

THE COMMITMENT OF LOCAL AUTHORITIES IN BUILDING FORTRESS AGAINST MISAPPROPRIATION OF ASSETS

Rozaiha Ab. Majid¹, Siti Aisyah Basri¹,
Nafsiah Mohamed² and Khairiah Ahmad¹

¹Faculty of Accountancy,
Universiti Teknologi MARA Melaka, Malaysia

²Accounting Research Institute,
Universiti Teknologi MARA, Malaysia

ABSTRACT

Many local authorities use vision, mission and policy statements to communicate their attitude towards the threat of asset misappropriation among their officials. These statements are imperative to the local authorities for disclosing their responsibility in safeguarding assets and expressing their commitment towards maintaining the highest possible ethical value. In Malaysia, vision, mission and policy are developed and implemented by local authorities to, among others, deter misconduct and dishonesty by their officials. The purpose of this paper is to investigate the level of commitment in preventing misappropriation of asset from occurring. Upon reviewing all Malaysian local authorities' official websites, the term integrity in vision, mission and policy statement are identified and analysed. The existence of the term integrity can be an indicator to demonstrate the level of commitment of local authority towards maintaining a responsible and respectable organisation. Results from the study indicate most of local authorities in Malaysia are not committed in the fight against fraud including misappropriation of assets because integrity is not emphasised in their vision, mission and policy statements.

Keywords: *local authorities, integrity, misappropriation of asset*

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INTRODUCTION

Background

Local Government, which is inaugurated under the jurisdiction of state Government, is made up of individuals, coming together to cater the needs of the community around its area. The dedication of these individuals in mapping the local demands is unquestionable. However, because of their nature of work which deals with public money, local Government officials will always be scrutinised by the public, especially local community. Public demand certain level of assurance that public money is spent wisely, especially when concern over reported cases of abuse of power among local officers is increasing (Araujo & Tejedo-Romero, 2016).

Researches on fraud in local authorities were carried out and the findings showed that three municipal and two city councils in Malaysia faced problems of asset misappropriation due to their employees' misconduct behaviour (Ab Majid, Mohamed & Basri, 2015; Ab Majid, Mohamed, Haron, & Omar, 2015).

Fraud and misconduct in local Governments or authorities can be difficult to control (Aquinas, 2016), however public need to know whether local Government or authority is committed to prevent this problem from occurring and to ensure that their officials uphold integrity of their organisations. One of the ways of showing its commitment is by emphasising on integrity as part of their culture or way of life. The establishment of an organisation is attested by its vision, mission and policy statements. Therefore, a commitment towards a responsible organisation, integrity should be highlighted in these three statements.

There is insufficient room to debate whether the term integrity in these statements represents best practice. Certainly, there could be many other methods to communicate the commitment towards building a reputable organisation. However, the existence of the term integrity in vision, mission and policy statement can be used as an indicator to demonstrate the level of commitment of local authority towards maintaining a responsible and respectable organisation. This action may provide public assurance that the council is committed towards maintaining the highest possible ethical value among its officials.

The Role of Vision, Mission and Policy Statements in Promoting Integrity among Employees

Key identity statements such as vision, mission and policy can be used to promote certain ideology among employees. According to Low, Davey and Davey (2012), mission and vision statement for example, can project an identity of integrity when the organisation accentuates it in its statement. Through vision and mission, stakeholders can comprehend the purpose of an organisation's existence and foresee what the future hold for. In a nutshell, these statements depict professional and commitment of an organisation and the people in it.

Several researches may have found that organisational commitment may not be enough to thwart fraudulent activities such as asset misappropriation (Peng & Ford, 2014), however, other researches unearthed the positive, significant relationship between organisational commitment and ethical environment (Rae & Subramaniam, 2008). Subsequently, organisational commitment will bring about positive impact to the employees' attitude.

Fraud in Local Authority

According to Lane (2011), compared with other Government departments, local Governments or authorities were found to be especially vulnerable to fraud. Local authorities are believed as less fully equipped to prevent, detect and respond to fraud activities. The most common type of fraud, and yet influential associated with an organisation is asset misappropriation by the employees (ACFE, 2016). The 2016 Global Fraud Study: Report to the Nations on Occupational Fraud and Abuse by Association of Certified Fraud Examiners conducted a study on occupational fraud in 114 different countries all over the world of which encompasses of 2,410 cases that were recorded from January 2014 to October 2015. The result revealed that 83% is asset misappropriation cases.

Researches showed that in many workplace, there was an increasing risk of employee theft that an organisation was becoming more vulnerable to be a victim of its own employees' wrongdoing (Strand & Lancaster, 2001).

PricewaterhouseCoopers (PwC) Global Economic Crime Survey 2016 (Malaysia Report) states that 57% of the respondents has experienced and reported asset misappropriation as their most pervasive economic crimes. The statistics showed a slight decrease in 2016 over 2014's statistics, however, this might not necessarily a good news because this might trigger a bigger problem as asset misappropriation might be harder to detect.

There is a likelihood of the occurrences of asset misappropriation in local authorities (Mohamed, Ab Majid, Haron, Jomitin, & Omar, 2014). Misappropriation of asset is no laughing matter as most of the employees in the local authorities are doing it despite them knowing the seriousness of the acts of asset misappropriation.

Most of the small-sized organisations and some of the medium-sized organisations do not have formal integrity structures (Hoekstra & Kaptein, 2013). These organisations implemented integrity by strongly relying on mutual trust and informal systems of social control.

Asset misappropriation will decrease the organisation's available resources that will have a negative impact on the capability of local authority to meet its objectives as stated in its vision, mission and policy statements. The counter fraud arrangement must be undertaken to deal with this issue that requires organisational commitment, a pledge by the employees to foster a corporate ethical environment.

The purpose of this paper is to examine the level of commitment in preventing misappropriation of asset from occurring. Upon reviewing all Malaysian local authorities' official websites, the term integrity in vision, mission and policy statement are identified and analysed. Its functions are to provide better living facilities and environment by making a distinct difference to the quality of life for its citizens.

DESIGN/METHODOLOGY/APPROACH

The study has used the descriptive statistical analysis technique in analysing the commitment of Malaysian local authorities in curbing misappropriation of asset from occurring. A key word search strategy was used. An investigation on local authorities' official websites, focussing on

finding whether local authorities emphasise on integrity in their key identity statement. This study focuses on three statements that are vision, mission and policy.

The term integrity found in the statements might not necessarily refers specifically on asset misappropriation. The term integrity might be used in general statements of running the organisation as a whole.

The existence of the term integrity shows that local authorities' pledge to uphold standards in the public interest at all time. The paper is primarily discursive and maiden and can be used as a navigator for researchers to direct their ways towards forensic accounting research.

FINDINGS

Data collected were analysed using the descriptive statistical analysis technique. Analyses utilised the frequency percentages of the local authorities' official websites that include the term integrity in their vision, mission and policy statement.

There are 149 local authorities in Malaysia with all of them developed their own official websites. These official websites contain comprehensive information about the local authorities and their activities. Figure 1 demonstrates the percentage of local authorities that incorporate the term integrity in their vision, mission and policy statements.

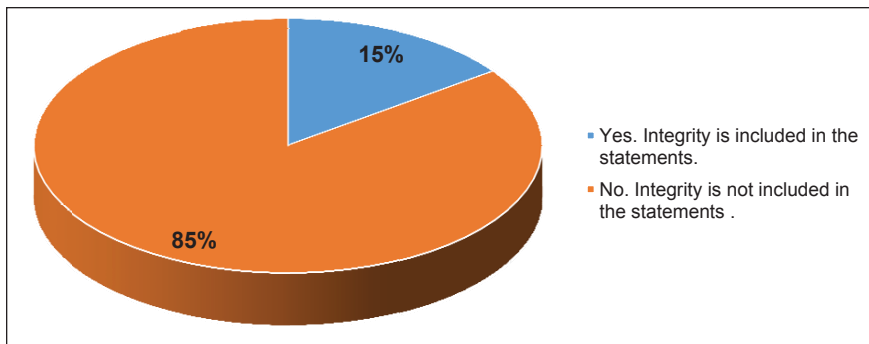


Figure 1: The Existence of Term Integrity in Vision, Mission and Policy Statements of Local Authorities in Percentage

The result showed that the percentage of local authorities that communicate their commitment by including the term integrity in their vision, mission and policy statement is low. Emphasising their commitment in becoming organisation with integrity are the focus of only fifteen percentage (15%) of the local authorities. Even though it may be arguable but the existence of the term integrity may lead to the understanding of the employees that their organisations regard integrity as an essential part of their establishment and should be embraced by them. Table 1 contains the sample of vision, mission and policy statement from the local authorities’ official websites.

Table 1: Sample of Vision, Mission and Policy Statement from the Local Authorities’ Official Websites

Local Authorities	Vision, Mission and Policy Statements	Is the Term Integrity Included in The Statements?
Melaka Historic City Council (MBMB)	<p><i>Vision</i> MBMB leading to the world class cosmopolitan city</p> <p><i>Mission</i> Developed and developing the sustainable cities Strengthen the corporate governance with integrity Maintaining the culture and heritage</p>	Yes
Alor Gajah Municipal Council (MPAG)	<p><i>Vision</i> To have Alor Gajah Municipal Council as the best Council by 2015</p> <p><i>Mission</i> To enhance the sustainability level of the quality of life through innovative and responsive municipality service and management</p> <p><i>Motto</i> Alor Gajah Dynamic-Progressive-Holistic</p>	No

Local Authorities	Vision, Mission and Policy Statements	Is the Term Integrity Included in The Statements?
Jasin Municipal Council (MPJ)	<p><i>Vision</i> To develop Jasin District as a dynamic urban-centric and smart sustainable development by year 2020</p> <p><i>Mission</i> Committed to providing the best municipal services, quality, transparency and efficiency through pooling energy and resources optimally</p>	No
Hang Tuah Jaya Municipal Council (MPHTJ)	<p><i>Vision</i> Hang Tuah Jaya make world-class Intelligent City concept of Green Technology</p> <p><i>Mission</i> Hang Tuah Jaya Municipal Council and the development of leading world-class service</p> <p><i>Slogan</i> Smart City</p>	No

Integrity is an important element of a good management system. Therefore, if it is communicated in the statements, the employees or local authorities' officials will realise that they ought to behave or act accordingly. Simultaneously, they must use the resources effectively and efficiently. The understanding and knowledge that they bound by the trait will prevent them from getting involved in any wrongdoing or fraud activities such as corruption and misappropriation of assets. However, the absence of the element of integrity may provide indirectly an opportunity for the employees to conduct inappropriate activities for their personal benefits.

When integrity is recorded or documented in the statements, the public comprehend that the organisations or local authorities are managed by people who regards highly good manner and integrity as way of life. It is an assurance that public money will be spent wisely because it is in good hands.

Malaysia is divided into fourteen states of which twelve of them are located in Peninsular Malaysia and the rest are in East Malaysia. The percentage of local authorities that incorporate the term integrity in their vision, mission and policy statements, according to states are shown in Table 2, whereas Table 3 displays number of states of which their local authorities insert integrity in their statements according to their grouped percentage.

Table 2: The Existence of Term Integrity in Vision, Mission and Policy Statements of Local Authorities According to States (In Percentage)

State	Total Number of Local Authorities	Percentage (%)
Johor	15	6.7
Kedah	11	18.2
Kelantan	12	0
Melaka	4	25.0
Negeri Sembilan	8	12.5
Pahang	11	63.7
Perak	15	26.7
Perlis	1	0
Pulau Pinang	2	0
Sabah	24	0
Sarawak	26	0
Selangor	12	16.7
Terengganu	7	28.6
Wilayah Persekutuan	1	0

Table 3: Number of States that Include the Term Integrity in their Vision, Mission and Policy Statements according their Grouped Percentage

Percentage (%)	Number of States
51 – 100	1
1 - 50	7
0	6

As shown in Table 2 and 3, only one state affirm integrity as their focal element in their management system. Almost 64% of its local authorities emphasise their commitment towards an honest, honourable management practice. Regrettably, there are six states in Malaysia of which none of their local authorities include the term integrity in their vision, mission and policy statements.

The paper encourages broader approaches to determine the commitment of local authorities in building fortress against misappropriation of assets. There may be argument on the accuracy and relevancy of using the existence of term integrity in vision, mission and policy statements as the measurement for commitment. However, there will always be questions on how far the local authorities are willing to go in order to prevent misappropriation of assets from occurring and there are many great ideas that can be used to show how committed they are. Then again, it is important to take one small single initial step by emphasising integrity in vision, mission and policy statements.

CONCLUSION

Results from the study indicate most of local authorities in Malaysia are not committed in the fight against fraud including misappropriation of asset because integrity is not included and emphasised in their vision, mission and policy statements.

Future studies may investigate other approaches used by local authorities in communicating their commitment in instilling integrity as a lifestyle of their employees and at the same time, building fortress against misappropriation of assets. The other approaches may include actual actions taken by the organisation as indicators for their real commitments to prevent misappropriation of asset.

LIMITATION OF THE STUDY

It is important to state that the findings of this study cannot be generalised due to its limited scope. This study simply identified the level of commitment

by the local authorities by the use of the term integrity in the vision, mission and policy statements.

Though the study covered all local authorities across the country, further research should be conducted in order to get better understanding on the local authorities' commitment towards preventing misappropriation among their officers. To gain the understanding, it is highly recommended to conduct interviews. The interview should also focus on finding on how the local authorities communicate their commitment towards integrity.

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