

Chapter 15

Rethinking homo economicus

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Proposal for an internal control manual for accounting operations in the accounting department of Serech Construction Company

Propuesta de un manual de control interno para las operaciones contables en el departamento de contabilidad de la Constructora Serech

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ABSTRACT

Introduction: the combination of a robust internal control system, detailed procedure manuals, and continuous monitoring significantly improves financial performance, reduces risk, and ensures operational transparency.

Objective: to determine the importance of an internal control manual for accounting operations in the accounting department of Serech Construction Company.

Method: an observational, descriptive, and cross-sectional study was conducted. The sample consisted of 50 employees and one manager working in the accounting department of Serech Construction Company. The sample consisted of 50 people who worked in the accounting and financial area. A questionnaire was implemented as a scientific research method.

Results: 79,30 % of respondents considered that the design of an Internal Control System would improve the situation of Serech Construction Company. 53,70 % of respondents stated that it had a functions manual. 54,70 % of respondents agreed that the internal auditors were impartial and objective. 70,40 % of respondents agreed that the accounting department provided adequate advice and support. 79,70 % of respondents agreed that security and control measures were implemented to protect inventories against loss.

Conclusions: internal control has a positive impact on the profitability of general services companies. The need to invest in the continuous improvement of internal controls, as well as in the training of personnel involved in these processes, is evident.

Keywords: Internal Control; Accounting; Construction; Procedures Manual; Efficiency; Reliability; Quantitative Research.

RESUMEN

Introducción: la combinación de un sólido sistema de control interno, manuales de procedimientos detallados, monitoreo continuo permite mejorar significativamente el desempeño financiero, reducir el riesgo y garantizar la transparencia operativa.

Objetivo: determinar la importancia de un manual de control interno para la operación contable en el departamento de contabilidad de la Constructora Serech.

Método: se realizó un estudio observacional, descriptivo y transversal. La población la compuso todo el personal de 50 trabajadores y un gerente que laboró en el departamento de contabilidad de la Constructora Serech, la muestra estuvo compuesta por 50 personas que trabajaron en el área contable-financiera. Se implementó un cuestionario como método de investigación científica.

Resultados: el 79,30 % de los encuestados consideró que el diseño de un Sistema de Control Interno mejoraría la situación de la Constructora Serech, el 53,70 % de los encuestados afirmó que contaba con un manual de funciones, el 54,70 % de los encuestados estuvo de acuerdo en que los auditores internos eran imparciales y objetivos, el 70,40 % de los encuestados estuvo de acuerdo en que el departamento contable proporcionaba asesoramiento y apoyo adecuado, el 79,70 % de los encuestados estuvo de acuerdo en que se implementaban medidas de seguridad y control para proteger los inventarios contra pérdidas.

Conclusiones: el control interno tiene un impacto positivo en la rentabilidad de las empresas de servicios generales. Queda de manifiesto la necesidad de invertir en la mejora continua de los controles internos, así como en la capacitación del personal involucrado en estos procesos.

Palabras clave: Control Interno; Contabilidad; Construcción; Manual de Procedimientos; Eficiencia; Confiabilidad; Investigación Cuantitativa.

INTRODUCTION

Barter is the oldest form of trade in existence. Since humans have needed to know the monetary value of the products they exchange and have control over them, accounting has emerged and evolved into a science, adapting to the circumstances of different economic systems and the needs of each of the activities carried out by humans. Thus, we find that accounting has specialized by type of industry and commercial activity.⁽¹⁾

Today, organizations worldwide operate through processes, and there is a need to control each process so that it runs efficiently. This is why internal control applied to procedure manuals is important, as these manuals also serve as operational guides for the process assigned to a person or activity within an organization.⁽¹⁾

Internal control is a process designed to provide reasonable assurance that an organization's objectives will be achieved. It consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring.⁽²⁾

Currently, organizations face increasing competitive pressure that forces them to continuously improve their internal operations. The lack of an effective internal control manual has been revealed as a significant risk factor, affecting not only the internal management of companies, but also their ability to prevent fraud and maintain the integrity of financial statements. This phenomenon was not exclusive to the local sphere, but manifested itself internationally.

In line with COSO's comprehensive view of internal control as a tool for managing risk and ensuring operational efficiency. Rosales J⁽²⁾ provided an in-depth study on the importance of internal control of debtors. This specific component was essential to securing the company's financial position, reducing the risk of debtor losses, and ensuring the efficiency of working capital management.

Likewise, Arrese J, et al.⁽³⁾ highlighted that there is a very high positive correlation between internal control and profitability, corroborated by Spearman's Rho correlation ($R=0,900$). A high positive correlation was also found with the dimensions of the control environment, risk assessment, control activities, information and communication, and supervision.

The importance of internal control as a determining factor in profitability is fundamental, since a good internal control system can improve efficiency, prevent fraud, and optimize the use of resources, directly impacting profitability. The implementation of an internal control system can help optimize accounting operations, minimize risks, and improve the efficiency and effectiveness of administrative and financial processes. This underscores the importance of a well-designed internal control manual and its impact on a company's profitability and success. Not having adequate controls in place created problems that jeopardized the normal functioning of the company and reduced the optimization of resources within the entity.⁽⁴⁾

Procedure manuals are effective internal control tools that serve as practical guides to policies, procedures, and controls for specific segments within the organization. They help minimize financial operational errors, resulting in optimal decision-making within the institution. (In general, the combination of a robust internal control system, detailed procedure manuals, ongoing training, continuous monitoring, and the use of technology can significantly improve financial performance, reduce risk, and ensure operational transparency.

A procedures manual is a document that provides guidance to staff and serves as a support tool, as it contains policies that enable the careful control of all activities to be carried out in a specific task within an entity. These procedures detail a process and consist of a properly structured set of operations or activities performed sequentially in accordance with those responsible for execution, who must comply with policies and standards indicating the duration and flow of documents.⁽⁵⁾

An internal control system is essential for entities, as it integrates rules and procedures for the flow of all accounting information, in detail for the various operations carried out by the entity. Internal control benefits the company by providing assurance regarding the reasonableness of the financial statements. Procedure manuals are the best tool for capturing the process of specific activities within an organization, specifying policies, legal aspects, procedures, and controls for performing activities in an effective and efficient manner.⁽³⁾

Based on the above, the objective of this review article is to determine the importance of an internal control manual for accounting operations in the accounting department of Constructora Serech.

METHOD

An observational, descriptive, and cross-sectional study was conducted to determine the importance of an internal control manual for accounting operations in the accounting department of Constructora Serech.

The population consisted of all 50 employees and one manager who worked in the accounting department of Constructora Serech. The sample consisted of 50 people who worked in the accounting and finance area, and the sampling method was convenience sampling.

A questionnaire was implemented as a scientific research method, with the purpose of obtaining answers to pre-established questions organized according to specific criteria. The

research instrument was designed to accurately and quantifiably assess employees’ perceptions of the effectiveness of the internal control system at Constructora Serech.

The investigation, which focused on evaluating the internal control system of Constructora Serech’s accounting department, was conducted in accordance with strict ethical principles approved by recognized international and local organizations.

RESULTS

Figure 1 shows that 40,7 % are aware of the importance of an Internal Control System for Serech Construction.

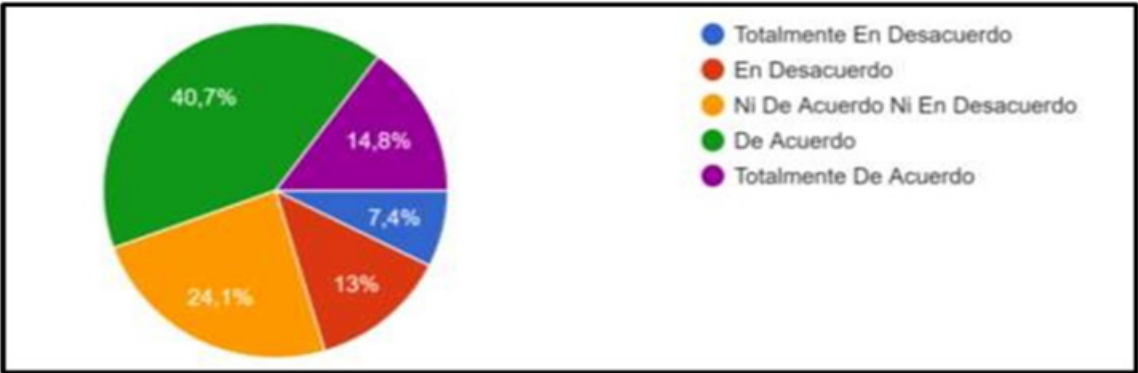


Figure 1. Distribution according to knowledge of the importance of an Internal Control System for Serech Construction

Figure 2 shows that 79,30 % of respondents believed that the design of an Internal Control System would improve the situation at Constructora Serech, reflecting a strong consensus in favor of this measure.

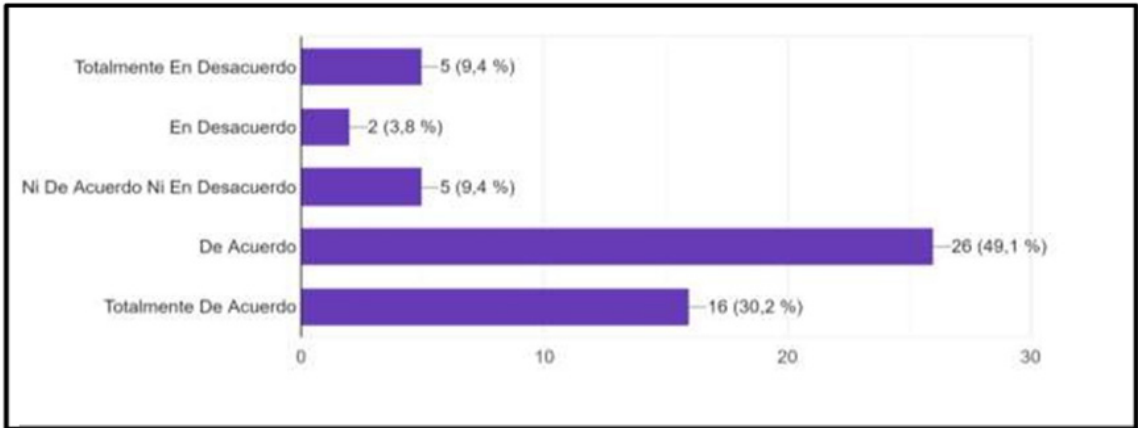


Figure 2. Distribution according to whether they believe that the design of an Internal Control System would improve the situation at Constructora Serech

Figure 3 shows that 53,70 % of respondents stated that Constructora Serech had a job description manual specifying employee tasks, suggesting that more than half were aware of the existence of such a manual.

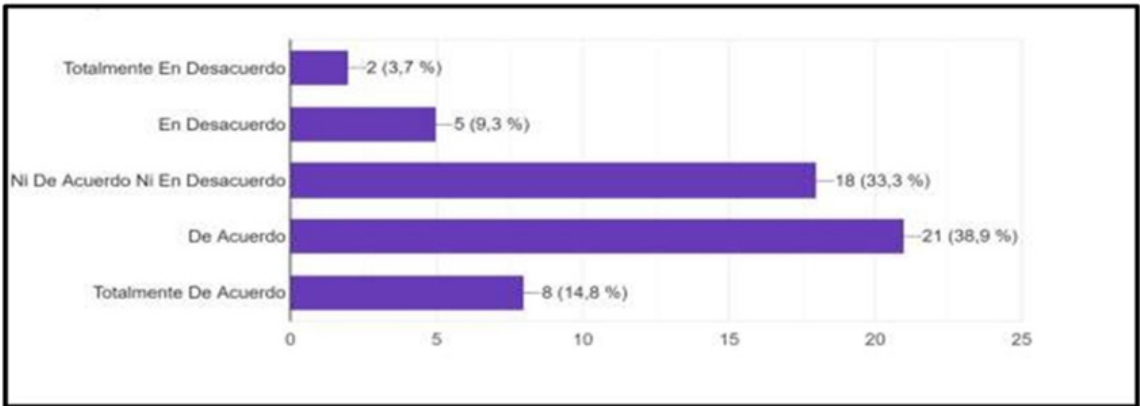


Figure 3. Distribution according to whether Constructora Serech has a job description manual specifying the tasks that employees must perform

Figure 4 shows that 54,70 % of respondents agreed that the internal auditors at Constructora Serech were impartial and objective in their assessments.

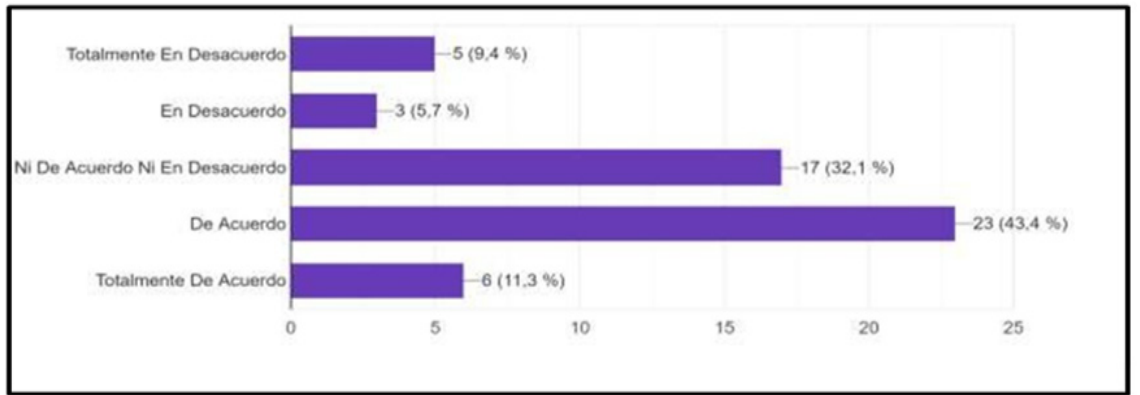


Figure 4. Distribution according to whether respondents believe that Constructora Serech's internal auditors are impartial and objective in their assessments

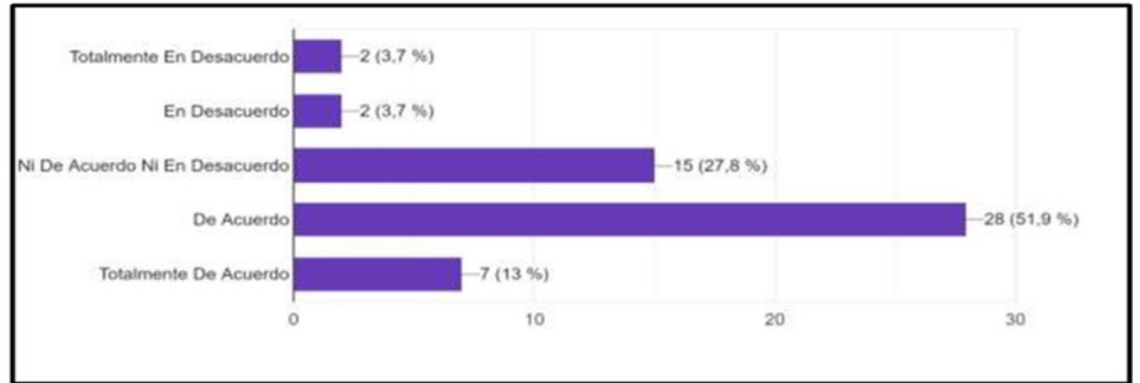


Figure 5. Distribution according to whether they consider that there is an established and properly controlled petty cash fund for minor expenses at Constructora Serech

Figure 5 shows that 64,90 % of respondents agreed that there was an established and properly controlled petty cash fund for minor expenses at Constructora Serech.

Figure 6 shows that 70,40 % of respondents agreed that the accounting department provided adequate advice and support to management on the handling of income and expenses at Constructora Serech.

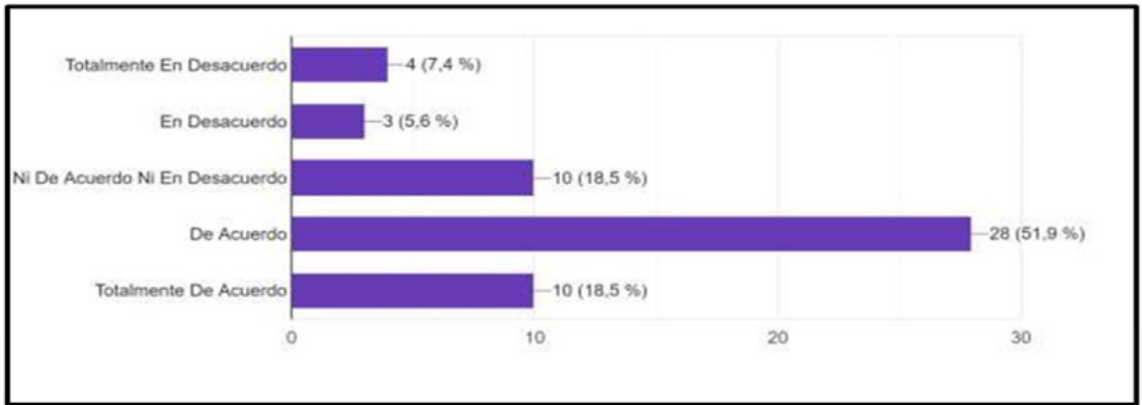


Figure 6. Distribution according to whether the accounting department provides adequate advice and support to management on the management of income and expenses at Constructora Serech

Figure 7 shows that 57,40 % of respondents agreed that Constructora Serech kept detailed and up-to-date records of customers and accounts receivable.

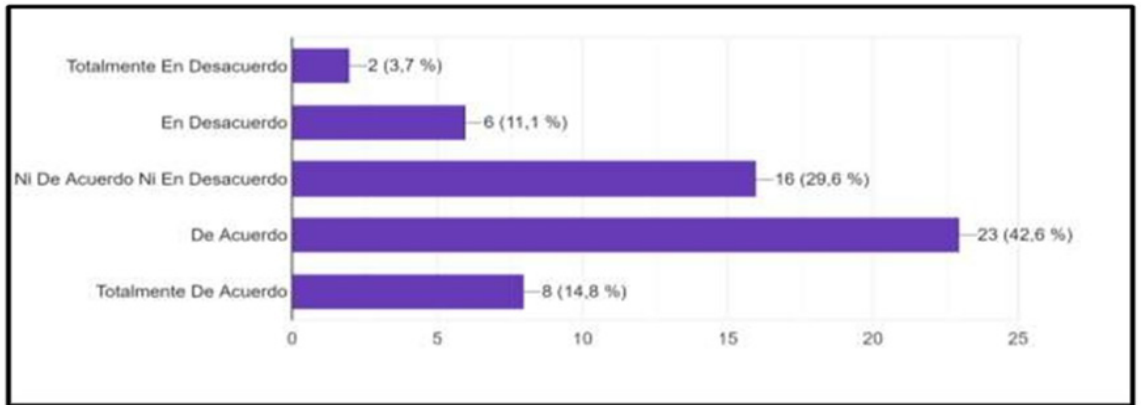


Figure 7. Distribution according to whether they consider that a detailed and up-to-date record of customers and accounts receivable is kept at Constructora Serech

Figure 8 shows that 57,40 % of respondents agreed that the collection and follow-up processes for accounts receivable were carried out efficiently and in a timely manner at Constructora Serech.

Figure 9 shows that 68,50 % of respondents agreed that Constructora Serech’s inventories were stored and recorded in an appropriate and orderly manner.

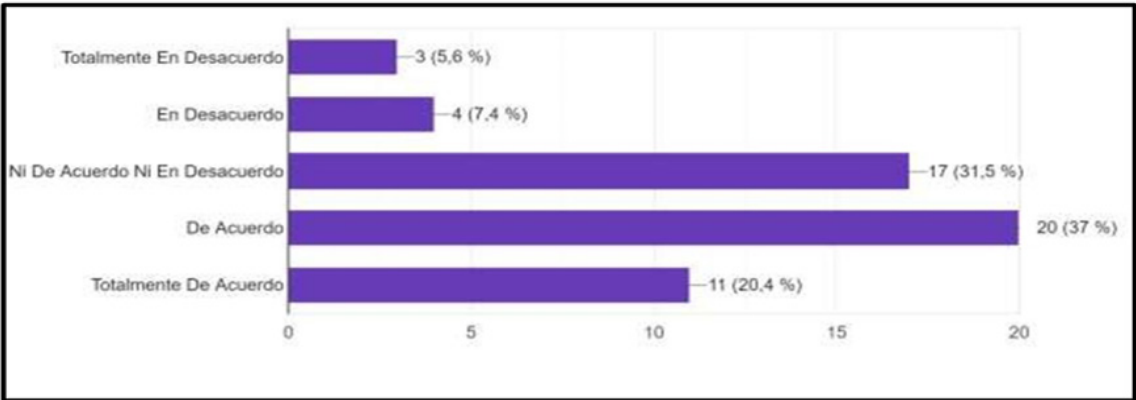


Figure 8. Distribution according to whether collection and accounts receivable monitoring processes are considered to be carried out efficiently and in a timely manner at Constructora Serech

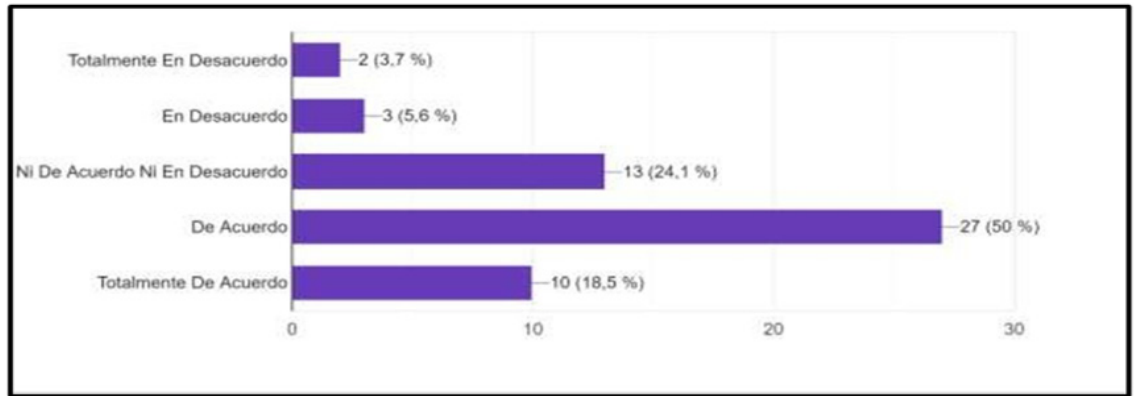


Figure 9. Distribution according to whether Constructora Serech's inventories are stored and recorded in an appropriate and orderly manner

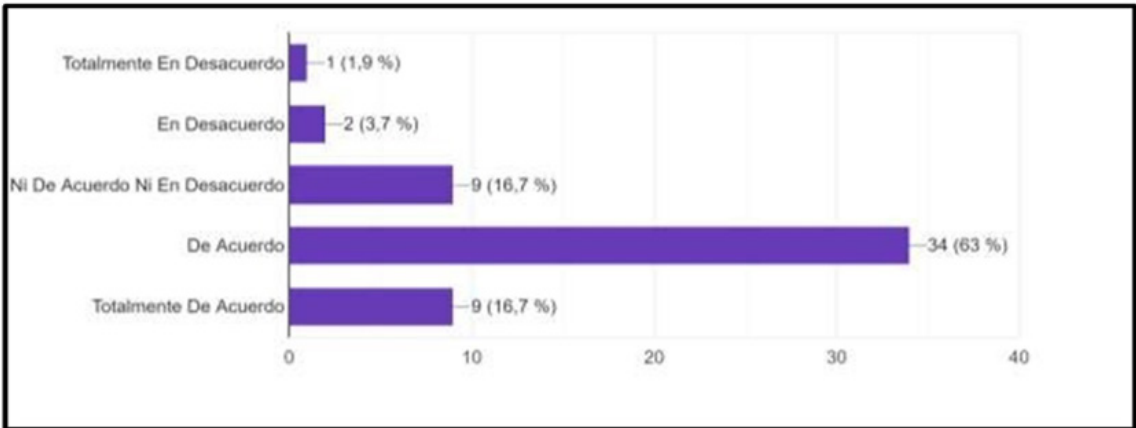


Figure 10. Distribution according to whether security and control measures are considered to be implemented to protect inventories against loss, theft, or damage

Figure 10 shows that 79,70 % of respondents agreed that security and control measures were implemented to protect inventories against loss, theft, or damage at Constructora Serech.

DISCUSSION

Internal control of accounts receivable is a fundamental process for the management and financial health of companies, ensuring that accounts receivable are properly managed and tracked, ensuring that they are collected in a timely manner, and minimizing the risk of uncollectibility. In addition, establishing clear control procedures promotes operational efficiency and facilitates decision-making based on accurate and reliable information. In essence, internal control of accounts receivable is essential for maintaining financial stability, protecting the company's assets, and strengthening its competitive position in the market.⁽²⁾

This document serves as a guide for the accounting department, defining the steps to be followed in each accounting process and ensuring consistency and operational efficiency. Flowcharts, checklists, and a clear division of responsibilities were key elements of this manual. Continuous employee training is another fundamental pillar. Through informational sessions, practical workshops, and evaluations, it is ensured that all employees understand the importance of internal controls and acquire the necessary skills to apply them in their daily work. To evaluate the effectiveness of the internal control system, a continuous monitoring system had to be implemented.⁽⁶⁾

Escobar H, et al.⁽⁷⁾ showed in their results that the level of internal control was generally low (62 %), indicating weaknesses in the organization. A decline in profitability was observed in 2020 and 2021, highlighting the need to improve internal controls to ensure strong financial performance. In conclusion, this study highlights the critical importance of effective internal controls for business profitability. It is recommended to invest in personnel and strengthen internal controls as a fundamental measure of the company's sustainable development.

There is a positive and significant correlation between internal control and profitability, with the components of internal control that have the greatest impact on profitability being the control environment, risk assessment, and control activities. If a company has a moderate level of internal control and low profitability. Internal control has a positive impact on the profitability of general service companies. Therefore, these companies should improve their internal control system by developing an internal control manual to increase their profitability.⁽⁷⁾

Czubarski A, et al.⁽⁸⁾ identified opportunities for improvement in the implementation of internal control, such as the creation of a job description manual, staff training, and the implementation of a risk control system, highlighting the importance of more comprehensive internal control that includes municipal management analysis to improve the efficiency and effectiveness of small municipalities.

Castillo V⁽⁹⁾ showed that most of the people surveyed had deficiencies in internal control components, highlighting the importance of research to identify and improve administrative management in order to address organizational deficiencies. A correlation of 0,511 was established between internal control and administrative management, which is considered a significant positive correlation.

Quezada N⁽¹⁰⁾ show that the organization implements internal control empirically using outdated instructions, which hinders the application of effective control policies in accounting records. Despite the separation of duties, those responsible for control do not fulfill their assigned tasks.

Finally, the need to update procedure manuals and strengthen the application of internal controls to ensure effective accounting management was identified.

Vélez A⁽¹¹⁾ generated different proposals in the entity's departments focused on the five components of internal control, thus obtaining a manual of functions for each position, determination of objectives for the entity, a risk matrix, process flowcharts, communication matrices, and checklists. He concluded that the entity, by not having adequate controls in place, created problems that jeopardize the normal functioning of the company and reduce the optimization of resources within the entity.

The need to implement a policy and procedure manual as part of the internal control system was evident, as it would contribute to the progress of optimal management of the company's administrative and financial operations.

It is necessary to implement a policy and procedure manual as part of the internal control system that contributes to the progress of optimal management of companies' administrative and financial operations. This will establish a structured and systematic framework that ensures compliance with regulations, optimizes internal processes, and promotes transparency and accountability in all company operations.⁽¹²⁾

An Internal Control Manual for Constructora Serech aims to establish a structured and systematic framework that ensures compliance with regulations, optimizes internal processes, and promotes transparency and accountability in all company operations. This manual is essential to ensure that all of the construction company's activities are carried out efficiently, safely, and in accordance with the highest standards of quality and ethics.

An Internal Control Manual is an essential tool for any organization. Its main purpose is to ensure compliance, guaranteeing that all processes and operations comply with applicable rules and regulations. It also helps mitigate risks by identifying and controlling operational, financial, and compliance risks that may affect the organization. Another significant advantage is the improvement of operational efficiency, optimizing internal processes, reducing inefficiencies, and improving the quality of work.⁽¹³⁾

The manual is designed to be used by all levels of the organization. All employees should familiarize themselves with the manual and apply its guidelines in their daily work to ensure consistency in processes. Managers and supervisors have the additional responsibility of ensuring that their teams understand and comply with internal controls, acting as leaders and role models.

A positive and significant correlation was found between internal control and profitability, with the components of internal control that had the greatest impact on profitability being the control environment, risk assessment, and control activities. The company studied had a moderate level of internal control and low profitability.

The manual also promotes transparency, fostering a culture of accountability and openness within the organization. It should be used as a daily reference by all employees, ensuring that established policies and procedures are followed. Proper application of the manual facilitates the identification of areas for improvement and ensures consistency in the execution of tasks.

It can be inferred that the control environment is management's attitude toward internal

control. Similarly, it provides guidelines for an entity, which in turn generates awareness of control among its employees and collaborators. The other components of internal control are based on this element, generating parameters of discipline for a structure. Therefore, it includes aspects such as integrity, ethical values, and competence among company personnel. The control environment has a profound influence on the way business activities are structured, objectives are set, and risks are assessed.⁽¹⁴⁾

The importance of manuals is based on the fact that they explain in detail the procedures within an organization; through them, we are able to avoid major mistakes that are often made within the departments of an institution. They can detect flaws that occur regularly, avoiding duplication of functions. In addition, they are very useful when new people join the organization, as they explain everything related to it, from its historical overview, referring to its organizational structure, to explaining the procedures and tasks of a particular department or instance.

CONCLUSIONS

Internal control has a positive impact on the profitability of general services companies. Therefore, it was recommended that these companies improve their internal control system by developing an internal control manual to increase their profitability. It is extremely important to have a robust and efficient internal control manual to ensure the financial sustainability of a company. There is a clear need to invest in the continuous improvement of internal controls, as well as in the training of personnel involved in these processes.

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CONFLICT OF INTEREST

None.

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