

VOLUNTARY DISCLOSURE OF CORPORATE INTEGRITY IN THE ANNUAL REPORT OF THE MALAYSIAN FEDERAL STATUTORY BODIES

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ABSTRACT

The objective of this study is to discover the availability of integrity disclosures in the annual reports of Malaysian Federal statutory bodies by focusing on the non-financial section of the reports. The sample was selected from a list of Federal statutory bodies issued in the Auditor General Report for 2015. A total of 60 Federal statutory bodies' annual reports were selected randomly, based on their availability on the internet. Content analysis of the non-financial section was used to explore for the existence of integrity being disclosed in the annual reports based on the initiatives taken by the government on the implementation of integrity culture in public sector organizations. Finding from this study reveals that, out of 60 Federal statutory bodies, 45 of them (75%) disclosed some elements of integrity in their annual report although no specific requirement for such disclosure is required. Majority of the Federal statutory bodies have established their integrity unit and provide other information on integrity in their annual report such as integrity enculturation programs, workshops on integrity and reinforcing human capital capability and capacity with integrity. Though this paper provides some useful insights into 'integrity' disclosures among public sector organizations, it is limited to the Federal statutory bodies and the non-financial information in the annual reports only.

Key Words: Integrity disclosure, annual report, voluntary disclosure, Federal statutory body.

INTRODUCTION

Good public sector governance and quality work culture are imperative for improving public confidence towards the government's ability in implementing the mandated policies. In this view, the government continues to take steps to strengthen the integrity of the civil servants in upholding and enforcing the principles of integrity and accountability in order to achieve better public delivery system.

In 1988, the Malaysian government has made effort toward creating an efficient and disciplined government administration with the highest integrity values through the establishment of the "Jawatankuasa Khas Kabinet Mengenai Pengurusan Kerajaan (JKKMPK)" or Special Cabinet Committee on Government Management (SCCGM). The most recent effort is the establishment of Integrity and Governance Committee (JITU) in 2014. This effort is important in establishing and maintaining high standards of corporate governance leading to accountability, transparency and sustainability in the government administration. Outcome of the action taken is expected to reduce and eliminate corruption.

Another important agenda is the inclusion of integrity as one of the seven National Key Result Area (NKRA) initiatives. The first core of NKRA highlighted integrity which aims at reducing corruption, malpractices and abuse of power. It is expected that elements of ethics, integrity, accountability and transparency are enhanced in the system, procedures and processes of government administration.

In general, the concept of information disclosure has various meanings and definitions as included in the relevant literature. For example Parker (1992, in excerpts Azhar, 1998) defines information disclosure as a report on the financial and non-financial information to users, and it can be based on legislative requirements or standards, or may be voluntarily. Cooke (1992) refers information disclosure as both mandatory disclosure and voluntary disclosure in the financial statements, including notes to the accounts and analysis by the management on the business operations. Based on the above definition of information disclosure, it can be concluded that the concept of information disclosure is extensive and covers all the disclosure in various forms of media. However, the scope of this study is focused on aspects of information disclosure in the annual report and limited to the non-financial information only.

As a public record, annual reports are usually more accessible (Woodward, 1998, in Unerman, 2000) and are considered as the most important method for public sector organizations in disseminating their information to the stakeholders (Wall & Martin, 2003; Wei et al., 2008). Federal statutory bodies are chosen due to the availability of the annual report as it is a mandatory requirement to prepare and publish their annual reports every year. Using only annual reports in this study is also consistent with previous studies done by Coy and Dixon (2004), Schneider and Samkin (2008), Gordon et al. (2002), and Ryan et al. (2002b).

Meanwhile, as of today, there are only studies by Arshad (2013a, 2013b) that examined the disclosure of corporate integrity practices in the annual report. However, they focused on a multinational company and a public listed company and does not covers public sector organizations. Thus, the objective of this study is to discover the availability of integrity disclosures in the annual reports of Malaysian Federal statutory bodies by focusing on the non-financial section of the reports. This study is considered the first study to examine the integrity disclosures in the context of public sector organization in Malaysia. This is also in line with the various government initiatives to inculcate integrity culture in government agencies. Therefore, this study will give some influence towards the understanding of integrity practices through information disclosure in the Federal statutory bodies' annual report. The remainder of the paper is structured as follows. The next part reviews the government initiatives towards integrity and relevant literature on disclosure in the annual report. This is followed by discussion of the methodology and results. The final part of the paper provides conclusions from the study.

LITERATURE REVIEW

Government Initiatives towards Integrity

Administrative machinery is an important aspect that determines the success of government in implementing policies and programs for public at large. Public sector administration is a major player in providing services to the community and the country. Efficient and quality public delivery system is necessary in order to meet the needs of society and ensure the well-being of the citizen. Thus, it is important to appropriately address the integrity of the administrative

machinery. In line with that, the government has established agenda for the integrity of the administrative machinery which is to achieve the following objectives:

- Enhancement of the principles of transparency, accountability and good governance; and
- Increase the integrity of public administrative machinery.

In accordance to the above, in 1988, Government of Malaysia introduced the “Movement to Consolidate the Management Integrity System of the Government” with the establishment of Special Cabinet Committee on Government Management (SCCGM). This initiative is further strengthened with the establishment of the Special Cabinet Committee on Government Management Integrity (SCCGMI) in 1997 to establish a government administration that is efficient, disciplined and of high integrity.

The initiative was further enhanced through the establishment of the Integrity Management Committee (IMC) in 1998 based on the Prime Minister's Directive No. 1 of 1998 and Committee on Integrity Governance (CIG) in 2009 under Prime Minister's Directive No.1 of 2009.

In line with the vision and requirement mentioned, other various initiatives have been introduced and implemented within the Public Service. Among the primary mechanisms that have been initiated to implement and enhance integrity of government administration are:

1. Formulation of the National Integrity Plan (NIP)
2. Signing Integrity Pledge
3. Implementation of Integrity Pact To all Government Mega Project – (Treasury Instruction Letter (SAP) dated 1 April 2010)
4. Implementation Certified Integrity Officer (CeIO) - (Prime Minister's Directive No1 of 2009 - Series 1 No.1, 2011)
5. Establishment of Integrity Unit in All Public Agencies - (Circular No. 6, 2013)
6. Establishment of Integrity and Governance Committee (JITU) - (Prime Minister's Directive No. 1 of 2014)

National Integrity Plan (NIP)

Recognizing the importance of integrity in the society, Malaysian government has implemented the National Integrity Plan (NIP). National Integrity Plan was launched on 23 April 2004, by the Honourable Prime Minister of Malaysia, Datuk Seri Abdullah Ahmad Badawi, in line with the fourth challenge of Vision 2020 which is to form a strong features of moral and ethical community, with its citizens have intact religious and spiritual values, and anchored by noble character. This plan was developed with the main focus to establish and nurture an ethical culture and integrity among all level of society. Accordingly, all government agencies are encouraged to establish their organization Integrity Action Plan in order to strengthen and ensure the successful implementation of the National Integrity Plan.

Corporate Integrity Pledge (CIP)

In improving corporate governance, business ethics and corporate social responsibility, Corporate Integrity Pledge (CIP) has been established and implemented in an effort to encourage good governance and fight corruption. CIP is a declaration made by an organization in Malaysia in order to support efforts of preventing corruption in Malaysia. By signing this

pledge, an organization made unilateral decisions to support anti-corruption principles as follows:

1. Commitment to promote the values of integrity, transparency and good governance
2. Strengthening of internal control that supports the prevention of corruption
3. Compliance with laws, policies and procedures involving corruption
4. Fight against any form of corruption
5. Supports all anti-corruption initiatives undertaken by the MACC

CIP developed by the Corporate Integrity System Malaysia (CISM) may help an organization to take the first step to detect corruption and to encourage organizations to implement integrity programs. CIP also may strengthen organization's internal control systems in preventing corruption.

Integrity Pact

The implementation of Integrity Pact in government procurement is one of the initiatives under the National Key Result Area - Corruption and in accordance to the Treasury Instruction Letter (SAP) dated 1 April 2010. Integrity Pact is a concept originally introduced by Transparency International (TI) to assist the government, business and public institutions in order to curb corruption in public procurement.

Integrity Pact is a process of the declaration by the bidder/public to not offer or give bribes in obtaining contracts, or as a reward for getting a contract and to expedite government procurement process. Next, the bidder/public and government officials will sign a 'pact' or agreement for not committing an act of corruption in the execution of a contract and outlines actions that can be taken in case of breach of 'pact' or contract. In addition, the implementation of Integrity Pact helps to increase awareness of corruption among public officials and those who deal with government procurement, which in turn could eliminate corruption offenses which are common in government procurement.

Certified Integrity Officer (CeIO)

The establishment of Certified Integrity Officer (CeIO) is based on the Prime Minister's Directive No. 1 of 2009 - Series 1 No.1, 2011 that requires all heads of government departments and agencies to establish the program. As an accredited officer, Certified Integrity Officer (CeIO) plays a primary role to instil integrity and ethical values within the organization. Specifically, the role of the CeIO is to plan, implement and monitor the effectiveness of integrity programs in ministries, departments and agencies, respectively. A qualified CeIO would have a good understanding of integrity management, the required legal framework, compliance and monitoring system as well as the ability to develop integrity action plan. A Certified Integrity Officer (CeIO) Programme is offered at the Corporate Integrity Development Centre (CIDC) of the Malaysia Anti-Corruption Academy (MACA).

Integrity Unit

The latest initiative taken by the government to strengthen integrity in the public sector is the establishment of Integrity Unit in all Federal and State government agencies through the issuance of the Government Service Circular No. 6 of 2013. The initiative for setting up an integrity unit in all government agencies is to ensure that the public service delivery system is disciplined, efficient, and uphold the principles of noble values, ethics and integrity. The

Integrity Unit served as a focal point for managing issues related to integrity in all public agencies. The establishment of the Integrity Unit act as an internal control efforts by the agency to manage the integrity of the organization. The role of CeIO, as explained previously, is prominently featured in this policy when the Circular place them as a Head of the Integrity Unit. The Integrity Unit is a dedicated unit embed in the organizational structure of an agency and have “ownership” to all matters regarding integrity. The strategic roles of the Integrity Unit are to manage and implement effective initiatives to institutionalize integrity, managing complaints, prevention, compliance, detection and disciplinary actions in government agencies.

Integrity and Governance Committee (JITU)

A year later on June 3rd, 2014, an effort was made to further enhance integrity in the public sector through the establishment of the Integrity and Governance Committee (JITU) to replace the Committee on Integrity Governance (CIG) in every government ministries and agencies. This policy is issued through the Prime Minister's Directive No. 1 of 2014. The aim of the establishment of Integrity and Governance Committee (JITU) is to facilitate the integrity enhancement efforts of government administrative system to be elevated in all Ministries/States Government/Departments/Agencies. The role of JITU is to plan and implement prevention and remedial measures to overcome weaknesses in the areas of governance and integrity. JITU is only formed at the Ministry level whereas at department/agency level under Ministry, it is subjected to the Chief Secretary's consideration. In the meantime Ministers at the respective Ministry can direct the Chief Secretary to establish JITU in departments/agencies, particularly those in high-risk category.

Disclosure in the Annual Report

Previous literature indicates that there are various reasons why information is disclosed in the organizations' annual report or financial statement. Among the reasons are: (1) complying with the disclosure requirements which is the minimum requirements set by law or accounting standards; (2) in response to the market needs; (3) as an articulation of accountability and stewardship to the relevant parties; (4) as a social responsibility; and others. Several studies have examined disclosure in the annual report focusing on these aspects (Adam, 2002; Azlan & Susela Devi, 2007; Mohd Azlan, 2006; Ryan et al., 2002; Blanco et al., 2011; Herawaty & Hoque, 2007; Gray, Kouhy & Lavers, 1995; Boyne & Law, 1991; and Tai, et al., 1990).

Based on the literature, study on disclosure of information can be divided into three categories; aggregate disclosure, mandatory disclosure and voluntary disclosure (Azhar, 1998; Cooke, 1989). Aggregate disclosure covers all items required to be disclosed by the organization whether an item is classified as mandatory or voluntary information. Studies related to aggregate disclosure on corporate firm was done by Azhar (1998) and Cooke (1989). While studies related to the voluntary disclosure was done by researchers such as Aitken, Hooper and Pickering (1997), Deegan (2002), Entwistle (1999), Haniffa and Cooke (2002), Ho and Wong (2001), Leftwich, Watts and Zimmerman (1981), Patton and Zelenka (1997), and Prencipe (2004). Other researchers such as Ahmed and Nicholls (1994), Akhtaruddin (2005) and Hilwani, Hasnah, Akhtaruddin, and Hanem Hafizah (2006) studied on mandatory information disclosure. The literature also indicates that there are few studies associated with the disclosure of information on public sector organizations such as Copeland and Ingram (1983), Christiaens (1999), Collin, Keenan and Lapsley (1991), Coy, Tower and Dixon (1993), Daniels and Daniels (1991), Giroux (1989), Giroux and McLelland (2003), Laswad, et al. (2005), Robbins and Austin (1986) and Ryan et al. (2002a).

There are a number of previous studies in the public sector setting that focus only on specific aspects of reporting such as, financial (e.g. Banks & Nelson, 1994; Pendlebury et al., 1994), governance (e.g. Ryan & Ng, 2000), performance (e.g. Boyne & Law, 1991; Hyndman & Andersen, 1995; Hyndman & Anderson, 1998; Janet, 2006; Rutherford, 2000; Taylor, 2006), sustainability (e.g. Marcuccio & Steccolini, 2005) and intellectual capital (e.g. Schneider & Samkin, 2008). None of these studies has so far look into the integrity disclosures specifically.

A far as this study is concerned, there is no study has been done on integrity disclosures in the context of public sector organization in Malaysia. However, studies on corporate integrity disclosure in companies has been done by Arshad (2013a, 2013b). Using content analysis, Arshad (2013a) analyzed the nature and extent of corporate integrity disclosure in annual report of a multinational company based on recommended best practices on anti-corruption activities in Malaysia and other international practices. Findings of this study revealed that the company has disclosed a comprehensive level of information disclosure on the corporate integrity practices. In addition, it is also highlighted that the company is proactive in implementing and disclosing anti-corruption information that reflects the company's commitment in providing adequate financial and non-financial information to the various stakeholders. Meanwhile, another study by Arshad (2013b) on corporate integrity disclosure practice in a public listed company in Malaysia revealed that it has only disclosed a moderate level of information regarding their corporate integrity practices and need further guidance in realizing more comprehensive corporate integrity practices. Thus, this paper is an attempt at addressing the corporate integrity disclosure focusing on the Malaysian public sector experience.

RESEARCH METHOD

Unit of analysis for this study is the annual report of the Malaysian Federal statutory body. The sample was selected from a list of Federal statutory bodies issued in the Auditor General Report for 2015. A total of 60 Federal statutory bodies' annual reports were selected randomly, based on their availability on the internet. Federal statutory bodies are chosen due to the availability of the annual report as it is a mandatory requirement to prepare and publish their annual reports every year. Using only annual reports in this study is also consistent with previous studies done by Coy and Dixon (2004), Schneider and Samkin (2008), Gordon et al. (2002), and Ryan et al., (2002b).

In this study, data is analysed through content analysis of annual report. Except for the financial information section, the whole annual reports were analyzed according to the predetermined disclosure items. The predetermined disclosure items were developed by identifying key features of the elements of integrity in the annual report. Elements of integrity are identified based on government initiatives towards integrity and other related document. These are shown in Table 1. A 'Yes' rating is given if the element of integrity is disclosed. All the integrity disclosure practices are then recorded in a disclosure score sheet developed prior to data analysis. In public sector accounting, a number of researchers have been using content analysis in their study, such as Yongvanich and Guthrie (2005), Ho and Ni (2005), Lye and Fisher (2004), and Gibson and Guthrie (1995).

Table 1. Source for elements of integrity

Element of Integrity	Source
Integrity Unit	Government Service Circular No. 6 of 2013
Certified Integrity Officer (CeIO)	Prime Minister's Directive No. 1 of 2009 - Series 1 No.1, 2011
Integrity Committee	Prime Minister's Directive No. 1 of 2014
Integrity as Organization Shared/Core Values	
Code of Ethics	
Organization's Integrity Plan	National Integrity Plan (NIP), 2004
Channel for Reporting	
Whistle Blowing Policy	
Integrity Pledge	Corporate Integrity Pledge (CIP) Treasury Instruction Letter (SAP), 1 April 2010
Integrity Pact	
Separate Section on Integrity	Annual Reports
Other Integrity disclosure	Annual Reports

RESULTS

This section presents the results of the content analysis for integrity disclosures in the annual reports of 60 Federal statutory bodies in Malaysia. From the analysis, out of 60 Federal statutory bodies, 45 of them (75%) disclosed some elements of integrity in their annual report, while information on integrity is not available in the annual reports of the remaining 15 Federal statutory bodies. Table 2 provides descriptive statistics for the integrity items disclosed.

Table 2. Number of integrity items disclosed (n = 45)

Element of Integrity	Frequency	Percentage
Integrity Unit	30	66.7
Certified Integrity Officer (CeIO)	1	2.2
Integrity Committee	11	24.4
Integrity as Organization Shared/Core Value	10	22
Code of Ethics	3	6.7
Organization's Integrity Plan	4	8.9
Channel for Reporting	3	6.7
Whistle Blowing Policy	6	13.3
Corporate Integrity Pledge	6	13.3
Integrity Pact	2	4.4
Separate Section on Integrity	4	8.9
Other Integrity disclosure	26	57.8

With regards to the elements of integrity, Table 2 shows that majority of the Federal statutory bodies have established their integrity unit (66.7%) and provide other information on integrity (57.8%) in their annual report. Other integrity disclosure includes integrity enculturation programs such as integrity talk, integrity day and integrity month, workshops on integrity and reinforcing human capital capability and capacity with integrity.

It can be seen that the statutory bodies adhered to the government initiatives by establishing the integrity unit and providing information and programs related to integrity. This result proves that majority of the Federal statutory bodies have practice the culture of integrity in promoting good governance in their organizations.

However, the disclosure of other elements of integrity such as Certified Integrity Officer, Integrity Committee, Integrity as Organization Shared/Core Values, Code of Ethics, Channel for Reporting, Whistle Blowing Policy, Corporate Integrity Pledge and Integrity Pact is less than 25% of the Federal statutory bodies disclosed these items. However, disclosure on integrity committee is the third highest with 24.4% disclosure. The non-existence of specific disclosure requirement related to integrity to be published in the annual report may have contributed to such a low disclosure result.

Table 3 shows that the disclosure of detail information regarding the integrity unit amongst most of these sample entities has been adequately made (more than 30%). Although more than 60% of the Federal statutory bodies have established their integrity unit, not all of them have a separate integrity unit. Out of the 30 statutory bodies that have established integrity unit, 14 of them established their integrity unit in combination with other unit such as internal audit department, legal unit, corporate governance unit and management division. This might be due to small number of staff assigned for integrity purposes.

Table 3. Items disclosed on integrity unit (n = 45)

Item Disclosed	Frequency	Percentage
Integrity Unit	30	66.7
Integrity Unit separately	16	35.6
Integrity Unit combine with other unit	14	31.1
Integrity Unit in Organization Chart	27	60.0
Name of Chief Integrity Unit	17	37.8
Photo of Chief Integrity Unit	9	20.0
Function of Integrity Unit	4	8.9

Table 4 shows further analysis on the information regarding the integrity committee. As shown in Table 4, the disclosure on Integrity and Governance Committee is fairly low would suggest that most of the Federal statutory bodies still did not established the committee. With the assumption that disclosure of integrity portray their practices on culture of integrity, it is evident that this element of integrity may not have received sufficient attention amongst these statutory bodies.

Table 4. Items disclosed on integrity committee (n = 45)

Item Disclosed	Frequency	Percentage
Integrity Committee		
Integrity and Governance Committee (JITU)	10	22.2
No of JITU Meeting = 3 times	5	11.1
No of JITU Meeting = 2 times	4	8.9
Others (Management Integrity Committee)	1	2.2

Overall findings show that Federal statutory bodies followed the government’s instruction to establish an integrity unit. However, the integrity culture is seems quite low and still lacking of the function and roles of the integrity unit. To some extent, the establishment of the integrity unit is basically made due the instruction by the government. Hence their effectiveness in creating the high integrity organization is questionable. In addition, it highlights that Federal statutory bodies need some guidance in implementing a comprehensive integrity culture and ethics in their organizations.

The low level of disclosure on these items might suggest that majority of the Federal statutory bodies may not implement the corporate integrity to their fullest commitment. Therefore, higher commitment is needed for the Federal statutory bodies to discharge their accountability through information disclosure in the annual report. Perhaps the government should encourage Federal statutory bodies to disclose integrity information in the annual report on voluntary basis so that the public at large are made known of the achievements of the government initiatives. However, the findings of this study are not comparable to previous studies as this study is the first study that has been done on integrity disclosures in the context of public sector organization in Malaysia.

CONCLUSIONS

This paper seeks to discover the availability of integrity disclosures in the annual reports of Malaysian Federal statutory bodies by focusing on the non-financial section of the reports. The objective is to undertake a content analysis of the non-financial section for the existence of integrity being disclosed in supporting the government initiatives. Based on the initiatives taken by the government on the implementation of integrity culture in public sector organizations, this study reveals that most of the statutory bodies disclosed elements of integrity in their annual report although no specific requirement for such disclosure to be made. These findings also have implication to the government in providing more emphasis on the disclosure of information particularly on integrity aspect. Related authority parties such as the ministries should encourage the disclosure of integrity in line with the government initiatives towards integrity in order to establish and nurture an ethical culture and integrity among all level of society. It is also can be used as a benchmark for other government agencies in their information disclosure on integrity practices in order to preserve integrity and maintain a work culture of high discipline and of increased professionalism in order to maintain the good image of the government agencies. Given the published annual report can influence the perception and image of Federal statutory bodies to the public at large, it is necessary to provide better understanding on the practice in relation to the integrity disclosure in the Malaysian public sector annual reports.

Though this paper provides some useful insights into ‘integrity’ disclosures among public sector organizations, it is limited to the Federal statutory bodies and the non-financial information in the annual reports only. Further study should look into the other government organizations including the government link companies. Furthermore, analysis should cover both financial and non-financial information in order to explore a more comprehensive disclosure of integrity in the annual report. Interviews may be conducted in providing a better understanding of the integrity practices in the public sector.

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