

## **Fixed Assets: Basis of the financial structure of the Decentralized Autonomous Municipal Government of the Canton of Esmeraldas**

Zambrano-Coronel Verónica Johanna<sup>1</sup>, Gomez-Garcia Susetty Lorena<sup>2</sup>

### **Abstract**

*Companies consider fixed assets as the largest investments that belong to them, so it is important that each company has controls over these fixed assets, whether internal or external, because in this way information of great importance can be collected to make decisions, this type of inspections are carried out the Office of the Comptroller, executed in accordance with the Ecuadorian Standards of Government Auditing, the regulations, manuals, instructions, guides, among others, issued by the Comptroller General of the State, etc. This research carried out a bibliographic review of scientific articles related to the proper management of assets; It used the information of the Internal Control Standards of the Office of the Comptroller General of State regarding fixed assets and other regulatory and control bodies, in addition a survey was carried out to a part of the population of this municipality, which is made up of 50 participants in the management of fixed assets. The results obtained show that more than 50% of employees consider that the entity has an efficient management of fixed assets and agree that they are a fundamental part of the financial structure, since the useful life of the assets is calculated at the time of their entry and permanence. To conclude, a correct use and management of fixed assets improves the public procurement process, because when carrying out control and monitoring, it is taken into account whether suppliers should be kept or changed, if companies are offering good quality goods and guarantees.*

**Keywords:** *Fixed assets, warehouse, GAD-Esmeraldas Canton.*

### **Introduction**

The Decentralized Autonomous Municipal Governments of Ecuador are decentralized institutions that have political, administrative and financial autonomy with the function of developing projects and works for the benefit of the community, through the monitoring of the phases that govern in the Organic Code of Planning and Public Finances, article 5 indicates that these phases are: Planning, fiscal sustainability, coordination, transparency, citizen participation and decentralization, which shall be under the guidelines of development planning at all levels of government, in compliance with the provisions of articles 280 and 293 of the Constitution of the Republic (Organic Code of Planning and Public Finances, [COPFP], 2010) .

The canton of Esmeraldas has presented an important growth in recent years, but it also presents difficulties and needs that motivate to perpetuate development even more, these

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<sup>1</sup> Universidad Técnica de Manabí, vzambrano8857@utm.edu.ec, <https://orcid.org/0009-0008-9989-5137>

<sup>2</sup> Universidad Técnica de Manabí, susetty.gomez@utm.edu.ec, <https://orcid.org/0000-0001-8593-1979>

difficulties are solved almost entirely by the Decentralized Autonomous Governments GAD, so it is essential that they execute the appropriate procedures and that they have a solid and productive financial structure. For strategic, operational, financial and administrative reasons, asset management is becoming an increasingly important factor in decision-making for decentralized autonomous governments, fulfilling these functions allows them to keep track of everything that enters and leaves the entity. It is important to establish a series of requirements that allow for a broad and detailed knowledge of what is done during accounting management and the protection of these, a deficient management that does not comply with the established policies creates gaps that complicate the good management of the institution. (Loyola-Torres et al., 2020a)

Companies consider fixed assets as the largest investments that belong to them, so it is very important that each company has controls over these fixed assets, whether internal or external, because in this way information of great importance can be collected to make decisions about these tangibles, this type of inspections are carried out the Office of the Comptroller, executed in accordance with the Ecuadorian Standards of Government Auditing, the regulations, manuals, instructions, guides, among others, issued by the Comptroller General of the State and other standards issued for the exercise of the profession that are applicable according to the type of audit, examination or object on which the analysis must deal (COPFP, 2010).

Therefore, this research seeks to know the incidence of fixed assets, as a basis in the financial structure of the Municipal Decentralized Autonomous Government of the Canton of Esmeraldas.

## Methodology

A documentary, descriptive research was carried out and developed at the Municipal GAD of Esmeraldas.

To comply with the proposed objective, documented evidence was collected from the systems and databases that the Municipality of Esmeraldas owns and manages and in addition, a bibliographic review of scientific articles related to the proper management of assets was carried out, the information of the Internal Control Standards of the Office of the Comptroller General of State regarding fixed assets and other regulatory and control bodies was also used. It was also necessary to conduct a survey of a part of the population of this municipality, which is made up of 50 collaborators involved in the management of fixed assets. The sampling was non-random for convenience since the survey was applied to the directorates that handle administrative and financial issues in the institution:

Board 1 Addresses of interest for the survey

N°	Addresses	Quantity
1	Financial	10
2	Accounting	10
3	Budget	10
4	Wine cellar	10
5	Administrative	10

The goal of applying this survey is to tabulate all the information to determine how important fixed assets are in the institution.

## Development

The Municipal Decentralized Autonomous Governments were created with the purpose of having autonomy to plan and execute investment projects, they propose that this is possible by obtaining and generating different sources of income that pay for the execution of the same according to the regulations in force in Ecuador and the care of the fixed assets that the institution has (p.29). Pasquel et al., ( 2017)

According to an asset it is made up of the goods and rights that are part of an economic entity, such as cash, accounts receivable from customers, inventories, movable property and items that have a commercial value, but when it refers to current or current assets, it talks about the accounts that the economic entity uses to work and with this, achieve an economic benefit, for example; cash, banks, goods (p.3). Gutierrez, (2019)

Fixed assets are those resources that an institution uses periodically to carry out its respective activities, whether they are the sale of goods or the provision of services, and thus obtain future benefits from the asset that is acquired within its useful life (National Federation of Accountants of Ecuador, [FNCE], 1999).

When fixed assets are transferred to an institution, the depreciable amount must be systematically distributed over its useful life, i.e., the period of years calculated, during which it can be used or used for an institution. When it is necessary to know the useful life and the percentage of depreciation of an asset, it is necessary to refer to the tax legislation in Ecuador, where it is detailed, for example, that the useful life of a building is 20 years with a 5% deductible depreciation, also of furniture, office machines and facilities with 10 years of useful life and 10% of depreciation, among others. The fixed assets that do not depreciate are land, which rather gains capital gain over time. (Aguirre, 2010)

Once assets are acquired, properly entered and their useful life time calculated, asset management is performed, which plays an important role in supporting municipal functions and providing services to the local community. According to fixed asset management, it allows companies to monitor equipment and vehicles, assess their condition, keep them in acceptable operating condition, minimize inventory loss, equipment failures, and downtime, and improve the lifetime value of the asset, as this management allows the inventory process to continue. Valuation, use, strategic portfolio reviews, reporting and auditing of fixed assets as part of the decision-making process of local governments. Shapo Consulting, (2018)

The main benefits of an effective asset management system are to help local governments:

1. Increase revenue.
2. In case the municipality intends to borrow in the commercial market (domestic or foreign), the asset management system helps to improve the overall credit rating of the municipality.
3. Attract more domestic and foreign investors.
4. Improve land valuation (e.g., through relocation of public properties, sales and leases, and infrastructure improvements such as better roads) that make land assets attractive for productive and real estate purposes. (Shapo Consulting, 2018)

In this regard, it should be noted that the municipal GAD of Esmeraldas uses the Integrated Management System of the Municipal Associations of Ecuador (SIGAME) in which all the assets acquired in the institution are registered. Here it is detailed: the code, name, brand, series, model, condition, color, your date of purchase, your accessories, your lifespan and the total value. To confirm the location, condition and existence of the goods, as well as to determine the user and their final use, 1 or 2 physical verifications are made per year, depending on the need of the institution.

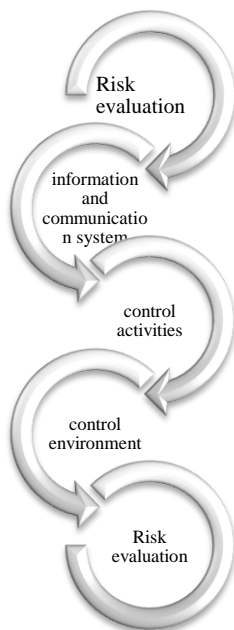
As explained in article 10, section "g" of the Internal Control Standards of the Manual of the Office of the Comptroller General of the State, which clearly indicates that in each administrative unit the physical verification of the assets will be carried out, at least once a year, in the last quarter, in order to control the inventories in the entities or agencies and enable accounting adjustments. The Warehouse Keeper or whoever takes his place, the Administrative Custodian and the head of the Administrative Unit or his delegate may intervene in it. A report of the results will be submitted to the highest authority of the entity or body, in the first fortnight of each year, detailing all the new developments obtained during the process of physical verification and reconciliation with the accounting information and suggestions of the case; in addition, the Minutes signed by the interveners. A copy of the physical verification report made for the corresponding accounting records will be sent to the Financial Unit or whoever takes its place. (Municipal public company of the land registry of the Portoviejo canton, 2020)

It is essential to ensure the correct and efficient administration of resources and assets of the entities and agencies of the Ecuadorian public sector, with this aim the Internal Control Standards of the Office of the Comptroller General of the State were created.

Internal control is the responsibility of each public institution and is aimed at complying with the legal, technical and administrative systems, promoting efficiency and effectiveness of the entity's operations and guaranteeing the reliability and timeliness of information, as well as the adoption of timely measures to correct control deficiencies (Office of the Comptroller General of the State [CGE], 2002, p.3) .

This internal control has 4 components that motivate the highest authority to comply with the institution's objectives:

Figure 1 Components of Internal Control



Note. Data taken from the Office of the Comptroller General of the State. Fountain: (C GE , 2002)

Herein lies the importance of the Decentralized Autonomous Governments knowing the value of their assets, that the assets are physically identified with a label, that their exact location and physical condition are known, also that they maintain control of them, that an inventory of them is made, that they are reported in books or physical documents and that they are in the institution's database.

The Municipal Government of Esmeraldas carries out this process of internal control of fixed assets, in this sense, it can be verified through the following list of assets:

Fixed assets: list of GAD Municipal Real Estate in Esmeraldas 2021-2022

Board 2 Buildings, premises and residences.

SIGAME Code	Name	State	Total Value	Date of Purchase
001.0001	Civic Square Sanitary Battery Building	Well	23933,16	30/05/2008
001.002	Municipal Board of Trustees Building	Well	183908,49	26/12/2001
001.0003	Municipal Market Building	Well	1779848,08	15/03/2013
001.0004	Youth House Building	Well	102712,68	17/04/2013
001.0005	Casa Rosada building (wineries)	Bad boy	101704,16	05/12/2018
TOTAL:			2.192.106,57	

Note. Data taken from the S Integrated Management System of the Municipal Associations of Ecuador ( FOLLOW ME , 2022a )

Board 3 Land

SIGAME Code	Name	State	Date of Purchase	Total Value
001.0001	Garbage dump "the garden"	Well	09/09/1993	6.340,75
001.0002	Civic Square	Well	04/04/2007	614.910,73
001.0003	Sanitary batteries in the civic square	Well	30/05/2008	22.190,18
001.0004	Municipal Board of Trustees "La Barraca"	Well	28/12/2001	170.885,01
001.0005	Municipal Market	Well	15/03/1994	1.271.593,28

001.0006	Youth House	Well	17/04/2013	9.365,89
001.0007	Casa Rosada (wineries)	Well	05/12/2018	194.242,59
001.0008	Cemetery "Solange"	Well	09/12/1968	236.016,20
TOTAL:			2.525.544,63	

Fountain: (SIGAME, 2022c)

Fixed assets: list of GAD Municipal de Esmeraldas furniture 2021-2022

Board 4 Furniture

Goods			
Filing cabinet	IP Phone	Panic buttons	
Workstations	Television	Traffic Control Camera Arm	
Chairs	Screen	Stands	
Tables	Gasoline Pressure Washer	Speakers	
Dumpsters	Air Compressor	Amplifiers	
Metal outer box	Microphones	LED Lights	
Air Conditioners	Gym machines	JEEP	
Professional Video Camera	Cameras	Collectors	
Automatic Grease Pump	Sound level meters	Motorcycle	
1/2 HP Electric Pump	Biometric equipment	Printers	
Peripheral Water Pump	Engines	CPU	
Projector	Drivers	Laptops	
Solar Panels	Speakers	Monitors	
Access point	Desktop Computers	Switch	
Environmental Air Sensor	Noise Sensor	Antennas	
Hard Disk Array Systems	Joystick	AP	
MDU	Solar Radiation Sensors	Amplifiers	
Interfaces IP	NVR	Boards	

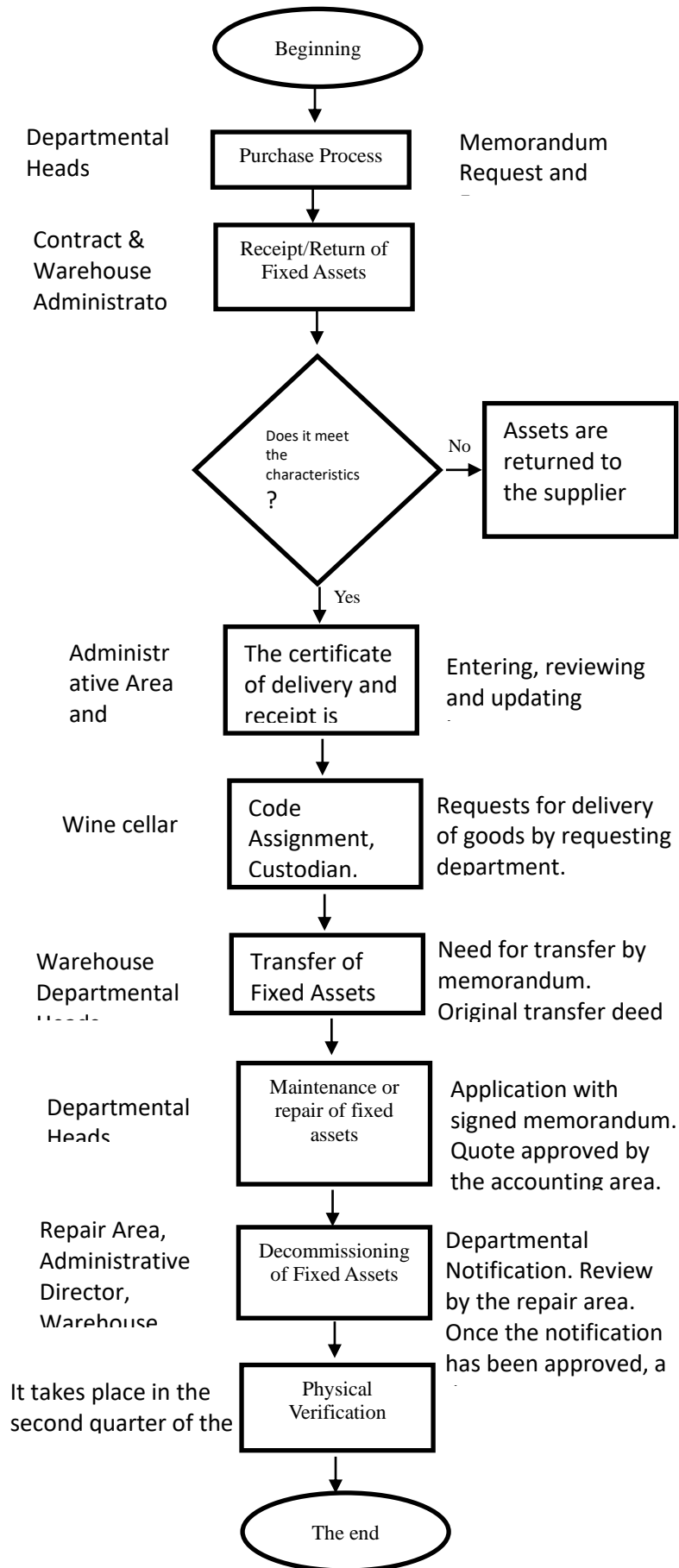
Source: (SIGAME, 2022b)

The objective of listing these fixed assets is to make known the assets owned by the institution and to reaffirm the value that they deliver to the entity through their inventory.

These assets are used to supply the demand of the canton and municipal workers, increase the coverage of the area of services to the local community and as such the quality of the same. Internal control keeps all directions regulated, promotes compliance with institution policies, maximizes profits, and minimizes risks.

Once the value and importance of internal control was known, a situational analysis of the institution was carried out to find out if the Warehouse department, the one in charge of asset control, has any type of diagram that contains the procedure for entry, conservation and exit of fixed assets. It is for this reason that in this research a flowchart is proposed below to contribute to the consecutive order of this control that goes from the purchase to the deregistration of the goods, since the public entity does not own it.

Figure 2 Flowchart proposal for asset management and control.





## **Results**

Fixed assets are considered a fundamental part of the financial structure of the decentralized autonomous government of the municipality of Esmeraldas, because although not all of these assets generate direct liquidity, they encourage the municipal government's revenues to be secure.

From the application of the survey to the selected sample of the institution, the following was identified:

More than 50% of employees consider that the entity has an efficient management of fixed assets and do agree that they are a fundamental part of the financial structure, since the useful life of the assets at the time of their entry and their permanence in the institution is calculated. Regarding the revaluation of fixed assets, 75% of those surveyed stated that a clear example of this compliance is in computer equipment and systems, when a laptop or desktop computer suffers some damage, they check when it was acquired, who is the custodian and what its location is, from that a diagnosis is made by any systems technician and finally the repair is carried out, thus saving the cost of acquiring another electronic device, spending only for maintenance expenses. After this, the warehouse department proceeds to adjust its real fair value, 50% respondents agreed that lower market values should not be recorded, but should count as depreciated assets that continue to generate future profits, such adjustments will contribute to the justification of equity increases and the homogenization of assets acquired in different periods and monetary units.

Regarding the efficiency of the control system, there were many setbacks, because despite the fact that between 2 and 3 physical verifications are made annually, much more support personnel are needed in this process, since the municipality is an institution with hundreds of employees and thousands of assets in custody. Because of this, the importance of trainings. Approximately 77% of the respondents responded that the warehouse management is constantly training and reviewing the control manuals and innovating in its services and the systems management is reviewing the computer components.

Through all this information collected, it is concluded that the municipal GAD of Esmeraldas takes the correct measures to enter the fixed assets once acquired, detailing all their specifications, including their useful life time, location, total value and their custodians, the addresses involved such as administrative management and financial management have an approved knowledge of the entire process through which the assets pass, but thanks to the training of the winery management and the annual physical verifications, it is possible to comply with the regulations of the Office of the Comptroller General of the State and its manual of internal control of assets and it is possible to save future expenses to the budget of the institution and promote the provision of a better service to the community.

On the other hand, it was concluded that this process of good use and management of fixed assets improves the public procurement process, because when carrying out control and monitoring, it is taken into account whether suppliers should be kept or changed, if companies are offering good quality goods and guarantees. In other words, the benefits of controlling fixed assets range from preserving and promoting the institution's economy to increasing its value in the investment market nationally and internationally.

## **Discussion**

The decentralization process is increasing the number and value of the asset portfolio of Ecuadorian municipalities, this automatically increases the need to improve knowledge and asset management capabilities in terms of both human resources and infrastructure.

By considering the modest level of local financial resources, asset management becomes an advantage for better support of municipal functions and service delivery.

Municipalities, Prefectures and all public and private institutions that manage public resources are obliged to know and use the laws, rules, regulations, including the Internal Control Standards in administrative, legal, financial and technical processes, so that the relevance and veracity are verified, in order to achieve the institutional goals and objectives. To do this, the servers must comply with the guidelines, programming, scope and control in the processes, take a record of the orders in the financial system, complying with all the control parameters, therefore, the adequate registration of the information in the inventory originally, is an essential factor to ensure the timeliness and reliability of the same (Mendoza-Macay and Escobar-García, 2023, p.164)

Many decentralized municipal autonomous governments at the level of Ecuador carry out processes quite similar to the municipality of Esmeraldas, since they must all be governed by the same laws and serve the community. In the canton of Chimbo in the province of Bolívar, an investigation was carried out on fixed assets, where it was concluded that the administrative activities that are destined are correctly executed, but the monitoring and control actions are not carried out, since there is no awareness of the accounting treatment of these activities. The accountant receives the data about the goods that are acquired, data delivered by the warehouse area, but they do not give the data regarding the useful life of the goods acquired and in the warehouse it only has the assignment to keep a record about the goods it receives, but not to follow up beyond that. According to the Statute of Limitations, unaccounted assets that have not complied with the processes may be deregistered by means of an authorization from the person in charge, applicable in the same way to the destruction of property, theft and disposal, since any procedure that is not justified or supported merits sanctions by the regulatory bodies. Shoe (2015) (García et al., 2022, p.7)

Taking into account these investigations, it is concluded that decentralized autonomous governments have similar problems when it comes to fixed assets, but that they seek to improve their system through strategic plans that include the rules issued by regulatory bodies.

Municipal governments have several sources of income: taxes, fees and contributions, sales of goods and services, investment income, among other transfers received.

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