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Internal control and financial auditing in the quality of budget execution at a local government in Peru

Controle interno e auditoria financeira na qualidade da execução orçamentária em um governo local no Peru
El control interno y la auditoría financiera en la calidad de la ejecución presupuestaria en un gobierno local de Perú


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Quantifies the influence of internal control and financial auditing on Peruvian local government budget execution using an empirically validated ordinal logistic regression model.

ABSTRACT

This study investigates the influence of internal control and financial auditing on the quality of budget execution within a local government in Ayacucho, Peru, in 2023. Employing an applied, quantitative approach with a non-experimental, descriptive, and causal-correlational design, the research surveyed all 100 employees of the Huamanga provincial entity. The survey instrument demonstrated high reliability (Cronbach's Alpha: internal control 0.975, financial audit 0.965, budget execution 0.948). Results from ordinal logistic regression, with a Nagelkerke R² of 0.697 (69.70%), indicate a significant positive influence of both internal control and financial auditing on budget execution quality. Specifically, the dependent variable "Budget execution" at the "Basic" level (2) exhibited a significant p-value ($p=0.000 < 0.05$). These findings highlight the critical role of robust control mechanisms in enhancing public spending efficiency and accountability in local government.

Keywords: Public sector governance, financial oversight, fiscal management, accountability.

RESUMO

Este estudo investiga a influência do controle interno e da auditoria financeira na qualidade da execução orçamentária em um governo local em Ayacucho, Peru, em 2023. Empregando uma abordagem aplicada, quantitativa, com um delineamento não experimental, descritivo e causal-correlacional, a pesquisa entrevistou todos os 100 funcionários da entidade provincial de Huamanga. O instrumento de pesquisa demonstrou alta confiabilidade (Alfa de Cronbach: controle interno 0.975, auditoria financeira 0.965, execução orçamentária 0.948). Os resultados da regressão logística ordinal, com um Nagelkerke R² de 0.697 (69.70%), indicam uma influência positiva significativa tanto do controle interno quanto da auditoria financeira na qualidade da execução orçamentária. Especificamente, a variável dependente "Execução orçamentária" no nível "Básico" (2) apresentou um valor p significativo ($p=0.000 < 0.05$). Esses achados sublinham o papel crítico de mecanismos de controle robustos para aprimorar a eficiência e a responsabilidade dos gastos públicos na esfera governamental local.

Palavras-chave: Governança pública, supervisão financeira, gestão fiscal, prestação de contas.

RESUMEN

Este estudio investiga la influencia del control interno y la auditoría financiera en la calidad de la ejecución presupuestaria en un gobierno local en Ayacucho, Perú, en 2023. Empleando un enfoque aplicado, cuantitativo, con un diseño no experimental, descriptivo y causal-correlacional, la investigación encuestó a los 100 empleados de la entidad provincial de Huamanga. El instrumento de encuesta demostró alta fiabilidad (Alfa de Cronbach: control interno 0.975, auditoría financiera 0.965, ejecución presupuestaria 0.948). Los resultados de la regresión logística ordinal, con un Nagelkerke R² de 0.697 (69.70%), indican una influencia positiva significativa tanto del control interno como de la auditoría financiera en la calidad de la ejecución presupuestaria. Específicamente, la variable dependiente "Ejecución presupuestaria" en el nivel "Básico" (2) mostró un valor p significativo ($p=0.000 < 0.05$). Estos hallazgos resaltan el papel crítico de los mecanismos de control robustos para mejorar la eficiencia y la rendición de cuentas del gasto público en el gobierno local.

Palabras clave: Gobernanza pública, supervisión financiera, gestión fiscal, rendición de cuentas.

INTRODUCTION

The United Nations (UN, 2015) established 17 Sustainable Development Goals (SDGs). The main objective of SDG No. 16 is to foster a peaceful and inclusive society, promote sustainable progress, ensure universal access to the rule of law, and establish accountable and efficient institutions at all levels. Cham et al. (2021) note that public sector management by the state encompasses three dimensions: serving the general interest, being subject to public and open reviews by citizens, and managing various public resources. According to Law No. 27806 Transparency Law (2023), the state is required to implement a range of public policies to guarantee the common good using its available public resources. Additionally, it must operate as an open and transparent government and be accountable to the population or community (Montenegro Neira et al., 2024).

These facts have a direct impact on the quality with which public spending is executed and, as a consequence, the population is dissatisfied due to the lack of internal control actions that allow the entity's officials and servants to efficiently and optimally fulfill each of their functions and goals. Boufounou et al. (2024) mentions that continuous improvement is a commitment from top management and all staff involved in administrative processes, promoting continuous meetings, focusing on detecting weaknesses that may occur during the day, week, raise immediate actions for solution. Wang (2019) mentions is very important internal control to comply with the allocated budget. In addition, standards related to implementing internal control (IC) should be applied so that entities can create a control system that meets their needs.

In the Peruvian context, budget compliance at the district municipalities level is due to the low efficiency and management capacity to execute the resources allocated in the budget (Gomez, & Rodriguez, 2025). This problem is related to identifying problems associated with budgeting, low management capacity, selection and bidding processes, lack of technical capacity, budgetary limitations and, finally, lack of institutional coordination (Ponce & McClintock, 2014; Sobrino, 2013). For all the above described, is no unusual in the Peruvian local government context that situations may arise due to the lack of effective public internal control to achieve efficiency in meeting goals and objectives.

The primary research question was formulated as follows: To what extent do internal control and financial auditing influence the quality of budget execution in a local government in Ayacucho, Peru, in 2023? To address this question, the main objective was to determine the extent to which internal controls and financial auditing affect the quality of budget execution in the local government of Ayacucho in 2023. The central hypothesis proposed is that there is a significant influence of internal controls and financial auditing on the quality of budget execution in the local government of Ayacucho in 2023.

Overview of internal control in literature

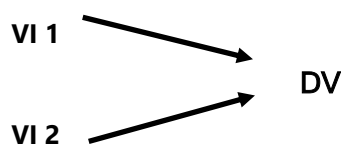
The term of public sector accountability usually relates to the relationship between the politicians and citizens as well as public managers (Abd Aziz et al., 2015). New public management in the Global South faces growing challenges (Pulido, 2023). As the public budget is crucial, understanding internal control dynamics is essential for improving public sector effectiveness. In the literature, at the international level we have Tumbaco (2021) that in his research work, the purpose was to evaluate the relevance of administrative IC influences the collection of revenue of a Decentralized Autonomous Government (GAD) of Ecuador, the work was quantitative and descriptive, concludes: It is seen that the Municipal GAD does not have a manual of procedures relating to revenue collection, in addition to some of its staff are not trained in collection procedures, all this affects the collection by the GAD. Internal control is crucial in the entities. Napa (2021) the purpose was to measure the effects of control in the activity of the association Asosercideri of Ecuador, the study used a quantitative and descriptive method, without applying an experimental approach, concludes: It is evident that the organization does not apply internal control, therefore, does not comply with the accounting process, which has not allowed them to improve in the operation of the entity. It is demonstrated that thanks to the evaluation of internal control, some deficiencies of the entity will be identified.

At the national level we have: Aguinaga (2022) in his study work whose objective was to analyze the connection between PE and the effectiveness of public spending, the work employed a descriptive, non-experimental and quantitative design, where they concluded that the variables are closely related, which means that PE influences the effectiveness of public spending with a coefficient of 0.634, therefore this research contributes with demonstrating the relationship of variables. Rojas (2020) the objective of his research work was the determination of the impact of PA and internal control on the budget within state entities, whose work was descriptive and quantitative type where he concludes that the IC and financial audits have an impact of 76.8% in the budget executions of local governments. Vivanco (2019) in his research aimed to understand that there is a connection between IC, budget and financial execution of the university, the work was descriptive and used a quantitative approach where he concludes by demonstrating that the independent variables and the dependent variable are significantly high within the scope of study of the university, indicating the significant presence of both variables with 95% confidence.

METHODS

This study is of applied nature (Yaghmaie, 2017), because it focuses on solving the practical problems that public sector municipalities are subject to with respect to the budget execution of a local government. The research design was non-experimental, descriptive and correlational of a causal type, seeking to show correlation between variables and determine their influence between the dependent and independent variables. The causal correlation of the variables (Figure 1) can be seen as follows:

Figure 1. Variables correlation model



Note. VI 1: Internal control; VI 2: Financial audit; DV: Budget execution.

Population and sample

For the development of the study, all the 100 employees of the entity of the province of Huamanga in Ayacucho, Peru was considered. The entire population was sampled, since the total population is relatively small.

Data collection techniques and instruments

This study used surveys as a method of data collection (Harkness, Pennell & Schoua-Glusberg, 2004), which allowed analyzing the results obtained from a specific sample of the population. In this regard, the study used the questionnaire as a tool to collect the data under analysis, it should be noted that the questionnaire was composed of closed questions and simple sample, related to the three variables under study of the entity. All ethical aspects were respected, guaranteeing the integrity and dignity of the participants.

Methods for data analysis

The descriptive analysis of the variables in this study was conducted thoroughly. Statistical methods were employed to identify relationships between the variables and to test hypotheses based on these inferences. For the analysis, cross-tabulations of frequencies and percentages for each variable and dimension were used in the descriptive statistical analysis, along with bar graphs of the variables and dimensions created using SPSS version 25.

RESULTS AND DISCUSSION

As indicated in Table 1, 54% of respondents believe that internal control has a medium influence, 38% believe it has a high influence, and 8% believe it has a low influence. According to Table 2, 75% consider financial audits to have a high influence, 20% assess them as medium, and 5% perceive them as having a low influence. Furthermore, Table 3 reveals that 69% view budget execution as high, 29% as medium, and 2% as low. All data are based on the original empirical evidence analysis.

Table 1. Frequency distribution of internal control

		Frequency	Percentage
Valid	Low	8	8.0
	Medium	54	54.0
	High	38	38.0
	Total	100	100.0

Note: Created by the authors using research data

Table 2. Financial audit and its frequency distribution

		Frequency	Percentage
Valid	Low	5	5.0
	Medium	20	20.0
	High	75	75.0
	Total	100	100.0

Note: Created by the authors using research data

Table 3. Distribution of the frequency with which the budget is executed

		Frequency	Percentage
Valid	Low	2	2.0
	Medium	29	29.0
	High	69	69.0
	Total	100	100.0

Note: Created by the authors using research data

Inferential results:

General hypothesis test

H₀: There is no significant influence of internal control and financial audit on the quality of budget execution of a local government, Ayacucho, Peru, 2023.

H₁: There is a significant influence of internal control and financial audit on the quality of budget execution of a local government, Ayacucho, Peru, 2023.

X: Internal control, Y: Financial audit, Z: Budget execution

The following aspects were considered in all hypothesis testing:

The confidence level is 5%.

The test value is based on ordinal logistic regression.

According to the decision rule, if the p-value is less than 0.05, the null hypothesis is discarded and the alternative hypothesis is accepted.

It is shown in Table 4 the Chi² is 74.053 and with Sig. 0.000. In addition, through the result of the Pseudo R square, the Nagelkerke indicates that the financial audit and the IC have an impact of 69.70% in the budget execution.

Table 4. Pseudo R-squared and Model Fit Test

Log likelihood logarithm		Sig.	Pseudo R square	
Chi-square	GI		Cox and Snell	
Intersection only Final	74.053	0.000		0.523
			Nagelkerke	0.697
			McFadden	0.534

Link function: Logit.

As shown in Table N° 5, the dependent variable "Budget execution" of the "Basic" level (2) shows a significant "p" value ($p=0.000<0.05$), with a Wald coefficient of 2,760.704, which indicates that there is a level of influence with respect to the variables "internal control" (X) and financial audit (Y). As a result, the alternative hypothesis is accepted instead of the null hypothesis.

Table 5. Parameter estimation

		Estimate	Error	Wald	gl	Sig.	95% confidence interval	
							Lower limit	Upper limit
Threshold	[zn = 1]	-41.706	3665.833	0.000	1	0.991	-7226.607	7143.196
	[zn = 2]	-20.392	0.388	2760.704	1	0.000	-21.153	-19.631
Location	[Xn=1]	-19.540	0.982	396.293	1	0.000	-21.464	-17.617
	[Xn=2]	-19.240	0.000		1		-19.240	-19.240
	[Xn=3]	0 ^a			0			
	[yn=1]	-21.938	3665.833	0.000	1	0.995	-7206.840	7162.963
	[yn=2]	-2.832	0.742	14.565	1	0.000	-4.286	-1.378
	[yn=3]	0 ^a			0			

Link function: Logit.

The results have coincidence the study of Aguinaga (2022) ; when they affirm that, between the variable of EP and the effectiveness of the expenses of the state institution have a significantly high influence with a coefficient of 0.634; a similar situation was revealed in the research of Vivanco (2019); that demonstrated the significantly high existence between CI, budgetary and financial execution of the entity with a 95% of confidence. On the other hand, Wang (2019); states internal control plays an important role in the fulfillment of allocated budgets. Likewise, Camargo (2022); in his research work evidenced a high correlation between IC and performance auditing within state entities. Likewise, Chanchal et al. (2023); states that all levels of government must implement adequate control systems to ensure transparency in the fulfillment of allocated funds. Similarly, Zhang et al. (2020); in their research work concluded that it is important that all public and private sector entities should have internal control and in turn should be strengthened with increasingly effective mechanisms to meet the goals set by the company. Similarly, Chrissy et al. (2022); in their research they commented on the internal control environment, the incentive and reward to the staff of the entity significantly influence the effectiveness of public expenditures. Grajales-Gaviria et al. (2022); they conclude that an adequate internal control will allow achieving goals and objectives, working in an adequate environment and identifying the main risks in a timely manner and making it possible to have a better management of the organization's policies. Likewise, Blas et al. (2022); stated that in the execution of the budget it is important to have access to information, as well as transparency and accountability, which influence the efficiency of the funds allocated to each entity. In addition, it allows the modernization of the different local governments seeking the development of the population. As also, Čajková and Butoracova (2022); in their research article concluded the importance of implementing improvements through strategic management of the budget in local governments according to current regulations. Similarly, Caldas et al. (2023); commented that local governments continue to be the main actors in the execution of different expenditures; therefore, it is necessary to strengthen technical and management capacities through control systems to achieve economic development in the country. Likewise, Castro and Lopes, (2023); affirmed that an open, electronic, transparent government allows reducing corruption, irregularities, errors and increases the possibility of improving the execution of budgets assigned to each State entity.

Similarly, Joldeska et al. (2022); in their research work they evidenced that local governments in Macedonia reflected 73.60% transparency regarding income and expenditures and that is a product of good planning and better execution of budget items allocated to the entity. Also, Kowalewski and Zamielska (2020); in their research work concluded that increased control and relevant decision making was the relevant factor for the implementation of the budget, also the control of the allocated funds is monitored by different officials. Similarly, Dollery et al. (2020); in their study work commented that it is important the budget as a control tool in the expenditures made is going to provide them with improvements in effective decisions within the budget management of municipalities. Similarly, Govender and Reddy (2019); in their research paper commented on the importance of carrying out budget reforms is going to allow them to achieve efficiency in processes, economic stability and improve the budget system of local governments. Similarly, Ozbilgin (2020); concluded the proper implementation of public management reforms will allow to achieve efficiency in the public management of the entities. Likewise, Živanović et al. (2022); comment on the important elements of the control environment component of an organization are trustworthy and competent personnel, which help to verify and ensure the correctness of the control system. Similarly, Pardo et al. (2020); conclude that to achieve effectiveness it is important not only to have established control but also to combine it with IT tools to achieve the established business objectives. Similarly, Reiter and Klenk (2019); stated that the post-public management has influence and serves as an indicator in the execution of expenditures allocated to the entity, it will be a reference model for future reforms implemented by government institutions.

On the other hand, Valle (2020); concluded that financial auditing within financial management is considered a very important mechanism, it also allows improving procedures in different areas and aspects for decision making to achieve organizational objectives. Silva and Amorim (2022) comments that auditing emerged as a tool that allowed the verification, reliability and veracity of accounting and financial statements.

However, the results are not consistent with the studies of Napa (2021), who found that the entity did not adequately apply internal control and therefore did not improve its operations. Similarly, Mamani (2020); concluded that the provincial municipality of Huanacáné does not have an adequate internal control system, resulting in deficiencies in the application of standards and in the implementation of control. Also, García et al. (2021); commented that the municipality of Tarma has a deficient control and monitoring of digital governance and therefore does not guarantee the transparency of data management and should systematize e-governance to reduce corruption of administrative irregularities of the entity.

Similarly, Pereira et al. (2022); concluded deficiencies in the execution of investment projects due to the lack of risk assessment and monitoring. Therefore, it is urgent to implement a control system for the prevention, evaluation and assessment of the funds allocated to the entities. Likewise, Aguilar et al. (2021); mentioned that the administrative management of the Mariscal Cáceres municipality is deficient, since the internal control noncompliance was more than 70% of its management and there are many aspects to improve.

FINAL REMARKS

This research substantiates a significant positive influence of internal control and financial auditing on the quality of budget execution within the specific context of a local government in Ayacucho, Peru. The empirical evidence, particularly the high Nagelkerke R² value of 0.697, reinforces existing literature that emphasizes the crucial role of robust oversight mechanisms in fostering efficient public expenditure and accountability. These findings resonate with studies highlighting those effective internal controls, coupled with thorough financial audits, contribute to an improved operational environment, goal attainment, and risk identification within public sector entities.

Furthermore, the study's conclusions align with observations that transparency, access to information, and a modernized state apparatus are instrumental in enhancing budgetary efficiency and reducing financial irregularities within local governments. The demonstrated high correlation between these variables supports the notion that strategic management of public funds, reinforced by stringent control systems, is paramount for economic development and citizen satisfaction. This research thus provides a localized validation of widely recognized principles regarding good governance and fiscal prudence in the public sector.

Limitations, practical implications, and future research

This study's primary limitation is its focus on a single local government in Ayacucho, Peru, which may limit the generalizability of the findings to other contexts or regions. Practically, these results emphasise the imperative for local governments to strengthen their internal control systems and embrace comprehensive financial auditing practices to optimize budget execution, reduce inefficiencies, and bolster public trust. Future research could expand this inquiry by conducting comparative studies across various local governments, exploring the impact of specific internal control components, or examining the long-term effects of enhanced financial auditing on fiscal stability and public service delivery.

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Contribution of each author to the manuscript:

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	A1	A2	A3	A4
A. theoretical and conceptual foundations and problematization:	25%	25%	25%	25%
B. data research and statistical analysis:	25%	25%	25%	25%
C. elaboration of figures and tables:	25%	25%	25%	25%
D. drafting, reviewing and writing of the text:	25%	25%	25%	25%
E. selection of bibliographical references	25%	25%	25%	25%
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