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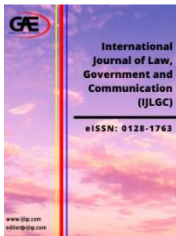

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CORPORATE GOVERNANCE AND FRAUDULENT FINANCIAL REPORTING AMONG MALAYSIAN PUBLIC LISTED COMPANIES

Moganasundri Devarajar[1], Muhammad Shabir Shaharudin[2], Anwar Allah Pitchay[3], Hasnah Haron[4], Yuvaraj Ganesan[5*]

[1] Graduate School of Business, Universiti Sains Malaysia, Malaysia
[2] Faculty of Industrial Management, Universiti Malaysia Pahang, Malaysia
[3] School of Management, Universiti Sains Malaysia, Penang, Malaysia
[4] Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, Malaysia
[5] Graduate School of Business, Universiti Sains Malaysia, Malaysia
Email: yuvaraj@usm.my
[*] Corresponding Author

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Abstract:

Financial reporting is essential for the publicly listed companies as most of the company's stakeholder depended on the financial statement to make a business decision. Although many initiatives have implemented by relevant authorities to enhance financial reporting standards to overcome the fraudulent financial reporting (FFR). However, the issues still happening, for example, cases such as 1MBD, Lembaga Tabung Haji (LTH), Wirecard AG and British Home Stores (BHS). The paper aimed to investigate the impact of corporate governance (CG) attributes, namely audit committee size, board independence, multiple directorships, board size and non-audit services on FFR. This study is categorised as a crosssectional analysis, using a quantitative approach to gain an overview of fraudulent financial reporting. A total of 260 listed companies selected from Bursa Malaysia and the data was analysis used PLS-SEM. The findings revealed that the multiple directorships and non-audit service impact significantly related to FFR. This study made practical implications by helping the regulators, and accounting experts develop principles that help companies comply with financial reporting regulation. Accurately report the financials statement enhances stakeholder's knowledge in the decision-making process.

Keywords:

Fraudulent Financial Reporting, Corporate Governance, Benish M-Score, Non-Audit Services

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Introduction

Fraud attracts more concerns to stakeholders, regulators, auditors, and the public (Kassem & Higson, 2012). Fraudulent is a view as an act of tactical deception or fraud that can be committed against investors, creditors, consumers, or government agencies (Zhu & Gao Simon, 2011). Fraudulent Financial Reporting (FFR) (also called management fraud) refers to management behaviour that tends to manipulate the profits/loss or other assets or expenses by deliberately overstating/understating in financial reporting. FFR leads to substantial damages and distortion of confidence in the financial reporting system and leads to inaccurate decisionmaking. Therefore, early identification and prevention of financial fraud are necessary.

The global downfall of significant companies like WorldCom, Enron and Cadbury, Oceanic Bank, Intercontinental Bank reveals the effect of top management fraud (Moses, 2019). The 15th Global Fraud Survey has shown that corruption and fraud cases never declined in the past two years. Surprisingly 38 % of respondents have experienced bribery/corruption in their own countries, while another 33% believe that fraud and corruption are a significant concern for their companies (EY, 2018). Moreover, the 2020 Global Study on Occupational Fraud and Abuse reports show that FFR is the most expensive fraud relative to asset misappropriation schemes. Meanwhile, in Malaysia, the corporate scandals such as Lembaga Tabung Haji (LTH), 1Malaysia Development Berhad (1MDB), Khazanah Nasional Berhad (KHAZANAH) and Felda Global Ventures (FGV) indicated that there are significant associations of fraud with weak corporate governance (CG) which related to unethical practices (Zainul Abidin, Hashim, Salleh, & Devi, 2019).

Fraud committed by top management shows a possible vulnerability in a company's corporate governance system as the process to monitor the CEO's wellbeing is put under the auspices of the board of directors (Moses, 2019). CG's essential roles are monitoring and controlling the organisation's management and business operations, including financial monitoring and controlling. Further, the weak CG structures can lead to inadequate internal controls that give the top executives opportunity to commit fraud (Moses, 2019). Meanwhile, the effective frameworks of CG can reduce the risk of corporate fraud if able to recognising the vulnerabilities in external and internal controls (Da Costa, 2017). The board of directors (BOD) is a vital CG component as views in agency theory (Tao & Hutchinson, 2013). In addition, past study reveals that BOD, as core elements of CG have an essential role in controlling the firms' business performance (Shukeri, Shin, & Shaari, 2012). The board members' characteristics influence the board's capability to oversee and control supply information, guide the midmanagement, and ensure compliance to laws and regulations while syncing up the company stakeholders (Carter, D'Souza, Simkins, & Simpson, 2010).

On the other hand, the Malaysian Code on Corporate Governance (MCCG) also emphasises Audit Committee (AC) responsibility. AC's key functions are offering impartial judgment on functional fields such as the external and internal auditing, legal processes, risk management and financial management of a company (Kuan, Pitchay, Ganesan, Haron, & Hendayani, 2020) The AC is critical to ensure that the business is well run and protects stakeholders' interests by providing significant transparency in financial statements, internal controls and risk management that affect the FFR via audit quality (Kuan et al., 2020). Furthermore, previous literature stated that non-audit services (NAS) auditors could affect FFR through the standard of auditing and compromise auditor independence. This is because the auditor and the management develop an economic partnership during the rendered NAS (Ganesan, Narayanan,

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Haron, & Allah Pitchay, 2019). In many matters, the auditor will influence the company's decision as his position has shifted from an independent auditor to an internal consultancy. The auditors' judgment may be impairing as the auditor performs different functions for the business through NAS. For example, the BHS case whereby the partner only spent two hours reviewing the audit work and issue an unqualified report affected the financial reporting (Ganesan, Narayanan, et al., 2019). Good corporate governance ensures an organisation's proper management for the benefits and protects the interest of shareholders and as a whole for stakeholders. Therefore, this paper investigates the relationship between CG components (board size, audit committee, board independence, non-audit service, multiple directorships) and fraudulent financial reporting among publicly listed companies in Malaysia.

The remaining of this paper is structured accordingly. Firstly, address the literature review and then address the theory, accompanied by the research framework and hypothesis. The next item was research methods and data analysis. Then follow through results and discussions on the findings. Lastly, explain the study's implications, limitations and suggestions for future studies and conclusion.

Literature Review

Fraudulent Financial Reporting

Material misstatement that was intentionally reported in the financial statement is fraudulent financial reporting (FFR) (Tayo & Olayeye, 2019). FFR commonly involves complicated methods of misusing allocation, overstating or understating income, assets value, expenses, and reporting liabilities (Yusof, 2016). Misstatements may also be correlated with deliberate mischaracterisation or failure to record real transactions, accounting practises or other relevant details fairly and reliably (Zam, Pok, & Ahmed, 2014). Commonly most accounting and finance literature explains fraud from personal and organisational perspectives. The fraud is classified as senior managers' act when he/she is willing to deceive other parties about the actual value of the transactions, assets, or financial positions of the company (Beasley, 1996). There are many fraud detection measurement or technique researched by academics and used by professionals. The fraud measurement between Beneish model mathematical approach vs Benford's Law Computer-based fraud detection approach is analysed (Aris, Othman, Arif, Malek, & Omar, 2013). Similarly, Altman Z-Score, which was set up in 1968 by Edward I. Altman, was used for further research to forecast companies' failure (Aris, Arif, Othman, & Zain, 2015).

Corporate Governance (CG)

CG is a system that indicates the direction between management, its boards, its shareholder and stakeholders in providing a proper structure to achieve the organisation's objectives and its progress for the organisation's optimal performance (Wong, Ganesan, Pitchay, Haron, & Hendayani, 2020). Shareholder appoints the board of directors to be a key person in influencing corporate governance. Acceptable corporate governance practices possess its characteristics that emphasise accountability, transparency and responsibility within the stakeholders (Wong et al., 2020). A firm is directed and controlled by the CG to create value for the organisation and shareholders (Yasar, 2013). Meanwhile, Norwani, Zam, and Chek (2011) explained that CG became an essential element when big companies collapsed due to fraud. In this way, the loopholes and shortcomings in CG have led to improvements in laws and regulations. The most robust approach to CG problems is sought in countries worldwide (Kalyani, Mathur, & Gupta,

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2019). In CG, several committees need to be formed by following the MCCG requirement, namely the nominations committee, audit committee and remuneration committee, and the optional risk committee (Yeoh, Ganesan, Pitchay, Haron, & Hendayani, 2019).

Theory

Agency theory is a significant view affecting CG development in a company (Machado & Gartner, 2018). The principal-agent relationship is essential since it illustrates the idea of both the agents and the principals behaving in an aligned to the principal's best interest. Furthermore, the competing desires between the agents and principals are explained in agency theory. The core problem is a principal-agent relationship with a significant moral hazard and an intense selection-motive (Ghafoor, Zainudin, & Mahdzan Nurul, 2019). Principals have personal gain to enhance their wealth by investing their money and expecting high ROI (Smith, 2010). Per the agreed contract, agents are responsible for protecting and managing principals' interests, while principals have responsibility for rewarding the agents' performance. Despite the agreement, agents also have a personal interest in improving their wellbeing and will execute many ways to increase their financial performance to gain more appreciation from principals. Eventually, this will include the agents to commit fraud.

From the principal perspective, there is a potential of doing "false contract" with the executive side because it has discretionary power (Bulloch, 1985). Interest conflicts between agents and principles trigger the agency problem that will jeopardise reported earnings quality. An agent with self-interest will lead to issues in terms of agency costs. However, lack of information or managerial skill deficits also contributed to agency costs. Two main approaches to minimise agency problems are transparency and monitoring (Machado & Gartner, 2018). Transparency mechanisms help identify the necessity to disclose appropriate information for the stakeholders to review the management of the companies' resources. Thus, the boards of directors will take responsibility for the monitoring role and ensure managers' and investors' interests. CG introduced to assure maximising the firm value and protection to the stakeholders (Shireenjit, Kaur Johl, Subramaniam, & Cooper, 2013), while disclosures, being the monitoring mechanisms, help mitigate the agency conflicts.

Theoretical Framework

The research used one dependent variable (DV), five independent variables (IV) and two control variables (CV). The focus of the study is on the relationship between CG components and FFR. Firm size and profitability are the control variable included in the framework.

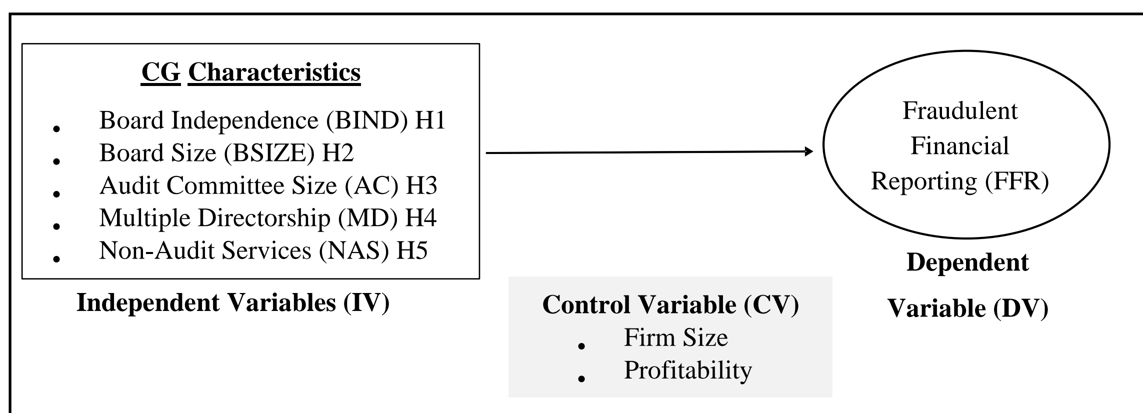

Figure 1: Theoretical Framework

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Hypotheses Development

Board Independence and FFR

The board would be more independent with the involvement of a larger number of external directors who are not personally engagements in corporate transactions with the organisation, involved with the company management and no ownership of shares (Ganesan, Hwa, Jaaffar, & Hashim, 2017; Ganesan, Poongan, & Haron, 2019). In Malaysia, the Board of Directors should preferably consist of half independent directors, but most directors must be independent directors for big corporations (Yeoh et al., 2019). The independent director's term shall not exceed nine years to ensure the board's independence (SCM, 2017). A well-structured board is an essential governance tool which influences the managerial decision in the current competitive business environment (Srinidhi, Gul, & Tsui, 2011). The existing corporate governance theories, including agency theory, stated board independence as an essential ingredient to achieve statutory board responsibilities (Hoitash, 2011). Besides, the board of independent directors plays a critical role in the supervision and enhancement of corporate reputation while ensuring a strong governance framework (Yeoh et al., 2019). According to the agency theory, the existence of more independent directors within the board will allow the board to track the organisation's overall performance and function well under the control and processes of the agency administrators, assuming that by default managers are opportunistic and individualistic (Ali & Nasir, 2018). Further, the board independent have incentives to safeguard the shareholders' interests (Hundal, 2017). Agency theory suggested that the board with the more independent director will ensure effective monitoring of company activities while meeting stakeholders' needs. Nevertheless, past researchers found that independent directors' knowledge and expertise tend to provide better business decisions (Ferris Stephen & Liao, 2019). Thus, below hypothesis concluded:

H1. Board independence affect the fraudulent financial reporting negatively

Board Size and FFR

The board's size refers to the total number of board directors and plays a crucial role in assessing an entity's success (Yeoh et al., 2019). The directors of the board are responsible for setting and implementing strategic goals and plans. The same statement had suggested by the author where the board members can take decisions as they are in a higher position in a company (Ganesan et al., 2017; Salem Alzoubi & Selamat, 2012). Some prior scholarly research also indicates a mixed opinion. Furthermore, managing smaller boards is more comfortable than a larger board and promotes effective communication among the directors (Salem Alzoubi & Selamat, 2012). Another mixed finding from prior research stated that larger boards are less efficient due to poorly coordinated members and a greater probability of free-rider related problems (Dimitropoulos & Asteriou, 2010). Nevertheless, there is a possible cost increase and boardroom dispute and controversy if the board size is significantly significant. Few studies suggested adding more board members will lead to frequent communication issues; thus, resulting in an insufficient divulgence (Said, Hj Zainuddin, & Haron, 2009). Therefore, the advantages of having a large board are offset by the challenges seen on coordination. Another research underlines the importance and success of business efficiency according to a minimum number of managers with enough experience and skills to effectively complete the tasks (Shakir, 2008). However, several mixed findings of board size research suggest that smaller boards are more efficient because they can be managed easily. Managers should interact efficiently and minimise possible misunderstandings (Ali & Nasir, 2018).

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Adeyemi and Fagbemi (2010) claim that larger boards are less effective because they require a longer coordination process among board members than smaller board members. This statement can further elaborate that a smaller board may make it easier to focus, encourage other director's involvement, and facilitate real and active discussion. The optimal board size should not be more than eight directors (Yeoh et al., 2019). Larmou and Vafeas (2010) argued that too big or too small board sizes might be ineffective. This argument believes that there is less accountability for larger size board and too many responsibilities smaller size board. Although there are different attempts to enhance the efficacy of corporate governance systems in Malaysia, the research expects these efforts to lead to a more credible financial reporting system. Thus, the hypothesis is:

H2. The board of directors size negatively affect fraudulent financial reporting

Audit Committee Size and FFR

Previous studies argued that the audit committee's size is a crucial CG tool (Kuan et al., 2020). In reality, all listed companies have had at least three independent audit committee members as the requirement for listing in New York Stock Exchange and NASDAQ's (Tayo & Olayeye, 2019). In Malaysia, publicly listed companies require a similar audit committee size, at least three (SCM, 2017). Few studies also showed no effect size of the audit committee on earnings management occurrences and accounting manipulation (Mohd Saleh, Mohd Iskandar, & Mohid Rahmat, 2007; Xie, Davidson, & DaDalt, 2003). Nevertheless, audit committees' involvement is a crucial way to strengthen companies' financial reporting standards (SCM, 2017). Meanwhile, the larger committee contains varied expertise, which scrutinises and monitors financial reporting practices thoroughly (Jeon, Choi, & Park, 2004). Further, Karamanou and Vafeas (2005) also supported those more prominent audit committees with a broader knowledge base; however, they are likely to be affected by process losses and dissemination of responsibility. Thus, below hypothesis concluded:

H3. Audit committee size has a negatively influence fraudulent financial reporting.

Multiple Directorship and FFR

Directors with multiple board positions are in one of the best positions to judge and provide an opinion to the relative quality of internal and external audits due to their experiences with various service providers and multiple sectors (Clements, Neill, & Wertheim, 2015). It allows them to advise on and perhaps contribute to selecting the most appropriate auditor for companies on whose boards they sit. Directors with multiple directorships tend to have wider networks or connection, which expected to generate benefits to the organisation (Ferris Stephen & Liao, 2019). According to agency theory, multiple directorships determine corporate governance's efficacy because it provides advice based on valuable experiences across numerous sectors and/or regulatory requirements (Clements et al., 2015).

Besides that, the multiple directors usually to contribute to financial reporting efficiency by obtained their expertise and skills from sitting on another board of the company (Fich & Shivdasani, 2012). With multiple directorships assist the directors in encouraging several best practices and policies adopted from the company he/she sits in as board members with the exchange of experiences, knowledge, enhanced co-operation, skills and business relationships. On the other hand, Haniffa and Hudaib (2006) suggested that multiple directorships are counterproductive to controlling operations as board members will not have time to do so due

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to busy as sits in many boards of directors. Sharing this knowledge with boards of other companies on which they sit reduces the costs of evaluating potential auditors' strengths and weaknesses. Hence, the hypothesis concludes as below:

H4. Multiple directorships positively influence fraudulent financial reporting.

Non-Audit Service and FFR

The non-audit services (NAS) refers to the advisory on tax planning, recommendation to design and implement financial IT structure, other regulatory financial services and tax services provide by the external auditors (Bell, Causholli, & Knechel, 2015; Ganesan, Narayanan, et al., 2019). Past literature has argued that an offering NAS by external auditors will impair their independence (Abdul Wahab, Gist, & Nik Abdul Majid, 2014; Ganesan, Narayanan, et al., 2019). On Malaysia, several corporate frauds have shown negative views on external auditors in preventing fraud such as 1MDB, Transmile Bhd and Maxbiz Corp (Abdul Wahab et al., 2014). The external auditor's independence could compromise due to become financially dependent upon the customer and worry about the loss of profits while avoiding negative opinions. Consequently, the external auditor's ability to disclose any material wrongdoing is often diminishing (Abdul Wahab et al., 2014; Ganesan, Narayanan, et al., 2019). The NAS has remained a key policy concern in many nations. Therefore, the legislation's more stringent standards, for example, include a ceiling of 70 per cent of the audit fee for non-audit services (Zhang, Hay, & Holm, 2016). In the annual reports, the obligatory declaration of non-audit charges is used as an indicator to minimise opportunistic conduct by external auditors and assess the external auditor's activities (Zhang et al., 2016). This criterion has been internationally standard to preserve and maintain external independence for their clients' demands and needs (Abdul Wahab et al., 2014). Past studies have highlighted that NAS fees charged by the external auditor influence on financial reporting quality (Habib, 2012), abnormal of accrual (Antle, Gordon, Narayanamoorthy, & Zhou, 2006) and firm performances (Alshawish, Abed, & Hamdallah, 2015). Hence, the hypothesis is *H5.* Non-audit service positively effects on fraudulent financial reporting.

Research Methodology

In this research used a quantitative method to understand the scenario of FFR among the company listed at the Main Board in Malaysia. The unit analysis for this study is the organisational level. This study used secondary data for the analysis extracted from the selected companies' annual report 2018 and 2017. For the selection of samples for this analysis, the random sampling approach through Microsoft Excel features. SPSS and SmartPLS were used for analysing the data obtained at that time.

Model Beneish M-score used to measure fraudulent financial reporting in this study. The data collected from the organisation's financial statements calculate to produces an M-score that indicates how much the income has been manipulating. Beneish (1999) developed the M-score model to assess the likelihood of manipulation. Suppose the calculation value is above -2.22 for M-score. In that case, this gives way to a red flag showing a high probability that the company is a manipulator.

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In this research, Y is an FFR using the equations as below:

FFR = -4.84+(0.920×DSR)+(0.528×GMI)+(0.404×AQI)+(0.892×SGI)+(0.115×DEPI) - (0.172×SGAI) +(4.679×TATA)-(0.327×LEVI)

Table 1 shows a method for calculating the index components of the Beneish M-score based on (Beneish, 1999).

Table 1: The Formula for Applied to Compute the Beneish M-Score's Variables Indices

Days Sales in Receivables Index	**DSRI**	$\frac{Receivables_t/Sales_t}{Receivables_{t-1}/Sales_{t-1}}$
Gross Margin Index	**GMI**	$= \frac{(Sales_{t-1} - Cost\ of\ goods\ sold_{t-1})/Sales_{t-1}}{(Sales_t - Cost\ of\ goods\ sold_t)/Sales_t}$
Asset Quality Index	**AQI**	$= \frac{(1 - Current\ Assets_t + PP\&E_t)/Total\ Assets_t}{(1 - Current\ Assets_{t-1} + PP\&E_{t-1})/Total\ Assets_{t-1}}$
Sales Growth Index	**SGI**	$\frac{Sales_t}{Sales_{t-1}}$
Depreciation Index	**DEPI**	$\frac{Depreciation_{t-1}/(Depreciation_{t-1} + PP\&E_{t-1})}{Depreciation_t/(Depreciation_t + PP\&E_t)}$
Sales, General and Administrative Expenses Index	**SGAI**	$\frac{Sales, general\ and\ administrative\ expense_t/Sales_t}{Sales, general\ and\ administrative\ expense_{t-1}/Sales_{t-1}}$
Total Accruals to Total Assets	**TATA**	$\frac{\Delta Current\ Assets_t - \Delta Cash_t - \Delta Current\ Liabilities_t - \Delta Current\ maturities\ of\ LTD_t - \Delta Income\ Tax\ Payable_t - Depreciation\ and\ Amortizationt_t}{Total\ assets}$
Leverage Index	**LVGI**	$\frac{(LTD_t + Current\ Liabilities_t)/Total\ Assets_t}{(LTD_t + Current\ Liabilities_{t-1})/Total\ Assets_{t-1}}$

Table 2: Measurement Variables

Variables	Measurement
Fraudulent Financial Reporting	Beneish M-Score model. (Beneish, 1999)
Board Independence	"BIND": The number of independent directors to the board size (Ganesan et al., 2017)
Board Size	"BSIZE": Number of directors on the board. (Wong et al., 2020)
Audit Committee Size	"AC": The total number of AC members that disclosed in the Annual report (Kuan et al., 2020).
Multiple Directorship	"MD": The number of directors who serve on more than one board to the board size Ferris Stephen and Liao (2019).
Non-Audit Services	"NAS" Measured by non-audit service fees (Ganesan, Narayanan, et al., 2019)

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Profitability	"ROA": Return on assets is the percentage of profit after tax over total assets of a company (Ganesan, Poongan, et al., 2019).
Firm Size	"FSIZE": Natural log of companies' total assets reported in annual reports (Ganesan et al., 2017).

Results

The data analysis in Smart PLS 3.0 shows that the maximum variable inflation factor (VIF) in this study range of 1.204 to 1.808 indicates no harmful correlation exists and not subject to multicollinearity problems. These findings are more reliable as the VIF value drop lower than 3 (Hair Jr, Hult, Ringle, & Sarstedt, 2016). Meanwhile, the R^2 is 0.138, representing that 13.8% of the CG characteristics can explain FFR.

Table 3: Hypothesis Testing

Hypotheses	Relationship	Std. Beta (β)	Std. Error	t-value	Pvalue	Decision	VIF	R^2	Q^2
H1	BIND -> FFR	0.046	0.073	0.632	0.264	Rejected	1.625	0.138	0.102
H2	BSIZE -> FFR	-0.017	0.076	0.223	0.412	Rejected	1.808		
H3	AC -> FFR	0.044	0.072	0.608	0.272	Rejected	1.294		
H4	MD -> FFR	0.233	0.044	5.251**	0.000	Accepted	1.204		
H5	NAS -> FFR	0.195	0.062	3.138**	0.001	Accepted	1.392		

Notes: significant level at 1-***p <0.01, *p <0.05,* tailed

Further, the results in table 3 reveal that Multiple Directorship (MD) (β=0.233, p<0.01) and Non-audit Services (NAS) (β=0.195, p<0.01) are positively significant with FFR. Therefore, H4 and 53 are accepted. Meanwhile, surprisingly board independence (BIND), Board Size (BSIZE) and Audit Committee Size (AC) are found does not have a significant impact on FFR. Hence, H1, H2 and H3 are being rejected. Besides, the research framework has predictive relevance as Q^2 value is 0.102 above zero. On the other hand, the control variable, namely firm size, was significantly affected the FFR, but profitability significantly impacted FFR.

Discussion

Companies must have strong corporate governance to thrive and sustain in the long term. However, recently the CG structure and corporate governance code are questionable due to many cases happening. For example, case 1MDB in Malaysia, Wirecard AG case in Germany and BHS case in the UK. Therefore, the study investigated the effect of CG components on FFR is essential and timely. Surprisingly, the results revealed that the board size, board independence, and audit committee size found no significant relationship with FFR. At the same time, non-audit services and multiple directorships positively effect on FFR.

Board independence is insignificantly towards to fraudulent financial reporting. The result is similar to finding by Hasnan, Rahman, and Mahenthiran (2014). The authors also raised questions on whether the directors really are independent or merely fulfilling the MCCG requirements. Li and Li (2008) have found that independent directors' role in controlling earnings management is unproductive with Chinese companies and that formal board structure reform cannot improve CG practices. Unexpectedly, BSIZE revealed its insignificant effect

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with FFR. The results indicate that size of the board does not increase the chances of FFR. The results in line with a study by Razali and Arshad (2014) in a different context. Further, this study also shows that the number of board members does not impact earnings management (Gulzar, 2011). Besides, this study's results indicate that AC size may not play any role in controlling and monitoring fraudulent of financial reporting. Mohd Saleh et al. (2007) found similar results and concluded that AC size does not affect the FFR. Some studies have found that AC size is mostly irrelevant for restricting earnings control and accounting fraud (Mohd Saleh et al., 2007; Xie et al., 2003).

On the other hand, the multiple directorships found had a positive relationship with FFR. The results may suggest that, with an additional directorship, director workloads that eventually contribute to less participation in board activities or directors tend to focus less. In other words, multiple directorships reduce the attention and time they assign to each board. The finding supports the meaning of the busyness theory because the more directorships directors have, the busier they are (Ferris Stephen & Liao, 2019; Fich & Shivdasani, 2012). They thus concluded that directors with multiple directorships are overwhelmed and have little time to supervise the respective businesses. H5 is supported as the finding depict that NAS positively influence the FFR. The result suggested that firms that engaging additional services with external auditor tends to do fraudulent activities. Similarly, managers make opportunistic use of this economic dependence, which allows the external auditor to comply with the client's financial reporting needs. It seems that companies buying more NAS from their existing external auditors have higher discretionary accruals (Frankel, Johnson, & Nelson, 2002).

Implications

This result will improve potential academic knowledge and awareness to concentrate more on fraudulent financial reporting by multiple directorships and non-audit services. Furthermore, the results could encourage both researchers and students in recognising the dynamic qualities of CG characteristics and the fraudulent relationship in financial reporting. The growing number of fraudulent cases would allow external users of published data to identify which businesses are vulnerable to corporate fraud and therefore help them take better decisionmaking on investments. This study gives strategic insight to accountants and auditors to educate policymakers in the amendment of the rules and regulations. Furthermore, this research assists the relevant authority bodies in reviewing and improving the current requirement or regulations related to corporate governance, mainly the multiple directorship and non-audit services as both variables can increase the FFR. For example, the authority can revise the current percentage of NAS income for audit companies from their clients' audits and relook the NAS that the auditor can provide for the audit client. Besides that, the Bursa Malaysia need to revise the regulations related to multiple directorships.

Limitation of the Study and Recommendation

This study's generalisation should be cautious as the data is cross-sectional and based only on specific periods. Alternatively, future researchers can further explore implementing panel data analysis, which consists of a cross-sectional and longitudinal study and includes other CG characteristics. Besides, future research scope can be broader by having non-listed companies as well.

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Conclusion

Financial fraud involves misleading reporting of company practises misleading investors intentionally. The impact of fraudulent financial reporting will be destructive against stakeholders' expectations and resulting from the businesses' collapse. Nevertheless, the manipulation scheme and fraudulent act are hard to identify well disguised by the offender. Hence, many tools established to help the exposure of fraud and Beneish M-score model used in this study to identified FFR. This study reveals that firms with more multiple directors prone to produce a fraudulent financial statement. Therefore, it vital for an independent director to perform his/her task well even withholding multiple directorships without being "free-ride concept" in the board. Aside results in this study suggested that the engagement with external auditors for NAS would promote the FFR by impairing the external auditor's independence. Therefore, the relevant authority needs to evaluate the current regulations correlated to the nonaudit services and fees and limit the multiple directorship hold by each director.

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