RELATIONSHIP BETWEEN INTERNAL CONTROL AND TREASURY MANAGEMENT IN A PERUVIAN MUNICIPALITY

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ABSTRACT

Purpose: The objective was to determine the relationship between internal control and treasury management in a Peruvian municipality.

Theoretical framework: The theory used allowed for an in-depth study of internal control and treasury management, demonstrating that compliance with supervision and control activities greatly reduces the risks of embezzlement in the public sector.

Design/methodology/approach: A quantitative, applied, non-experimental, cross-sectional, descriptive and correlational methodology was used; the sample consisted of 75 workers of the municipality.

Results: It became evident that when internal control is deficient, treasury management is deficient in 78.8%, as is the case with each of its dimensions. In addition, they obtained a p=0.000<0.05, allowing to accept the alternative, and also obtained a Spearman's Rho of 0.554.

Research, practical and social implications: When operational guidelines are not followed in the treasury management phases, the process will be deficient, which will result in misapplication of public funds because there will not be sufficient economic funds to cover the municipality's needs. Therefore, it is important to follow the rules established in the entity.

Originality / value: Concluding that internal control is related to treasury management in the municipality studied; this is due to the fact that, by complying with the appropriate rules and stipulated in the entity, that officials and authorities encourage ethical values throughout the institution and comply with the assigned functions, then the operational guidelines in treasury management will be complied with.

Keywords: internal control, treasury management, control activities, treasury supervision, cash management, financial income.

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RELAÇÃO DO CONTROLE INTERNO NA GESTÃO DE TESOURARIA EM UM MUNICÍPIO DO PERU

RESUMO

Objetivo: O objetivo foi determinar a relação entre controle interno e gestão de tesouraria em um município do Peru.

Referencial teórico: A teoria utilizada permitiu aprofundar o estudo do controle interno e gestão de tesouraria, demonstrando que ao cumprir as atividades de supervisão e controle, os riscos de peculato no setor público são bastante reduzidos.

Desenho/metodologia/abordagem: Utilizaram uma metodologia quantitativa, aplicada, não experimental, transversal, descritiva e correlacional; A amostra foi de 75 trabalhadores do município.

Resultados: Ficou evidente que quando o controle interno é deficiente, a gestão de tesouraria é deficiente em 78,8%, o mesmo ocorre com cada uma de suas dimensões. Além disso, obtiveram um p=0,000<0,05, permitindo a aceitação da alternativa, da mesma forma, obtiveram um Rho de Spearman de 0,545.

Implicações de pesquisa, práticas e sociais: Quando as diretrizes operacionais não são seguidas nas fases de gestão de tesouraria, o processo será deficiente, o que acarretará uma má aplicação dos recursos públicos, pois não haverá recursos econômicos suficientes para cobrir as necessidades do município. Por isso, é importante seguir as regras estabelecidas na entidade.

Originalidade/valor: Pode ser concluído que o controle interno está relacionado à gestão de tesouraria no município estudado; Isso se deve ao fato de que, cumprindo as regras adequadas e estipuladas na entidade, que os funcionários e autoridades estimulem os valores éticos em toda a instituição e cumpram as funções atribuídas, então as diretrizes operacionais na gestão de tesouraria serão cumpridas.

Palavras-chave: controle interno, gestão de tesouraria, atividades de controle, fiscalização de tesouraria, receita econômica.

1 INTRODUCTION

It is essential that companies carry out efficient control in order to guarantee financial resources, according to Ortiz (2021) emphasized that establishing internal regulations aligned with the internal control of the government entity allows them to achieve a management balance; however, companies do not show that they give it the necessary importance in their management, which to a certain extent limits the diligence of treasury management. Likewise, the Ministry of National Defense of Colombia (2022) highlighted that the authorities have lost credibility on the part of users because they have
been denounced for embezzlement of funds due to the lack of professional and moral capacity of the internal control office. In addition, in Indonesia there is no efficient internal control in the municipalities, which has generated several financial frauds in the use of resources (Putra et al. 2022).

In Peru, Vergaray et al. (2022) emphasized that the late detection of economic fraud results in the failure to discover in time irregularities in treasury management committed by authorities, officials and workers. Also, Mavila et al. (2021) emphasized that the reality of the management of public funds is affected by the problems involved in their performance, resulting in the deficiency in all the controls that the entity programs, having to be identified because it facilitates the application of a corrective procedure in the municipalities. On the other hand, the Public Prosecutor's Office Specialized in Corruption Crimes (2021) found that during the pandemic the deficiencies demonstrated in internal control caused municipal authorities to commit corruption because they overvalue the final prices of goods by 500% of their original price.

At the municipal level, it can be seen that the problems presented by this institution are that the personnel responsible for internal control do not have the necessary work and professional experience to carry out these functions, since multiple deficiencies were found in the processes that they have carried out, and also because they do not know the agencies that should report on acts of corruption committed by some authorities and officials of the institution itself, This has been generating different inconveniences and adverse situations in the treasury management, since the accountabilities were not presented according to the requirements of the legal framework and the internal policies of the district governments, due to the fact that the workers assigned to the entity are trustworthy. In this sense, this municipality also appreciated that the lack of knowledge of part of the use of control policies and procedures has generated that the actions adopted by the institutional control office cannot be executed correctly, since it has been demonstrated that the officials and workers of the coercive execution office of this municipality do not adequately use the operational guidelines in the processes of timely accreditation of revenue management, In the same way, the lack of control in expenses has generated that the liquidity and payment management has been considerably affected, since in the first quarter of 2021 the entity has not had availability of funds collected,
allowing it not to comply with the timely payment of the obligations contracted by the institution, such as the payment of payroll, pensions and suppliers that granted credit.

The research was justified in a theoretical way because it is based on the scientific theory of the basic principle of auditing, since these will allow to expand the knowledge on internal control and treasury management because through it the procedures and processes that must be carried out at the time of internal control are known. It is also justified in a practical way because the work will provide current, accurate and selected information on the importance of internal control and treasury management that will allow the authorities to detect irregularities in time in order to seek viable solutions. Likewise, it is justified in a methodological way because this work will use a positivist and applied paradigm, in addition, two instruments will be elaborated and validated by experts in accounting research with a master's degree, since through their application it will be possible to provide recommendations to solve some phenomena found in the studied variables.

Likewise, the central objective was: To determine the relationship between internal control and treasury management in a Peruvian municipality. In addition, the central hypothesis was established as follows: There is a significant relationship between internal control and treasury management in a Peruvian municipality.

2 LITERATURE REVIEW

At this point, international antecedents were presented; in Indonesia: Rasmadi et al. (2021) revealed that the variables of fund disbursement, file structuring, and management support had a significant impact on preventing fraud in the West Sulawesi Regional Revenue and Financial Management Agency, both partially and simultaneously. In addition, Thokoa et al. (2022) demonstrated that the inappropriate use of financial resources has seriously impacted the quality of service that these institutions provide to citizens. Likewise, Nuha and Sulistiyono (2021) indicated that the internal control practice of the government system has not fully implemented the elements of inspection due to the poor implementation of the existing components of the system.

Likewise, Roque (2022) noted that employees rated internal control as adequate on an overall scale (69.82%), and the components with the highest average scores were control environment (8.57), risk assessment (7.87), control activities (7.92), supervision
(8.56) and information and communication (4.98) with an inadequate rating. Workers also rated treasury management (74.6%) as inadequate, as well as its planning (8.95), organization (8.44), control (8.03) and management (8.03) components (6.81). Likewise, Arteta (2020) because he mentioned that there is a low level of implementation of internal control in the treasury of public universities; there is also a low level of communication and dissemination on the implementation of internal control.

The scientific theory of the basic principle of auditing, as it reveals that internal control was a management commitment to safeguard resources and assets, avoid expenses and provide security in administrative and accounting processes to make sound decisions. However, it is recognized that many times, due to lack of time, prototypes and new priorities, they have failed to examine the environment of methods and standardize their daily atavism. Therefore, it has not been determined whether the solutions to these problems or procedures have structural and systematizable frameworks that, in a short time, will accelerate their accounting processes (Quiroz, 2015).

Internal control is understood as "the systematizations that are petulant by the management, the board of directors or other persons belonging to the organization that have been designed to provide reasonable assurance to achieve the goals of the institution" (Cueva et al. 2021, p.10499). Likewise, it is a process involving the board of directors, management and part of the company's staff that aims to provide reasonable assurance of compliance with equanimities consistent with ordinances, information and obedience (Wan et al. 2019). In the same line, internal control was defined as a procedure designed to prevent unethical behavior, such as fraud, theft and abuse of resources that generate an increase in extreme poverty in each citizen and legal problems for those involved (Wang et al. 2022).

The control environment is to reflect and influence the sense of control of a partner is the operating model of the company, since it provides order and classification, as these compendiums enclose the rectitude of employees, ethical values and competence (Cueva et al. 2021). Likewise, regarding the control activities dimension, it was stated that they are those actions taken by the company through its policies and procedures to face the dangers that may disturb the achievement of the objectives, because this allows them to guarantee the timely and adequate execution of the policies and procedures that guarantee
responses to the risks faced by the institution that allow it to achieve its objectives (Cueva et al. 2021).

On the other hand, the supervision or monitoring dimension is understood as the process that allows the organization to verify that the operation of the system is being adequately developed throughout the financial period. In addition, it is the evaluation of the quality of internal control over time, including its associated departments, because it is essential to monitor internal control to determine whether it is working as intended and whether adjustments are needed as it allows improving the conditions of the entity (Cueva et al. 2021).

Internal control is important given that it is complete with an adequate device to refrain public efforts to endorse the principles in force and appropriate accountability, it is a candidate for inclusion (Onur & Gencay, 2020). Internal control is in charge of each state agency, whose purpose is to create the conditions for the realization of control, a holistic process executed by the highest authorities, management and staff of each entity (Babajani et al. 2022). It also provided a sensible confidence to achieve what was planned and under the protection of state resources, as it contributes to raise the efficiency and economy of systematizations in accordance with the principles of ethics and transparency; it guarantees the reliability and accessibility of information (Lozano et al. 2020). Compliance with the legal requirements of the unit, since this is the way to achieve efficiency in its operations. (Riso & Castellini, 2019).

Treasury management is an essential component of the process of state cash management as it involves the proper management of public funds under the management of revenues, liquidity and cash flow-based payments (Polak et al. 2020). Similarly, it is the result of changes in various accounting items of a company in the financial statements, arising from decisions made by management in the operation of the business and measured by the level of cash availability (Birrer & Schreiber, 2020). Likewise, it consisted of the management function that is responsible for considering the occupation of cash as the center of monetary transactions, independent of organizational economics (Polak & Grzegorz, 2018). Therefore, cash management is the most widespread activity in all companies and a priority for many of them (Quintero, 2020).

Nunja (2019) revealed that revenue management "is that which includes the development of guidelines and regulations on the operation of procedures or records for
the timely recognition of public funds" (p.65). The collecting agency provides information on estimates and perceptions of the flow of its financial revenues taking into account the clauses and situations verified by the General Directorate of Public Finance. These resources consist of fees, non-tax revenues, and penalties (Nunja, 2019). The same Nunja (2019) mentioned that liquidity management is the one that "contains guarantees of the necessary availability of the collected state flows for the relevant payment of the entity's duties under the law" (p.71). Similarly, Nunja (2019) stated that the payment management dimension "is the one that involves the payment of debts on the basis of an official formal accrual record because it allows to adequately control the current liabilities that the entity maintains with its suppliers and others" (p.74).

The accrual confirmation payment obligation is the prior proof of the existence of the creditor's rights, which is based on the commitment of prior formal registration and is formally constituted when agreed by the corresponding region and registered in the government system. The execution of accrued debt payments is carried out by the execution unit and is made through electronic transfers, such as salaries, pensions and other obligations related to suppliers and creditors of the State. In addition, cash payments are made in the Treasury System Pliego. (Nunja, 2019).

Cash management is crucial to a firm's survival because it allows assessing liquidity risk and predicting the probability of illiquid events occurring (Seifert & Gonenc, 2018). Thus, timely mitigation measures and reasonable cost can be anticipated (Grzegorz et al. 2018). In addition, because it allows meeting company payments and other obligations without having to liquidate other cash assets (Kolegowicz & Sierpinska, 2020). But for this it is extremely necessary for the entity to make economic projections because this consents to provision in a simple way the collections and payments, having to look for the appropriate way of financing, continuously reviewing the economic positions of the institution and above all reducing circulating needs, since this allows the institution to maintain and face its economic obligations assumed with third parties (Paolone, 2020).

The internal control was based on the law 28716 because it explained how it must be applied compulsorily in some methods, diligences, flows, promoting and optimizing the efficiency, effectiveness, lucidity and richness in the orders of each entity. By reducing the risks of misappropriation of funds and reducing the levels of corruption,
public entity can achieve continuous improvement, since this allows to offer better services to the whole community in general and to each member of their families and all the neighbors. On the other hand, the treasury management was based on the D.L. No. 1441 since it embodies the fundamental principles that the financial administration of the public sector must apply, where efficiency and prudence, fungibility, timeliness, cash unit and truthfulness are manifested, because all these oblige government entities to manage and use economic resources prioritizing the interests of the people, having to leave aside personal things and political activities otherwise they were prosecuted for embezzlement and acts of corruption. This allowed to maintain an efficient cash flow since the economic resources are destined to cover certain needs that the most vulnerable people of our country require, since for more than one hundred years the State has left them aside.

3 DATA AND METHODS

It was considered an applied type study given that all the theoretical discernment of the variables that have been studied was taken into account, by the way, the CONCYTEC (2018) points out that this type of research its objective is to determine, using scientific knowledge, how a recognized and specific need can be satisfied. Regarding the design, it was decided to use the non-experimental due to the fact that internal control and treasury management were not intentionally manipulated. The cross-sectional was also considered since this work was executed in a single moment and time. In this regard, Naupas et al. (2018) highlighted that these are observational works that are responsible for examining the data collected and worked within a set time frame.

In addition, it was decided to use a descriptive study since the data collection instrument allowed us to describe the phenomena that are facing the variables that were worked on in this study. (Puican et al., 2023). Similarly, it was decided to consider a correlational study for this work because through the inferential method, the degree of relationship between the variables was measured, thus fulfilling the initially planned objectives. (Puican et al., 2023). The purpose of this type of research is to measure the association between two or more concepts and/or categories. (Arroyo, 2020). This is the main reason why a scheme was considered to show that in this study the correlation of both variables was measured.
It was made up of all the administrative workers of a Peruvian municipality, reaching a total of 75 people. Thus, Silvestre and Huamán (2019) explain that the population is the group of people or objects about which it is intended to know something. The technique considered in this research was the survey since it allowed data collection without modifying the environment or the phenomenon. As for the data collection tools, it was decided to use a 20-item questionnaire. It is a document consisting of a series of questions that are coherently worded and highly organized, sequenced and structured according to a predetermined plan since it provides necessary information.

Then, the questionnaires were applied to the 75 workers of the municipality, immediately, the data were added to the Excel sheet in order to obtain the answers given by the respondents, in addition, the data were transferred to the SPSS V 26 statistical package which allowed the researcher to obtain the descriptive and inferential results, being reflected through tables and figures, also, the Kolmogorov-Smirnov data normality test was obtained since the sample was greater than 50 people, until reaching the conclusions and culminating with the recommendations.

In this research, two methods of data analysis were considered, such as the descriptive statistical method since through this method the results of the variables and dimensions were obtained through the perception of the workers of the municipality using the poor, regular and efficient scale for both variables. Likewise, the inferential statistical method was considered because through the data normality test it was possible to obtain the bilateral dummy and Spearman’s Rho correlation coefficient, since it was determined that the variables and their dimensions maintain a certain degree of relationship.

It was based on basic principles that guarantee its uniqueness. It was based on a variety of bibliographies, indicating their source, thus guaranteeing copyright. After being informed of the scope of the study, the respondents agreed to use their information for the purposes of this study. Likewise, this work used the principle of objectivity, since all the information obtained during the research was carried out, commented on and given an opinion after having been applied to the entity’s personnel. In addition, the value of respect was taken into account, since all the data collected from the participants in the survey were kept strictly confidential and used for academic purposes, only after the study is fully approved will all the data obtained from the respondents be eliminated. Similarly,
the value of responsibility was taken into account when making the commitment to complete this survey as it allowed me to achieve my professional goals.

4 RESULTS AND DISCUSSION

The results show that when internal control is deficient, treasury management is deficient by 78.8%, but when internal control increases its efficiency, treasury management is moderate and efficient by 50%, respectively, thus revealing that if control procedures and policies are not complied with, and above all if the authorities, officers and workers do not have ethical values, it will not be possible to adequately carry out activities to achieve maximum efficiency in internal control.

When internal control is deficient, the revenue management dimension is deficient by 66.7%, likewise, when internal control is moderate, revenue management increases its effectiveness to the moderate level by 40. However, when internal control is efficient, revenue management improves instantly to 90% efficient, showing that if the operational guidelines are not followed in the treasury management phases, it will be deficient, which will result in public funds not being used properly, to the benefit of the entity and the citizens because they will not have the economic funds available to meet the needs generated inside and outside the municipality.

Likewise, it is evident that when internal control is deficient, liquidity management is moderate in 57.6% and deficient in 42.4%, but when internal control is efficient, liquidity management reaches levels of moderate and efficient in 50% in both levels, this shows that if the entity complies with previous and constant inspections, the institution will have the availability of funds collected to pay its suppliers in a timely manner, leading to meet the requirements of the areas within the established deadlines, directly benefiting the citizens.

Furthermore, when internal control is deficient, the payment management dimension is deficient by 78.8%, but when internal control improves to moderate, payment management is still deficient by 56.3% and moderate increases to 31.3%. However, when internal control is efficient, payment management is efficient at 70% and the moderate level is reduced to 30%, thus revealing that by reviewing contracts, carrying out cash audits and evaluating the executing unit, electronic...
transparency is achieved, allowing treasury management to comply with the rights of creditors, which allowed the municipality to achieve its goals.

The data obtained was supported by Roque's (2022) research noted that employees rated internal control as adequate on an overall scale (69.82%), and the components with the highest average scores were control environment (8.57), risk assessment (7.87), control activities (7.92), supervision (8.56) and information and communication (4.98) with an inadequate rating.

Table 1 Internal control and cash management cross table / Dimensions

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Source: Own elaboration with SPSS data version 26
4.1 INFERENTIAL ANALYSIS

To reach these results, we proceeded to obtain the inferential data by contrasting the hypotheses formulated in this research. For the reason that non-parametric data were reached, this means that \( p=0.000<0.05 \), it was decided to use Spearman’s Rho correlation coefficient, under the ranges and interpretation because they established ranges that go from negative correlation \((-0.01 \text{ to } -0.10)\) to perfect negative correlation \((-0.91 \text{ to } -1.00)\). As a result, correlations ranging from 0.01 to 0.10 are established, as well as perfect positive correlations \((0.91 \text{ to } 1.00)\).

In relation to the general hypothesis test, Spearman's Rho coefficient revealed a \( p \) value of 0.0000.05, indicating that internal control and treasury management have a highly significant relationship. In addition, the Spearman's Rho coefficient achieved was 0.554, indicating that the correlation between these variables is significant. The alternate hypothesis is accepted since the \( p=0.000<0.05 \), indicating that internal control and treasury management have highly significant relationship, furthermore, it was able to observe that the Spearman's Rho reached was 0.554, which reveals that the consecution between these variables is considerable positive. This means that as long as employees follow the rules and regulations established by the organization.

The findings are supported by the work of Mallqui (2022) revealing that with a pertinent, efficient, timely internal control, adequate to the demands and needs of the institution, the treasury management will be adequate, reducing in parallel the amount of fraud in the use of the economic resources that are collected or assigned to the firefighters, thus increasing the quality of service that each firefighter's personnel provides when attending a traffic accident or a fire in the area.

Taking into account the second specific hypothesis, a \( p \)-value of 0.000<0.05 was obtained, therefore the null hypothesis was rejected and the alternative hypothesis was accepted: indicating that internal control and the liquidity management dimension have a highly significant statistical relationship, likewise, it was observed that the Spearman's Rho reached was 0.503, which reveals that the correlation between these variables is considerable positive. This indicates that as long as the entity's control policies are not aligned with the work functions of all workers, officials and planned activities, then liquidity management will be deficient, which means that the entity does not have
sufficient and necessary economic resources to cover the needs of the institution and the entire population, which has led to a massive increase in claims.

The data obtained were supported by the work of Osorio (2022), who concluded that the components of internal control as a measurement tool have a favorable impact on the effectiveness and efficiency of the municipality's area. Likewise, Arteta (2020) showed that there is a low level of implementation of internal control in the treasury of public universities; there is also a low level of communication and dissemination on the implementation of internal control; there is also a low level of activities focused on the identification of risks during the treasury process.

In relation to the test of the third specific hypothesis, a p-value of 0.0000 was obtained. Therefore, the null hypothesis was rejected and the alternative hypothesis was accepted: sealing that the dimension internal control and payment management have a highly significant relationship, demonstrating that while it is not possible to evaluate the quality of work performance in areas such as administration and management, as well as in the use of existing legal standards in the public sector, and in default of following the established procedures of prior and subsequent control, there will be no electronic payment management in the virtual platforms and in the municipal newspapers, being necessary to purge its authorities.

The findings are similar to the research of Nuha and Sulistiyo (2021) since workers have not yet shown a commitment to integrity and ethics required by current regulations, because it was appreciated that the poor implementation of internal control is due to the poor conditions of the surveillance environment being necessary to improve the quality of all existing human resources in the agency because without this it will not allow municipalities to achieve their goals and thus achieve improvement for the benefit of the public institution itself and each of its citizens.

To achieve efficiency in internal control requires the commitment of each of its authorities, officials, employees and above all of the citizens, since they are the ones who can observe irregular or illegal acts that are committed on a daily basis in the municipalities. In addition, it is essential that those in charge of internal control in government entities have extensive experience, as well as moral and ethical principles, because this allows the municipality to be informed about what has actually been discovered in the treasury management and all the agencies that are audited periodically.
and preventively. This is the only way the municipality will be able to meet its predetermined goals and objectives.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Sigma</th>
<th>Spearman's Rho</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal control - Treasury mgmt</td>
<td>0.000</td>
<td>0.554</td>
<td>Hi</td>
</tr>
<tr>
<td>Internal control - Revenue mgmt</td>
<td>0.000</td>
<td>0.542</td>
<td>Hi</td>
</tr>
<tr>
<td>Internal control - Liquidity mgmt</td>
<td>0.000</td>
<td>0.503</td>
<td>Hi</td>
</tr>
<tr>
<td>Internal control - Payment mgmt</td>
<td>0.000</td>
<td>0.533</td>
<td>Hi</td>
</tr>
</tbody>
</table>

Source: Own elaboration with SPSS data version 26

5 CONCLUSIONS

Internal control is related to treasury management in the municipality studied. This is because if the company's employees and authorities promote ethical values throughout the company and comply with the assigned functions, the company's operational lines for treasury management will be fulfilled. The authorities of the entity under study should create a preventive audit assessment plan through unannounced inspections to determine the current state of the treasury. This will allow them to correct any mistakes they may be making due to lack of knowledge, improving the quality of the municipality in the distribution and use of resources.

Internal control is linked to revenue management in the municipality studied. This is because the organizational environment of the local government must be aligned with institutional activities and obligations to maximize efficiency in revenue management. It is recommended that the internal control officer develop a training plan that involves all employees and managers of the municipality studied. This will allow the organizational environment to always be aligned with institutional activities and obligations to achieve efficiency in institutional revenue management.

Internal control was linked to liquidity management in the municipality studied. This is because internal control policies must be aligned with planned work functions and activities to allow for insufficient cash management, enabling the organization to have the necessary economic resources to meet the needs of the municipality and the population. It is proposed that the workers of the studied entity carry out evaluations of their work performance and internal control policies. This will make it possible to align each activity developed in the municipality with the requirements and needs of the planned programs, allowing a more efficient management of the liquidation.
Internal control is related to payment management in the municipality studied. This is due to the type of evaluation of the quality of performance of the entity's functions to comply with legal requirements and respect the payment management processes of the municipal entity. The officer and head of the treasury management office of the municipality studied is entrusted to verify that the staff complies with the internal control policies and procedures that the entity has, because this allows to comply with the operational guidelines required by the current legal framework, benefiting the institution to curtail fraud and acts of corruption.
REFERENCES


