

# **The effectiveness of the Internal Control System as a regulatory element in Public Pension Expenses for Accountability**

**José Costa Castro, Dr. Ricardo Jorge da Cunha Costa Nogueira**

## **Abstract**

*This article used theorists to reinforce data on the effectiveness of the Internal Control System as an instrument that regulates public pension expenditure for Accountability. This topic allows the understanding of the importance of internal control as a practice that helps in the quality and results of an organization, because Accountability represents the obligation of accountability for the performance of a work from the responsibility of a delegated authority. How much and how the Internal Control System can assist the manager in decisions? The general objective is to analyze the effectiveness of the internal control system in order to serve pension institutions more effectively. The methodology was bibliographic, exploring magazines and websites, besides the Brazilian legislation; the data collection was carried out at the Public Servants Welfare Institute of the State of Rondônia (IPERON). It was possible to conclude that it is necessary for IPERON's Internal Control Sector to develop its activities according to its mission and vision so that qualitative results have priorities.*

**Keywords:** *Internal Control. Public Expenses. Accountability.*

## **1. Introduction**

The main objective of this study is to present the Internal Control System as an instrument of regulation in the application of public pension expenses for Accountability in public institutions. To this end, the importance, effectiveness and support that this system gives to management for the good use of public resources will be discussed, allowing accountability to the citizen and user of information, with clarity, ethics and respect for legislation.

The epistemological definitions address the importance of control in public administration to enable the organization in the methods and measures adopted to safeguard its resources to ensure effectiveness and operationalization.

Regarding legislative aspects, the Rondônia State Court of Auditors instituted Normative Decision no. 002/2016/TCE-RO, in which it establishes the guidelines on the implementation and operation of the internal control system, where it lists five principles inherent to internal control activities: Principle of segregation of functions; Principle of cost/benefit relation; Principle of adherence to guidelines and norms; Principle of adequate qualification and Principle of technical-functional independence, being all these elements that guide the professional's activities [1].

A highlight is the fact that all determinations guide the public and private spheres, not excluding any body, because there is an understanding that the manager of the private initiative can do everything that the law does not prohibit, but it is up to the public manager to do only what the law allows, creating a problem in

this conception of ideas, since society demands results and often, due to lack of knowledge of the legislation, is held responsible for the involuntary involvement of possible irregularities.

Moreover, the various findings are often scored by the internal control sector of the institution and as a consequence some convictions are issued under Brazilian law. For this, the choice of this subject occurred due to the need to make explicit to the taxpayer and to the interested party the social security information that the public power, especially a social security institution, must value for the good use of the resources of public servants.

In this sense, the biggest aspect of this survey is defined by the concern about the use of the social security public resources, the means and the reasons why the manager will effectively manage the taxpayer's money and, consequently, the contribution of the intentional control system to Accountability.

Thus, this study will show the contributions of the internal control system, duly organized, directed by committed and qualified servants, fact provides the manager of a welfare institution, the efficient mechanisms for decisions involving the application of resources and the accountability of organizational activities.

In this sense, the general objective is to analyze the effectiveness in the internal control system to effectively serve the welfare institutions. The specific objectives are: to describe the concept of internal control; identify the challenges and obstacles of the researched object; evidence the applicability of an organized system in the social security institutions; contextualize the new vision of the Internal Control System by the manager through the resources provided.

In view of the above, the article was structured in five sections arranged in a logical sequence giving priority to the understanding of the object of study. The first section delimited the introduction; the second section presents the epistemological field of internal control conceptualization, the systematic organization of norms and guidelines. The third section discusses the methodological aspects of the research. The fourth section consists of the analysis and discussion of the results and finally the final considerations that suggest future research in this area for the dissemination of this knowledge to accounting professionals in contemporary times.

## **2. Knowing about Internal Control**

### **2.1 Definition of the term Control**

Conceives control is defined as a "subject of public administration, faculty of surveillance, guidance and correction that one Power, organ or authority exercises over the functional conduct of another [2].

Its origin derives from the French term control and, for this reason, it has always encountered resistance among vernacular language cultivators, but because it is untranslatable and irreplaceable in its vulgar or technical meaning, it has been definitively incorporated into some languages, including dictionaries of the Portuguese language, and it has also become popular when the systematics of something or something that needs to be followed with greater vigor is triggered.

In the mini contemporary dictionary of the Portuguese language its conception allows the understanding of the control as being the "supervision or monitoring exercised over certain activities, or the power to exercise them" [3]. Control is a theme applied in actions in which it needs organization to direct something or focus

on an activity in which a result needs to be presented.

## **2.2 Meaning of the term Control**

In other viwe "internal control in the public administration is the verification of the compliance of its actions with a standard, enabling the controlling agent to adopt a measure or proposal as a result of the judgment formed" [4].

In this epistemological dialogue, internal control is defined by the American Institute of Certified Public Accountants as the "organization plan and all methods and measures adopted in the company to safeguard its assets, verify the accuracy and fidelity of accounting data, develop efficiency in operations and encourage the monitoring of prescribed administrative policies [5].

From now on, the concept formulated by the French Institute of Accounting Experts highlights that internal control is "formed by the organization plan and all the methods and procedures adopted internally by the company to protect its assets, control the validity of the data provided by Accounting, increase efficiency and ensure the proper application of management instructions" [6].

Internal control represents in the organization the "set of procedures, methods or routines with the objectives of protecting assets, producing reliable accounting data and helping management in the orderly conduct of the company's business [7].

In this context, two types of controls are exemplified: accounting and administrative. As for accounting controls, it is clarified that these are the systems of checking, approval and authorization; segregation of functions; physical control of assets and internal audit. As for administrative controls, the procedures consist of reporting statistical analyses of profitability, quality control, staff training, time and movement studies, analysis of variations between budgeted and incurred amounts, and controls of commitments made, however, unpaid.

However, [5] this is the main means of control available to the management of an organization, from the financial point of view, is accounting. From this perspective, the better and more efficient internal controls are, the greater the security for the manager, since, when fragility is verified, the professional increases the number of tests, however, when he notices that the controls are strong, the number of tests decreases, therefore, the smaller the better. Then, "Internal control comprises the organization plan and the coordinated set of methods and measures adopted by the company to protect its assets, verify the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to the policy outlined by management [8].

In terms of documents instituted, the Federal Accounting Council, through the exercise of its legal and regimental attributions, enacted [9], in which it approved the Brazilian Accounting Standards (NBC) T16.8 which deals specifically with Internal Control, defining it from this accounting perspective "it comprises the set of resources, methods, procedures and processes adopted by the public sector entity, for the purpose of (a ) to safeguard the assets and ensure the veracity of the equity components; (b) to comply with the accounting record in relation to the corresponding act; (c) to provide timely and adequate information; (d) to encourage adherence to the norms and directives established; (e) to contribute to the promotion of the operational efficiency of the entity; (f) to help prevent inefficient and uneconomical practices, errors, fraud, misappropriation, abuses, deviations and other inadequacies" [10].

Within this context, the existence of various ways of evaluating internal control in an organization is highlighted, and its realization can be carried out in two stages called: The first concerns adequacy and the second consistency.

In the case of adequacy occurs when divergent points are identified with regard to existing or inadequate controls, and these results can be obtained through the answers to questionnaires applied in which the survey allows to verify what the existing control system is and if it is consistent with the organization's needs.

As far as consistency is concerned, its application to internal controls is verified with regard to the result of their evaluation. It is emphasized that for the controls that are being practiced, a work program is effectively made that will assess the levels of adherence of all areas of the institution, their inconsistencies and the reasons for not accepting the application of some controls.

### ***2.3 Internal Control System in Brazil legislation***

With regard to the legal aspects promulgated in Brazil with regard to the practice of internal control in organizations, one finds the doctrinal scope in the 1988 Federal Constitution emphasized in arts. 31, 70 and 74 "article 31 deals specifically with the internal control system concerning municipalities when it states that "the inspection of the municipality will be exercised by the Municipal Legislative Branch, through external control, and by the internal control systems of the Municipal Executive Branch, in accordance with the law" [11]. Over and above that, article 70 deals with it in a broader way "the accounting, financial, budgetary, operational and patrimonial inspection of the Union and of the direct and indirect administration entities, as to legality, legitimacy, economy, application of the subsidies and renunciation of revenues, will be exercised by the National Congress, through external control, and by the internal control system of each Power" [11]. However, article 74 stipulates that the Legislative, Executive and Judiciary branches have the duty to maintain an integrated system of internal control" [11].

### ***2.4 Macro objectives, Types and Forms of Internal Control***

The macro objectives of Internal Control allow to ensure the legitimacy of liabilities, safeguard assets against theft, losses or waste, promote operational efficiency and encourage adherence to internal policies of the institution.

For this purpose, there are two types of Control, internal and external. Internal Control occurs when activities are carried out within the institution itself. However, External Control occurs by agents from outside the institution.

As for internal control [4] "external control is carried out by a body external to the public administration responsible for the controlled act (e.g. City Hall with the assistance of the Court of Auditors)". Besides that internal control is carried out by the executing agency itself within the scope of its own management, exercised in an appropriate manner, capable of providing a reasonable margin of assurance that the objectives and goals will be achieved effectively, efficiently and with the necessary economy (e.g. Internal Control System, Internal Control Committee, Municipal Control) [4].

### **2.5 Internal Control Principles**

The principles of internal control are fundamental [4], therefore, essential to the activity of internal control because they are defined by: 1) The responsibility must be determined; 2) Accounting and operations shall be segregated; 3) Independent evidence must be used to prove that the operations and accounting are accurately recorded; 4) There must be rotation between servers in charge for each job; 5) Vacation must be mandatory for people who occupy important positions; 6) All instructions and norms must be made in writing; 7) The segregation of functions should be avoided [4].

Thus, it is also discussed that "the principles of Legality, Impersonality, Morality, Advertising and Efficiency, contemplated by art. 37 of the Federal Constitution, are general rules in the performance of the public administrator.

In view of the new reality of public administration, there are new principles that should be considered in the performance of internal control, which are: the principle of public interest, economy, speed, reasonability, proportionality, isonomy, administrative probity and broad defense" [4].

### **2.6 Effectiveness of the Internal Control System**

In other view "effectiveness is the ability to produce the results previously defined, through its objectives and performance targets, within the established deadlines" [12].

In this sense effectiveness is the ability of the manager to deal with the resources available to achieve the greatest number of results than had been planned. And efficiency deals with the degree to which resources are planned and are being used by the organization in a beneficial manner.

The FC brings in art. 37 the constitutional principles regarding the direct and indirect public administration of any of the Powers of the Union, the States, the Federal District and the Municipalities will obey the principles of legality, impersonality, morality, publicity and efficiency [11].

It is understood that efficiency in dealing with public resources is the concern of the legislator, and must be understood in a unison for its application.

Thus, the combination of efficiency and effectiveness is essential for the system and the internal control sector to assess the credibility of the management, since they allow for vigilance and asset protection, offering profitability and economy.

For this effectiveness to occur, it becomes consubstantial that the Internal Control System of the institution is the junction of all sectors involved in an articulated manner and, demonstrated through its organization chart, regardless of whether it is of public or private order.

It should be noted that, as previously mentioned, the Federal Constitution-88 does not leave legitimate in its articles 31 and 70 regarding the Internal Control Sector, but deals with the Internal Control System. Moreover, it enacts in § 1 of art. 74 some salutary attributions when those responsible for Internal Control, upon becoming aware of any irregularity or illegality, shall inform the Federal Audit Court, under penalty of joint and several liability [11].

### **2.7 The Head of the Internal Control Sector**

In some agencies each sector has a respective leader or person in charge who provides the manager with reliable information in real time for his effective decision making, which may depend on the administrator

to institute a specific sector of Internal Control, or depending on the organizational structure to create the Internal Audit, or for greater security to have both in the institution.

It is the responsibility of the manager of a welfare institution to delimit the creation of the Internal Control Sector, in which he must exercise the attributions of analysis of expenses in terms of their regularity, manifesting himself/herself or positioning through administrative opinions.

It may even institute the Internal Audit Sector, which may be considered allied to the Internal Control Sector, since its objective is to supervise, normalize, recommend, inspect, and evaluate the degree of reliability of the institution's procedures.

Furthermore, when this institution is of public order, its perspective is limited in the control in measuring results, based on the analysis of deviations and generation of reports. Its applicability is effective to provide a strategic awareness focused on the principle of continuous improvement.

The approaches of the most renowned treatmentists constitute requirements to be met by public expenditure, such as usefulness, adequacy, opportunity, publicity, legitimacy [12].

In this context, for an expenditure to be characterized as public, it must meet these requirements. That public expenditure is the set of "financial expenditures made by the public administration for the payment of obligations aimed at the operation of public services or for the return of amounts not belonging to the State [13].

## **2.8 Accountability**

It defines the concept of Accountability, when it says it is "the set of personal attributes and expected behaviors of individuals who exercise parts of the public power granted to the state, i.e., by external expectations, users and institutions of society, either as a result of internal rules established by institutions. In its strict sense, the term designates the obligation to be accountable for the safekeeping and/or use of public resources, property, and the decision-making authority conferred on a public office or government program [12].

In this epistemological context [14] mentions that Accountability is the obligation to account for the performance of work arising from an assumed responsibility derived from a delegated authority. Henceforth states that "Public Accountability presupposes the awareness of the obligation to be accountable by those who use public resources outlining a greater degree of awareness in society makes the need for accountability more evident" [15].

Clarifies [2], that the duty to be accountable reaches not only administrators of public entities and bodies, but also parastatal entities and even private individuals who receive state subsidies for determined application. Moreover, it is a natural consequence of the administration as a charge of management of property and interests of others, since administration corresponds to the performance of a mandate of zeal and conservation of property and interests of others, it is clear that who exercises accountability to the owner.

## **3. Methodology**

A descriptive study of a basic nature was carried out with a quantitative approach with technical procedures

in bibliographical research to substantiate the epistemological field, use of legislative documentation applied to the subject, research in journals and electronic sites.

In other view "descriptive research has as its main practice the characteristics of a certain population or phenomenon, or the establishment of relations between variables" [16].

The collection of data was based on a Welfare Institution through the application of a semi-structured questionnaire, with closed questions in order to identify and analyze the understanding of the servants who are in the front line to know the effectiveness of the internal control system as a regulatory element in public welfare expenses for accountability through their contributions. The questionnaire is a data collection instrument consisting of an ordered series of questions that must be answered in writing by the informant, without the presence of the researcher. They must be clear and limited in length and be accompanied by notes explaining the nature of the research and stressing the importance and need for answers in order to motivate the informant [17].

In this sense, it was intended to establish the duality of opinions, or repetitions that do not contribute conceptually on the subject, but can recommend a new approach, so that we can build the mission and vision in a solid way proposing constructive conclusions and discussion of the results achieved.

The listed research respected the limits regarding the theme, objectives and procedures accomplished. This type of research is "a deep and exhaustive study of one or a few objects, in order to allow broad and detailed knowledge of them [16].

#### **4. Results**

In order to achieve the proposed objective, a questionnaire with 10 (ten) questions was applied to the employees who work at the Institute of Social Security for Public Servants of the State of Rondônia - IPERON, located at Avenida 7 de Setembro nº 2557 - Bairro Nossa Senhora das Graças, in Porto Velho, Rondônia, Brazil

As it is a quantitative study, it clarifies in percentage the specificities of the place under analysis. In the sense of the objectives, it was a descriptive research, because its objective was to show to the society the performance of the Internal Control System can contribute to the management regulating the public expenses in a social security institution, in the particular case of IPERON.

The data was collected in August of 2019, when the questionnaire was applied to the collaborators of the following areas: Administrative and Financial Direction, Welfare Direction, Technical Direction, Registration Management, Administrative and Human Resources Management, Welfare Management, Psychosocial Management, Accounting Management, and Team Leadership.

In view of the above, the analysis and discussion is contextualized by means of the questions asked.

The first question was to point out the fragility in some sector participating in the Internal Control System, since it contemplates all the sectors involved in the management of the organization, and presupposes that each one must do their role well.

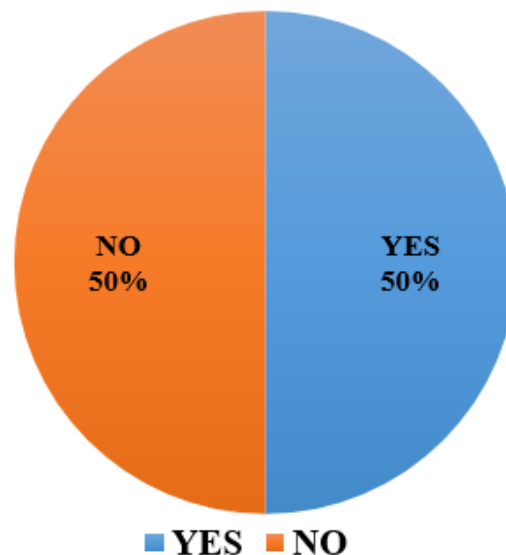


Figure 1: Are there weaknesses in any sector?. By the author (2020).

For the questions yes and no the percentage of 50% each was obtained, the result of this index is worrying because it means that the management needs to make urgent improvements in the process structure. The second question had in its scope the possibility of knowing which components could be optimized or modified for an improvement in the internal control system.

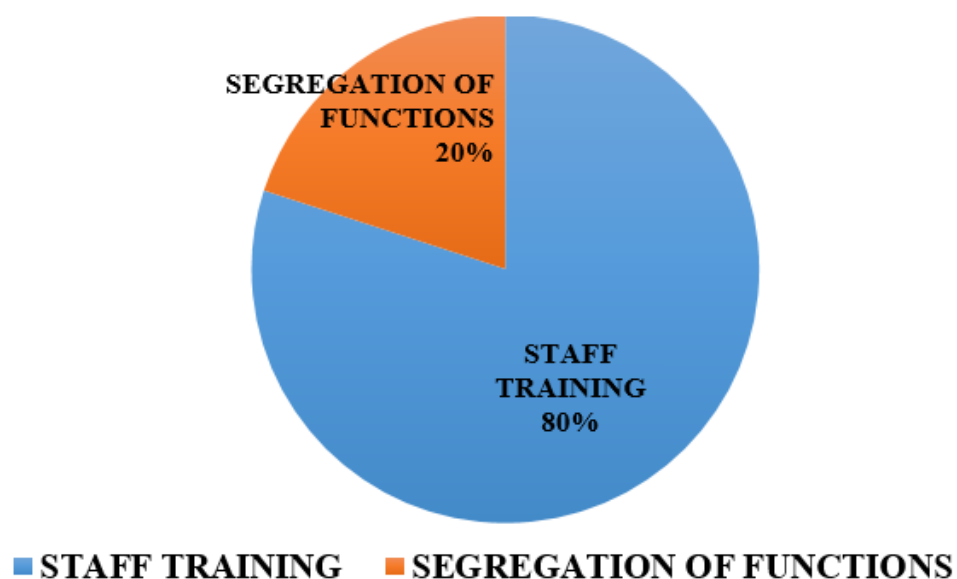


Figure 2. Components that can optimize or modify for improvement. By the author (2020).

The response was 80% for staff training and 20% for job segregation. The result reflects a lack of knowledge of segregating functions, and enabling the occurrence of fraud, and therefore malice, because the same agent who makes acquisitions should not make payments, for example.

The questionnaire when formulating the third question asked what could be wrong with the operations that are performed in the internal control system.



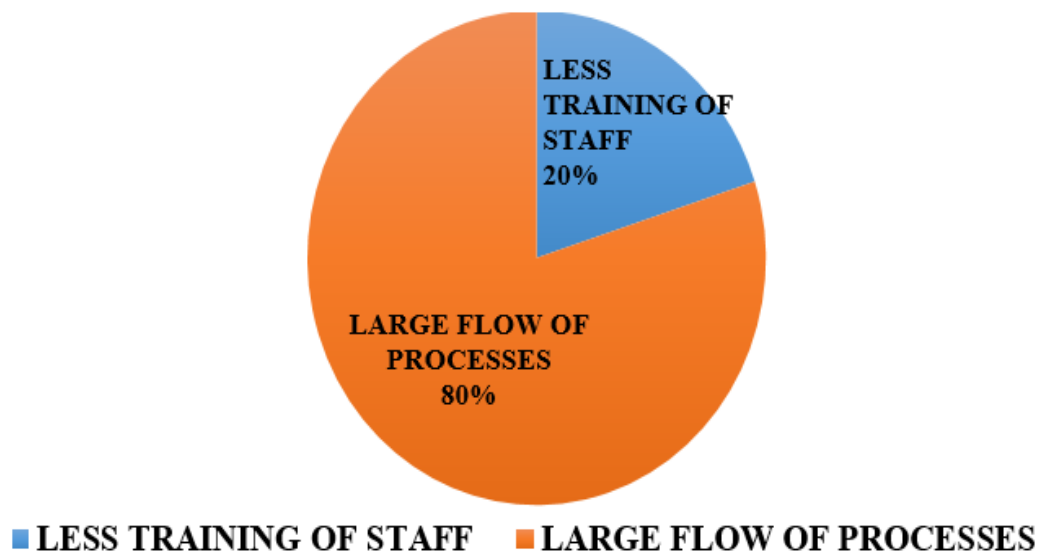


Figure 3. Errors made in the operation. By the author (2020).

As a response, 80% of the surveyed population informed that the flow of processes is very large, while 20% of the surveyed population expressed the opinion that the flow of processes in the institution under survey urgently needs to be improved.

In the fourth question, the researcher wanted to know which sectors represent an obstacle to the increase in productivity of the internal control sector, and which components could be optimized or modified for an improvement in the internal control system.

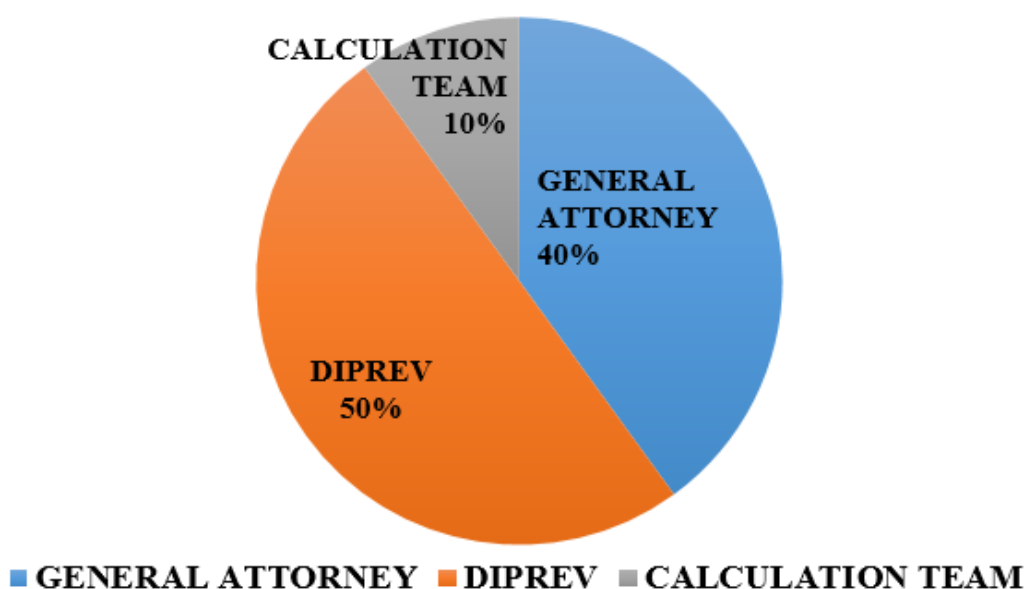


Figure 4. Sectors for Improvements. By the author (2020).

The results show that 50% responded that DIPREV represents the greatest obstacle, while the Prosecutor's Office represents 40% and therefore the Calculation Team with 10%. This means that the two sectors, together DIPREV and PROGER, need to re-evaluate their strategies.

The fifth question was more emphatic and questioned the interviewee if he understands that there is a need to give more celerity to the retirement processes at the Institute of Welfare of Public Servants of the State of Rondônia (IPERON).

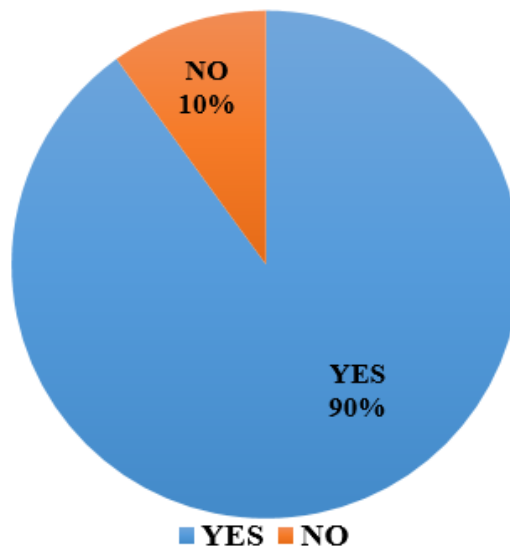


Figure 5. Celerity. By the author (2020).

The answers point out that 90% of the interviewees believe that the procedural process should be speeded up, but 10% believe that it is good, i.e. the vast majority are in favor of the process as a whole being improved.

The sixth question sought to know if there was any record of discontent in the Institute of Welfare of Public Servants of the State of Rondônia (IPERON), motivated by the delay in granting retirement by some servant.

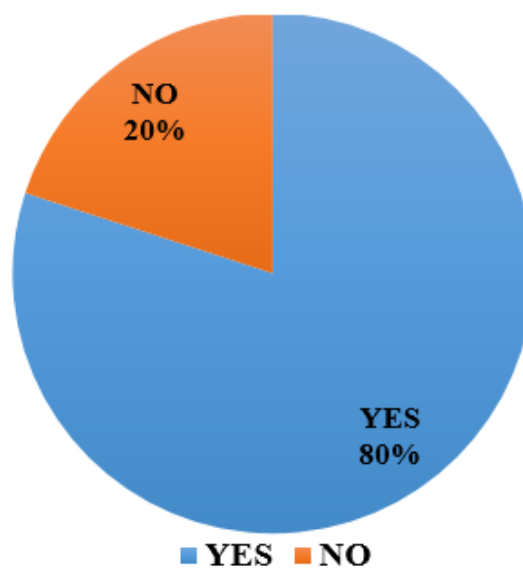


Figure 6. Record of discontent. By the author (2020).

For 80% of those interviewed, there were records, and only 20% emphasize that there were not. This demonstrates the need for the Internal Control Sector to be more active, it needs that in the institution under study a flow of processes be elaborated that allows more agility, so that the server that has the right to retire is not vilified at the moment it most needs, after a life of working service.

The seventh question brings in its bulge the opinion of the public servants of the Institute of Welfare of the State of Rondônia (IPERON), if the public servants of the State of Rondônia, are satisfied with the services performed by the institute.

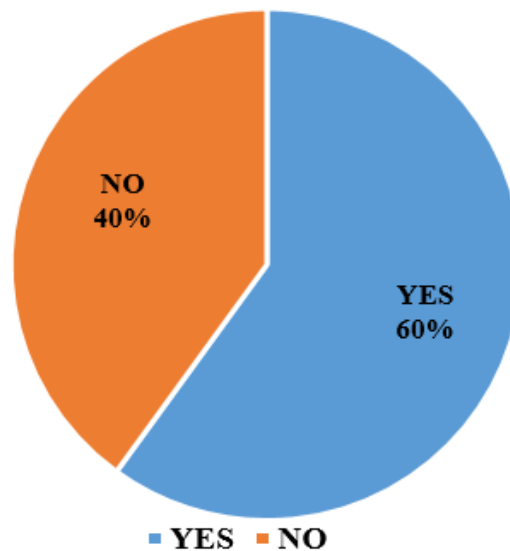


Figure 7. Level of Satisfaction. By the author (2020).

Regarding the level of satisfaction of the participating subjects, 60% of the servants of the State of Rondônia said that the services performed by IPERON have been pleasing, but this is the opinion of the servants of the entity studied, however 40% believe that there is no satisfaction for the services performed by the institution.

The eighth question brings an interesting question in which it was asked if the interviewee would be willing to contribute with suggestions to speed up the process.

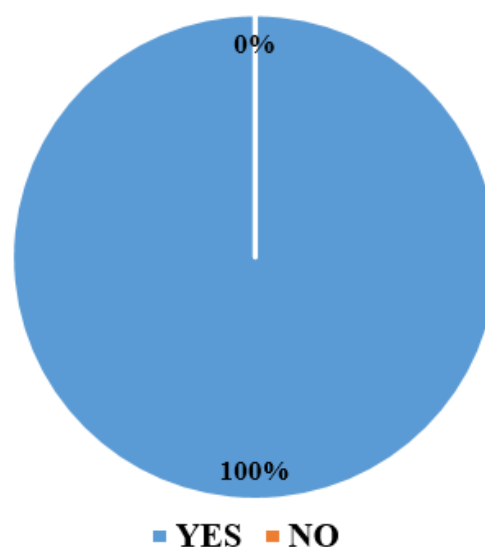


Figure 8. Suggested Procedure. By the author (2020).

The answers show that 100% of the respondents were positive, demonstrating that they want to participate in the decision-making process, suggesting or recommending the necessary improvements, thus speeding up the process in the institution under study. The ninth question was made in a way that could clear any doubts regarding the performance of the internal control sector, and whether it is acting in compliance with the legislation.

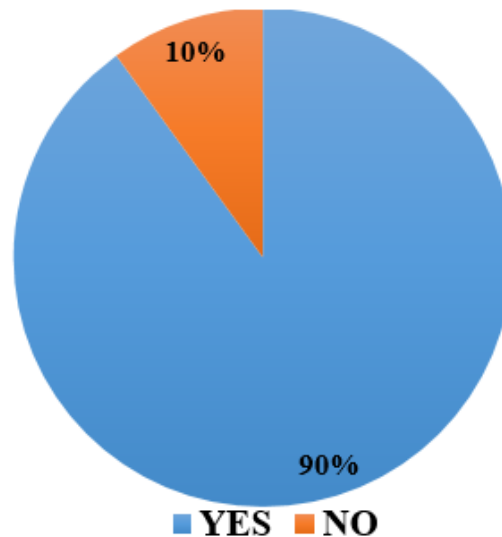


Figure 9. Performance of the Internal Control Sector. By the author (2020).

In this question the answer was unanimous for 90% who responded positively, and only 10% do not think so. The tenth question was formulated in order to know from the interviewee if IPERON usually knows his opinion through internal research about the services it is offering.

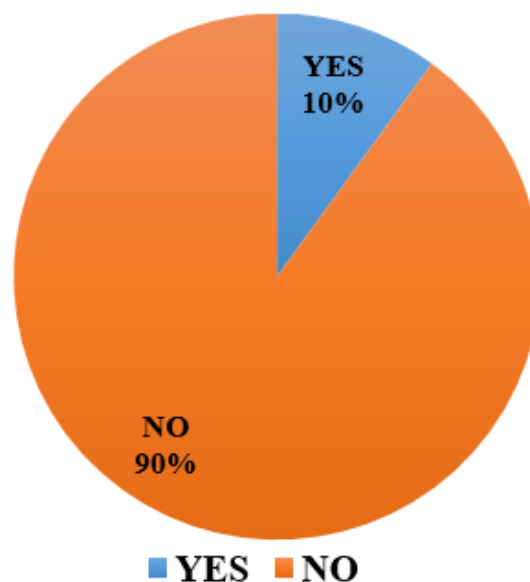


Figure 10. Receipt of Opinions. By the author (2020).

Again the result was overwhelming, in which 90% responded negatively, that is, that the institution studied does not usually establish a close relationship with the server, and only 10% responded positively.

## 5. Conclusion

As detailed in this study, the junction of efficiency with the effectiveness of the internal control system, as an element that performs the follow-up, and recommends in a clear, objective and concise way, checking whether all control procedures are being performed effectively.

Public expenses need to be incurred to meet the needs of society as a whole, however, it is necessary that those who carry them out, meet the basic principles of the public administration, which guide their effective payment.

The application of the questionnaire in the studied institution demonstrated that it is essential to segregate functions, improve the elements that make up the internal control system, with personnel training, improve the flow of processes in order to manifest themselves in a high way, reassessing their strategies in each sector participating in the system, give more speed to the processes, because the vast majority of the sectors researched are in favor of the process as a whole being improved. The discontent proved to be small and demonstrates the need for the Internal Control Sector to be acting on the compliance for which it was created, excelling for its mission and vision.

In this context, it was perceived that it is necessary to make greater improvements in the functional structure, with priority to learning, in the sense that there is an understanding that is close to unanimity regarding the satisfaction for the services performed by the entity, but the manager or administrator has the responsibility and humility to know the opinion of its employees, to establish a relationship and proximity with the employee, considering that they are the ones in the front line, and they reflect greatly the image of the institution.

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