

Uncovering Motive as Empirical Evidence of Asset Misappropriation in Local Government

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(Erni-ECI, Dama-RAD, Aini-AI)

Abstract:

Background: Fixed assets owned by local governments have been widely misused, resulting in audit findings in local government financial statements.

Aims: This study aims to determine the motives of public staff in misappropriating assets.

Setting: This study uses empirical analysis conducted at institutions responsible for managing local government fixed assets. Three institutions categorized as "bedroom practice" and two institutions classified as "best practice" were involved.

Research Method: The grounded theory method is employed, starting from empirical data in the form of contextual conditions of asset misappropriation found in several local governments. These contextual variables interact with phenomena, resulting in a process of interaction and/or consequences that become propositions.

Result: A theoretical model was developed as a proposition related to the motive for asset misappropriation.

Conclusion: The legacy of the past in the form of organizational culture and asset management systems as causes, then give rise to the underlying motives of the perpetrators; (1) the relationship between the perpetrator and the authorities, (2) the form of reward, and (3) internal control.

Contribution: The resulting propositions can provide insight into the development of previous fraud theories, and can be further tested by positivists in quantitative research.

Keywords: Fraud, Asset Misappropriation, Government, Governance Asset, Grounded Theory

INTRODUCTION

Fixed assets are resources available in the Government, intended to support the implementation of employee duties and functions, and improve organizational performance. In the public sector, fixed assets play a crucial role in ensuring the operational efficiency of government agencies and institutions. Effective asset management can make a significant contribution to organizational performance if managed properly (Jiang & Zhao, 2022), as one of the main resources in generating regional revenue. Therefore, effective asset management is necessary in accordance with the basic principles of asset management (Masdar et al., 2024).

The recording of public assets on the balance sheet can promote good governance, administrative order, and legal order, while also maintaining and preserving physical assets. Krese & Zaman Groff (2024). Ensuring that public assets are recorded on the balance sheet in a transparent and accountable manner, and that all assets, liabilities, and equity are accurately represented, is a manifestation of the implementation of sound governance principles that can ultimately foster public trust. Krapivin (2023) states that developing and implementing a comprehensive asset management policy, which includes strategic planning, regular assessments, and maintenance schedules, can help reduce many of the identified issues.

The problem of fixed asset management that occurs in several local governments is suspected to be related to the culture of bad practices that are applied. Sysner & Jonsson (2020) state that the gap between policy and practice in Sweden causes cities to fail to adequately maintain their fixed assets, despite having clear policy objectives. The abandonment of some fixed assets in the public sector that we encounter is a reflection of inadequate asset maintenance and improper asset management.

Fraud in various sectors is a concern for academics and practitioners. Numerous studies related to the dimensions or factors behind fraud have produced several fraud theories. These include the triangle fraud theory by Cressy, diamond fraud theory by Wolfe and Hermanson, pentagon fraud theory by Jonathan Marks, and hexagon fraud theory by Vousinas, which are still relevant and used in identifying various fraudulent activities that occur in the private and public sectors to date.

The Association of Certified Fraud Examiners (ACFE) explained that the Fraud Tree, as a symbol of fraud classification, has three main branches: corruption, misappropriation of assets, and fraudulent statements (SustaIN, 2025). The domain fraud factor in previous research was more dominant in financial reporting errors (Herdjiono & Kabalmay, 2021; Ozcelik, 2020; Singh Yadav & Sora, 2021). A series of fraud and anti-fraud topics were further introduced, including the latest developments and successes in AI in detecting fraud for the purpose of identifying, monitoring, and preventing potentially fraudulent activities from complex data (Xu et al., 2023).

The results of the Pricewaterhouse Coopers survey (2022) ranked the type of fraud, asset misappropriation, as the 2nd rank in the Government and Public Sector industry (33%). This result has shifted the position of financial statements, which previously dominated the field of fraud research. Demands related to asset availability, reliability in management, and regulations governing asset management have been implemented; however, in their application, fixed assets in government offices are often misused by employees, which can be categorized as asset misappropriation. Although this type of asset misappropriation is the easiest to detect because it is real or measurable, it is still ranked as the most prevalent form of fraud in the Government sector, especially in local governments.

Research Method

This study employs empirical analysis and theory construction, drawing on the basic theory developed by Glaser & Strauss (1967), specifically Grounded Theory. The problem of asset misappropriation will be reviewed from two distinct perspectives: best practice and worst practice.

This research was conducted on institutions responsible for managing assets in local governments, involving three institutions in the best practice category and two institutions in the bed practice category, as well as misappropriation actors, including active employees and retired employees in local governments.

Empirical data were obtained from observations in a number of local governments that were reported to experience problems related to fixed asset management and were identified in various media reports as best practices in asset management. Interviews were conducted with several officials at institutions that oversee and manage local government assets, assuming they are aware of all the motives stated by the perpetrators, especially in the process of securing assets, which is their primary task. To strengthen the information obtained, interviews were also conducted with perpetrators of asset misappropriation who currently control the fixed assets of the local government, including both active and retired employees. Interviews are conducted in a semi-structured manner, and questions are asked in a naturalistic way.

The data is analyzed through various stages of coding to produce a sequenced set of data. The coding stages consist of: initial coding, focus coding, and axial coding, which are integrated to create a theory/proposition. The integration process begins with several contextual conditions as variables that the author confirms and gathers from the informants, resulting in several categories as indicators. Several categories were identified through the application of focus coding, followed by analysis by the author, who core-categorized them by selecting the core category and then connecting other categories to it, while reviewing data related to the phenomenon of asset misappropriation.

RESULTS

This study examines the motives of perpetrators of asset misappropriation involving fixed assets owned by local governments. The data obtained by the author in the field, in the form of actions or interactions presented by the informants, aid in conducting the data analysis. Different perceptions emerge from the informants as an interactional process, which essentially emphasizes the underlying motives of the perpetrators of asset misappropriation.

The coding stages that are passed, including initial coding, focus coding, and axial coding, will be explained in the Table. 1 (attached). Based on the stages that have been passed, a theoretical model is then developed as the theory or proposition of asset misappropriation. The following figure shows the resulting theoretical model.

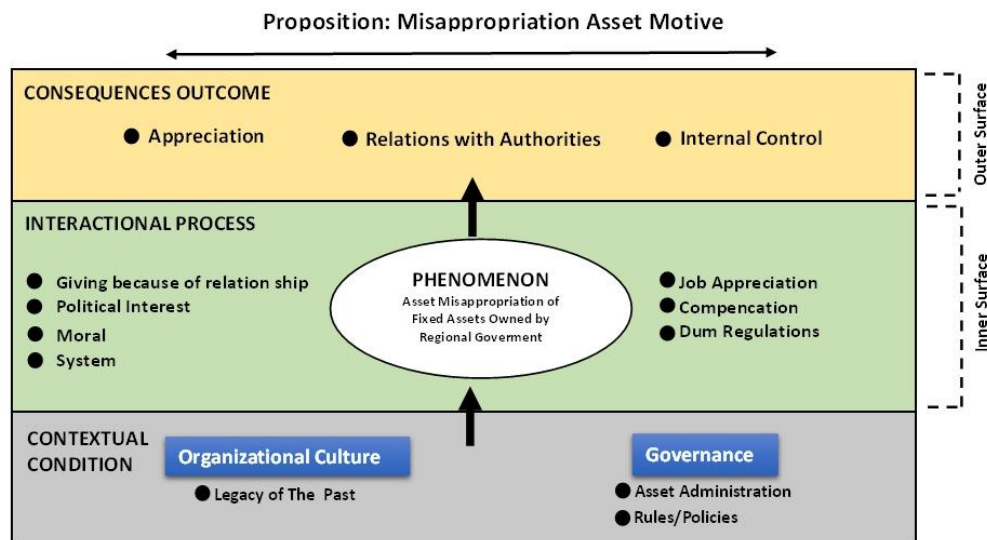


Figure 1. Simplified Grounded Theory Model (Author)

The resulting theoretical model explains that the variable contextual conditions interact with the phenomenon in question. The interaction then creates the proposition/development of the theory of asset misappropriation, which is generated through interactional processes and/or outcome consequences.

DISCUSSION

A series of synthetic literature carried out from various disciplines to identify the types of fraud, fraudulent motives, perpetrators, anti-fraud efforts, and cybercrime have been presented along with the identification of future research directions that are expected to add insight for further fraud research (Capraş & Achim, 2024; Gryazeva et al., 2021; Hanum Md Isa et al., 2024; Lee et al., 2023; Othman et al., 2021)

In the context of local government, it is essential to identify the motivations that encourage employees to misappropriate assets. The results of the coding revealed several motives, including: Granting due to relationship, Political interest, Appreciation of position, Compensation, DUM regulation, Morals, and System, which are still difficult to avoid and serve as triggers for asset misappropriation activities in the government sector. This motive tends to be more specific than that of fraudsters in general, as the object of fraud in the form of fixed assets belonging to the local government can only be held or controlled by certain employees who are authorized to do so.

The motives revealed in this study are: granting due to relationship, Political interest, Appreciation of position, Compensation, and DUM regulation. Researchers identified these specific motives and, through the stages of grounded theory, evolved into propositions called 'Relationship with the authorities' and 'Form of reward'. Relying on a strong relationship with authority owners in the region, the perpetrator can easily carry out asset misappropriation activities. This relationship takes various forms, some of which are due to kinship, strong friendships, and political connections. The magnitude of the influence of the owner of power ensures that the perpetrator is always protected. Power can produce both positive behaviors, such as creative behavior, and negative behaviors, including selfishness and corruption (Munduate & Medina, 2017). Employees' strict obedience to leadership, mainly when influenced by personal traits such as greed and social cynicism, can lead to licking behavior. (De Clercq & Pereira, 2023). While (Wu et al., 2025) stated that the combination of high employee power with high managerial power encourages constructive votes. In contrast, destructive votes can be created when high employee power is combined with low managerial power.

The award referred to in this study is the expected award for responsibility while serving and/or managing public assets, or as long as he is authorized to hold the fixed assets mandated to him. The perpetrators hope that the fixed assets can eventually be owned as a form of reward. (Saleh et al., 2020) stated that the relationship between rewards and employee engagement is very complex. The religiosity factor can positively affect engagement, but separating personal beliefs from professional roles can limit this effect. Organizational culture, as a moderator, can play a significant role in determining the impact of rewards on employee behavior (Rohim & Budhiasa, 2019). The award in the form of financial rewards is not what the perpetrator expects, but rather his performance. Despite this intended performance, it is not a suitable

justification for their actions. (Liang & Langbein, 2019) stated that to improve administrative outputs and policy results, performance awards are used. Still, anti-corruption efforts and the potential manipulation of performance metrics by the government can influence their effectiveness.

Another motif that emerged from the coding results and was more general was 'Morals and System,' which then merged and produced a proposition called 'Internal Control.' Weak internal control is a motive or factor that encourages perpetrators to act, and efforts to control fraud at work have been discussed from various perspectives (Marko Špiler et al., 2024; Maulidi & Ansell, 2022; Yusuf et al., 2023)

The lack of effective asset maintenance and management in the public sector highlights the need to continually improve the asset governance system, which can be achieved by implementing best practices in asset management, internal control, technology utilization, and employee training. Efforts to get out of all limitations and implement best management practices, have been further discussed by Alam et al., (2025) by strengthening regional asset management through an integrated policy ecosystem and mid-level bureaucratic connectivity; Then Lescano-Delgado (2023) in terms of the use of artificial intelligence technology; Next there is Stattler & Grabel, (2020) who monitor and provide direction for the internal control of the organization and respond to internal control issues; and Chałampowicz et al., (2025) in giving examples of employee training that encourages employee involvement.

The negative impact of the information gap is the occurrence of moral hazards or deviant treatment, such as the desire to control state assets into private property by manipulating information. The information imbalance between the parties becomes a moral hazard driver, and the more informed party can exploit this advantage for personal gain while shifting the risk to the other party (Ali et al., 2024). Cultural norms and individual behavioral traits that focus too much on the end goal and ignore the process, as well as the inherent nature of dominance, can influence the likelihood of moral hazard (Brady et al., 2024). The problem of asset management and structuring within local government is closely related to the culture of bad practices that are applied, and it is even more ironic when the leadership is involved in asset misappropriation activities. Masdar et al. (2024) state that fraud committed by leaders in an organization or company will be more challenging to uncover if it is committed by leaders or management compared to lower-level employees.

CONCLUSION

Using the grounded theory method, the author identifies contextual conditions that then interact with the phenomenon, resulting in interactional processes and/or outcomes in the form of propositions. The underlying motive of the perpetrators of asset misappropriation of fixed assets belonging to the local government was produced, namely) relationship with the ruler, (2) a form of reward, and (3) internal control. The proposition as a new finding can be further tested by positivists in quantitative research. The researcher believes that, to date, there has been no qualitative research related to asset misappropriation in the government sector that has employed the grounded theory method.

Competing interests

The authors declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Authors' contributions

E.C.I contributed to conceptualization, methodology, formal analysis, data curation, software, validation, and writing and editing the original draft. R.A.D contributed to conceptualization, methodology, formal analysis, resources, supervision, and funding acquisition. A.I contributed to conceptualization, methodology, formal analysis, and supervision.

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Data availability

The raw data supporting the conclusions of this article will be made available, upon request from the corresponding author, E.C.I.

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Appendix

| Contextual Condition | Initial Coding | Informant code | Focused Coding | Axial Coding | |
|----------------------------------|--|----------------|------------------------------|-----------------------------------|----------------|
| Causes of Asset Misappropriation | - Past events | 1 | Past legacy | Organizational culture | |
| | - Past delegation of duties/sins | 4 | | | |
| | - Past events/inheritance | 2 | | | |
| | - Game of past officials | 5 | | | |
| | - Asset recording and valuation | 1 | Asset administration | Governance | |
| | - Related institution support | 1 | | | |
| | - Supervision and prevention | 4 | | | |
| | - Asset security and control | 2 | | | |
| | - Cooperation of relevant institutions | 2 | | | |
| | - Routine audit | 3 | | | |
| | - Asset data | 3 | | | |
| | - Asset procurement structure | 3 | | | |
| | - Land legality | 5 | | | |
| | - BPK auditor findings | 5 | | | |
| | - Administrative measures | 1 | | | Rules/policies |
| | - Incentives for goods managers | 4 | | | |
| | - Optimization of asset utilization | 4 | | | |
| | - Job duties and risks | 2 | | | |
| | - Rules as reference | 2 | | | |
| | - Anticipate land legality | 2 | | | |
| - Education | 2 | | | | |
| - Dum mechanism | 5 | | | | |
| - Appraisal (valuation) | 5 | | | | |
| Asset Misappropriation Motive | - Borrowing and use | 6 | Granting due to relationship | Relationship with the authorities | |
| | - Kinship/trust of regional leader | 6 | | | |
| | - Gift from regional head | 2 | | | |
| | - Kinship | 2 | | | |
| | - Culture | 2 | Political interest | | |
| | - Authority | 2 | | | |
| | - Political interests/votes in elections | 2 | | | |
| | - Regional head as a political official | 2 | | | |
| | - Interests of certain parties | 5 | | | |
| | - Reward for service | 2 | Appreciation of position | Form of reward | |
| | - Compensation | 1 | | | |
| | - Appreciation of position | 3 | | | |
| | - Controlled by retirees | 3 | | | |
| | - Historical value of asset | 5 | Compensation | | |
| | - Asset maintenance cost | 6 | | | |
| - Compensation | 6 | | | | |

| | | | | | |
|--|--|-------|----------------|--------|------------------|
| | - Reimbursement of asset maintenance costs | 2 | | | |
| | - Renovation with private funds | 1 | | | |
| | - Relocation | 1 | | | |
| | - Auction according to price | 6 | Regulation dum | | |
| | - Legality (occupancy permit) | 7 | | | |
| | - Status penggunaan aset | 7 | | | |
| | - Regulation dum | 4 | | | |
| | - Promise of asset disposal | 5 | | | |
| | - Conventional dum | 5 | | | |
| | - Personal gain | 4 | | Morals | Internal control |
| | - Integrity | 4 | | | |
| | - Personality of the perpetrator | 3 | | | |
| | - Eliminated by user of goods | 4 | | | |
| | - Integrity of the perpetrator | 4 | | | |
| | - Asset utilization rules | 7 | System | | |
| | - Mechanism and regulation | 2 | | | |
| | - Regulation | 1 & 2 | | | |
| | - No education | 2 | | | |

Table. 2 Results of Grounded Theory Data Analysis (Author)