

## Analysis of internal control in SMEs in Peru Análisis del control interno en PYMES del Perú

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### ABSTRACT

The objective of this study was to analyze the internal control developed by the SMEs of the Miraflores district in Lima, Peru. It was based on a quantitative approach with a descriptive type and a non-experimental field design to collect information in 185 CEO of SMEs. It allowed the researcher to conclude that only 12.4% of SMEs were concerned to budget evaluation and monitoring, and 27% of them to check in internal control standards, which represented the most serious elements in the development of the SMEs analyzed; thereby, it implied a significant deficit in the internal control process. In conclusion, if the SMEs studied do not take timely preventive actions nowadays; they will risk deepening internal controls, which will not provide transparency, efficiency and effectiveness in the resource management to guarantee the proper functioning of the organization. Therefore, the application of administrative procedures highly concerned to the effective management of resources will be necessary.

**Descriptors:** joint ventures; administrative structure; financial audit. (Source: UNESCO Thesaurus).

### RESUMEN

En este estudio, se planteó como objetivo analizar el control interno desarrollado por las PYMES del distrito de Miraflores en Lima – Perú. Se trabajó desde el enfoque cuantitativo, un tipo descriptivo con diseño no experimental de campo, lo cual permitió recopilar información en 185 representantes de PYMES. Solo se está cumpliendo un 12,4% en evaluación y seguimiento presupuestario y un 27% en normas de control interno, como elementos de mayor gravedad en el desarrollo de las PYMES encuestadas, proyectándose un déficit importante en el proceso de control interno. Para concluir, si las PYMES estudiadas no toman los correctivos pertinentes a tiempo, corren el riesgo de profundizar un control interno que no contribuye en la transparencia, eficiencia y eficacia, con el cual manejan los recursos, situación que contradice el buen funcionamiento de la organización. Por lo tanto, se hace necesario contar con políticas y procedimientos administrativos, por cuanto está ligado al manejo de los recursos efectivamente.

**Descriptores:** empresa en participación; estructura administrativa; auditoría financiera. (Fuente: Tesoro UNESCO).

## INTRODUCTION

Internal control is a process of utmost importance to efficiently manage the resources of the company, being important to note that organizations with greater investments have a greater chance of being successful in making operational decisions, derived from a well-developed internal control (Sun, 2016). For this reason, (Gao, et al., 2018) consider it important to coordinate the credibility of this process, since it contributes to the achievement of external financing, making it possible to capitalize based on an excellent accounting management of the organization.

An efficient internal control must be complemented by managerial factors in order to establish assertive relationships with the internal - external client, fostering the generation of innovation as a key element to consolidate small and medium-sized SMEs in the market (Berenguer-de-Vasconcelos & Gois-de-Oliveira, 2018). In this sense, it is considered advisable to ensure the operational process by the auditors, in order to project the optimization of the resources of the SME for adjusting greater productivity - efficiency in the services provided (Baú-Dal-Magro & Da -Cunha, 2017).

The advantage of working under a resource approach provides the opportunity to generate synergy of the strengths of the SME with the purpose of distinguishing itself from the rest (Vivas-López, 2013). It could provide a positive image vis-à-vis banking institutions and credit, making it possible to opt for financing (Mendizabal-Zubeldia, & Lertxundi-Lertxundi, 2015), especially, when there is uncertainty in global markets that indirectly affect localities, being foreseeable to have monetary support that do not affect the capital of the SME. In this regard, it is also favorable to promote an appropriate internal control that encourage an optimistic perspective that contributes to finding economic support from formal and informal institutions that involve social entrepreneurship (Stephan, et al., 2015).

SMEs' organizational purpose is another element to take into account, since it may provide greater value to profitability or social action; therefore, this phenomenon is also appropriate to reduce the tension between the members of it. (Vazquez-Maguirre, & Portales, 2018). This may lead to the promotion of transformational leaderships that achieve effectiveness for the generation and approach of resources (Eliyana, & Syamsu-Ma'arif, 2019); in this way, the SME will project and develop comprehensive accounting processes (with human talent), in order to manage a successful offer of its services.

In this way, internal control is conceived as the process that better contributes to the optimization of the SME (Vega-de-la-Cruz, et al., 2016), for which they could rely on web 2.0 tools in order to establish low cost and minimal complexity. To establish the financial - non-financial surveillance of the SME (Canabal, et al., 2017), it is important to involve continuous improvement as organizational management, thus internal control could be perceived as a promoter of business quality (Medina-León, et al., 2019).

The aspects directly and indirectly related to internal control described, are of the utmost importance, since this type of company represents a viable alternative and a path of development in emerging economies. In this regard, it is worth highlighting the case of Peru, where microenterprises reach 95% of the business universe and the employee 48% of the economically active population. However, the risk of lack of internal controls projects its disappearance (Alva, 2017); for this reason, it is essential to study and analyze the factors associated with internal control that could be affected by consolidating SMEs as a social business option.

Consolidating SMEs in the Lima metropolitan area is a necessary option to deepen not only the generation of jobs in an urban territory that has around 10 million inhabitants, but also to reinforce a business option from the initiative of economic minorities, progressively projecting the consolidation of economic diversification in a globalized and competitive world, where the risk of suffering unemployment is increasing; therefore, it is recurrent to cooperate in strengthening organizational management in order to overcome weaknesses and threats based on strategic accounting management plans.

For this reason, the objective of analyzing the internal control developed by the SMEs of the Miraflores district in Lima - Peru is proposed.

## METHOD

The methodological process developed was focused on the quantitative approach, a descriptive type with a non-experimental field design. These perspectives allowed collecting information in 185 representatives of SMEs, located in the Metropolitan District of Lima - Peru, which constituted an alternative for the socio-economic growth of the country. The survey was applied as a technique and the Likert scaling questionnaire with five response alternatives was used as an instrument. It was validated by the judgment of three experts and it was also reliable for its application with a value of 0.89 due to Cronbach's Alpha coefficient.

The information collected was processed from the perspective of descriptive statistics, which allowed grouping the internal control indicators and the percentages from highest to lowest irregularity, being a step to interpret the results in terms of meeting the research objective. In this sense, based on the data collected, we proceeded to generate discussion of the referential theories and the results, thus providing new knowledge in accordance with the object of study.

## RESULTS

Due to the statistical processing of the data collected, the results of the investigation are presented:

**Table 1:** Internal Control Indicators in SMEs

	Frequency	Percentage
Budget evaluation and monitoring	23	12,4
Internal control standards	50	27
Financial management reports	68	36,8
Administrative policies and procedures	44	23,8
<b>Total</b>	<b>185</b>	<b>100</b>

Results are presented through indicators related to internal control. In this respect, the percentages indicate greater irregularity in their compliance, therefore, it is interpreted that only 12.4% is being met in evaluation and budget monitoring, and 27% in internal control standards, therefore, these are the most serious elements in the development of the surveyed SMEs. This result projects a significant deficit in the internal control process.

## Discussion

Budget evaluation and monitoring in SMEs must be developed by synchronizing a program in order to concatenate resources based on economic goals, relying on control and planning (Parra & La-Madriz, 2017), due to this contributes to promoting a secure work environment for the assets of the internal client. The purpose is to optimize the company productivity based on its social objective, a situation that is far from the reality studied, because the SMEs surveyed shows less interest in a continuous evaluation that may consolidate its management. In view of the above, there is a diversity of situations where the organization must carry out a control of its administrative actions, for this purpose, it must have instruments in line to facilitate the compliance with its goals by virtue of optimal control of the various operations that are carried out in the institution, whether financial or not.

Regarding the **internal control standards** indicator, (Vega-De-La-Cruz & Ortiz-Pérez, 2018) consider it necessary for companies to have management process protocols, deriving from strategies for continuous improvement from the timely monitoring of available resources. This situation contrasts with the reality surveyed, since it is evident that 27% of SMEs are not clear in how to comply with internal management control, which is detrimental to them, being essential to consolidate the conformation of managerial - administrative aspects to strengthen the vision of the managers in order to project the consolidation of SMEs in the Peruvian market.

Regarding the **financial management report** indicator, (Saavedra & Camarena, 2017) mention that it is of vital importance to consolidate this process in the company, since they support the idea "the smaller the company", which is conducive to opt for an effective financial management

to achieve competitiveness, a situation that is not being met in 36.8% of the SMEs surveyed. In this way, they are at risk of exiting the market, because they do not establish solid internal control and run the risk of diluting their capital and resources without being aware of the loss, leading to business failure inevitably due to an ineffective management evaluation process.

The **administrative policies and procedures** indicator is a factor that allows instituting the management philosophy of the SME, thus making it possible to establish principles of administration by processes to found a strategic route through an action plan that contributes to strengthening the competitiveness of the organization (Barrios-Hernández, et al., 2019). In this regard, competitiveness at the micro-business level is the factor that allows SMEs to have an assertive view of the internal-external variables that are favorable to develop, establish themselves, expand and remain in the market (Ibarra-Cisneros, et al. al., 2017).

The results contradict the view of (Gao, et al., 2018), who indicate the importance of believing in an effective internal control to project a positive and successful image of SMEs as a business organization that has accounting oversight of its resources to optimize its processes and services. On the other hand, (Baú-Dal-Magro & Da-Cunha, 2017) describe the importance of being an optimal institution to have effective internal control.

All the previously described does not contribute to generating a positive image of SMEs as an organization planted to request loans from credit institutions, which contradicts the position of (Vivas- López, 2013), running the risk of not accessing financing. Such reality, according to (Mendizabal- Zubeldia, & Lertxundi- Lertxundi, 2015), compromises financial capital, accelerating the risk of disappearing from the market; for this reason, to counteract such a situation, it is necessary to generate alternatives of transformational leadership that project a well-founded organizational management from effective internal control as stated by (Vazquez-Maguirre, & Portales, 2018). To this end, it is important to take managerial actions that involve the use of web 2.0 tools to strengthen the operation of SMEs in order to publicize an image of comprehensive credibility of their actions (Vega-de-la-Cruz, et al., 2016). If it is possible, they may achieve the corporate purpose of the SME (Barrios, et al., 2018), to be effective in accomplishing efficient internal control that consolidates it in the Peruvian market.

## CONCLUSION

If the SMEs studied do not take the correct and timely corrections, they will run the risk of deepening internal control that will not contribute to transparency, efficiency, and effectiveness to manage resources; therefore, this situation contradicts the proper functioning of the organization. For this reason, it is necessary to have administrative policies and procedures linked to the management of resources and to the greater transparency about their destination in order to conceive a climate of trust and respect that gives rise to the promotion of values of social and institutional coexistence. In this respect, it is essential to apply procedures that contribute to a better compilation of financial information and thus, communicate it in an assertive way to the internal - external client that, at some point, may request an audit. For this reason, it is favorable to keep a reliable record for the development and credibility of the SME, being convenient to look for web 2.0 alternatives that allow the design of tools in the possibility of carrying out a control process attached to the demands and needs established by national and international regulations for such an end.

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## CONFLICT OF INTEREST

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