



Importance of internal cash and vault control in a segment five credit union.

Importancia del control interno de caja y bóveda en una Cooperativa de Ahorro y Crédito del segmento cinco

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Abstract

The elements of internal control ensure efficiency and effectiveness in financial intermediation operations. The research was developed in a savings and credit cooperative in the city of Ambato - Ecuador, controlled by the Superintendence of Popular and Solidarity Economy SEPS. Glimpsing some elements of internal control - COSO I. Savings and credit cooperatives receive cash deposits, deliver credit and issue payment cards. The leverage of institutional progress, forces to the multiplicity of offers and non-financial financial products, which operationally causes risks, before this, the management of the internal control assures the normative fulfillment and the reasonableness in the cash and vault reports. The objective of the work is to design an Internal Control Manual for the effectiveness of cash and vault operations. Data were collected using empirical methods and risks in cash management were found. An internal control manual was implemented, outlining policies and procedures for proper cash and vault management. It also indicates the professional profile; human talent selection process; operational and accounting cash activities. And the regulations for the custody of cash.

Key words: Internal control, cash, vault, credit union, cash.

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Resumen

Los elementos del control interno aseguran la eficiencia y eficacia en las operaciones de intermediación financiera. La investigación se desarrolló en una cooperativa de ahorro y crédito de la ciudad de Ambato – Ecuador, controlada por la Superintendencia de Economía Popular y Solidaria SEPS. Vislumbrando algunos elementos del control interno - COSO I. Las cooperativas de ahorro y crédito mediante efectivo reciben depósitos, entregan créditos y emiten tarjetas de pago. El apalancamiento de progreso institucional, obliga a la multiplicidad de ofertas y productos financieros no financieros, lo cual operativamente ocasiona riesgos, ante esto, la gestión del control interno asegura el cumplimiento normativo y la razonabilidad en los informes de caja y bóveda. El objetivo del trabajo es diseñar un Manual de Control Interno para la efectividad de las operaciones de caja y bóveda. Los datos fueron recogidos mediante el empleo de métodos empíricos encontrándose riesgos en el manejo del efectivo. Se implementó un manual de control interno donde señala políticas y procedimientos destinados al manejo adecuado de caja y bóveda. También indica el perfil profesional; proceso de selección del talento humano; actividades operativas y contables del efectivo. Y la normativa para la custodia del dinero.

Palabras clave: Control interno, caja, bóveda, cooperativa de ahorro y crédito, efectivo.

Introduction

The cooperative savings and credit system was founded in Germany in the 19th century as a system of self-help, self-responsibility and self-administration for the progress of families and businesses. This system has shown a continuous and sustained evolution over the years and is currently a reality in the most developed financial markets in Europe and North America, and is a social response in countries where banking serves only a fraction of the population (De la Fuente and Díaz, 2013).. Cooperatives are socioeconomic organizations with a double and important function in the current system: to satisfy the needs of their members through efficient and effective productive and economic processes. In recent years, the relationship with the role played by savings and credit cooperatives in contemporary socioeconomic systems has been analyzed. Specifically, in the financial sector, they are recognized for their role in providing fair credit to the poorest populations and those with economic limitations (Garcia et al., 2021). As stated in the Law on Cooperatives (2001) cooperatives are private law societies, formed by natural or legal persons who, without pursuing profit purposes, aim to plan and carry out activities or works of social or collective benefit, through a company managed in common and formed with the economic, intellectual and moral contribution of its members. According to the Monetary and Financial Policy and Regulation Board of Ecuador. (2015), establishes: the rule for the segmentation of the entities of the popular and solidarity financial sector, **Article 1.-** The entities of the

popular and solidarity financial sector according to the type and balance of their assets will be located in the following segments.

Table 1. *Classification of credit unions*

SEGMENT	ASSETS
1	GREATER THAN 80,000,000.00
2	GREATER THAN 20,000,000.00 UP TO 80,000,000.00
3	GREATER THAN 5,000,000.00 UP TO 20,000,000.00
4	MORE THAN 1.000.000,00 UP TO 5.000.000,00
5	UP TO 1,000,000.00
	SAVINGS AND COMMUNITY BANKS

Source: (Banking Board of Ecuador, 2011).

According to Coba, Díaz and Tapia (2020) state that savings and credit cooperatives **are part of the popular and solidarity-based financial sector**, which should be governed by cooperative principles as part of their own identity and their ideology of social equity. According to Guamán and Urbina (2021) state that cooperatives are a form of economic organization based on cooperation and solidarity with a solid principle that directs their activity "the value of people over profit and capital accumulation". In Ecuador, savings and credit cooperatives are organized under the provisions of the Law of Popular and Solidarity Economy, the Regulations to the Law of Popular and Solidarity Economy, as well as the different resolutions issued by the Board of Monetary and Financial Policy and Regulation. Likewise, their objective is to provide assistance to their members and to the different localities, seeking the welfare and satisfaction of the users involved, all this through the financial services offered, based on cooperation and solidarity. (Chabusa et al., 2019).

For the Superintendency of popular and solidarity economy. (2018) mentions that internal control is a process, carried out by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, sufficiency and reliability of financial information and compliance with applicable laws and regulations.

According to the Banking Board of Ecuador (2011) mentions that the Exchange Fund is a secure area where cash, valuables, records and documents are stored. The purpose of a vault is to safeguard its contents against theft, unauthorized use, fire, natural disasters and other threats, like a safe. Unlike safes, vaults are an integral part of the building within which they are constructed.

Cash according to Ipial (2020) indicates that in accounting terms, cash is defined as banknotes and coins of legal tender, as well as securities deposited in financial institutions in local and foreign currencies and checks. The cash that is physically in the company is managed using the petty cash fund; however, the most representative amount of cash for security purposes is deposited in banking institutions, where it is available in savings and checking accounts. Thanks to technological development, companies currently make cash movements using electronic banking.

The credit union does not have an internal control framework for the issuance of the respective institutional regulations for cash and vault management.

The objective of the work is to design an Internal Control Manual for the effectiveness of cash and vault operations.

For Lojano (2021) states that a manual is a publication that includes the fundamental aspects of a subject. It is a guide that helps to understand how something works, or that educates its readers about a subject in an orderly and concise manner. A user is, on the other hand, the person who ordinarily uses something or who is the recipient of a product or service. (p. 19).

The procedures manual is a component of the internal control system, which is created to obtain detailed, orderly, systematic and comprehensive information containing all instructions, responsibilities and information on policies, functions, systems and procedures of the various operations or activities performed in an organization. (Gómez, 2020).

The importance of the manual of functions resides in the fact that they expose in a meticulous way the orders that are executed within a company; by means of this manual the company manages to avoid faults that are usually executed within the functional areas of the company, they can reveal faults that are externalized on a daily basis, preventing the duplication of functions. (Tello and Hungria, 2021)..

Table 2. *Types of manuals*

BY AREA	BY ITS CONTENT
<p>General: It is when it covers one or more entities.</p>	<p>Organizational Manual: Describes in global form the activities, objectives, functions, authority and responsibilities of the different positions.</p> <p>Policy Manual: Contains guidelines and principles to be followed for decision making.</p>
<p>Particular: Refers to the specific description of the entity.</p>	<p>Procedures manual: Describes operations sequentially and standards for personnel.</p> <p>Specialist's Manual: Contains rules to guide staff members performing the same functions.</p>

<p>Post or individual: Indicates the activities performed by a person in the post.</p>	<p>Employee Manual: Contains information about the entity, as well as the rights and obligations of the personnel.</p>
	<p>Multiple content manual: When the size of the company does not justify the preparation and use of different manuals, two or more categories can be combined.</p>

Source: (Cutiopala, 2018).

According to the Superintendency of Popular and Solidarity Economy (Superintendencia de Economía Popular y Solidaria) (2021) mentions that internal control is a process, carried out by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, sufficiency and reliability of financial information and compliance with applicable laws and regulations.

Internal control is a management tool, it comprises the organizational plan and all the methods and procedures that in a coordinated manner are adopted or implemented in companies within a continuous process carried out by the direction, management and personnel of the company, for the custody and protection of its assets and patrimony, promotion of efficiency in its operations, promoting the highest degree of profitability (Melendez, 2016).

Table 3. *Elements of internal control*

ORGANIZATION	SYSTEMS AND PROCEDURES
<ul style="list-style-type: none"> • Address • Assignment of responsibilities • Segregation of duties • Coordination 	<ul style="list-style-type: none"> • Procedure manuals • Systems • Forms • Reports
STAFF	SUPERVISION
<ul style="list-style-type: none"> • Selection • Training • Efficiency • Morality • Remuneration 	<ul style="list-style-type: none"> • Internal • External • Self-control

Source: (Estupiñán, 2011).

Figure 1. Standards and principles of traditional internal control

Generales	Específicos
<ul style="list-style-type: none"> • Garantía razonable • Respaldo • Personal competente • Objetivos de control • Vigilancia de los controles 	<ul style="list-style-type: none"> • Documentación • Registro adecuado y oportuno de las transacciones y hechos • Autorización y ejecución de las transacciones y hechos • División de tareas (segregación) • Supervisión

Source (Estupiñán, 2011).

Modern management has implemented new ways to improve controls in private sector companies. This is important to take into account, since internal control has a direct link with the course that the company must maintain towards the achievement of its objectives and goals. (Melendrez, 2016).

In the magazine *Actualidad Empresarial*, Luz Hirache mentions that the growth of companies requires management to implement internal control procedures to ensure an orderly and efficient administration of the business, as well as to detect and/or prevent fraud and errors that affect the results of the business. Processes and procedures adopted to safeguard the assets of the business, as well as the timely preparation of reliable financial information. (Solano, 2018).

COSO, commissioned by the five most important financial professional bodies in the United States, was defined in 1992, after five years of study and discussion, so that a new conceptual framework for internal control emerged with the fundamental objective of integrating the various definitions and concepts in force at that time.

At the organizational level, the need for top management and the rest of the organization to fully understand the importance of internal control, its impact on management results, the strategic role of auditing and, essentially, the consideration of control as a process integrated into the company's operations and not as a set of rules is emphasized. At present, there are three COSO models: COSO 1, COSO 2 and COSO 3 (Quinaluisa et al., 2018)..

As could be appreciated, COSO internal control consists of five categories or components that management designs and applies to provide reasonable assurance that its control objectives will be adequately carried out (Quinaluisa et al., 2018)..

According to Coso I, there are five components of internal control:

The components of internal control are:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities

Table 4. *Control environment*

PRINCIPLES	FOCUS POINT
	- Establishes standards of conduct
Demonstrate commitment to integrity and ethical values.	- Evaluates adherence to standards of conduct. - Channels and attends to deviations in a timely manner
Exercising supervisory responsibility (Board of Directors)	- Establishes the responsibilities of Supervision Applies relevant experience - Operates independently - Provides oversight for the internal control system
Establish structure, authority and responsibilities	- Considers all identity structures - Establishes reporting lines - Defines, assigns, and limits authorities and responsibilities

Source: (Tuquerres, 2015).

For the Superintendence of Popular and Solidarity Economy (2021) mentions that control activities are the actions established by organizations through policies and procedures that help ensure compliance with assigned administrative activities. Control activities occur throughout the organization, at all levels and in all functions. Such activities help to ensure that the necessary actions are being taken to manage risks towards achieving the entity's objectives.

According to the Superintendency of Popular and Solidarity Economy (Superintendencia de Economía Popular y Solidaria) (2021) the control activities are:

1. Performance review
2. Physical controls
3. Segregation of duties
4. Information processing

The COCO report is the product of a thorough review by the Control Criteria Committee of Canada of the COSO report, the purpose of which was to make the report simpler and more understandable, given the difficulties that some organizations initially faced in applying COSO. The result is a concise and dynamic report aimed at improving control, which describes and defines control almost identically to the COSO report. (Paramo, 2013).

The Coco model is a model that refers to internal control at the traditional financial level and establishes a very good control in this area. Its meaning is The Criteria of Control Board, it is based on simplicity and instead of establishing a pyramid to make the analogy it proposes 20 criteria that could be designed, located, evaluated, controlled or modified. (Solis and Llamuca, 2020).

The person must not only demonstrate but prove under the controls skills, tools for the achievement of objectives, decisions and vital information must be coordinated and sequential. It is essential to identify information and innovation trends, making the latter of a classic consecutive nature and not in a disruptive way to avoid loss of value. Reviews should be given as frequently as possible taking into account that the more they are done the more difficult it will be to achieve inferred (Zapata, 2016).

The proposed structure for internal control, according to the COCO model, Estupiñán (2011) states that "control comprises the elements of an organization that, taken as a whole, support personnel in achieving their organizational objectives", which are placed in the following general categories:

- **Effectiveness and efficiency of operations.** This category corresponds to the objectives related to the organization's goals of: Customer services; Safeguarding and efficient use of resources; Compliance with social obligations; Protection of resources against loss or misuse: Client services; The safeguarding and efficient use of resources; Of the fulfillment of social obligations; Of the protection of resources against loss or misuse.
- **Reliability of internal and external reporting.** This includes reliable information, protection of records against unauthorized access and proper maintenance of accounting records.
- **Compliance with laws, regulations and internal policies.** This category corresponds to the identification and reduction that may affect the success of the organization.
- **Risk assessment.** This category represents the risk to which all organizations are exposed at the financial and business quality level in all their activities in the achievement of their objectives.

Cooperative

Hidalgo (2018) indicates that internal control is defined as a process carried out by the Board of Directors, the Management and the rest of the personnel of an Entity, designed with the purpose of providing a reasonable degree of assurance as to the achievement of objectives.

What is a cooperative society

Art. 1 A cooperative is formed by a group of individuals, with common goals and principles of solidarity, self-help and mutual aid, with the purpose of satisfying individual and collective needs through economic activities of production, distribution and consumption of goods and services. (Law of Cooperatives of Ecuador, 2001)..

The objective of the work is to design an Internal Control Manual for the effectiveness of the Cash and Vault operations.

Materials and methods

The methodology used during the research process was descriptive and documentary through which procedures related to the research problem were known. Data was obtained from accredited bibliography, which were peer reviewed before publication, such as: books, magazines, theses (digital visionary, technological university of central Veracruz). The bibliographies were taken since 2001 for their excellence and current content, therefore, historical accounts were included for their contribution to the study.

Using the interview technique, a questionnaire was applied to the cashier of the cooperative where errors in the daily handling of money were identified. Using the empirical method and direct observation, the paths followed by the money in the cashier and vault areas were compiled.

Of the total number of questions in the Cash on hand internal control procedure questionnaire, 40%, i.e. 8 questions have an affirmative answer on the process carried out in the cash desk, while 60% (12 questions) state that a complete internal control process for cash on hand is not carried out.

It is evident that, within the Credit Union, there is no adequate procedure for the internal control of cash on hand.

Of the total number of questions in the questionnaire Procedures for internal control of cash in vault, 44.44 %, i.e. 4 questions have an affirmative answer on the process of internal control of cash in vault, and 55.56 % (5 questions) state that there is no control process in the vault area.

It is evident that within Cooperativa de Ahorro y Crédito Picaihua Ltda. there is no adequate procedure for the internal control of cash in the vault.

The cash and vault areas are a source of control; they do not have an adequate internal control system. Establishing the control in an empirical way. With the Perish technological tool. The bibliographic search was carried out in Spanish and English.

Results

According to the graphical representation of the questionnaire to the internal control procedure to the cash and vault area, it is evident that no internal control procedures are executed to the cash and vault management. This is the basis for proposing the design of an internal control manual for the effectiveness of cash and vault operations in a Credit Union.

Table 5. Professional profile policies for the cashiering area

Policies	
Profile	
Professional Experience	Not less than 6 months.
Age	21 to 30 years old.
Marital status	Indifferent.
Instruction	Minimum secondary education in accounting.
Availability	Full time.
Skills	Teamwork, knowledge of graphology, check law, safety standards.
Actions to be followed by the selected personnel	
The cashier's staff	You may not keep a cell phone in a box.
Access keys to the system	They are personal and non-transferable.
The entry hours for the cashier's staff	It is 30 minutes before attending to the public.
At the end of the day	The cashier shall serve the public inside the credit union.
To the checkout area	Only authorized persons may enter.
Any transaction involving cash	It takes place between the cashier and the customer at the teller window.
Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picahua Ltda.	

Table 6. Policies for cashier's activities

Position: CASHIER
General objective of the position.
Develop cash transactions requested by customers.
To provide a complete service in all transactions executed by customers at the cash desk, guaranteed by speed, security and education.
Responsibilities.
Be kind, polite and respectful with the client or partner of the entity.
To attend in an agile and fast way the needs of the client or member of the cooperative.
Operational mission of Quadre y Control
Execute the pre-opening process of your box.
Check the process of all transactions made by the member or client such as: deposits, withdrawals, service payments, etc.
Manage the cash in your till.
Match Cash: Cash and documents (drafts, taxes, etc.) against system data and record stamp and signature on documents.
Request or deliver cash

Responsible for any shortages or fraud in your cash register.

Counting and verifying cash at the time of receipt or delivery.

Internal control

Always maintain ethical principles and impeccable conduct in accordance with the internal regulations of the cooperative.

Take into account that the cash given to the cashier to carry out his functions must always keep the necessary safeguards for security purposes.

The access codes to the entity's system or to the different equipment assigned to the ATM are unique and non-transferable.

Report unusual transactions to the supervisor

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 7. Procedure for over-the-counter deposits

Responsible	Procedures
Partner	The customer or member must fill out the corresponding deposit slip, and then go to the window.
Cashier	The cashier receives the deposit slip, the amount of the deposit and the savings book.
Cashier	The cashier verifies that the ballot is correctly filled out, without erasures and verifies that the bills are not counterfeit.
Partner	If the ballot has errors or erasures, the member will be returned the ballot, the money, the savings book and will request the preparation of a new ballot.
Cashier	If the ballot is correct, the savings deposit transaction is completed.
Cashier	It is printed in the savings book and returned to the depositor if it is the case or otherwise a voucher of the respective deposit is issued, stamped and delivered to the member or depositor.
Counter	Files the slip for daily balancing. By the end of the day prints the report of total deposits.
	It records the entry in the journal.

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 8. Procedures for window withdrawals

Responsible	Procedure
Partner	The member fills out the savings withdrawal slip, goes to the teller window and hands it to the teller together with his or her identity card and savings book.
	Receives the respective documentation from the member and proceeds to review the savings withdrawal slip, identity card and savings book.
Cashier	In case you are not the withdrawing member, you will be asked for your ID card together with the member's ID card.
	The cashier verifies that the withdrawal slip is correctly filled out, without errors, checks the signatures if they are legitimate; he also confirms the authorization on the withdrawal slip and the signature of the withdrawer against the identity card.
	If the member does not fill out the savings withdrawal slip correctly, the teller must return the slip and all the documents mentioned above for the member to complete it again correctly.
	If the savings withdrawal slip does not contain errors, the cashier proceeds to register the savings withdrawal transaction, delivers the money requested by the member simultaneously with the updated savings book and identity card, and files the slip.
	By the end of the day's operations, the cashier must count the money respectively, and then print the report of the total withdrawal in savings.
Counter	It records the entry in the journal.
Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.	

Table 9. Policies for opening a safe or vault.

Policies
OPENING OF A SAFE OR VAULT FOR THE START OF OPERATIONS
Cashier operations will begin at 8H00AM.
The cashier should receive the amount of \$3,000.
The presence of the manager or accountant is indispensable for the withdrawal of money from the safe deposit box or vault.
In the absence of the manager or accountant, the presence of a delegate is essential.
The cashier, custodian and accountant will sign the document evidencing the withdrawal of cash from the safe or vault.
CLOSING OF SAFE OR VAULT FOR THE START OF OPERATIONS

All cash deposited for any reason must be deposited in the institution's safe or vault on the same day the transaction takes place, no more than \$5000.00 in value may be kept.

The manager shall be solely responsible for and knowledgeable of the safe or vault key.

The deposit of cash in the safe must be made in the presence of the manager, accountant and cashier.

In the absence of the manager or accountant, the presence of a delegate is essential.

The manager, cashier, custodian and accountant will sign the document of proof of cash deposit in the safe or vault.

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 10. *Safe or Vault opening to start the day's operations.*

Responsible	Process
Cashier	The cashier opens the safe or vault where only he has access to it.
Agency Manager	The agency manager checks that the cash is complete together with the cashier with the previous day's report.
Cashier	The cashier and the agency manager sign to initiate the day's operations on the document detailing each of the values found. The cashier initiates with the previous day's cash value starting in the system.
Counter	The accountant also enters the system with the existing money.

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 11. *Cash Report*

QUANTITY	DETAIL	VALUE	TOTAL
	Tickets:		
The amount in banknotes is recorded	The denomination of each bill received by the cashier is recorded.	The \$ value of bills	Total value of each denomination of banknotes
	Total tickets:		
	Coins:		
The amount in coins is recorded	the denomination of the coins received by the cashier is recorded		

Total coins:
TOTAL

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 12. Detail of checks

BANK	ACCOUNT	CHECK NO.	VALUE
The bank of the check received is recorded	The bank account number is recorded	The check number is recorded	The value of the check is recorded

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Table 13. Safe closing

Responsible	Process
Cashier	Before closing the system, reports of each of the day's operations are taken.
Cashier and Agency Manager	The cashier and the agency manager count the money and then match it with the system report, deposit slips, and credit union withdrawals.
	The report is signed and the cash register is closed for the next day.
Cashier	The cashier places the money in a safe or vault.
	It closes in a correct way for its safety.
Counter	The accountant from the system also compares the information to evidence the cash balance.
	To finish the process, the respective entry of the accounting entry is executed.

Prepared by: Author, 2023; based on data from Cooperativa de Ahorro y Crédito Picaihua Ltda.

Conclusions

Internal control and its execution is a commitment of the administration with all its management, it originates the honorability in the management of resources, prevents risks, and also promotes efficiency and effectiveness in all activities, which ensures the achievement of institutional goals and objectives.

Internal control indicates the professional profile for each area, indicates the functions and responsibilities of each person and also guarantees the reasonableness of the information produced.

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