

LEVEL OF ETHICS AND INTEGRITY AND INTERNAL AUDIT CAPABILITY: A COMPARISON OF TWO MALAYSIAN PUBLIC SECTOR ORGANIZATIONS

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ABSTRACT

The main purpose of this paper is to explain the possible influence of internal audit capability on the level of ethics and integrity in Malaysian public sector organizations i.e., Federal Statutory Body (FSB) and State Statutory Body (SSB). An explanatory case study method is used to collect the data whereby semi structured interviews, informal conversations, questionnaire and document reviews are conducted. The level of ethics and integrity is measured based on the Corporate Integrity System Malaysia (CISM) dimensions while the level of internal audit capability is measured using the Internal Audit Capability Model (IACM). SSB scored higher with a score of 70.85% as compared to FSB with a score of 66.1% in CISM dimensions. Overall, a score of more than 50% indicates that both organizations are serious in initiating proper integrity mechanism to maintain the highest levels of transparency, integrity and professionalism in their daily activities and at their work place. However, in terms of IACM, FSB fared better with a score of 76%, with a capability level of 2 as compared to SSB with a score of 71% with a capability level of 1. Further in-depth study is highly recommended to get more insight on the findings.

Keywords: CISM, IACM, Ethics and Integrity, Case Study, Public Sector, Malaysia

INTRODUCTION

The issue of governance in the public sector has in recent years received substantial attention following concerns on the rise of corruptions and fraudulent activities involving tax payers' money and the nation's resources. The continuous stream of governance failures, fraud,

inefficiency, corruption, and poor internal control and financial management (Rosli, Aziz, Mohd & Said, 2015) have had devastating effects on social and economic development causing such issues to emerge as a global phenomenon that needs to be addressed effectively (Malaysian Anti-Corruption Commission [MACC] Official Website, 2016).

While the United Nations Convention Against Corruption (UNCAC) provides International instruments to tackle corruption at the global level, there is an urgent need for a smaller and more informal network of professionals to cooperate in tackling the complex nature of corruption practices and a range of related issues in the spirit of sincere cooperation and mutual assistance. Thus, the Southeast Asia Parties against Corruption (SEA-PAC) was established to fulfil this significant role. Malaysia is one of the SEA-PAC members along with Brunei, Cambodia, Indonesia, Laos, Myanmar, Philippines, Singapore, Thailand and Vietnam (Malaysian Anti-Corruption Commission [MACC] Official Website, 2016).

According to the Asia Pacific Fraud Survey Report Series 2013, Malaysia and China have both been ranked as countries with the highest level of bribery and corruption. Another recent survey by Transparency International on Corruption Perceptions Index (2013) has shown that Malaysia scored 50 and has managed to advance one slot in the rankings from 54 to 53 out of 177 countries. However, it still remained in the average range of corruption perceptions by the people, suggesting that the graft-fighting measures are still inadequate (The Sunday Daily, 2013). Despite the government taking measures to restore public confidence, there is still room to further improve the public perceptions towards public sector accountability (Said, Alam, & Khalid, 2016). Based on the Corruption Perception Index (CPI) cases of allegations of corruptions in the newspaper and social media showed that unethical behaviour and lack of integrity are critical issues facing the Malaysian public sector. As shown in Table 1, out of 588 cases investigated and arrests made up till July 2016, almost half (296 cases) involved public sector officials.

Table 1 Annual Statistics on Arrest as of July 2016 (n=588)

Month	Jan	Feb	Mac	Apr	May	Jun	Jul	Total
Top Management	0	0	1	0	0	0	0	
Professional and Management	15	6	7	7	5	23	5	Public Official
Support Staff	38	39	31	25	42	33	19	
Total	53	45	39	32	47	56	24	296
Private Sector	30	8	44	28	14	9	6	
General Public	23	14	21	30	36	14	13	
Local Councillor	0	0	0	0	0	0	0	Civilian
Politician	0	0	1	0	0	1	0	
Total	53	22	66	58	50	24	19	292

In another statistical report, as illustrated in Figure 1, it can be seen that almost 50% of total offenders of corruption cases involves government employees and statutory bodies. This figure is alarming and should be a cause of concern to the government if it wants to gain public confidence. Although various initiatives have been undertaken, there has not been much change as they failed to address the fundamental issues related to work ethics and integrity in the Malaysian public sector.

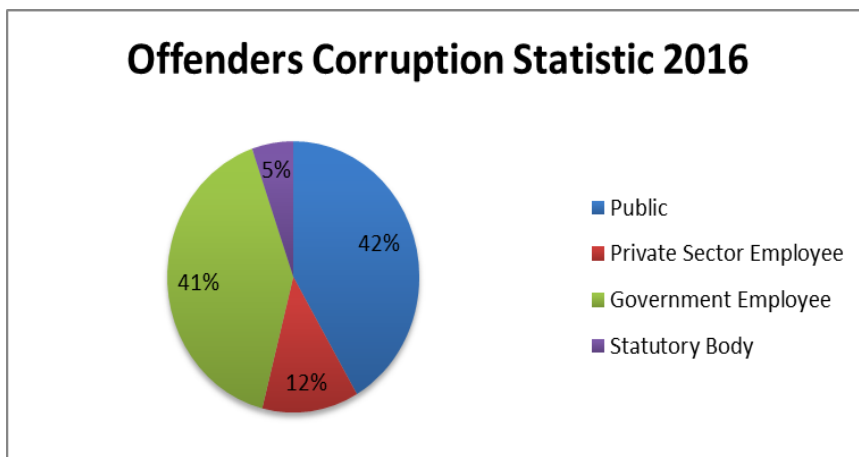


Figure 1 Offenders Corruption Statistics 2016

Source: Adapted and revised from MACC Official Website (2016)

One aspect that needs particular attention in ensuring good governance and accountability of organizations is the existence of a high quality internal audit function (Goodwin, 2004). Following the financial crisis and accounting scandals, the roles of internal auditing as well as internal control and its responsibilities on corporate governance and firm performance has expanded (Shenkir & Walker, 2006). Internal auditing is an independent, objective assurance activity that is designed to add value and improve an organization's operations. In addition, it helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Institute of Internal Auditors Research Foundation, 2009). Generally, in public-sector organizations, the internal audit function holds a high potential for promoting accountability and improving government performance. Thus, not surprisingly, several countries, such as Australia, Canada and United States, have developed policies aimed at strengthening the public sector internal audit functions to enhance their capacity in contributing to these goals (Ali, Sahdan, Saad & Gloeck, 2012; Newcomer, 1998). Some of the policy measures include requiring the establishment of internal audit units, rigorous standards for the professional conduct of internal audit work, training, resource allocation, expanding reporting arrangements, and broadening mandates to make auditors responsible for performance assessment (Ali, et al., 2012).

Public organizations in Malaysia have faced widespread criticism regarding their perceived lack of financial discipline, good governance and accountability (Khalid, 2010). According to the Auditor General of

Malaysia, internal audit function could play a proactive role as a monitoring mechanism and in examining ongoing projects. It may assist public sector entities in achieving their objectives effectively, efficiently, economically and ethically by providing unbiased and objective assessments (Ahmad, Othman, Othman & Jusoff, 2009). In Malaysia, the requirement to adopt internal audit function in the public sector was documented in the Treasury Circular No. 9, 2004. This circular requires the formation of Internal Audit function at the Ministerial, Departmental and State Government levels and also among agencies and departments in the State Governments. However, this requirement excludes the state agencies, local authorities and state economic development corporations, implying that internal audit is not a necessity in these organizations (Ahmad et al., 2009). In 2011, 1 Treasury Circular (1PP) was mandated under two main sections. The Treasury Circular PS 3.1/2013 outlines the roles and responsibilities of the Internal Audit unit, the Ministry Secretary or Head of Federal Department or State Secretary and the Treasury of Malaysia while the Treasury Circular PS 3.2/2013 explains the requirements and responsibilities of the Audit Committee at both the federal ministry and state government levels (Ministry of Finance Malaysia, 2016).

Despite the internal audit function has long been a requirement in organizations, its quality and effectiveness have always been questioned. More importantly, is the internal audit unit able to ensure the incorporation of ethics and integrity in the organization? Therefore, this paper attempts to explain the possible influence of internal audit capability on the level of ethics and integrity.

LITERATURE REVIEW

The Malaysian public sector, formerly known as the Malaysian Civil Service (MCS), constitutes three levels viz. Federal, State and Local Government. At the top level is the Federal Government, which is in essence the Central Government. It consists of 25 Federal Ministries headed by their respective Ministers and administrative heads, known as Secretary-Generals. The next level comprised of 13 State Governments that oversee the implementation of the state functions along with the Federal Departments. The State Governments are responsible for their own revenues and expenditures even for projects undertaken at the state level but agreed upon by the Federal Government in the Concurrent List and Federal List in the Constitution of Malaysia. There are federal statutory bodies and state statutory bodies that are established for the purpose of implementing specific duties and responsibilities in line with the national objectives. At the bottom level is the local government. Given the complexity of the public sector structure, it is vital for the Malaysian

government to adopt a more comprehensive procedure and guidelines, especially in relation to the planning and control of financial matters (Ali, 2015).

Combating corruption or promoting integrity has become a major component of governmental reforms in many countries and Malaysia is no exception to this rule. The Malaysian government, through its Economic Transformation Program (ETP), is aiming for the country to become a high-income nation by the year 2020. Therefore, the Anti-Corruption Agency was set up in 1967 with clear mandates and was reformed and revitalized subsequently to make it more effective in combating corruption and all forms of mal-administration in the society. Taken together, Malaysia has an elaborate anti-corruption framework. The efforts undertaken in achieving some significant milestones in this long and challenging journey is shown in Table 2. Yet, Malaysia presents an interesting case where the level of corruption has remained high and most of the strategies and recent campaigns appear to have failed to make any difference in containing and combating corruption in the society (Siddiquee, 2010).

Table 2 Milestones of Anti-Corruption Strategy in the Public Sector

Year	Milestones
2004	: Launching of the National Integrity Plan (NIP) and Establishment of Institute of Integrity Malaysia (IIM)
2008	: Setting up of Malaysian Anti-Corruption Commission (MACC)
2009	: Prime Minister Directive No. 1 2009 – Implementation of Certified Integrity Unit (CeIO) in ministries, departments and public agencies.
2010	: Launching of the Government Transformation Programme (National Key Results Areas – Fighting Corruption) and Economic Transformation Programme. Signing of Integrity Pledge by Chamber of Commerce with Malaysian Anti-Corruption Commission (MACC), Formulation of Corporate Integrity System Malaysia (CISM) Roundtable
2011	: Creation of Corporate Integrity Pledge (CIP)
2012	: Publication of Best Business Practice Circular (3/2012)
2013	: Appointment of Minister of Governance and Integrity
2014	: Prime Minister Directive No. 1 2014 - Establishment of Integrity and Governance Committee (replacing the Prime Minister Directive No.1 2009). Publication of Corporate Integrity System Malaysia (CISM) Toolkit: From Pledge to Practice

Source: Adapted and revised from Corporate Integrity System Malaysia (CISM) Official Website

In June 2014, the Prime Minister Directive was released giving mandate for the establishment of the Integrity and Governance Committee in all ministries and states departments. Prior to that, Circular No. 6 2013, stated the requirement for the establishment of an Integrity Unit in all government agencies to ensure that civil servants adopt an integrity and ethical culture. MACC is held responsible for conducting agencies’ risk-rating to determine the appropriate model for the Integrity Unit. The risk level is classified as high, medium or low. Agency Integrity Management Division under MACC is responsible for the conduct of research, along with planning, drafting and developing internal control policy and institutionalization of integrity initiatives for Integrity Units within the ministries, state governments, departments and government agencies. This initiative is expected to help curb criminal misconduct and violations of the code of conduct and ethics in civil service organizations. The unit will act as a focal point to all matters related to integrity management based on six core functions (MACC Official Website, 2016) as shown in Table 3. To ensure the effectiveness of the implementation of the integrity unit, the Chief Integrity Unit is required to submit a report to the General Secretary/Head of Department and Agency Integrity Management Division every four months i.e. before 15th May, September and January.

Table 3 Core Function of Integrity Unit

Core Functions	Implementation
Governance	Ensuring the best of governance implemented
Strengthening of integrity	Ensure that the acculturation, institutional and implementation of integrity within the organization.
Detection and confirmation	i) Detecting and verify the complaint criminal misconduct and violations of the code of conduct and ethics of the organization and ensure that appropriate actions are taken. ii) Reported criminal misconduct enforcement agencies responsible.
Management of Complaints	Receive and take action on all complaints / information on criminal misconduct and violations of the code of conduct and ethics organizations.
Compliance	Ensure compliance with the laws and regulations in force.
Disciplinary	Perform the functions of the secretariat Disciplinary Board

Source: Adapted and revised from JPA (BPO) (S) 215/65 Jld. 13 (8), Public Administrative Departments

To measure the level of corporate ethics and integrity, the study by Rosli et al. (2015) used the Corporate Integrity Assessment Questionnaire (CISM) developed by the Institute of Integrity Malaysia (IIM). CISM is a tool that was introduced and made available by the Malaysian Institute of

Integrity (IIM) in the late 2010 to encourage organizations to assess and measure their progress in making a formal and transparent commitment towards ethics and integrity in the working environment. They used these 12 dimensions of corporate integrity system as shown in Table 4 in their study. Said and Omar (2014) conducted a study to analyze the level of integrity of two giant government linked companies using the Corporate Integrity System. They found the level of ethics and integrity for both companies to be on average above 50%. More specifically, the level of ethics and integrity of company A (Utility Company) was found to be higher (67.7%) than that of company B's (Healthcare Company, 59.7%). Furthermore, Company A was found to score higher than Company B in terms of Vision and Goals, Legal Compliance, Policies and Rules and Corporate Social Responsibility. The highest score for both companies was on Corporate Social Responsibility and lowest in terms of Infrastructure, which suggests that these two leading GLCs placed less emphasis on integrity infrastructure to support the companies to carry out its integrity's goals effectively (Said & Omar, 2014).

Table 4 Dimensions of Corporate Integrity System

Dimension	Description
Vision and Goals	This dimension covers the organization's overall concept of and approach to ethics and integrity, including its formal articulation of the organization's underlying philosophy about ethical and moral conduct, and how these expectations are embedded in the organization
Leadership	Covers the responsibilities of the organization's leadership in shaping, guiding, and supporting the organization's ethics and integrity initiatives
Infrastructure	Explores the way the organization structures or organizes its ethics and integrity function so that it can carry out its goals effectively.
Legal Compliance, Policies and Rules	This category assesses the internal framework that provides the floor for ethical behavior. It also includes compliance with the external legal framework, established by the multiple jurisdictions and legal frameworks within which the organization operates.
Organizational Culture	This dimension covers the organization's overall concept of and approach to ethics and integrity, including its formal articulation of the organization's underlying philosophy about ethical and moral conduct, and how these expectations are embedded in the organization.

Table 4 Dimensions of Corporate Integrity System (continued)

Dimension	Description
Disciplinary	Assess how the organization sets and enforces its standards for ethical conduct and behaving with integrity. This category addresses rewards and punishments, incentives that promote ethical behavior, and disciplinary action taken to limit or punish unethical work conduct.
Measurement Research and Assessment	Evaluates how ethics and integrity are measured, whether the organization undertakes research to support ethics strategies that create a culture of ethics and integrity`
Confidential Advice and Support	Describes how the organization provides confidential, neutral, professional, and independent ethics advice to employees, supervisors, managers, executives, members of governing bodies, and other stakeholders.
Ethics Training and Education	Explores ethics and integrity awareness, skill-building training and education, and the integration of such training into the overall development of all employees. This category includes the provision of ethics-related training and skill building throughout the life cycle of staff members, and the degree to which these initiatives are integrated into other organization-wide training commitments.
Ethics Commination	Describes how the ethics and integrity initiative is articulated and promoted, both internally and externally. This category covers how the organization defines its stakeholders and how it gears its key messages to distinct audiences
Whistleblowing	Explores how the organization encourages individuals (both internal and external to the entity) to speak up and make reports of questionable conduct
Accountability	Mechanisms intended to ensure that governing institutions and personnel faithfully perform the duties they owe to citizens, businesses, and other stakeholders. Accountability operates by specifying the relationships between public officials' behavior and performance on one hand, and rewards and punishments on the other. It can be thought of in three layers: between voters and politicians, between politicians and bureaucrats, and between superior and subordinate public officials. (Lanyi & Azfar, 2005)

As cited in Abuazza, Mihret, James, and Best (2015), the internal audit departments have become an important part of the organizational structures as a value-adding service (Al-Twajjry et al., 2003; Arena and Azzone, 2009; Bou-Raad, 2000; Coram et al., 2008; Enyue, 1997; Goodwin, 2004; Yee et al., 2008). (Burnaby & Hass, 2011) state that increased globalization and cross-border trades have enhanced the importance of internal auditing activities within organizations when

conducting business with neighboring countries. The importance of internal audit has also been confirmed in legislation such as the Sarbanes Oxley Act (SOX) (2002) in the USA and the Corporate Law Economic Reform Program Act 2004 in Australia (Carey et al., 2006). The occurrence of losses and financial scandals has resulted in an increased focus on internal audit as an important consideration in organizations (Arena et al., 2006; Coram et al., 2008; Schneider, 2003). (Al-Twaijry, Brierley, & Gwilliam, 2003) state that internal audit departments provide benefits to organizations by helping to improve organizational operations and manage risk, prevent and detect mistakes or fraud, and safeguard assets. The function of internal audit is very useful because it can minimize fraud and corruption in organization (Mihret et al., 2010; Yee et al., 2008). However, findings of a prior study by (Ali et al., 2007) indicate nearly 75 % of the states and local government bodies moderately agree that there is a lack of understanding on the role of internal audit as an independent appraisal function within an organization.

The role of internal audit is to investigate the fraud and abuse in organizations (Chambers & Odar, 2015). In the USA, partly in response to the fraud problem, the American Institute of Certified Public Accountants (AICPA) implemented Statements on Auditing Standards (SAS) No. 82, Consideration of Fraud in a Financial Statement Audit, in December 1997 (AICPA, 1998b; as cited in (Hillison, Pacini, & Sinason, 1999). Standard of Internal Audit (SIA)No. 3 clearly indicates that prevention of fraudulent is the responsibility of management, but it is well established that internal auditors are responsible for determining the adequacy and effectiveness of management's actions. Fundamental to this responsibility is the examination and evaluation of an entity's internal controls. The purpose of internal control is much broader than merely to prevent fraud, but that is certainly one purpose of internal controls (Flesher, 1996). Besides determining fraud, the internal auditor also: (1) evaluate the control environment, (2) identify indicators or signals of fraud, (3) identify weaknesses which may allow fraud to occur, (4) recommend investigations where appropriate, (5) communicate with management regarding fraud occurrences and (6) assist in the prosecution of fraud perpetrators (Ratliff et al., 1996). Fraud can affect financial statement trends and ratios. Accounts that are manipulated to conceal a fraud may manifest unusual relationships with other accounts that are not manipulated. Also, the erratic patterns in periodic account balances may occur because the fraudster may only engage sporadically in a fraudulent activity. Financial analysis conducted by the internal auditor may reveal the presence of unexpected relationships or the absence of expected relationships. A review of company contracts and agreements may reveal possible contract fraud,

including kickbacks, bribery, or conflicts of interest by the organization's employees (Hillison et al., 1999).

Consequently, it is assumed in this research that a capable internal audit function may enhance the role in fraudulent detection and serves as one of the factors to increase level of ethics and integrity in organization.

METHODOLOGY

This research uses the explanatory case study approach to explain the Level of Ethics and Integrity in two public sector entities i.e. federal statutory body (FSB) and state statutory body (SSB). Both cases are located in the East Coast Region of Peninsular Malaysia. Data were gathered from both primary and secondary sources comprising the following:

- i. interviews with head of internal audit unit cum head of integrity unit. All interviews were tape-recorded and transcribed for analysis;
- ii. internally generated documents made available by the head of integrity unit. These documents were reviewed; and
- iii. questionnaires were distributed to assess the levels of ethics and integrity and internal audit capability level of the two organizations.

Prior to visiting the organizations, their official websites were reviewed in order to understand the organizations better. This includes looking at the history of the organizations and their organizational charts. To gain deeper insight on the research area, interviews with the Institute of Integrity Malaysia (IIM), Malaysian Anti-Corruption Commission (MACC), Malaysian Anti-Corruption Academy (MACA), Institute of Internal Auditor Malaysia (IIAM), National Audit Department (NAD) of Malaysia and researchers from public universities were conducted between December 2015 to August 2016. The questionnaire consists of 12 demographic questions and 208 descriptors related to 12 CISM Dimensions including 72 key questions pertaining to the IACM dimensions. CISM analysis provides five benchmarks level of ethics and integrity in the organization as shown in Figure 2.

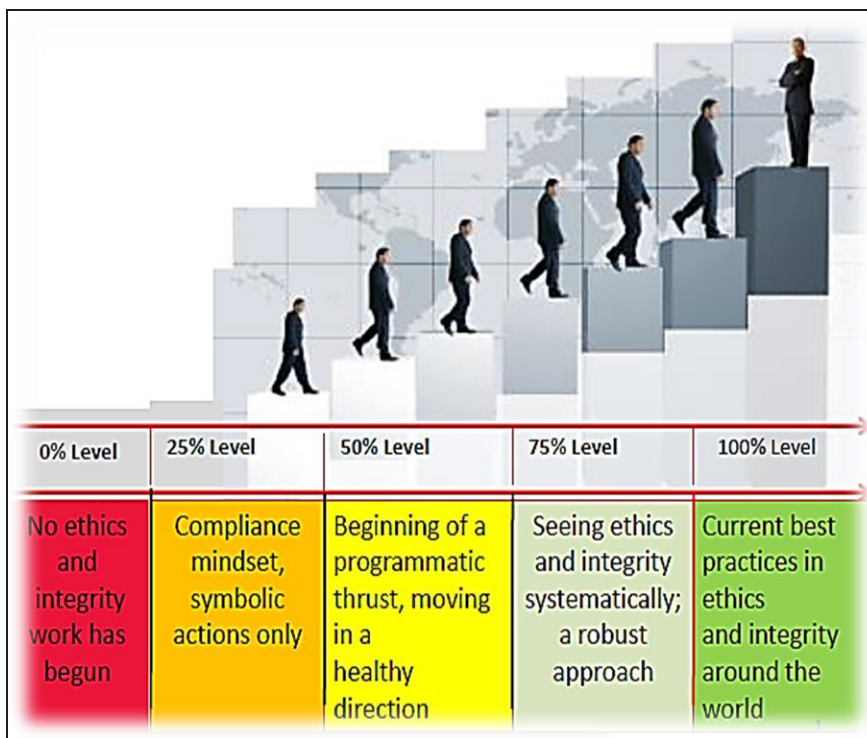


Figure 2 Five benchmarks level of CISM
Source: Malaysian Institute of Integrity (IIM)

On the other hand, IACM analysis provides five capability levels of internal audit with six dimensions i.e. Service and Role of Internal Audit, People Management, Professional Practices, Performance Management and Accountability, Organizational Relationships and Culture and Governance Structure as shown in Table 5.

Table 5 The Matrix of Internal Audit Capability Model (IIARF, 2009)

	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organizational Relationship and Culture	Governance Structures
Level 5 Optimizing	- IA Recognized as Key Agent of Change	- Leadership Involvement with Professional Bodies - Workforce Projection	- Continuous Improvement in Professional Practices - Strategic IA Planning	- Public Reporting of IA Effectiveness	- Effective and Ongoing Relationships	- Independence, Power, and Authority of the IA Activity
	- Overall Assurance of Governance, Risk Management, and Control	- IA Contributes to Management Development - IA Activity Supports Professional Bodies - Workforce Planning	- Audit Strategy Leverages Organization's Management of Risk	- Integration of Qualitative and Quantitative Performance Measures	- CAE Advises and Influences Top-level Management	- Independent Oversight of the IA Activity - CAE Reports to Top-level Authority
Level 4 Managed						

Table 5 The Matrix of Internal Audit Capability Model (IIARF, 2009) (continued)

	-Services and Role of IA	-People Management	-Professional Practices	-Performance Management and Accountability	-Organizational Relationship and Culture	-Governance Structures
Level 3 Integrated	-Advisory services -Performance / Value-for-Money Audits	-Team Building and Competency -Professionally Qualified Staff -Workforce Coordination	-Quality Management Framework -Risk-based Audit Plans	-Performance Measures -Cost Information -IA Management Reports	-Coordination with other Review Groups -Integral Component of Management Team	-Management Oversight of the IA Activity -Funding Mechanisms
Level 2 Infrastructure	-Compliance Auditing	-Individual Professional Development -Skilled People Identified and Recruited	-Professional Practices and Processes -Framework -Audit Plan based on Management / Stakeholder Priorities	-IA Operating Budget -IA Business Plan	-Managing within the IA Activity	-Full Access to the Organization's Information, Assets, and People -Reporting Relationships Established
Level 1 Initial	No specific Key Process Areas; Ad hoc or unstructured; Isolated single audits or reviews of documents and transactions for accuracy and compliance; Outputs dependent upon the skills of the specific person holding the position; No professional practices established other than those provided by professional associations; Funding approval by management, as needed; Absence of infrastructure; Auditors are likely part of a larger organizational unit; Institutional capability is not developed.					

Source: Institute of Internal Auditor Research Foundation (2009)

FINDINGS AND DISCUSSION

Profile of organizations

The first case study is an internal audit unit from one of the federal statutory bodies (FSB). It is a public university that offers a wide range of skills-based tertiary education programs and practical-based tertiary education in engineering, science and technology. Its research focuses on applied research and industrial projects to enrich the teaching and learning processes as well as to promote the commercialization of research products, thus exposing students to the latest research and development activities in the industries. The university is committed to the development of human capital and technology to fulfil the needs of the industries as well as to contribute to the country's overall development. The internal audit unit in FSB was established since 2003 and at the time the research was conducted, it holds three major portfolios i.e. internal audit, integrity unit and risk management. The unit assists and acts as a consultant to the university to ensure the resources are managed and administered in accordance with all regulations. It carries out the accountability index rating, financial management audits, performance audits and ICT audits. In the university board meeting No 1/99, the resolution for the establishment of the audit committee (AC) has been approved. Three non-executive board members are appointed. The AC meeting should be held at least four times a year or more based on the circumstances/necessity. The head of internal audit unit reports functionally to the Audit Committee and administratively to the vice chancellor (VC). He communicates and interacts directly with the AC and is included in the executive sessions and meetings whenever required. Under secrecy and accountability to protect records and information strictly, the unit is fully authorized and given unrestricted access to all records, physical property and any related materials while carrying out their roles and responsibilities. At least once a year, the audit plan must be submitted to the AC and VC for review and approval. A written report will be prepared and issued after the completion of each audit task. It contains management response and corrective action that has been taken or is based on the specific findings and recommendations. This report will then be submitted to the AC with a copy to the VC, registrar, treasurer, legal officer and the auditee. Matters that are exposed to high risks, internal controls and governance that have not been resolved will be presented/reported to the AC at the meeting. The unit is responsible to follow up on findings and actions taken by the auditee based upon the recommendations. All significant findings will remain the key issues to be tackled until they are resolved. A copy of the audit report

that had been approved by the university's Board of Directors will be sent to the General Secretary of the Ministry of Higher Education Malaysia (MOHE) to comply with the General Circular No. 3/1998 Paragraph 7.2.2 and Financial Circular No. 2/2006 Paragraph 5.

The second case study i.e. state statutory body (SSB) is also originally head of internal audit division. SSB serves as the foundation to further the advancement of education, sports, culture and expand opportunities for education among citizens in the State. SSB aims to be the organization that is a catalyst for the development of world-class human capital which is important for the success of Vision 2020. There are four subsidiaries which are related to plantation, mining and education under SSB with a total of 82 staff altogether. The internal audit division of SSB started in 2008 where the warrant for the post of head of internal audit and assistant auditor were issued. Until 2010, no personnel had been officially appointed to fulfil the positions despite the National Audit Department had filed this issue in their audit for Accountability Index Rating. In 2010, the head of internal audit, a female, was elected and the internal audit division started to build up their roles and responsibilities with the help of the head of internal audit from the State. Until recently, the proper nomination for the Audit Committee is yet to be endorsed by the Board of Committee due to the replacement of a new Chief Executive Officer. Nevertheless, the current CEO gives full autonomy to the head of internal audit to carry out auditing task due to the limited number of staff. Operationally, the head of internal audit division report directly to the Chief Executive Officer. Administratively, the head of internal audit division of SSB is reporting to the head of department. In 2014, the State Secretary Officer has been given instruction to establish the integrity unit in conjunction with the mandate given by the Prime Minister's Directive No Directive No.1, 2014., which calls for the establishment of the Integrity and Governance Committee in all ministries, state secretaries, departments and agencies in ministry. In a clause instructed by the State Secretary Officer, for those state departments and statutory bodies without the human resource to enable appointment of new head of integrity unit, then the head of internal audit unit must play the respective role. Since then, the head of internal audit division of SSB also serves as the chief integrity officer. As the head of integrity unit, she is required to report both functionally and administratively to the Chief Executive Officer. Despite not having direct experience in handling the ethics and integrity unit, she has great experience in audit practices (6 to less than 9 years). According to her, who is also a member of the Association of Chartered Certified Accountants (ACCA) UK; the job scope of both units is more or less the same which is related to compliance. Besides that, she is also given another portfolio that involves looking after

the investment division of SSB. Table 6 summarizes the overall case study profiles.

Table 6 Summary of Case Studies Profile

Elements	FSB	SSB
Type of Organization	Federal Statutory Body	State Statutory Body
Head of Internal Audit	Male	Female
Education Level	Bachelor Degree	Master Degree
Professional Certificate	Accounting – Technician Level (CAT/AAT)	Association of Chartered Certified Accountants (ACCA)
Membership of Institute of Internal Auditor (IIA)	Yes	No
Existence of Audit Committee	Yes	No
Operational Reporting Level	Audit Committee	Chief Executive Officer
Administrative Reporting Level	Chief Executive Officer	Head of Department
Establishment	2003	2010
Portfolio	Internal audit, integrity and risk management	Internal audit, integrity and investment unit
Experience relation with Ethics and integrity	12 to less than 15 years	Six to less than 9 years
Professional Qualification regarding ethics and integrity	None	None
No. of Staff	8	2
Average Years of Experience	9 to less than 12 years	6 to less than 9 years
Case reported in last five years	None	Yes. Fraud

Results of CISM analysis

Analysis of the level of ethics and integrity in the two organizations reveals contrasting results. Table 7 shows the overall score of the level of ethics and integrity for both case studies to be more than 50% in all twelve dimensions. This indicates that both FSB and SSB are serious in initiating proper integrity mechanism into their daily activities at the workplace in order to maintain the highest levels of transparency, integrity and professionalism. Based on the overall score, SSB scored 70.85% while FSB scored 66.10%.

Table 7 Summary of CISM Dimensions Percentage Scores

Dimensions of Corporate Integrity System	FSB	SSB
1) Vision and Mission	66.00 %	68.00 %
2) Leadership	68.06 %	68.00 %
3) Infrastructure	55.60 %	65.80 %
4) Legal Compliance, Policies and Rules	71.20 %	79.80 %
5) Organizational Culture	65.06 %	70.67 %
6) Disciplinary and Reward Measures	60.00 %	68.33 %
7) Measurement, Research and Assessment	68.80 %	79.00 %
8) Confidential Advice and Support	66.00 %	61.33 %
9) Ethics, Training and Education	66.07 %	62.27 %
10) Ethics Communication	65.07 %	65.33 %
11) Whistle blowing	69.33 %	77.67 %
12) Accountability	72.00 %	84.00 %
Overall Score	66.10 %	70.85 %

The lowest score for FSB is related to the infrastructure dimension (55.60%) while for SSB is related to the confidential advice and support dimension (61.33%). Only a few dimensions have achieved the 75% level in the case of SSB and they are related to (iii) Legal Compliance, Policies and Rules, (iv) Measurement, Research and Assessment, (iv) Whistleblowing and (v) Accountability, while all the dimensions are below 75% for the FSB. Score of 75% implies that the dimension is being practiced systematically. None of the dimensions achieved 100%, thus requiring further improvements for both the FSB and SSB. Table 8 in Appendix compares the five benchmark levels for FSB and SSB on each dimension. It also shows the descriptors/questions associated with each benchmark level and the score obtained.

As shown in Figure 3, SSB performed better than FSB in almost all dimensions except for dimensions related to Leadership, Confidential Advice and Support, and Ethics Communication. It is highly recommended that SSB focuses more on these three dimensions. The overall score for FSB is 66.10% which is slightly lower than SSB. The results have also revealed that the dimension related to infrastructure for FSB is significantly less compared to SSB.

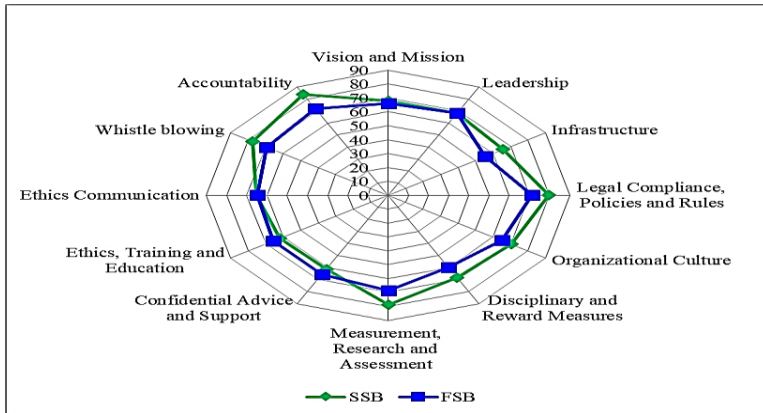


Figure 3 Overall Scores of CISM Dimension

In this study, both the chief integrity units through its integrity unit serve as the internal controller for their respective organizations. According to one of the interviews conducted with the State’s head of internal audit, the integrity unit acts as the Disciplinary Committee for corrective measures. Prior to that, the internal audit unit is required to plan and conduct program on ethics and integrity to raise awareness and accountability of the organizations. SSB and FSB shared the same criteria whereby both the Chief Integrity Units are originally Head of Internal Audit Unit. Yet, SSB performs better than FSB in various dimensions except for Ethics, Training and Education as well Confidential Advice and Support dimension.

Public sector bodies should continue to conduct self-assessment in the coming years as part of its journey in driving the ethics and integrity initiative. The results of future self-assessment will not only allow comparisons to be made with current findings but more importantly, it allows the public sector to benchmark its practices and assess the effectiveness of its various improvement programs in the future.

Results of IACM analysis

Table 8 illustrates the summary of IACM analysis. It is found that the internal audit unit in FSB obtained higher capability level 2 (infrastructure) with KPA percentage of 76.0% while SSB only achieved capability level 1 even though the KPA score is higher (71.0%).

Table 9 Summary of IACM Analysis

Dimensions	Capability Level		KPA Percentage (%)	
	SSB	FSB	SSB	FSB
Services and Role of IA	2	2	83 %	53 %
People Management	1	2	53 %	49 %
Professional Practices	2	5	87 %	100 %
Performance Management and Accountability	5	5	68 %	55 %
Organizational Relationships and Culture	2	5	83 %	100 %
Governance Structure	3	5	54 %	100 %
Overall Capability Level & KPA Percentage	1	2	71 %	76 %

SSB achieves level 5 (optimal) for the dimension of performance management and accountability. For the dimension of governance structure, SSB achieves level 3 (integrated). For the three dimensions related to services and role of internal audit, professional practices and organizational relationships and culture, SSB achieves level 2 (infrastructure). SSB scores poorly for people management dimension which is only level 1 (initial). The results for the overall capability in the case of SSB is only at level 1 (initial). FSB shows that it achieves level 5 (optimized) for four elements of IACM i.e. professional practices, performance management and accountability, organizational relationships and culture and governance structure while other two dimensions i.e. services and role of internal audit and people management, it only scored capability level 2. FSB scored 100% for three dimensions viz. professional practices, organizational relationships and culture and governance structure while for the SSB did not score 100% for any dimensions. Nevertheless, it obtained the higher KPA percentage score of 83% for services and role of internal audit dimension compared to FSB, which is only 53%. As for people management dimension, SSB also scored slightly higher compared to FSB which is less than 50%. For performance management and accountability dimension, SSB scored 68% while FSB only 55%. SSB only scored 83% for organizational relationships and culture compared to FSB which both scored 100%. SSB scored less for governance structure i.e. 54% compared to the maximum score obtained by FSB.

CONCLUSION

This study employed a case study method focusing on two organizations i.e. Federal Statutory Body (FSB) and State Statutory Body (SSB). The level of ethics and integrity as well as the level of internal audit capability in both organizations were assessed. Referring to the CISM Dimension, both FSB and SSB scored low in relation to infrastructure. Therefore, an office of integrity should be set up with full authority to implement ethical activities. The office can be headed by a Chief Integrity Officer with sufficient funding given to carry out their duties and promote and disseminate information on ethics and integrity. The CISM assessment conducted help FSB and SSB to understand which areas of ethics and integrity that would need improvement and aid the FSB and SSB to plan strategies to achieve the optimal level of ethics and integrity for their organizations. Meanwhile, analysis on internal audit in the public sector helps in assessing the effectiveness in the conduct of duties and efficiency in management of public resources. The results on capability level and KPA percentage indicate dimensions of capability such as services and role of Internal Audit, people management, professional practices, performance management and accountability, organizational relationship and culture, governance structure, and Internal auditor's support, are factors contributing to the effectiveness of the internal audit function. Although there is no empirical evidence on the relationship between internal audit capability and the level of ethics and integrity, there is a possibility that an influence exists between both elements where the capability level and KPA percentage scored by SSB is lower than FSB. In fact, several fraud cases were found and reported by the head of internal audit unit cum head of integrity officer during the interview.

Therefore, this study contributes the research area in a number of ways. Firstly, this study is useful to raise awareness especially among the public employee to adopt good governance in various ways to ensure an organization is more to ethics and integrity environment in public sector. Secondly, it highlights the link between risk management structures and internal auditing. Findings of this study have policy implications for the government and the management of individual organizations in terms of defining the responsibilities of internal audit and making relevant decisions on resource commitments to internal audit services to equip the internal audit departments with the required portfolio of expertise. However, the results could not be generalized to all Malaysian public sector organizations. In future, an empirical quantitative study can be conducted to examine factors that can lead to higher level of ethics and integrity in the organisation especially the interrelationship between internal audit capabilities. A focus group or in-depth interview with a

larger sample and different types of organizations can also be conducted to explore the level of ethics of the organisation and what could be done to improve it.

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APPENDIX

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension

(1) Vision and Goal		Dimension 1- Vision and Goal shows an overall score of 66.00% and 68.00% for FSB and SSB, respectively. SSB performed slightly better than FSB. In terms of benchmark level, initiatives taken by SSB covered the most at 75% benchmark level. To improve further, it needs to do more in terms of descriptors Q15-Q19 which are all related to the employees behaving in a way to achieve the organization's vision and ethical action. Improvements can also be made to ensure that the ethics and integrity level of the organizations are frequently benchmarked. Improvements are also needed for Q5 where ethics should not be tolerated only because it would be politically incorrect to fail to mention. Meanwhile, for FSB, the descriptors Q7-Q10 show ethical conduct is seen as a requirement for organizational and individual performance.			
Percentage	Descriptors	Benchmark	FSB	SSB	
0%	Q1-2	0	40	20	
25%	Q3-6	25	50	45	
50%	Q7-10	50	80	95	
75%	Q11-14	75	80	100	
100%	Q15-19	100	80	80	

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

(2) Leadership		Dimension 2- Leadership shows an overall score of 68.00% for FSB and 68.06% for SSB. In terms of benchmark level, SSB covers the most descriptors at 50%. It still needs to improve on the acceptance of responsibility and scripts to discuss ethics and integrity. The descriptors Q4-7 for FSB is lower to conclude that the leadership accept some responsibility for ethics especially related to Standard Employee Relations and Human Resources practises.			
Percentage	Descriptors	Benchmark	FSB	SSB	
0%	Q1-3	0	53	20	
25%	Q4-7	25	45	60	
50%	Q8-11	50	80	100	
75%	Q12-16	75	72	80	
100%	Q17-21	100	80	80	

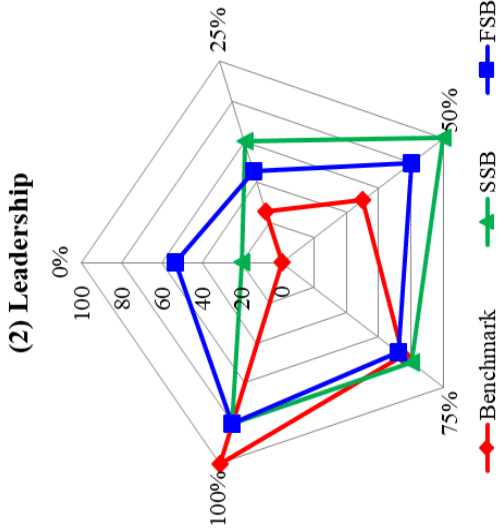


Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

(3) Infrastructure		Dimension 3- Infrastructure shows the overall score for SSB (65.80%) is higher compared to FSB (66.10%). SSB score most descriptors at 50% and 70% benchmark level. FSB scored less for descriptors Q13-17. It indicates that infrastructure of corporate integrity system (CIS) at FSB is beyond the symbolic actions only. At this level, the chief integrity officers emphasized less on integrity infrastructure to support organizations to carry on its integrity goals effectively.			
Percentage	Descriptors	Benchmark	FSB	SSB	
0%	Q1	0	40	20	
25%	Q2-3	25	40	30	
50%	Q4-8	50	72	92	
75%	Q9-12	75	88	95	
100%	Q13-17	100	56	92	

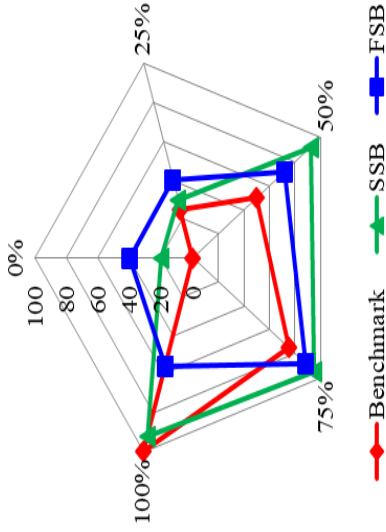


Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1	0	40	20
25%	Q2-4	25	80	100
50%	Q5-8	50	80	100
75%	Q9-13	75	76	84
100%	Q14-17	100	80	95

(4) Legal, Policies and Rules

The radar chart displays the performance of FSB (blue line with squares) and SSB (green line with triangles) across five CISM dimensions. The Y-axis represents the percentage score from 0% to 100%. The X-axis lists the dimensions: Q1, Q2-4, Q5-8, Q9-13, and Q14-17. A red line with diamonds represents the benchmark. FSB scores are 40% (Q1), 80% (Q2-4), 80% (Q5-8), 76% (Q9-13), and 80% (Q14-17). SSB scores are 20% (Q1), 100% (Q2-4), 100% (Q5-8), 84% (Q9-13), and 95% (Q14-17). The benchmark scores are 0% (Q1), 25% (Q2-4), 50% (Q5-8), 75% (Q9-13), and 100% (Q14-17).

Dimension 4- Legal Compliance, Policies and Rules shows that the overall score for SSB is better than FSB with 79.80% compared to 71.20%. SSB needs to improve on (i) written policies and rules about ethics, integrity, and compliance, (ii) adopting a code of conduct (or code of ethics) which outlines basic guidance about legal compliance for employees, (iii) preparing the policies and rules in dual language i.e. *Bahasa Melayu* or English-language version, and (iv) ensuring that the organization's code of conduct is global yet addresses legal variations across countries. For FSB, it is recommended that the integrity officer must improve to have a dual reporting relationship with senior management and the board of directors.

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1-3	0	53	33
25%	Q4-7	25	40	60
50%	Q8-11	50	80	100
75%	Q12-15	75	80	80
100%	Q16-17	100	72	80

(5) Organizational Culture

The radar chart displays the performance of FSB (blue line with squares) and SSB (green line with triangles) against a benchmark (red line with diamonds) across five descriptor groups. The Y-axis represents the percentage score from 0% to 100%. The X-axis represents the descriptor groups: Q1-3, Q4-7, Q8-11, Q12-15, and Q16-17. FSB consistently scores higher than SSB, and both generally exceed the benchmark, except for Q16-17 where FSB is below the benchmark.

Descriptor	Benchmark	FSB	SSB
Q1-3	0%	53%	33%
Q4-7	25%	40%	60%
Q8-11	50%	80%	100%
Q12-15	75%	80%	80%
Q16-17	100%	72%	80%

Dimension 5- Organizational Culture shows that overall score for SSB (70.6%) is higher than FSB (65.06%). In terms of benchmark level, both case studies scored equally well at benchmark level 75%. To achieve 100% benchmark level, SSB and FSB should improve on (i) justification on violations of rules and standards by referring to national culture or practice (ii) identification of integrity role models in the current leadership ranks as well as in the organization's past leaders (iii) ensuring the organization is transparent about its commitments to ethics and integrity and is willing to share both successes and failures with internal and external audiences. SSB needs to ensure that employees feel safe to speak out about wrongdoings of others in the organization.

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

(6) Disciplinary and Rewards Measures		Dimension 6 - Disciplinary and Reward Measures shows an overall score of 68.33% and 60.00% for SSB and FSB, respectively. SSB fulfilled most descriptors at benchmark level 75% and 100%. But SSB should improve on imposing disciplinary measures when appropriate. FSB should also improve on the same descriptors as well as (i) always addresses consequences for unethical behaviour in the organization not only if it adversely impacts business results, and (ii) directly addressed unfair treatment especially by management in the organization.			
Percentage	Descriptors	Benchmark	FSB	SSB	
0%	Q1-3	0	40	27	
25%	Q4-5	25	40	40	
50%	Q6-9	50	60	85	
75%	Q10-13	75	60	100	
100%	Q14-20	100	80	90	

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1	0	40	20
25%	Q2-4	25	80	100
50%	Q5-8	50	80	100
75%	Q9-12	75	80	95
100%	Q13-Q17	100	64	80

(7) Measurement, Research and Assessment

Descriptor	Benchmark (%)	SSB (%)	FSB (%)
Q1	0	20	40
Q2-4	25	100	80
Q5-8	50	100	80
Q9-12	75	95	80
Q13-Q17	100	80	64

For dimension 7- Measurement, Research and Assessment, SSB scored higher at 79.00% compared to FSB (68.80%). Both cases should consider (i) drawing maximal distinctions between seeking ethical advice versus seeking legal advice, (ii) encouraging employees to speak directly to their leaders if they have questions about ethics, integrity, or compliance and (iii) providing private office inside of the operational chain of command. Moreover, the leaders should (i) actively encourage staff to obtain ethics advice whenever he/she perceives or believes that an ethical issue has arisen, (ii) ensure confidentiality of the ethics advisory process at all levels of the organization, and (iii) authorization of the integrity unit for issuing "safe harbour" letters so that employees seeking advice are reassured that they cannot be disciplined because they relied upon that advice.

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

(8) Confidential Advice and Support			
		<p>Dimension 8- Confidential Advice and Research shows that the overall percentage obtained by SSB is 61.33% while FSB is 66.00%. None of the cases scored 100% of the descriptors for each benchmark. Both cases need immediate improvement on several criteria. The chief ethics/integrity officer is encouraged to crosscheck the advices given with the company’s chief legal officer. All employees in the organizations including senior executive and members of the board of directors need to be comfortable in seeking independent, confidential, neutral advice. These organizations should establish “confidential offices” to provide ethics advice and counselling for employees.</p>	
Percentage	Descriptors	Benchmark	SSB
0%	Q1	0	20
25%	Q2-5	25	69
50%	Q6-9	50	60
75%	Q10-12	75	87
100%	Q13-16	100	85

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1	0	40	27
25%	Q2-3	25	40	40
50%	Q4-8	50	60	85
75%	Q9-14	75	60	100
100%	Q15-18	100	80	90

(9) Ethics Training and Education

The radar chart displays scores for FSB (red line with diamonds) and SSB (green line with squares) across five descriptor ranges. The axes represent percentages from 0% to 100%. The legend indicates: red diamond for Benchmark, green triangle for SSB, and blue square for FSB. The data points are: Q1 (FSB: 40, SSB: 27), Q2-3 (FSB: 40, SSB: 40), Q4-8 (FSB: 60, SSB: 85), Q9-14 (FSB: 60, SSB: 100), and Q15-18 (FSB: 80, SSB: 90).

Dimension 9- Ethics, Training and Education shows that the overall score for SSB and FSB are 62.27% and 66.07%, respectively. In terms of benchmark level, none of them fulfilled 100% of the descriptors. Yet, FSB scored higher than SSB at 75% level. Both organizations should improve on training programs of integrity and focus on informing employees about policies and meeting legal requirements. In order to achieve 100% benchmark level, the organizations should improve on (i) staff of the integrity function to help design, develop, deliver, and reinforce the learning from training, (ii) providing minimum number of state-of-the-art integrity training per year to all board members all employees and (iii) each organization should go to the extent of” recognizing and rewarding” ethical behaviour and supports appropriate discipline when necessary.

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

(10) Ethics Communication		Dimension 10- Ethics Communications shows that overall percentage for SSB and FSB are 65.33% and 65.07%, respectively. In terms of benchmark level, none of them is fully achieved. Both SSB and FSB should improve on the descriptors listed in benchmark level 25% since they score more than 50%. This can be done by encouraging the managers to talk about integrity informally or on an ad hoc basis. Encouraging good feedback on ethics and integrity for general staff and customers surveys, market research, internal reviews and climate studies are solicited.		
Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1	0	40	20
25%	Q2-Q4	25	53	67
50%	Q5-7	50	80	80
75%	Q8-12	75	72	80
100%	Q13-18	100	80	80

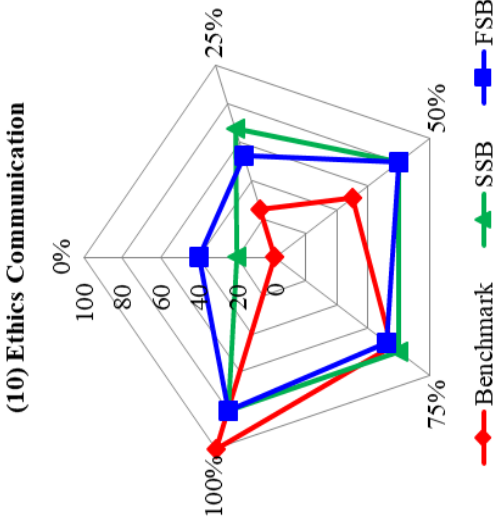


Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1	0	40	20
25%	Q2-3	25	53	67
50%	Q4-5	50	80	80
75%	Q6-7	75	72	80
100%	Q8-10	100	80	80

(11) Whistleblowing

Legend: ◆ Benchmark ▲ SSB ■ FSB

Descriptor	Benchmark	SSB	FSB
Q1	0%	20%	40%
Q2-3	25%	67%	53%
Q4-5	50%	80%	80%
Q6-7	75%	80%	72%
Q8-10	100%	80%	80%

Dimension 11 - Whistleblowing shows overall scores of 77.67% and 96.33% for SSB and FSB, respectively. SSB performs better than FSB especially at benchmark level 50%. However, SSB needs to improve on the organizational policies about protecting employees from retaliation or retribution. Other approach should be considered to make the employees able to directly speak about unethical behaviour or misconduct. SSB also should improve on the policy that encourages employees to follow the “chain of command” when facing workplace issues. To achieve 100% benchmark level, both cases should have the supervisors and managers receive training on how to recognize and prevent retaliation. SSB should also consider on victims of retaliation to be fully compensated for loss sustained. While for FSB, the organization should draw minimal distinctions between seeking ethical advice versus seeking legal advice.

Table 8 Analysis Comparison of FSB and SSB for Each CISM Dimension (continued)

Percentage	Descriptors	Benchmark	FSB	SSB
0%	Q1-3	0	40	20
25%	Q4-5	25	80	100
50%	Q6-9	50	80	100
75%	Q10-13	75	76	84
100%	Q14-20	100	80	95

The radar chart displays the following data points for each descriptor:

Descriptor	Benchmark	FSB	SSB
Q1-3	0%	40%	20%
Q4-5	25%	80%	100%
Q6-9	50%	80%	100%
Q10-13	75%	76%	84%
Q14-20	100%	80%	95%

Dimension 12- Accountability shows that SSB score higher (84.0%) than FSBBT2.0%. In terms of benchmark level, SSB performs better at level 50%, 75% and 100%; but it has to improve the reactions or response to audit/official's inquiries and discloses information when the disclosure serves its interest. FSB can improve its organization by providing financial resources as well as employees' time and labour in a variety of community projects.