

**FINANCIAL REPORTING RISK AND BUSINESS RISK ASSESSMENTS AS  
FRAUD DETECTION MECHANISM AND ITS IMPACT ON AUDIT PRICING**



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## 2. Letter of Offer

Surat Kami : 600-RMI/SSP/DANA 5/3/Dsp (259/2011)  
Tarikh : 6 Jun 2011

**Pn Wan Mardiyatul Miza Wan Tahir**  
Fakulti Perakaunan  
Universiti Teknologi MARA Cawangan Pahang  
26400 Bandar Pusat Jengka  
Pahang

Y. Brs. Profesor/Tuan/Puan

### KELULUSAN PERMOHONAN DANA KECEMERLANGAN 06/2011

Tajuk Projek : Financial Reporting Risk Assessment As Fraud Detection Mechanism  
And Its Impact On Audit Pricing  
Kod Projek : 600-RMI/SSP/DANA 5/3/Dsp (259/2011)  
Kategori Projek : Kategori F (2011)  
Tempoh : 15 Jun 2011 – 14 Jun 2012 (12 bulan)  
Jumlah Peruntukan : RM 5,000.00  
Ketua Projek : Pn Wan Mardiyatul Miza Wan Tahir

Dengan hormatnya perkara di atas adalah dirujuk.

2. Sukacita dimaklumkan pihak Universiti telah meluluskan cadangan penyelidikan Y. Brs Profesor/tuan/puan untuk membiayai projek penyelidikan di bawah Dana Kecemerlangan UiTM.

3. Bagi pihak Universiti kami mengucapkan tahniah kepada Y. Brs. Profesor/tuan/puan kerana kejayaan ini dan seterusnya diharapkan berjaya menyiapkan projek ini dengan cemerlang.

4. Peruntukan kewangan akan disalurkan melalui tiga (3) peringkat berdasarkan kepada laporan kemajuan serta kewangan yang mencapai perbelanjaan lebih kurang 50% dari peruntukan yang diterima.

Peringkat Pertama	20%
Peringkat Kedua	40%
Peringkat Ketiga	40%

5. Untuk tujuan mengemaskini, pihak Y. Brs. Profesor/tuan/puan adalah diminta untuk melengkapkan semula kertas cadangan penyelidikan sekiranya perlu, mengisi borang setuju terima projek penyelidikan dan menyusun perancangan semula bajet yang baru seperti yang diluluskan. Sila lihat lampiran bagi tatacara tambahan untuk pengurusan projek.

Sekian, harap maklum.

**“SELAMAT MENJALANKAN PENYELIDIKAN DENGAN JAYANYA”**

Yang benar

  
**DR. OSKAR HASDINOR HASSAN**  
Ketua Penyelidikan (Sains Sosial dan Pengurusan)

/RS/rsa

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## **5. Report**

### **5.1 Proposed Executive Summary**

(Original proposal)

Financial information that has being deteriorated by fraud will misled users. Hence, the main objective of this paper is to identify the association between five ratios of financial reporting risks to predict fraud. Furthermore, this paper also investigates the impacts of fraud detection on audit fee. Thus, sample of 10 of fraudulent companies and sample of 40 non fraudulent companies are being identified to achieve the objective. Stepwise logistic regression was being employed. The results clearly indicate that changes in sales, receivables and allowance for doubtful debts have significant effect of fraud detection. However, fraud detection gives no or little impact on audit fees.

## **5.2 Enhanced Executive Summary**

(Abstract of the research)

Financial information that has being deteriorated by fraud will misled users. Risk assessment approach to the audit is expected to provide a better basis for assessing indicator that might lead to financial statement fraud. In addition, high business risk of client, will lead to increased in auditor's business risk which may damage the reputation of auditor as professional auditing practices. Thus, more audits work to perform to avoid auditor's expected losses. Consequently, this supposes result in an increase on audit fee. Thus, this paper intends to develop a model to identify the relationship between risks (i.e. financial reporting risks and business risks) in fraud prediction and its impact on audit fee. Hence, five ratios represent measures of financial reporting risks and five ratios of business risk assessments being adapted to model. A sample of fraudulent companies and non fraudulent companies are being identified to achieve the objective. Stepwise logistic regression was being employed. The results clearly indicate that risks assessment entered in fraud prediction models and audit fee shown mixed results for both risks.