Internal control of long-lived assets and the application of regulations in Ecuador's GADs

Verónica Ponce Chalén
Email: vponce@upse.edu.ec
ORCID code: https://orcid.org/0000-0002-2038-2654
Affiliation: Universidad Estatal Península de Santa Elena

Carlos Ferreira
Email: ferreira@uns.edu.ar
ORCID code: https://orcid.org/0000-0002-6866-4693
Affiliation: Universidad Nacional del Sur

Jose Townsed
Email: jtownsend@uteg.edu.ec
ORCID code: https://orcid.org/0000-0001-5319-4425
Affiliation: Universidad Técnica Empresarial de Guayaquil

Abstract

Internal control involves the various mechanisms and provisions to manage processes, activities and assets in a manner consistent with the achievement of objectives and goals of the Municipal Decentralized Autonomous Governments of Ecuador (DAG). Consequently, there are laws, internal control standards, and regulations of the Comptroller General of the State, Ecuador's property control agency, that are immediately enforceable; however, in special examinations conducted by the DAG, servers are held accountable for non-compliance with the control of long-term assets. For this reason, it is worth asking if, within the management of the Decentralized Autonomous Governments (DAG), there is any relationship between internal control and the regulations on long-lived assets, being the objective of correlating internal control and internal regulations on long-lived assets of the DAG of Ecuador. For this purpose, a quantitative methodology was used, under descriptive correlational research, considering as a sample 6 municipalities of Ecuador with similar characteristics. As a result, the absence of internal regulations such as manuals of processes and functions as a component with the highest degree of difficulty of the users of the DAG incurring in the non-application of the 406-10 regulations, physical verification for the control of goods.

Keywords: Internal control, Regulations, GAD, Asset management.

DOI Number: 10.14704/nq.2022.20.13.NQ88155 **Neuro Quantology 2022; 20(13):1223-1227**

Introduction

Internal control is a process that provides security for operational and financial objectives, which is the responsibility of each institution that has public resources. In this sense, internal control should promote the efficiency and effectiveness of operations in an ethical, transparent and reliable manner; comply with legal provisions and regulations for the provision of quality public goods and services; and protect and conserve public assets against loss, illegal use and waste (Gamboa et al., 2016).

For his part, the public audit researcher, Antonio López Fernández, states that internal control is the organizational plan of methods that allows public and private companies to ensure efficiency and effectiveness in administrative management and the protection of assets by foreseeing and detecting fraud and errors. Likewise, to keep reliable accounting records and comply with management guidelines, which is possible thanks to the electronic government, which allows knowing and making transparent all the information and compliance with regulations

maintained by public governments (López Hernandez, 2012).

In this order of ideas, in 2009, through the official registry 39, Supplement 87 of December 14, 2009, and modified on December 16, 2014, in Ecuador, the internal control regulations of public institutions were regulated, through the issuance of the Internal Control Standards applying COSO I and II, by the General Comptroller of the State of Ecuador and its immediate application in all public institutions and Municipal Decentralized Autonomous Governments (GAD). Standards 100-200-300-400, and 406 are oriented to compliance with internal control of assets, the Ministry of Finance of Ecuador (COMPTROLLER'S OFFICE, 2009).

In the results of the audit process carried out in 2013 and 2020, the municipal Decentralized Autonomous Governments to long-lived assets, omissions were detected in the application of internal control generating inconsistencies in the information presented by the administrative-financial areas. Therefore, the application of internal control regulations was recommended to prevent donations without justification or due process, keeping unused assets, transfers without legal support, depreciation not considered according to the useful life, valuation and quantification, keeping the databases and the computer system updated, absence of non-integrated computer systems, management indicators for the control of assets. However, t effect of these actions results in unrealistic financial statements, which are tools for erroneous decision-making by the authorities of the GAD (Comptroller's Office, 2009).

In this sense, asset management has not been conceived as fundamental for management and financial-administrative control over the inventory of long-lived assets and assets subject to control, including equipment, machinery, and road equipment, among others, within local governments at the national level (Office of the Comptroller General of the State, 2009).

It is necessary to emphasize that the DAG of Ecuador must maintain policies to delimit their responsibilities and maintain control, research, and development. Krieger (2001) praises six processes of research and development; the first he names as Basic or Fundamental Science, generic knowledge, or pure information without a practical purpose; the second mentions that this process must have a practical purpose; the third adds a process to the practicality, a value is generated at the end, the fourth is a new knowledge with the potential to solve a problem. If the knowledge generated by the organization applies to producing a good or service, in the case of this research, carrying out this research will generate added value for decision-making. The fifth process is called "usable knowledge" since it can be integrated into a department or unit; the author qualifies it as innovation. The sixth process, called adaptation, is adapting technology to the context. This information is adapted to the conditions of the public administration in order to generate a forceful response to the needs posed (Krieger, 2001; Maliza et al., 2022).

For its part, the Constitution of the Republic of Ecuador in Article 211 provides that the Comptroller General of the State is the technical body responsible for the control of the use of state resources that have public resources; in addition to Articles 212, 233, mentions that the functions of public servants have administrative, civil and criminal functions and responsibilities, concerning the management and administration these resources (Constituent Assembly, 2018)

The Organic Law of the Comptroller General of the State establishes that Public Resources shall be understood as "...all goods, funds, securities, shares, participations, assets, income, profits, surpluses, subsidies and all rights belonging to the State and its institutions, regardless of the source from which they originate, including those from loans, donations and deliveries that, in any other title, are made in favor of the State or its institutions, natural or legal persons or national or international organizations" (Comptroller General of the State, 2017).

In the Official Register Supplement 755 of May 16, 2016, through Agreement 041-CG-2016 of November 17, 2016, the Codification and Reform to the General Regulations for the Administration, Use, Management and Control of Public Sector Assets and Stocks were issued, published in the First Official Register Supplement 888 of November 23, 2016. Through Agreement 025-CG-2017 of August 15, 2017, the Reform to the Regulations for the Administration and Control of Public Sector Assets was issued. To this, the internal control standards are also adhered to, which in regulation 406 entirely guides the control management of public assets

(CONTRALORÍA, 2009). Therefore, each municipality must maintain internal regulations through process and function manuals that allow the assets to help achieve the annual operational and strategic planning objectives.

For this reason, the objective of this article was to correlate internal control and regulations on long-lived assets of the GADs of Ecuador.

Materials and Methods

This research project is based on descriptive and correlational field research, justifying its application by exposing the problems of reality in order to identify the factors that incur in the non-application of the regulations in force in the public sector for the control of goods, also in this study has been considered the analysis of the internal control of goods, considering a sample of 6 GAD of a population of 210 GAD. However, the assets of the GAD of Santa Elena are taken as the object of statistical study because it is administratively responsible for the largest number of omissions in the control of assets, as demonstrated in the reports of internal and external audits guiding the evaluated areas: warehouse, fixed assets, accounting and systems.

The determination of the elements of the study is very broad; the non-probabilistic stratified sample is taken to the equipment and technology resources since these represent administrative-financial inconsistency for the entity.

The research is descriptive because it identifies and interprets the characteristics of the goods and the situation in which they are found within the dependencies of the GAD Santa Elena. Likewise, its approach is quantitative because it is based on testing a hypothesis raised in the exploratory stage, using data collection instruments that allow a quantitative evaluation to determine the course of action to follow. Therefore, in this research work following the quantitative approach, all data were collected and statistically analyzed to test the hypothesis previously established, counting and statistics to accurately establish the patterns of behavior of the GAD data in terms of long-lived assets.

About the research methods, a deductive method was used since the research started from a problematic reality which is the application of internal control, i.e., from the general knowledge and principles, the particular facts or phenomena were studied, from the general to the particular (Bejar, 2008). Similarly, the historical method was considered because the research was used as a succession of facts and phenomena that have been presented since 2008, which allowed to know and evaluate the evolution of certain public administration problems and foresee their future trends. This method allows dynamic and not static analysis of the problem (Alia, 201 6; Cando et al., 2022). Finally, the hypothetico-deductive method was considered since it was selected for the verification of the statements, being necessary to construct a hypothesis to explain such phenomenon, whether it is valid or null.

The population was made up of the different municipalities of Ecuador, specifically taking six municipalities as a sample. Therefore, the present work was carried out in the Administrative, Financial and Systems Units of the Municipality of Santa Elena.

For the calculation of the sample, the known size of the population was considered, which corresponds to 1605 assets corresponding to technology assets, and the following formula was used:

$$n = \frac{N \times Z_a^{\,2} \times p \times q}{d^2 \times (N-1) + Z_a^{\,2} \times p \times q}$$

Where considered:

Population size: 1605

Error: 3% Error: 3% Error: 3% Error: 3% Error: 3% Error: 3% Error: 3% Error: 3%

Excel VBA language was used to program a macro to calculate the sample size.

Figure 1 *Sample size calculation*

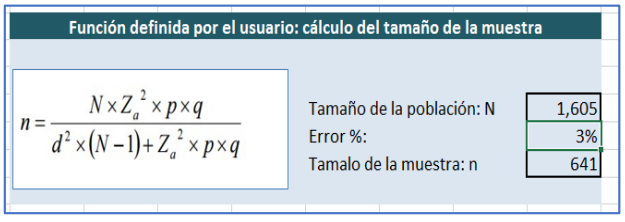


Figure 2 *Macro developed for the calculation*

The calculated sample size indicates that 641 items were reviewed.

For the numerical information, quantitative analysis was used, statistical analysis for grouped data such as frequency distribution table, and statistical inference with confidence interval. The

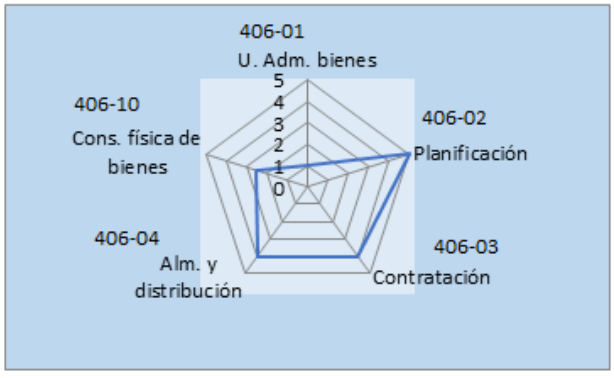
methodology applied was that for each generated table, the behavior of the variables that appeared in it was evaluated, specifying how they acted individually. In the case of the samples, it was necessary to calculate the significance levels of the differences between the percentages and the averages. In the case of differences appearing, it was necessary to know the limits within which these differences were statistically significant.

On the other hand, observation and interviews were used as data collection techniques, directed to the heads of the areas mentioned above, who provided the necessary basic data to learn in-depth about the management of long-term assets custody.

Results and Discussion

The fieldwork corresponds to the Municipality of Santa Elena, related to internal control standard 406 related to long-lived assets. Standard 406-01 Asset Management Unit; 406-02 Planning; 406-3 Contracting; 406-04 Storage and Distribution and 406-10 Physical verification of stocks and long-lived assets were evaluated. This evaluation aimed to supervise and monitor errors and irregularities that were not detected with the control activities. According to the results of the surveys, it was found that there is an asset management unit that enters, registers and controls the assets until they are delivered to the employees who are responsible for their use; the assets are coded; however, there are deficiencies in detecting errors and making corrections in the storage and physical verification of the assets.

Figure 3 : *Correlation matrix between control components*



Statistical correlations measure significant relationships to identify opportunities through advanced data mining; the correlation matrix between the components of Internal Control Standard 406-04 provides relevant information to identify improvements in the control of long-lived assets. As is evident in this matrix, standard 406-10 Physical verification of assets, with a rating of 1(one), provides the highest degree of difficulty to the users of these departments in the GAD of Santa Elena. Standard 406-10 concerning the physical verification of inventories and long-lived assets mentions that the administration of each entity shall issue the necessary procedures to carry out periodic physical verification of inventories and long-lived assets.

While the standard related to planning, contracting, storage and distribution are with a high valuation of 4.3, above average. Finally, the storage and distribution of goods present problems that can be solved in its evaluation with a rating of 2.5.

In this regard, the internal control standards of the Office of the Comptroller General of the State (2009) establish that standard 406-04 refers to the administration of assets for the planning, use, loan and protection of the different assets and the implementation of internal control for their proper administration. It is also worth mentioning that "the neglect of state resources based on the lack of concern of the political authorities affects the quality of the institutions" (Aguilar, 1993). Therefore, the neglect of resources affects competence, jurisdiction and institutional procedures, and decision-making. Also, it is worth highlighting the legal arguments of the articles in which the servants and workers are governed for their role of dependence on the GAD, as mentioned in the Law of the Public Servant of Ecuador (LOSEP, 2010).

Internal regulations must be implemented under their own rules; this fact must be complied with based on Art. 4.- Internal regulations, of the regulations for administration and control of public sector assets of Ecuador where it mentions that "It shall be the responsibility of the entities and agencies included in Article 1 of these regulations to implement their regulations for the receipt, registration, identification, storage, distribution, custody, use, control, exit or disposal of State assets, without contravening the provisions of this instrument."

In the interviews and observation carried out with the directors of the GADs, it became evident that the absence of internal regulations such as

process and function manuals for physical verification prevents the control of assets from being carried out and compliance with the rules, regulations and laws of Ecuador's control agencies.

Conclusion

In order to achieve institutional objectives, municipal governments use long-lived assets as physical resources that contribute to the efficiency and effectiveness of processes, and their internal control is a fundamental element for the transparency of their use, control and conservation. In addition, the internal processes and function manuals contribute to compliance with external rules and regulations.

There is an evident relationship between internal control and the regulations on long-lived assets of the GADs of Ecuador since the lack of such control is mainly associated with regulation 406-10 about the physical verification of assets.

REFERENCES

Aguilar, L. (1993). *Problemas Públicos y Agenda de Gobierno.* Mexico: Librero.

Alia, M. (2016). *Métodos de Investigación Histórica.* España: Síntesis.

Asamblea Constituyente. (5 de Abril de 2018). *Teleconomunicaciones*. Obtenido de Tlecomunicacionesgob.ec: https://www.telecomunicaciones.gob.ec/wp-content/uploads/2018/06/Reglamento-de-Administraci%C3%B3n-y-Control-de-Bienes-del-Sector-P%C3%BAblico.pdf

Bejar, M. (2008). *Metodología de la Investigación.* Mexico: Shaloom.

Contraloría General del Estado. (2009). *Ley Orgánica de la Contraloría General del Estado.* Quito, Ecuador.

Contraloría General del Estado. (8 de Septiembre de 2017). *Contraloria General del Estado*. Obtenido de cge.gob.ec: www.contraloria.gob.ec/normativas

CONTRALORÍA, G. D. (14 de 12 de 2009). *Normas de Control Interno*. Obtenido de http://www.oas.org/juridico/PDFs/mesicic5_ecu_ane_cge_12_nor_con_int_400_cge.pdf

Contraloria, G. d. (5 de 12 de 2009). *Reglamento de Bienes del Sector Público*. Obtenido de https://www.turismo.gob.ec/wp-content/uploads/2016/06/REGLAMENTO-GENERAL-PARA-LA-ADMINISTRACION-UTILIZACION-MANEJO-Y-CONTROL-DE-LOS-BIENES-Y-EXISTENCIAS-DEL-SECTOR-PUBLICO.pdf

Gamboa, J., Puente, S., & Vera, P. (2016). Importancia del control interno en el sector público. *Revista Publicando, 3*(8), 487-502.

Hernandez, A. L. (2008). *La Contabilidad Publica en la Administracion.* Portugal: Valladolid.

Maliza, M. E. M., Moreno, M. E. P., & Pillajo, C. D. S. (2022). La administración de justicia en la población indígena, discriminación cultural. Universidad y Sociedad, 14(S3), 504-512. https://rus.ucf.edu.cu/index.php/rus/article/view/2980

Cando, J. L. M., León, M. A. T., Andrade, J. R. S., & Hidalgo, G. F. A. (2022). La delincuencia generada por la violencia infantil. Universidad y Sociedad, 14(S3), 513-524. https://rus.ucf.edu.cu/index.php/rus/article/view/2981

Krieger, M. (2001). *SOCIOLOGIA DE LAS ORGANIZACIONES.* Buenos Aires: Prentice Hall Pearson .

López Hernandez, A. (2012). *E-gobierno e información financiera.* España: Universidad de Granada.

LOSEP. (2010). *LEY ORGANICA DEL SERVICIO PUBLICO.* QUITO: ASAMBLEA CONSTITUYENTE.

LOSEP. (2010). *REGLAMENTOS DE LA LOSEP.* QUITO: ASAMBLEA CONSTITUYENTE.

Torres, M. (1996). *MANUAL PARA ELABORAR MANUALES DE POLÍTICAS Y PROCEDIMIENTOS.* MEXICO: PANORAMA EDITORIAL.