

## Responsiveness of Internal Audit Services in the Local Government Units of Capiz towards Good Governance



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**ABSTRACT:** Over the years, internal auditing had been recognized as an important tool of government financial management in enhancing transparency and accountability, effectiveness and efficiency of government operations. The study ascertained the level of responsiveness and challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz in terms of implementation, resources, qualification, and training and development. The descriptive-correlational research design employing quantitative and qualitative methods was used. The respondents were the individuals associated with the IAS of the LGUs' accounting, budget, and treasury departments of Capiz. The data were gathered using a researcher-made questionnaire through Google Forms for the respondents and an interview guide for the informants. The statistical tools used to analyze the data were mean, frequency count, rank, and percentage. For inferential analysis, the t-test, Analysis of Variance (ANOVA) and regression analysis were used. On the level of challenges encountered by the IAS in the LGUs when taken as a whole, it is implied that the LGUs were moderately challenged. Statistics showed that the implementation, Internal Audit Services (IAS) qualification, and training and education did not act as significant predictors on their level of responsiveness towards IAS. However, the results further implied that resources did act as a significant predictor on their level of responsiveness. Several noted irregularities and deficiencies within the government financial management and operations, lack of adherence to laws, rules and regulations and the public demand for improved accountability and transparency further entails the need for internal audit in the government sector.

**KEYWORDS:** Responsiveness, Internal Audit Services, Local Government Units, Good Governance

### I. INTRODUCTION

Internal auditing has long been acknowledged as a key instrument in government financial management for improving transparency and accountability, as well as the efficacy and efficiency of government operations and compliance with applicable laws and regulations. It has gotten a lot of attention because of the new challenges and demands that have arisen as a result of the difficult economic climate and rapid technological, market, and globalization advancements. Internal auditing began as a field in the early 1940s and has grown steadily since the founding of the Institute of Internal Auditors (IIA), which serves as the profession's standard-setting organization (Yusoff, 2015).

Irregularities and deficiencies in government financial management and operations highlighted the need for internal audit in the government sector. Furthermore, the internal audit had grown to cover the government sector in response to public demand for enhanced accountability and transparency in the receipt and use of public money and properties, as well as the provision of effective, efficient, and cost-effective service delivery.

According to the Internal Audit Manual for Local Government Units (2016), internal auditing has changed dramatically in terms of its nature and scope of coverage, now covering not only financial concerns but also management and operations issues. Needless to say, government agencies and Local Government Units (LGUs) recognized the importance of internal auditing in enhancing and strengthening public financial management. Despite the legislation and executive orders, a substantial number of government agencies have been unable to establish an Internal Audit Service (IAS), and full compliance with the aforementioned norms and regulations continues to be a daunting problem for local governments.

The need for accountability and transparency in government spending and services and the developing role of internal audit and its contribution towards good governance, led to initiatives for internal audit processes and systems. However, it is still quite evident that many aspects where potentials and competence were not maximized and further improvements are needed.

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Significant number of government agencies were unable to establish the Internal Audit Services (IAS), while some remained not well developed and inoperative.

This study ascertained the responsiveness of the Internal Audit Services (IAS) in the Local Government Units (LGUs) of the province of Capiz towards good governance. Specifically, it sought to answer the following: 1) What is the level of responsiveness of the Internal Audit Services operations in the LGUs of Capiz as a whole and when grouped according to respondents' profile?; 2) What is the level of challenges encountered by the Internal Audit Services in the LGUs of Capiz as a whole and when grouped according to respondents' profile?; 3) What is the level of challenges encountered by the Internal Audit Services in the LGUs of Capiz as a whole and in terms of implementation, resources, qualifications, and training and development?; 4) Is the level of challenges encountered by the LGUs a predictor of their level of responsiveness?; and 5) What insights on good governance can be drawn from the results of the study?

### Theoretical Framework

This study is anchored on Republic Act (RA) No. 3456, otherwise known as the "Internal Auditing Act of 1962". This R.A. No. 3456 was signed into law on June 16, 1962 and was amended by R.A. No. 4177 on March 26, 1965 provided for the creation, organization and operation in all branches, subdivisions, and instrumentalities of the government including government-owned and/or controlled corporations and LGUs' IAS, which shall assist the management to achieve an efficient and effective fiscal administration and performance of agency affairs and functions. In addition, Administrative Order (A.O.) No. 278 dated April 28, 1992 provided for the functions, duties and activities of the Internal Audit Services and A.O No. 70 dated April 14, 2003, which reiterated the authority for its creation and functions.

This is anchored on the compliance with the policies established by the provisions of R.A. No. 3456 as amended by R.A. No. 4177, specifically on the Internal Audit Manual for Local Government Units (2016). According to the definition of Internal Auditing in the International Professional Practices Framework (IPPF), internal auditing is an independent, objective assurance, and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### The framework of the study

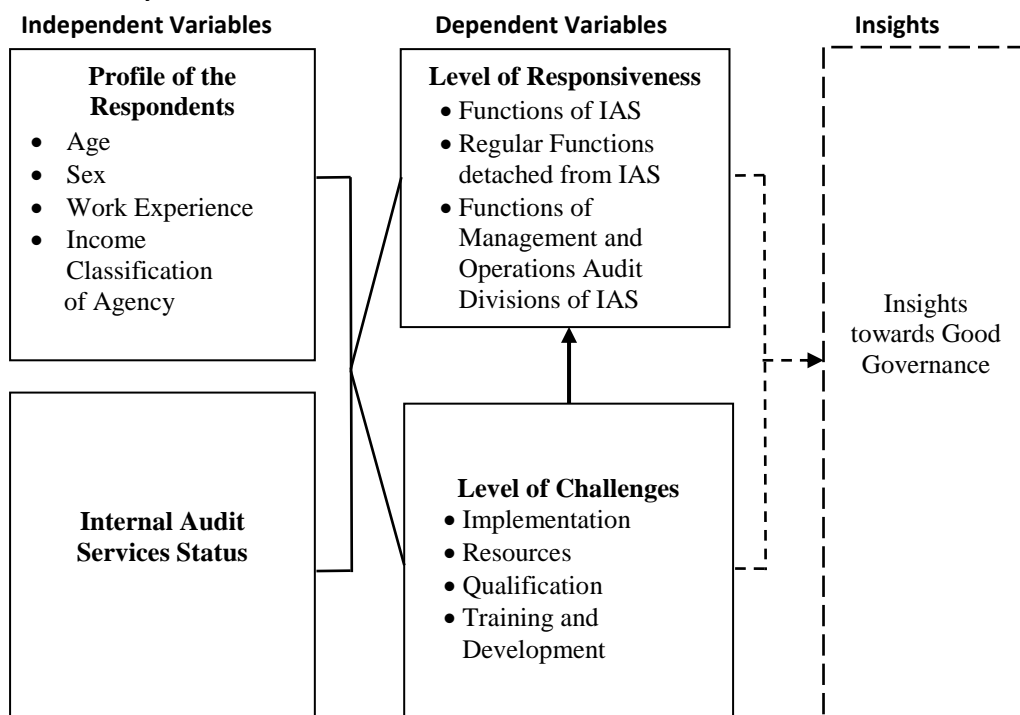


Figure 1. The framework of the study.

## II. METHODOLOGY

This study used the descriptive-correlational research design employing quantitative and qualitative methods. The needed data were gathered using a researcher-made questionnaire and interview guide. The questionnaire was composed of four parts. Part I gathered the profile of the respondents. Part II gathered the profile of the Internal Audit Services (IAS). Part III measured the

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level of responsiveness of the LGUs towards IAS in terms of operations wherein statements were anchored on Sections 1.10, 1.11, 2.1.1 and 2.1.2 of the Internal Audit Manual for Local Government Units (LGUs) (2016). Part IV measured the level of challenges encountered in the implementation of IAS. The statistical tools used to analyse the data were mean, frequency count, rank, and percentage. For inferential analysis, the t-test, Analysis of Variance (ANOVA), and regression analysis were used.

### III. RESULTS AND DISCUSSIONS

This section presents the results and findings of the study on the level of responsiveness of the Internal Audit Services (IAS) operation in the Local Government Units (LGUs) of Capiz.

#### Level of Responsiveness of the IAS Operation in the LGUs of Capiz as a Whole

When all the 66 respondents were taken as a whole group, the level of responsiveness of IAS operation in the LGUs of Capiz had a grand mean score of 3.49 with verbal interpretation of "Moderately Responsive," which means that internal audit activities were performed frequently or most of the time with high diligence but with little to no errors as perceived by the respondents as shown in Table 1.

**Table 1. Level of responsiveness of the IAS operation in the LGUs of Capiz as a whole.**

Statements	Mean	Verbal Interpretation
<b>Section 1.10 (Functions of IAS) IAM for LGUs.</b>		
1. Advise the Local Chief Executive or Sanggunian on all matters relating to management control and operations audit, recommend courses of action on observed deficiencies, and regularly review the agency's implementation of the recommendations.	3.74	Moderately Responsive
2. Conduct management and operations audit of activities of the LGU and its departments and determine the extent of compliance with the mandate, policies, government regulations, established objectives, systems and procedures/processes, and contractual obligations.	3.38	Slightly Responsive
3. Perform other related duties and responsibilities as may be assigned or delegated or required by law and miscellaneous services, including special investigations and assistance to outside contacts such as COA.	3.58	Moderately Responsive
4. Review and appraise systems and procedures/processes, organizational structure, asset management and operations practices, financial and management and operations records, reports, performance standards, and internal controls of the LGU and the departments covered.	3.38	Slightly Responsive
<b>Total</b>	<b>3.17</b>	<b>Slightly Responsive</b>
<b>Section 1.11 (IAS is detached from Regular Functions) IAM for LGUs.</b>		
1. Develop and install systems and procedures.	3.17	Slightly Responsive
2. Performs other activities related to operations.	3.48	Moderately Responsive
3. Pre-audit vouchers and ascertain the correctness and completeness of supporting documents.	3.56	Moderately Responsive
4. Taking physical inventories, signing documents, and maintaining property records.	3.59	Moderately Responsive
<b>Total</b>	<b>3.45</b>	<b>Moderately Responsive</b>
<b>Section 2.1.1 and 2.1.2 (Functions of Management and Operations Audit Divisions) IAM for LGUs.</b>		
1. Ascertain the extent to which the assets and other resources of the institutions are accounted for and safeguarded from losses of all kinds.	3.74	Moderately Responsive
2. Ascertain the reliability and integrity of financial and management and operational information and the means used to identify, measure, classify and report such information.	3.82	Moderately Responsive
3. Evaluate the quality of performance of groups/ individuals in carrying out their assigned responsibilities.	3.15	Slightly Responsive

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4. Performs functions of a protective nature, such as preventing and detecting fraud or dishonesty, reviewing cases involving misuse of agency property, and checking transactions with outside parties.	3.41	Moderately Responsive
5. Review and evaluate operations and programs and performance quality to ascertain whether results are consistent with established objectives and goals or carried out as planned.	3.62	Moderately Responsive
6. Review and evaluate the soundness, adequacy, and application of accounting, financial, and management controls and promote the most effective control at a reasonable cost.	3.50	Moderately Responsive
7. Review operations or programs to ascertain whether or not results are consistent with established objectives and goals and whether or not such programs are being carried out as planned.	3.15	Slightly Responsive
8. Verify and analyze financial and management, and operations data to ascertain if attendant management information systems generate data or reports that are complete, accurate, and valid.	3.49	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive
<b>Grand Mean</b>	3.74	Moderately Responsive

**Legend:** 4.21-5.00 = *Very Responsive*; 3.41-4.20 = *Moderately Responsive*; 2.61-3.40 = *Slightly Responsive*; 1.81-2.60 = *Less Responsive*; 1.00-1.80 = *Least Responsive*

### Level of Responsiveness of the IAS Operation in the LGUs of Capiz when Grouped according to Respondents' Profile

Table 2 reveals the level of responsiveness of the Internal Audit Services (IAS) operation in the Local Government Units (LGUs) of Capiz when grouped according to respondents' profile. The results imply that the LGUs were "Moderately Responsive" towards IAS operation as perceived by the respondents with ages 21 to 30 years old, and with ages 41 years old and above. However, the LGUs were "Slightly Responsive" towards IAS operation as perceived by the respondents with ages 31 to 40 years old. In like manner, the LGUs were "Moderately Responsive" towards IAS operation as perceived by both male and female respondents. On the other hand, the LGUs were "Moderately Responsive" towards IAS operation as based on the perception of the respondents regardless of their working experience, regardless of the number of years in the service, IAS employees are doing their job according to their description. Likewise, the LGUs were "Moderately Responsive" towards IAS operation as perceived by the respondents from the 3rd and 4th class income classification of agency. However, the LGUs were "Slightly Responsive" towards IAS operation as perceived by the respondents from the 1st and 2nd class income classification of agency. This implies that LGUs in the 1st and 2nd class income classification had higher number of employees compared to 3rd and 4th class, in which, they have more hands to work and operate effectively. Furthermore, the LGUs were "Moderately Responsive" towards IAS operation as perceived by the respondents regardless of their IAS status.

According to one of the interviewees, they have an existing and operational IAS, while the other informant asserts that they have an existing IAS but not operational. Their agency has passed an SB Resolution No. 14-002-A dated February 7, 2014 entitled "Creating an Internal Control Unit and Establishing Internal Audit Services". But for reason such as limited personnel due to budgetary constraints and PS limitations, the Unit becomes inoperative.

**Table 2. Level of responsiveness of the IAS operation in the LGUs of Capiz when grouped according to respondents' profile.**

Variables	Mean	Verbal Interpretation
<b>Age:</b>		
21 to 30 years old	3.77	Moderately Responsive
31 to 40 years old	3.36	Slightly Responsive
41 years old and above	3.48	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive
<b>Sex:</b>		
Male	3.48	Moderately Responsive
Female	3.49	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive

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### Working Experience:

Less than 5 years	3.96	Moderately Responsive
5 to 10 years	3.43	Moderately Responsive
More than 10 years	3.47	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive

### Income Classification of Agency:

1 <sup>st</sup> Class	2.91	Slightly Responsive
2 <sup>nd</sup> Class	3.03	Slightly Responsive
3 <sup>rd</sup> Class	4.04	Moderately Responsive
4 <sup>th</sup> Class	3.51	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive

### IAS Status:

With IAS	3.56	Moderately Responsive
Without IAS	3.43	Moderately Responsive
<b>Total</b>	3.49	Moderately Responsive

### Level of Challenges Encountered by the IAS in the LGUs of Capiz when Grouped according to Respondents' Profile

Table 3 reveals the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz when grouped according to respondents' profile. The LGUs were "Moderately Challenged" towards IAS for the respondents with ages 21 to 30 years old, 31 to 40 years old, and 41 years old and above. In like manner, the LGUs were "Moderately Challenged" towards IAS as perceived by both male and female respondents and a "Moderately Challenged" response for their working experience. The LGUs were also "Moderately Challenged" towards IAS from the 2nd, 3rd and 4th class income classification of agency. However, a "Slightly Challenged" response for the 1st class income classification of agency. Furthermore, the LGUs were "Moderately Challenged" towards IAS without existing IAS, however, it was perceived as 'Slightly Challenged' by LGUs with existing IAS. The results imply that LGUs were moderately challenged towards IAS when grouped according to respondents' profile.

**Table 3. Level of challenges encountered by the IAS in the LGUs of Capiz when grouped according to respondents' profile.**

Variables	Mean	Verbal Interpretation
<b>Age:</b>		
21 to 30 years old	3.46	Moderately Challenged
31 to 40 years old	3.69	Moderately Challenged
41 years old and above	3.70	Moderately Challenged
<b>Total</b>	3.68	Moderately Challenged
<b>Sex:</b>		
Male	3.68	Moderately Challenged
Female	3.68	Moderately Challenged
<b>Total</b>	3.68	Moderately Challenged
<b>Working Experience:</b>		
Less than 5 years	3.57	Moderately Challenged
5 to 10 years	3.72	Moderately Challenged
More than 10 years	3.68	Moderately Challenged
<b>Total</b>	3.68	Moderately Challenged
<b>Income Classification of Agency:</b>		
1 <sup>st</sup> Class	2.67	Slightly Challenged
2 <sup>nd</sup> Class	3.49	Moderately Challenged
3 <sup>rd</sup> Class	4.20	Moderately Challenged

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4 <sup>th</sup> Class	3.89	Moderately Challenged
<b>Total</b>	<b>3.68</b>	<b>Moderately Challenged</b>
<b>IAS Status:</b>		
With IAS	3.31	Slightly Challenged
Without IAS	3.93	Moderately Challenged
<b>Total</b>	<b>3.68</b>	<b>Moderately Challenged</b>

**Legend:** 4.21-5.00 = *Highly Challenged*; 3.41-4.20 = *Moderately Challenged*; 2.61-3.40 = *Slightly Challenged*; 1.81-2.60 = *Rarely Challenged*; 1.00-1.80 = *Not Challenged at All*

### Level of Challenges Encountered by the IAS in the LGUs of Capiz as a Whole

When the respondents were taken as a whole group, Table 4 reveals that the grand mean score on their perception on the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz as a whole was 3.68. The results imply that the LGUs encountered “Moderately Challenged” challenges towards IAS. Among the four presented challenges, only the resources had a result of ‘Slightly Challenged’. Based on the results, training and development had the highest mean score with 3.82, second was the implementation with the mean score of 3.80, the third one was the IAS qualification and lastly, the resources with a mean score of 3.35, verbally interpreted as “Slightly Challenged”. It is because the IAS had resources ready to be utilized, but the problem lies upon the usage of such resources. For the implementation, IAS qualification, and training and development, the result of which were “Moderately Challenged”. This further implies that in the actual set-up, only few municipalities had an established and fully functioning IAS department.

Conferring to Diamond (2002), the overall design of the internal audit function should be geared toward each country's specific priorities and objectives, and in cases where the main challenges are governance, the internal audit function should be focused on ensuring compliance with financial laws and regulations. Similarly, according to George et al. (2016 in Rom, 2019), the government can be protected by upgrading internal audit systems, which would provide some assurance that local governments are not misusing federal funds.

**Table 4. Level of challenges encountered by the IAS in the LGUs of Capiz as a whole.**

<b>Variables</b>	<b>Mean</b>	<b>Verbal Interpretation</b>
Implementation	3.80	Moderately Challenged
Resources	3.35	Slightly Challenged
IAS Qualification	3.74	Moderately Challenged
Training and Development	3.82	Moderately Challenged
<b>Grand Mean</b>	<b>3.68</b>	<b>Moderately Challenged</b>

### Level of Challenges Encountered by the IAS in the LGUs of Capiz in terms of Implementation

Table 4.1 discloses the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz in terms of implementation. The results showed a total mean score of 3.80, verbally interpreted as “Moderately Challenged”. It can be observed that in terms of implementation, all challenges presented imply having minimal briefings and orientation as to how an internal audit should be and who are the personnel in-charge of the audit.

In an interview, the informant avers that IAS is existing in their agency but not operational. The accountant took charge of both the accounting and IAS as well as in maintaining and installing an internal audit system. The accountant also performed regular functions (e.g. pre-audit) because it is an inherent function of the accounting unit to ensure that disbursements are in compliance with laws, rules and regulations that are properly documented. Pursuant to the Administrative Code of 1987, and as reiterated in Item 3.5.4 of the NGICS (National Guidelines on Internal Control Systems) and Section 3.2 of the Scope of Internal Audit of the Philippine Government Internal Audit Manual (PGIAM), the functions of the Internal Audit Services include: 1) Advise the Local Chief Executive (LCE) or Sanggunian on matters relating to management control and operations audit of the executive or legislative branches; 2) Conduct management and operations audit of LGU functions, programs, projects, activities, and outputs and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/ processes, and contractual obligations; 3) Review and appraise systems and procedures,

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organizational structures, asset management practices, financial and management records, reports, and performance standards of the Local Government Unit (LGU); 4) Analyze and evaluate management deficiencies and assist top management by recommending realistic courses of action; and 5) Perform such other related duties and responsibilities as may be assigned or delegated by the Local Chief Executive (LCE) or as may be required by law.

Furthermore, the interviewee asserts that there are challenges that may affect the implementation and execution of functions and responsibilities of the Internal Audit Services (IAS). They could not usually conduct field audit, especially road audit since the office do not have assigned transport vehicle. They also have insufficient staff. Ideally, each division, operations and management, should have around four staff. But the Unit is planning to add another division for support services that is why, in their office, they have an office support specialist to cater those offices requesting assistance and to not disturb the management and operation divisions. On the other hand, although the Unit do not see these as challenges at its end since it was already resolved. For operations, they presume that since the Unit already had an internal audit, the Audit Observation Memoranda (AOM) would be minimized. True and not true also. It may be true if Unit has sufficient staff in the internal audit and all sectors/transactions would be its focus, however, it is only limited to operations and management audit. Although the Unit has compliance audit, it is possible to also minimize the findings. However, there are areas, since it is risk-based, it focuses on high-risk areas. But the Commission on Audit (COA), on the other hand, since the Unit's priority is the high risk area, if the Commission on Audit (COA) finds no deficiencies in it, it will focus on other weak areas which is complimentary also. The biggest challenge would be the understanding of the top management so the solution is to make the top management aware. One of the strategies is to let other people who have ample experiences, subject matter experts, tell them (management) what the value of internal audit is plus support from the top management but for others for compliance only. For example, one LGU had previously asked for assistance, thus, the office conduct orientation and briefed them. But, how can it take off if it only has one staff and its position is also first level? Another challenge also, is how can they command respect at times, if the head of IAS is only Salary Grade (SG) 22 and the head of the office it audits is SG 26, wherein, they are not on the same level. That is what the Department of Budget and Management (DBM) circular intends to communicate although, it may be, when circumstances allow, why not occupy the highest position/SG 26 for the head of IAS as suggested by the informant. Also, another notion of the other LGUs and organizations, when they hear the word auditing, it is only for the Certified Public Accountants (CPAs). Moreover, although the office already communicated with the DBM since they are presently revising the Internal Auditing Manual for Local Government Unit, the office noted few issues. The prevailing directives form part of the legal basis of internal auditing. The office has Internal Audit Manual for Local Government Unit. The office has Philippine Government Internal Audit Manual (PGIAM). Here comes IASPPS issued by Commission on Audit (COA). Sadly, COA was not able to convene seminars after its issuance, no enforcements. There are also contradictions even in the definition and operational standards of the IASPPS and Internal Audit Manual for Local Government Units (LGUs) and even in Philippine Government Internal Audit Manual (PGIAM). The informant recommends that Commission on Audit (COA) should hold its constitutional mandate since IASPPS is based on international audit standards. Also, COA should organize a seminar, especially after the issuance of Memorandum Circulars on internal audit due to lack of enforcements on the implementation or on the observance of the standards stipulated in IASPPS. The COA should be vigilant for guidance and should also assert its constitutional mandate.

Another interviewee asserts that internal audit is an independent, objective assurance and advisory services. For IIA (Institute of Internal Auditors), it refers to assurance and consultancy services. But, for them, even on IASPPS (Internal Auditing Standards for the Philippine Public Sector), they are doing away with using consultancy because of the complication with the procurement law. However, they are one and the same thing. Presently, they have four maturity levels on the implementation of internal auditing functions. They have areas that are level four, three, two and one. On the average, they are at level one to two on the maturity level. Because their maturity level is very low, not the office, but the entire organization when it comes to internal auditing approaches are concerned. Most of their work, especially during pandemic, were advisory services since most of the tasks assigned to them were incidental. Mostly, for incidental tasks and project tasks, they are advisory in nature, sometimes, for processes, business processes. Even though it is not their core function, but since they have no established processes to review, what they do, whereas, it is allowed in some instances, is they help the management plot and map out their processes and emphasized that "this is yours, this is not ours". However, if the management assigns the tasks to them, they have to perform them and help each other. After all, their main objective is still operational efficiency, still advisory services. However, instead of rendering advisory services only, they, at times are the once who plot. They instruct and advise what to do, but the option on the execution and completion is theirs. They have nothing to do with it as it is for the implementation and their functions. For the assurance engagement, sometimes, it is situational depending on the requests of the management, although there should be a program for that. Their agency or unit should have a program for that if the level of maturity was already high, but due to the numerous and multiple tasks assigned to them, they should be risk-based however,

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they are still finishing their risk assessment. This risk assessment is part of the operations. They just advise and instruct them, and help them appreciate the value. But if they want to conduct risk assessment in an organization, the unit needs to hire an independent contractor since they do not know what to do. In the end, for them to move on their risk-based plan, they also help on the risk assessment and let them adopt it. Although there are still revisions, they just wait the results of the election. In case, there is a new top management, new priorities set, another strategic plan and revision on their annual will be affected. Some of the challenges that may affect implementation and the execution of functions and responsibilities of the Internal Audit Service (IAS) are integrity and reliability of data, scope and extent of internal audit, insufficient resources, and lack of audit action monitoring processes. There is a need to develop and implement action plans and procedures, review strategic planning process and evaluate and monitor the implementation of audit observations and recommendations.

**Table 4.1. Level of challenges encountered by the IAS in the LGUs of Capiz in terms of implementation.**

Statements	Mean	Verbal Interpretation
1. Awareness of any laws/regulations relating to Internal Audit Services (IAS).	3.79	Moderately Challenged
2. Allocation of funds for the creation of IAS.	3.61	Moderately Challenged
3. Consistency on policy framework and practice for internal auditing.	3.74	Moderately Challenged
4. The expectation of the agency towards IAS' duties and responsibilities.	3.86	Moderately Challenged
5. Management's assumptions towards IAS include providing consultancy services and pre-audit as a function of internal auditors.	3.62	Moderately Challenged
6. The support and assistance on risk assessment and control issues from management and other agency members.	3.74	Moderately Challenged
7. The segregation of duties and responsibilities in the internal audit ensures unhampered activity and achieves their internal auditing objectives.	3.88	Moderately Challenged
8. Communication to the management of audit findings and recommendations.	3.88	Moderately Challenged
9. The management's response and actions on the audit recommendations on deficiencies were noted.	3.95	Moderately Challenged
10. Audit work and access to documents and other information.	3.95	Moderately Challenged
<b>Total Mean</b>	<b>3.80</b>	<b>Moderately Challenged</b>

### Level of Challenges Encountered by the IAS in the LGUs of Capiz in terms of Resources

Table 4.2 discloses the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz in terms of resources. The results showed a total mean score of 3.35, verbally interpreted as "Slightly Challenged". Most of the challenges presented in terms of resources had an outcome of "Slightly Challenged," it is because the LGUs were well-equipped and had an allocated funds intended for IAS. However, the human resource of the LGUs to conduct an audit was not sufficient. It implies that the resources for the operation of IAS was sufficient and there was a support coming from the management as stated in the interview guide and it could be in any form of monetary support.

By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, it helps the public sector organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders (Institute of Internal Auditors, 2012).

**Table 4.2. Level of challenges encountered by the IAS in the LGUs of Capiz in terms of resources.**

Statements	Mean	Verbal Interpretation
1. Funds allocated for Internal Audit Services (IAS) operations.	3.21	Slightly Challenged
2. Supplies, equipment, and other physical facilities were provided to the IAS office.	3.24	Slightly Challenged



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3. Availability and allocation for permanent position/vacant item for the head of IAS unit is allocated when needed	3.23	Slightly Challenged
4. Availability and allocation for permanent positions/vacant items for Internal Audit Services staff.	3.20	Slightly Challenged
5. The number of employees to conduct IAS activities and perform the IAS operation.	3.47	Moderately Challenged
6. Full-time designation of permanent employees to the IAS.	3.30	Slightly Challenged
7. Access of IAS to documents and other information.	3.58	Moderately Challenged
8. The extent of defining the internal audit activity's purpose, authority, and responsibility is in the form of a charter, administrative orders, memoranda, or similar authoritative documents.	3.56	Moderately Challenged
9. They have a designated work area/ office for the IAS.	3.17	Slightly Challenged
10. Existence of written and documented audit reports where findings, issues, and problems are communicated to the management.	3.55	Moderately Challenged
<b>Total Mean</b>	<b>3.35</b>	<b>Slightly Challenged</b>

### Level of Challenges Encountered by the IAS in the LGUs of Capiz in terms of IAS Qualification

Table 4.3 discloses the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz in terms of IAS qualification. The results showed a total mean score of 3.74, verbally interpreted as "Moderately Challenged". This implies that despite the high qualification of the current personnel in-charge of the audit procedures, the multiple assignments and designations contributes for the challenges presented in the IAS qualification for it affects the quality of work.

According to one of the interviewees, their Unit have no problem with the IAS, since the top management is very supportive. Even now, they have not encountered problems like what other LGUs had come across on how to market the value of internal audit in the organization. At first, their unit have faced some challenges with the Sangguniang Panlalawigan (SP) because they referred to the Local Government Code, wherein, the internal auditing is part of the function of the accounting. So, the unit have to orient them on the new development on internal auditing, all the legal basis. And during that time, the top management is very firm the reason why the IAS was created by virtue of a Provincial Ordinance because they are like ad hoc before, as they are already functioning in compliance to an administrative order only. But, in the end, they facilitated the establishment and operation of IAS, which was eventually approved. They do not have challenges on that. Fortunately, in Region 6, only Capiz has an IAS with a department head, either designation or under the office of the local chief executive. According to the informant, there is a confusion if the highest position in the internal audit is Internal Auditor V. Many are confused since it is what is stipulated in the latest circular of the Civil Service. But the Department of Budget and Management (DBM) circular, provides that an IAS may be headed by a provincial government department head in case of provinces. So it is contradicting. To explain, the DBM issued a circular that IAS may be headed by a department head since there is an existing Qualification Standards (QS) on the department head. In the 1997 Qualification Standards of the Civil Service, there was a position of provincial government department head. Now, here comes the latest circular related to the positions in Internal Audit Service (IAS). Why is it Internal Auditor V only? Internal Auditor I, II, III, IV and Internal Audit Analyst because, in the 1997 published Qualification Standards, the positions of Internal Audit Analyst, Internal Auditor I-V were not defined. Why they did not include the provincial government department head or municipal government department head? It was because the position title was already defined in the 1997 Qualification Standards (QS). Therefore, there is no conflict with the Department of Budget and Management (DBM) circular and the latest QS circular of the Civil Service. Those were what others were confused of. Those are the factors actually. Top management's appreciation of the value of IAS. The informant furthers that in their case, it is not a challenge until now. In fact, they were already overvalued. Most of the tasks that are undefined and others tasks that cannot be performed or be assigned to the other departments are transferred at their end although it is not part of their core function. In the initial year of their operation, their functions were more on incidental tasks and support functions. Anyway, it is also in their job description.

For another interviewee, some of the factors that may affect IAS are staffing pattern of IAS/U, technical proficiency and competence of internal auditors, standards compliance, management support and scope and extent of internal audit.

Republic Act (RA) No. 3456 provided the creation, organization, and operation of IAS in all departments, bureaus, and offices of the National Government. Furthermore, its function and responsibilities were stated in the Act. It also serves as the foundation for the succeeding policies and executive issuance on government internal audit.

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The joint resolution of the Department of Budget and Management (DBM) and Civil Service Commission (CSC) issued on May 12, 2006 gave flesh to the structure of internal audit in both national and corporate government agencies by spelling out the functions, reporting structures, and staffing. Qualification Standards for Internal Audit Services (IAS) position were embodied in CSC Memorandum Circular No. 12, s. 2006.

**Table 4.3. Level of challenges encountered by the IAS in the LGUs of Capiz in terms of IAS qualification.**

Statements	Mean	Verbal Interpretation
1. Establishment of functional IAS.	3.77	Moderately Challenged
2. Qualification and standards set by Civil Service Commission on IAS Staff.	3.71	Moderately Challenged
3. The technical proficiency of the IAS staff in the conduct of the audit.	3.79	Moderately Challenged
4. Independence and objectivity of IAS from the agency.	3.88	Moderately Challenged
5. Degree of objectivity of the internal auditors in performing their work.	3.83	Moderately Challenged
6. The extent of professional care exerted by the auditors in the conduct of the audit.	3.79	Moderately Challenged
7. Management's perception of IAS as a unit to be staffed by CPAs alone.	3.52	Moderately Challenged
8. Good deployment/complement of the necessary workforce/human resource.	3.68	Moderately Challenged
9. Duties and responsibilities are well defined and demonstrated properly.	3.83	Moderately Challenged
10. The IAS department shall only be headed by an Internal Auditor V.	3.58	Moderately Challenged
<b>Total Mean</b>	<b>3.74</b>	<b>Moderately Challenged</b>

### Level of Challenges Encountered by the IAS in the LGUs of Capiz in terms of Training and Development

Table 4.4 discloses the level of challenges encountered by the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz in terms of training and development. The results showed a total mean score of 3.82, verbally interpreted as "Moderately Challenged". This implies that the absence of separate audit division to some municipalities and having a multiple designation contributes on the lack of training and development, it is because they would prioritize training and development on the offices where they respectively belong. The IAS have a minimal training and development because of lacking personnel in the conduct of audit.

According to the interviewee, top management's appreciations of what internal auditing is all about. In the Provincial Government of Capiz, they have not encountered challenges on that, since in the previous administrations, the creation of the IAS was already conceived as it is part of their commitment to the European Union on the Health Facility Enhancement Program. Because, for those provinces that were granted with financial assistance from the European Union for the health facility enhancement, one of the requirements was the establishment of IAS. In 2010, the province had signed a statement of commitment to create IAS however, it was not materialized. There were only internal control champions and a designated internal audit focal person. So, it is more on capacitating manpower, trainings. Then, here comes the Conditional Matching Grant to Provinces (CMGP). Likewise, one of the vital or must requirements of CMGP for the LGU to avail or qualify for a grant is the establishment of functional IAS. What they did before, since the Unit would like to market the value of internal auditing, they organized a seminar. They invited resource persons, specifically Certified Internal Auditors (CIAs) for the orientation of the top management. Two sessions, management and department heads for the executive and on the second day would be the Sangguniang Panlalawigan (SP). They would be oriented by experts on internal auditing, for awareness, most importantly, what is the value of internal audit in an organization. That is their Unit's ground work so that the doubts and questions of the stakeholders would be answered by the subject matter expert and/or may be associated with its experiences with other organizations and government agencies. Further, for seminars, according to the informant, their office is not dependent with the Association of Government Internal Auditors (AGIA) because, if truth be told, seminars are not that informative when it comes to internal auditing and are ideal only for introductions to internal control. It is different for other practitioners. Usually, the seminars they attended were those conducted by Institute of Internal Auditors (IIA) Philippines and Certified Internal Auditors (CIAs), and Sangguniang Panlalawigan (SP). These institutions are also the ones who assists in the review and examinations for CIA. In AGIA, although there are subject matters that are helpful, but when it comes to internal auditing, IIA and CIA are better. The seminars are very informative since the seminar is limited to usually 15 participants.

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**Table 4.4. Level of challenges encountered by the IAS in the LGUs of Capiz in terms of training and development.**

Statements	Mean	Verbal Interpretation
1. Willingness to enhance the internal auditors' knowledge, skills, and other competencies through continuing professional development.	3.92	Moderately Challenged
2. Management support to the members of IAS for training and seminars for continuing professional development.	3.78	Moderately Challenged
3. Attendance and sufficiency of training and continuing professional education and development.	3.88	Moderately Challenged
4. Allocation of funds for training and seminars and continuing professional education.	3.86	Moderately Challenged
5. Allow participants for training, conference, and other continuing professional education.	3.82	Moderately Challenged
6. Relevance and appropriateness of training and seminar attended/participated.	3.86	Moderately Challenged
7. Communication/Feedback or Re-echo seminar for topics or learning on conferences attended	3.70	Moderately Challenged
8. Conduct In-house training for management/ agency employees on matters relevant to the conduct of the audit.	3.76	Moderately Challenged
9. Constant communication between the institution seeking the training and the institution providing the training.	3.76	Moderately Challenged
10. Good relationship and linkages with the Association of Government Internal Auditors (AGIA) and other Private and Professional Organizations.	3.82	Moderately Challenged
<b>Total Mean</b>	<b>3.82</b>	<b>Moderately Challenged</b>

### Level of Challenges Encountered by the LGUs towards IAS a Predictor of their Level of Responsiveness

Table 5 displays whether the level of challenges encountered by the Local Government Units' (LGUs) towards Internal Audit Services (IAS) act as significant predictors on their level of responsiveness. Statistics show that implementation, IAS qualification, and training and development did not act as the significant predictors on their level of responsiveness towards IAS. However, the results imply that resources did act as a significant predictor on their level of responsiveness towards IAS because the standardized coefficients beta of 0.634 with a t-value of 2.062 had a p-value of 0.043 which was less than 0.05 alpha.

Internal audit, according to Helianti (2016), is an important internal control system that helps to an organization's performance by improving the quality of corporate governance through its supervisory role. It also improves an organization's control and monitoring environment and reduces fraud risk. Internal audit functions are important in firms because they bring value and help them accomplish their goals by using a systematic and disciplined approach to control and analyze operations.

**Table 6. Level of challenges encountered by the LGUs towards IAS as predictor of their level of responsiveness.**

Variables	Standardized Coefficients Beta	t-value	p-value	Probability
Implementation	0.602	1.904	0.062	<i>ns</i>
Resources	0.634	2.062	0.043	<i>s</i>
IAS Qualification	0.293	0.676	0.502	<i>ns</i>
Training and Education	-17.422	-1.209	0.231	<i>ns</i>

p-value > 0.05 = not significant; p-value < 0.05 = significant

### Insights on Good Governance that Can be Drawn from the Results

Over the years, internal auditing had been recognized as an important tool of public sector governance and financial management in enhancing transparency and accountability, effectiveness and efficiency of government operations and compliance with applicable laws and regulations. Following the initiatives for the establishment and developments on internal auditing, the government sector saw the need for the strengthening of internal controls and establishment of Internal Audit Services (IAS) to ensure good governance for economic development. Several noted irregularities and deficiencies within the

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government financial management and operations, lack of adherence to laws, rules and regulations and the public demand for improved accountability and transparency further entails the need for internal audit in the government sector.

The results of the study signify inputs on the areas that greatly affect the Internal Audit Services (IAS) in the Local Government Units (LGUs) of Capiz.

Generally, the Local Government Units (LGUs) were moderately responsive towards IAS operations. However, it is quite evident that there are many aspects where potentials and competence were not maximized and further improvements are needed, like those pertaining to the implementation, resources, Internal Audit Services (IAS) qualification, and training and development. Moreover, the study showed the LGUs' appreciation on internal auditing as an important tool in improving organizational processes and systems as IAS activities were in place and performed regardless whether there is an existing and operational IAS in the organization or none.

The LGUs also possess good potential for effectively implementing internal audit functions since there was awareness among the surveyed respondents on the various rules and regulations pertaining internal auditing, however, full compliance remains a formidable challenge. Internal audit's ability to ensure better governance was limited by the challenges encountered, specifically on resources. The internal audit is significantly affected by resources which not only pertain on financial matters but also, people, supplies or materials, equipment, management support and other necessary sources for its creation and operation.

Compliance to applicable laws, rules and regulations does not ensure good governance in the government sector, the agency must give adamant support, without which, the internal audit function will be limited only in providing the needed support for effective governance of the organization. Further, the lack of support and challenges encountered may also limit the ability to contribute towards good governance of the organization. Internal audit helps local government to be more transparent and accountable. It has an important role in good governance of evaluating the adequacy and effectiveness on internal controls and ascertains the compliance to applicable laws, rules and regulations and extent to which objectives have been defined and in accordance with the goals and objectives set. The presence of effective internal audit in the government sector added value and contributes towards good governance as it analyzes the strengths and weaknesses of the organization's internal controls to achieve effectiveness and maximum efficiency in government spending and services. In essence, organizations with internal audit contribute significantly to improvement of financial performance through providing checks and balances in government interventions and ensure that internal controls are well-designed and properly operated. Likewise, it also provides some level of assurance that public funds and resources are safeguarded and are not misused or mismanaged. And, through ascertaining the reliability and integrity of information communicated to the stakeholders, and compliance to laws, rules and regulations promotes greater transparency and accountability leaning towards good local governance.

Diamond (2002), on the other hand, claims that in many nations, the audit role has evolved to take a more complete view of the economic and social implications of government operations, frequently referred to as "value for money" or "performance audit." Internal audit functions are receiving increased attention and focus as a result of government demands for improved accountability and transparency.

### **CONCLUSIONS AND RECOMMENDATIONS**

Based on the findings of the study, the following conclusions and recommendations were drawn and suggested:

The results show that the LGUs were moderately responsive in terms of the level of responsiveness in the Internal Audit Services (IAS) operations, but further enhancement may be done through proper evaluation in their duties and responsibilities. The level of challenges encountered by the IAS in the LGUs in Capiz when taken as a whole was moderately challenges. The LGUs may focus more on the resources needed by the IAS by allotting additional budget and funds. Only the variable of resources was deemed significant in the results of the study. With this, the LGUs may provide the things that are necessary to establish and operate the IAS. The process that can be created in establishing the IAS would greatly improve the overall audit activity of the LGU.

### **ACKNOWLEDGMENT**

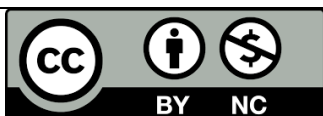
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