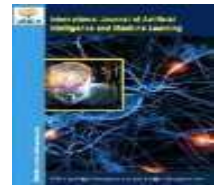




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Publisher's Home Page: <https://www.svedbergopen.com/>



Research Paper

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Driving Governance Excellence Through Fiscal Engines: A Global-To-Local Review

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ABSTRACT

This study interrogates the operational paradox of local governance in the Philippines, where highly urbanized cities such as Baguio consistently secure the "Gold Standard" of audit integrity yet fail to achieve conferment under the Seal of Good Local Governance (SGLG). Anchored on Stewardship Theory and the Theory of Fiscal Cluster Convergence, the research integrates a bibliometric review of global subnational fiscal administration literature with an empirical case analysis of Baguio City. Using PRISMA protocols and VOS viewer citation clustering, the study maps systemic friction points between international oversight designs and local compliance realities. Results reveal that while fiscal transparency is achieved through unqualified Commission on Audit (COA) opinions, operational bottlenecks—such as reporting lags, inter-office synchronization gaps, and compliance fatigue—undermine holistic governance outcomes. The findings highlight the need for integrated digital platforms, institutional agility, and long-term fiscal strategy to bridge the gap between accounting accuracy and governance excellence.

Keywords: Fiscal Administration, Seal of Good Local Governance, Synchronization Gap, Digital Isomorphism, Public Financial Management

Introduction

Governance is always known as a relationship involving institutional performance, transparency, and accountability. Fiscal management is a key pillar and a litmus test for good governance and it influences citizens' perceptions of legitimacy and trust in local institutions in today's public administration. Financial prudence and service delivery, innovation and sustainability – and in particular, the Audit Integrity – can be combined in local government and the Seal of Good Local Governance (SGLG) is an example of this. This, however, is a mismatch between the financial precision and good governance, proving that fiscal administration is not only financial precision, but also good governance.

An activity that is dynamic and needs to be adapted, that requires an institutional cooperation and adaptability to institutional fatigue.

This paradox was used as a point of departure to examine the development of the paradigm of global governance in the past decades and the effects of this on local practices and expectations. The study's positioning of the fiscal experience in these currents relates the micro and macro experiences of audit and compliance to each other.

Global Paradigm Shifts in Governance

Globalization, technology and changing citizen expectations have led to changes in governance in the last 30 years. It is a traditional process to change compliance and bureaucratic models to transparency, accountability and participative models for decision making. As a multi-dimensional concept, governance has been introduced by the international institutions (such as the World Bank, OECD or UNDP) in the context of its relationship with fiscal integrity, social inclusion, digital innovation and sustainable development. This shift is due to the fact that audit is not the only measure of good governance, as it is about resilience, adaptability and institutional legitimacy, amidst the complex international issues.

In the meantime, the digital government has launched a new idea of fiscal governance and its application in the world. To improve transparency and build citizens' trust, several countries in Asia, Europe, and Latin America (LEAL) have developed e-governance initiatives, open data initiatives and a common financial management system. These developments form part of a global trend toward convergence, which has brought about fiscal responsibility within an environment of more comprehensive governance where cooperation, compatibility, and responsiveness play important roles. Such paradigm shifts present both possibilities and difficulties for local government authorities, such as those of Baguio City, in terms of incorporating the integrity of audits in the standards of governance and transparency of the local government authorities on one hand, and being "left behind" on the other.

Change from transactional (New Public Management, NPM) to relational (New Public Governance, NPG) model

of public administration. Fiscal supervision, in the NPM perspective, mainly concentrated on the input, focusing on cost-effective, budget-balances.

Adhering to legalities (Osborne & Sancino, 2024). NPG, on the other hand, puts fiscal administration as the essential foundation of decentralized governments. It is the way to achieve institutional accountability, social contract, and get budget packages into service. Such instruments as OECD Policy Framework on Sound Public Governance (2020) and the G20/OECD Principles of Corporate Governance (2023) support this. They highlight transparency and resilience and the need for trust in governance from stakeholders.

Philippine Context: The Seal of Good Local Governance

The Philippine Government has mandated the achievement of compliance for LGUs in 10 governance areas, one of which is —Financial Administration and Sustainability, which is considered as the non-negotiable pillar under the Seal of Good Local Governance (SGLG) Act of 2019 (enacted by the Philippine Government through Republic Act No. 11292, 2019) (DILG, 2024). In this design, it can be seen that the logic is that a fiscal base crisis is a crisis of social programs and peace and order for any LGU. The Mandanas-Garcia ruling also reinforced the National Tax Allotment (NTA), which devolved more of the function of providing services to the LGUs, and highlights the importance of fiscal administration as one of the factors that helps or hinders the success of governance (Cuaresma & Ilago, 2024). The expansion, however, brought about paradoxes as well, as more resources would create opportunities for development, but then again, it would also make compliance more complicated by increasing the number of transactions that would be open to audits by the Commission on Audit (COA) and verification by SGLG (Hermocilla, 2024).

The Governance Puzzle in Baguio City

The case of Baguio City is a good example of this paradox. The city is consistently rated in unqualified COA audit opinions since 2019, the Gold Standard of fiscal transparency, but has not been able to qualify for SGLG recognition in the subsequent audit cycles (2019-2026). This disconnect presents a governance conundrum: What's the difference between integrity in audit and governance excellence? The solution is to be found in the working of the fiscal cluster—Budget, Treasury, Accounting and Assessing offices. World Bank (2026), Buenaflor (2024) found that inter-office bottlenecks can lead to recurring synchronization gaps and functional silo malfunctions, accompanied by high individual performance, but not necessarily good overall performance. For instance, the Government accounting, treasury, and budget offices may have unsynchronized and complex digital tax governance systems, while clients' reliance on the manual tax processes can cause delays and lead to what Cruz and Salazar (2025) refer to as “digital isomorphism”.

Theoretical Anchoring

The theoretical framework is multi-disciplinary, and is interrogated in order to:

- Stewardship Theory which posits that fiscal officers can be viewed as stewards of public goods, and are responsible to act on behalf of the common good, and not for themselves (Scott, 2024). The concept of fiscal administration is that it is a matter not only of compliance but also a moral obligation to respect the social contract.
- Institutional Theory frames the SGLG is a process of regulatory isomorphism, a process that compels LGUs to act similarly with the aim of attaining legitimacy (Medina-Guce & Sanders, 2024). It refers to the impact of external influences on internal administration, which may lead to the superficial rather than substantive change.
- Resource-Based View (RBV) 2.0 puts fiscal administration at the heart of LGUs' competitive advantage, highlighting the importance of a capacity to make effective use of the increased fiscal space, such as provided by the NTA, through an integrated digital system (World Bank, 2026).
- Dynamic Capabilities Theory emphasizes the ability of the city to develop internal capabilities to respond to the ever-changing needs of a city. In cities such as Baguio, that are so urbanized that fiscal agility is a key component of resilience in the context of complex socio-economic pressures, this lens is crucial.

Together, these theories provide a multi-level view: stewardship theory provides for the sense of purpose, institutional theory provides for the pressure to justify, RBV provides for the dynamics of the use of resources, and dynamic capabilities provide for the adaptive dynamics.

Research Gap and Contribution

Very few studies (less than 10%) in public financial management (PFM) have included empirical data that is not urban based and most (over 80%) have been restricted to mega-cities (Gooc, 2023). Mid-tier cities like Baguio are not well studied despite the fact that there are high volume economic activities and a lack of resources in Baguio. Additionally, scholarship tends to be more binary, with the national awards marking a pass/fail with the processes required to achieve the award left out of the process (Consortia Academia, 2023). This study bridges the gaps and provides a global bibliometric analysis as well as localized analysis of Baguio

City and local governance of regional economies from the lenses of both of these theories. It challenges the system dynamics of conflict between international governance and domestic management of regional economies, in a way that is based on Stewardship Theory and the Theory of Fiscal Cluster Convergence.

Designs and realities of local compliance: The study's contribution to the broader debate on fiscal integrity, empirical findings on the effects of synchronization gaps, compliance fatigue and digital isomorphism, and the combined impact of the three factors on the ability to achieve governance excellence through audit transparency help address the gap in knowledge of this topic.

Methodology

It is based on a multi-disciplinary methodology of governance research which brings together the philosophical and the practical elements of the fiscal governance. This framework covers both the purpose for fiscal practices, as well as the mechanics for how the relationship between audit integrity and governance excellence works.

Stewardship Theory (Grand Theory)

At the top level, fiscal officers are believed to act in public interest, rather than for their own gain, according to the Stewardship Theory (Scott, 2024). It has provided the moral rationale of fiscal administration and has turned fiscal transparency and accountability into moral obligations to realize the social contract. Stewardship is the motivating factor for Fiscal Officers in Baguio City to go the extra mile to exceed the prescribed standards in the regulations and build fiscal integrity as a public trust.

Institutional Theory (Legitimacy Lens)

Institutional Theory setting of the SGLG framework is in the context of regulatory isomorphism (Medina-Guce & Sanders, 2024). All LGUs have uniform financial practices, in order to appear legitimate to national bodies of oversight. This lens can be used to explore the question of how the external factors are impacting compliance, and to recognize that there is potential for superficial conformity – where an LGU imitates best practice without embodying it. This is what is happening in Baguio, with the digital isomorphism of outward facing digital systems that obfuscate the continuous manual processes (Cruz & Salazar, 2025).

Resource-Based View (RBV 2.0)

The Resource Based View (RBV) is based on the observation that fiscal administration might create competitive advantage. In the Philippines, this is manifested in the digital absorptive capacity of the LGUs, that is, their ability to make use of the enhanced fiscal space, for instance, by utilizing the National Tax Allotment (World Bank, 2026). In Baguio, RBV emphasizes the need to mobilize resources and integrate technology in the process of converting financial resources into development outcomes.

Dynamic Capabilities Theory (Adaptive Execution)

Last but not least, Dynamic Capabilities Theory highlights the city's capacity to re-align its internal capabilities to respond to the city's evolving needs (Teece & Leih, 2024). This theory is the reason for the need for fiscal agility in highly urbanized cities: how to flexibly overcome synchronization gaps in the fiscal cluster, integrate digital systems and adapt workflows. Dynamic capabilities are essential for Baguio's fiscal integrity as they help address the question of how to keep the fiscal framework in place in the face of rising compliance requirements.

Integrative Model: The Fiscal Cluster Convergence

The theories come together in the Fiscal Cluster Convergence Model that operationalizes the interaction between the Budget, Treasury, Accounting and Assessing offices. Stewardship is about the intent, Institutional Theory is about the legitimacy pressures, RBV is about the use of resources and Dynamic Capabilities are about adaptive execution. They create a comprehensive framework for comprehending the fiscal administration impact on governance outcomes.

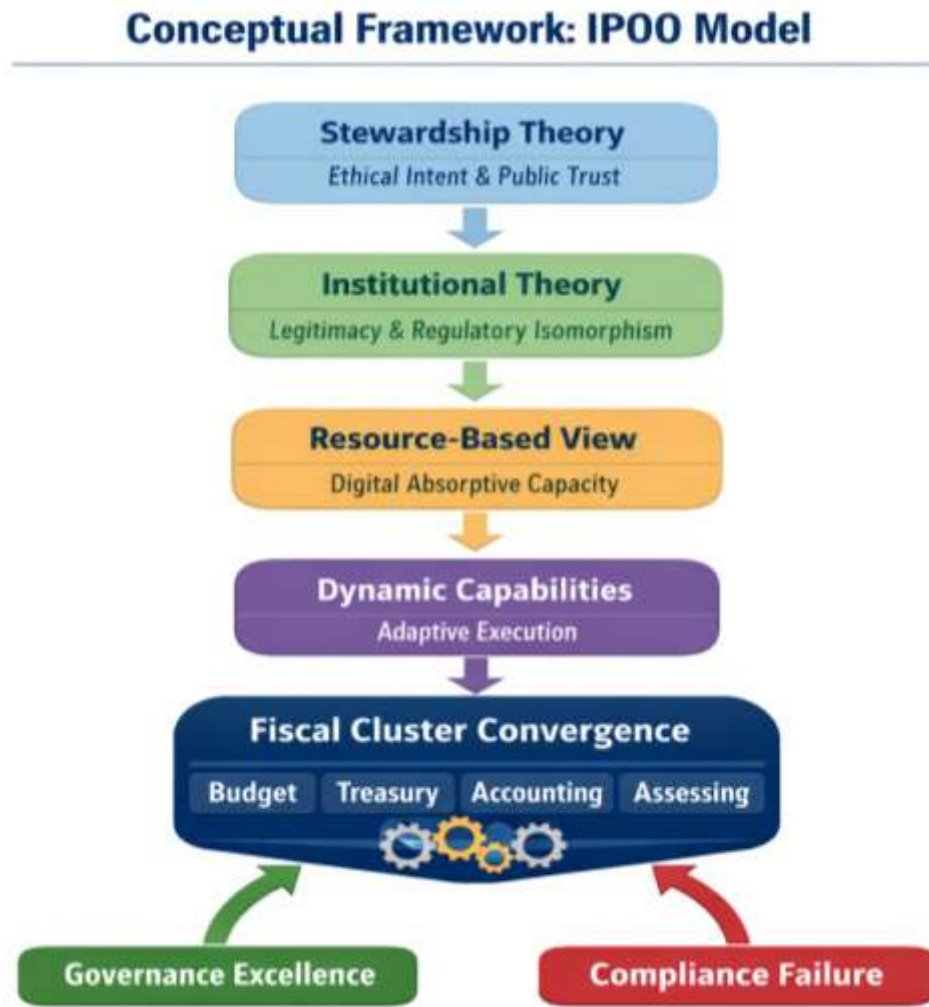


Figure 1. Conceptual Framework (IPOO Model)

This framework is the portrayal of the series of theoretical drivers of operational fiscal practice. The concepts of Stewardship Theory are ethical intent and public trust; Institutional Theory has legitimacy pressures; digital absorptive capacity is from Resource Based View, and Adaptive execution is from Dynamic Capabilities. They converge in the Fiscal Cluster (Budget, Treasury, Accounting, and Assessing) either to form governance excellence or failure as per synchronization.

Table 1. Conceptual Framework Discussion Matrix

Theoretical Lens	Core Principle	Operational Focus in Fiscal Administration	Implications for Baguio City
Stewardship Theory	Fiscal officers act as caretakers of public wealth, prioritizing collective welfare over personal gain.	Promotes ethical resource use, transparency, and accountability in budgeting and expenditure management.	Reinforces the moral dimension of fiscal integrity; explains why Baguio maintains consistent unqualified COA audit opinions despite administrative friction.
Institutional Theory	Organizations conform to external norms and standards to gain legitimacy (regulatory isomorphism).	Drives compliance with SGLG criteria and national audit standards through standardized fiscal behaviors.	Highlights how external pressures from DILG and COA shape fiscal routines, sometimes resulting in superficial compliance or digital isomorphism.

Resource- Based View (RBV 2.0)	Competitive advantage arises from effective resource mobilization and technological capability.	Focuses on digital absorptive capacity—integrating technology for revenue collection, budgeting, and reporting.	Explains how Baguio’s fiscal cluster leverages digital systems but faces interoperability challenges that limit full utilization of the National Tax Allotment.
Dynamic Capabilities Theory	Institutional success depends on the ability to reconfigure internal competences to meet changing demands.	Encourages adaptive execution, inter-office coordination, and continuous process innovation.	Clarifies how Baguio’s fiscal cluster must evolve to overcome synchronization gaps and compliance fatigue under escalating SGLG benchmarks.
Fiscal Cluster Convergence Model	Synergy among Budget, Treasury, Accounting, and Assessing offices ensures fiscal coherence.	Integrates budgeting, revenue generation, expenditure control, and audit compliance into a unified system.	Serves as the operational bridge between audit integrity and governance excellence; determines whether fiscal transparency translates into sustainable good governance.

Now here is a matrix to depict theory in situations. In the ethical intent, the pressure is related to stewardship; in the legitimacy to the Institutional Theory; and in the execution to the Dynamic Capabilities (DC) and the technological resources. When combined with each other, they come to the Fiscal Cluster; being excellent or failure to be it is synergy between the offices.

To conduct this analysis, the results are then systematically presented using the help of structured matrices as supported by the theories and realities of the study. The Conceptual Framework Discussion Matrix is the matrix being used to discuss the theories and how they would impact the fiscal practice in Baguio City which is Stewardship, Institutional, Resource Based View, and Dynamic Capabilities. This is followed by the Results Discussion Matrix that integrates the results of the audit ratings, SGLG performances, synchronization experiences, and compliance fatigue with the theoretical perspectives. Two tables are then constructed to analyze and synthesize the conceptual bases and to make the reviewers see the connections between the conceptual bases and the results.

Results and Discussion

From the conclusions drawn from this study, an intriguing paradox is observed about the fiscal management of Baguio City, wherein integrity of the audit exists without the excellence in governance. An unqualified opinion of the Commission on Audit (COA) is referred to as the “Gold Standard” in the realm of fiscal accountability, which is bestowed upon the city since 2019. This is a demonstration of the moral drive and competence of the fiscal managers based on the principles of Stewardship Theory. However, the failure to earn the seal of good local governance (SGLG) is another reflection of a much broader structural problem, namely, that audit does not equate to governance.

Evidence of a lack of synchronization between offices within fiscal cluster (Budget, Treasury, Accounting, and Assessing) not operating as a system is still ongoing. While Treasury has been moving down the path towards a more digital economy, manual parts of accounting and budgeting are still inefficient and what academics call “digital isomorphism” – ‘a digital shell of a more contemporary economy’. This difference in absorptive capacity provides a strong backing for the resource-based view because according to it, the resources and technology have to be fully integrated to form a competitive advantage.

The pressures of institutions further complicate matters. The SGLG’s “all-or-nothing” disclosure and funding system makes the requirements very strict in the sense that if the disclosure does not adhere to the standards, or the money is not spent correctly, then the whole process of disclosure will not adhere to the standards. This is a phenomenon that conforms to the principles of institutional theory in the sense that external pressures influence internal processes only through superficial changes. At the same time, the compliance papers are becoming increasingly more complex and cumbersome, resulting in the growing burden of bureaucracy, administrative fatigue, and diversion of resources from strategic planning to ad hoc paper writing.

In all of these data sets, there is one thing that comes through loud and clear: excellent governance does not guarantee clean audits. It involves changes in execution, integration of the changes in the organization and continuous resource mobilization. This paradox is subject of the Fiscal Cluster Convergence Model: Transparency and the integrity of the audit process is a precondition, but not a sufficient condition, for fiscal governance to become an effective governance. It suggests fiscal transparency development is a precondition for successful financial governance and linked to the use of resources and dynamic capabilities and stewardship and legitimacy.

Table 2. Results Discussion Matrix: Linking Empirical Findings to Theoretical Constructs

Empirical Indicator	Observed Pattern / Data	Theoretical Link	Interpretation and Implications for Baguio City
COA Audit Ratings (2015–2026)	Consistent Unqualified Opinions since 2019, indicating high fiscal transparency and accounting accuracy.	Stewardship Theory	Confirms ethical intent and fiscal integrity among officers. However, stewardship alone does not guarantee governance excellence—technical transparency must be complemented by operational synergy.
SGLG Performance (2019–2026)	Repeated non-conferment despite audit excellence; failure in — Financial Administration and Sustainability pillar.	Institutional Theory	Reflects regulatory isomorphism—compliance driven by external legitimacy pressures rather than internalized reform. Suggests that Baguio’s fiscal cluster meets audit standards but struggles with holistic SGLG integration.
Synchronization Gap Across Fiscal Cluster	Persistent delays and data mismatches between Budget, Treasury, Accounting, and Assessing offices.	Dynamic Capabilities Theory	Indicates limited adaptive execution and weak inter- office coordination. The city’s fiscal cluster must reconfigure workflows and digital systems to achieve real-time interoperability.
Digital System Utilization	Accounting, treasury, and budget use advanced digital tax collection; clients prefer manual legacy processes.	Resource- Based View (RBV 2.0)	Demonstrates partial digital absorptive capacity. Resource mobilization is strong, but technological integration remains uneven, creating bottlenecks that hinder full utilization of the National Tax Allotment.
Administrative Burden and Compliance Fatigue	Staff diverted from strategic fiscal planning to clerical evidence compilation for SGLG documentation.	Institutional & Dynamic Capabilities Theories	Reveals bureaucratic decoupling—focus on portal perfection over substantive reform. Suggests need for capacity-building and workflow automation to reduce compliance fatigue.
Audit- Governance Disconnect	High audit integrity but low governance recognition.	Fiscal Cluster Convergence Model	Confirms that fiscal transparency does not automatically translate into governance excellence. Success depends on synchronization and synergy across fiscal offices.

The fiscal management of Baguio City is unique because, on one hand, the City is good stewards and audit integrity, while on the other; they have weak adaptive capacity and are rigid. The difference between audit excellence and SGLG attainment is further confirmation that there is a need for: Cooperation within the Office and smooth digital solutions. Results confirm the Fiscal Cluster Convergence Model which states that the convergence of ethical intent, legitimacy and resource use and adaptive execution is necessary to achieve governance excellence.

The Results Discussion Matrix also emphasizes the structural contradiction found in the fiscal administration of Baguio City: the integrity of fiscal management has always been reflected in unmodified audit opinions of the COA, while the enforcement of the SGLG has revealed synchronization problems and compliance fatigue. The city's fiscal cluster is an example of partial digital absorptive capacity, although it has good treasury solutions, the accounting/budgeting processes have yet to fully converge and there are legacy processes that will be a bottleneck to the full transition to digital. This mismatch is what is driving the Fiscal Cluster Convergence Model, not only transparency in the audit reporting, but adapting, working together and staying connected with resources. All of the results suggest that Baguio needs to move away from mere compliance and towards the

more strategic and sustainable fiscal governance reform, the topic being discussed at the last session of the closing discussion on institutional resilience and sustainable fiscal strategy.

Audit Integrity and Stewardship

The results indicate that Baguio City has consistently obtained the highest degree of fiscal transparency and accounting accuracy from the start in 2019, that is, the Unqualified COA Audit Opinions. This is a good outcome for the stewardship theory that asserts that fiscal officers ought to be stewards of the public money. The fiscal cluster is a representative example of the ethical duties and skills of financial documentation in the City. But despite SGLG's audit excellence, non-conferment, it seems, is not enough for stewardship. Excellence in governance requires operational synergy and adaptive execution as well. Operational synergy and adaptive execution must go hand in hand with ethical integrity.

SGLG Performance and Institutional Pressures

Although Baguio City had good audit scores, it failed to qualify for the SGLG award in the 2022, 2023, and the consolidated 2024 - 2026 cycle. The Institutional Theory dynamic of regulatory isomorphism is shown in this pattern. The adoption of uniform fiscal behaviors is required for LGUs to achieve legitimacy, but is not always genuine. While Baguio has achieved audit requirements, the more comprehensive and overarching requirements of the SGLG, such as financial administration and sustainability is still a challenge for the city. This disconnect is just an example of the SGLG's —all-or-nothing attitude.

Synchronization Gaps and Dynamic Capabilities

Results show that coordination problems exist in the fiscal cluster in terms of delays in documents, office communication and access to and utilization of digital tools. These gaps are consistent with the principles of Dynamic Capabilities Theory which highlights the significance of reconfiguration of internal capabilities in meeting the requirements of change. For instance, in Baguio, the adaptive capability remains weak; as the Treasury, Accounting, and Budget utilize advanced technology for the issuance and collection of taxes, many clients, especially older citizens, still struggle to adapt to digitalization or online systems. This disintermediation creates inefficiencies in the system and can make it challenging to be transparent in real time and to meet SGLG benchmarks.

Digital Absorptive Capacity and Resource Utilization

Another finding from the results is that there is a digital absorptive capacity gap between fiscal offices. The other offices are being digitalized at a slower pace than the Treasury, resulting in a digital isomorphism between them and the Treasury, as described by Cruz and Salazar (2025). The city, on the outside, appears modernized, but is constrained by a series of disjointed systems on the inside which don't allow for efficient, more effective use of fiscal space within the limitations of the Mandanas-Garcia decision. This finding validates the Resource-Based View (RBV 2.0) theory, which puts technological integration under the category of competitive advantage. Baguio's absorptive capacity is one reason why it is not getting better governance despite the increased resources.

Compliance Fatigue and Bureaucratic Decoupling

One of the key findings is that fiscal people are becoming 'compliance fatigued'. The time resources (people) assigned to the SGLG assessors have spent compiling, uploading and reconciling huge amounts of documentation have taken up time away from strategic fiscal planning and fund utilization analysis. The trend is known as bureaucratic decoupling – bureaucratization of the portal rather than substantive change of the Civil service. It highlights the significance of developing the capacity and the development of innovation for reducing administrative costs, as well as moving towards long-term budget planning.

Synthesis of Findings

Clean audits do not form the basis for good governance in the practical world. It requires integrity of the steward, institutionalization, resource mobilization, and flexibility of implementation for its success. The reason why despite passing the audit the city is not termed as SGLG is because there is no synergy of the office and the inconsistent integration of the digital components. This underlines the necessity to harness and promote synergy and transparency of the budgeting process using internal conflicts in order to achieve sustainable governance

It demonstrates a great paradox in fiscal management of Baguio City: despite the consistent achievement of good audit results, good governance can still be a challenge. The matrices give a clarification on the gap between theoretical approaches (stewardship, institutional, resource based view and dynamic capabilities) and empirical evidence. Transparency of audit implies the presence of moral stewardship: The lack of synchronization and absorptive capacity, along with stewardship fatigue, are a bonus for institutional compliance and resource mobilization. Lastly, the Fiscal Cluster Convergence Model reinforces the impactful importance of fiscal offices working together to achieve fiscal governance excellence, defined by institutional resilience (technical compliance). Data collected in this synthesis can be used to elaborate the Overall Contributions, Policy Implications, and/or potential Recommendations in the Conclusion chapter.

Conclusion

With its findings, the study has shed light on the paradox of the fiscal administration in Baguio City – audit integrity has been achieved while excellence has been a challenge to achieve. One of the indicators of Seal of

Good Local Governance (SGLG) is fiscal transparency but not everything. The city has continuously been provided with unqualified Commission on Audit (COA) opinions, a good indicator of good stewardship, and thus a reflection of the ethical purpose of the city and in turn the principles of Stewardship Theory. However not being able to get SGLG recognition is a symptom of other structural problems – most importantly synchronization

There are barriers such as disparities in digital absorptive capacity, gaps, and compliance fatigue which hinder the road to excellence in governance through audit. This is consistent with the findings from the Institutional Theory which describes the effects of legitimacy pressure on internal practices as conformity rather than change. This is compounded by the SGLG's mantra of –all-or-nothing. This is compounded by the mantra of the SGLG which is centered on –all-or-nothing. At the same time, the different technological integration in the different fiscal offices is explained by the Resource-Based View (RBV 2.0), which states that while the Accounting, Treasury, and Budget are going through a digital revolution, manual processes are still being presumed by the clients, which is slowing the integration process and is a strain on absorptive capacity. This disparity in resources leaves the City underutilizing the financial resources it has allowed the Mandanas-Garcia decision.

The results also corroborate Dynamic Capabilities Theory, as these adaptive execution and inter-office synergy are important aspects of the resilience. Baguio's fiscal cluster is not agile enough to manage the complexity of the processes and to counter compliance fatigue. In its absence, the fiscal administration is reactive, and is more of a paperwork process than a strategic planning process. The paradox is resolved in the Fiscal Cluster Convergence Model, which provides an integrative lens to understanding the evolution of governance excellence in practice through a combination of stewardship, legitimacy, resource mobilization and adaptive execution.

This is an issue that has general importance to mention. Not only does it serve as a document that can act as a base for policy makers to start discussions on compliance issues and include process quality, interoperability and long-term vision. It stresses the importance of using workflow automation, digital integration and collaborative architecture that would prevent fiscal officers and administrators from compliance fatigue and help them increase their absorption rates. It highlights the need for placing fiscal governance on the agenda of training and research partnerships and proper reform of fiscal governance on the evidence base.

Thus, the current study has shown that fiscal management is not just a technical issue but rather lifeblood of good governance. Audits should be interpreted as the resistance of the institution while the compliance process should become a strategic one. All the problems faced by Baguio City are the possibilities of reaching audit integrity and governance excellence - possibilities of turning internal conflicts into synergies, fiscal stewardship into sustainable development and a new level of public trust. The city can thus start its way towards taking actions. The shift from 'reactive compliance' to 'adaptive, inclusive and future-ready governance'.

Policy Implications

It bears some weight on the governance arrangements both on the local and national levels. First, it is about the incongruence between integrity and achievement of SGLG, which is an ever-present phenomenon and shows that the need for a policy shift goes beyond the pass-fail criterion of compliance. Process sensitive indicators and those who reflect the inter office synchronization, digital interoperability and administrative burden should be included in the national oversight agencies such as Department of the Interior and Local Government (DILG) and Commission on Audit (COA) documentation outputs.

Second, capacity-building policies should take a more comprehensive approach to address the needs of highly urbanized cities, specifically those in the mid-tier that are grappling with huge populations and complex issues but not always considered as part of the mega-city agenda. The introduction of targeted training for digital literacy, workflow automation, and inter-departmental coordination can alleviate compliance fatigue and boost absorptive capacity of expanded fiscal spaces as mandated under the Mandanas-Garcia ruling.

Thirdly, the study emphasizes a long-term fiscal policy standpoint, as opposed to a short-term compliance policy standpoint. The three-year term-based cycle of SGLG assessment will allow for an institutionalization of reforms, instead of chasing for short-term documentation fixes. To continue this path, policy makers should tie fiscal incentives with real increases in utilization rates, as well as more efficient disbursement of funds and digital integration in fiscal cluster.

To conclude, it is a call to action for the harmonization of national-local policies in a digital governance context. Accounting, treasury, and budget offices are not necessarily tech-savvy; and even if they are, it leaves a gap if clients are not too. However, not every accounting, treasury, and budget office is equally technology-oriented and even if they are, there is a gap if clients don't keep up. National agencies need to offer unified platforms and technical assistance that are interoperable, enabling digital modernization to bring about real governance excellence.

Practical Recommendations

The recommendations are specific actions which stakeholders could take to enhance fiscal administration, and

are based on the policy implications.

In highly urbanized LGUs, achieve better governance outcomes:

For Administrators (City Executives and Department Heads):

- Create multi-departmental fiscal control committees for fiscal synchronization between the Budget, Treasury, accounting and assessing offices.
- Explore the available resources to enable workflow automation, and interoperable digital platforms to reduce reporting delays and compliance burden.
- Include fiscal performance indicators in the executive score card – hold accountable for integrity of the audits and execution of the SGLG.

For Faculty Members (Academic Partners and Trainers in Governance/Finance):

- Include fiscal governance elements in the curriculum and emphasize digital literacy, compliance management and interoffice coordination.
- In conjunction with fiscal officers, create simulation exercises to simulate SGLG compliance scenarios to prepare staff for actual scenarios.
- Encourage research alliances for analyzing the effects of fiscal reforms, leading to policy changes based on evidence.

For Fiscal Officers (Budget, Treasury, Accounting, and Assessing):

- Set up the routine management of fiscal record, real-time revenue and expenditure reconciliation.
- Convert all offices to digital systems, eliminating legacy constraints, and enhancing absorptive capacity to support higher NTAs.
- Continue professional development in public financial management especially related to adaptive implementation and adherence to changing SGLG standards.

For Support Staff and Technical Personnel:

- Remove compliance fatigue and use pre-designed forms and reporting systems to simplify the clerical workflow.
- Conduct readiness for disclosure and real time audit digital skills capacity building programs.

The results of this study confirm the importance of fiscal management as a policy decision and not just practical exercise which has direct policy impact on governance outcomes. The policy level needs to be reshaped by reforms to recalibrate compliance.

Emphasis is on surface level documentation to record synchronization, interoperability, and long-term strategy rather than frameworks. In practice, administrators, faculty, and fiscal officers need to establish collaborative mechanisms, incorporate digitalization and develop capacity to reduce compliance fatigue and enhance absorptive capacity. These complementary dimensions form a cycle which unfolds within the fiscal cluster in which ethical stewardship, institutional legitimacy, resource mobilization and adaptive execution merge. In the case of Baguio City, the task lies in transforming the internal disputes into means of unity; the audit integrity into means of governance excellence; and the fiscal transparency into means of sustainable development in order to regain the lost trust. Not only does such an approach view the issue of fiscal management as a technical one, but it also recognizes it as “blood flow” of governance.

Recommendation for Future Research Agenda

Through this investigation, the contradictory condition of the integrity and governance of Baguio City has been brought to light along with the limitation areas of this investigation in terms of scope, methodology and context. The results are highly suggestive of the fact that transparency alone in the financial aspects cannot be considered as the sole indicator of holistic governance and there is more scope for research in the area, for instance, the relationship of interoffice synergy, absorptive capacity with regard to technology and compliance fatigue in various local governments. In addition to this, theories such as Stewardship Theory, Institutional Theory, Resource Based View and Dynamic Capabilities can be utilized to analyze beyond the scope of this case study, i.e., comparative or longitudinal analysis.

The limitations of the study have been recognized and further development of the Fiscal Cluster Convergence Model is recommended. The section offers some suggestions for an agenda of future research that may further a scholarly discussion and policy discussion on fiscal administration and governance; and may mark areas of empirical gaps.

The findings from this paper offer several avenues for future research to further the understanding of the audit-governance paradox and enhance the Fiscal Cluster Convergence Model. The lessons that can be drawn from the case of Baguio City are noteworthy; there is a need for more comparative and longitudinal studies to validate and expand such lessons.

1. Comparative Studies Across LGUs: The same needs to be done in other mid-tier local government units (LGUs) and other highly urbanized cities (HUCs) to determine whether the gap can be found in other cities or it is peculiar to the City. Comparative analysis of cases can reveal patterns of synchronization and absorptive capacity and compliance fatigue among the various cities (Cebu, Davao, Iloilo and others) and offer a more generalizable framework of fiscal governance.

2. Longitudinal Designs: A cluster with a longitudinal design would allow for more learning to be gained on the behavior of the cluster over multiple SGLG cycles and the changes that would happen over time. The long-term impact of compliance fatigue and better governance as part of such studies can be proven by workflow automation, digital integration and capacity building.

3. Digital Governance Innovations: There is a need for more understanding on the potential of new technologies (including block chain for tracking, artificial intelligence for forecasting fiscal analysis, decentralized e-governance solutions and tools, and interoperability) to improve transparency and minimize sync problems. The empirical analysis of digital absorptive capacity (DAC) in fiscal offices could contribute to further scaling up of innovation in resource-limited settings. Fiscal offices' research on digital absorptive capacity (DAC) could aid in the promotion of innovation scaling in resource-poor settings.

4. Interdisciplinary Approaches: Further research could benefit from the use of the disciplines of organizational psychology and information systems and public policy to include the human and technological aspects of how they work together and how the employees are motivated, trained and resistant to change. An interdisciplinary perspective can be used to gain a fuller understanding of compliance fatigue and adaptive execution.

5. Expanded Theoretical Testing: Other theoretical frameworks in the study of Fiscal Administration Outcomes – such as Network Governance Theory, Complexity Theory – should be expanded and tested using the Fiscal Cluster Convergence Model. Testing may be comparative, theoretical, to enhance the model and make it more useful for various types of governance.

6. Policy Impact Assessments: the impact of national policies on the fiscal behavior of local governments, such as the "Mandanas-Garcia" ruling and the formulation of SGLG guidelines, should be examined through research. Policy impact assessments can determine whether fiscal spaces and new compliance frameworks can be translate through measurable improvements in governance excellence.

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