



The Effect of Full Disclosure Policy Compliance on Financial Performance of Local Government Units Moderated by Opinion in the Independent Auditor's Report: A Study Conducted in the Province of Bataan, Philippines

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Abstract: *This study was conducted to examine the effect of Full Disclosure Policy (FDP) compliance on financial performance as moderated by audit opinion. The sample of the study was the twelve (12) city and municipal Local Government Units (LGUs) in the Province of Bataan within two years' time or fiscal year 2018-2019. Descriptive research design was utilized. The researchers used secondary data, particularly the Statement of Receipts and Expenditure (SRE) and Auditor's Reports of selected local governments. The data were analyzed with SPSS results using multiple linear regression analysis. Disclosure compliance was measured through the availability of fourteen (14) financial documents queried at the FDP portal, while financial performance was measured by the computation of ten (10) financial indicator ratios using the formula extracted from SRE manual published by Bureau of Local Government Finance (BLGF). Audit opinion was used as a moderating variable and it was measured using proxy for each type of opinion. The findings of the study revealed that FDP compliance has no significant effect on financial performance. Moderation analysis also showed the absence of correlation between the variables examined. Hence, audit opinion has no moderating effect on disclosure compliance and financial performance. The outcome of the study is beneficial not only to LGUs but also to agencies and attached bureau for local governments to use as a guide for material considerations in determining future initiatives to improve the policy on government financial reports. This study is also useful for citizens and interest groups to have an idea as to the control efficiency and fiscal discipline of LGUs towards the provision of public services. Lastly, the result may provide empirical evidence for conducting further studies and it can develop existing accounting literature to strengthen the research related to the possible effects of the level of disclosure compliance and influencing factors of financial performances.*



Keywords: FDP Compliance, Financial Performance, Audit Opinion, Auditor's Report, Local Government.

CHAPTER 1

THE RESEARCH PROBLEM

1.1 Background of the Study

In today's time, local governance in the Philippines is anchored to open data initiatives through compliance in the disclosure of financial documents. It is no surprise that Local Government Units (LGUs) are oftentimes encouraged to have transparency and accountability in serving the public interest. With this, the availability of government financial information is one way to ensure fiscal discipline on local budgets and finances. The expression of fiscal discipline can be done through the disclosure of financial reports on government websites (Nor et al., 2019). Gibbins et al. (1990) explained that disclosure has categories and this includes the mandatory ones. In the research conducted by Canares (2014), he stated that mandatory disclosure of information in websites acknowledges that every citizen has the right to access government records, except those that are subject to constitutional limitations. Lagura et al. (2017) added that confidentiality of documents is no longer a priority because the government should look into improving the public service through the use of so-called e-Governance. This can be done by creating basic websites or portals for the citizens to be connected in government services. Moreover, Susanto & Meiryani (2019) mentioned the level of disclosure and this consists of full disclosure which refers to presenting all relevant information. Likewise, full disclosure is a complete and comprehensive disclosure of financial data to let the public know the fiscal aspects (Susanto & Meiryani, 2019). Thus, Yusuf et al. (2018) further defined mandatory full disclosure as the compulsory financial information that is required to disclose in the regulatory authorities. This process has to do with the integrity of data in order to enable the public to identify the true performance.

In Philippine context, one of the executive departments of the Philippine government which is known as the Department of the Interior and Local Government (DILG) pushed for the implementation of the Full Disclosure Policy (FDP) which mandates all local governments to post the financial documents at the conspicuous places of the locality. The policy requires full disclosure of financial transactions of the provincial, city, and municipal governments to keep their citizens informed of how their finances are managed and utilized. Section 352 of Republic Act No. 7160 or the Local Government Code of 1991 imposed the "posting within 30 days from end of each fiscal year in at least three publicly accessible and conspicuous places in the local government unit, a summary of all revenues collected and funds received, including the appropriations and disbursements of such funds during the preceding fiscal year". On second thought, the DILG also launched the Full Disclosure Policy (FDP) Portal where LGUs can upload the required financial documents on the web by virtue of the FDP program. As for further initiative, the FDP portal was established to allow the public to view, download and print LGU financial documents. This is to understand how the local governments spend for public services (Lagura et al, 2017). Hence, the compliance in the policy is in line to increase the participation of citizens and address the issues of public concern. Evangelio and Abocejo



(2015) uttered that the implementation of the FDP program is intended to improve the image of the country and enhance the local government transparency and accountability of public governance. And almost nine years into its enactment, democratic spaces are apparently visualized and the public is influenced on how they are governed (Canares, 2014).

In this essence, the full disclosure principle is tied up to present all information in financial reports that can affect the reader's understanding (Susanto & Meiryani, 2019). Hiola et al. (2016) defined disclosure as the act of not covering the facts thus giving useful data to interested parties. Gibbins et al. (1990) contended that it is the delivery of financial information through formal and informal media. Correspondingly, Hadi et al. (2018) affirmed that web-based disclosure is a type of financial information disclosure of local government through the use of website media. Andrikopoulos et al. (2013) suggested that disclosure through websites refines the presentation of report contents. He further stated that disclosure is a significant improvement over traditional dissemination of financial information. Siar (2007) cited in his study that local governments are persuaded to make the information and documents queried and available in the sites. Considering this stance, several authors (Hood, 1991; Pollitt and Bouckaert, 2000; Kettl, 2002) asserted that it contributes to effective and efficient public service delivery. In addition, Adi et al. (2016) mentioned that the need for disclosure of financial information is dependent on the presence of incentives upon the preparation of the report. The disclosure aims to provide the information that are regarded as important to serve many parties that have different interests. Also, Rahim et al. (2020) explained that disclosure becomes a good element in financial reports of local governments in which accountability and transparency can be realized. Thus, the disclosure compliance through the website can provide a description of local government financial performance.

Financial performance, meanwhile, is a measure of the success of local governments in managing their administration and good performance means successful allocation of public resources (Hiola et al., 2016). Bidhari et al. (2013) expressed that financial performance depicts the effective and efficient accomplishment of financial goals. Windarti (2020) indicated that it is the work result achieved from the implementation of an activity with the intent of reaching the objectives. Similarly, Hadi et al. (2018) claimed that the local government financial performance is an achievement attained within a certain period of financial management. One of the instruments to analyze the performance of local governments in handling the finance is by using financial ratios of the budget that has been carried out (Bastian, 2005). Another way of assessing government financial performance relates to fiscal health in terms of budgetary management (Gomes et al., 2013).

In the study made by Oino (2019), he suggested that disclosure has many aspects and it encompasses the release of information as well as financial performances. He further expressed that disclosure compliance is important in terms of influencing the financial performances. Omran et al. (2019) also discussed that disclosure improves transparency which eventually increases financial performance. Windarti (2020) revealed in his research that compliance of financial information disclosures and financial performances have significant association with each other. In a similar vein, Olaoye and Ojuolape (2019) discovered a positive relationship between disclosure compliance and financial performances. Moreover, Adi et al. (2016) established that the quality of disclosure in the report has a significant effect on performance of the local government. The findings of the study conducted by Quayes and



Hasan (2014) demonstrated that increased disclosure has a positive impact on the performance and it is influenced by timely annual reports. Further, Sutopo et al. (2017) proved that disclosure in the website is positively associated with the local government financial performance.

On the contrary, Dowling and Pfeffer (1975) argued that disclosure of financial information on the website is not seen as the way to influence government performance because of interest in a social environment with paper-based reporting. Fountain et al. (2004) also suggested that submission of a financial report which has been set by the standard is not sufficient to meet the obligations of public accountability and thereby having no influence on financial performances. Hadi et al. (2018) revealed in his study the negative effect of web-based disclosure compliance on financial performance of local governments. Similarly, Braendle (2019) found no statistical evidence that a correlation exists between compliance in public disclosure and performance. In this manner, there is a question as to whether increased compliance could also improve financial performances. Gallardo-Vázquez et al. (2019) also discovered that the correlation between compliance in disclosure and performance is not significant enough for practical purposes. Accordingly, there is a gap in the practice of the disclosure of financial information and some local governments have not optimized the use of websites (Verawaty, 2014). Thus, the studies related to disclosure of financial reports of local governments have not done much compared to the disclosure of financial statements of the private sector. Rahim et al. (2020) added that there is a lack of government information available to the public that results in difficulty of developing the motive disclosure. Agustiningsih et al. (2017) further suggested that the challenge faced by the public sector, including local governments, is the accessibility of information that can be used to monitor local government performances.

In this context, the purpose of this research was to examine the consequences of further initiatives in the Full Disclosure Policy. This paper also aimed to fill the gap in the assessment of disclosure compliance and its possible effects on financial performances of local governments as moderated by the opinion in the Independent Auditor's Report. Herewith, several studies revealed that audit opinion has an effect on both disclosure compliance and financial performances. Akrom and Firmansyah (2017) discovered in their study that having a more qualified audit opinion weakened the association between disclosure compliance of financial information on the website and financial performances. Nor et al. (2019) also contended that the better audit opinion obtained, the more it drives local governments to publish their financial statements to the public. Further, Aswar (2019) stated that audit opinion has an impact towards the financial performance of local governments.

In this study, the focus was given to the local governments in Bataan. Given that most LGUs in this province received the Seal of Good Local Governance (SGLG), the researchers found it necessary to evaluate its financial performances through the use of indicator ratios published by the Bureau of Local Government Finance (BLGF). The SGLG, meanwhile, is the highest recognition and the most prestigious award given by the DILG to excellent and performing LGUs in the delivery of public service through compliance to pertinent national laws and guidelines (DILG, 2019). Based on the list released by the DILG, the Province of Bataan bagged the governance awards in all level namely provincial, city and municipal. This is to measure the governance performance of local governments in good planning, sound fiscal



management, transparency and accountability, and valuing of performance information (DILG, 2019). By means of this, the assessment of local governments as to its financial performance was considered essential in order to scrutinize the effects of the level of FDP compliance. Also, it is imperative for the researchers to pursue this study as it is considered beneficial for the citizenry of the province.

The findings of this study can develop existing accounting literature to strengthen the research related to disclosure compliance and influencing factors of financial performances. This can also provide empirical evidence for conducting further studies. Based on the perspective of practical implications, this study was beneficial for LGUs as a material consideration in improving the quality of disclosure and performances in terms of financial aspects. Given the factors studied, it is very important to examine the link between disclosure compliance and financial performances. Hence, this paper can serve as useful guides not only to LGUs but also to agencies and attached bureaus for local governments in assessing the possible consequences of the implementation of FDP program as to the compliance and its influence on financial performances. Also, this study will impart knowledge in the field of accounting, most especially in public sector accounting, to know the considerations in assessing the level of disclosure compliance of local governments. Lastly, this paper will contribute towards understanding of practices related to the availability of financial reports at the portals and measuring the performances of local governments as to the proper use of public finances.

1.2 Statement of the Problem

The FDP compliance regards the accessibility of financial reports at the portal and the extent of disclosure made by the local governments. Thus, the potency of disclosure compliance is highly emphasized in this frame of reference and necessitated this study to examine its effect on assessing the financial performances of local governments as moderated by audit opinion. Specifically, this study seeks answers to the questions:

- i. What is the effect of FDP compliance on financial performance of LGUs in Bataan?
- ii. What is the moderating effect of audit opinion on disclosure compliance and financial performance of LGUs in Bataan?

1.3 Objectives of the Study

The general objective of the study is to analyze the consequences of disclosure compliance to evaluate the financial performances of local governments. This is guided by these specific objectives:

- i. To assess the extent of Full Disclosure Policy compliance of LGUs in Bataan.
- ii. To determine the Financial Performance of LGUs in Bataan in terms of:
 - a. Revenue Indicators;
 - b. Expenditure Indicators;
 - c. Debt and Investment Capacity Indicators; and
 - d. Financial Management Capacity Indicators.
- iii. To examine the effects of Full Disclosure Policy compliance on financial performance of LGUs in Bataan.



iv. To examine the moderating effect of audit opinion on Full Disclosure Policy compliance and financial performance of LGUs in Bataan.

1.4 Framework of the Study

This section provides the essential support for the study components. This presents both a theoretical and operational framework about the problem under the study. Moreover, this kind of evaluation is useful for the identification of patterns and to come up with the development of theories. Thereafter, this shows the diagram of the operational framework.

1.4.1 Theoretical Framework

The intent of this study is to establish the effects of FDP compliance on financial performance of LGUs in Bataan as moderated by audit opinion. The best way to provide an appropriate framework is to use the essential user needs expressed by different theories.

1.4.1.1 Agency Theory

The theoretical position of this work is based on the agency theory. This theory explains a contract in which one or more individuals (principal) give mandates to another individual (agent) in order to carry out activities that are in accordance with the interests of the principal (Jensen & Meckling, 1976). This theory is relevant to this study as they are similar in essence since they all focus on how the decisions of one party responds to the needs or goals of another party and the ways through which the actions of each party and the institutional settings in which they interact mediates this responsiveness. Agency theory in economics makes accountable relationship management (agent) to shareholders (principal) and this has the effect of creating new public management and administration (Malmir et al. 2014). The agency theory of public administration causes agents to act and be accountable to their citizens' interests. The government can serve as an agent and is responsible for providing financial reports to the principal, who is the public, represented by the legislature. The principal will expect the agent to provide the quality results, and one of those results will be reflected in the financial report.

1.4.1.2 Signaling Theory

This study is also anchored on signaling theory. Signaling theory can describe the behavior when two parties (individuals or organizations) have access to different information (Conelly et al, 2011). This theory may be used to better understand interpersonal communication between governments and citizens, as well as how both parties' trustworthiness is measured. There are two types of signals that will be disclosed by an agent, those are good signals and bad signals. One way to reduce information asymmetry is to provide a good signal to the society in the form of positive and reliable financial information (Trisnawati and Achmad, 2014). The government must give a good signal by showing good performances achieved by them. Signals in the form of regional government quality information are communicated through the website as well as e-commerce (Mavlanova et al. 2012). One way of providing relevant information about an organization's performance is through internet financial reporting.

1.4.1.3 Institutional Theory

This study also uses the basis of institutional theory. Institutional theory explains that an organization should conform to its environmental pressures and practices to avoid failure because of being outcompeted for scarce resources. Financial reports must therefore address the cultures, laws, politics, and other pressures and practices of various environments

(DiMaggio & Powell, 1983; Hannan & Freeman, 1997; Scott, 1995). Based on this theory, local government financial reporting through the internet is an effort in order to gain legitimacy from the institutional environment of society, central government and other organizations (Ratmono, 2013). The local government unit must submit the financial documents required by the legislature.

1.4.1.4 Legitimacy Theory

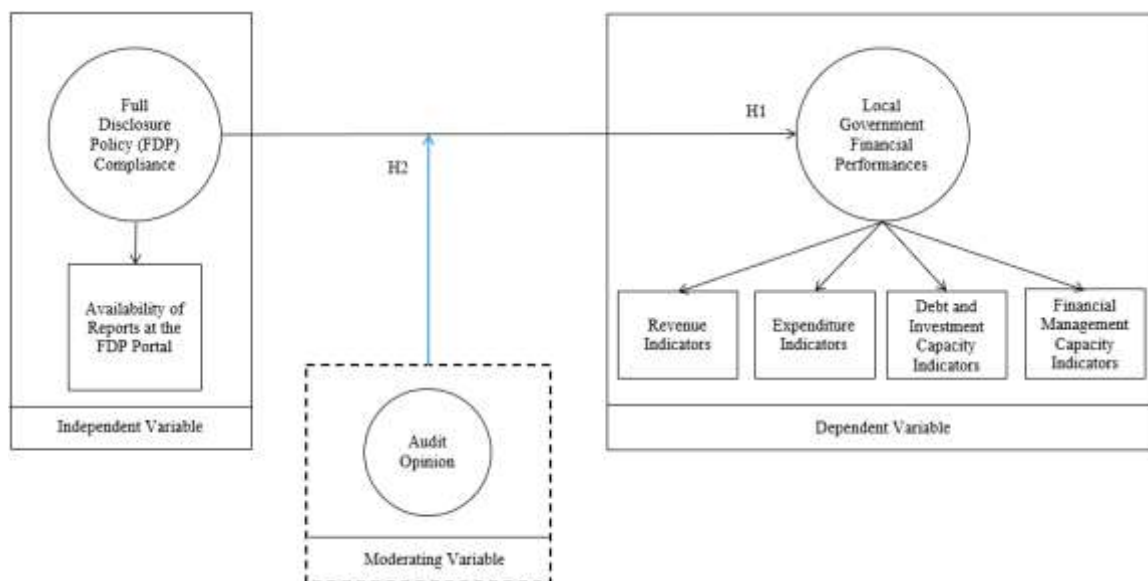
Legitimacy theory was also used as one of the theoretical frameworks in this study. According to O'Donovan (2002), legitimacy theory is based on the idea that an organization in order to continue its operation must act within the limits of acceptable behaviors by the social environment. Therefore, the organizations must voluntarily disclose relevant information in order to maintain their legitimacy. The disclosure of information must be accompanied by concrete actions realized in compliance with social and environmental norms and value to offer support to organizations performance. Such a selective position is expected to increase stakeholders and society acceptance in which firms' values may increase significantly (Siueia et al., 2019).

1.4.2 Operational Framework

This study aimed to investigate the effect of FDP compliance on financial performance of LGUs in Bataan as moderated by audit opinion. An effort is made to assess the FDP compliance according to the availability of financial documents at the FDP portal. The operational framework of this study portrays the measurement tool to evaluate the financial performances of local governments.

Herewith, the diagram was utilized to determine the relationship between the independent and dependent variables as moderated by audit opinion. Figure 1 illustrates that FDP compliance influences local government financial performance. It shows that the disclosure compliance is measured through the availability of reports at the FDP portal. It also displays that financial performance is assessed through financial performance indicators.

Figure 1. Diagram of Operational Framework





1.5 Assumptions of the Study

The following are the assumptions of the study:

1. The selected city and municipal LGUs are enough and considered as representative of the whole population.
2. The table of overall percentage, covering a period of two (2) years, as to the submitted-on-time reports of LGUs is a precise measure of Full Disclosure Policy (FDP) compliance.
3. The FDP Portal is a bona fide centralized repository of LGUs in the upload of financial documents.
4. The computation of ratios under each financial indicator is a reliable basis in measuring the local government financial performances.
5. The Statement of Receipts and Expenditures (SRE) Manual issued by the Bureau of Local Government Finance (BLGF) is a valid guide in the assessment of financial performance indicators.
6. The Annual Audit Reports (AARs) from the website of Commission on Audit (COA) are true and correct.
7. The SRE reports from the FDP Portal are validated, confirmed and approved by officers and focal persons.
8. The factors beyond the scope of the analysis, such as financial dependence and fiscal decentralization, are considered to have no influence on local government financial performance.

1.6 A Priori Expectations

There are many existing studies that displayed the relationship between the independent and dependent variable. The table below discussed their past findings and it was also used as the basis for this study.

Table 1: Summary of a priori expectations on disclosure compliance and financial performance.

Independent Variable	Dependent Variable	Findings	Authors
Disclosure Compliance	Financial performance	+	Oino (2019), Olaoye and Ojuolape (2019), Omran et al. (2019), Adi et al. (2016), Quayes and Hasan (2014), Sutopo et al. (2017)
Disclosure Compliance	Financial performance	-	Hadi et al. (2018), Nor et al. (2019)

1.7 Hypotheses

Based upon the theoretical framework, the hypotheses are formulated as follows:

Hypothesis 1: Effect of FDP Compliance on Financial Performance of LGUs.

H₀₁. FDP compliance has no significant effect on financial performance of LGUs.



Hypothesis 2: Moderating effect of Audit Opinion on FDP Compliance and Financial Performance of LGUs.

H₀₂. Audit opinion has no moderating effect on FDP compliance and financial performance of LGUs.

1.8 Significance of the Study

This study is inclined to provide vital information as for the level of disclosure compliance of local governments to highlight its possible effect on the assessment of financial performances. Thus, the researchers believe that this study will yield facts that will be helpful in making an effort towards understanding the concept of FDP compliance and the indicators of financial performances. This paper will contribute useful guides to the parties summarized below:

1. Local Government Units (LGUs)

This study is going to have a contribution to understand the finance systems and reporting practices in the units of local government, particularly the city and municipal level, to realize its effectiveness to serve the citizens. Also, the local governments will have a useful guide as for the level of disclosure compliance and its effects on the financial performance evaluation. Thus, the results of this study can also be beneficial for LGUs to use as an input and material considerations in determining further initiatives specifically related to improve the disclosure policy on government financial reports.

2. Citizens and interest groups

Citizens of local communities are the parties who grant trust to the government as to the allocation of budget and they have the right to receive the information regarding government finances which in turn will enable them to evaluate the local government fiscal policies. The interest groups, meanwhile, also take part in assessing if public funds are properly utilized by the local government. This study will provide useful information on how local governments disclose their financial reports through its availability in the websites or portals. With this, they will know if the plans aimed by the units of local government are fulfilled at a more effective utilization of public resources. This will enable them to evaluate the local government policies. Hence, they will have an idea as to the control efficiency and fiscal discipline of LGUs towards the provision of public services.

3. Agencies concerned with local governments

The concerned agencies and attached bureau for local governments, such as Department of the Interior and Local Government (DILG), Department of Finance (DOF) and Bureau of Local Government Finance (BLGF), will find it useful to use this study as their reference in analyzing the consequences of implemented policy in the full disclosure of financial documents. They will also have an insight on the possible outcome of compliance in the open data programs of the government. Further, they will be able to evaluate whether the level of disclosure compliance contributes in the assessment of financial performances of local governments.



4. Academicians and Future Researchers

This study is expected to contribute to the existing literature about the relationship of disclosure compliance and financial performance so as to gather more relevant information. Academicians will be able to direct this content to students as a guide for them in understanding the concepts related to the subject matter of this study. Moreover, future researchers might be dealing with the same problem addressed in this paper. This study will help them to have more insights about the effects of the level of disclosure compliance and indicators of financial performance of local governments.

1.9 Scope and Limitations of the Study

The following are the scope and limitations of the study:

1. The researchers considered working on this study to find out if the local government disclosure compliance influences its financial performance as moderated by audit opinion.
2. The scope of this study was the city and municipal LGUs in Bataan.
3. This study was limited to selected indicator ratios of financial performances.
4. This study deployed the use of secondary data obtained from the authorized agencies which give access to financial documents and auditor's reports.
5. For the purpose of this study, the researchers used the Statement of Receipts and Expenditures (SRE) Manual as a guide in the evaluation of financial performance indicators.
6. This study covered the Annual Audit Reports (AARs) published in the website of Commission on Audit (COA) and SRE reports at the FDP Portal for a period of two (2) years or fiscal year 2018-2019.

1.10 Definition of Terms

To establish a clear understanding of the study, the following are hereby operationally and conceptually defined:

Accountability - the obligation to explain, justify, and take responsibility for one's actions.

Annual Audit Reports (AARs) – published annual reports which include the transmittal letter, executive summary, auditor's report, notes to financial statements, annexes etc.

Audit opinion - statement that is expressed by independent auditors to their client's financial statements as the result of auditors' examination.

Auditor's Report - written letter from the auditor containing their opinion on whether a financial statement complies with accounting principles and is free from material misstatement.

Bureau of Local Government Finance (BLGF) - functionally structured along the Department's Domestic Finance Group together with Bureau of the Treasury, Financial and Fiscal Policy Planning Office, all under the supervision of the Undersecretary of Finance for Domestic Finance.

Commission on Audit (COA) - independent constitutional commission established by the Constitution of the Philippines and it has the primary function to examine, audit and settle all accounts and expenditures of the funds and properties of the Philippine government.

Compliance - conforming to a specification, standard or law that has been clearly defined.

Conspicuous places - the provincial capitol, city hall, municipal hall, barangay hall and government owned facilities to include, but not limited to, social center, gymnasiums, auditoriums, manpower development center, training center, transport terminal, public market, public school, health station or center and hospital.



Department of Finance (DOF) - executive department of the Philippine government responsible for the formulation, institutionalization and administration of fiscal policies, management of the financial resources of the government, supervision of the revenue operations of all local government units, the review, approval and management of all public sector debt, and the rationalization, privatization and public accountability of corporations and assets owned, controlled or acquired by the government.

Department of the Interior and Local Government (DILG) - executive department of the Philippine government responsible for promoting peace and order, ensuring public safety and strengthening local government capability aimed towards the effective delivery of basic services to the citizenry.

Disclosure - the act of making something known or the fact that is made known.

e-Governance - the application of IT for delivering government services, exchange of information, communication transactions and integration of various stand-alone systems.

Financial performance - subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.

Full Disclosure Policy (FDP) - government's policy that requires certain local officials of provinces, cities, and municipalities to fully disclose particular financial transactions of the LGU to keep their constituents informed of how the LGU budget is managed, disbursed and used.

Full Disclosure Policy (FDP) portal - serves as a centralized repository that helps the LGUs in uploading the financial documents required by the FDP and it enables the public to view, download, and print LGU financial documents to allow their constituents to understand how their local governments budget and spend for public services.

Local governance - right and capability of a community executed directly in compliance with the established statutory procedures and through representatives of local authorities that are not affiliated with the system of state government bodies.

Local Government Units (LGUs) - institutional units whose fiscal, legislative and executive authority extends over the smallest geographical areas distinguished for administrative and political purposes.

Mandatory disclosure - consists of information disclosed in order to comply with the requirements of laws and regulations.

Seal of Good Local Governance (SGLG) - an award, incentive, honor and recognition-based program for all LGUs, and is a continuing commitment for LGUs to continually progress and improve their performance.

Statement of Receipts and Expenditures (SRE) - basic financial report prescribed by the BLGF to monitor the LGUs financial performance and it captures the fiscal capacity, level of borrowings, and creditworthiness of the LGUs.

Transparency - process of being open, honest, and straightforward about various operations.

Web-based disclosure - dissemination of related financial and non-financial information using the internet technologies.

Website media - textual, audio and visual forms of communication presented on the web which include graphics, photos, videos and interactivity with the user.



CHAPTER 2

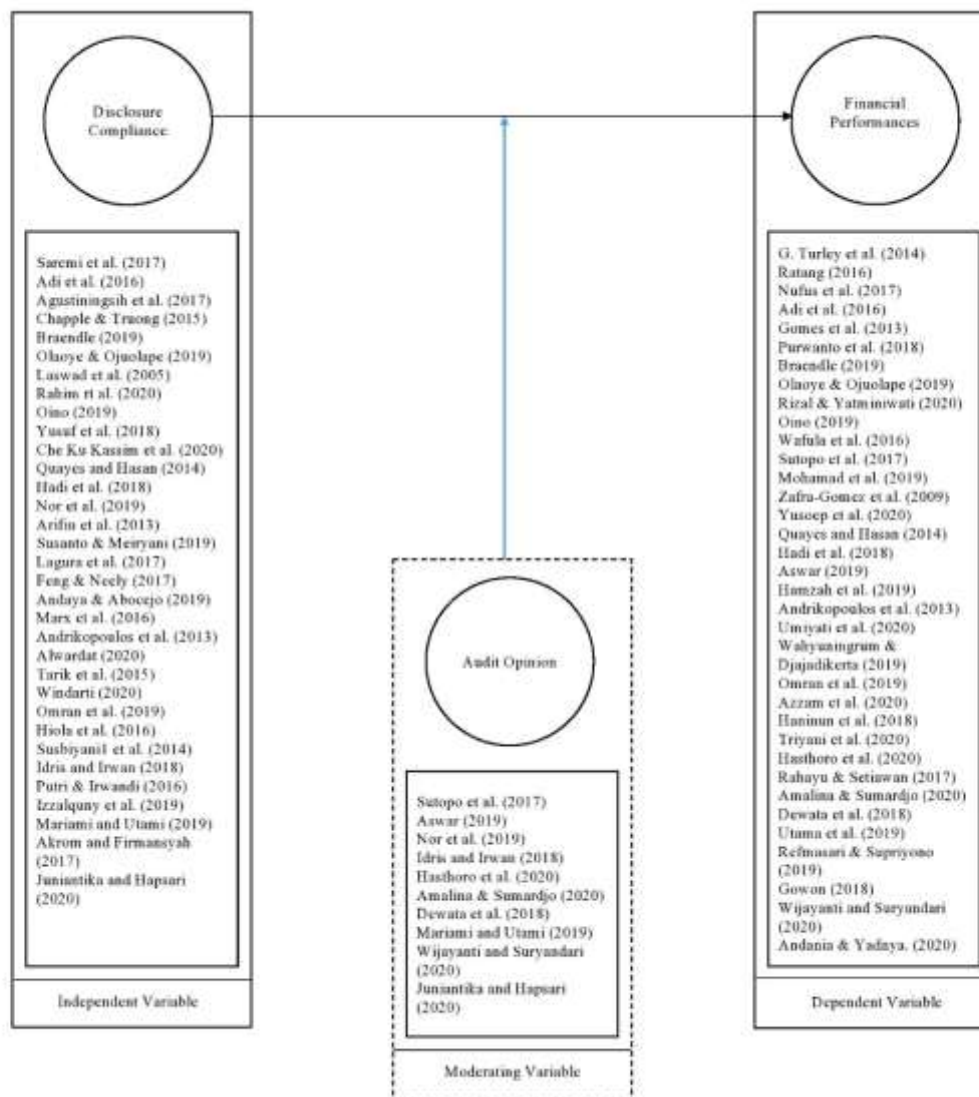
REVIEW OF RELATED LITERATURE

2.1 Introduction

The state of local governance in the Philippines as to open data policy has a sizable contribution on the assessment of finance practices and allocation of budgets. Thus, the disclosure compliance is evidential in the whole process of public accountability. With this, the prior studies on the evaluation of compliance in the disclosure of financial documents in local governments focused on the contributing factors and its key role in improving financial health. Some previous studies noted the importance of the level of disclosure in enhancing the performance mechanisms in broad aspects. In spite of the number of studies that have been undertaken, there is uncertainty as to the whole set of independent variables that are likely to improve the local government financial performance. In this regard, the researchers aimed to examine the portrayal which has been played in the city and municipal LGUs in Bataan. The study on the compliance of financial reports will provide an overview on the differences of disclosure level among local governments and this will serve as a guide to assess whether it can affect their financial performances in a certain time period. Therefore, the current study sought to assess the effect of the level of disclosure compliance on evaluation of financial performance as moderated by audit opinion.

This chapter presents the relevant theories and related literature review about the problem under study. Moreover, this includes the conceptualization of the key terms used and further discusses the theoretical base of the study.

Figure 2. Literature Map



2.2 Independent Variable – Disclosure Compliance

The advent of centralized repositories in the upload of financial documents, such as portals, helps local governments to easily disseminate their financial reports to the general public. These websites provide a feature of direct communication to allow the public to monitor the allocation of local government finances (Akrom and Firmansyah, 2017). Also, government websites can also be used to furnish the financial information needed in the assessment of fiscal policies and these are considered useful for the citizens and interest groups. Alcaraz-Quiles et al. (2014) asserted that websites are the chosen hubs because of the increasing use of the internet by governments and its accessibility by the public. With this, there is no doubt that



some local governments took advantage of technology through the use of portals in the upload of financial reports. This scheme is very important nowadays so that the financial reports are easily accessible for interested users. Verawaty (2017) highlighted that government portals have enabled local governments to provide financial information and to serve the public interest. Che Ku Kassim et al. (2019) found out that local governments frequently employ the websites or portals to constantly upload supplemental information in the annual reports. Thus, local governments consider the use of the internet as a disclosure medium.

The disclosure of information through internet media is the most efficient one in terms of the speed of information dissemination (Windarti, 2020). Also, it provides convenience for the public to acknowledge the commitment of the local government on correct presentation of reports on local budget and finances (Nor et al., 2019). This can also increase the trust of external parties, especially communities, against government finance practices (Nor et al., 2019). Mariami and Utami (2019) said that it is the best solution to be able to convey information in a timely manner. Hence, the benefits of internet disclosure exceed those of printing media such as journals or newspapers. Further, the disclosure of local government financial reports using website media portrays an effort to send a signal to the community so as to have accountability in allocation of public finances. This is in accordance with signaling theory (Michael Spence, 1973). Considering this, websites can be a medium for the local governments to provide information on the finances that they allocate (Nor et al., 2019).

Moreover, the disclosure principle in accounting requires that financial reports present the most relevant information that is necessary in order not to be misleading (Yusuf et al., 2018). The need for disclosure of financial information is dependent on the presence of incentives upon the preparation of the report. Additionally, the disclosure presented must meet the existing rules and important elements that will enable the public to understand the reports (Rahim et al., 2020). In the research conducted by Adi et al. (2016), the disclosure of information is influenced by the differences in social and economic aspects. To an increasing extent, this aims to provide the information that is regarded as important to help many parties that have different interests (Suwardjono, 2005). Consequently, disclosure and provision of information becomes an important element in the local government reports in which fiscal discipline can be realized (Rahim et al., 2020).

On the other hand, Susanto & Meiryani (2019) mentioned the level of disclosure and this consists of full disclosure. They further defined that full disclosure is a complete and comprehensive disclosure of financial data to let the public know the fiscal aspects. The full disclosure principle is the presence of all information which contributes to the understanding of the reader (Susanto & Meiryani, 2019). Yusuf et al. (2018) discussed that mandatory full disclosure is the compulsory financial information that is required to disclose in the regulatory authorities. Thus, several studies on mandatory disclosure such as those examining disclosures of fiscal policy have adopted a variety of theories including agency theory (Stephen Ross and Barry Mitnick, 1973), legitimacy theory (Dowling and Pfeffer, 1975) and institutional theory (Peter Berger and Thomas Luckmann, 1967). The mandatory disclosure of local government's financial reports has been explained using the legitimacy theory. Local governments must disclose information in order to give a socially responsible image and they can legitimize their performance to the public. From the perspective of agency theory, the general public is the principal who has the right to know about the utilization of local budgets and the government



is the agent who has the responsibility to present and publish information related to financial statements. Meanwhile, institutional theory is concerned with the process of organization structure to give value on efficiency. Specifically, it pertains to mandatory disclosure under the public sector. This explains that entities are faced with institutional pressures that lead to similar forms and practices (Arifin, 2013). It brings into the interactions among stakeholders and it has established itself as a relevant theory to justify the differences in certain practices as a result of external pressures such as social factors and environmental policies (Di Maggio and Powell). Correspondingly, Adi et al. (2016) suggested the types of information disclosure which are based on user preferences and these include information on compliance. For good measure, compliance serves as a signal that an organization is taking governance seriously (Braendle, 2019). In the context of local governments, compliance to disclosure is seen to benefit all stakeholders thus surpassing the governance issues through availability of financial reports at the portals. Full Disclosure Policy (FDP) compliance is widely known for local governments in the Philippines as it became a requirement in the conferment of the Seal of Good Local Governance (SGLG) which will be given as a reward to those Local Government Units (LGUs) that promotes excellence in local governance. Thus, it is evidential that FDP compliance mainly highlights the right of the public to access government financial reports through the use of website media.

2.3 Dependent Variable - Financial Performance

One aspect of the local government is the financial management on local budgets. It is an irrefutable fact that LGUs have an important role in the allocation of budget and finances to serve the community. Given that some local governments still show relatively low performance, the evaluation of the financial aspect will largely determine its position in the framework of carrying out the service function. The ability to manage the financial aspect reflects the competence of local governments to finance the implementation of the tasks of government, development and social services (Ratang, 2016). In order to find out the results of the implementation of tasks, the assessment of local government financial performance is done.

In the study made by Ratang (2016), performance was defined as the attainment of what is planned, either by personal or organization. Aswar (2019) added that it can be measured from the financial side. Likewise, Windarti (2020) suggested that the performance of public sector organizations can be broken down into various categories, such as financial measures. It can be evaluated mostly from the fiscal performance of local government administrations. Great attention to performance measurement is because of the opinion that it can improve efficiency, effectiveness, economization and productivity in public sector organizations (Hadi et al., 2018). The performance of the financial aspect is one measurement that can be used to look at the ability of local governments in implementing autonomy (Halim, 2004). Also, it is related to the achievement of gaining the revenues and using the funds for the benefit of the wider community whether those are on target or not (Nugroho, 2012). Consequently, the financial performance of local governments is the benchmark of service to the public and other local activities.

Moreover, local government financial performance is a goal achieved by an entity within a certain period of financial management (Hadi et al., 2018). It is one measure of success in managing the government finances (Akrom and Firmansyah, 2017). Also, Mulyani &



Wibowo (2017) explained that financial performance is the level of achievement of a work in the area of finance that uses financial indicators determined through a policy or statutory provisions during the budget period. Bidhari et al. (2013) added that it projects how effective and efficient an entity to persist in its efforts to accomplish their financial goals. Meanwhile, Aswar (2019) contended that it is one of the key factors of the success to ensure the satisfaction of public service to reach pre-established organizational goals. The financial performance achieved by local governments is a positive signal to get support from the community (Windarti, 2020).

The analysis of financial performance is basically done to assess the local government administration. There are many studies on financial performances of the public sector that use different measures such as performance expectations (James, 2011), expenditure per capita, service performance and value for money (Andrews and Boyne, 2012). In the research conducted by Lewis (1994) and Carmeli (2002), they derived indicators in financial terms to determine the financial health of local government bodies. These authors opted an approach wherein indicators are based on the budgetary process since this provides a general viewpoint as to whether an entity is well managing its resources or not. Zafra-Gómez et al. (2017) discussed that one of the most commonly used measurements of financial performance in local government is through the use of budgetary, economic and financial information. Yusoep et al. (2020) asserted that it can be assessed by the use of financial ratio analysis of the budget and by evaluation of financial statements. Thus, financial performance in local governments is manifested in their financial reports.

On the other hand, Akrom and Firmansyah (2017) and Ratang (2016) mentioned that the measurement of government's financial performance can be conducted by calculating contained numbers in the financial reports using financial performance indicators. The assessment is to know whether the budget provided by the local government can be utilized to fulfill the public services (Rahayu & Setiawan, 2017). Many researchers (Yusoep et al., 2020; Bastian, 2005; Halim, 2008) suggested that one of the instruments to analyze the financial performance of local governments is through the use of financial ratios of the budget that has been implemented. Nufus et al. (2017) also expressed that it is measured through some calculation's ratio. Considering this, financial ratio analysis on the budget is done by comparing the results achieved from one period compared to the previous period to see how the trend is going (Ratang, 2016). Further, Ratang (2016) said that financial performance measures are also assessed based on the fiscal policy aspect. Thus, local revenue can be considered as an important indicator in the financial report as a portrayal of the success of the local government in increasing financial performance. The greater the revenue generated, the more it will improve the financial performance of the local government in financing the activities of government and its people (Yusoep et al., 2020). Therefore, financial performance of local governments is used to measure the success of local government in handling finances.

2.4 Relationship of Disclosure Compliance and Financial Performance

For many years, the correlation between disclosure compliance and financial performance has been widely discussed in literature. In previous studies, there are still varied results in terms of testing the compliance with disclosure of financial information on financial performances. In the study conducted by Sutopo et al. (2017), it provided empirical evidence



of the positive association between disclosure on the websites and financial performance of local governments. It has been demonstrated that increased level of financial disclosure has a positive impact on the performance in terms of financial aspect (Quayes & Hasan, 2014). Hadi et al. (2018) posited that broad disclosure will encourage local governments to improve financial performance, as images built through broader disclosure will motivate them to have proper utilization of public finances. Oino (2019) suggested that disclosure has many aspects and it includes the release of information and financial performances. Thus, he revealed in his study that disclosure compliance is significant in terms of influencing the financial performances.

Moreover, Adi et al. (2016) discovered in their study that the quality of disclosure in the financial report has a significant effect on performance of the local government. Zaimovic et al. (2015) further discussed that web disclosure could be seen as a prerequisite for sound financial performance. In the research made by Olaoye & Ojuolape (2019), it revealed a positive relationship between disclosure compliance and financial performances. The disclosure through the local government website can provide a description of the financial performance achievements as to the implementation of activities and help the community participation in overseeing the governance itself (Hadi et al., 2018). Also, Windarti (2020) asserted that the easier it is for the public to access financial information from the internet, the easier it will be for people to evaluate government financial performance.

On the other hand, the study conducted by Quayes & Hasan (2014) showed the simultaneous endogenous relationship of disclosure compliance and financial performances. Their findings revealed that better disclosure has a statistically significant positive impact on financial performance. On second thought, the outcome of their study indicates that improved financial performance results in better financial disclosure. As for the endogenous nature of the relationship between disclosure and performance, their research used a three-stage least squares method to show that disclosure and financial performance positively affect each other simultaneously. With this, there are several researchers who also made a study on the impact of performance to disclosure. These authors (Akrom & Firmansyah, 2017; Suhardjanto & Lesmana, 2010; Laswad, et al., 2005; Hiola et al., 2016) conducted a research in which the findings revealed that financial performance has a significant effect on the disclosure compliance of financial information on the website. Thus, the reciprocal relationships between these variables have been explained in existing studies.

On the contrary, there are researchers that displayed the negative significant effect between the aforementioned variables. The study of Hadi et al. (2018) indicated that financial disclosure based on web-ICT has a negative influence on local government financial performance. This is analogous with the research made by Nor et al. (2020). The results suggested a statistically significant negative relationship between the disclosure and financial performance. Furthermore, Chae et al. (2014) reexamined the link between disclosure on the website and financial performance. The results of their current analysis showed no significant association between variables. Braendle (2019) also found out that there is no correlation between public disclosure compliance and performance. Hence, there is a question on whether increased compliance could also improve financial performance. Further, Gallardo-Vázquez et al. (2019) revealed their theoretical findings about disclosure to financial performance relationships. The results of their meta-analysis confirmed that the correlation between



disclosure and performance is not significant enough for practical purposes. Notwithstanding with the varied outcomes, the researchers considered to work on this study to find out the effect of disclosure compliance on financial performances.

2.5 Disclosure Compliance and Financial Performance Moderated by Audit Opinion

An audit opinion was defined by Sutopo et al. (2017) as a result of examination in the financial statements and shows its quality based on the effectiveness of internal control, the adequate disclosure in financial reports, and the compliance to government regulation. Agustiningsih et al. (2017) discussed it as one generated from the comparison of what should be there and what is found there. Also, Sutopo et al. (2017) asserted that audit opinion reflects the quality of financial statements and a relatively small number of local governments succeed in getting unqualified opinions. With this, several studies explained the association of audit opinion to disclosure compliance and financial performances. In the study conducted by Hiola et al. (2016), it showed that audit opinion can moderate the relationship of compliance disclosure of financial information on the website and financial performances.

In the research made by Agustiningsih et al. (2017), it revealed that audit opinion moderates the level of disclosure. Nor et al. (2019) and Andriani (2012) discovered that audit opinion has a significant positive influence on the disclosure in local government websites. Accordingly, there are many factors that are considered important to local government as to the disclosure of its financial statements on the website, one of which pertains to the audit (Nor et al., 2019). Hence, the level of disclosure was in relation to audit opinion (Oino, 2019). The findings of a study conducted by Rahim et al. (2020) indicated that the level of disclosure on financial statements of local governments is affected by audit opinion. With this, local governments that have poor audit results tend to make their financial report not available on their websites. Further, Copley (1991) investigated the influence of audit quality on the financial disclosure of local governments. The result provided evidence that there is a positive relationship between audit quality and disclosure.

On the other hand, the description of the audit opinion raises another argument on whether there is an association between audit opinion and performance. Thus, previous researches were made that showed the link between audit opinion and financial performances. The study made by several researchers (Masdiantini & Erawati, 2016; Wijayanti & Suryandari, 2020; Suryaningsih & Sisdyani, 2016; Putry & Badrudin, 2017) revealed that audit opinion has an effect towards the financial performance of local governments. Nor et al. (2019) also found out the significant relationship of the aforementioned variables. Also, Sisdyani (2016) claimed that audit opinion influences the financial performance of local governments. Consequently, many authors affirmed that local governments with a better audit opinion are expected to also have a higher performance in terms of finances (Sutopo et al., 2017; Dewata et al., 2018; Amalina & Sumardjo, 2020). The findings of their study revealed the positive association of audit opinion with the local government financial performances. Hasthoro et al. (2020) also discovered the positive significant effect of audit opinion on the financial performance. Thus, audit opinions were used as a measurement of the performance of a local government in fiscal aspects (Mariami and Utami, 2019).

However, these existing studies contrasted with the research conducted by Ilmiyyah, et al (2017) which proved that audit opinion does not influence the financial performance of local



governments. Nosihana & Yaya (2016) and Mariami & Utami (2019) also found out that opinion has no effect on internet disclosure. In spite of the differences in the result, many authors still believe that audit opinion was considered evidential in the local government disclosures on the website because it is seen as a reflection of financial performance.

2.6 Synthesis

Given that the primary purpose of public sector entities is to provide public services, local governments are accorded with this general statement. The level of disclosure compliance is important to know the extent of transparency and accountability of public governance. With the accessibility of LGUs' financial documents, the citizens are influenced on how the local budget and finances were allocated. The assessment of compliance in the disclosure of information is evidential to scrutinize the effect of full disclosure principle. Many authors believed that disclosure compliance provides a description of the financial performance achievements. Considering this, several measurements of financial performance are used in existing studies. One way to analyze performance as to its financial aspect is the computation of indicator ratios. Consequently, the examination of the link between disclosure compliance and financial performance is done in a vast number of studies which produced different results.

Moreover, there are some studies that discovered the simultaneous endogenous relationship of disclosure compliance and financial performances. While other researchers concluded its significant association to each other, there are few which proved the absence of correlation between the variables. Specifically, it is imperative to investigate whether increased disclosure compliance connotes better financial performances of LGUs. Thus, the next argument is to test the level of disclosure compliance that is likely to contribute in financial performance evaluation.

2.7 Research Gap

Some previous studies noted the importance of the level of disclosure in enhancing the performance mechanisms in broad aspects. In spite of the number of studies that have been undertaken, there is uncertainty as to the whole set of independent variables that are likely to improve the local government financial performance. Therefore, in this current study, it aimed to fill the gap in the assessment of disclosure compliance and its possible effects on financial performance of local governments as moderated by the opinion in the Independent Auditor's Report. Also, this paper highlighted the city and municipal LGUs as the subject matter which is different from many existing studies which emphasized the provincial and regional governments.

Further, this study is unparalleled with some collections of literature since they were conducted mostly in African countries. Although there are few studies that originate from Southeast Asia, there is no research conducted in the Philippines which considered the link between the variables used in this study. Bringing up the rear, this research is inclined to investigate the disclosure compliance of local governments and the possible effect on financial performance to address the shortcomings of researches under the public sector entities.



CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter describes the research methodology in the conduct of this study. It specifically outlines the research design, study population and sampling design. Further, this draws about the data collection methods, data collection procedures and data analysis plan pertaining to the study.

3.2 Research Design

This study aimed to examine the effect of Full Disclosure Policy (FDP) compliance on financial performances of city and municipal governments in the Province of Bataan as moderated by audit opinion. In order to facilitate this, a descriptive research design was utilized. Thus, secondary data were used in this study. The Statement of Receipts and Expenditures (SRE) and Annual Audit Reports (AARs) of selected Local Government Units (LGUs) were downloaded from websites of Department of the Interior and Local Government (DILG) and Commission on Audit (COA).

3.3 Population

For the purpose of this study, the researchers chose the Province of Bataan as the study area. In this endeavor, the city and municipal governments are the reference point as to the population. Listed below are the selected Local Government Units (LGUs) that are mandated to disclose the financial documents at the FDP portal and the audit reports were accessed from COA website:

Table 2: List of LGUs in Bataan

City/Municipal LGUs
Balanga City
Abucay
Bagac
Dinalupihan
Hermosa
Limay
Mariveles
Morong
Orani
Orion
Pilar
Samal

3.4 Sampling Design

The researchers used a certain sample size and sampling techniques in this study. Hence, a sample was established which includes all the city and municipal LGUs in Bataan. This study applied sampling technique by which purposive sampling was used with criteria



that local governments have SRE reports and other financial documents, whether submitted on time or late, and which can be accessed from FDP portal. The total number of all LGUs was twelve (12) and the financial documents of each LGU were queried at the portal in two years' time or fiscal year 2018-2019. Audit reports of selected LGUs were also accessible from COA website.

3.5 Research Procedures

In this study, the researchers used secondary data which were sourced from the FDP portal and COA website. For the measurement of FDP compliance, the researchers noted the complete enumeration of selected LGUs in Bataan as well as the required financial documents in two years' time or fiscal year 2018-2019 to be posted at the portal. The queried reports should include fourteen (14) financial documents in which five (5) were annual reports and nine (9) were the quarterly reports. These documents were classified as (1) Budget Reports (2) Procurement Reports and (3) Special Purpose Fund Reports. With this, the documents were examined and rated with scores of two (2) if submitted on time, one (1) if submitted late and zero (0) if not been submitted. For the assessment of financial performances, the researchers used the SRE reports of each LGU to obtain the formula variables for the computation of financial performance indicator ratios. Thus, for the evaluation of opinion in the Independent Auditor's Reports of city and municipal governments, the proxy would include scores of four (4) for unqualified opinion, three (3) for qualified opinion, two (2) for adverse opinion and one (1) for disclaimer of opinion. Herewith, table 3 was utilized to show the required financial documents to be uploaded at the FDP portal which can be accessed at <https://fdpp.dilg.gov.ph/>.

Table 3: Financial Documents Queried at the FDP Portal

Annual Reports
Annual Budget Report
Annual Gender and Development Accomplishment Report
Annual Procurement Plan or Procurement List
Statement of Debt Service
Statement of Receipts and Expenditures
Quarterly Reports
20% Component of the Internal Revenue Allotment Utilization
Bid Results on Civil Works, Goods and Services, and Consulting Services
Local Disaster Risk Reduction and Management Fund Utilization (LDRRMF)
Quarterly Statement of Cash Flow
Report of Special Education Fund Utilization
Trust Fund Utilization
Manpower Complement



Supplemental Procurement Plan

Unliquidated Cash Advances

For the purpose of this study, the SRE Manual published by Bureau of Local Government Finance (BLGF) was also used to extract the formula for computation of ratios for each financial indicator. Thus, listed below are the four (4) financial indicators and the corresponding formula of selected ratios as measurement of LGU financial performances.

A. *Revenue Indicators* - reflect LGU revenue generation capacity.

1. Locally Sourced Revenue per Capita = $\frac{\text{Locally Sourced Revenue}}{\text{Population}}$
2. % Locally Sourced to Total LGU Revenue = $\frac{\text{Locally Sourced Revenues}}{\text{Total Revenues}} \times 100$
3. % Regular Revenues to Total Revenue = $\frac{\text{Regular Revenues}}{\text{Total Revenues}} \times 100$

B. *Expenditure Indicators* - define the degree of flexibility that an LGU has to allocate resources for different purposes. The expenditure indicators distinguish between rigid or compulsory expenditures that cannot be avoided by the LGU and discretionary expenditures.

4. Total Expenditures per Capita = $\frac{\text{Total Expenditures}}{\text{Population}}$
5. Debt Service Expenditure Ratio (DSER) = $\frac{\text{Debt Service Payments}}{\text{Total Expenditures}} \times 100$
6. Social Expenditure Ratio (SER) = $\frac{\text{Social Services Expenditures}}{\text{Total Expenditures}} \times 100$
7. Economic Expenditure Ratio (EER) = $\frac{\text{Economic Services Expenditures}}{\text{Total Expenditures}} \times 100$

C. *Debt and Investment Capacity Indicators* - define the extent to which the LGU considers the importance of capital expenditures and local government capacity to attract long term financing for investments.

8. Debt Service Ratio (DSR) = $\frac{\text{Debt Service Payments}}{\text{Regular Revenues}} \times 100$
9. Gross Operating Surplus to Debt Service Ratio = $\frac{\text{Gross Operating Surplus (Deficit)}}{\text{Debt Service Payments}}$



D. Financial Management Capacity Indicators - compare LGU revenues with LGU expenditures and define the extent to which the LGU implements an efficient financial resources management.

$$10. \text{Net Operating Surplus to Total LGU Revenue Ratio} = \frac{\text{Net Operating Surplus (Deficit)}}{\text{Total Revenues}} \times 100$$

From the data gathered, the researchers examined if the level of disclosure compliance could affect the local government financial performances as moderated by audit opinion. This study used descriptive statistics and Analysis of Variance (ANOVA) for Multiple Linear Regression.

3.6 Data Analysis

In this study, the researchers applied quantitative data analysis. Thus, descriptive and inferential statistics were employed as part of the investigation to stipulate the summary of the basic lineament of data.

3.6.1 Descriptive Statistics

This study utilized the descriptive statistics in order to summarize and describe the characteristics of data collected. The researchers carried out the descriptive analysis by calculating the mean, minimum, maximum and standard deviation to determine the statistical features of the sample.

3.6.2 ANOVA for Multiple Linear Regression

In this study, inferential statistics was also used to draw conclusions based on extrapolations and summarize the measured data. By means of this, assumptions from the sample were generalized for the population data. The researchers utilized the multiple linear regression to test the levels of variability and form a basis for tests of significance. The model provided the p-value that tests the null hypothesis. Subsequently, the rationale of the researchers is to determine the association between disclosure compliance and financial performances as moderated by audit opinion. The equation which describes the relationship between these variables is given below:

$$Y_i = \beta_1 X_1 + \beta_2 X_1 * X_2 + \varepsilon$$

Where:

Y_i = dependent variable

β_1, β_2 = regression coefficient

X_1 = independent variable

X_2 = moderating variable

ε = error

The explicit form of the model can be stated thus:

$$FP_i = \beta_1 DISC_i + \beta_2 DISC_i * AUOP_i + \varepsilon$$



Where:

FP_i = Financial Performance

β_1, β_2 = regression coefficient

$DISC_i$ = Disclosure Compliance

$AUOP_i$ = Audit Opinion

ε = error



CHAPTER 4

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

This chapter presents the findings, analysis and interpretation of the data gathered by the researchers based on specific objectives. SPSS was used to produce the results using the multiple linear regression analysis. The presentation and analysis of findings are hereby discussed as well as the interpretation of results.

4.1 Introduction

This study aimed to examine the effect of Full Disclosure Policy (FDP) compliance on local government financial performances as moderated by audit opinion. The researchers considered the presentation of evidence in response to the research questions and their corresponding objectives formulated to assist in analyzing the overall objective of this study. The sample for this study was the LGUs in the Province of Bataan which was composed of a city and eleven (11) municipal local governments. The secondary data obtained from reliable sources were used to measure the variables. Herewith, the tables were utilized to display the percentage of disclosure compliance and the change in financial performance ratios of LGUs in Bataan.

Table 4: Overall FDP Compliance of LGUs in Bataan – Submitted on Time (2018 – 2019 Combined)

Financial Documents	Compliance in %
Annual Budget Report	97.92%
Annual Gender and Development Accomplishment Report	97.92%
Annual Procurement Plan or Procurement List	97.92%
Statement of Debt Service	93.75%
Statement of Receipts and Expenditures	95.83%
	Compliance in %
20% Component of the Internal Revenue Allotment Utilization	99.40%
Bid Results on Civil Works, Goods and Services, and Consulting Services	100.00%
Local Disaster Risk Reduction and Management Fund Utilization (LDRRMF)	99.40%
Quarterly Statement of Cash Flow	97.62%
Report of Special Education Fund Utilization	97.62%
Trust Fund Utilization	98.81%
Manpower Complement	98.21%
Supplemental Procurement Plan	96.43%
Unliquidated Cash Advances	100.00%
OVERALL	97.92%



Table 4 describes the compliance rate of LGUs in two years' time or fiscal year 2018-2019. Two documents are always submitted on time (100%), namely the “Bid Results on Civil Works, Goods and Services, and Consulting Services” and the “Unliquidated Cash Advances” while the “Statement of Debt Service” sometimes submitted late (93.75%).

Table 5: Change (%) in Financial Performance Ratios of LGUs in Bataan

A. Revenue Indicators	Bataan (2018)	Bataan (2019)	Change (%)
Locally-Sourced Revenue per Capita	₱2536.23	₱2756.99	8.70%
% Locally Sourced to Total LGU Revenue	35.37%	31.97%	-9.61%
% Regular Revenues to Total Revenue	90.80%	82.93%	-8.67%
Average Change			-3.19%
B. Expenditure Indicators	Bataan (2018)	Bataan (2019)	Change (%)
Total Expenditures per Capita	₱3,478.99	₱3,993.37	14.79%
Debt Service Expenditure Ratio (DSER)	2.98	3.66	22.82%
Social Expenditure Ratio (SER)	33.07	9.24	-72.06%
Economic Expenditure Ratio (EER)	27.57	11.82	-57.13%
Average Change			-22.90%
C. Debt and Investment Capacity Indicators	Bataan (2018)	Bataan (2019)	Change (%)
Debt Service Ratio (DSR)	1.68	3.25	93.45%
Gross Operating Surplus to Debt Service Ratio (GOSDSR)	17.33	10.54	-39.18%
Average Change			27.14%
D. Financial Management Capacity Indicator	Bataan (2018)	Bataan (2019)	Change (%)
Net Operating Surplus to Total LGU Revenue Ratio (NOSTRR)	97.08	88.58	-8.76%

Table 5 depicts the financial performances of LGUs using the ratios under each indicator. The LGUs performed best with Debt Service Ratio (DSR) which improved almost twice the 2018 (93.45%) while the Social Expenditure Ratio decreased by 72.06%. Overall, only the Debt and Investment Capacity Indicators has a 27.14% increase while the three other indicators decreased, in which the Expenditure Indicator has the greatest decrease in performance by 22.90%.

4.2 Descriptive Statistics

In this study, the descriptive statistics, such as mean, minimum and maximum, and standard deviation, were provided for each of the variables. Thus, the table below was utilized to display the model.



Table 6: Descriptive Statistics

	Mean	Min	Max	Std Dev
DISC	0.98	0.94	1.00	0.02
LSRC	2.65	2.54	2.76	0.16
%LSTLGUR	0.34	0.32	0.35	0.02
%RRTR	0.87	0.83	0.91	0.06
TEC	3.74	3.48	3.99	0.36
DSER	3.32	2.98	3.66	0.48
SER	21.16	9.24	33.07	16.85
EER	19.70	11.82	27.57	11.14
DSR	2.47	1.68	3.25	1.11
GOSDSR	13.94	10.54	17.33	4.80
NOSTRR	92.83	88.58	97.08	6.01
AUOP	2.92	2.00	3.00	0.29

Legends:

DISC = Disclosure Compliance

LSRC = Sourced Revenue per Capita

%LSTLGUR = % Locally Sourced to Total LGU Revenue

%RRTR = % Regular Revenues to Total Revenue

TEC = Total Expenditures per Capita

DSER = Debt Service Expenditure Ratio

SER = Social Expenditure Ratio

EER = Economic Expenditure Ratio

DSR = Debt Service Ratio

GOSDSR = Gross Operating Surplus to Debt Service Ratio

NOSTRR = Net Operating Surplus to Total LGU Revenue Ratio

AUOP = Audit Opinion

4.3 Multiple Linear Regression Analysis

Statistical inferences were used to generate the results. SPSS was utilized using multiple linear regression analysis. The summary of results is presented below as well as the discussion based on the tables. Thus, moderation analysis table is also displayed in the following subsection.

4.3.1 Direct Effect Examined

The relationship of independent and dependent variables was tested to know whether there is a statistical correlation between them. The hypothesis that was tested is FDP compliance and financial performances (H_{01}). The figure below displays the relationship of variables.

Figure 3: Relationship of LGUs' Disclosure Financial Performance Ratios



Figure 3 illustrates that there is no significant relationship between the FDP compliance rate of the LGUs and its rate of change in financial performance (Pearson $r = -0.25$, $p = 0.48$, $\alpha=0.05$). Thus, FDP compliance rate of the LGUs has no significant effect on financial performances.

4.3.1.1 FDP Compliance to Financial Performances

Disclosure compliance shows that it has no significant effect on financial performances. Considering the Pearson correlation coefficient of -0.25 , p -value of 0.48 and significance level (denoted as α or alpha) of 0.05 , the study failed to reject H_{01} . The result of the study is synonymous to the research findings of Braendle (2019). He also found out that compliance in public disclosure has no significant correlation on financial performance. Gallardo-Vázquez et al. (2019) also discovered that the correlation between compliance in disclosure and performance is not significant enough for practical purposes.

4.3.2 Moderating Effect Examined

In this study, one moderating variable was tested. The researchers aimed to examine whether audit opinion moderates the relationship of FDP compliance and financial performance (H_{02}). The moderation analysis table was presented below.

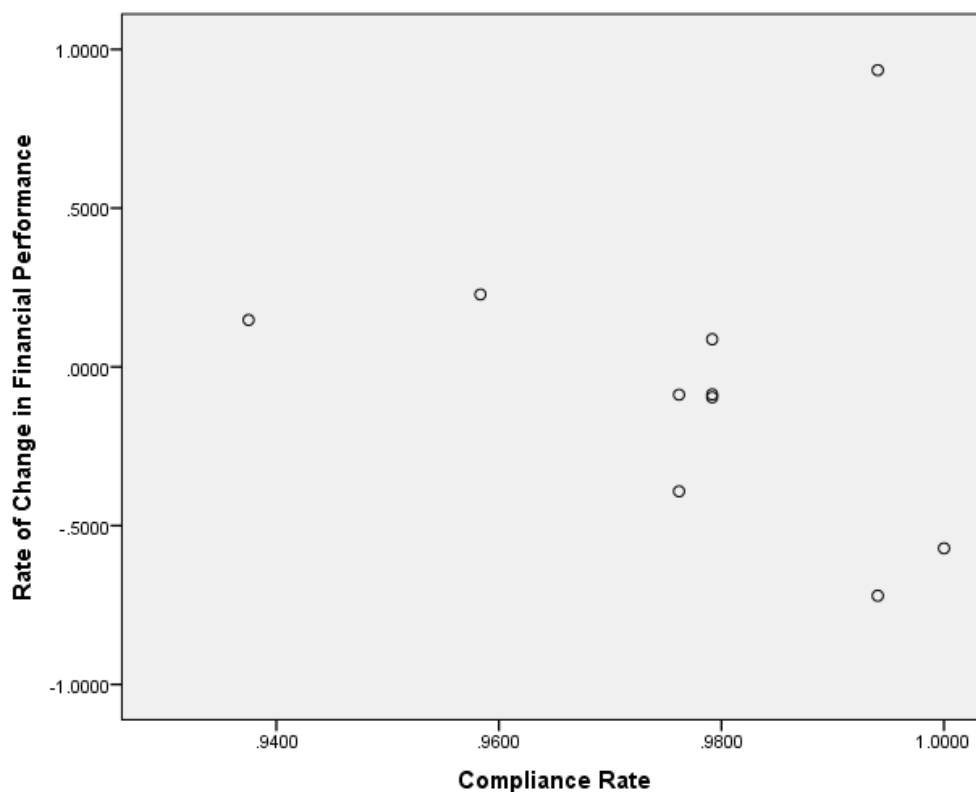




Table 7: Moderation Analysis of Audit Opinion to LGUs’ Disclosure Compliance Rate and Change in Financial Performances

Variables	Regression Significance ($\alpha = 0.05$) to Rate of Change in Financial Performance (DV)	ANOVA Significance ($\alpha = 0.05$)
Disclosure Compliance Rate	0.171	0.230
Audit Opinion	0.150	
Disclosure Compliance Rate and Audit Opinion	0.157	

Table 7 shows the moderation analysis of variables. This implies that since the disclosure compliance rate, audit opinion, and the combined compliance rate and audit opinion are not significantly different, and the Pearson product-momentum result (from figure 3) shows no significant relationship between compliance rate and rate of change in financial performance. It is clear that the audit opinion has no moderating effect on FDP compliance rate and its financial performances ($p = 0.171; 0.150; 0.157, \alpha=0.05$). Another Pearson product-momentum correlation was conducted to check if the compliance rate somehow affects the audit report but the result shows that it does not affect the other ($p = 0.14, \alpha=0.05$).

4.3.2.1 Moderating effect of audit opinion to FDP Compliance and Financial Performance

Audit opinion was found to have no significant moderating effect on the disclosure compliance and financial performance. The computed p-value of 0.171; 0.150; 0.157 shows that it is not significant at 0.05 level. Thus, the study failed to reject H_{o2} . The result of moderation analysis is analogous with the research findings of several authors (Idris & Irwan, 2018; Nosihana & Yaya, 2016; Mariani & Utami, 2019). Their study revealed that audit opinion has no significant effect on disclosure compliance.

4.4 Results of Hypothesis Testing

The table below was utilized to show the summarized results of hypothesis testing.

Table 8: Results of Hypothesis Testing

	Hypotheses	Results
H_{o1}	Disclosure Compliance to Financial Performances	<i>Failed to reject the null</i>
H_{o2}	Disclosure Compliance to Financial Performances as moderated by Audit Opinion	<i>Failed to reject the null</i>

4.5 Overall Results and Implications

In this study, the findings did not succeed to prove the effect of disclosure compliance on financial performance as moderated by audit opinion. Considering the high disclosure compliance rate of LGUs in Bataan, it does not encourage better financial performances. Given the fact that the nature of disclosure is mandatory, LGUs tend to comply with on-time submission of reports in order to avoid punishment. Hence, the assessed financial performance



is based on fiscal policies and not through the disclosure medium used for the availability of financial reports. As for the moderation analysis, the results showed the absence of correlation among the variables. With this, the quality of audit opinion is not related to the extent of disclosure compliance and financial performance evaluation. The instance where LGUs have unqualified opinions does not signify high compliance rate and good performance. Thus, it is evident that disclosure compliance of LGUs does not significantly affect financial performance.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This chapter provides a summary of the findings, as well as the conclusion and recommendations of the study based on the results from research questions. The main objective of this study was to analyze the consequences of disclosure compliance to evaluate the financial performances of local governments.

5.1 Discussion

This study aimed to examine the effect of Full Disclosure Policy (FDP) compliance on local government financial performances as moderated by audit opinion. Based on the research that has been done, the disclosure compliance has no significant effect on financial performances. The absence of a correlation connotes another argument why the local government needs to fully disclose the financial reports at the portal. From the findings of the study, the city and municipal LGUs in Bataan tend to have a high level of disclosure compliance because its nature is mandatory. The test shows that H_{01} is not rejected. This means that there is no significance as to the level of disclosure compliance of financial reports and its effect on financial performance evaluation. The reason is that the public sector is really inclined to present their financial reports on the websites, otherwise, local governments might be punished for noncompliance. And since LGUs are not profit oriented, this stance implies that disclosure compliance does not encourage the financial performance of local governments. As opposed to the private sector, the disclosure of financial information motivates better corporate financial performance. H_{02} is also not rejected. This indicates that audit opinion does not moderately affect disclosure compliance and financial performances. This is because an unqualified audit opinion in the report does not signify full disclosure of financial documents and it does not guarantee the better financial performances of local governments. Conversely, a qualified audit opinion in the report does not mean that local governments cannot fully disclose the financial documents and it does not coincide with poor performance in finance.

5.2 Conclusion

Based on the outcome of the study, the researchers conclude that mandatory full disclosure compliance of LGUs does not have significant effect on financial performance. The secondary data corroborates that city and municipal governments in Bataan have a high compliance rate (97.92%) in the disclosure of financial documents. With this, the full and timely disclosure compliance of LGUs is evidenced by the rates of submitted-on-time reports. Considering the results, LGUs tend to upload financial documents to meet the demands of



community citizens in the availability of reports at the portal so as to monitor the allocation of local budget and finances. The high level of full disclosure compliance also indicates the aim of LGUs to be recognized in the practice of good governance. Given that fact, LGUs prioritized the internal housekeeping through complying in the Full Disclosure Policy. Thus, the compliance is primarily due to LGUs' intent to be recognized with Seal of Good Local Governance (SGLG) award and to be qualified for the Performance Challenge Fund. As evident from the tests conducted, the financial performance of local governments is not significantly affected by disclosure compliance. The reason is that the financial performance is not merely assessed by the accessibility of financial documents. The result shows that financial performances of LGUs tend to decrease in three (3) indicators that were tested and somehow increase in one (1) indicator. This means that financial performance indicator ratios are mostly dependent on fiscal policies and budget management. Moreover, the research findings revealed that audit opinion does not moderately affect the disclosure compliance and financial performance. Based on the tests made, it suggests that the type of audit opinion does not prove the LGUs' willingness to fully upload the financial documents on the websites. Also, the result shows that financial performance indicators, such as revenue, expenditure, debt and investment capacity, and financial management capacity, are not moderately influenced by audit opinion. The reason is that good financial performance is represented by sound fiscal management and not merely by unqualified opinion in the auditor's report. Thus, the results of the study did not succeed to prove the effect of FDP compliance on financial performances of local governments as moderated by audit opinion.

5.3 Recommendations

This study aimed to address the gap in the practices related to the disclosure of local government financial reports and to determine whether it affects the financial performances. The outcome of the study gives understanding on what is lacking. Considering the results of this research, the recommendations are hereby discussed.

5.3.1 Local Government Units (LGUs)

Based on the findings, LGUs tend to fully disclose the required documents at the portal because it is mandatory. However, it is more beneficial to the citizens of the province if the LGUs will further disclose necessary supplemental financial reports on other government websites for the awareness of the community in the detailed allocation of local budget and finances. In fiscal year 2018-2019, eight (8) LGUs in Bataan, namely the City of Balanga, Bagac, Hermosa, Morong, Orani, Pilar and Samal were the recipient of the SGLG award thus fully complied with the disclosure requirements. Considering this, LGUs compliance in full disclosure must not also be dependent on receiving awards and incentives, but it should be inclined to serve the public interest through acknowledging the rights of every citizen to access government financial reports.

5.3.2 Citizens and interest groups

The results of the study shows that the FDP portal is the main hub of financial documents of LGUs. Considering the limitations in the accessibility of the reports, citizens and interest groups must find another disclosure medium of LGUs to look for relevant reports, such as visiting the other government websites, to collect more financial information and be able to assess the performances of local governments in terms of fiscal aspect.



5.3.3 Agencies concerned with local governments

From the tests made in this study, it is evident that Full Disclosure Policy is not merely the program that can help the public in the evaluation of LGUs' financial performances. Thus, agencies and attached bureau for local governments, including Department of the Interior and Local Government (DILG), Department of Finance (DOF) and Bureau of Local Government Finance (BLGF), must consider the result of this research as a reference to have material considerations in developing more appropriate government policies that can help local communities to assess the finance practices of their respective LGUs.

5.3.4 Academicians and Future Researchers

This study will serve as a useful guide for future researchers that might be dealing with the same problem addressed in this paper. Based on the findings, the variables considered do not have significant correlation to each other. For future studies, other indicators of financial performance may also be used as a measurement such as Internal Revenue Allotment (IRA) dependency, Locally Sourced Revenue (LSR) dependency and Other Share from National Tax dependency ratios. Also, the researchers believe that it is more applicable to use five-year panel data to further assess the changes in the financial performance ratios. Moreover, future researchers may use other measurements for disclosure compliance such as those that are considered as voluntary and not merely required by law. Future researchers may also expand the study area through focusing on provincial LGUs in different regions of the country. In addition, other moderating variables may be used such as local government characteristics to achieve the expected results.

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APPENDIX A: FULL DISCLOSURE POLICY (FDP) COMPLIANCE TABLES

Table 1. Full Disclosure Policy Compliance of Balanga City								
Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Quarterly Compliance				2019 Quarterly Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit

*not queried in portal



Table 2. Full Disclosure Policy Compliance of Abucay

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	1	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	1	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	1	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	1	2	2	2
Trust Fund Utilization	*	2	2	2	1	2	2	2
Manpower Complement	*	2	2	1	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 3. Full Disclosure Policy Compliance of Bagac

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				1			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 4. Full Disclosure Policy Compliance of Dinalupihan

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal



Table 5. Full Disclosure Policy Compliance of Hermosa

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 6. Full Disclosure Policy Compliance of Limay

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	1				2			
Annual Gender and Development Accomplishment Report	1				2			
Annual Procurement Plan or Procurement List	1				2			
Statement of Debt Service	1				1			
Statement of Receipts and Expenditures	1				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	0	1	2	2	2	2	2
Report of Special Education Fund Utilization	*	0	1	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	0	2	2	2	2	2	2
Supplemental Procurement Plan	*	0	2	2	1	1	1	1
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 7. Full Disclosure Policy Compliance of Mariveles

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal



Table 8. Full Disclosure Policy Compliance of Morong

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 9. Full Disclosure Policy Compliance of Orani

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 10. Full Disclosure Policy Compliance of Orion

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	1	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal



Table 11. Full Disclosure Policy Compliance of Pilar

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	1				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 12. Full Disclosure Policy Compliance of Samal

Financial Documents	2018 Annual Compliance				2019 Annual Compliance			
Annual Budget Report	2				2			
Annual Gender and Development Accomplishment Report	2				2			
Annual Procurement Plan or Procurement List	2				2			
Statement of Debt Service	2				2			
Statement of Receipts and Expenditures	2				2			
	2018 Annual Compliance				2019 Annual Compliance			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	2	2	2	2	2	2	2
Bid Results on Civil Works, Goods and Services, and Consulting	*	2	2	2	2	2	2	2
Local Disaster Risk Reduction and Management Fund Utilization	*	2	2	2	2	2	2	2
Quarterly Statement of Cash Flow	*	2	2	2	2	2	2	2
Report of Special Education Fund Utilization	*	2	2	2	2	2	2	2
Trust Fund Utilization	*	2	2	2	2	2	2	2
Manpower Complement	*	2	2	2	2	2	2	2
Supplemental Procurement Plan	*	2	2	2	2	2	2	2
Unliquidated Cash Advances	*	2	2	2	2	2	2	2

Note: 2 - submitted on time 1 - late submission 0 - did not submit *not queried in portal

Table 13. Overall FDP Compliance of LGUs in Bataan - Submitted on Time

Financial Documents	2018 Annual Compliance in %				2019 Annual Compliance in %			
Annual Budget Report	95.83%				100.00%			
Annual Gender and Development Accomplishment Report	95.83%				100.00%			
Annual Procurement Plan or Procurement List	95.83%				100.00%			
Statement of Debt Service	95.83%				91.67%			
Statement of Receipts and Expenditures	91.67%				100.00%			
	2018 Quarterly Compliance in %				2019 Quarterly Compliance in %			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
20% Component of the Internal Revenue Allotment Utilization	*	100.00%	100.00%	100.00%	95.83%	100.00%	100.00%	100.00%
Bid Results on Civil Works, Goods and Services, and Consulting	*	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Local Disaster Risk Reduction and Management Fund Utilization	*	100.00%	100.00%	100.00%	95.83%	100.00%	100.00%	100.00%
Quarterly Statement of Cash Flow	*	91.67%	95.83%	100.00%	95.83%	100.00%	100.00%	100.00%
Report of Special Education Fund Utilization	*	91.67%	95.83%	100.00%	95.83%	100.00%	100.00%	100.00%
Trust Fund Utilization	*	100.00%	95.83%	100.00%	95.83%	100.00%	100.00%	100.00%
Manpower Complement	*	91.67%	100.00%	95.83%	100.00%	100.00%	100.00%	100.00%
Supplemental Procurement Plan	*	91.67%	100.00%	100.00%	95.83%	95.83%	95.83%	95.83%
Unliquidated Cash Advances	*	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

*not queried in portal

APPENDIX B: COMPUTED FINANCIAL PERFORMANCE RATIOS

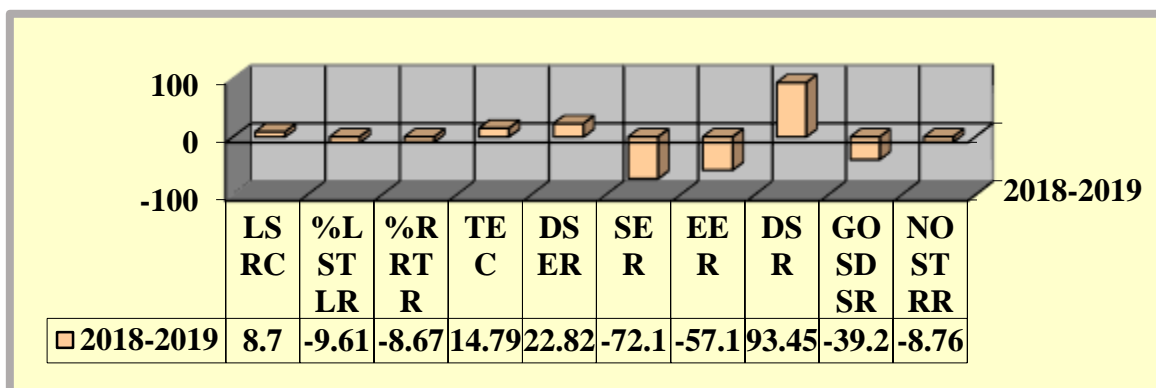
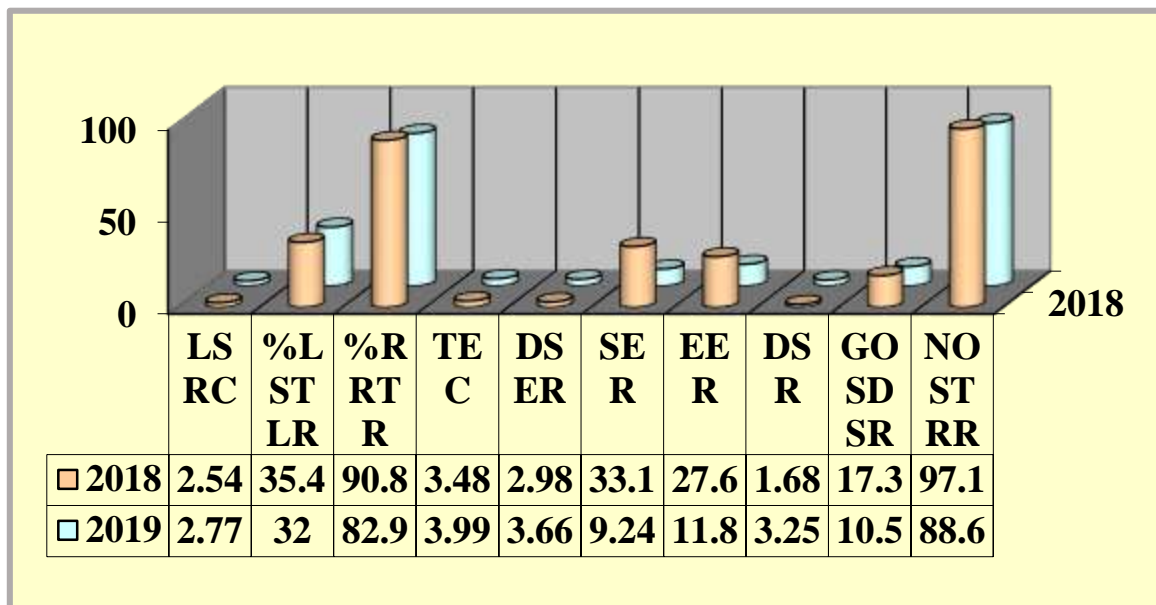


A. Revenue Indicators		
A.1 Revenue Potential	1. Revenue Level	Total Revenues $((\text{Total Revenues Yr1} - \text{Total Revenues Yr0}) / \text{Total Revenues Yr0}) * 100$
	2. Revenue Growth	
A.2 Revenue Stability and Reliability	3. Locally-Sourced Revenue per Capita	Locally Sourced Revenue/Population $((\text{Locally Sourced Rev per Capita Yr1} - \text{Locally Sourced Rev per Capita Yr0}) / \text{Locally Sourced Rev per Capita Yr0}) * 100$ $(\text{Locally Sourced Revenues} / \text{Total Revenues}) * 100$ $(\text{Regular Revenues} / \text{Total Revenues}) * 100$
	4. Growth in Locally Sourced Revenue per Capita	
	5. % Locally Sourced to Total LGU Revenue	
	6. % Regular Revenues to Total Revenue	
A.3 Revenue Mobilization Efficiency	7. Total Revenue Collection Cost to Total Revenues Collected (TRCC)	$(\text{Total Local Revenue Collection Cost} / \text{Total Local Revenues}) * 100$
	8. Real Property Tax Accomplishment Rate (RPTAR)	
B. Expenditure Indicators		
	9. Total Expenditures per Capita	Total Expenditures/Population $(\text{Personnel Services Expenditures} / \text{Total Expenditures}) * 100$ $(\text{Debt Service Payments} / \text{Total Expenditures}) * 100$ $(\text{Social Services Expenditures} / \text{Total Expenditures}) * 100$ $(\text{Economic Services Expenditures} / \text{Total Expenditures}) * 100$
	10. Personnel Services Expenditure Ratio (PSER)	
	11. Debt Service Expenditure Ratio (DSER)	
	12. Social Expenditure Ratio (SER)	
	13. Economic Expenditure Ratio (EER)	
C. Debt and Investment Capacity Indicators		
	14. Debt Service Ratio (DSR)	$(\text{Debt Service Payments} / \text{Regular Revenues}) * 100$ Gross Operating Surplus/(Deficit)/Debt Service Payments $(\text{Total Debts} / \text{Total Net Assets}) * 100$ $(\text{Capital Investments} / \text{Total Revenues}) * 100$
	15. Gross Operating Surplus to Debt Service Ratio (GOSDSR)	
	16. Debt to Net Asset Ratio (DAR)	
	17. Capital Investments to Total LGU Revenue Ratio (CITRR)	
D. Financial Management Capacity Indicators		
	18. Net Operating Surplus to Total LGU Revenue Ratio (NOSTRR)	$(\text{Net Operating Surplus} / \text{Total Revenues}) * 100$ $(\text{Uncommitted Cash Balance} / \text{Total Expenditures}) * 100$
	19. Uncommitted Cash Balance to Total LGU Expenditure Ratio (UCBTER)	

2018	Balanga City	Abucay	Bagac	Dinahapitan	Hermosa	Limay	Mariveles	Morong	Orani	Orion	Pilar	Samal
LSRC	3486.51	548.02	955.48	697.21	400.38	14930.46	3378.65	1669.17	1206.09	1040.08	805.35	1317.39
%LSLGR	43.55	17.56	11.71	23.50	32.91	87.14	62.43	25.77	36.02	29.84	21.64	32.36
%RRTR	99.69	99.60	59.49	87.64	80.22	99.71	97.46	86.75	98.52	99.22	85.05	96.25
TEC	6187.13	665.80	7348.27	2373.80	379.43	3363.56	4316.07	6394.36	3287.15	144.29	3234.13	4053.87
DSER	1.04	17.65	0.49	0.65	3.07	0.00	0.94	1.48	1.83	0.00	7.27	1.31
SER	2.16	0.03	14.46	7.40	6.21	13.61	3.80	16.70	1.25	313.72	14.12	3.37
EER	5.30	76.88	19.78	9.85	10.06	3.23	2.14	22.69	7.99	152.36	15.18	5.41
DSR	0.80	3.78	0.74	0.60	1.19	0.00	0.77	1.69	1.83	0.00	7.43	1.36
GOSDSR	28.34	20.83	20.34	38.22	71.94	0.00	26.99	0.86	0.19	0.00	(0.14)	0.33
NOSTRR	99.17	95.99	98.59	99.48	99.04	99.78	99.25	98.53	96.72	100.00	79.69	98.69

2019	Balanga City	Abucay	Bagac	Dinahapitan	Hermosa	Limay	Mariveles	Morong	Orani	Orion	Pilar	Samal
LSRC	3714.99	665.37	1335.03	771.39	1266.25	15946.82	2347.14	2302.31	651.56	1040.08	886.33	2156.62
%LSLGR	42.47	19.04	18.03	15.86	26.36	86.20	51.34	18.96	12.17	29.84	21.52	41.81
%RRTR	99.36	99.61	75.70	58.82	79.02	99.02	97.01	51.45	55.16	99.22	84.04	96.78
TEC	6294.04	735.26	7340.89	2556.68	4587.12	4670.79	5312.18	5200.31	0.00	2607.94	3526.77	5088.48
DSER	6.18	5.41	0.46	0.46	3.98	0.00	0.99	3.20	0.00	0.00	3.40	19.89
SER	9.01	0.03	2.46	23.91	7.66	7.74	5.59	16.91	0.00	17.36	10.50	9.65
EER	5.99	71.18	4.93	9.66	6.12	6.04	2.89	5.40	0.00	8.43	16.47	4.79
DSR	4.48	1.14	0.60	0.41	4.81	0.00	1.19	2.67	0.00	0.00	3.46	20.27
GOSDSR	6.20	69.23	(51.14)	101.49	1.18	0.00	(14.04)	13.80	0.00	0.00	(0.29)	0.07
NOSTRR	95.12	98.65	75.29	77.08	96.20	99.15	98.85	60.39	100.00	100.00	81.88	80.38

APPENDIX C: SUMMARY OF CHANGES (%) IN FINANCIAL PERFORMANCE RATIOS



APPENDIX D: TYPES OF AUDIT OPINION ISSUED



2018 Audit Report		
LGUs	Audit Opinion	Score
Balanga	Qualified	3
Abucay	Qualified	3
Bagac	Qualified	3
Dinalupihan	Qualified	3
Hermosa	Qualified	3
Limay	Disclaimer of Opinion	1
Mariveles	Qualified	3
Morong	Qualified	3
Orani	Qualified	3
Orion	Qualified	3
Pilar	Qualified	3
Samal	Qualified	3

2019 Audit Report		
LGUs	Audit Opinion	Score
Balanga	Qualified	3
Abucay	Qualified	3
Bagac	Qualified	3
Dinalupihan	Qualified	3
Hermosa	Qualified	3
Limay	Qualified	3
Mariveles	Qualified	3
Morong	Qualified	3
Orani	Qualified	3
Orion	Qualified	3
Pilar	Qualified	3
Samal	Qualified	3

APPENDIX E: SUMMARY OF TRENDS IN AUDIT OPINION

