

The Hidden Nexus: Exploring Financial Determinants of Fraud in Malaysian Public Listed Companies

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ABSTRACT

Financial fraud remains a substantial threat in publicly listed firms in Malaysia, presenting dangers to investors, stakeholders, and the overall economy. This study examined the correlation between financial factors and the incidence of financial fraud in these companies. This study specifically investigated the influence of management performance ability (MPAB) and financial structure ability (FSAB) on the degrees of financial fraud (FFL). The study used a quantitative methodology to examine data from financial statements, corporate governance reports, and documented fraud cases in publicly listed corporations in Malaysia. The study utilised a Random Effect Regression model to address unobserved differences among organisations, resulting in more precise estimations of the effects of independent variables on financial fraud. The results demonstrated strong inverse correlations between both MPAB and FSAB and FFL, highlighting the crucial need of strong financial frameworks and efficient management in reducing fraudulent actions. This study emphasised the necessity for ongoing enhancements in financial structures and management methodologies to establish a corporate climate that is more open and responsible. These findings are essential for policymakers, corporate governance practitioners, and risk management professionals who want to improve the honesty and stability of financial markets, eventually promoting sustainable economic growth and strengthening investor confidence.

Keywords: Financial Fraud, management performance ability (MPAB), and financial fraud levels (FFL)

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INTRODUCTION

Financial fraud in publicly listed companies poses a significant threat to the integrity and stability of the financial market in Malaysia. Fraudulent practices not only erode investor trust but also inflict significant economic burdens on the economy. Instances of financial fraud can result in significant monetary losses for investors, impair the functioning of the market, and harm the reputations of the implicated companies. The interconnectedness of global financial markets amplifies this problem, as fraud can have far-reaching consequences that transcend national borders, impacting international investor confidence and the movement of financial resources.

Despite the introduction of numerous regulatory measures and corporate governance changes intended to mitigate financial fraud, these instances persist with worrisome regularity. The enduring presence of financial fraud indicates that current systems may be inadequate in effectively addressing the root causes. This persistent problem emphasises the necessity for a more comprehensive analysis of the fundamental financial factors that contribute to deceitful actions within publicly traded firms. Regulatory agencies and corporate governance frameworks need to constantly evolve in order to adjust to new difficulties and growing fraud schemes, guaranteeing strong protection for investors and stakeholders.

This study aimed to fill this significant void by examining the precise financial factors that impact the incidence of financial fraud in publicly traded companies in Malaysia. This research attempted to provide a more comprehensive understanding of how management performance ability (MPAB) and financial structure ability (FSAB) interact to either reduce or worsen fraudulent behaviours. The performance of management, which encompasses the efficacy of leadership and adherence to ethical standards, has a crucial impact in establishing the standards of behaviour within a corporation. Similarly, the robustness and clarity of financial systems are essential in establishing an atmosphere where fraudulent acts are less prone to happen.

Gaining insight into the relationship between these financial factors and financial fraud is crucial for devising more efficient tactics to combat such illicit actions. This research will provide significant insights to

policymakers, corporate governance practitioners, and risk management professionals, empowering them to develop more effective policies and procedures to improve the integrity and stability of the financial markets. Companies can enhance the transparency, accountability, and fraud resistance of their corporate environment by enhancing financial structures and management practices. This, in turn, can promote sustainable economic growth and increase investor trust.

PROBLEM STATEMENT

Financial fraud in publicly listed corporations presents a major obstacle to the honesty and reliability of global financial markets, and Malaysia is no exception. The chronic prevalence of financial fraud has extensive ramifications, such as undermining investor trust, tarnishing corporate images, and imposing significant fiscal burdens. Despite the implementation of many regulatory measures and corporate governance changes, instances of financial fraud persistently emerge, suggesting that the existing tactics may have been inadequate in effectively dealing with the underlying reasons for fraudulent conduct. Asmah and Atuilik (2021) argued that inadequate financial controls and governance systems played a significant role in facilitating financial fraud. They emphasise the urgent need to reevaluate and enhance these aspects.

The issue was exacerbated by the intricate and advanced nature of contemporary financial fraud schemes, which frequently surpassed the legislative systems intended to thwart them. Research conducted by Aviantara (2021) and Alazzabi et al. (2020) emphasised the significance of implementing strong financial control and management strategies to reduce the risk of fraud. Nevertheless, the ongoing occurrence of financial fraud cases in publicly listed firms in Malaysia highlights the need for a thorough investigation of the financial factors that contribute to these behaviours. This involves investigating the influence of management performance ability (MPAB) and financial structure ability (FSAB), which played a crucial role in determining the financial soundness of organisations.

The management performance capacity includes the effectiveness of leadership, ethical behaviour, and the application of strict oversight

measures. Efficient leadership has the potential to establish a robust ethical atmosphere within the company, thereby diminishing the probability of engaging in fraudulent conduct (Hassan et al., 2023). On the other hand, insufficient supervision by management and ethical failures could lead to a favourable climate for fraudulent activities. The objective of this study was to investigate the relationship between management performance and the occurrence of financial fraud in publicly listed firms in Malaysia. The study hoped to provide valuable insights on how leadership and governance procedures might be improved to prevent fraudulent actions.

The financial structural ability, however, encompasses the strength of financial controls, the clarity of financial reporting, and the efficiency of audit procedures. A study conducted by Athira & Ramesh (2024) and Atayah et al. (2024) indicated that robust financial systems play a crucial role in reducing fraudulent activities by fostering openness and accountability. Nevertheless, a significant number of Malaysian publicly listed companies are still deficient in the full financial systems required to effectively prevent fraud. This study aimed to evaluate the impact of FSAB on levels of financial fraud, with the objective of identifying the key components of financial structure that could effectively mitigate the risk of fraud. The research thoroughly analysed these factors to gain a comprehensive understanding of how financial and managerial practices influenced fraud prevention. This knowledge was then used to develop more efficient corporate governance laws and practices.

LITERATURE REVIEW

The Agency Theory and Financial Fraud

The Agency Theory provides a basic perspective for comprehending the interplay between the capability of financial structure and the occurrence of financial fraud in organisations. According to Jensen & Meckling (2000), the corporate structures that include a separation of ownership and control often result in conflicts of interest between shareholders (the principals) and managers (the agents). Managers may participate in acts that prioritise their own interests over those of shareholders, including engaging in fraudulent behaviour. This imbalance becomes especially evident when managers have

the chance to alter financial facts for their own benefit. In order to address these issues with the agency, it is crucial to have strong and comprehensive financial structures. These frameworks improve openness and accountability by closely monitoring and aligning managerial activities with shareholder interests. By cultivating a culture that places a high value on financial honesty, firms can greatly diminish the likelihood of fraudulent actions carried out by self-interested management.

Empirical research constantly confirmed that robust financial controls play a crucial role in reducing financial fraud. Hashim et al. (2020) presented strong evidence indicating that companies with inadequate financial controls and governance systems are considerably more vulnerable to fraudulent actions. Their research emphasised that insufficient financial supervision provides managers with opportunity to commit fraud without being detected. Furthermore, Mandal & S, (2023a) have shown that implementing strong internal controls and thorough audit processes are crucial in decreasing the probability of fraud. These systems guaranteed that financial actions are clear and undergo thorough examination, therefore aligning the interests of managers and shareholders. The results of these research emphasised the significance of establishing strong financial structures within companies. These frameworks not only prevented fraudulent behaviour but also improved overall company governance, leading to a more stable and reliable financial environment. Hence, it is imperative for organisations that aspire to maintain integrity and prevent financial wrongdoing to strengthen their financial supervision and governance frameworks.

Fraud Diamond Theory

The Fraud Diamond Theory, proposed by Wolfe and Hermanson in 2004, offers a more comprehensive framework for comprehending the dynamics behind financial fraud, building upon the conventional Fraud Triangle. This theory includes a fourth component, namely capability, in addition to pressure, opportunity, and rationalisation. Capability encompasses the inherent qualities and skills possessed by an individual that empower them to engage in fraudulent activities. These qualities may include their position, intelligence, confidence, and access to the required resources. The presence of capability emphasises that fraud is unlikely to occur unless the perpetrator possesses the necessary skills and resources,

even if there is pressure, opportunity, and rationalisation. Within the scope of this research, robust financial frameworks are crucial for minimising the chances of fraudulent actions by guaranteeing that financial operations are transparent, closely supervised, and subjected to stringent internal regulations. Robust financial frameworks decrease the probability of persons finding opportunities to engage in fraud, hence addressing a crucial part of the Fraud Diamond.

Empirical evidence supported the validity of the Fraud Diamond Theory in modern business environments. Sahla & Ardianto (2022) and Uygur & Napier (2024) offered substantial evidence in favour of the theory, showing that companies that have robust financial controls and ethical management practices are far less prone to financial fraud. These findings suggested that strong financial systems not only reduce the chances of fraud but also weaken the abilities of potential fraudsters by implementing strict supervision and accountability procedures. Examples of measures that improved the identification and prevention of fraudulent acts include thorough internal controls, frequent audits, and transparent financial reporting. Companies can effectively decrease the occurrence of fraud by creating an atmosphere that promotes ethical standards and maintains strict managerial monitoring. This approach is highly applicable to the present study, since it emphasises the need for Malaysian publicly listed firms to establish and uphold robust financial frameworks and management practices in order to reduce the risk of financial misbehaviour. Hence, the Fraud Diamond Theory offers a beneficial perspective for comprehending the intricate aspects of fraud and highlights the crucial significance of competence in carrying out financial fraud.

Alignment of Agency Theory and Fraud Diamond Theory

In the context of this study, the integration of the Agency Theory and the Fraud Diamond Theory provided a comprehensive theoretical framework to explain the multifaceted nature of financial fraud within Malaysian publicly listed companies. As articulated by Jensen and Meckling (2000), the Agency Theory had long highlighted the inherent conflict of interest that emerged due to the separation between ownership and control in corporate settings. This conflict often manifested when managers, acting as agents, pursued actions that prioritized personal gain at the expense of

shareholders' interests. Within the scope of this research, such misalignments became particularly evident in firms where management performance ability (MPAB) was weak. Ineffective leadership, poor ethical guidance, and inadequate managerial oversight created a permissive environment for fraudulent behavior. While the Agency Theory successfully explained the motivational incentives for fraud rooted in structural weaknesses and governance failures, it lacked sufficient explanatory power to address the operational execution of fraud at the individual level.

To overcome this limitation, the study employed the Fraud Diamond Theory, which enriched the analytical framework by introducing capability as the fourth dimension in addition to pressure, opportunity, and rationalisation. The notion of capability referred to an individual's specific competencies, access, and authority to exploit systemic loopholes. Within the Malaysian corporate landscape, the study found that even with financial pressures and exploitable control weaknesses, which were conditions partially explained by the Agency Theory, fraudulent acts were unlikely to materialise unless individuals possessed the requisite capability to execute them. This included a blend of intelligence, confidence, positional power, and knowledge of the financial system. The study confirmed that capability played a critical role in transforming incentive-based fraud risks into tangible actions, thereby bridging the conceptual gap between structural enablers and behavioural execution.

The integration of both theoretical perspectives was particularly salient in explaining the study's empirical findings. Quantitative analysis, conducted through Random Effect Regression on a pooled sample of 353 Malaysian public listed companies, revealed significant negative relationships between both financial structure ability (FSAB) and management performance ability (MPAB) with financial fraud levels (FFL). These findings validated the assumptions of the Agency Theory by demonstrating that poor governance structures and inadequate managerial oversight correlated with elevated levels of fraud. At the same time, the importance of individual-level capability, as posited by the Fraud Diamond Theory, was implicitly reflected in the variation across firm-specific factors. The idiosyncratic effects highlighted in the model suggested that fraud risk was not merely a function of structural weakness but was also shaped by internal actors who possessed the knowledge and discretion to override or circumvent financial controls.

The alignment of the Agency Theory with the Fraud Diamond Theory allowed for a more nuanced and multi-dimensional interpretation of financial fraud risk. While the Agency Theory underscored the systemic and institutional sources of misalignment, the Fraud Diamond Theory brought attention to the individual traits and situational conditions that enabled the actual perpetration of fraud. This dual-theoretical perspective reinforced the study's central proposition that robust financial structures and high-performing management systems were essential in not only deterring agency conflicts but also in neutralizing the conditions that could empower fraudulent actions. By demonstrating that both governance design and individual capability must be simultaneously addressed, the study offered critical implications for policy reform, corporate oversight practices, and fraud risk management strategies aimed at enhancing financial integrity across Malaysia's capital market landscape.

Management Performance and Fraud Prevention

Efficient management performance is essential in deterring financial fraud, as it cultivates an organisational culture that naturally inhibits fraudulent conduct. Ethical leadership is crucial in establishing the overall ethical climate inside an organisation, ensuring that ethical principles are deeply ingrained at all levels. Brenya Bonsu et al., (2022) emphasised the significance of managerial performance in fostering a culture of honesty and accountability. This fundamental element of corporate governance guarantees that ethical principles are not only formulated but also strictly implemented. Within the scope of this study, it was particularly pertinent to examine the performance of management in publicly listed companies in Malaysia. Implementing efficient management strategies can greatly improve the business culture, hence decreasing the probability of fraudulent activities by fostering ethical conduct and responsibility throughout the entire organisation.

Maulidi's (2022) research revealed that companies with efficient management and robust leadership were significantly less prone to involvement in financial fraud. The study highlighted the need of effective managers using rigorous monitoring systems and ethical principles that function as deterrents to fraudulent behaviour. The oversight methods consisted of periodic internal audits, strong compliance programmes, and

a well-defined code of conduct that was effectively communicated and enforced across the organisation. Jancsics et al. (2023) and Konak (2023). Through the implementation of these measures, management guaranteed the timely detection and resolution of any suspected fraudulent behaviour. Implementing a proactive strategy for preventing fraud was crucial in order to uphold the confidence of investors and stakeholders, consequently strengthening the overall stability and integrity of the financial market.

Moreover, a high level of managerial performance is frequently associated with exceptional decision-making procedures and efficient risk management strategies. In their study, Mandal & S (2023) discovered that organisations with strong management structures are more capable of recognising and addressing hazards, such as the danger of financial fraud. Competent managers have the ability to identify possible vulnerabilities within the organisation and execute strategies to rectify these flaws (Hauashdh et al.2024) and Singh & Goyal, (2023). This involved creating an open and honest reporting atmosphere in which employees are motivated to report any questionable actions without worrying about facing negative consequences (Asfoor,2024) and Murphy & Asfoor.2024). Enhancing managerial performance within Malaysian publicly listed companies can result in enhanced decision-making capabilities and a heightened focus on ethical conduct. This not only aids in mitigating financial fraud but also enhanced the long-term viability and triumph of the organisation (Kaur et al., 2022) and Srivastava, (2023). Hence, it is crucial to prioritise the improvement of management performance in order to establish a corporate climate that is resilient to fraud and fosters sustainable economic growth and investor trust.

Empirical Evidence on Financial Structure and Fraud

The relationship between the ability of financial structures and financial fraud has been the subject of substantial empirical research, which has continuously shown the crucial role that solid financial frameworks play in minimising fraudulent actions. Based on their findings, Rizwan and Chughtai (2022) discovered that the chance of financial fraud was greatly increased when there were inadequate financial controls and governance systems. Their research indicated that when financial supervision measures were weak, opportunities for fraudulent behaviour doubled. This was

because the absence of transparency and accountability produced a climate that was conducive to manipulation and dishonesty, which in turn increased the likelihood of fraudulent behaviour occurring. Because it highlighted the importance for publicly traded companies in Malaysia to have strict financial controls in order to limit fraudulent actions, this finding was particularly pertinent to the study that is now being conducted. Companies are able to ensure that all financial transactions are monitored and scrutinised by creating comprehensive financial supervision policies. This helps to reduce the likelihood of fraudulent behaviour occurring within the company. Specifically, Wronka (2021) and Chatterjee et al. (2024).

Furthermore, Mandal and S (2023) have shown that businesses that had comprehensive financial frameworks were significantly better suited to detect and prevent fraudulent actions. This discovery provided further confirmation of the findings presented here. According to the findings of their research, robust financial systems, which included internal controls, regular audits, and transparent reporting, served as significant obstacles against fraudulent activities. The use of these techniques not only discouraged those who could commit fraud by increasing the possibility that they will be discovered, but they also fostered a culture of honesty and responsibility inside the organisation de Souza-Daw and Ross,(2021) and Mandal and S. (2023). Through the use of this empirical evidence, the idea that financial structural ability had a negative influence on financial fraud was supported, so establishing it as a fundamental component of effective fraud prevention technique. In the context of publicly traded companies in Malaysia, the implementation of such comprehensive financial frameworks is absolutely necessary for the purpose of boosting corporate governance and protecting against financial malfeasance. According to Alghamdi et al. (2024) and Chanchaichujit et al. (2024), organisations that want to cultivate a corporate climate that is both transparent and resistant to fraud should make the establishment of robust financial structures a top priority.

The literature that was examined for this study highlighted the significance that financial structure ability and management performance ability have in reducing the risk of financial fraud inside an organisation. Theoretical frameworks such as the Agency Theory and the Fraud Diamond Theory offered a solid basis for comprehending the connections between these entities. The Agency Theory draws attention to the conflicts of interest

that exist between shareholders and management, which, if not controlled appropriately, can result in fraudulent behaviour. This is expanded upon by the Fraud Diamond Theory, which places an emphasis on the additional role that capability plays in the commission of fraud. The importance of strong financial frameworks and efficient management techniques in lowering the likelihood of unethical financial behaviour is further supported by empirical evidence derived from a variety of studies. The conclusions presented here are especially pertinent for policymakers, practitioners of corporate governance, and specialists in risk management who are primarily concerned with increasing the integrity and stability of financial markets. Businesses could build a more transparent and responsible environment that discourages financial fraud by making the improvement of financial structures and management practices a priority. This, in turn, promotes sustainable economic growth and boosts investor confidence.

Hypothesis Development

The theoretical frameworks and empirical evidence that emphasised the relationship between financial structure ability, management performance ability, and financial misconduct were crucial in the development of hypotheses for this study. The Agency Theory was one of the foundational theories that was relevant. It posited that the separation of ownership and control in corporations could result in conflicts of interest between shareholders (principals) and managers (agents) Jensen & Meckling, (2000). Managers frequently engaged in fraudulent activities to achieve their personal objectives as a consequence of this misalignment of interests. Consequently, it was postulated that a substantial decrease in the prevalence of financial deception would result from an enhancement in the capability of financial structures. Transparency and accountability were improved by robust financial frameworks, which in turn diminished the likelihood of fraudulent activities. Therefore, the initial hypothesis was developed as listed below:

H1: There is a significant negative relationship between financial structure ability (FSAB_WIN) and financial fraud levels (FFL_WIN).

Empirical research has provided evidence that the ability of a financial structure has a negative impact on financial fraud. Rizwan & Chughtai

(2022) discovered that companies lacking robust financial controls and governance systems were more prone to engaging in financial fraud. This occurred due to the presence of vulnerable financial systems that allowed for the exploitation and hiding of fraudulent actions. In addition, strong financial frameworks facilitated enhanced surveillance and oversight procedures, which played a crucial role in deterring fraudulent activities. Companies that possess robust financial structures are more adept at identifying and thwarting fraudulent actions, thanks to their well-established procedures and controls that guarantee financial integrity and transparency (Beasley et al., 2000). Therefore, the well-documented negative correlation between the ability to structure finances and financial fraud served as a strong foundation for the first hypothesis.

The second hypothesis was based on the significance of managerial success in mitigating financial fraud. Efficient managerial strategies and principled leadership played a crucial role in cultivating an organisational environment that prevented deceitful conduct. Mandal and S (2023). Fraud, as per the Fraud Triangle Theory, arises when there is a convergence of opportunity, pressure, and rationalisation Cheliatsidou et al. (2021). Effective management performance has the potential to lessen the impact of these issues by establishing a work environment that upholds ethical standards and ensures rigorous managerial monitoring. Therefore, it was postulated that a greater proficiency in managerial performance would be correlated with reduced levels of financial fraud. The second hypothesis was expressed as:

H2: There is a significant negative relationship between management performance ability (MPAB_WIN) and financial fraud levels (FFL_WIN).

Empirical evidence has confirmed that managerial performance ability has a considerable negative effect on financial fraud. Maulidi's (2022) research revealed that companies with efficient management and robust leadership were less prone to involvement in financial fraud. Competent managers established rigorous monitoring systems and ethical standards that discouraged fraudulent behaviour. Furthermore, the presence of effective management generally correlated with improved decision-making procedures and risk management strategies, hence decreasing the probability

of fraudulent activities (Kassem, 2023). Thus, the idea that the ability of management performance has a negative impact on financial fraud is strongly supported by both theoretical and empirical research.

The initial hypothesis (H1) was based on the idea that strong financial systems served as a disincentive to fraudulent behaviour. The Agency Theory posits that robust financial controls and procedures in a corporation diminish the likelihood of managers engaging in fraudulent activities for personal benefit. (Jensen & Meckling 2000), contended that implementing robust financial supervision and rigorous financial reporting standards reduces the likelihood of financial fraud, therefore matching the interests of managers and shareholders. Empirical research, conducted by Wang et al. (2023), has demonstrated that organisations with robust financial frameworks are less susceptible to engaging in financial misbehaviour, hence confirming the premise.

Hypothesis 2 (H2) suggested that effective management performance has a direct impact on the reduction of financial fraud. Cressey's (1953) introduction of the Fraud Triangle Theory emphasised that fraud is less probable in circumstances where management upholds ethical norms and implements strong oversight measures. The empirical studies conducted by Mandal & S, (2023) and Antunez et al., (2024) have conclusively shown that effective leadership and ethical management practices played a vital role in reducing the likelihood of fraudulent actions. These findings emphasised the significance of management's involvement in fostering an organisational culture that placed a high value on integrity and accountability.

Consequently, the formulation of these hypotheses was grounded in a comprehensive examination of existing literature and theoretical frameworks that emphasised the crucial functions of financial structure and managerial performance in deterring financial fraud. The assumptions offered a distinct orientation for the empirical examination, with the objective of showcasing that enhancements in financial structure capability and management proficiency could substantially diminish the occurrence of financial fraud. The anticipated results of this study were predicted to make significant advancements in the area of corporate governance, highlighting the need of robust financial regulations and ethical managerial strategies in preventing financial wrongdoing and promoting a transparent and responsible corporate atmosphere.

METHODOLOGY

This study adopted a rigorous quantitative research methodology to examine the relationship between selected financial determinants and the incidence of financial fraud in publicly listed companies in Malaysia. The analysis was based on a pooled panel dataset comprising 353 firms, generating 2,470 firm-year observations covering the period from 2017 to 2023. The companies were selected through strict inclusion criteria to ensure the availability of complete and consistent financial disclosures throughout the study period. Firms with missing annual report data or inactive listing status during any of the observation years were excluded. This careful sample construction ensured both the reliability of the dataset and the generalizability of findings to the broader population of Malaysian public listed companies.

To estimate the relationships between the variables, the study employed the Random Effect Regression model, a statistical technique particularly suited to panel data that accounted for unobserved heterogeneity across firms. The appropriateness of the model was confirmed through the Hausman test, which yielded a Chi-Square statistic of 0.196264 with a corresponding p-value of 0.9065. This result indicated that the assumptions for the random effects model were satisfied. The model was used to examine the effects of the two independent variables, namely Management Performance Ability (MPAB_WIN) and Financial Structure Ability (FSAB_WIN), on the dependent variable, Financial Fraud Level (FFL_WIN). The use of this model allowed the researchers to control for time-invariant firm-specific characteristics and to produce more generalizable and robust estimations.

All key variables in the study were operationalized using standardized financial indicators and were subsequently winsorized to improve robustness and reliability. The suffix “_WIN” denoted that the data had been winsorized at the 5th and 95th percentiles. This statistical transformation was applied to minimize the influence of extreme outliers that could otherwise distort the regression analysis. Winsorization preserved the meaningful variation within the dataset while limiting the impact of anomalous values, thus enhancing the accuracy and validity of the estimated relationships.

The dependent variable, FFL_WIN, represented a composite fraud risk index and was derived from a series of financial indicators associated

with earnings manipulation, including abnormal discretionary expenses, abnormal cash flows, and abnormal production costs. These components were calculated following established methodologies from prior fraud detection models, particularly those proposed by Roychowdhury (2006) and Dechow et al. (2011). Each element was adjusted for industry and year effects, standardized, and then aggregated into a single index, where lower values indicated a higher likelihood of financial fraud occurrence.

The independent variable MPAB_WIN measured management performance ability and was constructed as the average of three standardized financial performance ratios: Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). These ratios were selected to capture operational effectiveness and strategic decision-making competence at the managerial level. Each ratio was standardized across firms within the same industry and year to control for sectoral and temporal differences. Higher MPAB_WIN values reflected stronger and more consistent managerial performance.

The second independent variable, FSAB_WIN, measured the firm's financial structural ability and was computed using three key indicators: the Current Ratio, Debt-to-Equity Ratio, and Interest Coverage Ratio. These financial ratios reflected liquidity, solvency, and debt management capacity, respectively. After being standardized and adjusted for industry and year, the ratios were averaged to yield a unified index score. Higher FSAB_WIN values signified a stronger and more resilient financial structure, which was presumed to lower susceptibility to financial misconduct.

The use of standardized and winsorized indices for all variables enabled the study to maintain statistical rigor, reduce the influence of outliers, and improve replicability. This methodological approach ensured that the empirical analysis was conducted on a robust and normalized dataset, suitable for identifying significant patterns in the relationship between management performance, financial structure, and the likelihood of financial fraud in the Malaysian corporate environment.

Table 1: Hausman test result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.196264	2	0.9065

The regression results obtained from the Pooled Sample study indicated noteworthy findings. The coefficient for FSAB_WIN is -0.043323, with a standard error of 0.018233 and a t-statistic of -2.376073. This indicated a significant negative link with financial fraud at the 5% level (Prob. = 0.0176). Similarly, the MPAB_WIN coefficient had a value of -0.192071, a standard error of 0.090429, and a t-statistic of -2.124000. These values indicated a significant negative link with financial fraud at the 5% level (Prob. = 0.0338). These findings highlighted the crucial importance of strong financial systems and efficient administration in reducing financial fraud. The model also included a rather significant constant term (C) of -3.628371, which represented a fundamental degree of financial fraud in the absence of the independent variables. The constant term emphasised the inherent dangers and structural problems in the business environment that make organisations more likely to commit financial fraud, requiring ongoing supervision and regulation.

Aside from analysing the Pooled Sample, the study also investigated three distinct industries: Construction, Trading and Services, and Consumer Products, to assess the statistical importance of financial fraud in these areas. The Construction sector sample consisted of 24 firms, with a total of 168 firm-year observations. The Trading and Services industry included 81 companies, with a total of 567 firm-year observations. The Consumer Products industry consisted of 72 companies, with a total of 54 firm-year observations. The purpose of these industry-specific analyses was to discover variations between sectors and offer more detailed insights into how financial structure and management performance influence financial fraud in different situations. The results of these analyses were in line with those of the Pooled Sample, indicating that robust financial frameworks and effective management practices were essential in preventing financial fraud in different sectors.

The Random Effect Regression equation derived from the analysis can be expressed as follows:

$$FFL_WIN_{it} = \beta_0 + \beta_1 FSAB_WIN_{it} + \beta_2 MPAB_WIN_{it} + \mu_i + \epsilon_{it}$$

Where:

1. FFL_WIN_{it} is the financial fraud level for firm iii at time ttt .
2. β_0 (constant term) is -3.628371, which represents the baseline level of financial fraud.
3. β_1 (coefficient for $FSAB_WIN$) is -0.043323, indicating the impact of financial structure ability on financial fraud.
4. β_2 (coefficient for $MPAB_WIN$) is -0.192071, indicating the impact of management performance ability on financial fraud.
5. μ_i represents the cross-section random effects.
6. ϵ_{it} represents the idiosyncratic random effects.

The regression equation derived in this study offered crucial insights into the financial factors that influenced financial fraud in publicly traded companies in Malaysia. The intercept (β_0) of -3.628371 represented the baseline level of financial fraud. It indicated the scenario when both independent variables, $FSAB_WIN$ (financial structure ability) and $MPAB_WIN$ (management performance ability), had a value of zero. The strongly negative intercept highlighted a natural inclination towards financial fraud when there was a lack of robust financial systems and effective managerial performance. Essentially, it signified that in the absence of strong financial structures and efficient management processes, there was a fundamental danger of fraudulent actions in these organisations.

Upon further analysis of the coefficients, the coefficient for $FSAB_WIN$ (β_1) was -0.043323, with a probability value of 0.0176. The presence of a statistically significant negative correlation suggested that as the capacity to manage financial structure improves, the probability of financial fraud diminishes. The strength and resilience of a company's financial structure is essential in reducing the occurrence and impact of fraudulent actions. Robust financial institutions foster openness and accountability, hence minimising the potential for fraudulent activities. This discovery underscores the significance of establishing and upholding strong financial structures as a proactive defence against financial deception.

The coefficient for MPAB_WIN (β_2) was -0.192071, with a probability value of 0.0338, suggesting a significant inverse correlation between management performance ability and financial fraud. This outcome emphasised the crucial need of implementing efficient management strategies to decrease fraudulent conduct. Robust leadership and principled management practices played a crucial role in establishing an organisational culture that effectively discouraged fraudulent activity. Companies can effectively decrease the occurrence of financial fraud by creating a work environment that upholds ethical standards and maintains strict managerial monitoring.

The methodology also investigated cross-sectional and idiosyncratic random effects, providing insights into the diversity in levels of financial fraud. The cross-section random effects (μ_i) had a standard deviation of 0.127691 and a rho value of 0.0348, which indicated the influence of firm-specific factors on financial fraud. Conversely, the standard deviation for idiosyncratic random effects (ϵ_{it}) was significantly larger at 0.672861, with a rho value of 0.9652. This indicated that the majority of the variation in financial fraud levels was caused by characteristics peculiar to individual firms, rather than influences that were common across industries or cross-sectional. This emphasised the importance of distinct, company-level attributes in determining the likelihood of financial fraud, emphasising the necessity for customised, organization-specific measures to efficiently handle and reduce fraud threats.

These extensive findings indicated that enhancing the capability of financial structure and boosting managerial performance were essential techniques for reducing financial fraud. Robust financial frameworks and proficient management techniques were not only advantageous but imperative for promoting openness, accountability, and ethical conduct within corporations. These insights offered useful direction to legislators, corporate governance practitioners, and risk management specialists on where to concentrate their efforts in order to improve the honesty and stability of financial markets. By focusing on enhancements in these critical domains, it is feasible to establish a corporate setting that is less susceptible to fraudulent activities, so promoting long-term economic development and reinforcing investor trust.

The regression equation incorporated these elements to create a precise and comprehensive model that helps understand the factors that influenced financial fraud levels in publicly listed companies in Malaysia. The strong inverse correlations between the independent variables and financial fraud underscored the criticality of improving financial infrastructure capacity and managerial efficacy in order to reduce the likelihood of financial misbehaviour.

Sample Selection

The data for this study were carefully collected from four separate groups of samples, guaranteeing a thorough investigation of publicly listed companies in Malaysia. The main group, known as the Pooled Sample, consisted of a strong selection of 353 companies, resulting in a total of 2,470 observations of company performance from 2017 to 2023. This diverse category encompassed corporations from a range of industries, offering a comprehensive view of corporate conduct and financial strategies. The companies were selected based on a thorough evaluation of their annual reports, with a focus on including only those that had comprehensive and accessible data for the full inquiry period. Companies that had missing figures or were non-operational during the study period were eliminated to ensure the integrity and reliability of the dataset.

This study also focused on the Construction industry, which was an important sector in Malaysia due to its substantial influence on the country's economic and infrastructure development. This industry sample comprised 24 companies, resulting in a total of 168 firm-year observations. The meticulous choice of these companies guaranteed that the data precisely mirrored the financial and operational condition of the industry throughout the research period. By incorporating the Construction industry, we could conduct a thorough analysis of trends and difficulties specific to this sector. This offers significant insights into how this crucial industry managed financial and regulatory challenges.

The report also analysed the Trading and Services business, which played a crucial role in driving economic activity in Malaysia. There were a total of 81 enterprises in this category, which amounted to 567 observations over multiple years. The Trading and Services business had a diverse array of

operations, rendering it an essential element of the comprehensive economic study. The study attempted to reveal distinctive patterns and behaviours specific to trading and service-oriented enterprises in order to gain a more profound comprehension of their position in the Malaysian economy.

Finally, an analysis was conducted on the Consumer Products industry, which consisted of 72 businesses and 504 firm-year observations. This sector had a direct impact on how consumers behave and the dynamics of the market, making it a crucial component of research. The criteria used to choose these companies were equally strict, guaranteeing the accuracy and comprehensiveness of the obtained data. The study offered insights into the performance and adaptability of consumer-focused enterprises in response to changing market conditions by analysing the Consumer Products industry. This comprehensive and representative analysis of the corporate environment in Malaysia was achieved using a multi-faceted methodology that encompassed many main industries.

**Table 2: Sample of the Study from 2017-2023
(Public Listed Companies of Malaysia)**

Industry	Number of Companies	Firm-Year Observations
Pooled Sample	353	2,470
Construction	24	168
Trading and Services	81	567
Consumer Products	72	504
Total	530	3,259

RESULTS AND DISCUSSION

Descriptive Result

This study provided significant insights into the central tendencies and dispersion of financial fraud levels (FFL_WIN), financial structure ability (FSAB_WIN), and management performance ability (MPAB_WIN) among Malaysian publicly listed firms using the descriptive statistics for the variables that were examined. Across all of the companies that were sampled, the average result for FFL_WIN was -3.675863, which indicated that there was a higher than average amount of financial fraud. The existence of a negative mean highlighted the widespread problem of financial fraud

within these companies, hence reiterating the importance of implementing stringent measures to prevent and prevent actions of this nature. The fact that the median number was -3.780571 indicated that even higher levels of financial fraud were experienced by half of the organisations was further evidence of the seriousness of this problem. A substantial amount of variation in the degrees of financial fraud among the companies was indicated by the range, which had a minimum of -4.747510 and a high of -1.998441. This variation was a reflection of the various risk profiles and vulnerabilities that the companies faced.

Table 3: Descriptive Statistics of Financial Fraud Level, Financial Structure Ability, and Management Performance Ability

Statistic	FFL_WIN	FSAB_WIN	MPAB_WIN
Mean	-3.675863	0.863094	0.052450
Median	-3.780571	0.614631	0.068194
Maximum	-1.998441	2.934878	0.292291
Minimum	-4.747510	0.107514	-0.362596

The Financial Structure Ability (FSAB_WIN) had a mean value of 0.863094, indicating that enterprises, on average, possessed a moderate level of financial structural resilience. The median value of 0.614631 was marginally below the mean, suggesting a minor positive skewness in the data. The skewness of the data indicated that the majority of organisations had good financial structures, but a small number of enterprises demonstrate particularly strong financial structure capabilities, which significantly influenced the overall average. The FSAB_WIN range, spanning from a minimum value of 0.107514 to a maximum value of 2.934878, indicating a significant disparity in the financial structure of organisations. This diversity highlighted the necessity for certain organisations to greatly improve their financial frameworks in order to conform to industry standards and decrease the probability of financial fraud.

The mean value of the Management Performance Ability (MPAB_WIN) was 0.052450, suggesting that the sampled organisations had a relatively low, but somewhat positive, average management performance. The median value of 0.068194 was greater than the mean, indicating a minor negative skewness in the data. This suggested that certain organisations exhibited particularly inadequate managerial performance, which could

had a negative impact on their overall governance and operational integrity. The wide disparity between the maximum value of 0.292291 and the minimum value of -0.362596 indicated a significant variation in the ability of management performance. This suggested that there were distinct leadership traits and varying levels of managerial effectiveness among different organisations. The notable divergence emphasised the urgent requirement for several organisations to strengthen their managerial methodologies in order to lessen the hazards linked to inadequate leadership and bolster their capacity to avert financial fraud.

Regression Results

The regression analysis in this study was conducted using a pooled panel sample of 353 publicly listed firms in Malaysia, resulting in 2,470 firm-year observations spanning from 2017 to 2023. Based on the outcome of the Hausman test, which reported a Chi-Square statistic of 0.196264 and a p-value of 0.9065, the Random Effect Regression model was selected as the most appropriate technique for the analysis. This model allowed for the inclusion of unobserved firm-specific effects while maintaining efficient and unbiased estimations of the relationships between the study variables. The analysis aimed to evaluate the impact of financial structure ability (FSAB_WIN) and management performance ability (MPAB_WIN) on the level of financial fraud (FFL_WIN) reported by these companies.

The results demonstrated statistically significant negative relationships between both independent variables and financial fraud. The coefficient for FSAB_WIN was -0.043323, with a standard error of 0.018233 and a t-statistic of -2.376073, which was significant at the 5 percent level ($p = 0.0176$). This result indicated that improvements in a firm's financial structure, such as better liquidity, solvency, and capital control, were associated with a reduction in financial fraud. Similarly, the coefficient for MPAB_WIN was -0.192071, with a standard error of 0.090429 and a t-statistic of -2.124000, also significant at the 5 percent level ($p = 0.0338$). This finding supported the conclusion that firms with more competent, ethical, and effective management were less likely to engage in fraudulent practices. These results highlighted the preventive role that internal managerial and financial capabilities played in maintaining corporate integrity.

The constant term in the regression model had a value of -3.628371, with a standard error of 0.022328 and a highly significant t-statistic of -162.5057 ($p = 0.0000$). The statistical significance of this constant suggested a fundamental presence of financial fraud risk across companies, even when no variation in the independent variables was present. This implied that inherent vulnerabilities, possibly linked to systemic issues, cultural norms, or external pressures, continued to expose firms to fraud risks regardless of their financial structure or managerial performance. These findings emphasized the importance of continuous monitoring, regulation, and internal control mechanisms to address these baseline threats effectively.

While the F-statistic for the model was statistically significant ($F = 5.119237$, Prob. = 0.006044), the explanatory power of the model remained limited. The R-squared value was only 0.004133, indicating that the two independent variables explained less than 1 percent of the variation in financial fraud levels. Although the relationships identified were statistically meaningful, this low R^2 value revealed that the model captured only a small fraction of the determinants of fraud. Financial fraud was likely influenced by a broader and more complex set of factors that extended beyond internal financial or managerial indicators. Therefore, the limited explanatory power was acknowledged as a key limitation of the study.

To address this limitation, future research could incorporate a wider range of explanatory variables and improved model specifications. Variables such as board independence, audit committee characteristics, CEO duality, political connections, and ownership structure may yield more comprehensive insights. In addition, the application of advanced analytical techniques such as structural equation modeling, dynamic panel estimations, or machine learning classification algorithms could improve the model's predictive capacity. Despite the modest R^2 value, this study contributed valuable empirical evidence regarding the significant role of financial structure and management performance in deterring financial fraud. These findings offered useful implications for corporate governance reform, policy development, and internal audit practices within Malaysia's public corporate sector.

Table 4: Impact of Financial Structure Ability and Management Performance Ability on Financial Fraud Levels in Malaysian Publicly Listed Companies

Variable	β (Coefficient)	SE (Standard Error)	t-value	p-value	Hypothesis Supported
FSAB_WIN	-0.0433	0.0182	-2.3761	0.0176	Yes
MPAB_WIN	-0.1921	0.0904	-2.1240	0.0338	Yes

The results of this study emphasised the substantial influence of financial structure ability (FSAB_WIN) and management performance ability (MPAB_WIN) on the degrees of financial fraud in publicly listed companies in Malaysia. The inverse correlation between these autonomous factors and financial fraud highlights the significance of robust financial structures and efficient administration in reducing fraudulent activity. The coefficient for FSAB_WIN was -0.043323, with a probability value of 0.0176. This suggested that an improvement in financial structure ability is linked to a decrease in financial fraud. The statement emphasised the crucial importance of strong financial structures in combating fraudulent actions by fostering transparency and accountability, as demonstrated in Table 3 above.

The coefficient for MPAB_WIN was -0.192071, with a probability value of 0.0338, highlighting the significant impact of management performance in preventing financial fraud. Implementing efficient management processes and exhibiting excellent leadership greatly diminished the probability of fraudulent conduct within organisations. This highlighted the necessity of capable and principled leadership to cultivate an organisational environment that discourages financial wrongdoing. Therefore, these data provide support for the hypothesis that the ability of management performance had a negative impact on financial fraud. This emphasised the significance of leadership quality and management effectiveness in reducing the risk of financial misconduct.

The constant term (C) in the regression model had a value of -3.628371, and its probability value was very significant at 0.0000. The presence of this negative constant implied that organisations must address a baseline degree of financial fraud, even when the independent variables were not present. The substantial importance of the constant term indicated the presence of inherent hazards and structural problems within the corporate environment that make companies more susceptible to financial fraud. This discovery

emphasised the enduring difficulty of financial fraud, which necessitated ongoing supervision and regulation that went beyond mere enhancements to financial structure and management performance.

Moreover, the effects specification indicated that variations in financial fraud levels were mostly influenced by firm-specific features. The cross-section random effects had a standard deviation of 0.127691 and a rho value of 0.0348, while the idiosyncratic random effects had a standard deviation of 0.672861 and a rho value of 0.9652. These figures suggested that factors specific to the company were the main causes of differences in levels of financial fraud. Although industry-wide norms and standards were significant, it is essential to implement customised strategies that specifically target the weaknesses of individual firms in order to effectively prevent financial crime. These findings indicated that by implementing robust financial systems, employing efficient management strategies, and implementing tailored interventions to address specific corporate risks, the likelihood of financial malfeasance can be significantly reduced.

Thus, the research conducted on the Pooled Sample of Malaysian publicly listed businesses demonstrated that both the capacity to manage financial structure and the ability to perform well in management were essential in preventing financial fraud. The results confirmed the assumptions that improvements in these areas were linked to reduced instances of financial fraud, making a compelling argument for focused advances in corporate governance and management practices. Companies can support sustainable economic growth and investor trust by enhancing financial structures and management practices, which in turn create a more transparent and responsible environment that discourages financial fraud.

Contributions of the Study

This study made several important contributions to the existing literature on financial fraud by exploring two under-researched predictors: MPABFSAB. While prior studies have often focused on governance mechanisms, audit committees, or board independence as the primary deterrents to fraud, the operational capacity of management and the structural soundness of financial systems had received relatively limited empirical attention, especially in the Malaysian context. By positioning

MPAB and FSAB as central variables influencing financial fraud levels (FFL), this study introduced fresh dimensions into the discourse on fraud prevention and broadened the scope of internal organisational factors that merit scrutiny.

A second contribution lies in the integration of the Agency Theory with the Fraud Diamond Theory as a unified conceptual framework to explain the occurrence of fraud. Although both theories have been widely used independently, few studies have brought them together to explain how organisational structures and individual traits simultaneously enable or deter fraudulent behaviour. This study offered a dual-theory perspective that captured both systemic governance failures (as emphasised by the Agency Theory) and the individual-level capabilities and situational enablers (as emphasised by the Fraud Diamond). This integrative framework added explanatory depth and enhanced the theoretical robustness of the research, offering a more complete understanding of how and why fraud occurs.

The research also contributed to the growing body of literature on fraud in emerging markets by focusing on Malaysian publicly listed companies, a segment that remains underrepresented in global fraud studies. Most existing empirical work is dominated by developed economies with different regulatory and cultural contexts. By drawing on a large panel dataset from 353 Malaysian firms across several key sectors, this study provided much-needed localized insights into the structural and managerial drivers of fraud in Malaysia's capital market. These findings are particularly relevant for policymakers, regulators, and institutional investors who seek to tailor fraud mitigation strategies in line with the socio-economic realities of Southeast Asian markets.

Methodologically, this study contributed by employing the Random Effect Regression to control for firm-specific heterogeneity, enhancing the reliability of the findings. The panel data model allowed the study to capture variations across companies and over time, offering a more granular and statistically rigorous understanding of the relationships between MPAB, FSAB, and financial fraud. The inclusion of industry-specific analysis, particularly in Construction, Trading and Services, and Consumer Products, further enhanced the practical relevance of the findings. By confirming the significance of MPAB and FSAB across different sectors, the study

demonstrated the robustness and generalizability of its results within the Malaysian corporate environment.

Finally, the study offered actionable insights for corporate governance reform and risk management strategies. It emphasized the need to shift focus beyond traditional external oversight mechanisms and towards internal performance-based and structural evaluations. This calls for more comprehensive assessments of management quality, leadership ethics, financial reporting structures, and internal controls. These findings suggested that fraud prevention must be embedded in everyday managerial practices and financial infrastructure, rather than relying solely on periodic audits or external interventions. The study thus contributes to reshaping how fraud risk is conceptualized and managed, reinforcing the importance of internal capabilities in fostering a fraud-resistant corporate culture.

CONCLUSION

This study provided a comprehensive empirical analysis of the financial determinants of fraud among Malaysian publicly listed companies, with a particular focus on FSAB_ and MPAB. The regression results revealed significant negative associations between both variables and financial fraud levels, suggesting that enhancements in financial frameworks and managerial performance could play a pivotal role in reducing fraudulent behavior. These findings underscored the necessity for organizations to invest in strengthening their internal structures and leadership capabilities as part of their broader fraud risk mitigation strategies. The empirical evidence supported the theoretical assumptions drawn from the Agency Theory and the Fraud Diamond Theory, both of which emphasized the importance of governance, capability, and monitoring in shaping corporate ethical conduct.

A notable finding of this research was the stronger negative effect of MPAB on financial fraud levels compared to FSAB. This result indicated that the quality of management performance had a more pronounced influence in deterring fraud than financial structure alone. This outcome could be attributed to the role of management as the central decision-maker and gatekeeper of financial reporting integrity. Effective and ethical managers were more likely to instill a culture of accountability, reinforce internal

controls, and discourage fraudulent behavior at all organizational levels. This finding aligned with the Fraud Diamond Theory, particularly the “capability” component, which emphasized the individual’s role in either committing or preventing fraud. It also resonated with previous empirical studies, such as those by Hashim et al. (2020) and Mandal & S. (2023), which reported that poor managerial performance and leadership quality significantly increased the likelihood of financial misconduct.

While financial structure ability was also statistically significant, its effect size was comparatively weaker. This suggested that while structural controls such as liquidity, solvency, and debt management were necessary, they were not sufficient on their own to prevent fraudulent practices. Financial frameworks could offer protective barriers, but without strong leadership to enforce, monitor, and adapt these structures, their effectiveness might be limited. This interpretation was consistent with studies from emerging markets, which indicated that formal structures alone, especially in environments with weaker institutional enforcement, may not fully deter misconduct unless complemented by ethical and competent management. Therefore, the findings of this study added critical nuance to the existing literature by demonstrating the need for an integrated approach that values both financial architecture and human leadership.

The analysis also revealed that a significant constant term remained in the regression model, even in the absence of variation in FSAB and MPAB. This pointed to an inherent baseline level of fraud risk across firms, suggesting the presence of systemic, cultural, or regulatory weaknesses that were not directly captured by the two variables studied. This insight supported the view that financial fraud in Malaysian firms may stem from a deeper set of issues, possibly including institutional voids, enforcement gaps, and prevailing business norms. These findings emphasized the need for continuous regulatory oversight and sector-wide policy interventions to complement internal firm-level efforts. Strengthening legal enforcement, enhancing whistleblower protections, and fostering a corporate culture of transparency could help reduce this baseline fraud risk.

Further, the random effects analysis demonstrated that the majority of the variation in financial fraud was explained by firm-specific factors rather than industry-wide or macroeconomic differences. This finding

justified the call for tailored, company-specific governance interventions. While universal regulatory frameworks remained necessary, their impact would be significantly enhanced when supplemented by customized risk assessments and internal audit strategies that addressed the unique vulnerabilities of individual firms. Policymakers, regulators, and board members should thus adopt both top-down and bottom-up approaches in fraud prevention—ensuring that national standards were enforced while simultaneously encouraging firms to adopt internal governance mechanisms aligned with their operational realities.

In conclusion, this study provided empirical support for the proposition that both financial structure ability and management performance ability played critical roles in mitigating financial fraud among Malaysian publicly listed companies. The stronger influence of management performance highlighted the importance of competent, ethical leadership in fostering organizational resilience against fraud. The results were consistent with prior research in similar emerging market contexts and contributed to expanding the theoretical discourse by integrating structural and behavioral fraud determinants. These findings offered valuable implications for corporate governance reform, regulatory policy, and managerial training in Malaysia. A holistic approach, incorporating robust financial systems, strong managerial leadership, tailored internal controls, and continuous regulatory engagement, remained essential for advancing financial integrity, promoting investor confidence, and supporting long-term economic sustainability in Malaysia's capital market.

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