

ISLAM, ACCOUNTING AND FINANCE
CHALLENGES AND OPPORTUNITIES
IN THE NEW DECADE

Norhayati Mohd Alwi | Sherliza Puat Nelson



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ACCOUNTING AND FINANCE:
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IN THE NEW DECADE**

**Editors:
Norhayati Mohd Alwi
Sherliza Puat Nelson**



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CHAPTER 8

FRAUDULENT FINANCIAL REPORTING IN MALAYSIA: A BASIC ANALYSIS

Sherliza Puat Nelson

1. Introduction

Previous studies have shown the significant role of the board of directors, as a body accountable for ensuring good governance, and audit committees that act as an important mechanism in corporate governance, and have an important role in ensuring the financial reporting quality. There are still avenues for research on board characteristics and financial reporting quality, which motivates the current study to investigate board characteristics and financial reporting quality.

The purpose of this research is to examine the differences between fraud and non-fraud firms, from the aspect of the board and firm characteristics. Fraud may come in different forms, such as, fraud is said to occur with an intention to conceal or benefit certain parties. Many companies face occupational fraud and abuse that involve a wide variety of conduct by executives, employees, and managers, ranging from sophisticated investment swindles to petty theft. However, the common violations are usually corruption, asset misappropriation and fraudulent statements. Subsequently, fraud for or against a company can take the form of fraudulent financial reporting. Studies on board characteristics and fraudulent financial reporting are still infant, hence, motivating the current study to contribute to the current literature.

2. Literature Review and Hypotheses Development

Issues on corporate governance have grown considerably since the 1970s, starting from financial reporting and evolving to fraudulent financial reporting. Until recently, corporate governance had expanded from listed companies to mutual funds and to more common finance subjects such as leverage and liquidity. The board's role and composition have always been the key issues in corporate governance, since they are among the parties that are involved in corporate governance (Cohen et al., 2004; Rezaee; 2003).

Current research on board composition has always sparked the interest of researchers as they represent the shareholders in the organisation, and monitor the resources of the organisation. The focus on board of directors has been well researched since the 1980s (see Hermalin and Weisbach, 1988; Beasley, 1996; Peasnell et al., 2005), followed by audit committees that gained interest in the US, UK and also Asian countries.