI) - INTERNATIONAL EXPERIENCES AND LESSONS FOR VIETNAM .....	887
Le Hoang Minh Huy*, Nguyen Thi Thu Ha, Dao Trong Duc, Ky Dieu Linh, Bui Thi Thuy Linh, Nguyen Nam Trung.....	887
SOUTH KOREA’S EXPERIENCES ON PROPERTY REGISTRATION LAW - LESSONS FOR VIETNAM .....	896
Vu Anh Sao, Pham Huynh Bao Oanh.....	896
THE RISE OF REMOTE WORK: LEGAL CHALLENGES AND IMPLICATIONS FOR EMPLOYMENT LAW IN VIETNAM .....	903
Nguyen Thi Xuan Mai <sup>1</sup> , Nguyen Thi Ngoc Loan <sup>2</sup> .....	903
CHALLENGES AND RECOMMENDATIONS FOR THE LEGAL FRAMEWORK IN THE EMERGING AGE OF ARTIFICIAL INTELLIGENCE.....	910
Nguyen Thi Thu Trang .....	910
THE IMPACTS OF GLOBAL MINIMUM TAX ON FOREIGN DIRECT INVESTMENT (FDI) CORPORATIONS IN VIETNAM.....	921
Trần Ngọc Thanh <sup>1</sup> .....	921
CROSS-BORDER E-COMMERCE ACTIVITIES AND TAX MANAGEMENT ISSUES .....	933
Le Huynh Phuong Chinh, Ngo Thi Khanh Linh, Pham Ngoc Lan Anh.....	933
EXPERIENCE IN KOREA AND CHINA ON TAX MANAGEMENT FOR CROSS-BORDER E-COMMERCE ACTIVITIES .....	941
Duong Anh Son <sup>1</sup> , Tran Vang Phu <sup>2</sup> .....	941
LEGAL PERSPECTIVE ON REGULATIONS RALATED TO PERSONAL INCOME TAX WHEN EARNING INCOME THROUGH E-COMMERCE PLATFORMS IN VIETNAM, TAKING THE CASE OF INDIVIDUALS DOING BUSINESS THROUGH TIKTOK APPLICATION.....	946
Nguyen Duc Tri <sup>1</sup> , Hoang Minh Châu <sup>2</sup> .....	946
THE COMPATIBILITY ON THE SCOPE OF MUTUAL LEGAL ASSISTANCE (MLA) IN CRIMINAL MATTERS AND THE CONDITIONS OF REFUSAL MLA IN CRIMINAL MATTERS BETWEEN VIETNAMESE LAW AND INTERNATIONAL TREATIES WHICH VIETNAM HAS SIGNED. ....	956

Pham Huynh Bao Oanh.....	956
TAX POLICY FOR E-COMMERCE OF COUNTRIES IN THE WORLD AND RECOMMENDATIONS TO VIETNAM.....	967
Nguyen Thanh Minh Chanh, Ha Thi Van Anh, Pham Lam Tam Nhu .....	967
LEGAL REGULATIONS FOR ENTERPRISE OBLIGATIONS TO PROVIDE INFORMATION ON E-COMMERCE PLATFORM .....	974
Truong Kim Phung*, Nguyen Hoang Chuong .....	974
“ROBOT TAX” – RECOMMENDATIONS FOR VIETNAM.....	981
Gian Thi Le Na, Pham Phuong Doanh.....	981
WTO APPELLATE BODY REFORM IN THE CONTEXT OF ESCALATING GEOPOLITICAL TENSIONS.....	988
Nguyen Nam Trung.....	988

## THE EFFICIENCY OF THE INTERNAL CONTROL SYSTEM IN RISK MANAGEMENT AT THE NAM A COMMERCIAL JOINT STOCK BANK

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### **Abstract**

*The article aims to analyze the factors affecting the effectiveness of the internal control system in risk management at the Nam A Commercial Joint Stock Bank. The data used in the article are collected from financial statements and survey data from 178 employees at the Ho Chi Minh City branch of the Nam A Commercial Joint Stock Bank, to analyze the efficiency of the internal control system. Through the analysis, the article offers solutions to improve the internal control system at the Nam A bank, including: upgrading the control environment; goal setting improvement, risk identification and assessment; enhancing the monitoring and control process; and improvement in information and communication technologies.*

**Keywords:** *Internal control system, risk management, banking.*

### **1. Introduction**

The special role of control activities in general and the internal control system in particular has received attention from many research around the world. Previous studies have introduced a unified concept of internal control, to serve the needs of different audiences, and provided components of the internal control system, to help an entity build an effective control system. However, even if the internal control system is perfectly designed, it cannot prevent or detect every possible wrongdoing due to differences in the model of the organization. According to Rose (2001), therefore, one of the best defenses against business failure, as well as an important basis of business performance, is to have a practical internal control system, which helps to manage take risks and allow creativity.

Nam A Commercial Joint Stock Bank officially operated on October 21, 1992, is one of the first joint-stock commercial banks established after the Ordinance on Banking was issued in 1990. From the early days of operation, the bank has only 3 branches with a capital of 5 billion VND and nearly 50 employees. Up to now, through challenging journeys, the bank has constantly grown with a network of 108 transaction points across the country. Compared to 1992, the current capital has increased by more than 1,020 times, and the number of employees has increased by more than 77 times, most of them are young, dynamic staff who have received formal training abroad and have professional qualifications. The long history of development and operation has confirmed the position of the Nam A Bank.

In order to develop a sustainable development orientation, especially in the period of deep economic integration and during the current transformation of ownership, Nam A Commercial Joint Stock Bank is gradually perfecting its control system. internal. Therefore, the article aims to analyze the influencing factors to improve the efficiency of the internal control system in the direction of risk management in operations at the Nam A Commercial Joint Stock Bank in Hochiminh City.

### **2. Literature review and research method**

## 2.1. Literature review

Griffith-Jones, Spratt, & Segoviano (2003) described the basic elements of an effective internal control system and outlined the applied experiences in several banking institutions. At the same time, the study also outlined some principles that the inspectorate uses to evaluate the internal control system at the bank. An effective internal control system is an integral part of the bank's governance and is the foundation for the safe development of the bank's operations. Specifically, the role of the bank's internal control system is seen as a process carried out by the board of directors, the executive board, and all employees. It is not a procedure or policy that is implemented at one point in time but continues at all levels in the bank.

According to the Basel framework on international banking regulations (Bakarat, 2009), the main objective of internal control is (1) to use efficiently and to ensure the safe use of resources without loss; (2) to demonstrate reliability, provide complete and timely information for the bank's activities, (3) the internal control principles must comply with the regulations and applicable laws, ensuring that the bank's business activities must comply with the proposed laws.

Basic principles of the internal control system in the bank, including 13 principles and divided into groups of closely related factors, namely: management supervision and control culture (03 principles); risk assessment (01 principle); control activities and task assignment (02 principles); information exchange (03 principles); supervision and correction activities (03 principles) and evaluation with the banking inspection agency (01 principle).

According to the guidance of PricewaterhouseCoopers & Commission (2004) on the practice of internal control in the direction of risk management, there are 8 factors including: control environment, goal setting, event identification, risk assessment, risk response, and operations. control, information and communication, and monitoring

## 2.2. Research method

The paper uses qualitative and quantitative research methods. Specifically, data collection through survey questionnaires sent to 178 staff at Nam A Bank Hochiminh city branch, analysis, and synthesis. There are also direct interviews with representatives of the operations department and surveys of business processes. Then, we collect and analyze information on some recent fraud cases in the bank, thereby identifying some weaknesses in the internal control system of the Nam A Bank.

The questionnaire was designed, based on the internal control assessment tool of PricewaterhouseCoopers & Commission (2004) to collect information about the perception of managers and employees in the bank, about the organization and operation of the bank, and the implementation of the internal control system in the direction of risk management. Accordingly, the survey outlines 8 components constituting the internal control system including: control environment, goal setting, event identification, risk assessment, risk response, and control operation, information and communication, and monitoring.

In addition, the author also collects secondary data such as rules and regulations related to the elements constituting the internal control system such as ethics policy, labor rules, job description. work of each position, regulations, and working procedures related to the internal control system.

Based on the survey results, we calculate the percentage of answers, use descriptive statistics to analyze and evaluate the status of internal control at the Nam ABBank. The number of survey questionnaires distributed was 210 in the Nam A bank branches in Hochiminh City. The results collected 185 answers, of which 7 were invalid, mainly because the respondents did not fill in enough information to answer. Thus, the number of valid answers is 178, and we collect and process data to serve the analysis and assessment of the current state of the bank's internal control system.



### 3. Research results

#### 3.1. The internal control system in risk management of the Nam A Bank

##### 3.1.1. Control environment

Most of the opinions agree that the bank should apply the implementation of an internal control system in the direction of risk management into the bank management system. In addition, 100% (178/178) of the answers are highly appreciated for the business philosophy and business attitude of the board of directors and all employees of the bank. This brings the success of the bank over the years.

The board of directors plays an important role in guiding and monitoring the strategy. Up to 91% (162/178) of the respondents agreed that the board of directors should have independent and executive members. However, there are still 6% (10/178) of the opinion that many members of the board of directors are cumbersome, the management is duplicated and overlapped. On the other hand, most of the answers highly appreciated the professional qualifications, clear authorization, and understanding of each member of the board of directors.

In addition, 94% (167/178) of the respondents said that integrity and ethical values in the bank are highly valued; clearly defined and widely deployed to all employees to know and strictly implement. However, there are still 12% of the opinions that banks are still not very strict when dealing with violations of professional ethics, according to the issued regulations.

It is highly agreed that the regulations and standards of a job position meet the recruitment requirements. For the newly recruited employees, they need to be trained more regularly, but for the skilled staff, the 6-month period of checking skills is not appropriate. 75% (134/178) opinions disagree with this decision and it is also an implicit inadequacy for monitoring the job quality.

The division of functions and powers has clear regulations, accounting for 92% (165/178) agreeing with this, showing that the bank is quite interested in checking and adjusting the current organizational structure. The division of functions and powers, in order to reduce the risk of concurrently taking on many jobs at the same time, also helps employees to reduce work overload to focus on their expertise. However, 13% (23/178) disagreed with the division of functions and powers creating duplication between departments and this also means 13% of opinions were not satisfied with the division.

##### 3.1.2. Goal setting

Through the survey process, over 89% (160/178) of the respondents said that the bank's business objectives were clear. Nam A Bank has developed specific goals to increase profits and maintain sustainable development, which is replicated in the system so that all employees can easily understand and implement the common goals of the unit as well as the business can regularly review the acceptable level of risk.

##### 3.1.3. Event identification

The bank has reviewed and identified potential events on a regular basis to take appropriate orientations and steps in the current period, with more than 92% (164/178) agreeing on this statement. Besides, the risk of changing senior personnel is also noticed by the bank, with more than 87% (156/178) of the opinion that, when changing a senior employee, it also entails some significant risks, such as exposing business strategy, goals and future direction. In addition, loyal and potential customers will also easily change into competitors.

##### 3.1.4. Risk assessment

The bank highly appreciates risk analysis and assessment, but in fact, the bank still does not have in-depth research and a committee for risk analysis, with 88% agreeing (158/178). The bank's business goals and strategies are always clear and broken down to each department and vice versa, the small goals of each

department are always considered, to ensure that it is always consistent with the common goals, with more than 85% of the opinions agree.

#### 3.1.5. Risk response

88% (158/178) of the respondents agree that the bank's board of directors has given direction to coordinate with relevant departments at the head office and external management agencies in the implementation of payment activities. inspection, audit, examination, and supervision related to accounting data at the branch. In addition, the development of a credit risk warning system is highly appreciated, with more than 93% agreement (167/178), which shows the bank's clear efforts in approaching international standards, improving efficiency, risk management and debt management.

#### 3.1.6. Control operation

With 100% (178/178) of the opinion, the provision of adequate working equipment for each officer is the bank's focus on security. Typically, after an officer assumes a certain position, the bank organizes training to use the software as well as separate access rights for each individual to create security and manage strict risk. The daily, monthly and quarterly tasks of accountants and tellers are also clearly specified in the document on asset inventory, document rotation, etc., which are performed by employees in strict accordance with the process.

#### 3.1.7. Information and communication

All of the bank officers agreed that the bank's information and communication activities are implemented quickly and in a timely manner to help the bank predict risks or opportunities offered to the organization. However, up to 95% of the opinions said that there was a fear of collision, even respect for the direct manager, so employees reported their work to be superior, which caused difficulties in the bank's management.

#### 3.1.8. Monitoring

Departments and employees manage each other, implying that the internal control system at the bank is a system with a tight and closed management process on people and documents. In addition, there is a regular and periodic assessment by managers on the effectiveness of the internal control system in order to promptly detect errors as well as promote potential strengths.

### 3.2. Evaluation

#### 3.2.1. Advantage

(1) Strict control environment: The Board of Directors always upholds integrity and ethical values. In fact, the bank regularly sets forth regulatory documents as well as rules and regulations, according to ISO standards. Personnel in the accounting department of internal control are more focused. The number of personnel has increased over the years, and training has been organized for specialists throughout the system.

(2) Setting decentralization goals: Every year, the bank sets business targets and targets to master specific goals of each department, and categorizes goals to put into activities by month and quarter.

(3) Proactive event identification: The bank has measures to identify internal as well as external risks, anticipate potential risks in order to proactively deal with them.

(4) Proactive risk response: The bank regularly checks all the general activities of the departments, always reviews the documents and the circulation process according to the predetermined process.

(5) Comprehensive control activities: The archiving of documents must comply with the regulations of the Ministry of Finance; at the same time, the bank always attaches importance to controlling the entire

system by applying information technology. Maintenance work, maintenance of tools, tools and equipment is carried out strictly according to the plan.

(6) Quick communication: Feedback from customers is received, learned and responded seriously.

(7) Mutual supervision: Employees are aware of the importance of cross-supervising each other, within the scope of their assigned functions and tasks.

### 3.2.2. Disadvantage

(1) The leadership has not yet taken the lead in handling violations in terms of attitude towards subordinates which are not harmonious. Regulations on entering and exiting the treasury department are still loose, many non-functional employees in the department still go in and out regularly, affecting the rigor of vault management.

(2) Although the bank has set clear and specific goals for each department, a small part of employees are not interested.

(3) The Bank has not assessed and analyzed the advantages and disadvantages of the unit to gradually complete the set goals. The unit has not realized the importance of external factors and the identification of infrequent events such as risk identification related to customers, collateral, and debt repayment ability.

(4) The Bank does not have an in-depth research committee to assess risks.

(5) The Bank has not paid much attention to limit the level of risk, and is still weak in risk communication.

(6) The Bank's incorrect perception of the inspection should lead to the intentional concealment of defects, not creating conditions to perform the inspection task. The coordination between the audit and functional departments is not close. There are no regular meetings with functional department leaders to collect feedback from these departments on the internal control accounting and auditing work. The labor and salary monitoring apparatus is cumbersome.

(7) Strategic information and goals of the units have not been widely communicated to the employees, so the awareness of the employees towards the common goals of the unit is not high.

(8) The monitoring criteria are extracted separately according to each accounting screen, so the risks and abnormal signs for each transaction item and each customer are not fully covered, so sometimes all risks are not recognized. The method of remote monitoring is slow and inefficient.

## 4. Conclusion and recommendations

### 4.1. Recommendations

#### 4.1.1. Control environment

The bank's management should attach importance to the role of the internal control system by establishing an adequate control mechanism for the entire operation of the unit, and creating a comprehensive control culture in the organization. office. The board of directors must take the lead in controlling to thoroughly handle all violations. The leadership and department heads need to widely disseminate to all employees about the risk management culture. Periodically check the working style and culture in each department. Regularly organize competitions to learn about risk management and raise awareness of risk management.

#### 4.1.2. Goal setting, risk identification and assessment

The bank needs to clearly define the common goal and disseminate it to each department through documents, from which the leaders of each department disseminate it to each employee to know for implementation. Risk identification has not been paid enough attention, so it will be difficult to fall into a

state of risk. In addition, the bank should establish a department to identify risks arising in the business operations.

#### 4.1.3. Control operation

Basically, the control activities at the bank are regularly concerned; however, the inspection is only of a forewarned response, so the effectiveness is not high. The bank needs to go deeper into inspection and supervision to take timely measures and transfer employees with signs of violations. Need to recruit more staff to be in charge of the post-audit section to minimize risk ; and update documents, policies and regimes on a regular basis to ensure that internal control activities of the unit are not outdated. In particular, banks need to pay attention to controlling activities with many potential risks such as deposit credit and loan credit.

#### 4.1.4. Information and communication

The bank needs to improve the publicity of documents summarizing business processes, regulations for each type of product and instructions for customers. These regulations are announced on the bank's website so that all customers and employees are clear. The most effective form of information dissemination is to notify all departments and ask the meeting manager to disseminate important content, while other contents must be read by employees and signed. read and understood. Beside, it is essential to disclose in newspapers and websites about financial reporting information.

#### 4.1.5. Supervision work

The bank needs to develop a process of regular supervision combined with periodic supervision by internal controllers to give independent and objective opinions and assessments. Auditors are professionally trained in the banking industry and participate in daily banking processes and activities.

### 4.2. Conclusion

Banking business in general and Nam A joint-stock commercial bank in particular always contain many complex risks, because it is indirectly affected by the various stakeholders. Especially, in the recent period, the bank has realized the importance of risk management. Therefore, it is necessary and important to analyze and evaluate the current situation in order to come up with solutions to improve the internal control system in risk management at Nam A Commercial Joint Stock Bank, which supports the sustainable development of the bank in the future.

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