



# Chapter 11

## The Implementation of Internal Control in the Financial Services Expenditure in a Hospital Department: A Case Study

**Ana Cristina Vaz Pires Morim**  
*University of Aveiro, Portugal*

**Helena Inácio**  
 <https://orcid.org/0000-0003-1281-2156>  
*University of Aveiro, Portugal*

**Elisabete Vieira**  
 <https://orcid.org/0000-0003-3593-368X>  
*University of Aveiro, Portugal*

### ABSTRACT

*The interest on internal control (IC) is increasing in the last years, namely in the public administration, including the hospitals. It is an instrument of management, administration, and control for assuring the organization's objectives in reliable financial reporting, operational effectiveness and efficiency, and compliance of laws, regulations, and policies, involving the controls risks. Better IC should yield more reliable on internal data, which lead to better internal decision-making. It then mitigates the risk of fraud. This study analyzes existing procedures and controls in the expenditure department of a public hospital, considering the human, material, and technical resources available to the systematization of effective control practices and the identification of key IC vulnerabilities. Thus, the authors use interviews and documentary analysis between December 2014 and 2015, proposing actions to mitigate the procedures vulnerabilities and a structure for an IC manual as a tool to promote the legality and efficiency of the management of public funds, as well as to prevent fraud.*

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## **INTRODUCTION**

Managers in public costing centers should be accountable for the activities they carry out to achieve a better management of public funds (Dragija, Vašiček, & Hladika, 2011), and the internal control (IC) is a good mean to do that.

The IC is perceived as a management tool, contributing to compliance with criteria of economy, efficiency, and effectiveness, safeguarding legality, and promoting the trust of management bodies in procedures and processes, attending as assurance of the quality, reliability and accountability of the information provided by the different institution's services.

In addition, the public sector has been a fraud and the IC is also a good tool to prevent and detect fraud in this sector (Kamaliah et al., 2018). Accordingly to Gottschalk (2018) public hospital fraud is an important part of the annual amount of fraud in United States of America.

In recent years, the health sector and particularly the hospital area have undergone changes at the management level, particularly based on the need to improve the efficiency and quality of services.

The opportunity of this study rests on a Hospital Center (HC) created in the scope of the Portuguese hospital park, with a view to improving health care delivery, ensuring quality and offering diversification, universal access, but also services efficiency. However, it is subject to new regulatory mandates and changes in organizational support (Decree-Law no. 30/2011, of March 2).

Decree-Law no. 244/2012, of November 9, amended the legislation that established the legal regime and approved the statutes of hospitals and hospital centers of a business nature integrated into the National Health Service. These rules were based on the Court of Auditors<sup>1</sup> recommendations in the scope of the IC of the public entities health sector and considering the modifications introduced to the Statute of the Public Manager. Therefore, to achieve the management efficiency and effectiveness in public hospitals it is necessary to implement an adequate IC system.

The Financial Services (FS), within the HC under study, play a decisive role for the good institution management. Within these services, the expenditure department is fundamental to ensure an adequate use of public money but does not have a manual of IC procedures. Thus, based on the analysis of existing procedures and controls and taking into account available human, material, and technical resources, it is intended to systematize effective control practices and identify vulnerabilities in order to structure an IC manual for the expenditure department.

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