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WASTAGES AND LEAKAGES

# SANCTIONS CAN PREVENT WRONGDOINGS



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**T**HE Auditor General's (AG) Report published last Thursday, outlined many significant findings of wastages and leakages. A total loss of RM158.08 million was detected in three ministries and four federal agencies.

They were the Agriculture and Food Industries Ministry, Communications and Multimedia Ministry, Defence Ministry, the police, Customs Department, Prime Minister's Department and Road Transport Department.

Such findings are recurrent in auditor general reports. Action must be taken to ensure adequate controls are implemented to minimise them.

Reaction has come in the form of a directive to the Public Service Department to take immediate action against the leakages and wastage.

Chief Secretary to the Government Tan Sri Mohd Zuki Ali said the directive came after the latest audit report highlighted losses of public funds due to flaws and weaknesses in the government system, *New Straits Times* reported.

Zuki said an Auditor General Report Unit, which serves as a secretariat for all audit warnings, would work with the internal investigation committees in each ministry involved to determine whether there was non-compliance with the procedures and regulations.

"If it is found that there is a possibility of a breach of trust, the Malaysian Anti-Corruption Commission will investigate the cases involved," he said. "If there is a violation of the code of conduct, such as negligence in performing duties, it will be recommended for disciplinary action."

#### Corrective Action

There are three actions to be taken when reacting to audit findings — the reaction must be complete, continuing and monitored.

Firstly, to ensure that management reaction is complete, there is a need to trawl through the past transactions to determine whether there are other such instances like the highlighted findings. This is because audits are done upon samples selected by auditors and does not cover the whole population.

Typically, an auditor may say that based on a sample of five per cent of payment vouchers for the year, seven payment vouchers were not authorised. Management should examine all the payment vouchers for the year to determine the actual number of vouchers that were not authorised. Only then can management identify the severity of the finding.

Secondly, there is a need to put in place adequate and sufficient internal controls. The risk of leakages and wastage is omnipresent. This must be minimised to acceptable levels.

Controls are put in place to mitigate those risks to acceptable levels — the so-called residual risk. Beware the snake-oil salesman who peddles a no-risk solution for maladies. It has been said complete inaction could be a way of avoiding risk; if you do nothing, surely there cannot be any risk. But inaction brings about risks of a different nature.

Thirdly, the controls put in place must be monitored continuously. Typically,

people will be assigned the task of performing the monitoring functions. In the digital world, such monitoring can be automated to a certain extent. Going forward, artificial intelligence may be harnessed to facilitate monitoring functions.

A popular form of monitoring is the segregation of duties, whereby the work of one person is routinely checked by another.

But beware of the risk of collusion, whereby parties collude to defeat the controls put in place. Even the best internal controls will collapse when it comes to collusion.

Corrective action on findings can be seen as addressing the past, present and future. The "past" in the sense that efforts must be made to determine the severity of the problem. The "present" — that internal controls must now be formulated and implemented to reduce the risk of past occurrences. And the future, by ensuring that the controls are monitored to ensure that they are operating as intended.

#### Sanctions

The role of sanctions in encouraging desired behaviours should not be

underestimated.

Just like desired actions and outcomes are celebrated through bonuses, increments and promotions, undesired outcomes must be abhorred and discouraged by sanctions.

There is a spectrum of sanctions available, right from the verbal reprimand at one end to the termination of the wrongdoer, after due inquiry, at the other end. There is also the possibility of a police report being lodged against the wrongdoer.

It is important for the sanctions to proportionate to the wrong committed. A rap on the knuckles for severe wrongdoings will not create the desired outcome.

In fact, it will embolden others to commit serious wrongs, as all you get in return is a mere rap on the knuckles.

Crime should not pay, and it must be demonstrated visibly to all that crime will not pay. Sanctions are a compelling motivation to discourage wrongdoings.

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