

Malaysian Local Authorities: Are They Transparent?

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Abstract

Transparency among the local authorities is crucial as local authorities are expected to perform their stewardship roles to meet the demand of their stakeholders. Due to information asymmetry between the local authorities and citizens, there is a tendency for citizens to have unfavourable perceptions towards local authorities' activities. Literature suggests that transparent information will mitigate this issue. Thus, the study seeks to investigate the level of transparency of Malaysian local authorities by examining 19 of them covering the periods from 2015 to 2019. Available information from the website and the local authorities annual reports were obtained. Adopting agency theory and stewardship theory, the study suggests that the level of transparency in the form of non-financial information transparency, citizen transparency and transparency easiness among the Malaysian local authorities is regarded to be high. It indicates that the information asymmetry between the local authorities and the stakeholders is generally minimised. However, this study highlights that the transparency level in the form of financial information still needs to be improved, and local authorities should be more transparent in disclosing such information. Besides providing insights into local authorities' transparency, this study is beneficial to local authorities and regulators in establishing policies; and citizens and stakeholders in assessing the transparency level of local authorities. Future research should consider factors that influence transparency among local authorities in Malaysia. A comparison between local authorities should also be made to find the best practices for stimulating transparency in local authorities.

Keywords: transparency, performance, citizens, easiness, local authorities

1. Introduction

A local authority is regarded as the lowest tier of government and is very close to the citizens. It has the power to collect taxes in the form of assessment tax, create laws and rules in the form of by-laws, and grant licenses and permits for any trade-in its area of jurisdiction (Bahardin et al., 2019). Local authorities should be accountable for the money spent as it comes directly from the citizens through tax assessment, and the local authorities are responsible for serving the citizens. The citizens are anticipated to review, discuss, challenge and provide feedback on the local authorities' conduct (Veal et al., 2015). Such a monitoring mechanism can be exercised after the citizens have access to information on the activities and performance of the local authorities.

According to a survey done on public perception in Malaysia, it is reported that 80% of local authorities' staff are perceived to be involved in bribery cases (Adnan, 2020). The involvement of the mayor and senior staff of local authorities in bribery (Omar, 2021; Kawi, 2021) has caused the citizens to mistrust the local authorities further. In accordance with the report on Corruption Perception Index issued in 2022, Malaysia has ranked 61st out of 180 countries with only 47 scores (Transparency International, 2022). It indicates that the Malaysian corruption level is high as it is below 50 scores. A score of 100 shows that the country is free of corruption. The report suggests that corruption may lead to political instability, misallocation of resources and weakened regulatory bodies. Consequently, the citizens' welfare may not be well-protected. Greater transparency is recommended to reduce the corruption problem among government agencies, including the local authorities.

As the leading provider of essential services to the citizens, assessing the transparency of local authorities is relevant, given that their mismanagement will adversely affect the citizen's well-being (Bras & Dowley, 2021). Hence, the study's objective is to determine the level of transparency regarding local authorities' performance, citizen participation and ease of accessing information among local authorities in Malaysia. Unlike previous studies that interviewed participants to determine the transparency or accountability of local authorities, the study utilised the available data from the local authorities websites and annual reports. It found that Malaysian local authorities are transparent in disclosing non-financial performance, citizen transparency and transparency easiness. The study benefits public sector accounting by providing insight into how local authorities reflect their transparency through performance transparency, citizen transparency and transparency easiness within the agency and stewardship framework.

This paper has been structured as follows. The next section reviews the related previous studies, followed by the methodology section that explains our sample, data measurement and empirical methodology. The following section discusses the study's results, and the final section provides the conclusion and recommendations.

2. Literature Review

2.1 Underpinning Theory

Transparency is closely related to the information asymmetry between local authorities (agents) and their stakeholders, including citizens (principals). Agency theory posits that an agent has a fiduciary duty to act in the principal's best interest (Fama & Jensen, 1983). Literature posits that transparency can diminish information asymmetry and agency problems between local authorities and citizens (Laswad et al., 2005) since local authorities are accountable to the citizens (Pina & Torres, 2019). However, an agent tends to maximise his needs rather than the principal due to his inherent self-interest (Schillemans, 2013). As an agent, the management of a local authority is likely to keep all relevant information private from the public, who is the principal. This conflict will create a misalignment of the local authorities' interest with that of the stakeholders due to information asymmetry leading to practical monitoring failure. Hence, local authorities are required to disclose reliable and complete financial information promptly to the public (Mukah, 2021) to fulfil their fiduciary and stewardship roles.

It is argued that more than agency theory is needed to explain the relationship between local authorities and their stakeholders (Schillemans & Bjurström, 2020). Thus, following Garcia-Lacalle and Torres (2021), this study uses stewardship theory as a complement theory in explaining governance mechanisms in local authorities. The stewardship theory recommends that the local authorities are stimulated to act in the best interests of their stakeholders, and decisions made by the local authorities are in the best interests of the whole organisation when various stakeholders have competing interests (Davis et al., 1997).

2.2 Transparency in Local Authorities

As stipulated in The Local Government Act 1976, the local authorities have fiduciary obligations towards the citizens, residential environment and social development. As the closest government to the citizens, local authorities are anticipated to comply with citizens' needs by providing the best public services. The citizens anticipate good quality and sustainable services with well-defined and easy-to-understand instructions (Muazzinah et al., 2021). In order to provide such services, the local authorities need to disseminate the information to the citizens efficiently (Mohd Termizi & Ridzuan, 2022). With transparent information, citizens may perceive that the local authorities perform their expected fiduciary obligations.

Since transparency is considered to be a key fundamental in governing the local authority management, it is usual for citizens to distrust or misjudge their local authorities when they need to be better informed on the local authorities' activities or actions (OECD, 2020). Local authorities' management knows transparency is critical and essential in disseminating relevant information to the citizens. The management may need help producing relevant and efficient material information due to a lack of financial and human resources, particularly for local district authorities. As Transparency International (2022) recommends, the local authorities' management must provide transparent information to meet the citizens' demands and stimulate a good working relationship.

Bras and Dowley (2021) proposed that transparency can be utilised to ensure effective governance among local authorities as transparent information may prohibit corruption and misappropriation of resources; and stimulate greater accountability and better engagement with citizens. The citizens are able to scrutinise and evaluate the local authorities' actions. In line with this view, Abdul Manaf et al. (2022) suggested that transparency allows citizens to hold local authorities accountable for their actions. This makes it more difficult for local authorities to engage in corrupt or unethical practices. Thus, the reputation of local authorities can be improved, and citizen trust will be

restored.

Transparency also promotes trust in government by giving citizens access to information about the decision-making process (Alessandro et al., 2021). This can help build a sense of transparency and accountability, leading to increased trust and confidence in local authorities. When local authorities operate transparently, they are more likely to make better-informed decisions (Grimmelikhuijzen, 2010). This is because they are more likely to consider the public's opinions and feedback, leading to more informed and effective decision-making.

Kim and Lee (2017) posit that transparent local authorities can encourage citizen participation in decision-making. When citizens are given access to information and opportunities to provide feedback, they are more likely to engage with their local government and provide valuable input. Due to readily available and accessible information, timely responses to citizens can be provided. As supported by Guillamón and Cuadrado-Ballesteros (2021), this will improve the efficiency of local authorities by reducing the time and resources needed to respond to requests for information.

In 2013, the Malaysian government launched the Local Government Transformation Programme (TSPN), which aimed to improve local government services' efficiency and effectiveness and enhance transparency and accountability in local governance (Abd Razak, 2013). One of the key objectives of the TSPN was to promote citizen engagement and participation in local decision-making processes and establish feedback and accountability mechanisms. Since then, several initiatives have been aimed at improving transparency among local authorities in Malaysia (EPU, 2021). These include the establishment of online portals for accessing information about local government activities and expenditures, introducing performance-based budgeting and reporting systems, and establishing oversight bodies to monitor the activities of local authorities.

2.3 Components of Transparency of Local Authorities

Similar to Garcia-Lacalle and Torres (2021), the study considers transparency of local authorities based on three elements: performance transparency, citizen transparency and easiness transparency.

Under local authorities' performance transparency element, this study considers the disclosure of financial and non-financial information. Financial information of local authorities typically includes information such as income, expenses, assets, liabilities, profits or losses, and cash flow. In financial information, transparency means that the financial information is transparent, fair, viewable, and readily available to stakeholders such as shareholders, investors, regulators, and citizens. When financial information is transparent, stakeholders can better understand the local authorities' financial health and make informed decisions (Haustein & Lorson, 2022). This can increase confidence in the local authorities and their leadership, enhancing their image and reputation. At the same time, non-financial information is indirectly related to local authorities' financial performance but is still relevant to its operations and impacts on stakeholders. This may include information such as environmental, social, and governance (ESG) performance, employee diversity and inclusion, supply chain management, and community engagement. Saraite-Sariene et al. (2020) state that non-financial information transparency is essential because it allows stakeholders to understand the local authorities' broader impact beyond its financial performance. This includes how the local authorities manage their environmental and social impacts and how they engage with the communities in which they operate. Increased transparency in non-financial information is expected to continue as stakeholders demand greater accountability and local authorities seek to demonstrate their commitment to sustainability and responsible practices.

Agency theory provides a valuable framework for understanding the relationship between stakeholders and local authorities and how conflicts of interest affect local authorities' performance. By designing appropriate incentive mechanisms, citizens can align the goals of local authorities with those of the stakeholders and improve performance (OECD, 2020). However, they must also be mindful of potential drawbacks and risks. Stewardship theory suggests that local authorities perform better when they act as stewards or caretakers of public resources and assets (Keay, 2017). This approach emphasises the long-term interests of the local authorities over the short-term interests of individual managers. It encourages management to act in ways that enhance the value of the local authorities for all stakeholders (Gomes, 2006).

The second transparency element is citizen transparency. Citizen participation and transparency are closely linked concepts, as transparency is crucial to enabling effective citizen participation in government and decision-making processes (Kim & Lee, 2017). Citizen participation describes the active involvement of citizens in public decision-making processes in public hearings, town hall meetings, online consultations, and citizen advisory committees. When local authorities are transparent, citizens can better understand how decisions are made and more

effectively engage in the decision-making process (Grimmelikhuijzen, 2010). When citizens are able to participate in decision-making processes, they can provide valuable input and perspectives that may not otherwise be considered (Irvin & Stansbury, 2004). This can improve the quality of decisions and increase public trust in local authorities.

Agency theory can be used to explain the relationship between government agencies and citizens and how transparency can help mitigate conflicts of interest. By providing citizens with information about the actions and decisions of government agencies, transparency can help ensure that government agencies are acting in the best interest of citizens and are being held accountable for their actions (Mansoor, 2021). Aligned with stewardship theory, citizens will better understand how decisions are made and hold local authorities accountable for their performance when citizens have access to information about local authorities' activities (Abdul Manaf et al., 2022). This can increase citizen participation, improve policy outcomes, and greater social trust.

The third element of transparency is transparent easiness. According to Norman et al. (2010), transparency relates to being open, honest, and straightforward in communication or behaviour. It involves sharing information, admitting mistakes, and being accountable for actions with stakeholders. Transparency easiness may refer to the ease with which information or actions can be communicated or understood openly and honestly (OECD, 2020). Local authorities with a culture of transparency might find it easy to share information with their stakeholders, while local authorities may need more transparency to communicate effectively. Similarly, local authorities who value transparency in their relationships may find it easier, to be honest and open with stakeholders. Piotrowski and Bartelli (2010) mentioned that one of the community's concerns is the ease of access to the local authority's information since transparency is associated with ethical issues, corruption, administrative deviations, and accountability.

Transparency easiness is a critical consideration when designing transparency mechanisms to mitigate conflicts of interest between principals and agents in the context of agency theory. By making information easily accessible and understandable to citizens, transparency can be a powerful tool for ensuring that government agencies are acting in the best interest of citizens (Hyland-Wood et al., 2021) and are being held accountable for their actions. Local authorities that are committed to stewardship and transparency can take steps to make transparency easier to achieve (Ngatikoh et al., 2020). Transparency may include developing clear policies and guidelines for information sharing, investing in technology and infrastructure to support transparency and data sharing, and engaging stakeholders in meaningful ways to build trust and encourage participation (OECD, 2020).

3. Methodology

In conducting this study, secondary data were used to collect the necessary information. This study employed a quantitative approach. Based on the Malaysia Local Government Department (LGD), the Local Authority population in Malaysia are 155 local authorities, including 18 city hall councils, 38 municipal councils, and 99 district councils. With the help of the Ministry of Local Government Development of Malaysia, we collected several financial statements and annual reports in softcopy and hardcopy. In this study, the data were obtained from the annual report and websites of the respective Local Authorities to examine the transparency level of the local authorities in Malaysia. Since only 19 local authorities have prepared the annual report for the years 2015 to the year 2019, the dataset comprises 95 year-observations. As information, the annual report is optional to be prepared by local authorities in Malaysia.

The data were analysed using Python Pandas Programming tools, which is unique to this study. There were two (2) methods involved in collecting the data. The first method is extracting data from PDF documents, known as file extraction. Therefore, the keyword was extracted from a PDF file by Python Pandas. The second method used is web crawling, in which the data were extracted from local authorities websites. Then, the PDF and web extraction data were merged before they were analysed using Python Pandas Programming Language.

4. Result and Discussion

The descriptive analysis was conducted to generate information about the data collected. Table 1 shows the descriptive analysis summary of Malaysian local authorities' transparency used in this study. In analysing the transparency level, this study focuses on three types of transparency: performance transparency, citizen transparency, and transparency easiness.

Based on Table 1, the mean value of performance transparency proxy by financial information is 19.65 per cent. It indicates that the transparency level of financial information needs to be more profound. The local authorities must disclose their financial ratios or financial analysis in the annual report. In addition, in the annual report, only a few local authorities disclose their auditor reports and financial information, such as assets, liabilities, equity, expenses,

and revenue. Haustein and Lorson (2022) mentioned that shallow transparency of financial information negatively impacts stakeholders of local authorities as they lack information on the accuracy of financial health. When financial information is adequately disclosed, it becomes easier for residents and stakeholders to assess the government's financial performance and ensure the responsibility for the use of public funds (Steccolini, 2004).

The mean value for non-financial information is 92.66 per cent. This is deliberately high, indicating that most local authorities disclose their non-financial information in their annual reports and websites. Information on corporate social responsibility, quality management and services (QMS) and policies, as well as the complaints made by the citizens and actions taken by the local authorities, are transparently disclosed. Consistent with Saraite-Sariene et al. (2020), this study supports the view that non-financial information is crucial among local authorities as they are able to demonstrate their commitment to responsible decision-making and service delivery. This can enhance building trust among citizens and other stakeholders.

Table 1. Descriptive Analysis of Local Authorities' Transparency

	Performance		Citizen		Easiness
	Financial Information	Non-Financial Information	Citizen Dialogue	Institutional Information	
Mean	19.65	92.66	82.69	95.37	76.63
Standard Error	2.93	1.54	1.28	1.06	2.07
Median	0.00	100.00	88.89	100.00	60.00
Standard Deviation	28.56	15.04	12.52	10.35	20.14
Sample Variance	815.48	226.12	156.86	107.03	405.55
Kurtosis	-1.02	15.17	19.90	15.39	-1.87
Skewness	0.91	-3.27	-3.72	-3.50	0.28
Range	66.67	100.00	88.89	66.67	60.00
Minimum	0.00	0.00	0.00	33.33	40.00
Maximum	66.67	100.00	88.89	100.00	100.00
Confidence Level (95.0%)	5.82	3.06	2.55	2.11	4.10

The mean value of citizen transparency under citizen dialogue's proxy is 82.69 per cent. Several local authorities disclose information on citizen participants, languages, strategies and projects, publications and links with governmental webs in annual reports and websites. Meanwhile, the mean value under institutional information's proxy is 95.37 per cent. This is the highest mean value for local authorities' transparency. Most of the information disclosed in their annual reports or websites are contact, postal addresses, employees' phone numbers, organisation charts, publications for free access, mission statement, security policy, service charters, privacy policies and others. Thus, it is suggested that the transparency for citizen categories among Malaysian local authorities is regarded to be high. Supporting agency theory and stewardship theory, high citizen transparency may mitigate agency problems (Mansoor, 2021) and promote a sense of openness and accountability (Abdul Manaf et al., 2022).

Lastly, the transparency under the easiness category ensures that the information accessibility for the citizens is in report format. The mean value of 76.63 per cent indicates that the transparency easiness for Malaysian local authorities is generally high. Since most local authorities disclose their statistics and newsletters on websites or annual reports, the information is easily accessible to the citizen. It is also found that few local authorities disclose specific e-mail addresses and phone numbers; therefore, the citizens can communicate directly with the local authorities personnel. This transparency fosters trust between the local authorities and citizens to ensure that the authorities operate in the community's best interests (Da Cruz & Tavares, 2017). Hence, it can be concluded that the transparency level of local authorities in Malaysia is generally high except for financial information transparency.

The trend of each transparency component is further analysed. Figure 1 shows the trend of performance transparency over five years, starting from the year 2015 to the year 2019. The plot chart in Figure 1 indicates that the transparency of non-financial information is in increasing trend. In 2015, the mean value was 81.05 per cent; in 2019, the mean value was increased to 97.37 per cent. It demonstrates a growing trend of 16.32 per cent over five years. It realised that more local authorities were aware of disclosing more non-financial information in annual reports or

websites. This finding suggests that the agency theory and stewardship theory are supported.

As Saraite-Sariene et al. (2020) discussed, stakeholders may use non-financial information to monitor and evaluate the performance of local authorities to gain a reputation. By doing so, it can assess whether the local authorities are acting in the best interests of the stakeholders. Aligned with OECD's (2020) recommendation, transparent non-financial information helps to build trust between local authorities and stakeholders by providing visibility into the decision-making processes and actions of the local authorities. Consistent with stewardship theory, the importance of long-term sustainability and non-financial information can help management make decisions that are in the best interest of local authorities and their stakeholders. However, this result contradicts the transparency of financial information. It shows a decreasing trend from the year 2015 to the year 2019. This study finds that local authorities prepare a separate report for the financial statements rather than reporting the financial information in the annual reports. Therefore, most of the financial statements of local authorities are not accessible to the public. As suggested by Aven and Renn (2018), low transparency in financial information indicates that citizens need more information to assess whether the managers are taking appropriate risks, allocating resources efficiently, and making decisions that are in the long-term interests of the local authorities. Hence, financial information transparency may not reduce the conflicts of interest inherent in agency relationships. Inconsistent with stewardship theory, financial information may not assist the stakeholders in evaluating whether the local authorities act as responsible stewards of public assets and promote the long-term success of the local authorities (Kyeré & Ausloos, 2020). Thus, the finding on financial information transparency does not support the agency and stewardship theories.

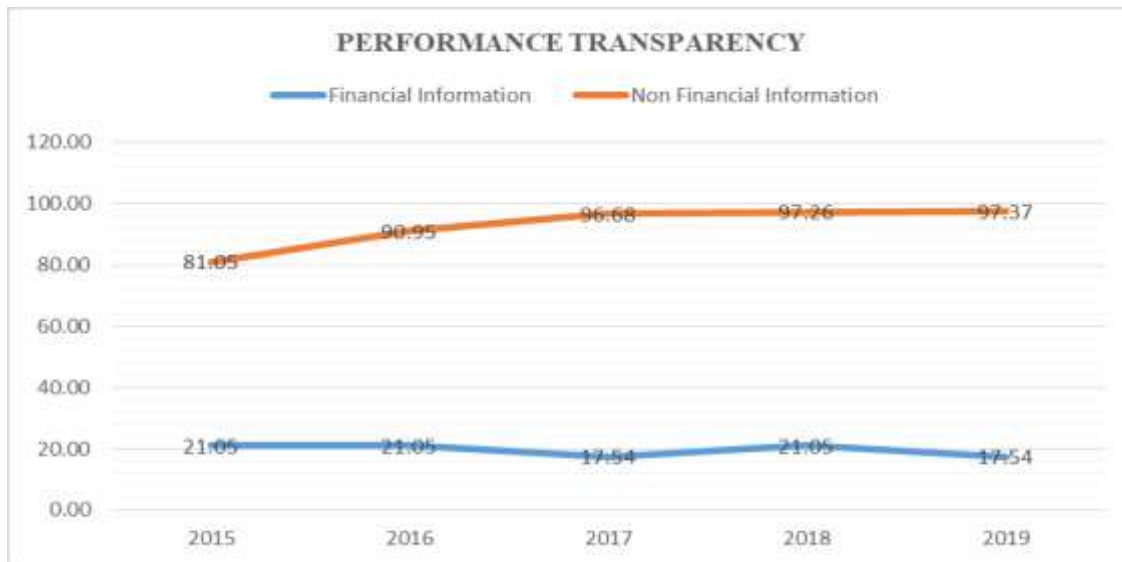


Figure 1. Performance Transparency

Figure 2 shows the trend of citizen transparency over five years, starting from the year 2015 to the year 2019. The plot chart in Figure 2 indicates that the transparency of citizen dialogue and institutional information is increasing. Citizen dialogue is the interaction and participation of local authorities with the citizens. In 2015, the mean value was 78.95 per cent, whereby in 2019, the mean value was 87.63 per cent. It demonstrates the rising trend of 8.68 per cent over five years.

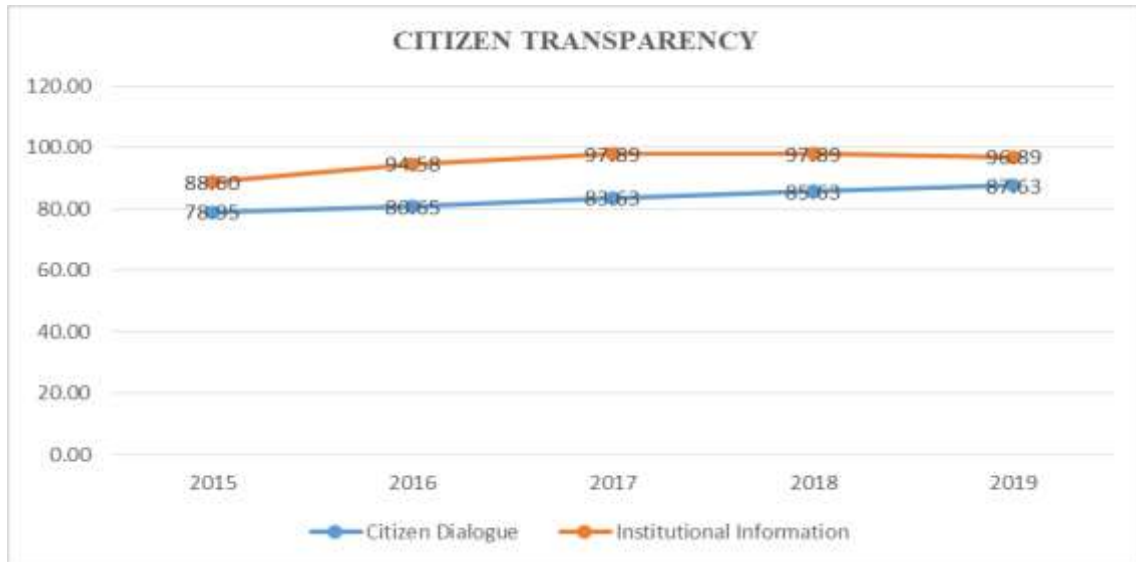


Figure 2. Citizen Transparency

Meanwhile, institutional information transparency that provides institutional information about government mission and operations through local authorities also shows an increasing trend. Most local authorities disclose their institutional information in annual reports and websites, such as contact number, organisational chart, mission statement, and privacy and security policy. The citizens will exploit the institutional information to dialogue with local authorities. This finding suggests that citizen participation will reduce the potential conflicts of interest that can arise in local authorities and the importance of transparency in promoting the public's trust in local authorities (Kim & Lee, 2017). It is supported by Said et al. (2015) mentioned that it can enable citizens to evaluate whether public funds are being used responsibly and efficiently and hold officials accountable for their stewardship of public resources.

Figure 3 shows the plot chart for transparency under easiness categories. In 2015, the mean value was 75.79 per cent, and it slightly increased to 76.84 before it decreased to 75.54 in 2017. However, in 2018 and 2019, the mean value of transparency easiness shows an increasing trend. It is a good sign, and it seems that local authorities have started to be aware of making the information publicly accessible to the people. By making information easily accessible and understandable to citizens, transparency can be a powerful tool for ensuring that government agencies act in citizens' best interests and are held accountable for their actions (Vian, 2020). In addition, it also shows that citizens can participate in the democratic process by making informed decisions and engaging in public debates. When citizens feel that their voices are heard, and their opinions are considered, it enhances the overall governance process. Generally, it helps to build trust between the government and its citizens, as transparency demonstrates a commitment to openness and accountability. Consistent with stakeholder theory, transparency easiness can be used to promote a more inclusive and responsible approach to local authorities' activities that consider the interests of all stakeholders (Taghian et al., 2015).



Figure 3. Transparency Easiness

Transparency in local authorities can be enhanced by adopting reliable and accurate estimation and forecasting methods. When local authorities use appropriate estimators and forecasting techniques, it improves the accuracy and reliability of their financial and operational information (Guo, 2020). This, in turn, contributes to greater transparency by providing more reliable data for citizens and other stakeholders to evaluate the performance and decision-making of local authorities. Furthermore, transparency in local authorities can also extend to the disclosure of information related to the estimation and forecasting processes themselves. By transparently sharing this information, local authorities can demonstrate the rigour and integrity of their estimation and forecasting practices.

5. Conclusion

Despite the efforts made by the Malaysian government to promote transparency among local authorities in Malaysia, there are still concerns about issues such as corruption, nepotism, and political interference. As such, there is a need for ongoing efforts to promote transparency and accountability and to establish more robust mechanisms for monitoring the governance of Malaysian local authorities. Thus, this study seeks to determine the transparency level of local authorities in Malaysia. Moreover, transparency can also help prevent corruption and unethical practices.

It is found that the level of non-financial performance transparency, citizen transparency and transparency easiness are still high and satisfactory. However, financial performance transparency is still at a low level. This study provides insights to citizens and stakeholders on the current transparency level of local authorities. It is also beneficial to the government, particularly the local authorities, for promoting good governance practices, building trust, and enhancing the quality of life for citizens. Future research can be conducted to identify the factors that influence transparency among local authorities in Malaysia. This can include political pressure, organisational culture, accountability mechanisms, and legal frameworks. A comparison of transparency levels in local authorities across different regions or states in Malaysia may be done to identify the best practices for promoting transparency in local authorities. Overall, transparency is not only a tool for ensuring government accountability but also a means to foster citizen engagement, trust, and more participatory democracy.

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