

# Enhancing internal control and good governance compliance in Kasibu: Strategic interventions for local government administration

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## ***Abstract***

This study investigated the fiscal internal control system of the Municipal Government Unit (MGU) of Kasibu, Nueva Vizcaya, focusing on five key components: control environment, risk assessment, control activities, information and communication, and monitoring and evaluation. Simultaneously, the study assessed the municipality's compliance with the Seal of Good Local Governance (SGLG) in the domain of financial administration and sustainability, examining five dimensions: transparency and accountability, revenue generation and mobilization, budget efficiency and utilization, investment in local economic growth, and financial sustainability and resilience. Data were collected through a validated survey questionnaire administered to 203 municipal employees. Descriptive and inferential statistics, including mean and Pearson's  $r$ , were used to analyze the data, with a significance level of 0.05 applied to test the hypothesis. Findings indicated that Kasibu's internal control system was generally perceived as effective, with particularly high ratings in control activities and the control environment. However, aspects such as risk assessment, monitoring and evaluation, and communication showed room for enhancement. The LGU also demonstrated strong compliance with SGLG indicators, especially in transparency, financial sustainability, budget utilization, and revenue mobilization. A strong positive correlation ( $r = 0.84$ ) was found between the fiscal internal control system and SGLG compliance. Based on these insights, strategic interventions were recommended to strengthen risk management, enhance information flow, and promote initiatives for local economic growth to support improved fiscal governance and sustainability.

***Keywords:*** internal control system, good governance, fiscal administration

## **Enhancing internal control and good governance compliance in Kasibu: Strategic interventions for local government administration**

### **1. Introduction**

Across the globe, the public sector exists to deliver essential services that uphold the public good. These services encompass a broad-spectrum including education, healthcare, infrastructure, environmental protection, and national security. Regardless of whether a nation or local government unit (LGU) is wealthy or resource-constrained, it is mandated to prioritize and serve public interests. In this context, LGUs are crucial agents of development, playing a vital role in facilitating inclusive economic growth and promoting social equity. Their proximity to constituents allows them to directly improve lives through targeted investments in critical sectors such as health, education, infrastructure, environmental conservation, and social welfare programs. Additionally, their role in disaster risk reduction and climate change adaptation has grown increasingly significant, particularly in regions that are geographically vulnerable. Because of their grassroots reach, LGUs are well-positioned to respond swiftly in emergencies, mobilize community assets, and coordinate efforts with national government agencies. These factors position LGUs as indispensable drivers of sustainable development and resilience at the local level.

To fulfill these extensive mandates, LGUs must be equipped with the capacity to generate, allocate, and manage public resources efficiently and effectively. As the primary implementers of government programs in local settings, LGUs act as the critical interface between national policy and community implementation. Structurally, they serve as the frontliners in public service delivery and are instrumental in bringing governance closer to the people. Their capacity for responsiveness is further enhanced by the autonomy granted through Republic Act No. 7160, otherwise known as the Local Government Code of 1991. This decentralization framework empowers LGUs to promulgate ordinances, generate revenue, allocate resources based on localized priorities, and craft solutions tailored to their constituents' specific needs. In effect, this localized governance structure fosters more efficient service delivery, enhances accountability, and promotes participatory decision-making processes among citizens.

Improving efficiency and effectiveness in the public sector requires a holistic and multi-pronged approach. According to Jennifer (2024), effective governance must incorporate technological innovation, data-informed decision-making, strategic planning, continuous skills development, inter-agency cooperation, active citizen participation, and a culture of continuous improvement. When integrated successfully, these strategies can strengthen government institutions, enhance public service delivery, and uplift the general welfare of society. However, the absence of robust management frameworks can expose LGUs to risks such as inefficiency, fraud, corruption, and resource wastage.

The Organisation for Economic Co-operation and Development (OECD, 2024) emphasizes that maintaining public integrity is contingent upon the establishment of strong internal control mechanisms and risk management systems. These frameworks not only ensure the efficient delivery of government programs but also safeguard against fraud and malfeasance by providing a reasonable degree of assurance that public resources are being utilized effectively toward achieving desired goals. Similarly, the Department of Budget and Management's Internal Audit Manual (DBM IAM, 2023) underscores the importance of having well-established internal controls. These systems guarantee that assets are protected, accounting data are accurate and reliable, management policies are implemented, laws and regulations are observed, and operations are conducted in an efficient, economical, ethical, and effective manner.

Recognizing the importance of internal controls, the Philippine government has taken proactive steps to institutionalize internal auditing across the bureaucracy. The Department of Budget and Management (DBM), in

its Public Fiscal Management Roadmap for 2024–2028, identified internal audit systems as a core focus for capacity building, particularly within LGUs. The roadmap seeks to empower LGUs by providing guidelines that allow for effective assessment of their internal control systems. This signals the national government's recognition of how vital internal audits are in improving the quality and efficiency of public service delivery, as well as in reinforcing transparency and public accountability.

In the Local Government Unit of Kasibu, the significance of establishing an effective internal control system has been acknowledged by the local administration. This is evident in the creation of an Internal Audit Unit (IAU), a dedicated office tasked with examining and evaluating the internal control systems of the LGU. The presence of this unit reflects a commitment to institutional accountability and enhanced financial governance. However, the role of internal auditing is often misunderstood. Some individuals within local institutions perceive internal audit activities as synonymous with fault-finding or nitpicking. According to Acaebin (2024), such misconceptions hinder the realization of internal audit's developmental role and its potential to function as a proactive tool for improving operational systems.

This research study, therefore, seeks to examine the potential correlation between the fiscal internal control systems and the compliance of the Local Government Unit of Kasibu with the Department of the Interior and Local Government's (DILG) Seal of Good Local Governance (SGLG) criteria, particularly in the area of Financial Administration and Sustainability. The central assumption guiding this study is that a link may exist between the robustness of fiscal internal control systems and the LGU's ability to meet SGLG standards. The SGLG is a performance-based recognition program institutionalized by the DILG to incentivize and promote excellence in governance. It recognizes LGUs that demonstrate exemplary performance in various dimensions, including fiscal administration, disaster preparedness, social protection, peace and order, and environmental management. Under the financial administration domain, the SGLG assesses an LGU's capacity to uphold sound financial practices, demonstrate budget accountability, increase locally sourced revenues, and ensure the efficient utilization of public funds.

Understanding whether a correlation exists between internal control mechanisms and SGLG compliance will shed light on how governance tools, such as internal audits, contribute to enhancing public administration. While the existence of a correlation may not imply a direct causation, it nonetheless provides empirical evidence on the functional relationship between organizational controls and governance outcomes. Such findings can be valuable in identifying capacity-building needs, improving internal auditing systems, and enhancing LGUs' preparedness to meet national governance standards. This study finds its theoretical and policy anchorage in Sustainable Development Goal 16 (SDG 16), which seeks to promote peaceful, just, and inclusive societies by building effective, accountable, and transparent institutions at all levels. A rigorous internal control system, together with sound fiscal management practices, directly contributes to the attainment of this goal. By fostering accountability, transparency, and integrity in the use of public funds, LGUs reinforce public trust, improve service delivery, and build resilient communities. Furthermore, robust internal controls help prevent corruption and mismanagement, ensuring that development programs are implemented efficiently and equitably.

The study is also aligned with the National Higher Education Research Agenda (NHERA), which promotes research that supports the development of public administration and good governance. Research initiatives that assess organizational management practices, such as internal auditing and fiscal control, are instrumental in shaping policy reforms that aim to professionalize and strengthen local governance. In addition, this study is consistent with the Nueva Vizcaya State University College of Arts and Sciences' research agenda on organizational development, public policy, and institutional performance. Through its empirical orientation, the study contributes to a growing body of knowledge that informs the modernization of local governance practices in the Philippines.

Beyond policy alignment, the significance of this research lies in its potential impact on the daily operations of LGUs. As LGUs face increasing demands to demonstrate transparency and accountability, the ability to

systematically evaluate their internal controls becomes more critical. Findings from this study may inform the development of improved internal audit procedures, training programs, and resource allocation strategies that support good fiscal governance. Moreover, it can contribute to the enhancement of local government operations in such a way that aligns with the principles of participatory governance, risk management, and performance-based accountability.

Ultimately, this research aims to provide empirical evidence that could inform strategic reforms and capacity development initiatives for local government units, particularly in the realm of financial administration and sustainability. A well-functioning fiscal internal control system not only supports the realization of SGLG criteria but also strengthens the broader objectives of sustainable development, transparency, and inclusive governance. By ensuring that public resources are managed effectively, LGUs such as Kasibu can reinforce citizen trust, enhance the quality of public service delivery, and contribute meaningfully to the attainment of SDG 16 and related national development goals. Through the continued strengthening of internal audit mechanisms and the institutionalization of transparent governance practices, LGUs can serve as resilient and accountable agents of progress, firmly rooted in the values of democratic governance and sustainable development.

## 2. Related Literature

This study is anchored in Henri Fayol's Theory of Administrative Management, which offers foundational insight into the core functions and principles vital to effective governance in any organization. Fayol's theory posits that management is a distinct and essential component of organizational functioning, critical for achieving institutional objectives efficiently (Fayol, 1949; Peek, 2023). Shifting the focus from mere productivity—typical of scientific management theories—Fayol emphasized sociotechnical aspects of management that ensure consistency and institutional stability. Fayol outlined five fundamental managerial functions: planning, organizing, commanding, coordinating, and controlling. These interrelated functions form a comprehensive managerial process that facilitates goal-setting, resource allocation, personnel oversight, team coordination, and performance evaluation (Peek, 2023; Suleman et al., 2021). Furthermore, he proposed 14 principles of management such as authority and responsibility, unity of command, scalar chain, order, and equity, which remain influential in modern public administration and organizational development (Bacud, 2020; Rahman et al., 2021).

Despite criticism—particularly regarding its centralization bias and reliance on Fayol's subjective experiences—the theory's relevance persists across various sectors. Bacud (2020), for instance, observed that academic leaders at Isabela State University effectively apply principles such as division of work and authority-responsibility alignment in campus administration. Similarly, Bayudan et al. (2020) and Akinyele et al. (2017) have confirmed the continued utility of Fayol's principles in enhancing administrative effectiveness in municipal governments and organizational settings in Nigeria, respectively. Moreover, comparative studies in the education sectors of Bangladesh and Tanzania (Rahman et al., 2021; Mwanakatwe & Tumaini, 2023) have further substantiated the adaptability and relevance of Fayol's management functions in diverse institutional environments. Within the scope of this research, Fayol's management framework is operationalized through the concept of an internal fiscal control system. Effective internal controls reflect the core functions of management—structuring authority lines, delineating responsibilities, ensuring coordination, and conducting policy monitoring and evaluation. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), strong internal control systems help organizations define their mission, set strategic objectives, and pursue sustainable growth with integrity and confidence in their information systems (COSO, 2017).

Aulia et al. (2024) emphasized that internal controls serve as mechanisms of accountability between management and stakeholders, ensuring accuracy, integrity, and transparency in organizational reporting. These systems encompass five control components: the control environment, control activities, risk assessment, information and communication, and monitoring. Vulley (2022) found that these components significantly

influence the operational efficiency of banks in Ghana, particularly by reducing the misuse of stakeholders' resources. Fayol's theory also supports the implementation of good governance principles, particularly those embodied in the Seal of Good Local Governance (SGLG) framework in the Philippines. Among the SGLG's five fiscal components—revenue mobilization, budget utilization, local investment, financial sustainability, and transparency—the principle of order directly promotes accountability and aligns with democratic governance standards (Gariel et al., 2019). The demand for unity of direction and command in Fayol's model resonates with the need for shared goals and strategic alignment across local government units (LGUs).

In this context, Fayol's management functions provide a conceptual backbone for LGUs aiming to meet the SGLG criteria on fiscal administration and sustainability. By planning, organizing, leading, coordinating, and controlling, local governments can optimize resource use, improve service delivery, and deliver long-term value to citizens. Institutionalizing these governance practices through structured internal controls contributes to lasting administrative competence. When LGUs demonstrate strong planning and organizational capacities, enabled by robust internal controls, they are more likely to meet the performance metrics under SGLG. Furthermore, the theory underscores the importance of well-defined roles, accountability mechanisms, and coordinated administrative processes as essential instruments for achieving fiscal discipline and long-term financial resilience. As such, Fayol's administrative theory not only serves as a historical foundation but also functions as a modern theoretical framework for analyzing the effectiveness of internal control systems in fostering good local governance.

In sum, the literature confirms the enduring relevance of Fayol's administrative theory as a guide for institutional design and managerial efficiency. Its principles have been validated across multiple contexts—from university leadership in the Philippines (Bacud, 2020) to public sector reforms in Africa and Asia (Akinyele et al., 2017; Rahman et al., 2021; Mwanakatwe & Tumaini, 2023). These findings reinforce the premise that a strategically implemented internal control system, grounded in classical management theory, significantly enhances local governance performance. Thus, this study views the linkage between internal control implementation and compliance with the SGLG's fiscal administration standards as an essential step toward institutionalizing a culture of excellence in local fiscal governance.

### 3. Methodology

**Research Design.** This study employed a quantitative research design utilizing the descriptive-correlational method. Data were gathered through a structured survey questionnaire. Quantitative research involves the systematic collection and analysis of numerical data to test hypotheses, examine relationships, and generate findings that are generalizable to a larger population. According to Watson (2015), this design emphasizes objectivity and the use of statistical tools to confirm or refute theoretical constructs and to identify patterns and relationships. The descriptive-correlational approach is particularly suited for exploring the relationship between the fiscal internal control system and compliance with the Seal of Good Local Governance (SGLG) criteria in the area of financial administration and sustainability. By applying this method, the researcher aims to generate objective data that can support informed decision-making and contribute to fiscal administration improvement through empirically grounded insights.

**Research Environment.** The study was conducted in Kasibu, a municipality in Nueva Vizcaya, recently reclassified as a first-class municipality as of January 1, 2025. Known as the *Citrus Capital of Luzon*, Kasibu is composed of 30 barangays and eight indigenous communities. The municipality aspires to become “an agro-eco-tourism destination in Region 02,” driven by transparent and participatory governance and committed to an ecologically balanced, peaceful, and progressive environment. Kasibu was a recipient of the 2024 Seal of Good Local Governance (SGLG), a testament to its excellent fiscal management. The municipality's focus on installing a robust internal control system aligns with good governance principles—protecting public assets, ensuring the reliability of financial data, enforcing policy compliance, and promoting ethical, efficient, and effective operations (IAM, 2023). Such practices contribute to the delivery of quality public services and

sustainability-driven development.

**Respondents of the Study.** The study's respondents consisted of 203 employees of the Municipal Government Unit of Kasibu, selected from 13 different offices. Both regular and contract of service personnel were included in the sample computation. The sample size was determined using Slovin's formula, which provides a statistically acceptable margin of error.

**Sampling Procedure.** To ensure representativeness, the researcher employed stratified random sampling in combination with simple random sampling techniques. The population was divided into homogeneous subgroups or *strata* based on office affiliation, after which random sampling was applied within each stratum. According to Tejada et al. (2012), Slovin's formula is suitable when maintaining a 95% confidence level. Stratified sampling reduces sampling error and variance, provides better population coverage, and ensures even small but relevant subgroups are adequately represented (Murphy, 2024). This method allows for more accurate, reliable, and generalizable results, especially in a heterogeneous population such as that of an LGU workforce.

**Research Instrument.** The data collection tool was a validated survey questionnaire, organized into two main sections:

- **Part I: Fiscal Internal Control System Assessment**  
This section consists of **40 items**, adapted from Agyapong et al. (2017), and evaluates key areas of internal control implementation such as control environment, risk assessment, control activities, information and communication, and monitoring.
- **Part II: Assessment on the SGLG Criteria for Financial Administration and Sustainability**  
This section contains 25 items adapted from various relevant studies. It measures the respondents' perception of the LGU's compliance with SGLG performance metrics including transparency, accountability, revenue generation, budget utilization, local investment, and financial sustainability.

**Statistical Treatment of Data.** To analyze the collected data, the following statistical tools were employed:

- **Mean**  
The arithmetic mean was used to determine the overall perception of employees regarding the level of internal control implementation and compliance with SGLG criteria in financial administration and sustainability.
- **Pearson Product-Moment Correlation Coefficient (Pearson r)**  
This test measured the degree of correlation between employees' assessment of the fiscal internal control system and their perceived level of compliance with the SGLG criteria. The test helped establish whether a statistically significant relationship exists between the two variables.

#### 4. Results and Discussion

**Problem 1.** What is the respondent's assessment on the fiscal internal control system in the Local Government Unit of Kasibu, Nueva Vizcaya along control environment, risk assessment, control activities, information and communication, and monitoring?

Table 1 shows that the fiscal internal control system of the LGU of Kasibu was perceived as "effective", with an overall mean of 4.15 reflecting a generally positive perception among respondents. The assessment of the fiscal internal control system in the Local Government Unit (LGU) of Kasibu reveals that Control Activities, with a mean of 4.28, received the highest rating and perceived to be "effective". Following closely is Control Environment, with a mean of 4.27, also rated as "effective". Meanwhile, Monitoring and Evaluation and Information and Communication garnered a mean of 4.17 and 4.06 respectively, reflecting an effective rating. Lastly, Risk Assessment received the lowest rating among the components, with a mean of 3.98, but still

perceived as “effective”.

**Table 1**

*Mean and Qualitative Description of the Respondents' assessment on the fiscal internal control system in the Local Government Unit of Kasibu*

Fiscal Internal Control System	Mean	Qualitative Description
Control Environment	4.27	Effective
Risk Assessment	3.98	Effective
Control Activities	4.28	Effective
Information and communication	4.06	Effective
Monitoring and Evaluation	4.17	Effective
Overall Mean	4.15	Effective

The findings above implies that while the employees perceived the LGU to have a very effective control activities and control environment which can mean that policies and procedures are in place and are consistently implemented to ensure effective execution of fiscal responsibilities and that ethical values, organizational structure, and governance principles are well-established within the LGU, they had the lowest assessment on the Risk Assessment component indicating that this component warrants strengthening in the risk identification and mitigation processes.

**Problem 2.** What is the respondents' assessment on the compliance to the Seal of Good Local Governance particularly on the area of financial administration and sustainability in the Local Government Unit of Kasibu, Nueva Vizcaya along revenue generation and mobilization, budget efficiency and utilization, investment in local economic growth, and financial sustainability and resilience?

Table 2 displays the respondents' assessment of compliance with the Seal of Good Local Governance (SGLG) in the area of financial administration and sustainability within the Local Government Unit (LGU) of Kasibu, Nueva Vizcaya. The overall mean rating for compliance is 4.08 indicates that financial administration and sustainability efforts are perceived to be commendable.

**Table 2**

*Mean and Qualitative Description of the Respondents' assessment on the compliance to the Seal of Good Local Governance particularly on the area of financial administration and sustainability in the Local Government Unit of Kasibu, Nueva Vizcaya*

Compliance to the Seal of Good Local Governance	Mean	Qualitative Description
Transparency and Accountability	4.30	Good
Revenue Generation and Mobilization	4.05	Good
Budget Efficiency and Utilization	4.06	Good
Investment In Local Economic Growth	3.91	Good
Financial Sustainability and Resilience	4.08	Good
Overall Mean	4.08	Good

Among the various areas assessed, Transparency and Accountability received the highest rating with the mean of 4.30 suggesting that the LGU upholds a strong commitment to openness, integrity, and responsibility in its financial practices. This was followed by Financial Sustainability and Resilience with a mean of 4.08, signifying strong performance in maintaining fiscal stability. Budget Efficiency and Utilization, which scored a mean of 4.06, demonstrating efficient use of the budget. Revenue Generation and Mobilization was also rated highly with a mean of 4.05 reflecting effective resource generation and management. Lastly, Investment in Local Economic Growth received the lowest rating, with a mean of 3.91 though falling within the "Good" category, warrants for further development.

**Problem 3.** Is there a significant relationship between the respondents’ assessment on the fiscal internal control system and its compliance to the Seal of Good Local Governance on the area of financial administration and sustainability in the Local Government Unit of Kasibu?

**Table 3**

*Summary of correlation between the respondents’ assessment on the fiscal internal control system and its compliance to the Seal of Good Local Governance on the area of financial administration and sustainability.*

Variables Correlated	Computed r-value	Critical r-value	p-value	Remarks
Fiscal Internal Control System vs. Seal of Good Local Governance Compliance on the Area of Financial Administration and Sustainability	0.84	0.1378	0.00	Significant
Degree of Freedom = 201		Level of Significance = 0.05		

The correlation analysis between the fiscal internal control system and compliance with the Seal of Good Local Governance (SGLG) in the area of financial administration and sustainability revealed a computed r-value of 0.84, which indicates a strong positive correlation. This r-value significantly exceeds the critical r-value of 0.1378, and the p-value of 0.00 confirms that the result is statistically significant.

These findings suggest that stronger and more effective fiscal internal control systems are associated with higher levels of compliance to the standards set by the SGLG in financial administration and sustainability. This implies that LGUs with robust internal fiscal controls are more likely to meet or exceed the benchmarks of good financial governance, reinforcing the importance of sound fiscal management in achieving excellence in local governance.

The relevance of the literature is evident as it highlights the crucial role of internal control systems and good governance practices in enhancing the performance of Local Government Units (LGUs). Velasco (2021), in his study on the internal controls of the Municipality of Plaridel, Bulacan, found a high relationship between the implementation of control activities and their impact on meeting good governance standards, which aligns with the current study’s emphasis on the internal control system’s contribution to SGLG compliance. Although Velasco’s work focuses specifically on control activities, it underscores the broader significance of fiscal discipline and accountability. Similarly, the study by Garcia et al. (2023) emphasizes the importance of governance practices rooted in the principles of the United Nations, although it does not directly utilize the SGLG criteria. Both studies affirm that strong governance mechanisms, including internal controls, are essential for achieving recognized standards of good local governance, thereby reinforcing the findings of this study.

## 5. Conclusions

Based on the findings of the study, the following conclusions are hereby drawn:

1. The assessment of the fiscal internal control system in the LGU of Kasibu shows an “effective” perception from the respondents.
2. The respondents’ assessment of compliance with the Seal of Good Local Governance (SGLG) in financial administration and sustainability within the LGU of Kasibu is perceived as “good”.
3. The correlation analysis between the fiscal internal control system and compliance with the Seal of Good Local Governance (SGLG) in financial administration and sustainability revealed a strong positive correlation. Thus, the null hypothesis is rejected.

## Recommendations

Based from the findings and conclusions of the study, the following are hereby recommended:

- In order to further increase the effectiveness of fiscal internal control system of the LGU of Kasibu, the local government may adopt an integrated approach by strengthening the risk management process, which will increase the overall efficacy of the internal control system. By tackling fields like Monitoring and Evaluation and Information and Communication, the LGU makes for the fiscal performance to be monitored in a consistent way and that financial information be communicated visibly to the stakeholders through greater transparency and accountability. It will also support a timelier identification and addressing of risks. Furthermore, staff training that is on-going will reinforce such efforts and ensure that employees are skilled at handling financial responsibilities. Monitoring and updating of the ICS on a continuing basis will be useful in the overall upgrading and making it work more effectively as it will continue to serve the needs of the LGU.
- In order to increase the level of compliance with the Seal of Good Local Governance (SGLG) on Financial Administration and Sustainability, LGU Kasibu may further improve its Investment in Local Economic Growth since it received the lowest perception rating. This may be done by creating more targeted programs that promote local economic development, stimulate private sector investment and deepen collaboration with other regions or organizations. Furthermore, the LGU might also have to sustain its good practice in Transparency and Accountability, Financial Sustainability, Budget Efficiency vis-a-vis Revenue Generation by keeping it as priority and subjecting the same for continuous periodic review and improvement in fiscal policy and resource mobilization. Regular review and assessment of these areas will enable the municipality to sustain, as well as, improve upon the positive assessments already attained.
- Because of the significant correlation between the fiscal internal control system and the compliance with the Seal of Good Local Governance (SGLG), LGU Kasibu may intensify its internal control systems to enhance its financial management and sustainability even more. That could entail tightening its controls, auditing more often and adopting best practices in financial controls. Thus, the municipal government will not only maintain its SGLG-compliant status, but will also imbibe greater fiscal discipline, transparency and long-term sustainability. Moreover, further improvement in internal controls will lay a good foundation for innovative governance and better public service in the future.

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