

# INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY: APPLIED BUSINESS AND EDUCATION RESEARCH

2021, Vol. 2, No. 6, 506 – 513

<http://dx.doi.org/10.11594/ijmaber.02.06.06>

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## Research Article

### Internal Controls of the Municipality of Plaridel, Bulacan towards Good Governance

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#### Article history:

Submission June 2021

Revised June 2021

Accepted June 2021

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#### ABSTRACT

Internal control plays a vital role in both private and public sectors. It is considered as one of the strategic tools in improving the operations and performance of an organization that will lead to the attainment of organizational goal and objectives. The main objective of the study was to determine the impact of control activities to the Municipality of Plaridel, Bulacan in complying with the good governance criteria. An assessment was conducted to determine the extent of control activities' implementation in the organization to come up with the recommended measures for its further improvement. The study was based on a descriptive research design involving quantitative approach. Data gathered have been processed statistically using the SPSS by the Centro Escolar University Data Processing Center, and presented using the mean, standard deviation, and Pearson correlation analysis. The overall analysis revealed that the relationship between the extent of implementation and perceived impact of control activities to the Municipality in complying with the good governance criteria has a very significant relationship rating. Findings also showed that the existing implementation of control activities in the municipality can be further improved using the recommended measures focused on the following: Revisiting and Revising the existing policies and procedures, Strengthening the top Management's functions, and Continuous professional development. It can be concluded that the implementation of control activities in the Municipality can improve the operations and can contribute to the compliance with the Seal of Good Local Governance Criteria - financial administration aspect.

*Keywords: Internal Control, Good Governance, Control Activities, Financial Administration*

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#### Introduction

Globalization and innovation have become the hallmark of different organizations in terms

of management, systems, and processes. The public sector has been improving operations and performances as a result of globalization

#### How to cite:

Velasco, J. C. (2021). Internal Controls of the Municipality of Plaridel, Bulacan towards Good Governance. *International Journal of Multidisciplinary: Applied Business and Education Research*. 2(6), 506 – 513. doi: 10.11594/ijmaber.02.06.06

and advanced technology. These exposed the government to risk, fraud, altercations and other irregularities (Douglas, 2011), which made internal controls an imperative system to overcome these challenges.

Internal control of every organization remains one of the strategic tools in achieving its objectives and improving good governance and financial management administration, especially in the face of limited resources of a country.

Since public resources, which include properties, funds, and other major resources, are vital to government operations, it is a must to ensure that the utilization is in accordance with established standards and geared towards the attainment of the organizational goals. (Aduam, 2015).

In the Philippines, as early as 1989, the Administrative Order (AO) No. 119 was signed into law to direct the government agencies and offices to strengthen their respective Internal Control Systems, including the local government units in their fiscal operations. Until now, the government is still exerting efforts to boost the internal controls in the Philippine public sector. Some of the efforts are the issuance of National Guidelines on Internal Control Systems (NGICS), Philippine Government Internal Auditing Manual (PGIAM), Internal Control Standards for the Philippine Public Sector (ICSPPS), and Internal Auditing Standards for the Philippine Public Sector (IASPPS).

Despite these efforts, the Philippine government is still in the midst of controversies, not to mention the issues in corruption and abuse of authority. These challenges will affect the government in attaining its objectives, implementing projects and programs, enhancing operations and performances, and achieving good governance.

To address these issues, this study aims to evaluate and assess the internal controls in the setting of public sector, particularly in the Local Government Unit (LGU) towards good governance.

### **Objectives of the Study**

The general objective of this study was to determine the impact of control activities to the Municipality of Plaridel Bulacan in complying

with the good governance criteria. Specifically, the study intended to:

1. Determine the level of awareness of the Municipality of Plaridel, Bulacan in terms of control activities and good governance.
2. Identify the extent of implementation of control activities in the Municipality of Plaridel, Bulacan.
3. Determine the perceived impact of control activities in complying with the good governance criteria particularly the financial administration aspect of the Municipality of Plaridel, Bulacan.
4. Examine the relationship between the extent of implementation and the perceived impact of control activities in complying with the good governance criteria particularly the financial administration aspect of the Municipality of Plaridel, Bulacan.
5. Recommend appropriate measures that will improve the implementation of control activities of the Municipality of Plaridel, Bulacan.

### **Significance of the Study**

This paper provided the appropriate measures that will enhance the operations such as implementation of the internal control in the Municipality of Plaridel, Bulacan towards good governance. The following will be benefited in this study:

Municipality of Plaridel, Bulacan. This study will enable government employees, most especially the top management level, of the LGU to identify the extent of the existing implementation of the internal control and diagnose it; this will give the opportunity to develop appropriate action to enhance its implementation, if any.

Other LGUs, government agencies and private sectors. The results of this study will benefit them; they can adopt the identified good practices from the Municipality of Plaridel, Bulacan to improve the current implementation of their internal controls and operations that will contribute for the enhancement of their good governance.

Municipal Planning and Development Office of the Municipality of Plaridel, Bulacan. The results of the study will be considered as a baseline assessment of their organizational internal control system.

## Review of Empirical Studies

Different studies were conducted by different researchers relative to the impact of internal control in good governance of an organization.

The study of Olumbe (2012) conducted in Kenya sought to establish the relationship between internal control and corporate governance in commercial banks. This study highlighted the importance of internal controls as bedrock of corporate governance. Based on the results of the study, the respondents concluded that their banks had implemented a robust internal control system and good corporate governance with a strong system of internal controls. Thus, there is a relationship between internal control and corporate governance.

The study Adeyemi and Adenugba (2011) investigated the effectiveness of internal controls and external audit in corporate governance, as well as the degree to which these have influenced corporate governance practices. Internal controls and external audit are to a large extent accountable for poor corporate governance, as concluded.

The implementation of internal controls provides a greater contribution to the implementation of good governance based on the study conducted by Fadilah (2013). Also, Implementation of internal control has an important role in achieving good corporate governance (Fadhila and Fauzia, 2010).

Based on the foregoing literature and studies, the importance of internal controls to an organization cannot be underestimated. Researchers appear to agree that there is a relationship between Internal Control and good governance of an organization. Moreover, the majority of the previous papers focused on the corporate setting or private sector covering all elements of the internal control system namely control environment, risk assessment, control

activities, information and communication, and monitoring.

It was observed that there is limited readings and resources of information with regard to the internal control system of the government setting or public sector. Thus, this research was conducted focusing the internal control system of the LGU that emphasizes one of its components, the control activities.

## Methodology

This study used the descriptive research design involving quantitative approach in gathering and treating the data. The survey-correlation design was also employed involving the participation of the personnel from the Municipality of Plaridel, Bulacan.

The respondents of this study was the government personnel belonging to supervisory or managerial positions. These respondents provided the useful information in testing the hypothesis of this research.

The study used the questionnaire technique in gathering data. The researcher utilized an unstructured questionnaire based on the Internal Control Standards for Philippine

## Results and Discussion

This section presents the data, its analysis and interpretation based on the objectives of the study.

### Respondents' Awareness of Control Activities and Good Governance

Table 1 shows that the majority of the respondents are aware as regards to control activities and good governance. The overall rating obtained was a mean value of 3.291 with .2549 standard deviation. Level of awareness of the respondents, however, on the different three (3) indicators vary.

Table 1. Level of Awareness of Control Activities and Good Governance

Indicators	Mean	Standard Deviation	Verbal Interpretation
1. I am aware of the term control activities.	3.057	.5392	Aware
2. I am aware that the Local Government Unit (LGU) of Plaridel, Bulacan employs control activities.	3.114	.3228	Aware
3. I am aware on the term good governance	3.486	.5071	Aware
Overall Rating	3.219	0.2549	Aware

For indicator 1, level of awareness on the control activities is the lowest with a mean value of 3.057, and standard deviation of .5392. This is because the ratings of the respondents are spread over a wide range of values. Indicator 3, awareness on good

Public Sector and the Seal of Good Local Governance (SGLG) Criteria. The unstructured questionnaire was subjected to content and language review. Validation of questionnaire was also performed to ensure that the instrument is effective and efficient, and psychometrically sound for the conduct of this research.

The data gathered were processed statistically by the Centro Escolar University Evaluation and Data Processing Center. To identify the level of awareness of the respondents on the control activities and good governance, extent of implementation of control activities, and perceived impact of control activities to the Municipality of Plaridel, Bulacan, mean and standard deviation were computed. Lastly, Pearson r correlation was employed to determine the relationship between the implementation of control activities and its impact to the Municipality of Plaridel, Bulacan, in complying with the SGLG Criteria.

Governance, the computed mean is 3.486, the highest mean value among the three indicators with standard deviation of .5071. Most respondents gave high ratings for indicator 3, but other respondents rated it either higher or lower than the mean. Whereas in the item on awareness that Municipality of Plaridel, Bulacan employs control activities (indicator 2), the ratings of the respondents almost have the same value.

This finding indicates that the majority of the respondents are aware that the Municipality of Plaridel, Bulacan employ control activities in their operation and transactions.

Identifying the level of awareness of the respondents in terms of control activities and good governance also validated the reliability of the result of this study.

### ***Extent of Implementation of Control Activities***

Table 2 shows the extent of implementation of control activities in the operations, transactions, and processes of the respondents from Municipality of Plaridel, Bulacan.

Holistically, the respondents from the Municipality of Plaridel, Bulacan recorded a high level of implementation with mean value of 3.2540 and standard deviation of .24965.

Internal control is considered as a process, affected by the board of directors, management, and other personnel in the organization, designed to deliver reasonable assurance relative to the attainment of objectives in terms of reporting, operations, and compliance (COSO, 2013).

Findings imply that the Municipality of Plaridel, Bulacan employs various control activities in their operations including procedures, processes, execution of mandates, and implementation of programs/activities/projects, for the achievement of their organizational goals and objectives.

Data reflect that all identified control activities shown in Table 2 obtained a verbal interpretation of high level of implementation but in the rating of the respondents on the five control activities, namely control activity 8, 9, 10, 13, and 15, were spread over a wide range of values based on the respective standard deviation. These control activities should be the focused of the recommended measures for its improvement.

*Table 2. Extent of Implementation of Control Activities*

	<b>Control Activities</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Verbal Interpretation</b>
1.	Management reviews and monitors organizations achievements and compares these to the established plans, goals, and objectives under the planning process.	3.286	.4583	High level of implementation

	<b>Control Activities</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Verbal Interpretation</b>
2.	Procedures or processes in authorization and approval of documents, transactions and events are in place.	3.229	.4260	High level of implementation
3.	There is a segregation of duties in the organization.	3.171	.4528	High level of implementation
4.	The access to LGU's resources and records is limited only to authorized personnel.	3.257	.4434	High level of implementation
5.	The documents, transactions, and significant events are being verified by the concerned personnel before processing.	3.229	.4260	High level of implementation
6.	The documents, transactions, and significant events are being verified by the concerned personnel during processing.	3.314	.4710	High level of implementation
7.	The documents, transactions, and significant events are being verified by the concerned personnel after processing.	3.343	.4816	High level of implementation
8.	Operating performance is reviewed against a set of standards on a regular basis to assess effectiveness and efficiency.	3.257	.5054	High level of implementation
9.	Operations, processes, and activities are periodically reviewed to ensure that they comply with the current regulations, policies, procedures, or other requirements.	3.286	.5186	High level of implementation
10.	The duties, responsibilities, and accountabilities of each personnel are clearly communicated by the concerned personnel.	3.257	.5606	High level of implementation
11.	There is a periodic review of targets vis-a-vis accomplishments of personnel.	3.229	.4902	High level of implementation
12.	There is a necessary guidance for the employee.	3.200	.4058	High level of implementation
13.	There is a necessary training for the employee.	3.200	.5314	High level of implementation
14.	There is a performance evaluation and feedback mechanism in the organization.	3.343	.4816	High level of implementation
15.	Effective reward system for the employees was designed.	3.171	.5137	High level of implementation
16.	There is security for, and limited access to assets such as cash, securities, inventories, and equipment, which may be vulnerable to risk of loss or unauthorized use.	3.257	.4434	High level of implementation
17.	Government assets are periodically counted and compared to control records.	3.286	.4583	High level of implementation
18.	Documentation in the organization are complete, accurate, and recorded in a timely manner.	3.257	.4434	High level of implementation
19.	Overall Rating	3.2540	.24965	High level of implementation

### **Perceived Impact of Control Activities in Complying with the Good Governance Criteria**

After determining the level of implementation of the control activities, Table 3 presents the perceived impact of the control activities in terms of compliance with the SGLG Criteria particularly the Financial Administrations aspect.

Data display that the identified control activities have a high perceived impact in complying with the SGLG criteria in the financial

administration aspect, issued by the Department of Interior and Local Government (DILG).

Overall, the mean value generated was 3.2449 with standard deviation of .29719 verbally interpreted as high impact. The results imply that the control activities were contributed to the Municipality of Plaridel, Bulacan in complying with the financial administration criteria, which is one of the requirements to achieve and maintain the SGLG - Municipality Level.

*Table 3. Perceived Impact of Control Activities in Complying with the Good Governance Criteria*

<b>SGLG Criteria (Financial Administration)</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Verbal Interpretation</b>
1. Unqualified or qualified audit opinion on information in financial statements of the LGU.	3.086	.3735	High Impact
2. Compliance with the audit recommendations.	3.229	.4260	High Impact
3. Adherence in full disclosure of financial transactions to show how funds are managed, disbursed, and used.	3.257	.4434	High Impact
4. Increase of local revenue collection.	3.200	.4728	High Impact
5. Organizing and maintaining a functional local development council.	3.286	.4583	High Impact
6. Managing effectively the available financial resources.	3.371	.4902	High Impact
7. Timely preparation of the LGU's annual budget.	3.286	.4583	High Impact
Overall	3.2449	.29719	High Impact

### **Relationship between the Extent of Implementation and Perceived Impact of Control Activities in Complying the Seal of Good Local Governance (SGLG) Criteria (Financial Administration) of the Municipality of Plaridel, Bulacan**

In Table 4, the data reveals that the relationship between the extent of implementation of control activities and its perceived impact to municipality's compliance with all the SGLG Criteria in terms of Financial Administration is interpreted as very significant with substantial degree of relationship

*Table 4. Relationship between the Extent of Implementation and Perceived Impact of Control Activities to the Municipality of Plaridel, Bulacan in Complying the SGLG Criteria*

<b>Particular</b>	<b>SGLG Criteria (Mean)</b>			
	<b>Sig. (2-tailed)</b>	<b>Sig</b>	<b>r</b>	<b>V.I.</b>
Control Activities (Mean)	.001	VS	.531**	S

### **Recommended Measures to Improve the Implementation of Control Activities of the Municipality of Plaridel, Bulacan**

Based on the data gathered from the respondents, the extent of implementation of control activities in the Municipality of Plaridel, Bulacan is at high level of implementation. The existing level can be further improved to achieve an advanced level of implementation especially for the Control Activities 8, 9, 10, 13 and 15, since the respondents' rating for this control activities was spread over a wide range of values. The following recommended measures may consider by the Municipality of Plaridel, Bulacan:

- a. The LGU may review their existing policies and procedures and amend or revise if necessary to keeps the Municipality of Plaridel Bulacan updated not just with the latest issuances or guidelines from different regulatory bodies, but also with the technology and organization's best practices.
- b. The LGU's top management must at all times exercise extra due diligence in discharging the monitoring, supervision, and evaluation functions to reduce the risk of non-compliance with applicable laws, rules, and regulations.
- c. The Municipality of Plaridel, Bulacan, in coordination with Human Resource Division, may conduct regular capacity-building activities for personnel, such as training and seminars on internal control system and good governance, to enhance their awareness, and existing knowledge and learnings.
- d. It can be suggested to revisit the LGU's existing reward system, and revise if necessary, based on the Program on Awards and Incentives for Service Excellence (PRAISE) issued by the Civil Service Commission (CSC). This is to encourage creativity, innovativeness, efficiency, integrity, and productivity in the public service, which is the main objective of the said program according to CSC.
- e. In terms of documentation, the LGU may enhance records management system in accordance with National Archive of the Philippines (NAP) Circulars, and other ap-

plicable guidelines. The NAP is a government agency responsible is establishing program related to creation, use, storage, protection and disposition of public sectors.

- f. The LGU may consider to establish an internal audit office responsible for the conduct of independent, separate, and objective evaluation of their internal control system. The internal audit office can add value for the improvement of the government operations and can provide recommendations to improve the existing implementation of LGU's internal control system.

### **Conclusions**

Based on the findings of the study, it can be concluded that the implementation of control activities in the Municipality of Plaridel, Bulacan can improve the operations, and can contribute to its compliance with the Seal of Good Local Governance Criteria particularly in the financial administration aspect.

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