

**Implementation of procedures of internal control per the COSO model in the MyPYMES of the Municipality of Huejutla, Hgo****Implementación de procedimientos de control interno por el modelo COSO en las MyPYMES del Municipio de Huejutla, Hgo**

TERÁN-CASTELÁN, Héctor†\*, MIRANDA-SERNA, Carlos, MENDOZA-ALVARADO, Víctor and HERRERO-VÁZQUEZ, Laura

*Universidad Tecnológica de la Huasteca Hidalguense, Licenciatura en Contaduría, Carretera Huejutla - Chalahuiyapa S/N Col. Tepoxteco, 43000 Huejutla, Hidalgo. México*

ID 1<sup>st</sup> Author: *Héctor Adrián, Terán-Castelán* / ORC ID: 0000-0001-5320-2181, Researcher ID Thomson: Q-9741-2018, CVU CONACYT ID: 344736

ID 1<sup>st</sup> Coauthor: *Carlos Enrique, Miranda-Serna* / ORC ID: 0000-0003-0921-8420, Researcher ID Thomson: Q-9751-2018, CVU CONACYT ID: 784598

ID 2<sup>nd</sup> Coauthor: *Víctor Hugo, Mendoza-Alvarado* / ORC ID: 0000-0003-4351-2180, Researcher ID Thomson: Q-9788-2018, CVU CONACYT ID: 474309

ID 3<sup>rd</sup> Coauthor: *Laura Leticia, Herrero-Vázquez* / ORC ID: 0000-0002-4891-0092, Researcher ID Thomson: Q-9835-2018, CVU CONACYT ID 34168

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**Abstract**

This project was developed in order to identify different weaknesses within internal control by Micro, Small and Medium-sized Enterprises from Huejutla, Hidalgo. It limited the ability to protect their assets and verify the accuracy and reliability of financial information, to subsequently design procedures that favor their development and the fulfillment of objectives. MIPYMES are of great importance for the country economy as they generate revenue that are equivalent to 23% of the gross domestic product (PIB) in addition to the creation of direct and indirect jobs. Despite this, historically in the State of Hidalgo, such enterprises lack many skills, abilities, tools and even financial resources enabling them to improve their position in the market. This is why it is necessary to identify different areas of opportunity within her processes, through the design and implementation of a diagnostic of the instrument based on the principles of internal control established by the COSO model, whose results allow identifying weaknesses in the control of its operations. In order to establish administrative procedures that contribute to improve the performance of the company in its daily operations.

**COSO, Internal Control, Procedures, Diagnosis, MiPyMES**

**Resumen**

El presente proyecto se elaboró con la finalidad de identificar las distintas debilidades dentro del control interno de las Micro, Pequeñas y Medianas Empresas de la ciudad de Huejutla Hgo., que limitan su capacidad de proteger sus activos y verificar la exactitud y confiabilidad de su información financiera, para posteriormente diseñar procedimientos que favorezcan a su desarrollo y el cumplimiento de objetivos. Las MiPyMES son de gran importancia para la economía del país ya que generan ingresos que equivalen al 23% del Producto Interno Bruto (PIB) además de la creación de empleos directos e indirectos (INEGI, 2015); a pesar de esto, históricamente en el estado de Hidalgo este tipo de empresas carecen en su mayoría de habilidades, capacidades, herramientas e incluso recursos financieros que les permitan mejorar su posición en el mercado. Es por esto que se consideró necesario identificar las distintas áreas de oportunidad dentro de sus procesos, mediante el diseño y la aplicación de un instrumento diagnóstico basado en los principios de control interno establecidos por el modelo COSO, cuyos resultados permitieron identificar las debilidades en el control de sus operaciones con el propósito de establecer procedimientos administrativos que contribuyan a mejorar el funcionamiento de la empresa en sus operaciones cotidianas.

**COSO, Control Interno, Procedimientos, Diagnostico, MiPyMES**

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\* Correspondence to Author (email: hector.teran@uthh.edu.mx)

† Researcher contributing as first author

## Introduction

This study is developed in the city of Huejutla de Reyes, Hgo and arises from the need to contribute to the development of local MSMEs through improvements in their administrative processes.

As part of this collaboration between the Technological University of Huasteca and local entrepreneurs, the project "Implementation of the COSO Model in the MyPYMES of the municipality of Huejutla, Hgo.", Which aims to implement an internal control system in These companies, based on the components of said model, that allow efficiency and effectiveness in the operation of the business, reliability of financial information and compliance with laws, regulations and standards.

This document is composed of the following sections. Point number one includes the bibliographic background that supports the project, as well as how the diagnostic instrument is integrated, which was applied in three companies in the city of Huejutla to identify the different areas of opportunity.

In section number two we show the results obtained through the application of the diagnosis, identifying the omissions within the control procedures established in the companies analyzed with the purpose of designing the strategies that allow to diminish the risks presented by said omissions.

## Theoretical revision

According to what is established in the International Auditing Standards (NIA, 2015), internal control is the process designed and carried out by those in charge of corporate governance, administration and other personnel to provide reasonable assurance about the achievement of the entity's objectives regarding the reliability of financial information, effectiveness and efficiency of operations and compliance with applicable laws and regulations (NIA, 315. 2015). In all the companies it is necessary to have an adequate internal control, because thanks to this risks and frauds are avoided, the assets and the interests of the companies are protected and taken care of, as well as evaluating the efficiency of the same in terms of your organization.

It must be taken into account that good administration is an important factor for the success or failure of a company, in this sense it is intended to develop a proposal for improvement in the control system of companies, since the internal control is importance for the accounting administrative structure of a company.

It is considered that an adequate internal control is necessary to improve the financial, administrative and legal situation of any company, since it includes the organization plan and all the coordinated methods and measures adopted within a company in order to safeguard their assets, verify the reliability and correctness of accounting data, promote operational efficiency and encourage adherence to prescribed administrative policies. (Schuster, 1992)

According to (IMCP 2012) the majority of the MiPymes in Mexico do not have adequate internal control, since they are usually family members, and within their staff do not have professional people who determine the elements to consider in their design and implementation. In most MSMEs, family members who do not have much idea in the management of the company are working; also do not consider necessary to take into account such an important point as it is internal control, and so, intentionally or not, it falls into errors that represent losses, lack of formality, misuse of resources, losses among other impacts generated mainly due to the absence of an adequate organization, the absence of procedural manuals and the absence of policies that are known to all members of the company.

## *Design and Application of a Diagnostic Instrument*

To diagnose the current situation of internal control, an instrument was designed to identify possible areas of opportunity within the procedures established by the company's management. This tool was developed, considering the guidelines established in the COSO Model, which aims to define a new conceptual framework of internal control, able to unify the different criteria, definitions and concepts that had been used.

This instrument consists of a questionnaire divided into five.

**Control Environment.** It is the set of circumstances and behaviors that make up the actions of a company from the point of view of internal control. It is made up of the integrity, the values, the commitment and the management mentality and style of operation. In this item, the following points are considered:

- Values and code of ethics
- Organizational structure
- Assignment of Authority and Responsibility
- Human Resources Administration
- Staff Competency and Performance Evaluation
- Internal Accountability or responsibility

**Risks evaluation.** It includes the analysis and management of events or actions that may adversely affect the objectives established in internal control, mainly in the registration, processing and reporting of information. In this item, the following points are considered:

- Global objectives of the company
- Specific objectives
- Potential risks for the company
- Management for change

**Control activities.** These are the control procedures performed by the management, management and other personnel of the organization to carry out their assigned activities on a daily basis. In this item, the following points are considered:

- Address analysis
- Processes to generate information
- Performance indicators

**Information and communication.** It is essential to be able to control a company and make appropriate decisions, to have the appropriate and timely information among the participants of the processes. In this item, the following points are considered:

- Information
- Communication

**Supervision and monitoring.** It corresponds to the management of the company, the existence of an adequate and efficient internal control structure as well as its periodic revision and update that allows it to guarantee its proper functioning over time. In this item, the following points are considered:

- Continuous Activities
- Specific Activities

The instrument was applied in three companies of the municipality, which were chosen for their size, considering those of local administration that have a greater number of employees according to INEGI information. In this way, three businesses were selected, which showed their willingness to perform the diagnosis.

The items that it contains correspond to dichotomous approaches, where the value of their answers is 1, 0; 1 in case of answering yes and 0 in answering no.

With the above, the maximum scores to obtain in each item are established.

### Methodology

Next, the steps that were followed in the investigation are listed:

1. Design an instrument that evaluates the Internal Control to the company.
2. Analyze the results obtained in the application of the instrument.
3. Identify and document the processes and their respective objectives.
4. Evaluate the level of compliance with COSO model criteria.
5. Design the applicable procedures.
6. Apply the designed procedures.
7. Carry out a follow-up every six months once the COSO model is implemented.
8. Evaluate the improvement levels presented in the companies.

In the research, the techniques used were:

- Data collection in government institutions
- Application of surveys to the sample obtained
- Field visits to selected MSMEs

The tools:

- Descriptive statistics for the selection and size of the sample as well as for the data analysis
- Work table for the joint design of the procedures to be implemented.

- Training workshops on the use of the implanted model

**Population and sample**

For the present study, the small and medium-sized companies of Huejutla of the three economic sectors were considered as the study universe, where by the year 2015 there are 1184 (INEGI, 2013). As a sample it was determined that this was intentional because of the agreement that the university has with these five companies.

**Results**

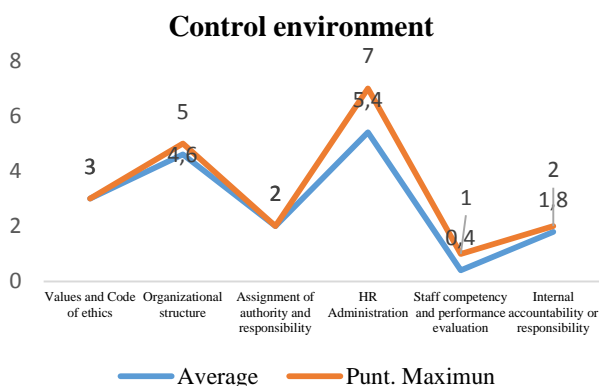
After applying the diagnostic instrument in the selected companies, the following results were obtained, which are presented classified according to the five elements of the COSO, and in the divisions presented previously.

Control Environment							
Features to evaluate	E1	E2	E3	E4	E5	Average	Punt. Maximun
Values and Code of Ethics	3	3	3	3	3	3	3
Organizational structure	4	5	4	5	5	4.6	5
Assignment of Authority and Responsibility	2	2	2	2	2	2	2
Human Resources Administration	4	5	5	6	7	5.4	7
Staff Competency and Performance Evaluation	0	0	0	1	1	0.4	1
Internal Accountability or Responsibilities	1	2	2	2	2	1.8	2
<b>Total</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>17.2</b>	<b>20</b>

Note: E = Company

**Table 1** Elements evaluated in the control environment category

Source: Self Made



**Graphic 1** Control environment results

Source: Self Made

Graph 1 shows the maximum score to be achieved in red, with respect to the one obtained by the companies, which are shown in blue. In the case of the control environment, it can be observed that the most significant weakness is the human resources area, in general it is observed that they are at a minimum distance.

The application of the instrument allowed us to identify that within the organizational structure of the companies evaluated, there is no written assignment of the positions. Likewise, it indicates that, according to what has been stated by the RHHH administration, there is no process established for the selection of new employees, rotation of personnel and they do not reach written contracts for these.

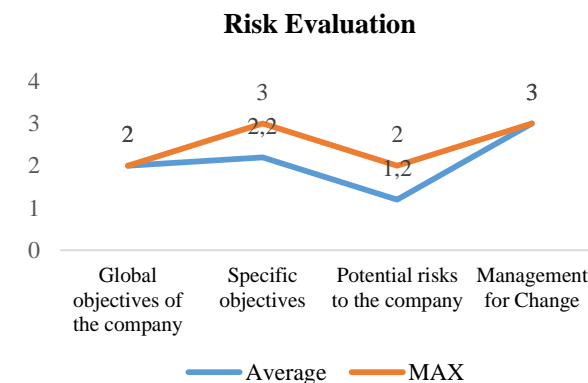
In addition, most of them do not have a process to evaluate the performance of their workers or written regulations about their behavior, but they say they have guidelines that are communicated verbally to all participants, which hinders their correct application.

Risk Evaluation							
Features to evaluate	E1	E2	E3	E4	E5	Average	Punt. Maximun
Global Objectives of the Company	2	2	2	2	2	2	2
Specific objectives	2	2	3	3	1	2.2	3
Potential Risks for the Company	1	1	1	2	1	1.2	2
Management for Change	3	3	3	3	3	3	3
<b>Total</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>17.2</b>	<b>20</b>

Note: E = Company

**Table 2** Elements evaluated in the risk assessment category

Source: Self Made



**Graphic 2** Results of risk assessment

Source: Self Made

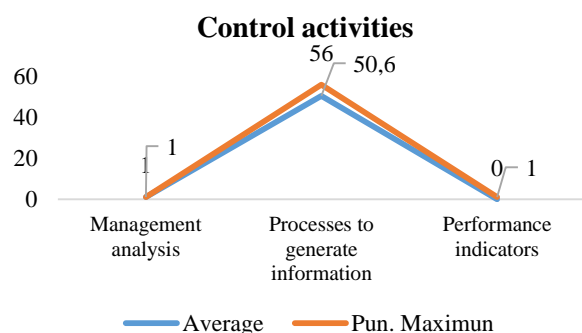
It was detected that in most of the evaluated companies there are no specific objectives for each of the areas that comprise them, despite having a general objective, this may represent a problem when not knowing individually the course of each department or the contribution that each one of them has to the correct development of the company. In addition, omissions were identified in the risk detection processes, which is a fundamental process to avoid future problems that limit their growth.

Control Activities

Features To Evaluate	E1	E2	E3	E4	E5	Average	Punt. Maximun
Management Analysis	1	1	1	1	1	1	1
Procesos para Generar Información	48	55	54	43	53	50.6	56
Indicadores de Rendimiento	0	0	0	0	0	0	1
<b>Total</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>17.2</b>	<b>20</b>

Note: E = Company

Table 3 Items evaluated in the control activities category  
Source: Self Made



Graphic 3 Results of control activities  
Source: Self Made

Within this area, the instrument allows us to identify the following points:

- In the area of cash and cash equivalents, there is no procedure to identify short-term investment returns.
- In some cases cash flows are not made that help to better control cash
- For the income and accounts receivable, it was detected that there are no written procedures for the granting of credits, which may represent doubts on the part of the personnel at the moment of carrying out this activity.

- There is no person assigned to verify the expiration of said account
- There are no orders for registering the estimates presented
- Another point in which there are observations is the inventory and cost of sales where there is no process manual that indicates how the activities in winery should be handled
- Performance indicators are not designed for company processes.

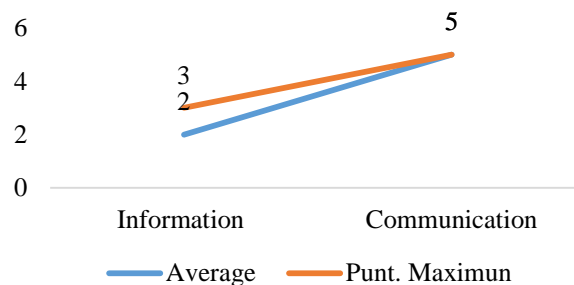
Information and Communication

Features To Evaluate	E1	E2	E3	E4	E5	Ave rage	Punt. Maximun
information	2	2	2	2	2	2	3
Communication	5	5	5	5	5	5	5
<b>Total</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>17.2</b>	<b>20</b>

Note: E = Company

Table 4 Elements evaluated in the category information and communication  
Source: Self Made

Information and Communication



Graphic 4 Information and communication results  
Source: Self Made

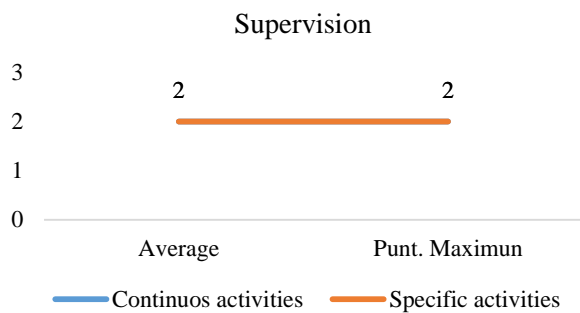
It was found that in some of the case studies there are no written regulations and manuals that allow the staff to know their functions and the manner in which they should address themselves when carrying out their activities. On the other hand it is stated that information flows constantly within institutions, which facilitates the development of their processes.

Supervision

Features To Evaluate	E1	E2	E3	E4	E5	Average	Punt. Maximun
Continuous Activities	2	2	2	2	2	2	2
Specific Activities	2	2	2	2	2	2	2
<b>Total</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>19</b>	<b>20</b>	<b>17.2</b>	<b>20</b>

Note: E = Company

Table 5 Items evaluated in the Supervision category  
Source: Self Made



**Graphic 5** Supervision results

Source: Self Made

According to the results obtained in the instrument, no disagreement was found in the evaluated companies.

## Discussion

A good internal control contributes significantly to the development of a company, it is essential to maintain order in the development of their activities to be able to optimize their capabilities and achieve the fulfillment of their objectives.

According to the provisions of Axis 2 of the 2011-2016 state development plan, the micro, small and medium enterprises located in the state of Hidalgo lack most of their skills, capabilities, tools and even financial resources that allow them to improve their position in the market; For this reason most of these companies demand consultancy and business services that respect their level of development, solve short and long-term problems and build strategies that improve their productivity, in order to privilege their roots in the state and their contribution to the Hidalgo's economy. The contribution to the economy made by this group of companies is really significant since they represent approximately 99.94% of the total of the companies in the state according to INEGI data, that is why it is very important to provide them with an accompaniment that allows them to improve their processes and favor the optimization of your results.

In order to contribute to this development it is necessary to know in detail their needs, related to internal control, which is why an evaluation instrument was designed based on an existing methodology that would support research. That is why it was decided to use the COSO model for internal control through which it is intended to establish and design the necessary procedures for internal control of selected companies.

## Conclusions

Through the application of the instrument, different areas of opportunity were detected within the companies studied and allowing the implementation of continuous improvement strategies that contribute to the reduction of risks within their processes.

It is recommended to use the formats developed with the purpose of establishing controls in the detected procedures. The constant review of the activities favors the timely detection of possible omissions in the procedures, allowing their correction in order to achieve the objectives set.

The willingness to change by the administration facilitates the adaptation of strategies that favor their development and allow obtaining better results.

Some of the omissions in internal control are mainly focused on the following areas:

- There are no procedures to evaluate the performance of the members of the company.
- There is no established process for the selection of new employees, rotation of personnel and, finally, it does not reach written contracts for these.
- There are some omissions in the processes to generate information, especially in the management of accounts receivable, specifically in their allocation and collection. As well as in the management of inventories.
- It is necessary to communicate to all areas of the company, the objectives set as well as the strategies to reach them. This will allow all workers to know the importance of their activities and their contribution to the welfare of the company.
- There is provision on the part of the administration to take advantage of all the contributions that can be provided to them.

It is important to note that the procedure continues with the periodic monitoring of the activities implemented as well as the measurement of the results obtained.

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