

## **Performance of the Local Government Units as a function of Internal Control Implementation**

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### **ABSTRACT**

Internal control is a broad concept that covers the entire range of procedures, methods, and control established by an organization to improve performance. The objective of this study was to determine the domain of internal control implementation that best predicts the performance of local government units in Bansalan, Davao del Sur, Philippines. The study used a quantitative, non-experimental research design using the correlational technique. A total of 300 respondents were surveyed for this study, of which 50 were employees from different LGU departments and 250 residents of the different barangays in the study locale. Mean, Pearson *r*, and Regression were used as statistical tools. The result showed that the implementation of internal control and the performance of the local government unit services were high. There was a significant relationship between the implementation of internal control and local government units' performance. Risk assessment and control activities can significantly influence the performance of local government units, but the control activities was found to be the best predictor.

**KEYWORDS:** *accounting, internal control, performance, correlation, local government units, Philippines*

## INTRODUCTION

It is simple to measure and oversee performance in the private sectors objectively, but it is quite challenging to state the equivalent for our local government units. The search for high performance in initiatives in the domestic government sectors is old news. The government, politicians, and administrators have been concerned about the effectiveness and productivity of both public and government units for decades. These entities must concentrate, beyond these functions, on high-caliber and sustainable public service and increase public value. Such compelling responsibilities require an alternative methodology to deal with the performance of local government units (Caiden & Caiden, 2014).

For instance, the Philippine local government units have an unfavorable balance in their spending patterns. They aren't able to utilize their resources in a way that can benefit the people and serve what they genuinely need. They have been spending more on local administrative functions instead of on social services like education, health and nutrition, population control, labor and employment, community development, and so forth (Rey, 2017). This issue has been going on for ages; there have not been any progressive developments in our nation since our local government units are quite incompetent. With these facts, we can say that our local government units are not as effective and efficient as they should be; and to improve their operations, their performance must be assessed and controlled by the correct control (Caiden & Caiden, 2014).

Relatively, it can be comprehended why measuring the performance of an organization is essential and of interest to management teams and researchers. With regards to the local government units, performance monitoring and appraisal are now an integral part of the reform agenda. Accordingly, performance measurement and evaluation of public sector activities can be seen as critical to efforts to streamline governments; increase

efficiency, productivity, and effectiveness; increase transparency and accountability; regain public confidence in government institutions, and contribute to a reorientation of government roles and functions (Caiden & Caiden, 2014).

Correspondingly, organizations are setting up internal control systems to help them achieve excellent quality and strategic objectives, avoid losses, allow accurate reports to be generated, and ensure compliance with laws and regulations. Another thing is the achievement of organizational goals; another is the method of achieving these goals. Having an effective internal control system ensures that the goals and objectives of the organization are achieved; not only that, but it also ensures that an organization's operation and performance are carried out as planned. Reasonable internal control is unequivocally correlated with an organization's success, and it is an independent appraisal of organizational performance; this is why both private and public sectors need to reconsider the implementation of their internal control (Amoo & Adeyiga, 2013).

Driven by these facts, the researchers are encouraged to conduct this quantitative-correlational study to determine the significant relationship between internal control and performance of local government units in the local setting. It is in this sense that the researchers intended to evaluate how significant the involvement and contribution of internal control to local government unit success is, hence the need to conduct this study. The main thrust of this study was to determine which domain of internal control best predicts the performance of the local government units of Bansalan, Davao del Sur. Specifically, it sought to answer the following questions:

1. What is the level of implementation of internal control of the local government units of Bansalan, Davao del Sur in terms of:
  - 1.1 Control Environment,
  - 1.2 Risk Assessment,
  - 1.3 Control Activities,

- 1.4 Information and Communication System, and
- 1.5 Monitoring Activities?
2. What is the level of performance of the local government units of Bansalan, Davao del Sur in terms of:
  - 2.1 Social Development,
  - 2.2 Economic Development, and
  - 2.3 Environmental Management?
3. Is there a significant relationship between the implementation of internal control and the performance of the local government units in Bansalan, Davao del Sur?
4. What domain of the implementation of internal control best predicts the performance of the local government units in Bansalan, Davao del Sur?

This study is rooted in the proposition of Njeri (2017), which states that internal control systems significantly influence organizational performance. The internal control metrics that influence an organization's performance comprise the control environment, risk assessment, and control activities. For an organization to achieve its objectives, it must be able to perform its operations efficiently and effectively, and this is where the need for internal control arises. Organizations need to take active internal control to help them achieve their goals and improve their success.

The conceptual framework in Figure 1 shows the independent variable and the dependent variable of the study. The independent variable is the implementation of internal control, which has its indicators, namely: control environment, risk assessment, control activities, information, and communication system and monitoring activities. On the other hand, the dependent variable of the study is the performance of local government units which has its indicators, namely: social development, economic development, and environmental management.

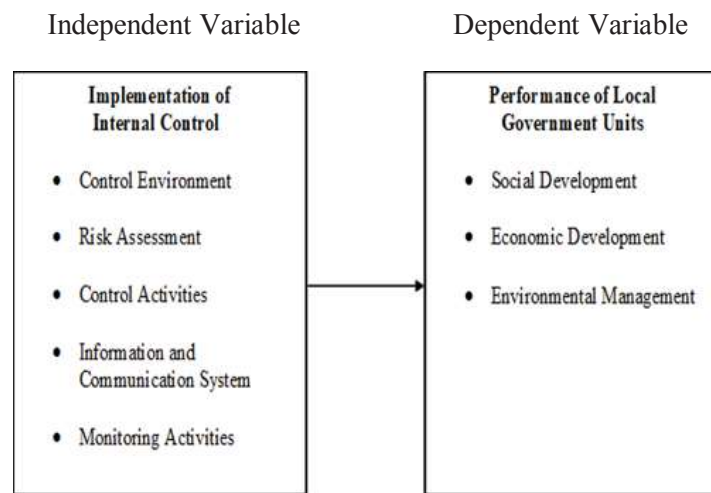


Figure 1. The Conceptual Framework of the Study

## METHODS

This study used a descriptive-correlational research design. The correlational technique is a non-experimental design, where the researcher studies the correlation between variables in a standard-setting without manipulation or control. Generally, the correlational method has independent and dependent variables, but the effect of the independent variable is seen on a dependent variable without manipulating the independent variable (Creswell, 2013). Relative to this, the correlational research design was suitable for the study because it aimed to test the significant relationship between the implementation of internal control and performance among local government units.

The respondents of the study were 50 employees from the local government units and 250 residents from the municipality of Bansalan, Davao del Sur. Quota sampling method was used in determining the respondents of the study. If a review is aimed at examining a trait or

characteristic of a particular subset, the optimal technique is this form of sampling. The advantages of using quota sampling are: it is relatively easy to administer, it can be performed quickly, it is cost-effective, and it accounts for population proportions (Vilela, 2018).

The questionnaire for the implementation of internal control was adapted from the Institute of Internal Auditors (2013) and the Committee of Sponsoring Organizations of the Treadway Commission (2016). It was modified to fit into the study and subjected to the validation of the experts. The implementation of internal control has the following indicators: control environment, risk assessment, control activities, information, and communication system and monitoring activities. On the other hand, the questionnaire for the performance of local government units was adapted from the survey conducted by Dela Cruz (2017) to measure the performance of the local government units of Calumpit, Bulacan. It was modified to fit into the study and subjected to the validation of the experts. The questionnaire for the performance of local government units of Bansalan, Davao del Sur, has the following indicators, namely: social development, economic development, and environmental management.

The following statistical tools were used in interpreting the data collated.

*Mean.* This statistical tool was used to determine the level of implementation of internal control and the level of performance of the local government units of Bansalan.

*Pearson r.* This statistical tool was used to determine the significance of the relationship between the implementation of internal control and the performance of the local government units of Bansalan.

*Regression.* This statistical tool was used to determine which domain of the implementation of internal control best predicts the performance of the local government units of Bansalan.

## RESULTS AND DISCUSSIONS

### **Level of Implementation of Internal Control**

The first objective of this study was to determine the level of implementation of internal control of the local government units in Bansalan, Davao del Sur. The level of implementation of internal control of local government units was in terms of the control environment, risk assessment, control activities, information and communication system, and monitoring activities.

As shown in Table, the level of implementation of internal control of local government units got an overall mean of 4.10 or *high* with a standard deviation of 0.388. This means that the application of internal control of the local government units was often manifested. This further implies that the implementation of internal control among local government units in Bansalan was observed by the employees most of the time, and the employees are making their efforts to follow the implementation of internal control.

This substantiates the idea of Yousef (2017), which stated that internal control could be seen as a collection of policies and procedures involved in monitoring the operations of the company to ensure that the organization has achieved the goals established by the management and board of directors.

From this result, the control environment posted the highest mean score of 4.16 or *high* with a standard deviation of 0.420, which means that it was often manifested. Data implies that the employees among local government units in Bansalan understand their obligations, their authority's limits, and they are competent, attentive, and committed to doing what is right and doing it the right way. They are committed to following the policies and procedures of the department and its codes of conduct and behavior. This finding confirmed the assertion of the Committee of Sponsoring Organisation of the Treadway Commission (2013), which stated that the control

environment is an organization's overall management understanding through policies, processes, ethical standards, and system monitoring.

Table 1. Level of Implementation of Internal Control of the Local Government Units

| Indicators                    | SD           | Mean        | Descriptive Level |
|-------------------------------|--------------|-------------|-------------------|
| Control Environment           | 0.420        | 4.16        | High              |
| Risk Assessment               | 0.488        | 4.01        | High              |
| Control Activities            | 0.483        | 4.05        | High              |
| Information and Communication | 0.431        | 4.13        | High              |
| Monitoring                    | 0.405        | 4.13        | High              |
| Overall                       | <b>0.388</b> | <b>4.10</b> | <b>High</b>       |

The second highest indicators are the information and communication system and monitoring activities with the mean scores of 4.13 or *high* and with standard deviation of 0.431 and 0.405, respectively, which means that both are often manifested. Data indicates that the local government units focus on capturing and distributing relevant and timely information in a manner that enables the board, management, and staff to fulfill their responsibilities. It also signifies that local government units' monitoring activities oversee the internal control system's performance and evaluates its effectiveness to discover deviations to determine whether any modifications are necessary or whether it is operating as intended.

The findings affirmed the assertion of Committee of Sponsoring Organisation of the Treadway Commission (2013), which stated excellent communication should be developed, including all employees at all levels of the organization, to generate functional, financial, and compliance reports that allow the business to be managed and regulated.

The third highest indicator is control activities with a mean score of 4.05 or *high* with a standard deviation of 0.483, which means that it was often manifested. Data indicates that the local government units developed rules,



processes, and standards to help ensure that workers comply with board and management guidelines at all levels and functions of the company. This coincides the propositions of various authors (Frazer, 2012; Ndamenu, 2011), which stated that the control activities are manual and automated devices that help to prevent or reduce the risks that may hinder the achievement of the goals and purpose of the organization.

The last indicator but still *high* is risk assessment with a mean score of 4.01 with a standard deviation of 0.488, which means that it was often manifested. Data indicates that the local government units go through to identify and evaluate the threats that may affect the ability of the different departments to achieve its main objectives. They recognize risks at individual levels and for the organization as a whole, both internal and external, controllable, and uncontrollable. This result concurs the study of Frazer (2012), which pointed out that risk assessment is also described as identifying potential errors and enforcing processes, policies, and control to detect and prevent such mistakes. It may also be defining and evaluating risks that are important to achieving goals.

### **Level of Performance of the Local Government Units**

Shown in Table 2 are the data on the level of performance of the local government units, which was measured through a survey questionnaire with the following indicators, namely: social development, economic development, and environmental management.

Computations yield a grand mean of 4.00 or *high* with a standard deviation of 0.509, and this indicates that the high level of performance was manifested often. This further implies that the local government units often provide high caliber and sustainable public service. The residents of Bansalan, Davao del Sur, are satisfied with the different services rendered towards them by the local government units. Moreover, this corresponds to the statements of some authors (Gavrea, Ilies, & Stegorean,

2011; Saeidi & Zaleha, 2014), which stated that performance is one of the critical indicators of any society's level of development.

Table 2. Level of Performance of the Local Government Units

| Indicators               | SD           | Mean        | Descriptive Level |
|--------------------------|--------------|-------------|-------------------|
| Social Development       | 0.628        | 4.11        | High              |
| Economic Development     | 0.735        | 3.92        | High              |
| Environmental Management | 0.643        | 3.97        | High              |
| <b>Overall</b>           | <b>0.509</b> | <b>4.00</b> | <b>High</b>       |

From this result, the indicator of the performance of local government units that yielded the highest mean score is social development with a mean score of 4.11 or *high* and a standard deviation of 0.628. Similarly, this also indicates that the level of performance in terms of the social development services of the local government units was often manifested. Based on the data, the residents of Bansalan are satisfied with the social services provided to them. It also means that local government units are practical and efficient enough in the field of social development. This is in parallel to the following literatures (The World Bank, 2019; Simon, 2019), which emphasized social development is based on the need to put people first in the process of development. It facilitates poor and vulnerable people's social inclusion by empowering people, creating inclusive and resilient communities, and making institutions open and accountable to citizens.

The second indicator that yields the highest mean is environmental management with a mean score of 3.97 or *high* and has a standard deviation of 0.643. This indicates that the level of performance in terms of ecological management was often manifested. Based on the data, the residents were pleased with the essential information, and availability of services offered to them. They are also often taught about natural resource use and preservation, forest

safety, and risk control, covering the field of environmental management. This is in consonance to the proposition of Petrosillo and Zurlini (2015) which stated that environmental management consists of actual policy and practice on how resources and the environment are preserved, distributed, created, used, rehabilitated, rehabilitated and restored.

Among the indicators, economic development ranked third with the lowest mean of 3.92, albeit still *high* and has a standard deviation of 0.735. This also indicates that the level of performance in terms of economic development is often manifested. Based on data, the residents of Bansalan are satisfied with the progress in their agricultural, industrial, and commercial developments, such as the adaptation of new technologies, the transition from farming to industry-based economy, and overall improvement of living standards. This is true, as stated by Market Business News (2019), that economic development is the course whereby rising economies become progressive and refined economies. It also refers to the process by which the general population is improving overall health, well-being, education and literacy, and employment.

### **Significance on the Relationship between the Implementation of Internal Control and Performance of the Local Government Units**

The main purpose of this study was to determine whether or not the implementation of internal control has a significant relationship with the performance of local government units. The results of the computations are shown in Table 3. As shown in the table, the overall r-value on the correlation between the level of implementation of internal control and the performance of the local government units is 0.417, with the probability value of  $p < 0.01$ . Since the p-value is less than 0.01, there is a significant relationship between the implementation of

internal control and the performance of the local government units. Hence, the null hypothesis was rejected.

Table 3. Significance on the Relationship between the Implementation of Internal Control and Performance of Local Government Units

| Implementation of Internal Control   | LGU Performance                 |                                 |                                 |                                 |
|--------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                      | Social Development              | Economic Development            | Environmental Management        | Overall                         |
| <b>Control Environment</b>           | 0.418*<br>(0.000)               | 0.464*<br>(0.000)               | 0.422*<br>(0.000)               | <b>0.465*</b><br><b>(0.000)</b> |
| <b>Risk Assessment</b>               | 0.428*<br>(0.000)               | 0.419*<br>(0.00)                | 0.406*<br>(0.000)               | <b>0.470*</b><br><b>(0.000)</b> |
| <b>Control Activities</b>            | 0.422*<br>(0.000)               | 0.483*<br>(0.000)               | 0.412*<br>(0.000)               | <b>0.444*</b><br><b>(0.000)</b> |
| <b>Information and Communication</b> | 0.444*<br>(0.000)               | 0.488<br>(0.000)                | 0.447*<br>(0.000)               | <b>0.485*</b><br><b>(0.000)</b> |
| <b>Monitoring</b>                    | 0.446*<br>(0.485)               | 0.446*<br>(0.000)               | 0.407*<br>(0.000)               | <b>0.462*</b><br><b>(0.000)</b> |
| <b>Overall</b>                       | <b>0.493*</b><br><b>(0.000)</b> | <b>0.492*</b><br><b>(0.000)</b> | <b>0.482*</b><br><b>(0.000)</b> | <b>0.417*</b><br><b>(0.000)</b> |

\*. Correlation is significant at 0.05 level of significance.

Data implies that the implementation of internal control is significantly linked to the performance of local government units. This further means that the application of internal control and the performance of local government units are jointly correspondents in the sense that an increase in implementation of internal control by the local government units increases their level of performance. The internal control implemented by the local government units can induce a high rating performance that makes the residents satisfied with their services.

This result supports the proposition of various authors (Njeri, 2017; Gamage & Fernando, 2014), which stated that the implementation of internal control has a significant influence on the performance of local government units. Local government units need to adopt

effective internal control to help them accomplish their objectives as well as improve and sustain their organizational performance. Without the appropriate implementation of internal control, the local government units will face numerous risks and problems. In parallel, it confirmed the idea of Amoo & Adeyiga (2013) which pointed out that having an effective internal control system assures the achievement of the organization's goals and objectives; not only that, but it also ensures the operation and performance of an organization are going according to plan.

### **Significance on the Influence of Implementation of Internal Control on the Performance of the Local Government Units**

Data shown in Table 4 is the regression coefficients to test the significant influence of the implementation of internal control on the performance of local government units. Using the regression analysis, the data revealed that the overall implementation of internal control significantly influences the performance of local government units since the regression analysis results showed an F value of 12.10 and  $p=0.000$ .

The  $R^2$  value of 0.371 implies that 37.1% of the performance of the local government units can be influenced by the implementation of internal control, while other factors influenced the remaining 62.9%. Specifically, the data revealed that the domains of implementation of internal control which have a significant influence on the performance of the local government units were risk assessment, ( $t= 1.348$ ,  $p=0.000$ ), and control activities, ( $t=1.147$ ,  $p=0.000$ ) since all have probability values of less than the alpha value.

This findings support the proposition of Njeri (2017) that internal control significantly influence organizational performance. Further, in their singular capacities, risk assessment and control activities can significantly influence the performance of local

government units. Furthermore, between two domains, risk assessment and control activities; the domain control activity is found to be the best predictor of performance.

Table 4. Regression Analysis on the Influence of the Implementation of Internal Control on the Performance of the Local Government Units

| LGU Performance                    |                               |                                 |       |       |
|------------------------------------|-------------------------------|---------------------------------|-------|-------|
| Implementation of Internal Control | β (Standardized Coefficients) | B (Unstandardized Coefficients) | T     | Sig.  |
| Control Environment                | 0.446                         | 0.352                           | 0.747 | 0.088 |
| Risk Assessment                    | 0.385                         | 0.352                           | 1.348 | 0.005 |
| Control Activities                 | 0.445                         | 0.041                           | 1.147 | 0.004 |
| Information and Communication      | 0.204                         | 0.165                           | 0.618 | 0.540 |
| Monitoring Activities              | 0.297                         | 0.226                           | 0.861 | 0.394 |
| R                                  | 0.333                         |                                 |       |       |
| R <sup>2</sup>                     | 0.371                         |                                 |       |       |
| F                                  | 12.10                         |                                 |       |       |
| P                                  | 0.000                         |                                 |       |       |

### Conclusion

The overall level of implementation of internal control among local government units was high. On the other hand, the overall performance of local government units was high. Moreover, from the findings, the present study provides empirical evidence that there is a positive and significant relationship between the implementation of internal control and the performance of local government units. The domains of implementation of internal control

that have a significant influence on the performance of the local government units include risk assessment and control activities. Furthermore, the present study showed evidence that components of internal control as represented from the integrated theoretical framework of COSO can have positive effects on the performance of local government units. The local government units of Bansalan have implemented effective internal control. They have integrated them into the management processes over the entire organization's divisions and units, thus resulting in a high caliber and sustainable public service.

### **Recommendations**

Among the five indicators of internal control, control environment, risk assessment, control activities, information and communication system, and monitoring activities, the risk assessment has the lowest mean. Since risk assessment has a significant influence on the performance of local government units, it is recommended to enhance its implementation and effectiveness by striving more to define, quantify and assess risks, both internal and external, controllable and uncontrollable, at individual levels and for the whole organization. Meanwhile, local government units should also continue to adhere to the implementation of internal control, especially control activities, since it is the best predictor for performance.

It is further recommended that local government units should create and develop control mechanisms that can efficiently and consistently assist them in achieving the goals and purpose of the company. Control activities such as authorizations, verifications, audits, performance reviews, and safety monitoring among others must be continued. Additionally, local government units should further strengthen overall implementation of internal control to increase the likelihood of achieving its goals, to ensure accurate financial reporting, effective and efficient operations, to protect assets against fraud and unauthorized use, and to comply with relevant laws and regulations, and

to improve their performance for the people of Bansalan.

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