



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



## Analysing the Potential for Asset Misappropriation in Three Malaysian Municipal Councils

Rozaiha Ab Majid, Siti Aisyah Basri & Nafsiah Mohamed

To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v13-i4/16781> DOI:10.6007/IJARBSS/v13-i4/16781

**Received:** 06 February 2023, **Revised:** 09 March 2023, **Accepted:** 27 March 2023

**Published Online:** 10 April 2023

**In-Text Citation:** (Majid et al., 2023)

**To Cite this Article:** Majid, R. A., Basri, S. A., & Mohamed, N. (2023). Analysing the Potential for Asset Misappropriation in Three Malaysian Municipal Councils. *International Journal of Academic Research in Business and Social Sciences*, 13(4), 1352 – 1363.

**Copyright:** © 2023 The Author(s)

Published by Human Resource Management Academic Research Society ([www.hrmars.com](http://www.hrmars.com))

This article is published under the Creative Commons Attribution (CC BY 4.0) license. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this license may be seen at: <http://creativecommons.org/licences/by/4.0/legalcode>

Vol. 13, No. 4, 2023, Pg. 1352 – 1363

<http://hrmars.com/index.php/pages/detail/IJARBSS>

JOURNAL HOMEPAGE

Full Terms & Conditions of access and use can be found at  
<http://hrmars.com/index.php/pages/detail/publication-ethics>



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



[www.hrmars.com](http://www.hrmars.com)

ISSN: 2222-6990

## Analysing the Potential for Asset Misappropriation in Three Malaysian Municipal Councils

Rozaiha Ab Majid<sup>1</sup>, Siti Aisyah Basri<sup>1</sup> & Nafsiah Mohamed<sup>2</sup>

<sup>1</sup>Faculty of Accountancy, Universiti Teknologi MARA Melaka Branch, Alor Gajah Campus, KM26, Jalan Lendu, 78000 Alor Gajah, Melaka, Malaysia, <sup>2</sup>Accounting Research Institute, Level 12, Menara Sultan Abdul Aziz Shah, Universiti Teknologi MARA, 40450 Shah Alam, Selangor, Malaysia

### Abstract

This paper aims to provide administrators with a better understanding of the issue of asset misappropriation in order to provide better ethical practices and governance among public sector employees. Data for this study were gathered from 180 employees of three Malaysian municipal councils. The findings revealed that Municipal Council B faces the greatest risk of asset misappropriation by its employees. Municipal Council A comes next, and Municipal Council C is the least risky. This study contributes greatly to the literature by presenting evidence on the level of likelihood of asset misappropriation in local governments. The results of a survey and an interview disclosed that asset misappropriation was a problem for the selected local governments. The study is conducted on only three Malaysian municipal councils and covered only one form of fraud.

**Keywords:** Fraud, Local Authorities, Misappropriation of Assets, Municipal Council

### Introduction

According to Malaysia's Federal Constitution, local government is the most basic branch of the national government. It was created under the authority of the state government, one of whose duties is to improve the quality of life for its residents by offering better living accommodations and a better environment.

Malaysia divides local government into four categories, including district council, city council, and municipal council. A local government or local authority must meet the category's status requirements in order to be classified in one of the categories. For instance, the State Council Meeting for Local Government states that in order to qualify for municipal council status, a local government must have a population greater than 150,000 and an annual income of at least RM20 million (Local Government Department Website).

Municipal councils receive funding from the taxpayers, like other types of local authorities, so any decisions they make will be closely watched by the community. However, numerous pieces of evidence and studies have demonstrated that municipal council employees have misappropriated public funds.

Misappropriation of assets, a type of occupational fraud, is becoming a bigger issue, according to numerous surveys. Asset misappropriations are the most frequent form of fraud, accounting for 85% of occupational frauds, according to the 2014 Global Fraud Study: Report to the Nations on Occupational Fraud and Abuse by Association of Certified Fraud Examiners (ACFE).

The Malaysian government is facing the same issue. It is clear from the Auditor-General of Malaysia's 2012 Audits Report. It revealed a high rate of asset misappropriation on the part of federal, state, and local governments. More than a hundred items worth RM1.3 million belonging to a Ministry were discovered to be missing (Azlee, 2013).

Misappropriation of assets is not simply theft; it encompasses all acts that resulted in the employee's personal gain but the organisation's loss (Liff, 2007). Handling forged medical certificates appears to be a timid, naive act on the part of an employee. Nonetheless, this simple act will eventually lead to a larger problem. This will become a habit that will influence other employees. Finally, it will have an impact on employee performance and the overall performance of the organisation. The longer an asset is misappropriated, the more damaging the effect on an organization's finances (Chapple et al., 2009).

Local government is accountable to taxpayers, who expect the organisation and its employees to act responsibly. Local government and its employees are entrusted with managing resources properly in order to provide a safe environment for people to live in.

As a result, the purpose of this study is to determine whether asset misappropriation is a concern for the administrators of three municipal councils. This paper also seeks to develop an understanding of the issue of asset misappropriation that administrators should focus on in order to provide better ethical practices and governance among public sector employees. This study will look at employees' perspectives on the issue of council asset misappropriation in Malaysia. This study is a crucial step in understanding specific asset misappropriation that has happened and became a common practice in the council's office. Besides that, this study will help to identify to what extent an act is perceived as asset misappropriation by the council's employees.

The findings would highlight the seriousness of asset misappropriation incidents. This study will contribute greatly to the literature by presenting evidence on the level of likelihood of asset misappropriation in local governments. Hence, by understanding this behavior, the government can formulate possible prevention strategies for effective occupational fraud control in the public sector environment.

## **Literature Review**

The Local Government Act 1976 established local government with the aim of ensuring a distinctive quality of life for its residents in areas like waste management, town planning, and neighbourhood amenities. It has the authority to levy taxes, make laws and regulations, and issue licences and permits for any trade within its purview (Local Government Act 1976).

Since its inception, the local government's function has undergone significant change. Governmental functions have undergone varying degrees of reform that extend into complex, wider latitude as a result of modernization through the implementation of national development plans and policies (Fadzilah, 1989; Moritz, 2009). The extensive authority granted to local government demonstrates that it is a major factor in the local development that frequently makes it the centre of attention and the topic of conversation (Ahmad Sarji, 1991; Phang, 1997). The public discoveries of widespread problematic, harmful, and unlawful conduct of public officials as well as the increased number of complaints received by the

Public Complaints Bureau serve as evidence of the significance of this issue. Table 1 summarises data taken from the Public Complaint Bureau Official Website. The number of complaints dramatically decreased between 2013 and 2016, but they then began to rise once more, almost reaching 10,000 in 2019. The severity of official misbehaviour was evident by the sharp rise in the number of complaints.

Table 1

*Number of complaints received by Public Complaints Bureau from 2013 to 2020*

Year	Ministry related organizations		State related organizations		Total Complaints
	Number of complaints	%	Number of complaints	%	
2020	5184	59.4	3543	40.6	8727
2019	5072	55.3	4105	44.7	9177
2018	3892	60.5	2538	39.5	6430
2017	3280	60.1	2180	39.9	7640
2016	4034	62.6	2405	37.4	6439
2015	3914	60.9	2510	39.1	6424
2014	4530	62.8	2688	37.2	7218
2013	6183	62.6	3696	37.4	9879

Source: Public Complaints Bureau Official Website

Marumoagae (2021) argues that preventative measures should be prioritised over punitive ones. This would increase the possibility that wrongdoing would be discovered early on. The protection of assets before they are misused would be greatly aided by strong preventative measures, such as more frequent monitoring and audits.

Solutions to organizational theft will differ based on the available resources of the organisation and the types of frauds committed by employees (Kennedy, 2018). However, previous studies have demonstrated the value of internal control in an organisation to stop fraud-related losses. Stubbs and Higgins (2014) provided evidence that a weak internal control system within an organisation contributed to the occurrence of a significant fraud scheme. A survey done by Association of Certified Fraud Examiners in 2022 showed that nearly half of fraud cases occurred due to lack of internal control and override of existing control. According to Koomson et al (2020), the extent to which a person may misappropriate assets is heavily influenced by the individual's view of the effectiveness of internal control mechanisms in the organisation. Strong internal controls should be implemented to eliminate opportunities and employee rationalisation for fraud (Kazemian et al., 2019). Even if an internal control system exists, it may not be adequate if it is not regularly reviewed and improved in accordance with technological advancements and the expertise and experience of potential offenders (Lokanan, 2014).

Researchers have been concentrating on external factors to reduce employee fraud and misconduct. Integrity is the best strategy for combating fraud, though. Integrity is characterised by honesty and dependability. Another crucial element is a person's ability to follow the organization's policies and procedures. Those who have integrity may avoid engaging in fraudulent operations because they are acting honourably and in compliance with the organization's rules. According to Bakri, Mohamed & Said (2017), someone is said to have integrity values if they think it will be a big problem if a public employee does not act honestly and breaks the law. This will deter people from dishonest behaviours like stealing something from an organisation.

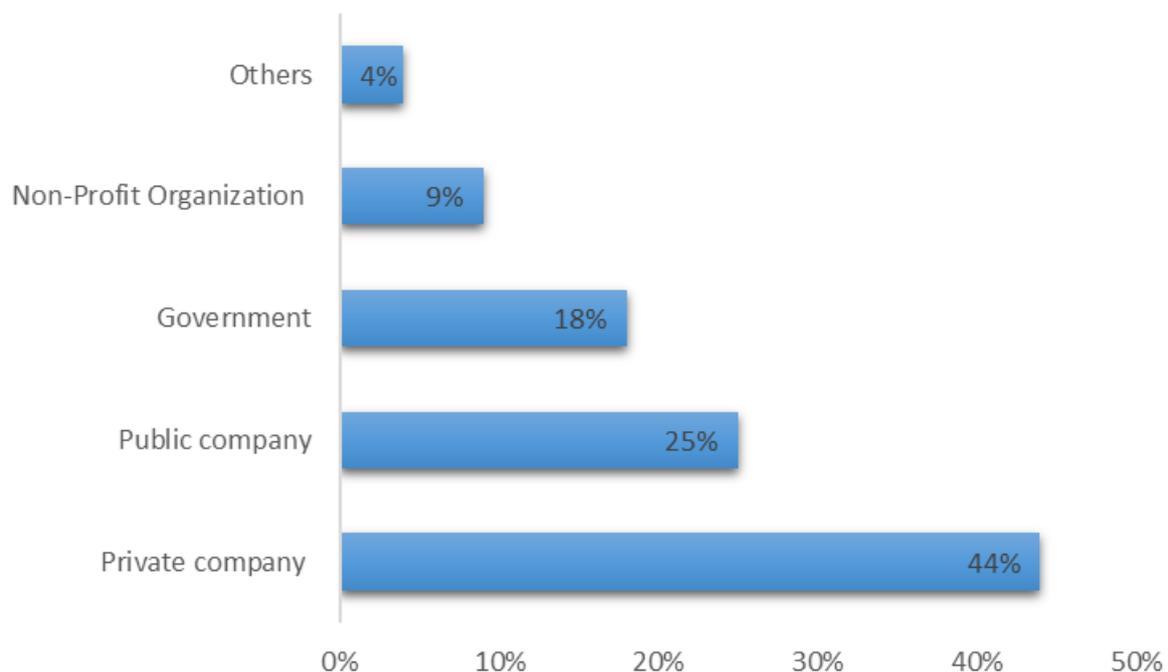


Figure 1: Types of organisations victimised by occupational fraud (in percentage)  
Source: Occupational Fraud 2022: A Report to the Nations

The majority of the fraud survey results showed that asset misappropriation was the most prevalent kind of fraud. 85 percent of occupational frauds were the result of asset misappropriation, according to the 2014 Global Fraud Study: Report to the Nations on Occupational Fraud and Abuse. This type of fraud accounted for more than 86 percent of the cases under study, according to the same report from two years prior. The slight drop in percentage cannot necessarily be interpreted as a sign that the incidence of asset misappropriation has decreased. As indicated in Figure 1, Occupational Fraud 2022: A Report to the Nations focuses on four main categories of organisations afflicted by occupational fraud, with government-related organisations ranked third with 18 percent of the overall incidents. The operations, staff, and finances of government organisations at various levels might differ greatly, and as a result, they frequently experience diverse effects from fraud. Figure 2 demonstrates that local governments, who often have fewer staff members and resources, were the victims in 25% of reported fraud cases, while national linked organisations represented the largest percentage of recorded frauds (46%). Another report published by PricewaterhouseCoopers known as PwC's Global Economic Crime and Fraud

Survey 2022 concluded that 33% fraud experienced by the government and public sector is misappropriation of assets.

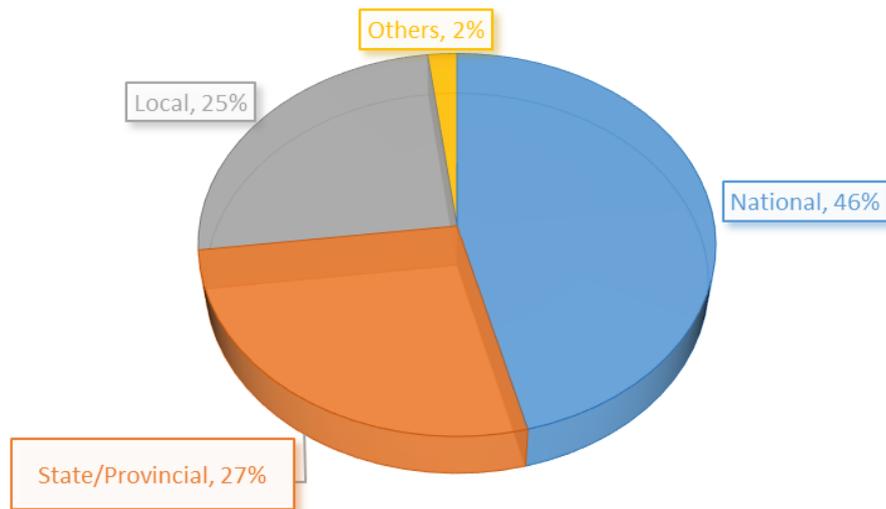


Figure 2: Level of government victimized by occupational fraud (in percentage)  
Source: Occupational Fraud 2022: A Report to the Nations

These days, it is increasingly common to witness public officials misappropriating assets. Examples of this dishonest act include local authority officials wrongly using company equipment by conducting private consultations using council office supplies and equipment as well as using other resources like computers, paper, and internet connections for personal use (Wells, 2001). The offenders may justify their actions as small-scale theft that is unimportant, but over time, if they continue, they will spread diseases that have a significant negative impact on the ethical failure of public servants. Unfortunately, taxpayers are the group most impacted by the misappropriation of assets.

### Methodology

Specific questionnaires were created for this study and included examples of asset misappropriation activities. Selected, adopted, and modified cases were made in accordance with Malaysian scenarios. The case-related questions were formatted using a Likert Scale from 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaires sought the respondents' opinions and viewpoints on a number of cases of asset misappropriation.

Due to a time crunch, convenience sampling was used in this study because it can produce data quickly and effectively. An earlier pilot test was carried out on a sample of 10 government employees chosen at random who shared similar traits with the study participants. 750 questionnaires in total were distributed to the respondents from Local Authorities A, B, and C. Only 180 of the 203 returned questionnaires were completed and useful for data analysis.

### Findings and Discussions

The potential for asset misuse was discussed in Scenarios 1, 2, and 3 from the respondents' point of view. The conclusions could offer proof that asset misappropriation at the Municipal Councils under investigation has happened in the past.

Both the questionnaire and the interview provided the data that was used for the analysis. 750 employees received the questionnaires, but only 180 of the valid responses were received.

The subsequent findings showed a significant comparison between these three municipal councils.

**A. Scenario 1: A council employee’s daughter used a council computer and printer to complete her coursework. She used the council papers when printing her coursework.**

Among the three municipal councils, Municipal Council B faces the highest risk of its employees' kids using the office computers and printers to finish their homework, according to Scenario 1 result shown in Figure 3.

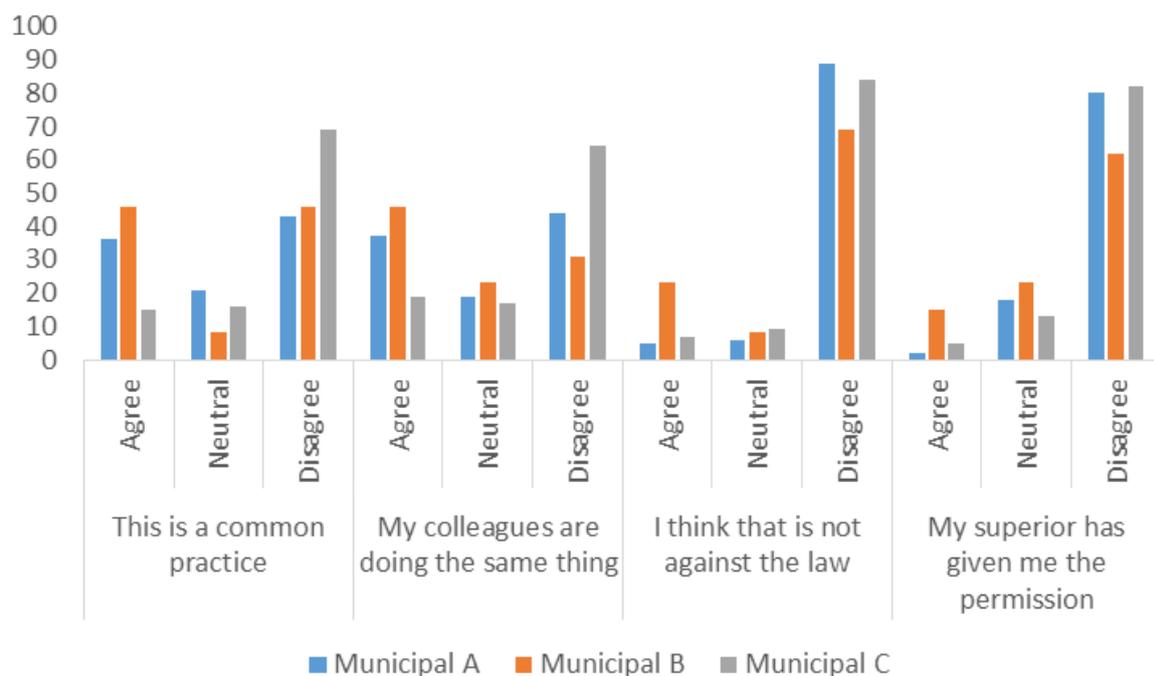


Figure 3: Scenario 1: A council employee’s daughter used a council computer and printer to complete her coursework. She used the council papers when printing her coursework.

According to the table, 46% of respondents from Municipal Council B agreed that it was a common practice when a council employee's daughter used the council's computer, printer, and papers to finish her coursework. Nearly half of the respondents thought it was typical to see a council employee's daughter using office supplies to finish her homework. 46% of respondents agreed when asked if they had ever witnessed their co-workers acting in the same way. It is interesting to note that only 69% of them thought the situation was illegal.

The responses from Municipal Council B appear to agree with the outcome of Municipal Council A, despite the slightly lower percentages, when comparing the data from these three municipal councils. For instance, 56% of respondents from City Council B thought the situation was a regular occurrence.

**B. Scenario 2: A professional council officer conducted private consultancies utilising council office equipment and materials**

The outcomes of Scenario 2 are displayed in Figure 4. Scenario 2 involves a situation in which a professional council officer utilised office equipment and materials for private consulting. This scenario's survey results indicate that Municipal Council B has the highest likelihood of asset misappropriation occurring in its office.

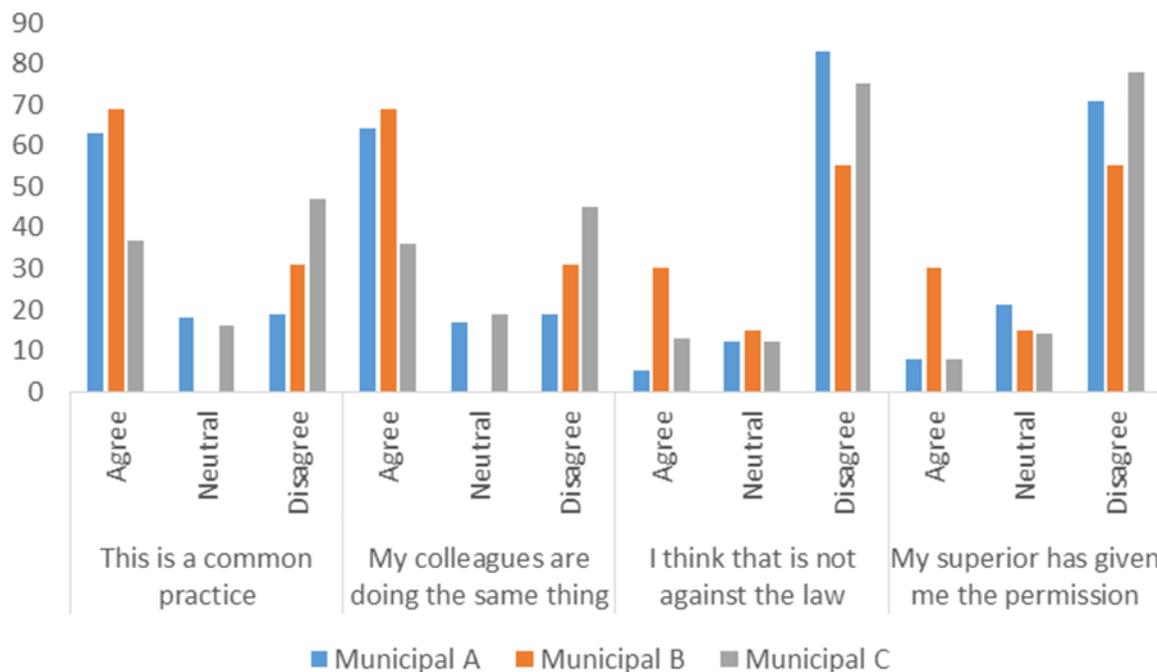


Figure 4: Scenario 2: A professional council officer conducted private consultancies utilizing council office equipment and materials.

Figure 4 indicates that 69% of respondents from Municipal Council B viewed the practice as common, whereas only 63% and 37% of respondents from Municipal Councils A and C agreed. Sixty-nine percent of respondents concurred when asked whether they had encountered co-workers engaging in the same behaviour. Interestingly, 30% of them believed the scenario did not violate the law, yet no action was taken against the employees. In addition, employees were authorised by their superiors to use company vehicles for personal purposes (30%).

**C. Scenario 3: A council employee utilised telephone excessively for private purposes without reimbursement of cost.**

From Figure 5, it can be seen that Municipal Council A has the highest risk of asset misappropriation due to employees using the telephone excessively for personal reasons without cost reimbursement. Figure 5 reveals that 39% of respondents from Municipal Council A believe that an employee using the phone excessively for personal reasons without reimbursement is a common occurrence in their workplace. Respondents of Municipal Councils B and C believed that council employees using the telephone excessively for personal

reasons without reimbursement was a common occurrence in their workplaces, with percentages of 30% and 37%, respectively.

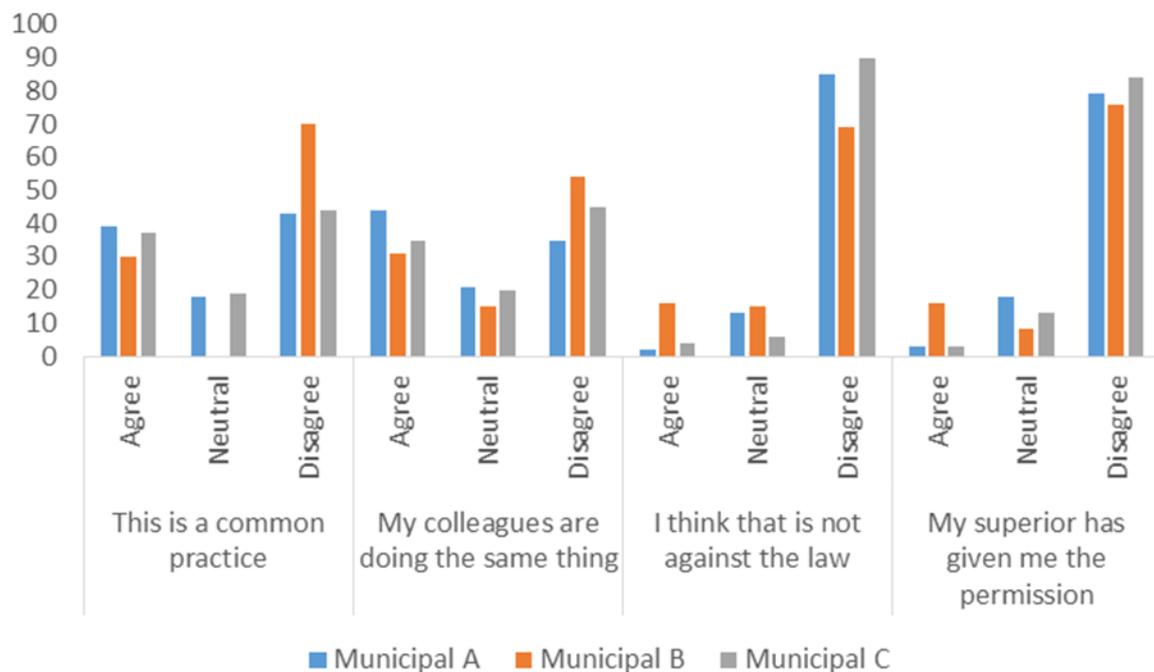


Figure 5: Scenario 3: A council employee utilised telephone excessively for private purposes without reimbursement of cost.

Forty four percent of respondents from Municipal Council A reported encountering co-workers engaging in the same behaviour. Interestingly, 85% of them agreed that the scenario violated the law, but the employees were not disciplined. In addition, employees were authorised by their superiors to use organisations’ telephone for personal purposes (3%).

According to an analysis of the data from the three aforementioned scenarios, the majority of the respondents concurred that they were typical occurrences at the three local authorities. Municipal Council B, however, is most susceptible to asset misappropriation, followed by Municipal Council A and Municipal Council C, which is the least dangerous. They concurred that they had observed their co-workers doing that as well. These findings appear to be in line with those of the Integrity Survey 2008 - 2009 by KPMG Forensic, in which 74% of participants acknowledged having personally witnessed or first-hand knowledge of wrongdoing within their organisation. The analysis of these scenarios revealed that, despite the respondents' awareness that they were illegal, they would still carry out the actions if given approval by their superior.

This analysis offers proof of the potential seriousness of the asset misappropriation problem within a municipal council. This could be caused by a variety of things, including the reasonable opportunity to misappropriate the assets, an ineffective internal control system, a lack of awareness, and the officers' level of education regarding fraud. Interestingly, some respondents believed that not all of the situations involving the cases are illegal.

The survey also asks respondents about their views on the likelihood of asset misappropriation in the future in an effort to gather more evidence on this issue. The outcome depicted in Figure 6 captured many facets of this study. The question, which could result in a number of conclusions, concerned the likelihood that asset misappropriation would happen

in the future. It might reveal the current state of asset misappropriation, the suitability of the internal controls in place, and the appropriate course of action.

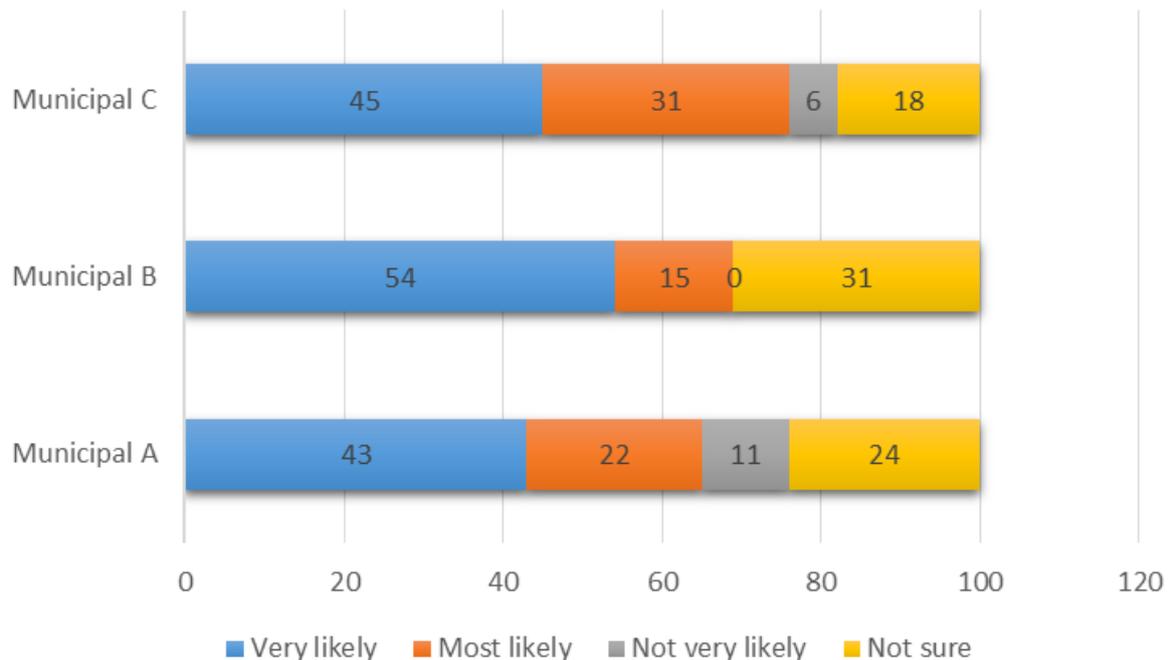


Figure 6: The likelihood of misappropriation of assets occurring in the future.

A total of 65% of City Council A respondents thought that asset misappropriation was very likely to happen in the future. According to the percentage, 43% of the accountable strongly believe that asset misappropriation is likely to happen in the future. The fact that 24% of respondents were unsure of their response is a troubling indication of what the real answers were. Only 11% of the respondents thought the council would not have this issue in the future.

Nearly 70% of Municipal Council B respondents agreed that there is a high likelihood that assets will be misappropriated in the future. In total, 54% of Municipal Council B’s respondents said they thought asset misappropriation was very likely to happen in the future, most likely (15%), and unsure (31%). The high percentage of respondents who are unsure of their responses is another troubling finding in the Municipal Council's findings. None of them - not even one percent - thought the council would avoid the issue in the future.

With more than 75% of respondents agreeing, Figure 6 demonstrates that Municipal Council C has a high risk of asset misappropriation happening in the future. A total of 45% of Municipal Council C respondents thought that asset misappropriation would most likely happen in the future, most likely (31%), and they were not sure (18%). Only 6% of them thought the council would not have to deal with the issue in the future.

**Conclusion**

There is enough room for discussion to determine whether the employees of these three municipal councils are misappropriating assets. However, based on the analysis, it can be said that there is a possibility that these three local authorities, Municipal Councils A, B, and C, will experience asset misappropriation. The majority of these Municipal Council employees were aware of the gravity of the acts of asset misappropriation, but they persisted in doing them.

They did not take the situation seriously and instead chose to do as others did. For them, others would follow suit since some employees already did it. The superior should therefore treat the situation seriously.

The findings showed that Municipal Council B has the highest potential for employee misappropriation of assets. Municipal Council A comes next, and Municipal Council C is the least dangerous. This study makes a significant contribution to the literature by providing evidence regarding the level of likelihood that asset misappropriation will take place in local authorities. The results of a survey and an interview showed that the chosen local authorities found asset misappropriation to be a problem. The research conclusions may serve as a gauge for the seriousness of the asset misappropriation committed by these local authorities as a whole.

### **Recommendation**

From this study, a number of recommendations can be drawn. First, a better methodology needs to be used when conducting the study. Before extending to the national level, the subsequent effort should have a wider scope, for example, a study of all the local authorities in a state. More conclusive results can be attained by increasing the sample size wherein questionnaires are distributed to more local authorities.

Second, it is advised that the research be broadened in subsequent studies. It should cover other forms of fraud like embezzlement in addition to the theft of assets. To get more precise results, the questionnaire should include more cases.

### **Corresponding Author**

Siti Aisyah Basri

Faculty of Accountancy, University Teknologi MARA Melaka Branch, Alor Gajah Campus, KM26, Jalan Lendu, 78000, Alor Gajah, Melaka, Malaysia

Email: aisyah936@uitm.edu.my

### **References**

- Sarji, A. A. H. (1992). *The public service of Malaysian: Some reflections on quality, productivity and discipline*. National Printing Department, Kuala Lumpur.
- Association of Certified Fraud Examiners. (2014). *2014 Global Fraud Study: Report to the Nations on Occupational Fraud and Abuse*. <https://www.acfe.com/-/media/files/acfe/pdfs/2014-report-to-nations.ashx>
- Association of Certified Fraud Examiners. (2022). *Occupational Fraud 2022: A Report to the Nations*. <https://acfepublic.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>
- Azlee, Z. (2013). *How can an average Malaysian address the A-G report?* Astro AWANI. <https://www.astroawani.com/perspektif/how-can-average-malaysian-address-g-report-23144>
- Bakri, H. H. M., Mohamed, N., & Said, J. (2017). Mitigating asset misappropriation through integrity and fraud risk elements: Evidence emerging economies. *Journal of Financial Crime*, 24(2), 242-255. <https://doi.org/10.1108/JFC-04-2016-0024>
- Chapple, L., Ferguson, C., & Kang, D. (2009). Corporate governance and misappropriation. *Journal of Forensic and Investigative Accounting*, 1(2), 1-26.
- Fadzilah, S. (1989). Accounting in public sector and private sector; where does the twain meet. In *International Symposium on Public Sector Accounting & Reporting*. 29-30.

Federal Constitution of Malaysia, 1957

Kazemian, S., Said, J., Hady Nia, E. & Vakilifard, H. (2019). Examining fraud risk factors on asset misappropriation: evidence from the Iranian banking industry. *Journal of Financial Crime*, 26(2), 447-463. <https://doi.org/10.1108/JFC-01-2018-0008>

Kennedy, J. P. (2018). Asset misappropriation in small businesses. *Journal of Financial Crime*, 25(2), 369-383. <https://doi.org/10.1108/JFC-01-2017-0004>

KPMG Forensic. *Integrity Survey 2008 – 2009*.

[https://assets.corporatecompliance.org/Portals/1/Users/169/29/60329/KPMG\\_Integrity-Survey-2008-2009%5b2%5d.pdf](https://assets.corporatecompliance.org/Portals/1/Users/169/29/60329/KPMG_Integrity-Survey-2008-2009%5b2%5d.pdf)

Koomson, T. A. A., Owusu, G. M. Y., Bekoe, R. A. & Oquaye, M. (2020). Determinants of asset misappropriation at the workplace: the moderating role of perceived strength of internal controls. *Journal of Financial Crime*, 27(4), 1191-1211. <https://doi.org/10.1108/JFC-04-2020-0067>

Liff, S. (2007). *Managing Government Employees: how to motivate your people, deal with difficult issues and achieve tangible results*. AMACOM.

Local Government Act 1976. <http://faolex.fao.org/docs/pdf/mal130371.pdf>

Local Government Department. *General Question: What are the differences between City Hall, Municipal Council and District Council?* <https://jkt.kpkt.gov.my/index.php/en/faqs/general-questions>

Lokanan, M. E. (2014). How senior managers perpetuate accounting fraud? Lessons for fraud examiners from an instructional case. *Journal of Financial Crime*, 21(4), 411–423. <https://doi.org/10.1108/JFC-03-2013-0016>

Marumoagae, M. C. (2021). The need to adopt preventative measures to combat the misappropriation of retirement fund assets. *Potchefstroom Electronic Law Journal (PELJ)*, 24(1), 1–35. <https://doi.org/10.17159/1727-3781/2021/v24i0a10732>

Moritz, G. (2008). Fraud cases display similarities. *Arkansas Business*, April, 14.

Phang, S. N. (1997). *Financing local government in Malaysia*. Universiti of Malaya Press.

Public Complaint Bureau. *Laporan Tahunan Biro Pengaduan Awam*. <https://www.pcb.gov.my/bm/infomedia/penerbitan/laporan-tahunan>

PricewaterhouseCoopers (PwC). *PwC's Global Economic Crime and Fraud Survey 2022* at <https://www.pwc.com/gx/en/forensics/gecsm-2022/pdf/PwC%E2%80%99s-Global-Economic-Crime-and-Fraud-Survey-2022.pdf>

Stubbs, W., & Higgins, C. (2014). Integrated reporting and internal mechanisms of change. *Accounting, Auditing & Accountability Journal*, 27(7), 1068–1089. <https://doi.org/10.1108/AAAJ-03-2013-1279>

Wells, J. T. (2001). Enemies Within. *Journal of Accountancy*, 192(6), 31-35. <https://www.journalofaccountancy.com/issues/2001/dec/enemieswithin.html>