

UNIVERSITI TEKNOLOGI MARA

**INTEGRITY VIOLATIONS IN
MALAYSIAN GOVERNMENT
DEPARTMENTS: THE
ORGANISATIONAL FRAUD
TRIANGLE PERSPECTIVE**

AFZAL IZZAZ BIN ZAHARI

PhD

August 2020

AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

Name of Student : Afzal Izzaz bin Zahari

Student I.D. No. : 2015390235

Programme : Doctor of Philosophy (Financial Criminology) –
AR952

Faculty : Accounting Research Institute

Thesis Title : Integrity Violations in Malaysian Government
Departments: The Organisational Fraud Triangle
Perspective



Signature of Student :

Date : August 2020

ABSTRACT

The Association of Certified Fraud Examiners (ACFE) in 2019 estimates that the world loses USD6.3 billion dollars due to integrity violations, such as fraud and corruption. Governments are the highest spending organisations with an average of 41.9% of Gross Domestic Capita (GDP), as such governments are highly vulnerable to experience the ill effects of integrity violation. Integrity violation causes economic loss and has a negative impact on the organisation through an increase in costs of service delivery, the loss of income, reduced productivity and efficiency. Past studies on integrity violation tend to concentrate on the private sector in developed countries. Currently, limited studies focused on the integrity violation in the public sector, especially in the context of developing countries that warrant more studies to be conducted. According to Organisational Fraud Triangle Theory (OFTT), three main factors are contributing to integrity violation; leadership, ethical culture, and control systems. Leaders are responsible for shaping the tone from the top of the organisation. Strong organisational ethical cultures promote a positive work environment amongst the employees. Ethical culture infuses higher levels of understanding and improved reason towards the repercussions of conducting integrity violations. Internal control is a control mechanism that monitors and mitigates potential integrity violation from taking place in the organisation. Currently, limited empirical studies examined the three factors contributing to integrity violation, as proposed by OFTT. This study aims to examine whether these three factors affect the levels of integrity violation. Past studies did not examine all the three factors simultaneously in a single study to identify which of the elements has significant impacts on integrity violation. This study subsequently investigated whether integrity climate has any direct effect on integrity violations and if it mediates the relationship between organisational fraud triangle components and integrity violations. There were 382 returned questionnaire surveys (68.34%) out of the 559 questionnaire surveys distributed to Malaysian government departments. The findings show that ethical leadership and integrity climate have a significant relationship with integrity violations. However, internal control systems were not a significant factor in integrity violations in the Malaysian government department. These findings indicate that ethical leadership, ethical culture, and integrity climate are important components that can be used to mitigate integrity violations. The organisational strategy to improve the overall integrity could be focused on aspects of leadership quality, improving ethical culture, and infusing positive working environment through integrity climate. The overalls results suggest that effective organisational management should focus on the development of ethical leadership structures, promoting ethical culture values and a healthy integrity climate in order to control or mitigate the levels of integrity violation.

ACKNOWLEDGEMENT

In the name of Allah S.W.T, the Most Gracious and the Most Merciful. All praise to Him for the strengths and blessings granted to me for this journey.

I wish to express my sincere appreciation to my supervisors, Professor Dr Jamaliah Said and Professor Dr Roshayani Arshad. Without their support, the goal of this thesis would not have been realised.

I would like to express my appreciation and gratitude to the lecturers, teachers, educators, tutors, overseer, supervisor, brightness and pillars towards this step of the journey in life. This mainly goes to, the management, administration and support staff of Accounting Research Institute (ARI), Universiti Teknologi MARA.

I would also like to express my gratitude to the government departments and ministries that had given their support towards this project. Their input, experience, and sharing of knowledge made it possible for this research to continue. The role that the Institute of Integrity Malaysia (IIM) had in supporting this project was invaluable.

Special thanks to my family in giving their full support throughout the years. The lovely wife Dr Suhana Sulaiman and my trio children Aiza, Emi and Danial that are forever in my heart. This goes to Emi and baby Danial with the never-ending support of wanting to sit together while I conduct the research at the computer.

Finally, I would like to acknowledge with gratitude, the support and love of my family, my parents Datuk Haji Zahari, Datin Hajjah Rahimah, Haji Sulaiman, Hajjah Khadijah, and family members; Arizal, Sherry, Zetti, Muzaffar, Yusri, Suhaila, Azmir, Hazimah, and Azlan that are always there with the smile and support. Special thanks to all my friends especially in the E-Sports community in giving their support and precious advice that kept me going.

They all kept me going, and this journey would not have been possible without them.

TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	i
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
CONTENT	v
LIST OF TABLES	xi
LIST OF FIGURES	xiii
LIST OF ABBREVIATIONS	xiv
CHAPTER ONE: INTRODUCTION	1
1 Introduction	1
1.1 Background of Study	4
1.2 Statement of the Problem	6
1.3 Overview of Integrity Violation in Malaysia	13
1.4 Motivation of the Study	16
1.5 Objectives of the Study	18
1.6 Research Question	18
1.7 Scope and Limitation of Study	18
1.8 Thesis Outline	20
CHAPTER TWO: LITERATURE REVIEW	22
2 Overview	22
2.1 Introduction	22
2.2 Integrity	24
2.3 Components of Integrity	27
2.3.1 Honesty	27
2.3.2 Conscientiousness	28
2.3.3 Principle	30