Media title: PwC director highlights importantce of RBIA
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PwC director highlights importance of RBIA

As the banking industry moves towards Basel II and seeks foreign capital for growth, it is high time Vietnamese banks adopted the risk-based method for internal auditing. **Xavier Potier**, director of Risk Assurance Services at PwC Vietnam, shared with *VIR*'s **Nam Phuong** his thoughts on the issue.

Can you describe what risk-based internal auditing (RBIA) is? Why should Vietnamese banks adopt RBIA instead of traditional approaches?

RBIA is a methodology that links internal auditing to the bank's overall risk management framework. RBIA allows internal auditors to assure board members that the bank is managing risks effectively, in relation to their risk appetite.

Traditionally, internal auditing is based on an audit cycle with strict timelines and focuses on deficiencies in controls and non-compliance cases. This traditional approach includes time-consuming mapping exercises that might rely on outdated policies or manuals. Meanwhile, RBIA is based on the risk assessment result via active involvement of related stakeholders.

There are numerous benefits of RBIA. Firstly, it's directly linked to the bank's risk management process, thus increasing the relevance and credibility of the internal audit. Secondly, RBIA provides a holistic view of the bank's operations as it includes various stakeholders in the process.

Finally, and most importantly, Circular No.44/2011/TT-NHNN issued by the State Bank of Vietnam (SBV) specifies that banks must adopt RBIA to focus their resources on business areas, departments, or processes that can be riskier than others. According to Basel II standards, RBIA is the "third line of defence" for banks, as it independently assesses and provides assurance to the bank's operations.

Have Vietnamese banks adopted RBIA for their internal audit process yet?

I've seen a number of banks in Vietnam successfully running RBIA for their business. The remaining lenders still follow traditional approaches. To be honest, we cannot draw a definitive list of RBIA-adopting banks in Vietnam, as some financial institutions may not be transparent about their internal audit process, and we can't be sure whether they have really implemented RBIA or not.

There are some difficulties that prevent Vietnamese lenders from adopting RBIA. Firstly, internal auditors face the challenge of convincing the bank's top management to take up RBIA. Board members may think that this approach is too costly or time-consuming and internal auditors must prove otherwise. Secondly, it also takes time to fully understand RBIA and trial-run the process, which can take more than two years.

However, as I said, it is now compulsory for Vietnamese banks to have a risk-based plan for their internal audit, based on Circular 44 and international standards set by the Global Institute of Internal Auditors. Ten domestic banks have also been earmarked by SBV to adopt Basel II in 2018. So banks have no choice but to implement RBIA in the next few years.

Recent RBIA workshops held by PwC in Hanoi and Ho Chi Minh City have been well-received by internal auditors from Vietnamese banks. They're eager to learn about RBIA and how to persuade the top management to adopt this approach.

How can RBIA help banks attract foreign investors, as well as improve their risk management process for Basel II?

RBIA will definitely help Vietnamese lenders improve their reputation and attractiveness to international investors. Thanks to RBIA reports, foreign investors can clearly see a list of potential risks and how the bank plans to manage them. Banks thus appear as a transparent and responsible business to potential investors.

Moreover, most foreign investors come from countries that have adopted RBIA, so they'd expect the same standards when investing in Vietnamese banks. In fact, I can see that domestic lenders that already have a strategic foreign investor tend to be more open towards RBIA.

In short, RBIA is crucial for the banking sector as banks are a special type of business, entrusted to deal with money by individuals and corporations. Not only foreign investors, but all other stakeholders of banks have the right to know whether the banks are handling money properly, and RBIA will give them that assurance.

Regarding risk management in general, we can say that Basel II has much more stringent standards on risks that a bank can face, ranging from credit to operational risks. This requires Vietnamese lenders to adopt a comprehensive risk management framework, which is also a foundation for RBIA.■