Uneven Institutionalization of Internal Control in Philippine Local Government Units: Evidence from Six Metro Manila Cities
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Uneven Institutionalization of Internal Control in Philippine Local Government Units: Evidence from Six Metro Manila Cities

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Abstract

Sound internal control underpins accountability in the public sector, yet little empirical evidence shows how consistently Philippine local government units (LGUs) have institutionalized the internal control regime prescribed by the Internal Audit Manual for Local Government Units. This study examined how internal control unit (ICU) staff in six of the wealthiest cities of the National Capital Region (NCR), Makati, Quezon City, Pasig, Manila, Caloocan, and Marikina assessed the attainment of five internal control objectives and compliance with five internal control standards, and whether these assessments differed across cities. A descriptive–comparative design was used. A researcher-developed, pilot-tested questionnaire (Cronbach's α = .86) with a four-point forced Likert scale was administered to 131 ICU staff in 2019, and the data were analyzed using frequencies, percentages, means, one-way analysis of variance (ANOVA), and Tukey post hoc tests. Most indicators were rated at a "Greater Extent," indicating functioning but incomplete institutionalization, and 64.1% of respondents reported that no dedicated ICU had been formally established. All 15 objective indicators and 12 of 15 standard indicators differed significantly across cities; both null hypotheses were therefore largely rejected. Only three indicators—issuance of receipts by bonded personnel, treatment of public complaints, and the study of process vulnerabilities—showed uniform practice. Aggregate rankings identified Makati and Quezon City as the most compliant and Marikina and Pasig as most in need of strengthening. The findings support city-specific capacity building and the establishment of operationally independent internal audit units, in line with the 2023 edition of the manual.

Keywords: internal control, internal audit, local government units, public financial management, Philippines

Introduction

Internal control provides the operational foundation for accountability, transparency, and the prudent use of public resources. In government, it refers to the plan of organization and the coordinated methods and measures through which an entity safeguards its assets, checks the accuracy and reliability of its accounting data, adheres to managerial policies, complies with laws and regulations, and pursues economical, efficient, effective, and ethical operations (Department of Budget and Management [DBM], 2016, 2023). Internal audit, in turn, is a distinct component of the internal control system, instituted to determine whether controls are well designed and properly implemented (DBM, 2023).

In the Philippines, the policy architecture for public-sector internal control has developed incrementally over more than six decades. Beginning with the Internal Auditing Act of 1962 and continuing through presidential decrees, administrative orders, and budget circulars, successive administrations have sought to

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strengthen public financial management in pursuit of good governance (Table 1). The cumulative thrust of these issuances has been to require government offices—including LGUs—to establish internal audit services or units and to align their internal control systems with national standards. For LGUs, this culminated in the Internal Audit Manual for Local Government Units (IAM for LGUs), issued in 2016 (DBM, 2016) and since revised to align with the Revised Philippine Government Internal Audit Manual (DBM, 2020) as the 2023 Edition (DBM, 2023).

Table 1: Chronology of Philippine Legal Frameworks on Internal Control

Year	Issuance and description
1962	Republic Act (RA) 3456 — Internal Auditing Act of 1962
1965	RA 4177 — Amendment of RA 3456
1978	Presidential Decree 1445 — Government Auditing Code of the Philippines
1987	1987 Constitution (Article IX) and Executive Order 292 (Administrative Code of 1987)
1989–1990	Administrative Order 119 (1989) and Memorandum Order 277 (1990) — Strengthening internal control systems
1991	RA 7160 — Local Government Code of 1991
1992–2003	Administrative Orders 278 (1992) and 70 (2003) — Strengthening internal control systems of government offices and LGUs
2004	DBM Budget Circular 2004-4 — Organization and staffing of internal auditing units
2005–2011	Memorandum Circular 89 (2005); DBM Circular Letters 2008-5, 2008-8 (National Guidelines on Internal Control Systems), and 2011-5 (Philippine Government Internal Audit Manual)
2016	DBM Local Budget Circular 110 — Internal Audit Manual for Local Government Units
2020[a]	DBM Circular Letter 2020-8 — Revised Philippine Government Internal Audit Manual
2022[a]	Civil Service Commission Memorandum Circular 12, s. 2022 — Guidelines on LGU organizational structures, listing an Office of Internal Audit Services that LGUs may create
2023[a]	DBM Local Budget Circular 153 — Internal Audit Manual for Local Government Units, 2023 Edition

Note. Compiled from the issuances reviewed in this study and verified against DBM (2016, 2023). [a]Issued after data collection (2019); included to situate the findings within the current framework.

Despite this comprehensive mandate, the practical institutionalization of internal control across LGUs has remained uneven and under-examined. Although the IAM for LGUs was issued in 2016, no systematic appraisal had assessed whether internal control had actually been strengthened at the local level. The gap is not merely academic. A 2019 Audit Observation Memorandum issued by the Commission on Audit (COA) to the City of Manila, obtained by the researchers, recommended that the local chief executive facilitate the creation and operation of the city's internal audit service as required under RA 3456, indicating that even a large, well-resourced city had not fully complied. Informal accounts from internal control personnel in several cities likewise suggested that the prescribed requirements had not been fully adopted. Subsequent policy confirms the problem: the 2023 Edition of the IAM for LGUs introduced clearer guidelines on the establishment, organization, staffing, and reporting line of internal audit units and a firmer delineation of the role of the local accountant (DBM, 2023)—precisely the areas that the earlier framework had left unsettled.

This study addressed that gap by examining how ICU staff in

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six of the wealthiest cities of the NCR assessed the attainment of internal control objectives and compliance with internal control standards, and by determining whether these assessments differed significantly across the cities. By focusing on the personnel who operate internal control functions, the study generated indicator-level, city-specific evidence on where institutionalization is strong and where it requires reinforcement. Because the data were gathered under the 2016 manual, the results also serve as a pre-revision baseline against which the effects of the 2023 Edition may later be judged. Such evidence is directly useful to oversight agencies such as the DBM and COA, to local chief executives, and to researchers, for whom empirical work on this subject remains scarce.

Statement of the Problem

The study determined the extent of institutionalization of internal control in selected LGUs in the NCR. Specifically, it sought to answer the following questions:

1. What is the demographic profile of the respondent ICU staff in terms of sex, age, civil status, highest educational attainment, salary grade, and tenure?
2. What is the profile of the internal control units in terms of nature of creation, function-performing unit, hierarchical level, headship, reporting arrangement, personnel complement, and personnel work experience?
3. As assessed by the respondents, what is the extent of attainment of the internal control objectives—safeguarding assets; checking the accuracy and reliability of accounting data; adherence to managerial policies; compliance with laws and regulations; and economical, efficient, effective, and ethical operations?
4. As assessed by the respondents, what is the extent of compliance with the internal control standards—control environment, risk assessment, control activities, information and communication, and monitoring activities?
5. Are there significant differences across the selected LGUs in the assessment of the extent of attainment of the internal control objectives?
6. Are there significant differences across the selected LGUs in the assessment of the extent of compliance with the internal control standards?
7. What plan of action can be recommended to improve LGU compliance with the internal control standards?

Hypotheses

The following null hypotheses were tested:

H_{01}: There is no significant difference across the selected LGUs in the assessment of the extent of attainment of the internal control objectives.

H_{02}: There is no significant difference across the selected LGUs in the assessment of the extent of compliance with the internal control standards.

Scope and Delimitation

The study was confined to six NCR cities that ranked highest in economic assets as of 2017—Makati, Quezon City, Pasig, Manila, Caloocan, and Marikina—and to the perceptions of their ICU staff. It examined the five internal control objectives and five internal control standards prescribed by the IAM for LGUs (DBM, 2016), together with

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the respondents' demographic and organizational profiles. Data were gathered in the latter part of 2019. Because the study relied on the self-assessments of internal control personnel, its findings reflect insider perceptions of practice rather than independent audit verification.

Literature Review

The literature reviewed clusters around four themes: the conceptual structure of internal control, its objectives and standards in the Philippine public sector, the relationship between internal control and internal audit, and empirical evidence on internal control and internal audit practice in the public sector. These themes frame the constructs measured in the present study and situate its contribution.

The Conceptual Structure of Internal Control

Contemporary understandings of internal control derive from the integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), which identifies five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring activities. The control environment sets the organizational tone and the standards of conduct that shape all other components; risk assessment identifies and analyzes risks to the achievement of objectives; control activities are the policies and procedures, manual and automated, through which management directives are carried out; information and communication concern the flow of relevant information within the entity and to external parties; and monitoring activities evaluate whether the components continue to function over time. Within this framework, internal control is a process integrated into operations rather than a discrete compliance exercise, it depends on integrity and ethical values demonstrated by those in authority, and it provides reasonable—not absolute—assurance that objectives will be achieved (COSO, 2013).

The same framework recognizes inherent limitations: internal control can be undermined by faulty judgment, human error, collusion, and management override (COSO, 2013). Philippine guidance adds that control activities must be cost-effective, so that the cost of a control should not outweigh its benefits (DBM, 2023). The Philippine adaptation of this framework is set out in the National Guidelines on Internal Control Systems (DBM, 2008) and the IAM for LGUs, which adopt the five components and stress the direct relationship between the general control objectives (what internal control strives to achieve) and the control components (what must be in place to achieve them; DBM, 2016, 2023). This correspondence underlies the two sets of constructs measured in this study.

Internal Control Objectives and Standards in the Philippine Public Sector

The Internal Control Standards for the Philippine Public Sector (COA, 2016) articulate four broad objectives: orderly, economical, efficient, effective, and ethical operations; reliable and relevant reporting; compliance with laws, regulations, and managerial policies; and the safeguarding of resources against loss, misuse, and damage. Weak internal control, by contrast, exposes entities to errors in financial information, poor decisions, undetected irregularities and fraud, and programs that fail to address citizens' priorities (COA, 2016). The IAM for LGUs operationalizes these expectations as five general objectives—safeguarding assets; checking the accuracy and reliability of accounting data; adhering to managerial policies; complying with laws, rules, and regulations; and

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ensuring effective, efficient, ethical, and economical operations—which were retained unchanged in the 2023 Edition (DBM, 2016, 2023). These objectives and the five components supplied the operational constructs of the present study.

Under the Local Government Code of 1991 (RA 7160), the local accountant takes charge of both the accounting and internal audit services of the LGU and must install and maintain an internal audit system (DBM, 2023). Subsequent issuances—Administrative Order 70, DBM Budget Circular 2004-4, and the IAM for LGUs—elaborated the organization, staffing, and functions of internal audit services. The legal mandate is therefore unambiguous; the empirical question is the degree to which it has been institutionalized in practice.

Internal Control and Internal Audit

Internal control is a management responsibility: the local chief executive has the direct responsibility to install, implement, and monitor a sound internal control system, while the internal audit unit conducts a separate, after-the-fact evaluation of whether controls are well designed and properly implemented (DBM, 2023). To preserve objectivity, the 2023 manual requires the internal audit unit to be detached from regular operating functions—including the pre-audit of vouchers, which it assigns to the accounting office—and to report to the local chief executive (DBM, 2023). This distinction matters for interpreting the present study, which measured the perceived strength of internal control mechanisms rather than the conduct of audit engagements, and for interpreting the organizational arrangements reported by the respondents.

Empirical Evidence on Internal Control and Internal Audit Practice

International studies generally affirm the value of internal audit while highlighting persistent implementation constraints. In developing-country public sectors, internal audit has been found to enhance transparency in public financial management only when it is granted genuine independence and is adequately equipped with skilled personnel and infrastructure (Nwaobia et al., 2016). Its capacity to improve governance is limited by deficits in technical and professional skills, low motivation, limited budgets, weak management support, and threats to auditor independence (Ayagre, 2015). Similar challenges, particularly independence and compliance with rules on the management of public funds, have been documented among public-sector internal auditors (Egbunike&Egbunike, 2017), while the reliability of the internal audit function has been linked to auditor competence, management support, independence and objectivity, and regulatory clarity (Okodo et al., 2019). A wide gap between what the public expects of auditors and what auditors actually do has also been found to erode trust in public-sector auditing (Oluyombo&Okunola, 2018). More recently, a study of local authorities in Southwest Nigeria concluded that the internal audit service remained insufficiently impartial to foster transparency (Akinleye&Ogunmakin, 2023).

Philippine empirical evidence on LGU internal control is limited. The clearest signal comes from policy itself: the 2023 revision of the IAM for LGUs was undertaken to clarify the establishment, organization, staffing, and reporting line of internal audit units and to delineate the accountant's role (DBM, 2023), indicating that these arrangements had not been settled in practice. Collectively, the literature establishes that the existence of a control mandate does not guarantee uniform or complete implementation—the proposition that the present study tested at the level of individual indicators and individual

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cities.

Synthesis and Research Gap

The reviewed literature provides a robust conceptual and legal basis for internal control but reveals a recurring disjunction between mandate and practice. Few Philippine studies have measured, at a disaggregated level, how the prescribed objectives and standards are attained within LGUs, and fewer still have compared institutionalization across comparable cities. The present study addresses this gap by quantifying ICU staff assessments of each objective and standard and by testing for significant inter-city differences, thereby identifying the specific domains and cities where capacity building is most needed.

Method

Research Design

The study employed a descriptive–comparative design. The descriptive component characterized the prevailing state of internal control practice—the "what is" (Salkind, 2012)—by quantifying the perceived extent of attainment of the internal control objectives and compliance with the internal control standards. The comparative component tested whether these perceptions differed significantly across the six participating cities. The design fits research questions that require both a description of current practice and a systematic comparison across organizational units.

Research Locale and Participants

The study was conducted in six NCR cities—Makati, Quezon City, Pasig, Manila, Caloocan, and Marikina—selected because they ranked among the wealthiest Philippine cities in economic assets as of December 2017 (Table 2). Targeting highly resourced cities provided a conservative test of institutionalization: if internal control were incompletely implemented even where resources are greatest, the implications for less-resourced LGUs would be more pronounced.

Table 2: Ten Wealthiest Philippine Cities by Economic Assets, December 2017

Rank	City	Economic assets
1	**Makati (NCR)**	34,461
2	**Quezon City (NCR)**	31,917
3	**Pasig (NCR)**	20,036
4	**Manila (NCR)**	13,131
5	Zamboanga	10,464
6	Cebu	7,885
7	**Caloocan (NCR)**	6,894
8	**Marikina (NCR)**	4,887
9	Calamba	4,690
10	Cagayan de Oro	4,670

Note. Study sites are shown in bold. Figures are as reported in the source study.

Participants were the staff of the ICUs, or of the units performing the internal control function, in the six cities. Purposive sampling restricted eligibility to personnel

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performing internal control work; qualified staff present during questionnaire administration were then enrolled. The questionnaire was distributed and retrieved through the researchers' counterparts in each city. After data cleaning, 131 complete responses constituted the analytic sample: Manila (n = 34), Quezon City (n = 33), Makati (n = 25), Pasig (n = 16), Caloocan (n = 12), and Marikina (n = 11).

Instrumentation

Data were collected using a researcher-developed questionnaire in four parts: the demographic profile of the respondents, the profile of the ICU, the extent of attainment of the five internal control objectives, and the extent of compliance with the five internal control standards. Each objective and standard was measured by three indicator statements (30 items in all) rated on a four-point forced Likert scale (Table 3). An open-ended prompt followed each standard to capture problems encountered in compliance. Several indicators describe undesirable practices (e.g., "forced-balancing" of the books) and were reverse-worded, so that a lower mean denotes more favorable control practice.

The instrument was reviewed and approved by the research adviser and panel and pilot-tested on 30 ICU staff in Manila. Internal consistency was acceptable (Cronbach's α = .864; standardized α = .862; mean inter-item correlation = .173; 30 items), exceeding the conventional .70 threshold.

Table 3: Four-Point Scale and Verbal Interpretation of Mean Scores

Scale	Mean range	Approximate extent	Verbal interpretation
4	3.25–4.00	76%–100%	Greatest Extent
3	2.50–3.24	51%–75%	Greater Extent
2	1.75–2.49	26%–50%	Less Extent
1	1.00–1.74	1%–25%	Least Extent

Note. Ranges were used to interpret computed means for both objectives and standards.

Data Analysis

Frequencies and percentages described the respondent and unit profiles (Questions 1 and 2). Means summarized the extent of attainment of the objectives and compliance with the standards (Questions 3 and 4) and were interpreted using Table 3. Differences across the six cities (Questions 5 and 6) were tested using one-way ANOVA, with the Tukey post hoc test identifying the cities whose assessments diverged (Doane& Seward, 2016). With six groups and 131 respondents (df = 5, 125), the critical F values are 2.29 at the .05 level and 1.89 at the .10 level; results are flagged accordingly.

Ethical Considerations

Because the subject matter was sensitive, participation was voluntary and responses were treated confidentially. Respondents were not required to identify their specific unit, and item-level responses were not reported by city in order to protect anonymity. Endorsements were secured from the local chief executives of the participating cities before data collection.

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Results and Discussion

Profile of the Respondents

The 131 ICU staff were predominantly female (62.6%) and concentrated in the older and more experienced segments of the workforce (Table 4). The largest age group was 50 years and above (44.3%), followed by those aged 21–30 (26.7%). A majority were married (51.9%), all held at least a bachelor's degree (84.7% college graduates; 15.3% with postgraduate qualifications), and most occupied salary grades 11 to 24 (61.8%). Although nearly half had held their present position for only one to five years (45.8%), half had served in their LGU (50.4%) and in government (50.4%) for more than 15 years, indicating a stable, seasoned cadre whose assessments draw on long institutional memory.

Table 4: Demographic Profile of the Respondents (N = 131)

Variable	Category: *f* (%)
Sex	Female: 82 (62.6); Male: 49 (37.4)
Age	21–30: 35 (26.7); 31–40: 14 (10.7); 41–50: 24 (18.3); 50 and above: 58 (44.3)
Civil status	Single: 48 (36.6); Married: 68 (51.9); Separated: 6 (4.6); Widow/widower: 5 (3.8); No response: 4 (3.1)
Highest education	College graduate: 111 (84.7); Postgraduate: 20 (15.3)
Salary grade	SG 1–10: 47 (35.9); SG 11–24: 81 (61.8); SG 25 and above: 2 (1.5); No response: 1 (0.8)
Tenure in position	<1 year: 11 (8.4); 1–5: 60 (45.8); 5–10: 13 (9.9); 10–15: 14 (10.7); >15: 29 (22.1); No response: 4 (3.1)
Tenure in the LGU	<1 year: 4 (3.1); 1–5: 42 (32.1); 5–10: 11 (8.4); 10–15: 8 (6.1); >15: 66 (50.4)
Tenure in government	<1 year: 6 (4.6); 1–5: 40 (30.5); 5–10: 12 (9.2); 10–15: 7 (5.3); >15: 66 (50.4)

Note. Tenure is in years. Percentages are based on $N = 131$ and rounded to one decimal; rounding and non-response account for totals that may not equal exactly 100%.

Profile of the Internal Control Units

The organizational profile revealed substantial variation in how the internal control function was institutionalized (Table 5). Nearly two thirds of respondents (64.1%) indicated that no dedicated ICU had been formally established; where one existed, it was created mainly through a city ordinance (32.8%) and rarely through an executive order of the mayor (3.1%). The function was most often performed by a mix of departments (61.8%) rather than by an internal audit service or unit (26.0%), was situated mainly at the department (43.5%) or division (35.1%) level, was most often headed by an accountant (60.3%), and most commonly reported to the local chief executive (49.6%). Half of the respondents (50.4%) reported a complement of more than 15 personnel, typically a mix of staff with accounting and non-accounting experience (52.7%).

Table 5: Profile of the Internal Control Units (N = 131)

Dimension	Category: *f* (%)
Nature of creation	Ordinance of the city council: 43 (32.8); Executive order of the mayor: 4 (3.1); No established ICU: 84 (64.1)

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Dimension	Category: *f* (%)
Function performed by	Internal audit service/unit: 34 (26.0); Finance department: 10 (7.6); Accounting division/unit: 2 (1.5); Management service unit: 4 (3.1); Others or multiple units: 81 (61.8)
Hierarchical level	Department: 57 (43.5); Division: 46 (35.1); Section: 6 (4.6); Others: 1 (0.8); No response: 21 (16.0)
Head of the unit	Accountant: 79 (60.3); Non-accountant: 35 (26.7); No response: 17 (13.0)
Reports directly to	Local chief executive: 65 (49.6); Department manager: 12 (9.2); Division chief: 12 (9.2); City administrator: 11 (8.4); City treasurer: 1 (0.8); Others: 11 (8.4); No response: 19 (14.5)
Personnel complement	5 or fewer: 8 (6.1); 6–10: 22 (16.8); 11–15: 13 (9.9); More than 15: 66 (50.4); No response: 22 (16.8)
Personnel experience	Accounting work: 25 (19.1); Non-accounting work: 10 (7.6); Mix of both: 69 (52.7); Others: 6 (4.6); No response: 21 (16.0)

Note. Percentages are based on $N = 131$ and rounded to one decimal.

These arrangements depart in important ways from the model now prescribed. The 2023 manual envisions a formally created internal audit unit, reporting to the local chief executive and detached from regular operating functions such as the accountant's pre-audit of disbursements (DBM, 2023). A function that is dispersed across departments and, in most cases, headed by an accountant is therefore structurally exposed to the independence and objectivity constraints identified in the international literature (Ayagre, 2015; Nwaobia et al., 2016; Okodo et al., 2019).

Attainment of the Internal Control Objectives and Differences Across LGUs

Respondents most often rated the objective indicators at a "Greater Extent" (Table 6). Compliance-oriented practices were rated highest: issuing appropriate official receipts to the public ($M = 3.50$) and using the procurement law to contract service providers ($M = 3.46$) fell in the "Greatest Extent" band, and the annual physical inventory of assets ($M = 3.21$) was also strong. For the reverse-worded indicators, low means are favorable. "Forced-balancing" of the books was rated at the "Least Extent" ($M = 1.46$), indicating that this undesirable practice was rare. By contrast, the three indicators of economical, efficient, effective, and ethical operations—personal use of office supplies ($M = 1.83$), strategic planning in costly venues ($M = 2.12$), and reducible anniversary budgets ($M = 2.12$)—were rated at a "Less Extent," meaning that these undesirable practices had not been eliminated but persisted at a non-trivial level. The positively worded indicators rated lowest were supplier awareness of the cheque-payment policy ($M = 2.34$) and upward delegation when an authorized signatory is absent ($M = 2.47$).

One-way ANOVA showed statistically significant differences among the six cities on every objective indicator, with all F values exceeding the .05 critical value; H_{01} was therefore rejected. Tukey comparisons localized the differences (Table 6). Pasig and Manila reported the lowest attainment on the annual inventory and adequacy of staff benefits, whereas Makati and Caloocan reported the highest. Manila and Quezon City showed the highest reported prevalence of forced-balancing, and Caloocan and Marikina were identified on end-of-year workload distortion and the consistency of financial-statement format. Caloocan, Pasig, and Marikina lagged on supplier awareness of payment policy. Marikina reported the lowest attainment on all three indicators of compliance with laws and

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regulations, and Quezon City (with Manila on one indicator) registered the least favorable practice on economical and ethical operations.

Table 6: Attainment of the Internal Control Objectives and ANOVA Results Across Six LGUs

Indicator	*M*	Int.	*F*	Sig.	Least favorable (post hoc)
Safeguarding assets					
Conducts annual physical inventory of assets	3.21	GrE	3.742	* *	Pasig, Manila
Follows the rule of thumb in disposing assets	2.84	GrE	2.600	* *	Marikina, Manila
Provides sufficient financial benefits to staff	2.82	GrE	3.550	* *	Pasig, Manila
Checking accuracy and reliability of accounting data					
"Forced-balancing" observed in the books (R)	1.46	LtE	3.458	* *	Manila, Quezon City
End-of-year workload 2–3 times normal (adjusting entries)	2.48	LE	6.574	* *	Caloocan, Marikina
Consistent annual financial-statement format	2.86	GrE	4.394	* *	Caloocan, Marikina
Adherence to managerial policies					
Suppliers aware of cheque-payment collection policy	2.34	LE	4.377	* *	Caloocan, Pasig, Marikina
Multiple signatories on supporting documents	2.85	GrE	2.885	* *	Pasig, Makati
Upward delegation in absence of authorized signatory	2.47	LE	3.942	* *	Caloocan, Makati
Compliance with laws and regulations					
Buys supplies from the Procurement Service (RA 9184)	3.08	GrE	6.545	* *	Marikina
Uses procurement law to contract service providers	3.46	GtE	4.942	* *	Marikina
Issues appropriate official receipts to the public	3.50	GtE	3.930	* *	Marikina, Pasig
Economical, efficient, effective, and ethical operations					
Strategic planning held out of town or in costly venues (R)	2.12	LE	2.789	* *	Quezon City
Anniversary entails a large reducible budget (R)	2.12	LE	4.593	* *	Quezon City
Office supplies used for personal purposes (R)	1.83	LE	4.259	* *	Quezon City, Manila

Note.N = 131. Int. = verbal interpretation: GtE = Greatest Extent; GrE = Greater Extent; LE = Less Extent; LtE = Least Extent. (R) = reverse-worded; a lower mean denotes more favorable practice. *df* = 5, 125; critical *F* = 2.29 (*p* = .05) and 1.89 (*p* = .10). * * *p*< .05. Post hoc column lists the city or cities with the least favorable practice.

Compliance With the Internal Control Standards and Differences Across LGUs

Compliance with the five standards was likewise generally rated at a "Greater Extent," and no standard indicator fell below that band (Table 7). Monitoring and control practices were rated highest: use of the Civil Service Commission (CSC) performance-evaluation system (*M* = 3.54), issuance of official receipts only by bonded personnel (*M* = 3.43), and evaluation of staff by unit heads (*M* = 3.37) reached the "Greatest Extent" band. The lowest-rated practices were proactive risk-management measures: the regular study of process vulnerabilities (*M* = 2.50, at the lower bound of "Greater Extent") and the rotation of personnel in highly vulnerable areas (*M* = 2.65).

Significant inter-city differences were found for 12 of the 15

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standard indicators—nine at the .05 level and three at the .10 level—so H_{02} was rejected for most indicators but retained for three. Practice was uniform across cities for the regular study of process vulnerabilities (risk assessment), the issuance of official receipts only by bonded personnel (control activities), and the seriousness with which public complaints are treated (information and communication). The uniformity of bonded-receipt issuance, which was also among the highest-rated practices, points to a mature and transferable control routine; the uniformity of vulnerability studies, by contrast, reflects a practice that was modest everywhere. Where differences emerged, Marikina was repeatedly identified as the least compliant—on all three control-environment indicators, on maintaining a public website and notifying bidders in writing, and on all three monitoring indicators. Manila and Marikina lagged on risk-assessment indicators and on personnel rotation, and Pasig lagged on the apprehension of fixers and, with Marikina, on supervisors acting as the first line of defense against corruption.

Table 7: Compliance With the Internal Control Standards and ANOVA Results Across Six LGUs

Indicator	*M*	Int.	*F*	Sig.	Least favorable (post hoc)
Control environment					
Mayor issued order creating the internal control function	2.91	GrE	5.071	∗ ∗	Marikina
Function operates pursuant to the IAM for LGUs (2016)	2.88	GrE	3.988	∗ ∗	Marikina
Tarpaulins posted to guide the public on procedures	3.07	GrE	7.847	∗ ∗	Marikina
Risk assessment					
Department regularly studies process vulnerabilities	2.50	GrE	1.678	ns	—
Front-line staff required to wear identification cards	3.23	GrE	2.617	∗ ∗	Manila, Marikina
Year-end report consolidates quarterly/semestral reports	3.21	GrE	3.243	∗ ∗	Manila, Marikina
Control activities					
Official receipts issued only by bonded personnel	3.43	GtE	1.579	ns	—
Rotation of personnel in highly vulnerable areas	2.65	GrE	1.935	∗	Manila, Marikina
Fixers apprehended following public complaints	2.81	GrE	3.806	∗ ∗	Pasig
Information and communication					
Maintains a regularly updated public website	2.98	GrE	5.619	∗ ∗	Marikina
Public complaints treated seriously	3.12	GrE	1.811	ns	—
Bidders informed in writing of bidding results	2.95	GrE	3.329	∗ ∗	Marikina
Monitoring activities					
Unit head evaluates staff performance	3.37	GtE	1.995	∗	Marikina
Uses the CSC performance-evaluation system	3.54	GtE	2.387	∗ ∗	Marikina
Supervisors serve as first line of defense against corruption	3.08	GrE	2.191	∗	Marikina, Pasig

Note. $N = 131$. Abbreviations as in Table 6. $df = 5, 125$; critical $F = 2.29$ ($p = .05$) and 1.89 ($p = .10$). ∗ ∗ $p < .05$; ∗ $p < .10$; ns = not significant.

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GEO Academic Journal Vol. 7 No. 4

Aggregate Relative Compliance by City

To synthesize the comparative findings, each city was rank-ordered on every indicator that differed significantly, with rank 1 assigned to the most favorable practice and rank 6 to the least favorable; ranks were inverted for reverse-worded items so that lower totals consistently denote stronger relative compliance. Summing across the 27 significant indicators (15 objectives and 12 standard indicators; maximum possible total = 162) produced the ordering in Table 8. Makati recorded the strongest overall compliance, followed by Quezon City and Caloocan; Marikina and Pasig recorded the weakest, identifying them as the LGUs in greatest need of capacity building.

Table 8: Aggregate Relative Compliance Ranking by City

City	Aggregate rank score	Overall rank
Makati	57	1 (most compliant)
Quezon City	78	2
Caloocan	82	3
Manila	104	4
Pasig	121	5
Marikina	122	6 (least compliant)

Note. Scores sum the ranks across the 27 indicators that differed significantly across cities (maximum = 162). A lower score indicates stronger overall compliance.

Synthesis of Findings

The findings paint a consistent picture: internal control in the six cities is broadly present but unevenly institutionalized. Most objectives and standards were rated at a "Greater Extent," signaling functioning controls, yet the pervasive inter-city differences show that the depth of implementation depends heavily on local arrangements rather than on the uniform application of a national mandate. This pattern accords with the international finding that a legal mandate does not by itself secure an effective control and audit function (Ayagre, 2015; Nwaobia et al., 2016) and with the Philippine government's own decision to clarify the establishment and positioning of LGU internal audit units in the 2023 manual (DBM, 2023).

The strongest practices were those most closely tied to explicit legal compulsion and routine accounting discipline—issuing official receipts through bonded personnel, applying the procurement law, conducting annual inventories, and using the CSC performance-evaluation system. Non-compliance in these areas carries immediate audit or administrative consequences, which plausibly explains their high and, in the case of bonded receipts, uniform ratings. The weakest areas were discretionary, ethics-laden spending behaviors, where undesirable practices persisted at a "Less Extent," and proactive risk management, such as vulnerability studies and the rotation of personnel in high-risk posts. This contrast is consistent with the emphasis placed on the control environment and on integrity and ethical values demonstrated by leadership (COSO, 2013): where practice depends on managerial culture rather than external sanction, institutionalization weakens.

The organizational profile helps explain these gaps. A function that is often not formally constituted, dispersed across departments, headed by the accountant who also performs pre-audit, and reporting through varied lines is structurally constrained in its objectivity—the condition that the literature associates with limited

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internal audit effectiveness (Akinleye&Ogunmakin, 2023; Egbunike&Egbunike, 2017; Okodo et al., 2019) and that the 2023 manual now seeks to correct (DBM, 2023). The comparative results carry clear practical implications. The repeated identification of Marikina, and to a lesser extent Pasig, as least compliant indicates that uniform, system-wide training would be inefficient; capacity building should instead target each city's documented weaknesses, drawing on mature practices from stronger performers such as Makati.

Conclusions and Recommendations

Conclusions

This study assessed the institutionalization of internal control in six of the wealthiest NCR cities by measuring ICU staff assessments of the attainment of five internal control objectives and compliance with five internal control standards, and by testing for differences across the cities. Internal control was generally practiced at a "Greater Extent," but its institutionalization was incomplete and significantly uneven. Both null hypotheses were largely rejected: the cities differed significantly on every objective indicator and on 12 of 15 standard indicators, with uniform practice found only for bonded-receipt issuance, the treatment of public complaints, and process vulnerability studies.

The study makes three contributions. Empirically, it provides indicator-level evidence of where internal control is strong (compliance-driven accounting routines and monitoring) and where it is weak (discretionary, ethics-laden spending and proactive risk management) within Philippine LGUs. Comparatively, it furnishes an aggregate ranking that identifies Makati and Quezon City as the most compliant and Marikina and Pasig as most in need of strengthening. Practically, because the data predate the 2023 Edition of the IAM for LGUs, the study offers a baseline against which the effects of that revision can be evaluated.

Recommendations

Two recommendations follow directly from the data: city-specific capacity building aligned with each LGU's documented gaps, and the formal establishment of internal audit units that report to the local chief executive and are detached from regular operating functions, as the 2023 manual prescribes (DBM, 2023). Table 9 translates these into a plan of action (Question 7).

Table 9: Proposed Plan of Action to Strengthen Internal Control Compliance

Area	Basis in the findings	Recommended action	Priority LGUs
Structure and independence	64.1% report no established ICU; function dispersed across units (61.8%); 60.3% headed by an accountant	Enact an ordinance creating an internal audit unit that reports to the local chief executive and is detached from pre-audit and other regular functions	All; Marikina first
Ethical and economical operations	Undesirable spending practices persist at a "Less Extent" (M = 1.83–2.12)	Issue cost ceilings for anniversaries and planning venues; tighten controls on supplies; include these areas in operations audits	Quezon City, Manila
Risk assessment	Vulnerability studies (M = 2.50) and rotation (M = 2.65) rated lowest among standards	Require department-level risk registers, periodic vulnerability reviews, and a rotation policy for front-line posts	Manila, Marikina

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Area	Basis in the findings	Recommended action	Priority LGUs
Compliance with laws and regulations	Marikina lowest on all three compliance indicators	Provide refresher training on RA 9184 procurement rules and official-receipt controls	Marikina, Pasig
Asset safeguarding and accounting reliability	Lags on inventory and staff benefits; forced-balancing; year-end distortions	Schedule inventories and reconciliations; adopt monthly closing to reduce year-end adjusting entries	Pasig, Manila, Quezon City, Caloocan, Marikina
Information, communication, and monitoring	Marikina lowest on website, bidder notices, and all monitoring indicators	Maintain an updated public website; issue written bid notices; strengthen supervisory performance review	Marikina, Pasig
Peer learning	Makati ranked most compliant; bonded-receipt practice uniform and strong	Organize DBM-facilitated benchmarking and peer exchange among NCR LGUs	All

Note. Means and percentages are drawn from Tables 5–7. Priority LGUs are those identified as least favorable in the post hoc comparisons.

Limitations and Future Research

Several limitations qualify these findings. First, the study measured the self-assessed perceptions of internal control staff rather than independently audited practice, so the results may be subject to social-desirability bias. Second, the sample was confined to six highly resourced NCR cities, which bounds generalizability to less-resourced LGUs and to other regions. Third, the per-city subsamples were uneven and, for the smaller cities, modest, which constrains the precision of the post hoc comparisons. Fourth, the four-point forced Likert scale, while discouraging neutral responses, limited the granularity of the measures. Finally, the data were collected in 2019, before the issuance of the 2020 revised government internal audit manual and the 2023 Edition of the IAM for LGUs. Future research could triangulate self-reports with documentary audit evidence, broaden the sample across regions and income classes, and replicate the study to assess whether the 2023 revision has narrowed the gaps documented here.

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