

## Profiling fraud committed by public sector employees: evidence from the Malaysian media reporting

Fraude de perfiles cometido por empleados del sector público: evidencia de los informes de los medios de comunicación de Malasia

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### ABSTRACT

This study investigated the type and frequency of media reporting on fraud among the PSE reported by the mainstream newspapers in Malaysia. The study also revealed the type of media reporting on fraud according to agencies and the states where the fraud cases took place. To achieve the objective of this study, a qualitative approach by content analysis over fraud cases reported online through websites of the respective mainstream newspaper agencies were scrutinized. The findings show that the English medium newspapers reported more fraud cases involving the PSE compared to the Bahasa Malaysia medium newspaper. The highest media reporting on fraud was fraud cases involving Sabah Water Department (SWD), while the highest fraud cases were reported among the state government, followed by the federal government and local authority.

**Keywords:** Fraud, Media Reporting, public sector employee.

### RESUMEN

Este estudio investigó el tipo y la frecuencia de los medios de comunicación que informan sobre el fraude entre los PSE informados por los principales periódicos de Malasia. El estudio también reveló el tipo de medios de comunicación que informan sobre el fraude según las agencias y los estados donde se produjeron los casos de fraude. Para lograr el objetivo de este estudio, se examinó un enfoque cualitativo mediante el análisis de contenido sobre los casos de fraude informados en línea a través de los sitios web de las respectivas agencias de periódicos. Los hallazgos muestran que los periódicos medianos en inglés reportaron más casos de fraude relacionados con el PSE en comparación con el periódico mediano Bahasa Malasia. Los medios más altos que informaron sobre el fraude fueron los casos de fraude relacionados con el Departamento de Agua de Sabah (SWD), mientras que los casos más altos de fraude se registraron en el gobierno estatal, seguidos por el gobierno federal y las autoridades locales.

**Palabras clave:** Fraude, Media Reporting, empleado del sector público.

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## 1. INTRODUCTION

The public sector in Malaysia can be categorized into three jurisdictions namely the federal, state, and local authorities. At the top level, the federal government mainly comprises of ministries, departments and public enterprises. At this level, the ministries such as the Ministry of Internal Affairs are considered as the highest body in the federal administrative body. The head quarter for these ministries is mainly in the federal administrative city of Malaysia, which is Putrajaya. The federal government is headed by His Majesty the Yang di-Pertuan Agong. In conducting his duties, he receives advice from the Prime Minister and the cabinet in accordance to Federal Constitution 1957.

The second tier is the state government administrative level comprising of ministries (for two states in Malaysia), departments and public enterprises. Generally, the state governments are ruled by the Sultan, except for certain states which are governed by the Governor of the State. Each state government will have their own departments and statutory bodies such as the State Religious Department and State Sports Council respectively.

At the lowest hierarchical level is the Local Authorities, consisting of city councils, municipals or district councils managed by the respective state government, such as the Malacca Historic City Council (city council), Municipal Council of Alor Gajah (municipal council) and Jerantut District Council (district council).

Article 132 of the Malaysian Constitution stipulates that the public service shall comprise of the Federal and State General Public Service, the Joint Public Service, the Judiciary and the Legal Service and the Armed Forces. The Statutory Bodies and the Local Authorities are also considered part of Public Service. Both autonomous bodies have the same features of the Public Service in many respects since they espouse the similar procedures of the Public Service relating to appointments, terms and conditions of service as well as the remuneration system. The officers and staffs will also benefit the pension and other retirement advantage similar to other Public Service employees. Follow suit, the public employers can also be categorized into three, via federal, states, or local authorities accordingly. To better apprehend the hierarchy of government practiced by the Malaysian government, the three-tiers of Malaysian government can be depicted overleaf.

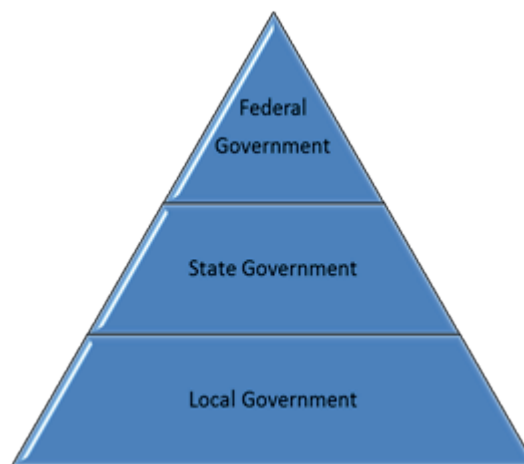


Figure 1. Three-tiers of Malaysian Government

## 2. LITERATURE REVIEW

### Fraud

Most of the fraud cases in today's corporate environment are dominated by the white collar crime (Palshikar, 2002). An American criminologist, Donald Cressey (1950) conducted the earliest study on convicted white collar criminal identified three factors which influenced the occurrence of fraud, that are pressure, opportunity and rationalization. His theory is called as a fraud triangle theory. Gbegi and Adebisi (2013) later suggested that a fraud triangle theory to include personal integrity as an additional factor. The Malaysian Approved Standards on Auditing (2001), AI No. 240, on the other hand, defined fraud as "An intentional act by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements".

Fraud is defined as a crime and tort due to false and material representation (Singleton et al., 2006). Other terms used to describe fraud interchangeably are theft, defalcation, irregularities, white-collar crime, and embezzlement. These terms, are however, found not to be identical under criminal law. For instance, theft means taking and carrying

away another person's property with the purpose of permanently depriving the owners of its proprietorship. On the other hand, embezzlement refers to a situation where the embezzler who was bestowed with a duty to care and protect certain property has breached the fiduciary duty. Sarah et al. (1998) developed fraud taxonomy to classify frauds according to their types. The taxonomy has 12 general categories consisting of "fictitious revenues, premature revenue recognition, misclassifications, fictitious assets and/or reductions of expenses/liabilities, overvalued assets and undervalued expenses/ liabilities, omitted or undervalued liabilities (affecting expenses or assets), omitted or improper disclosures, equity frauds, related party transactions, frauds going the "wrong way" (those understating income and/or assets), illegal acts and miscellaneous (including consolidation issues). Each category contains multiple individual fraud schemes".

On the other hand, Keller and Owens (2015) categorized frauds to two categories namely internal and external frauds. Whilst internal fraud is committed by persons within the entities, such as officers, employees, and directors, external fraud are committed by persons outside the entities, such as vendors. Internal fraud, on the other hand, can be further divided into two categories, which are asset misappropriations and fraudulent financial reporting or financial statement fraud. Examples of asset misappropriations are income and cash receipts schemes, procuring and cash disbursement schemes, payroll and employee expense reporting schemes, and non-cash asset misappropriations, whereas financial statement frauds involve fraudulent journal entries or managerial override of controls that have utilized journal entries within the accounting information systems ([Debreceeny and Gray, 2010](#))

#### Public sector fraud

As there is no specific performance indicator of profit for the public sector, the focus has been more on the cost of delivering the goods and services and the value for money it represents. Hence, expenditures incurred by the public sector are eligible for inspection to measure whether their functions or services are provided in the most efficient, effective, and economical way as possible. Accordingly, the public sector organizations have been subject to increasingly severe cost scrutiny. The public sector has also been encouraged to employ a much robust control system to prevent and detect fraud. On this issue, Allan (1993) argued that the current level of the public sector fraud and corruption are not much difference with that incurred in the private sector, hence, became an interest matter to the media and parliamentary attention.

Citizens pay taxes in exchange for services rendered by their government entities. Fraud among the PSE is a serious offence because scarce resources are not converted to services benefiting the constituents, and worse still, constituents will lose faith in the ability of the government entity's leadership to govern (Douglas, 1995). Reports on a questionnaire survey of US local government auditors conducted in 1996 to determine the amount of fraud in state and local governments, concluded that fraud is a significant problem for state and local governments and finds that management is not responding effectively to "red flags" or to the actual frauds when they are discovered. Most of the losses in fraud cases are accounted to the misappropriation of funds, other false representation, other fraud, or false invoices (Douglas, 1995). The study also unveiled five reasons to fraud occurrence, which are poor management practices; economic pressure; weakened society values; people not held responsible for their actions; and inadequate training for those responsible for fraud prevention/detection (Douglas, 1995).

Research by Levi et al. (2007) and Levi and Burrows (2008) have conservatively estimated the extent of fraud to be in the region of £14 billion per annum in the UK alone. Almost half (£6 billion) of this estimated £14 billion is lost to fraud in the public sector.

Given the scale of the problem in the public sector, the measures to tackle this problem should have importance in political priorities, given the ever-tighter fiscal climate in the public sector. Fraud is, however, relatively neglected by academics and policy-makers in comparison to other crimes (Levi, 2007).

At the local outset, a survey performed by KPMG Malaysia in 2013 reported that 83% respondents believed that fraud is a major problem in Malaysian companies, implying that fraudulent activity has become a serious problem in Malaysia (KPMG, 2013). This survey also indicated that lack of integrity among PSE contribute to the loss of public trust. Many steps have been taken by the Malaysian Government to ensure that all of its employees work with high integrity to minimize the occurrence of the fraudulent activities. Integrity in the context of public service sector is an indicator for trust, competence, professionalism and confidence (Akir and Malic, 2012).

Pawi et al. (2011) argued that the Malaysian local authorities are accountable for proper management of its public infrastructure and facilities to ensure that integrity and the level of satisfaction of the public are well managed. Another recent study by Aziz et al (2015) also mentioned issues raised by the local newspapers on Malaysian public sector having difficulties in managing their properties and facilities, which eventually may damage the value of integrity in the public sector. The failure of efficient and effective asset management has instigated the federal government to face several problems, thus, burdening both the authority and the public. The latest study by Haniza Hanim, Norazidah and Jamaliah (2017) found a positive relationship between the fraud triangle elements

(pressure, opportunity and rationalization) and fraud occurrence among the Royal Malaysian Police employees. In addition, this study also shows that any fraudulent actions could be prevented when the employees have high integrity that demand them to act with full honesty and follow the rules stated by the organization.

Whilst previous studies tend to focus on the factors or reasons to individuals committing fraud, little studies have been focusing on the fraud reporting by the media. Thus, this study highlighted the fraud cases reported by the mainstream newspaper by profiling frauds committed by the public sector servants. This is achieved by categorizing the data of frauds into several common categories as suggested by the previous literature as well as summarizing the data according to the states and the agencies involved.

### 3. METHODOLOGY

This study adopts quantitative content analysis to extract data on the online media reporting on fraud by four (4) local mainstream newspapers consisting of two Bahasa Malaysia newspapers and two English newspapers, namely Berita Harian, Utusan Malaysia, New Straits Time and The Star. These two main languages chosen as majority of Malaysian can converse and read in these languages. Media has been chosen as the source of information as mass media is one of the world’s largest databases as it may influence public opinion through its reporting of issues and trends and argued to break news and “framing the agenda of public debate” (Macnamara, p.21, 2005).

The online newspaper has been selected instead of the normal newspaper circulation taking into consideration the power of internet news and reduction of newspaper subscription among public at large. Articles appeared under certain headings or key words relating to the fraud reporting such as ‘fraud’, ‘bribery’, ‘graft’, ‘rasuah’, ‘penyelewangan’, ‘salahguna kuasa’ and ‘misappropriation of assets’ throughout the year of 2016 were captured through the website of the respective news agencies. The focus of the study is the ‘volume of mentions’ or the frequency of the above keywords mentioned by the selected newspaper. The data was then combined, compared, and classified according to type of fraud, governance level, state and agencies involved where the cases reported to have occurred using statistical software which is Statistical Package for Social Sciences (SPSS) version 24.0. The study has classified the fraud cases into three (3) after taking into consideration the literatures on the definition of fraud and the general distribution of data collected. The breakdown of the data is disclosed in the next section.

### 4. FINDINGS AND DISCUSSION

Data for the study was collected throughout 2016 based on types of fraud has been gathered. Interestingly the English medium newspaper has slightly higher media reporting compared to the Bahasa Malaysia medium. The distribution of media reporting involving fraud cases involving PSE of the four (4) mainstream newspaper agencies throughout 2016 is shown in Figure 2. Top media reporting on fraud cases by the PSE is by the Utusan Malaysia, followed by the New Straits Time, The Star and Berita Harian. Table 1 depicts that the highest fraud reporting was in the month of October, i.e. 100 reporting incidents as opposed to the lowest fraud reporting in the month July with only 22 incidents reported. The top case reported in October 2016 was the case involving Sabah Water Department (SWD) where it became the sensational news for the public as the Malaysian Anti-Corruption Corruption (MACC) have raided SWD main headquarters and homes of the head of the agency and confiscated assets in many forms such as cash, land titles, jewellerys, luxury cars as well as branded handbags.

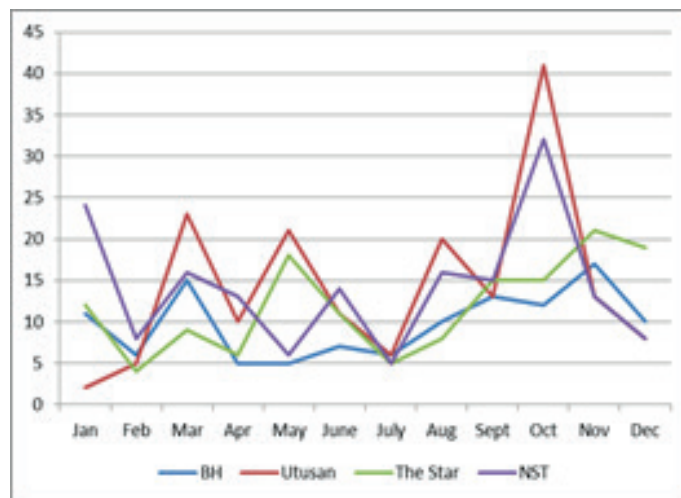


Figure 2. Distribution of media reporting on fraud cases in PSE by newspaper agencies

Table 1. Distribution of media reporting on fraud on public service employees by month

Month	BM		English		Grand total
	BH	Utusan	The Star	NST	
Jan	11	2	12	24	49
Feb	6	5	4	8	23
Mar	15	23	9	16	63
Apr	5	10	6	13	34
May	5	21	18	6	50
June	7	11	11	14	43
July	6	6	5	5	22
Aug	10	20	8	16	54
Sept	13	13	15	15	56
Oct	12	41	15	32	100
Nov	17	13	21	13	64
Dec	10	8	19	8	45
Total	117	173	143	170	603

As for the types of fraud cases involving the public service reported by the newspaper, the study has categorized them into three namely corruption, misappropriation of assets and others as shown in the table below. Majority of the cases (557, 92.4%) involved corruption followed by the misappropriation of asset (26, 4.3%) and others (20, 3.3%) respectively.

Table 2. Distribution of fraud cases by newspapers

Newspaper	Types of Fraud			Total
	1	2	3	
BH	100	14	3	117
Utusan	165	2	6	173
The Star	129	7	7	143
N S T Harian	163	3	4	170
Total	557	26	20	603

1 – Corruption

2 - Misappropriation of asset

3 - Others

The distribution of media reporting on fraud cases by states is depicted in the below table. In line with the findings of Sabah Water Department (SWD) as one of the major contributor to fraud reporting revealed in Table 5, it is justly that Sabah reported the second highest fraud cases after Federal Territory followed by Penang and Melaka as shown in Table 3.

Table 4, on the other hand, shows the distribution of fraud cases according to the three different jurisdiction, which are either federal, states or local authority. It is found that the highest fraud cases revolved around the state level (438, 72.6%), followed by the federal (135, 22.4% and local authorities (30, 5%).

Table 3. Distribution of media reporting on fraud by states

States	Types of Fraud			Total
	1	2	3	
Federal Territory	146	19	6	171
Johor	23	-	1	24
Kedah	20	2	2	24
Kelantan	9	1	-	10

Melaka	40	-	2	42
Negeri Sembilan	11	-	1	12
Pahang	32	-	1	33
Penang	78	3	-	81
Perak	15	1	2	18
Perlis	12	-	1	13
Sabah	131	-	-	131
Sarawak	14	-	1	15
Selangor	21	-	3	24
Terengganu	5	-	-	5
Total	557	26	20	603

1 – Corruption

2 - Misappropriation of asset

3 – Others

Table 4. Distribution of media reporting on fraud by jurisdiction level

Jurisdiction	Types of Fraud			Total
	1	2	3	
Federal	114	15	6	135
State	413	11	14	438
Local authorities	30	-	-	30
Total	557	26	20	603

1 - Corruption

2 - Misappropriation of asset

3 - Others

A total of 56 agencies were identified as the contributors to the fraud cases involving the public service. The five top agencies with the highest fraud cases are Sabah Water Department (SWD), Royal Malaysian Police (RMP), Youth Sport Ministry (YSM), Pahang Land & Mine Department (PLMD), and Road Transport Department. This has excluded cases reported under the local government department and local municipal council as they represent various agencies.

## 5. SUGGESTION AND RECOMMENDATIONS

Fraud cases in the form of corruption, misappropriation of assets and others reported by the mainstream media is indeed a shock to the public especially when the cases involved millions of ringgit and have lasted many years before the cases were discovered. Public would have questioned the integrity of these government agencies in conducting their duties.

The study recommends the authority to be more transparent in handling these fraud cases involving the public servant by expediting the trial procedures and update the public on the punishment or actions taken to those involved in the fraud cases. Public no longer wanted to be left quizzed on the outcome of any fraud cases reported by these media.

## 6. CONCLUSION

Fraud cases among the public sector employees have been the limelight of newspaper articles as the management of public fund is a public concern. This study purports to investigate the pattern of fraud reporting among the four mainstream newspaper reporting. The result shows that English medium newspaper reported slightly higher cases than the Bahasa Malaysia medium newspaper. The highest reported month of the fraud cases was October, reporting a corruption case involving hundreds of millions ringgit pertaining to a state agency which is the Sabah



Water Department (SWD). Fraud cases were mostly incurred within the State government, followed by the Federal and local authorities. Results of this limited study may indicate that integrity is at loose in the government sector as the head of department were also involved in fraud activities by misusing the power bestowed upon them. Government need to think of effective measures to counter these fraud activities to ensure Malaysian public sector is governed ethically and public trust is upheld. However, the results of this study may not be generalized due to limitation on the number of samples selected which is confined to only one year.

**DISCLAIMER :** This is a study based on the ongoing case law involving the public sector employees as reported in media. This paper represents the opinions of the authors and is a product of professional research. It is not meant to represent the position or opinions of the public. Any errors are the fault of the authors.

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