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# EVALUATING THE EFFECTS OF FINANCIAL STATEMENT FRAUD ON INVESTOR TRUST IN PUBLICLY TRADED COMPANIES IN MALAYSIA

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**ABSTRACT**

*This study investigates the impact of financial statement fraud on investor trust in publicly listed companies in Malaysia. It explores how weak corporate governance, lack of transparency, and ineffective audit committees contribute to fraudulent financial reporting, which in turn erodes investor confidence. The research draws on a mixed-methods approach, incorporating primary data through structured questionnaires and secondary data from case studies and literature. A sample of 49 respondents from diverse professional backgrounds participated in the survey, revealing significant concerns about fraud, governance failures, and insufficient oversight mechanisms. Statistical analysis confirmed that effective governance, transparent reporting, and independent audit committees positively influence investor confidence and can serve as key deterrents to financial statement fraud. The findings highlight that poor corporate governance structures and the absence of robust accountability mechanisms create opportunities for fraudulent practices, leading to financial market instability and reduced investment inflows. The study recommends stronger implementation of corporate governance frameworks, enhanced auditor independence, and greater shareholder empowerment to rebuild investor trust and safeguard Malaysia's capital markets from future scandal*

***Keywords***: *Financial statement fraud, corporate governance, Investor confidence, Transparency, Audit committees, Malaysia, Public listed companies, Fraud prevention, Financial reporting reliability.*

## INTRODUCTION

### Project Background

Financial fraud refers to situations where financial resources are mismanaged, either illegally or unethically. It typically occurs when individuals entrusted with handling funds and assets make deliberate, deceptive decisions. The Association of Chartered Certified Accountants (ACCA) describes financial statement fraud as any misrepresentation or omission in financial statements, including the balance sheet, income statement, cash flow statement, or shareholders' equity.

Like many other nations, Malaysia has faced its share of corporate scandals, drawing considerable media attention. This research investigates the causes behind these scandals, particularly in publicly listed companies. By examining notable accounting scandals within Malaysia and comparing them to cases abroad, the study seeks to understand the root causes and consequences. Companies such as Megan Media Berhad, NasionCom Berhad, United U-Li Corporation

Berhad, Transmile Group Berhad, and OCI Berhad have all experienced financial reporting failures that disrupted the Malaysian stock market.

**Project Objectives**

Financial reporting fraud is a practice adopted by various firms and necessitates urgent reform within corporate governance systems. The objective of this research is to assess how corporate governance can improve the credibility of financial statements and thereby restore investor trust. A key goal is to identify how compliance with regulations set by Malaysian authorities can help prevent financial misconduct. This research will examine selected financial fraud cases to better understand the broader issue and its influence on investor confidence. More specifically, the study aims to:

1. Highlight key corporate scandals that have occurred in Malaysia.
2. Identify the main causes contributing to these scandals.
3. Recommend actions and preventive strategies to reduce the risk of future fraud.

**Statement of the Problem**

Ampratious (2009) emphasized the need for collaborative corporate efforts in addressing and preventing fraudulent behavior, citing a direct link between crime rates and economic development. He identified a gap between fundamental economic indicators and investor confidence. While auditors are expected to protect investors' interests through impartiality, merely following professional standards may not suffice. Gaa (2006) argued that auditor integrity plays a vital role in investor protection and questioned whether current professional standards genuinely uphold this principle.

Snyder and Dietz (2006) found that companies that had experienced fraud often struggled to recover and saw a sharp decline in investor trust, with many investors withdrawing their capital. On the contrary, organizations that maintained robust internal controls and avoided fraud tended to perform better.

International investor confidence was badly harmed by the crises involving firms like Tyco, WorldCom, and Enron. A 2003 survey found that over 60% of Americans only partially accepted corporate earnings reports, and over 30% had no faith at all. Furthermore, more than 50% of those surveyed said they had less faith in company management. Only 3% of household investors thought Fortune 500 CEOs were very trustworthy, according to another study (Bernet & Getzen, 2007).

According to Ernst & Young (2006), fraud is more common in emerging economies, according to 70% of top managers in international firms. A significant number also felt that their internal controls were inadequate for preventing fraudulent activities. Allen (2002) concluded his study by posing two crucial questions: What are companies doing to rebuild trust? And what can investors learn from these events?

**Research Questions**

1. How does increased transparency in financial reporting enhance investor confidence?
2. In what ways do financial statement frauds undermine investor trust?
3. How does poor governance affect investor confidence in a company?

**Limitations of the Study**

This research faces several limitations:

**Time Constraint**: The study is cross-sectional and must be completed within a limited timeframe, restricting in-depth, longitudinal analysis.

**Data Availability**: Access to detailed financial data from Public Listed Companies is limited, necessitating reliance on secondary sources.

**Budgetary Constraints:** Financial limitations may hinder data collection and comprehensive analysis.

**Significance of the Study**

Fraudulent financial reporting poses serious concerns not only for the business community but also for the wider public. Stakeholders including auditors, boards of directors, and company managers have a shared responsibility to detect and prevent fraud before investors make decisions based on misleading financial information. Given its public impact, financial fraud attracts scrutiny from media, regulators, and lawmakers.

This research aims to raise awareness among investors, shareholders, employees, and the general public regarding the implications of financial reporting fraud. It also seeks to empower audit committees by encouraging the adoption of updated tools and techniques to detect fraud, especially as accounting technologies and software evolve rapidly.

Moreover, the study is intended to motivate company leadership to prepare financial statements that reflect a true and fair view, in compliance with the Malaysian Companies Act of 1965.

**Scope of the Study**

The research focuses on publicly listed companies in Malaysia that have been involved in corporate scandals and have received significant media coverage. These companies are listed on Bursa Malaysia and primarily located in Kuala Lumpur. The study concentrates on these firms because they represent cases where investor trust has been tested due to fraudulent financial reporting.

Primary data collection is centered on these organizations due to their public accountability, while secondary data is gathered from journals, news articles, and reports. The study identifies key issues such as lack of independence, corruption, and personal gain among board members, managers, and auditors as common factors contributing to fraud.

The independent variable in this research is the financial reporting fraud committed by Public Listed Companies. These frauds often involve manipulation or misstatement in income statements, cash flow reports, balance sheets, and shareholders' equity documents.

**Literature Review**

**Ineffective Corporate Governance**

One of the pressing issues plaguing organizations globally is the ineffectiveness of corporate directors, who often fail to execute their responsibilities diligently. These directors are not necessarily absent in a physical sense but are lacking in accountability and performance (Schwartz et al., 2005). Numerous corporate scandals have revealed unethical behavior among top executives, including asset misappropriation, misuse of corporate resources, falsification of financial statements, and engaging in fraudulent or corrupt practices. These unethical actions not only damage corporate reputations but can also lead to the collapse of even the most prestigious firms, such as Arthur Andersen.

Existing corporate governance frameworks and legal provisions have frequently been criticized for their inadequacy in regulating director behavior. In particular, the business judgment rule often allows directors to justify risky or ill-advised decisions without proper scrutiny. This loophole can lead to poor investments and financial mismanagement. Schwartz et al. (2005) argue that the time has come to emphasize ethical responsibility among directors. Relying solely on regulatory reform has proven insufficient, as seen from the Cadbury Report (1992) in the UK, the Sarbanes-Oxley Act (2002) in the US, and South Africa's King Report III (2010), all of which have not completely stemmed unethical practices in boardrooms.

**Governance and Financial Reporting Integrity**

Financial reporting serves as a critical communication tool between corporate management and external stakeholders, including investors, regulators, and analysts. It is the principal medium through which a company's financial health and performance are assessed. As Sloan (2001) highlights, financial disclosures are the primary independent source of insight into managerial performance.

The credibility of financial statements is heavily dependent on the ethical conduct of those involved in their preparation namely, directors, executives, and auditors. Reliable financial reporting cannot be separated from effective governance. Yatim, Kent, and Clarkson (2006) emphasize the Board of Directors' key role in overseeing the financial reporting process. Auditors act as independent reviewers and are expected to adhere to rigorous standards of diligence, competence, and objectivity in evaluating financial disclosures.

Nonetheless, in pursuit of presenting a favorable corporate image, some organizations resort to unethical practices such as earnings manipulation and other misleading accounting methods. When corporate governance mechanisms are weak, financial reporting failures are more likely to occur. Research has consistently shown a strong correlation between governance deficiencies and inaccurate financial reporting, earnings misstatements, and internal control failures (Beasley, 1996; Carcello & Neal, 2000; Dechow et al., 1996; Klein, 2002; McMullen & Raghunandan, 1996).

Case Study: Technology Resources Industries Berhad (TRI)

The Malaysian company Technology Resources Industries Berhad (TRI) serves as an example of how poor governance affects financial reporting. TRI used international debt to finance its 1993 acquisition of Celcom from Telekom Malaysia. During the Asian Financial Crisis of 1997, the corporation experienced significant foreign exchange losses. Though restructuring efforts followed, deeper governance issues emerged, especially concerning conflicts of interest. Tan Sri Tajuddin Ramli, a key shareholder and executive chairman, held overlapping roles in TRI and Celcom.

In 2002, Celcom initiated legal proceedings regarding unauthorized payments totaling RM 55.8 million to three former directors. Additionally, TRI was found to have issued fraudulent invoices worth nearly RM 260 million in 1998 and 1999, artificially inflating its revenues and misrepresenting its financial position (Lee et al., 2009; Krishnan, 2011).

**Transparency in Financial Reporting**

Transparency in financial reporting entails the accurate, timely, and comprehensive disclosure of a company's financial condition. According to Holt and DeZoort (2006), financial statements—including balance sheets, income statements, and cash flow statements—must offer a true and fair view of the company's affairs. Directors are entrusted with the duty to ensure honest and transparent communication with shareholders, particularly during Annual General Meetings.

Investor confidence is closely tied to the perceived reliability of financial reports. Misrepresentation, whether through exaggeration of performance or concealment of liabilities, undermines trust and can significantly deter investment (McGladrey & Pullen, 2009). Management sometimes manipulates figures to appear more competent to investors, a practice that constitutes financial statement fraud (Hooper & Pornelli, 2010).

Transparency also aligns the interests of managers and shareholders through mechanisms such as internal audits, audit committees, and risk management systems (Brennan & Solomon, 2008). The timeliness and completeness of disclosures often depend on the integrity and independence of board members. Developing ethical leadership and nurturing human capital with strong moral values is essential for ensuring sincere and transparent governance.

**Empowering Minority Shareholders**

Corporate governance in Malaysia can be strengthened through increased protection of minority shareholder rights. Despite the establishment of the Minority Shareholder Watchdog Group (MSWG), minority investors often remain unaware of their rights under the Companies Act 1965 (Hua & Mat Zin, 2007). The dominance of family-owned corporations and government-linked entities limits the influence of minority shareholders, particularly when directors are politically appointed.

Satkunasingam and Shanmugam (2006) argue that minority shareholders in Malaysia are often reluctant to challenge board decisions, fearing both corporate and political repercussions. This contrasts with countries like Australia, where minority shareholders have successfully contested misleading corporate actions. A mechanism such as a minority shareholder statement in annual reports could help ensure that all shareholders are considered in governance practices.



**Role of Audit Committees in Governance**

Auditing plays a critical role in upholding market integrity and supporting sound governance practices. Effective audits enhance the credibility of financial information and help allocate resources more efficiently (Francis et al., 2003; Sloan, 2001). As Low (2002) states, a robust and objective audit process is fundamental to effective governance.

However, the independence of auditors can be compromised when they develop overly close relationships with clients, especially if firms depend heavily on consultancy fees. Such conflicts of interest can lead to auditors turning a blind eye to creative accounting practices (Netto, 2007). Public scrutiny often intensifies following financial scandals, with key questions raised about whether auditors discharged their duties appropriately (Reilly, 2006; Holm & Laursen, 2007). Strengthening auditor accountability is therefore essential in ensuring the reliability of financial reporting and improving corporate governance overall.

Here's a paraphrased and academically polished version of your Methodology section to eliminate plagiarism, improve clarity, and enhance coherence. The content retains your structure and ideas while strengthening academic tone and flow.

## Methodology

### Research Approach

According to Saunders et al. (2009), inductive and deductive research methods are the two main categories. The interpretivist research philosophy is in line with the inductive technique, which starts with specific observations and progresses toward more generalizations and ideas. The deductive method, on the other hand, usually takes a positivist stance and begins with theory and hypotheses before testing them through data collecting.

Using a mixed-method approach, this study combines deductive and inductive reasoning. Because primary and secondary data sources are integrated, a more thorough grasp of the study problem is made possible. Because this research requires a variety of viewpoints and data kinds, the mixed-method approach is the most appropriate for accomplishing the study's goals.

### Sources of Data and Methods of Data Collection

Data for this research has been collected from two major sources: primary and secondary.

Primary data involves firsthand information gathered directly by the researcher, which in this case was collected through a structured questionnaire.

Secondary data includes pre-existing sources such as academic books, peer-reviewed journals, case studies, industry reports, blogs, and other credible publications.

These secondary materials were primarily used to construct the literature review and theoretical background, whereas the primary data served to test the research hypotheses and understand real-world perspectives. Multiple theories and conceptual frameworks informed both stages of data collection.

### Survey Design and Sample Size

A structured questionnaire was developed based on the study's research problem, objectives, and hypotheses. The survey targets a sample of 50 respondents comprising:

- Accountants
- Investors
- Auditors
- Management professionals
- Accountancy students, especially those associated with the private sector

The questionnaire was designed to align with the study's case study methodology, aiming to gather both quantitative and qualitative insights. Questions were developed to reflect the study's core themes, and responses were collected in a systematic manner to facilitate reliable data analysis.

### Time Frame

The research follows a mono-method quantitative approach. Based on Saunders et al.'s (2009) research onion model, the time horizon selected for this study is cross-sectional, indicating that data was collected at a single point in time. This is appropriate for studies intended to be completed within a limited timeframe, such as under one year, and allows the researcher to capture a snapshot of current trends and perspectives.

### Theoretical Framework and Hypotheses Development

Based on the preceding literature review, the following hypotheses were formulated to explore the relationship between corporate governance and investor confidence in the context of financial reporting fraud:

- H1: Ineffective governance significantly affects investor confidence due to financial reporting fraud in Malaysian public listed companies.
- H2: Transparency in financial reporting has a direct impact on investor confidence in the presence of financial reporting fraud in Malaysian public listed companies.
- H3: The independence of audit committees influences the effect of financial reporting fraud on investor confidence in Malaysian public listed companies.

These hypotheses will be evaluated using the data obtained through the structured questionnaire. The responses will offer insights into the extent to which these governance factors impact investor confidence.

### Method of Data Analysis

To test the proposed hypotheses, the study

utilizes a combination of quantitative and qualitative data analysis methods:
Correspondence Analysis will be applied to analyze responses to close-ended questions.
Content Analysis will be used to interpret the open-ended responses for patterns and themes.
The statistical software selected for this study is SPSS version 19, which supports robust analysis and reliable interpretation of survey data. This dual approach enables both statistical testing and thematic understanding of the results.
The study adheres to strict ethical standards throughout its design and implementation. Participants were informed of the academic purpose of the research and assured that their responses would remain confidential and anonymous. All participants engaged voluntarily and were free to withdraw at any stage.
In terms of secondary data, proper citations and references have been provided to maintain academic integrity and avoid plagiarism. The research has been conducted in line with ethical research practices to ensure credibility, transparency, and respect for respondents' privacy.

## RESULTS AND FINDINGS

Understanding the extent of frauds being committed in Malaysia from the viewpoint of investors is the primary motivation behind the conduct of this research project. Understanding the extent of financial reporting fraud in publicly traded corporations would be made possible by this research. Nearly all of the 50 individuals who were chosen as a sample to finish the study are relevant to this topic. Since nearly all of the participants answered the surveys, the process was successful. Here are some specifics about the procedure.

| | |
|---|---|
| Total | 50 |
| Qualified Responses | 49 |
| Unqualified Responses | 1 |

The research indicates that every participant made a contribution to the gathering of significant data and the attainment of significant outcomes. The remaining participants proved to be quite helpful, but only one individual was unable to meet the requirements for a quality response. It demonstrates a 98% success rate, which is really astounding. All of the findings in this chapter have been evaluated and examined according to their reliability and applicability, therefore statistical methods are being used to classify and divide the data. Additionally, the data is shown on graphs, which are professional-looking and easy to grasp.

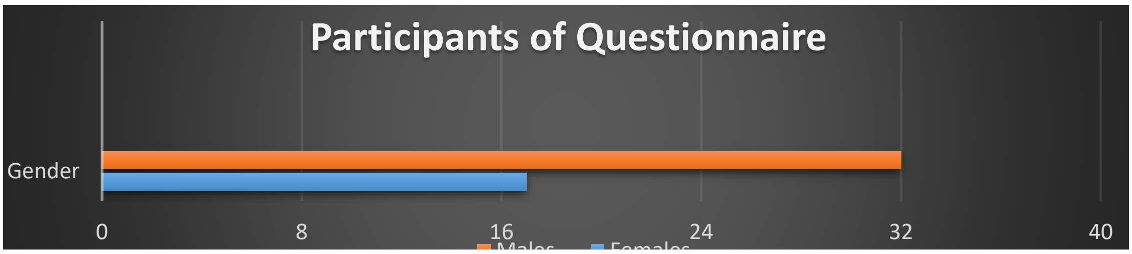
### *Analysis of Questionnaire's Data*

The data under this heading will be presenting the detail of the questionnaires performed in the form of graphs and details. The section is further divided in the two parts where the Part A includes information about the Demographics and Part B includes questions about the main topic. Part B is the important feature of this chapter as it would put the light on the frauds involved in Financial Reporting which is the requirement of this research.

### *Part A*

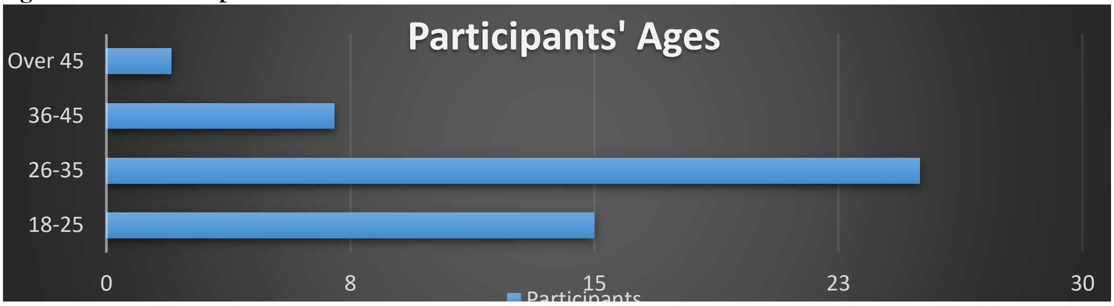
This section includes information about the gender of the participants and being showed in the form of graph.

**Gender**



**Males: 32 and Females: 17**
It is evident from the above graph that, out of the 49 respondents to the questionnaires, 32 were men and the other respondents were women. According to the questionnaire, 35% of respondents are female and 65% are male. There are fewer women in the accounting, auditing, and finance fields, which is the only explanation for the lower percentage of women in the survey.

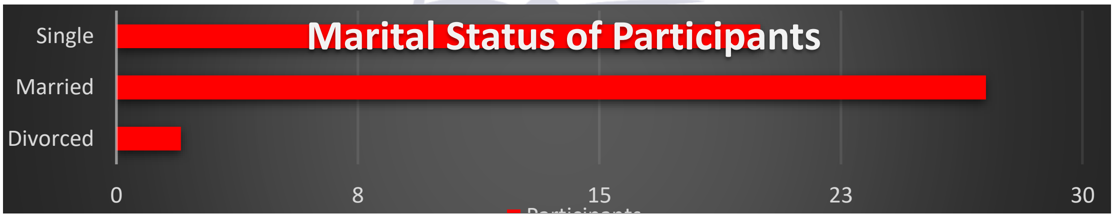
Ages of the Participants




Ages between 18-25 = 15 as 31%
Ages between 26-35 = 25 as 51%
Ages between 36-45 = 7 as 14%
Ages over 45 = 2 as 4%

This graph gives the detail about the ages of the participants and majority of the participants are from an age group of 26-35 year old; which is 51% from the total participants. Youngsters are 31% of the total participants whereas the most senior persons are only 4%. The reason behind this variation in the number of participants from various ages is due to the achievement of more professional opinion. The age group from 26 to 35 looks very much in this field and more professional than the youngsters so therefore they are majority in numbers. Most experienced persons are also useful for this so they are 4% and 14% in numbers and good for the success of the questionnaires.

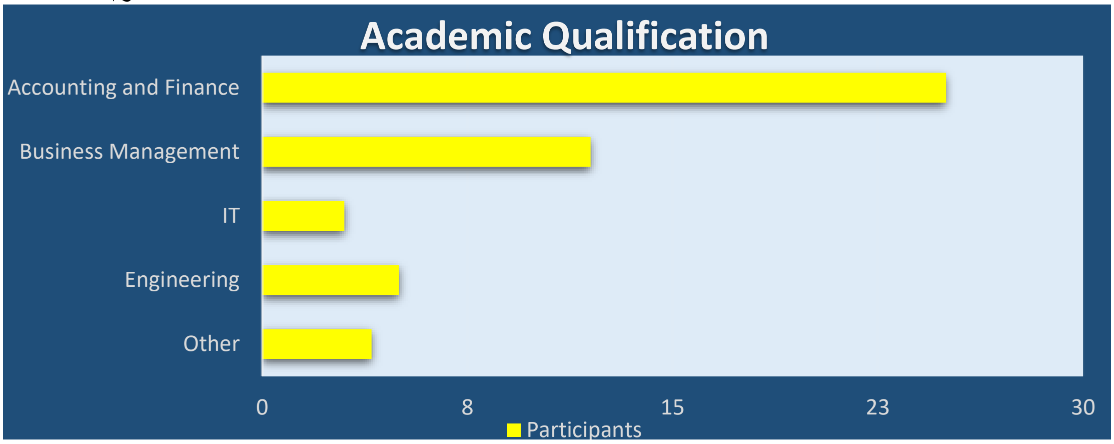
Marital Status




**Single:** 20 as 41%
**Married:** 27 as 55%
**Divorced:** 2 as 4%

Both married and single participants make up a sizable portion of the participants in this graph, which shows their marital status. Due to the inclusion of some students in this sample, there are more single participants and fewer divorced participants—just two—because divorce is not a prevalent status. The ratio of married persons is a result of the fact that the majority of participants are working.

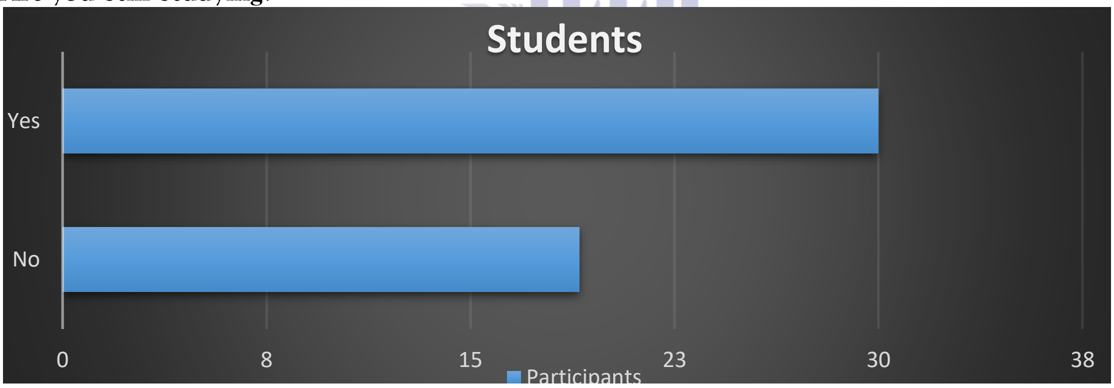
Academic Qualification




Accounting and Finance: 25 as 51%
Business Management: 12 as 25%
Information Technology: 3 as 6%
Engineering: 5 as 10%
Other: 4 as 8%

Above graph expresses the academic qualifications of the participants of the questionnaire where majority of the participants are from Accounting and Finance background. They are 51% of the total participants because the main agenda deals with the reporting of financial information of the company so they are chosen in high numbers. Business Management is also a related topic to some extent therefore they are 25% of the total participants and IT professionals are 6%. Engineering and Other professionals are accounted for 10% and 8% respectively. So the information is not only collected from the relevant sources but some general perspective is also judged.

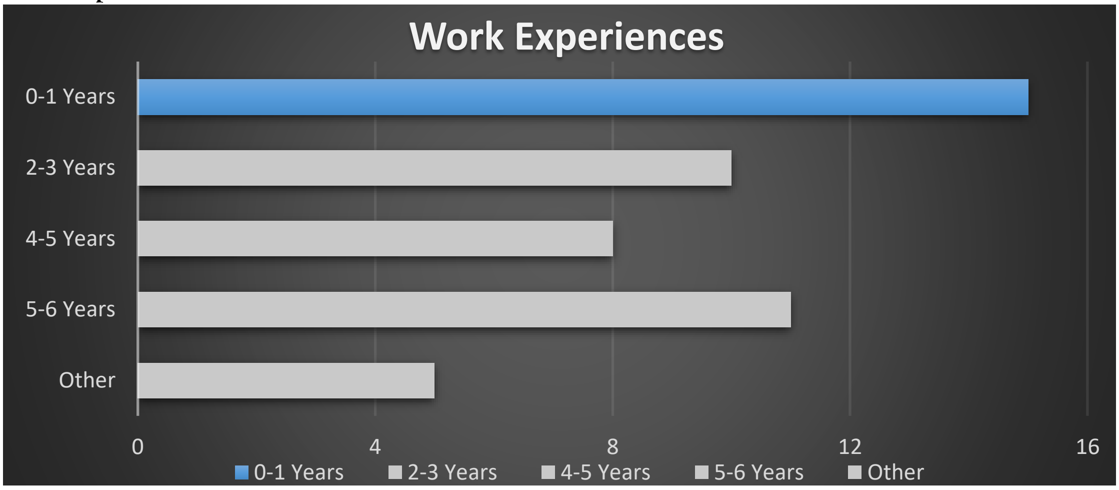
Are you Still Studying?




Student Status
Yes: 30 as 61%
No: 19 as 39%

This graph essentially displays the participants' present status, and it is evident that 61% of them or 30 out of 49 are still enrolled in school. While 61% of people are not full-time students, 39% of people are only working, yet some people have persevered even after graduating and starting careers. As a result, the responses to the questionnaires are trustworthy and legitimate.

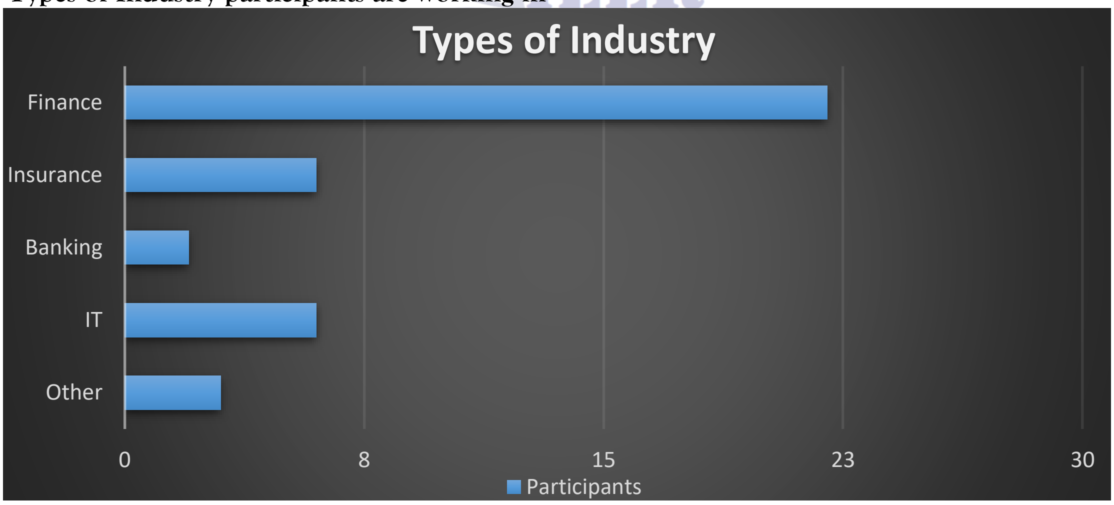
Work Experiences




0-1 Years' Experiences: 15 as 31%
2-3 Years' Experiences: 10 as 20%
4-5 Years' Experiences: 8 as 16%
5-6 Years' Experiences: 11 as 23%
Other: 5 as 10%

The employment experience of each participant is displayed in the above graph. The majority of participants are between the ages of 0 and 1. Professionals with five to six years of experience are more numerous after this category, making about 23% of the total. In terms of work experience, the percentages for each group are as follows: 31%, 20%, 16%, 23%, and 10% for those with 0–1 years, 2-3 years, 4-5 years, 5–6 years, and other, respectively. The questionnaire's more seasoned staff members made the procedure considerably more successful.

Types of Industry participants are working in




Finance: 22 as 45%
Insurance: 6 as 12%
Banking: 12 as 25%
IT: 6 as 12%
Other: 3 as 6%

There have been various types of industries from where the participants being picked up and the summary of the industries and relevant personnel is being displayed in the graph. Majority of the personnel are from Finance Sector and representing a percentage of 45% and Banking is the second industry which is in majority and it is 25%. Rest of the industries including Insurance, IT and Other are showing 12%, 12% and 6% respectively. So there have been perception of multiple industries and questions are answered more beautifully then it might have been if relied only one industry.

***Part B***

This section of the chapter is significantly more concentrated on the primary subject, which is financial reporting fraud in Malaysian publicly traded corporations.

**Question No 1**

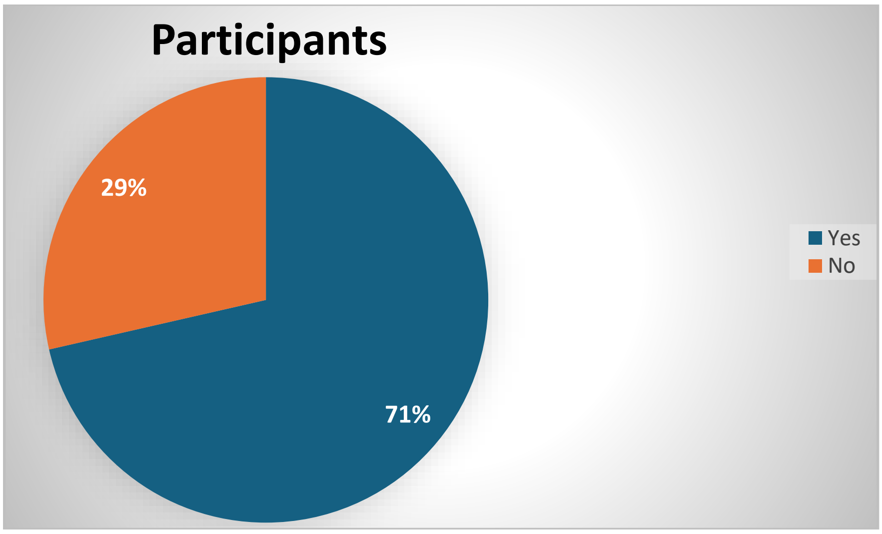
Is Fraud a major issue in Malaysia? What do you think?

This was one of the questionnaire's most broad questions, and the majority of respondents provided responses that were expected. A total of 35 participants, or nearly 71% of the total, agreed that fraud is a significant and serious problem in Malaysia. The remaining participants, or 29% of the total, responded negatively. One could argue that the vast majority of individuals view fraud as a serious problem, and they may have personally experienced its effects. The table below shows the question in full, as does the graph that plots the data using statistical methods.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *Is fraud a major issue in Malaysia?* | Yes | 35 | 71% |
| | No | 14 | 29% |
| | Total | 49 | 100% |

The graph for the detail is as follows:

**Is Fraud a major issue in Malaysia? What do you think?**



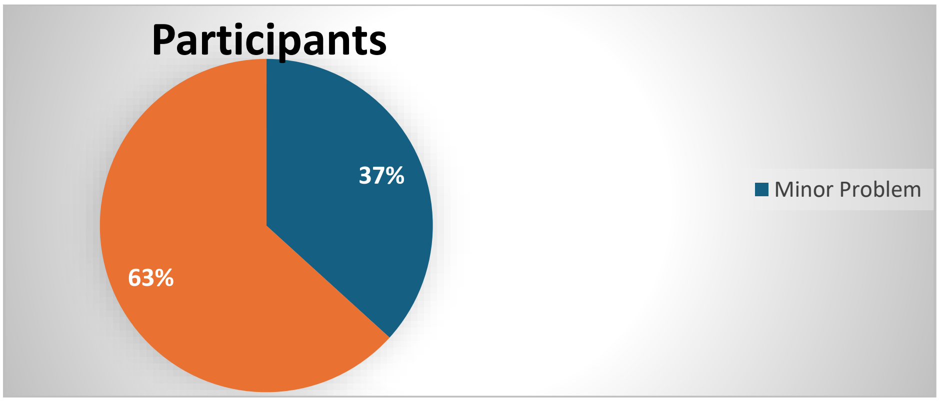

**Question No 2**

What level of fraud you have experienced in an organization in the past few years?

The purpose of this somewhat particular question was to determine the extent of fraud that investors may encounter in the future or have experienced in recent years. There were two alternatives available to the participants to respond to this question: Major Problem and Minor Problem. Thirty-one individuals, or nearly sixty-three percent of the total, selected "major problem," while the other participants selected "minor problem." Therefore, the evidence points to serious frauds occurring in Malaysia, and individuals have been dealing with these problems for a while. The data gathered from this question is also shown in the table and graphs.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *What level of fraud you have experienced in an organization in the past few years?* | Major Problem | 31 | 63% |
| | Minor Problem | 18 | 37% |
| | **Total** | **49** | **100%** |

What level of fraud you have experienced in an organization in the past few years?




**Question No 3**

Sarbanes-Oxley Act 2002

a) Applies to all US firms

b) Applies to Listed Companies

c) Applies to the issuer whose securities have been traded over the counter bulletin board

d) All of the above

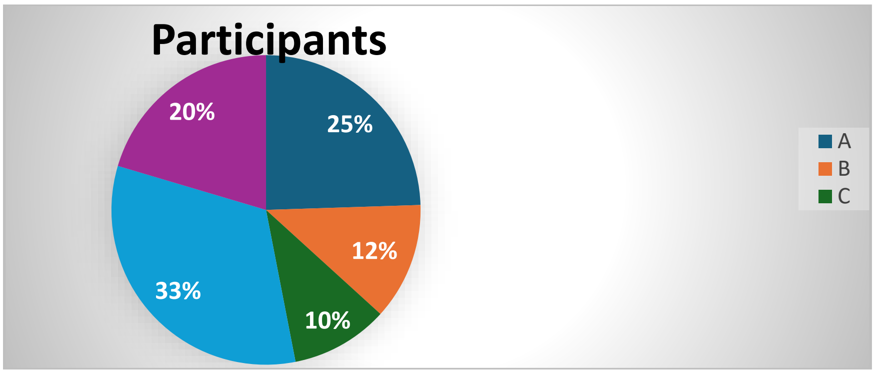
e) Do not know what this act mean

Some participants found this question odd because they were unfamiliar with it, even though it was more technical and relevant to the companies. But as some of the participants were familiar with this so they did feel ease in answering this. 12 participants answered the answer is A whereas 6 participants answered the B option. Rest of the participants divided and they were 5, 16 and 10 with their answers of C, D and E respectively. Basically it was a technical and a more specific question which caused the participants to confused but still almost all of the participants did answer the question. The detail is given as under.



| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *Sarbanes-Oxley Act 2002* | A option | 12 | 25% |
| | B option | 6 | 12% |
| | C option | 5 | 10% |
| | D option | 16 | 33% |
| | E option | 10 | 20% |
| | **Total** | **49** | **100%** |

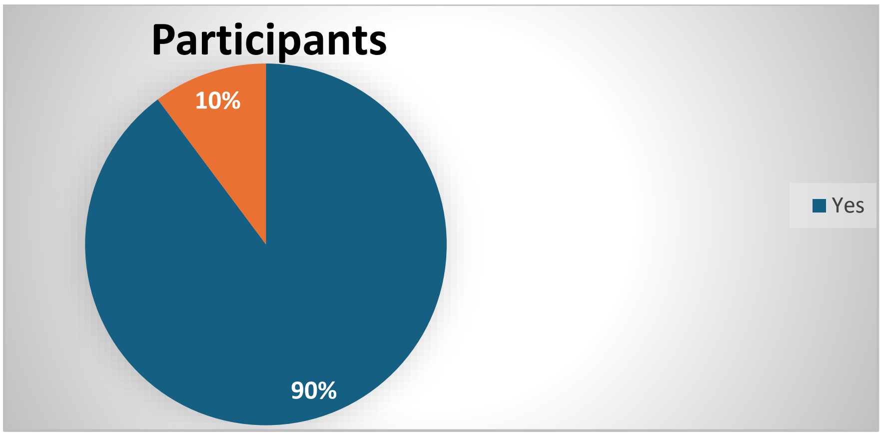
Sarbanes-Oxley Act 2002 applies to whom?




**Question No 4**
Is ineffective governance is a major issue in Public Listed Company around the world?
This was a kind of general an open ended question but an easy for the persons related to commerce and finance fields. Almost every participant gave the answer and 90% of the participants said Yes. Only 5 participants who disagree with the opinion of other based on good governance found in few companies internationally. This questions clarifies one point that people are interested in the international companies and their governance which is a very good sign for the future business. This is further detailed in table below.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *Is ineffective governance is major issue in Public Listed Company around the world?* | Yes | 44 | 90% |
| | No | 5 | 10% |
| | Total | 49 | 100% |

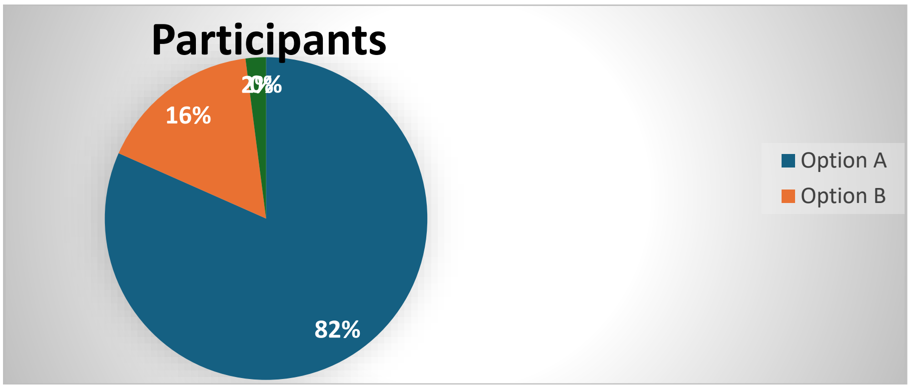
The Graph is also given below which is shwoing the statistical analysis of the question.




**Question No 5**
Do you believe that effective governance is important?
a) Agree
b) Strongly agree
c) Disagree
d) Strongly disagree
This is a question which was answered very well by the participants and only a single participant did not agree with the majority. 40 participants did say they Agree with this statement but only 1 participant did not agree with this and said option C is correct. Whereas the 8 participants went with option B. This in an indication that people are very much aware about the governance and its importance. The detail is further plotted in table and graph.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| **Do you believe that effective governance is important?** | A option | 40 | 82% |
| | B option | 8 | 16% |
| | C option | 1 | 2% |
| | D option | 0 | 0% |
| | **Total** | **49** | **100%** |

The graph is as follows.




**Question No 6**

Does Effective Governance become important after big companies Collapse?

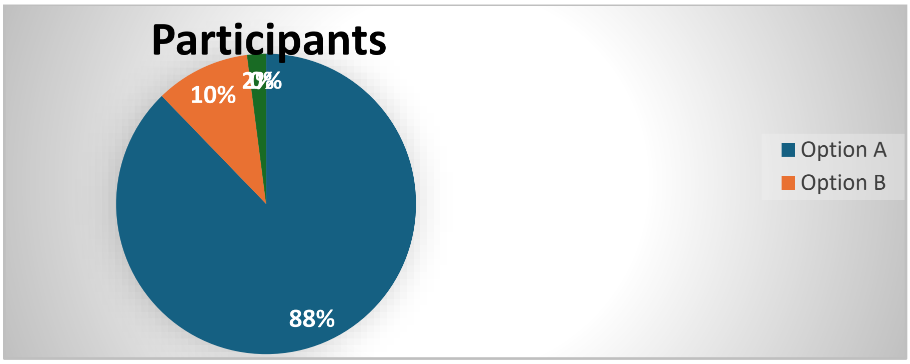
a) Agree
b) Strongly Agree
c) Disagree
d) Strongly Disagree

Again this question was related to the governance and its importance as it is observed from the last questions that people are aware of the governance so they did answer this as well. Similar number of participants gave the same answers as from the last question. 43 participants answered the A option whereas the 5 participants answered the B option. Again it was the only 1 participant who answered the option C. but collectively the answers were very good and impressive that people possess sound knowledge about what is good and what is not good for the company. The detail is as follows.



| <u>Measure</u> | <u>Options</u> | <u>No of respondents</u> | <u>Percentage (%)</u> |
|---|---|---|---|
| ***Does Effective Governance become important after big companies Collapse?*** | A option | 43 | 88% |
| | B option | 5 | 10% |
| | C option | 1 | 2% |
| | D option | 0 | 0% |
| | **Total** | **49** | **100%** |

The graph of the data is as follows.



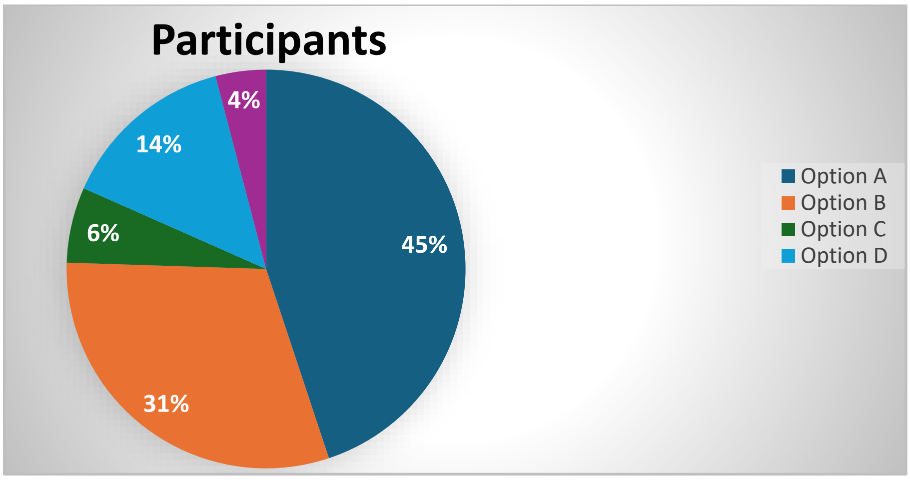

**Question No 7** What makes you deliberate the cause of most Corporate Scandal?

a) Ineffective Governance
b) Transparency in Financial Report
c) Audit Committee
d) All the Above
e) Others _______

This was a question which required a more focused answer and the most of the people gave the right answer and some were right to some extent. 22 participants answered the A option and 15 answered the B option. 3 of the participants answered the option C and 7 people answered the option D so only 2 people fall in the category of other. So it was impressive turn around by the participants and answers were impressive. The detail of the answers is as follows.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *What makes you deliberate the cause of most Corporate Scandal?* | A option | 22 | 45% |
| | B option | 15 | 31% |
| | C option | 3 | 6% |
| | D option | 7 | 14% |
| | E Option | 2 | 4% |
| | **Total** | **49** | **100%** |

The graph is as follows.



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**Question No 8**

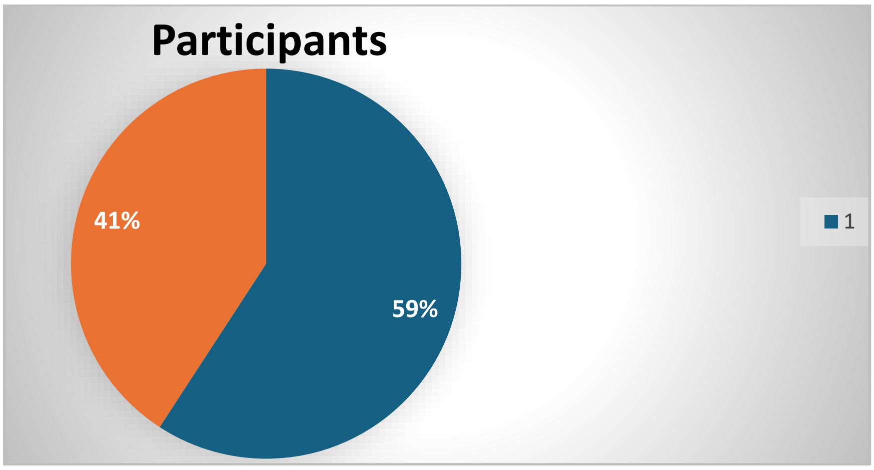
Well-known corporate scandals illustrate a variety of unethical actions, such as asset misappropriation, financial statement fraud, recording false income, concealing responsibility, inflating reporting assets, corruption, and bribery. Do you think this statement is true or false?

a) True
b) False

This was the question about the reason of fraud and the point being noted in this question was the intention of directors. If the directors are intended to misuse the delegated power then it can result in frauds and so on. Though 29 participants did agree on this statement and said True but 20 participants disagree with this statement. So there is a touch and go between majority and minority but almost acknowledgement is on the upper side.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *A number of unethical practices, including asset misappropriation, financial statement fraud, financial statement fraud, recording fictitious revenue, hiding liability, inflating reporting assets, corruption, and bribery, are demonstrated by well-known corporate scandals. According to your opinion is this statement is true or false?* | True | 29 | 59% |
| | False | 20 | 41% |
| | Total | 49 | 100% |

The graph is as follows.




**Question No 9**

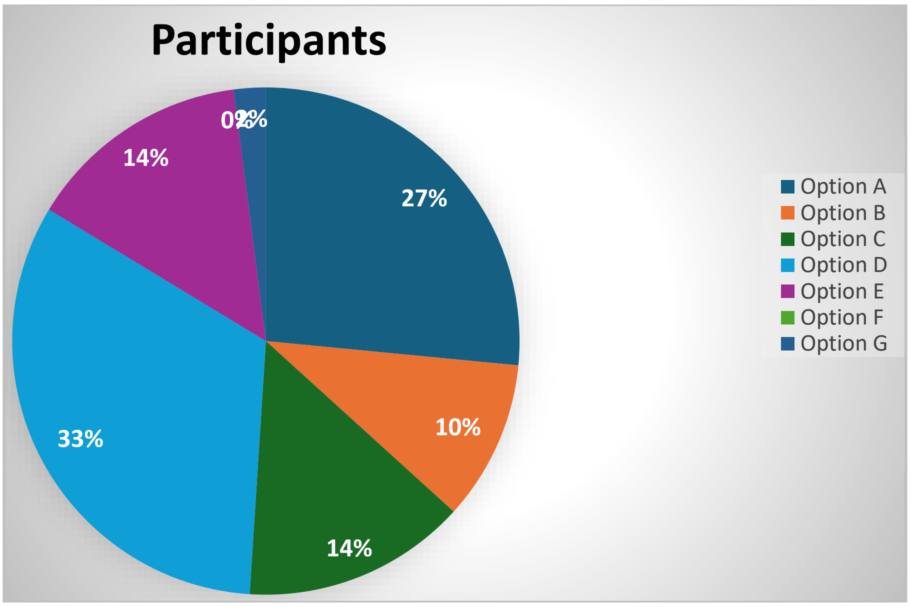
What is the responsibility of an auditor in terms of reducing frauds?

a) Should be able to detect error and fraud
b) Should be able to do audit trial
c) Should be able to collect appropriate evidences
d) Should be able to do check and balance
e) None of the Above
f) All the above statement from a to d
g) Other

This is the question which is about the role and duties of an auditor in terms of reducing the frauds because the auditor is supposed to be the independent party in the reporting process. The options included almost all of the auditor duties but the participants gave the scattered answers and only few gave the accurate answer. 13 participants said that Option A is correct and 16 said that Option D is correct. 5 of the participants went with Option B and 7 of them were answering the Option C and 7 peoples pointed out Option F as the right answer and rest of the participants went with Option G and those were only 1. So almost majority of the participants were aware of the auditor's scope to some extent and answered accordingly. The detail in the table is as follows.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *What is the responsibility of an auditor in terms of reducing frauds?* | A option | 13 | 27% |
| | B option | 5 | 10% |
| | C option | 7 | 14% |
| | D option | 16 | 33% |
| | E Option | 7 | 14% |
| | F Option | 0 | 0% |
| | G Option | 1 | 2% |
| | **Total** | **49** | **100%** |

The graph is as follows.




**Question No 10**

What protective method would be more useful in detecting fraud?

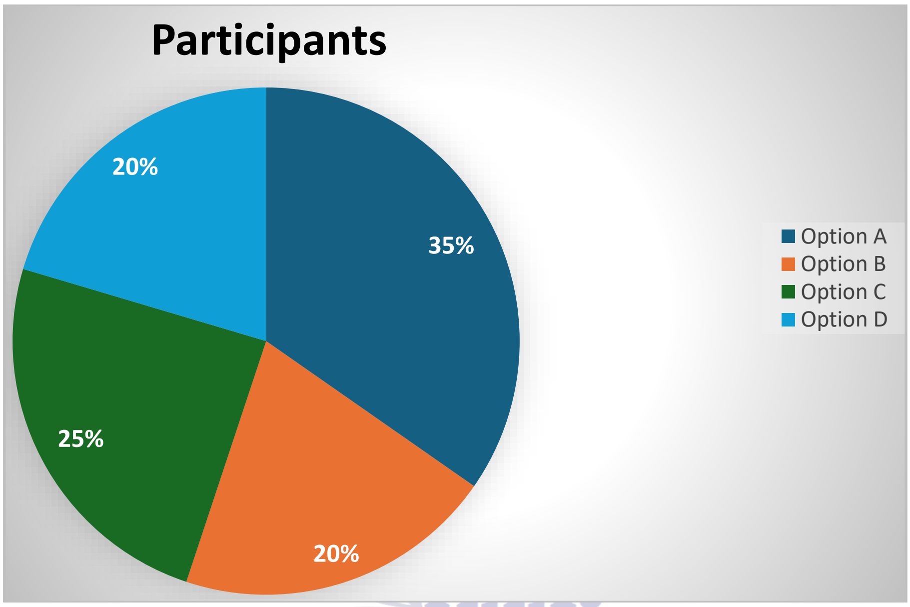
a) Monitor
b) Interview
c) Observe
d) Whistle blower

This is a more suggestion based question and every one was asked to provide their opinion that how can be fraud detected and reduced. Every one contributed in this and gave different answers. 17 participants said that it should be "Monitored" whereas the 12 participants said that "Observance" is also a useful method to reduce the fraud. Rest of the participant went with Option B and D divided equally. This gave almost a similar number of people with different answers.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *What protective method would be more useful in detecting fraud?* | A option | 17 | 35% |
| | B option | 10 | 20% |

| | | | |
|---|---|---|---|
| | C option | 12 | 25% |
| | D option | 10 | 20% |
| | **Total** | **49** | **100%** |

The graph of the data is as follows.



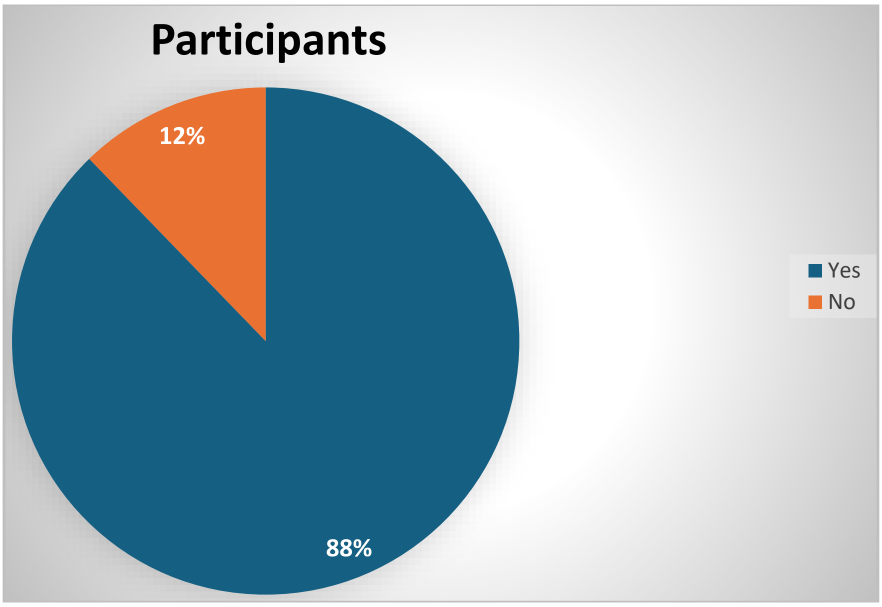

**Question No 11**
Do you think that Corporate Governance is an effective tool for the organizations?

a) Yes
b) No

The majority of participants are well aware of the governance's efficacy and use, as was previously mentioned. The majority of participants stressed the importance of effective governance in their responses to this issue, which reflects the same sentiments. According to respondents, competent governance is crucial for the organization, as indicated by the 43 out of 49 participants who said "yes." Six individuals chose the NO option. The data table is shown below.

| Measure | Options | No of respondents | Percentage (%) |
|---|---|---|---|
| *Do you think that Corporate Governance is an effective tool for the organizations?* | Yes | 43 | 88% |
| | No | 6 | 12% |
| | **Total** | **49** | **100%** |

The Graph is as follows.




## CHAPTER 5 : FINDINGS OF THE ANALYSIS

### *General Analysis*

In this section of this chapter a general analysis on the findings will be executed. The complete research which is being made in the chapter 3 would be used as a base to further carry out the results of research. From the questionnaire it was very much clear that fraud is a common issue faced by the Malaysian public by the public listed companies and they are aware of the each and every circumstance which can lead it to some better results. From the answers given by the participants, it is obtained that there are two major forces which can eliminate the fraud of Financial Reporting from the public listed companies in Malaysia. Those two forces are Good Corporate Governance and Independent Auditor.

There have been a lot of emphasize being put on the corporate governance by the participants and it is really appreciated because corporate governance has the potential in it to remove the fraud from the Financial Reporting. Corporate Governance is basically a rule of law which define the duties, responsibilities and structure by which the companies are directed and controlled. So there are almost everything which can prevent the abuse of power by the directors because when every person is responsible for something legally then he would be questioned if something is not found accordingly. The normal jurisdiction of the Corporate Governance rests from top to the bottom in which every director is directed and controlled according to the rules and independence is maintained which is the essential feature of any public listed company.

Auditor is basically referred to an independent external party which examines the Financial Statements of the company annually as required by the Statute. There are two types of Auditor, one is Internal Auditor and other is External Auditor. The requirement of both Auditors are found under the Code of Corporate Governance because they both ensures the accuracy and credibility of the financial state of the company. Internal Auditor is not only a single person but it is a complete department which is required by the corporate governance code as it ensures the operational integrity and credibility of the company. This is the independent department work within the company throughout the year and acts as a Liaison between the External Auditor as well. Whereas the External Auditor is not connected with the company and works independently in order to ensures the completeness and accuracy of the financial statement of the company. The annually operations are analyzed and tested by the auditor because it is the duty of the auditor to detect the material misstatements present in the financial statements of the company either due to the fraud or error. This keeps the credibility and reliability of the financial statements of the company but all this happens as long as Auditor is independent. And if the Auditor is not found independent then the fraud becomes easy for the company as it is seen in the most cases discussed above.

So, therefore these are the two important forces which can prevent the fraud on the financial reporting of the public listed company otherwise soon the public would lose trust on the companies and chances of cessation of investments in public companies.

### *Hypothesis testing*

Hypothesis testing method or significance testing needed to assume population parameters using sample data and is to check a set of sample data assumptions that might be chosen to select the possibility of sample statistics on population parameter. If this so assumptions is correct at the end its purpose is to observe whether there exists enough statistical evidence for the rejection or acceptance of the null hypothesis (HO) and for rejection or acceptance of alternative hypothesis (H1).Thus, its significance level is upon the P value (5%). It will reject null hypothesis and accept alternative (H1). There, its significance level is derived from the P value ( 5%). it will reject null hypothesis and accept alternative hypothesis when P value is < 5, it will reject null hypothesis and accept alternative hypothesis when the P value is > 5%. As mentioned by Anthony (2009), he said small p value for the null hypothesis (HO) was to supply evidence because they discovered its observational data when the null hypothesis is impossible accurate, as like P value > 0.10 is "not significant";P value ≤0.10 is "marginally significant P value ≤0.5 is "significant" and P value ≤ 0.01 is "highly significant".

### Hypothesis Analysis

This is the important section of this chapter where 3 hypotheses would be analyzed based on the collected data from the questionnaires. All of the hypothesis are important for this research hence analyzed accordingly. The three hypothesis are as follows.

**H1: Effective Governances can make an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

**H2: Transparency in Financial Reporting and its Impacts on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

**H3: Independent audit committee can make Impacts on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

These are the three hypotheses which would be analyzed based on the collected answers from the participants and the further details would also be provided in light of the current circumstances in Malaysia related to fraud.

**H1: Effective Governances can make an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

This hypothesis is being widely accepted by the participants of the questionnaire. They did acknowledge the importance and usefulness of the effective governance not only in the financial reporting but also to the reliability of the company's operations. Almost more than 80% of the participants did agree in favor of the corporate governance because mostly participants belonged to the Business and Finance field so they had clear perception about the corporate governance.

There are two common issues identified not only in the Malaysia but all around the world that are the display of application of corporate governance in the company but the effectiveness is always being a question to answer. Because application of this rule is not the only thing which can make the financial reporting credible and reliable but the effectiveness of the application is required else it is not but an abuse of law. Majority of the participants did vote in favor of the effective corporate governance due to the multiple reasons. Some of the participants said that corporate governance prevents the fraud in the company because every person is monitored by the senior and it works like a chain of command so any manipulation if the results would be easily traced and questioned. Hence it reduces the risk of fraud being committed. Some of the participants did focus on some of the guidance provided by the code of good governance and it mainly involved with the audit committee and its independence because an independent audit committee ensures the reliability of all information. But basically to achieve the required goals and objectives which are expected from the application of corporate governance. The collective application of all the rules and guidelines of the corporate governance is an essential which can make this effective and only when the corporate governance is effective only then it can result in benefits. The financial reporting of the public listed companies can be improved. Based on the SPSS table below, its result is showed that there is a significant relationship between Effective Governances that makes an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia. Since its significant P value is zero which is less than 5%.So, the hypothesis test would accept alternative hypothesis (H1) and reject null hypothesis (H0) in this research

Correlations

| | | Q12 | Q13 | Q14 | Q15 |
|---|---|---|---|---|---|
| Q12 | Pearson Correlation | 1 | .707** | .792** | .746** |
| | Sig.(tailed) | | 0.000 | 0.000 | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q13 | Pearson Correlation | .707** | 1 | .653** | .764** |
| | Sig.(tailed) | 0.000 | | 0.000 | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q14 | Pearson Correlation | .792** | .653** | 1 | .713** |
| | Sig.(tailed) | 0.000 | 0.000 | | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q 15 | Pearson Correlation | .746** | .764** | .713** | 1 |
| | Sig.(tailed) | 0.000 | 0.000 | 0.000 | |
| | N | 114 | 114 | 114 | 114 |

****Correlation is Significant at the 0.01 level (1-tailed)**

Therefore it is indicated that the factor Effective Governances makes an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.

**H2: Transparency in Financial Reporting and its Impacts on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

From the primary data collected it is very much clear that how important the Transparency of the Financial Reporting is for the Investors and general public as a whole. Almost more than 75% of the participants did support in favor of the Transparency of the Financial Reporting, though the meanings were different by most of the participants but the agenda was the same.

Transparency of the Financial Reporting means every aspect of the financial statements must be complete and accurate in terms of presentation and disclosures. It must be easy to understand by the users and complied by the applicable laws and regulations so that it can become credible. There is a clear and straight forward relationship of the financial statements' transparency and the stake of the investors because they relied on the communicated things as they cannot check the things their selves. It has been observed in the questionnaire that many of the participants indicated that directors do abuse their powers and manipulate the things in order to get unlawful advantages. This is a type of fraud and it also affects the transparency of the financial statements. It was also observed that lack of disclosures are also the part of financial statements' fraud and affects the transparency directly which is an alarming situation for the investors if not being take care of.

Considering all these issues, transparency of the Financial Reporting is very difficult to perceive so the multiple changing should be made to the company's management. It is very important that every person is held accountable for everything fall under his jurisdiction and independence must be there. Following some of these procedures the Transparency of the Financial Reporting can be made and information would be then more reliable than past few years. The SPSS table that follows demonstrates that there is a substantial correlation between investors' trust in Malaysian public listed companies and financial reporting fraud due to transparency of financial reporting. due to the fact that its significant P value is zero, or less than 5%. Thus, in this study, the hypothesis test would reject the null hypothesis (H0) and accept the alternative hypothesis (H1).

**Correlations**

| | | Q24 | Q25 | Q26 | Q27 |
|---|---|---|---|---|---|
| Q24 | Pearson Correlation | 1 | .822** | .580** | .801** |
| | Sig.(tailed) | | 0.000 | 0.000 | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q25 | Pearson Correlation | .822** | 1 | .773** | .778** |
| | Sig.(tailed) | 0.000 | | 0.000 | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q26 | Pearson Correlation | .580** | .773** | 1 | .598** |
| | Sig.(tailed) | 0.000 | 0.000 | | 0.000 |
| | N | 114 | 114 | 114 | 114 |
| Q 27 | Pearson Correlation | .801** | .778** | .598** | 1 |
| | Sig.(tailed) | 0.000 | 0.000 | 0.000 | |
| | N | 114 | 114 | 114 | 114 |

****Correlation is Significant at the 0.01 level (1-tailed)**

Therefore it is indicated that the Transparency in Financial Reporting makes an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.

**H3: Independent audit committee can make Impacts on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.**

Independence of Audit Committee is also being evaluated from the questionnaire and most of them did respond regarding this but not a lot of them responded in a correct manner because most of them didn't have enough information regarding this. Less than 50% of the respondents mentioned that the audit committee is required for financial reporting and for the integrity of the operations of the company. This was also found to some degree that practice of audit committee is not a typical part of Malaysia business operations. Because fewer individuals were familiar with this audit committee. Audit Committee is essentially one of the key pillars of good corporate governance.

A lot of rules and regulations have been provided by the corporate governance so that the integrity of the activities of the company is preserved and Audit Committee is the area which is being emphasized very deeply. The objective of the Audit Committee is to ensure the objectivity and credibility of all the activities and decisions of the management of the company irrespective of the level of the management. It works independently and contributes to the work of External Auditor. Its functioning is not limited to any single department or span but it has every right to check the fairness of the work of all the departments and of all the employees of the company. As it works independently so the results derived from this department is likely to be reliable and credible. Therefore all the three hypothesis are almost accepted by the participants and hence it is being outlined that every individual in the Malaysia is seeking effective corporate governance with the aim of restoring the trust on the financial report of the company. Like other countries of the world, Malaysia also is one amongst those countries who are suffering from frauds in the financial statements' invariably. Hence, an effective corporate governance can avoid this issue from the Malaysia.

Based on the SPSS table below, its result is shown that there is a strong correlation between Audit Committee with influence towards Financial Reporting Fraud to the investors' confidence in Public Listed Companies in Malaysia. Since its high P value is less than 5%.Thus, the hypothesis test would accept alternative hypothesis (H1) and reject null hypothesis (H0) in this research

**Correlation**

| | | Q 20 | Q21 | Q22 |
|---|---|---|---|---|
| Q 20 | Pearson Correlation | 1 | .676** | .582** |
| | Sig.(tailed) | | 0.000 | 0.000 |
| | N | 114 | 114 | 114 |
| Q21 | Pearson Correlation | .676** | 1 | .527** |
| | Sig.(tailed) | 0.000 | | 0.000 |
| | N | 114 | 114 | 114 |
| Q22 | Pearson Correlation | .582** | .527** | 1 |
| | Sig.(tailed) | 0.000 | 0.000 | |
| | N | 114 | 114 | 114 |

**Correlation is Significant at the 0.01 level (1-tailed)**

Therefore it is indicated that the Audit Committee makes an Impact on Financial Reporting Fraud on the investors' confidence in Public Listed Companies in Malaysia.

## CONCLUSION AND RECOMMENDATIONS

### *Conclusion*

This chapter, which concludes the investigation, presents the final results of the entire study that was conducted. The conducted research relates to financial reporting frauds in Malaysian publicly traded corporations. After gathering all the information, it became evident that Malaysia is one of the nations dealing with a high number of financial reporting frauds in publicly traded corporations. This has become the point to worry for the investors and the pubic as a whole. There have been some collapses which was due to the directors of the companies being involved in the manipulation of the financial statements for their personal benefits. Not only this but there have been too much abuse of the powers observed by the senior personnel and ineffective corporate governance structure is one of the major reason of the frauds.

There have been no proper structure of corporate governance which has caused the issue to be major and now almost every company is convicted of doing so. There is the absence of the audit committee and segregation of duties so very easy to manipulate the things around them as no one is accountable. Moreover the independence of the external auditor is also has become the question mark because in the past it is also seen that auditor and directors together being involved in the manipulation. So the fastest increasing trend of fraud in the financial reporting is decreasing the trust and reliance of the public and investors on the company's management and now most of the investors have ceased investments in the public companies.

### *Recommendations*

This is the second section of this chapter and very much important because it includes the specific recommendation which would be helpful in reducing the financial statement frauds in the public listed companies. Because from the complete analysis of the findings it has been identified that major issue with all the companies is the absence of effective corporate structure in the management which has led the frauds to high. Initially it is necessary that corporate governance structure must have to be applied to the companies in order to change the culture of fraud. The application of only corporate governance is not the only thing which is required but the contribution towards making it effective is mandatory. There must be a defined chain of command within the organization where every person has someone who is accountable to it. Accountability is the major element which can remove the frauds because lack of accountability allows the directors or other employees to commit fraud and manipulations because they have no one over them who could question.

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