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ORIGINAL ARTICLE

INTERNAL CORPORATE GOVERNANCE MECHANISM: A REVIEW

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ABSTRACT – Corporate governance (CG) is a comprehensive term that incorporates many distinct facets. Because of numerous financial scandals, public knowledge of CG has increased significantly, particularly in emerging countries like Malaysia. The effectiveness of organizations' adherence with CG legislation and standards is still in question, resulting in numerous incidents of accounting fraud. Furthermore, both internally and externally, company performance is contingent on the effectiveness of Corporate Governance procedures. The purpose of this study is to examine the determinants of internal corporate governance mechanisms and the affect towards financial statement fraud. A comprehensive study of the literature on corporate governance mechanism is carried out. Finally, new lines of research are identified for future study.

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INTRODUCTION

Corporate governance (CG) is one of the most significant aspects of a corporation, particularly in terms of monitoring and risk assessment. A successful CG implementation will help the company become more competitive while also protecting its stakeholders from financial scandals (Black et al., 2014; Bhatt, 2017). Furthermore, the development of human governance should be supported by a corporate governance framework that encourages ethical behaviour. Financial scandals like Enron and WorldCom are frequently attributed to poor CG practices (Byrne, 2002; Deakin & Konzelmann, 2004). Corporate failure appears to have been the result of poor risk management and conflicts of interest between the board of directors and stockholders. Corporate failures can only be avoided by relying heavily on the corporate governance process without enhancing the ethics and integrity of the people within the organisation (Sapuan, Wahab, Sholihin & Sawaluddin, 2020).

The Malaysian Code on Corporate Governance (MCCG) 2017 guides the governance structure of Malaysian businesses to improve their corporate culture, with a focus on financial reporting transparency (Security Commissions Malaysia, 2017). The Securities Commission (SC) Malaysia designed and produced this code, which consists of 35 practices. SC's major role is to safeguard investors' interests by guaranteeing a vigorous financial market over protected and clear financial reporting (Securities Commission Malaysia, 2019). SC is responsible for ensuring that Bursa Malaysia fulfils its regulatory obligations and improves its statutory and compliance with the Bursa Malaysia Listing Requirement for listed businesses. According to SC, good governance comprises defining and allocating rights and obligations to various stakeholders in a firm, as well as establishing guidelines and principles for making conclusions, improving internal controls, and handling risk. Furthermore, CG is concerned with the requirements of shareholders as well as the interests of other stakeholders, for instance, employees, consumers, and suppliers. It is believed that a proper governance framework is critical for organizations operating in the regulatory environment.

Internal and external governance mechanisms are two types of corporate governance (Schäuble, 2019). Internal governance structure is often connected with inside board of directors, auditors, and internal structures in effectively fulfilling their tasks to increase firm value (AlQadasi & Abidin, 2017). External governance refers to the outside aspects of governance action and independent bodies forming the firm's governance framework through laws and regulations (Schäuble, 2019). In a public business, both internal and external influences may restrict agency concerns (Fama, 1980); Fama & Jensen, 1983b; Jensen, 1984). This research will concentrate on the internal corporate governance structure.

Ownership concentration, board of directors, internal control and audit, management compensation, and disclosure and transparency are all components of internal corporate governance (Jerab, 2011). Consistent with Amer (2016), this research will focus on the two most important internal corporate governance structures; the board of directors and the audit committee. Due to financial statement fraud among large multinational firms, the corporate governance system has become prevalent as a result of several financial failures. The Bumiputera Malaysia Finance scandal, the Perwaja fiasco, the corporate malfeasance of Technology Resources Industries (TRI) Berhad, and the widespread problem of the Malaysian Airline System (MAS) prompted Malaysia's regime to strengthen its corporate governance framework. Corporate Governance Malaysia's flaws have been identified, and it is necessary to correct and remodel them. According to Heng, Azrbaijani, and San (2012), following corporate governance changes, Malaysia has performed well and has become one of the fastest developing countries in the world, as well as being able to compete in the global market.

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Accounting fraud is the deliberate falsification of financial statements in order to give a false picture of a company's financial position. It has anything to do with the employee, an account, or the company as a whole and it is deceiving to shareholders. Overstating income or assets, failing to report expenses, and understated liabilities are all ways for a company to falsify its financial statements. Financial statement fraud (FSF) is one of the accounting crimes that, despite being less common, can be the most detrimental to a corporation. This sort of fraud frequently involves overstating revenue, assets, and earnings, as well as understating obligations. Enron and Worldcomm are two high-profile examples of financial statement deception. According to the 2020 Global Economic Crime and Fraud Survey, financial statement fraud is the fifth most common sort of fraud committed in 2020. It shows an increment of 10% from 20% in 2018 to over 30% this year (PwC, 2020). Financial statement fraud is defined as the intentional misrepresentation or omission of figures from financial statements intended for distribution to stakeholders in order to deceive the users. A corporation linked to financial statement fraud will develop arguments against the financial report's credibility since the quality of reporting may be compromised. According to Kamal, Salleh, and Ahmad (2016), FSF has had a significant impact on organizations including negatively impacting their brand and reputation, goodwill, employee morale, relationship with authorities, and the value of their stock.

According to the statistic from the Malaysian Securities Commission's (SC) Annual Report 2019, there are 34 criminal and civil charges pending against corporations for various violations in 2019 which 26 percent of the cases involved financial misstatements (Securities Commission Malaysia, 2019). Previous studies have claimed that a delicate corporate governance mechanism is a crucial component that fosters the falsification of financial statements, which has been a worrying concern in recent pandemic times (Nasir, Ali, & Ahmed, 2019; Yang et.al., 2017). Therefore, it is imperative for the companies to establish and enforce proper CG practices in order to avoid FSF and creative accounting (Costa, 2017; Iqbal, Nawaz, & Ehsan, 2019; Li, 2018).

Financial records manipulation (creative accounting) is becoming more common among organisations on a global scale and it is growing popularity among small and large businesses by overstating revenues and assets while understating losses and liabilities in order to portray the company in a favourable light to outsiders (Diri, Lambrinoudakis, & Alhadab, 2020; Abdul-Hamid, 2019). As a result of the widespread use of creative accounting in the business, it is suggested that investors' trust in their ability to make investment judgments based on financial data has eroded (Remenaric, Mijoc, & Kenfelia, 2018). Furthermore, frauds in business and accounting are among the many accounting misconducts that happened on a global scale (Azwin, Ali, & Ahmed, 2019; Mirza, Malek, & Abdul-Hamid (2019); Ramirez-Orellana, Martinez-Romero, & Marino-Garrido, 2017). Financial statement fraud in Malaysia has been valued at RM63.5 million (Md Nasir, Ali, & Ahmed, 2019). The value is predicted to rise further in 2021 because of the poor survival condition of organisations during the Covid-19 pandemic. This has led organizations to be more driven to commit financial statement fraud during the epidemic.

During the Covid-19 scenario, which began at the end of 2020, many firms struggled and lost money. This includes consumer spending plummeting, particularly in industries including aviation, lodging, entertainment, education, and finance. Corporate failures have a detrimental impact on stakeholders with an interest in the company and the economy (Mabe & Lin, 2018). Employees will also be affected since corporations may concentrate on laying off workers in order to save money (Bushe, 2019). Moreover, the stockholders and directors are losing their funds, thus their market competitiveness is being eroded. For reducing business failures and the threat of financial statement fraud, efficient corporate governance is backed by effective internal controls (Susi & Lukason, 2019; Salin, Zakaria, & Nawawi, 2018).

As a result, the objective of this research is to examine the determinants of internal corporate governance mechanisms and how they affect financial statement fraud during the Covid-19 pandemic. This research will be conducted in Malaysia, with a focus on public companies listed on Bursa Malaysia. This study also looks at the impact of mediating variables like board size and audit committee effectiveness on the relationship between board tenure and audit committee independence on financial statement fraud.

LITERATURE REVIEW

Corporate Governance

Corporate governance is made up of a variety of legal and institutional measures aimed at protecting corporate shareholders' interests and lowering agency costs associated with the separation of ownership (shareholders) and control (managers and/or controlling shareholders). It is believed that the ability to give shareholders information about the company's activities and operations is one of the most significant aspects of any corporate governance system. This includes information on the legislative framework that governs the management and board obligations and the consequences of irresponsible behaviour. The most significant aspect of corporate governance is in what way management ensures the long-term interests of shareholders and other stakeholders, as well as how internal and external directors' obligations are managed (Fama & Jensen, 1983). Recent corporate failures highlight the need of preventing financial reporting fraud. This implies that a strong corporate governance system can help to reduce such incidents. However, previous studies provide mixed results (Iqbal, Nawaz, & Ehsan, 2019; Shu, Chen, & Lin, 2018; Yang et.al, 2017).

Board Independence

The core focus of corporate governance is board independence because it is widely believed that the more independent the board is, the better equipped it is to carry out its primary job of monitoring management (Berle & Means, 1932; Jensen & Meckling, 1986; Williamson, 1985). Since board independence is important, all corporate governance regulations established by countries across the world focus on how to make the board independent of management. According to agency theory, the main benefit of having independent members on the board is their impartiality, which is critical for successful management supervision (Fama & Jensen, 1983; Jensen & Meckling, 1976; Williamson, 1985). Independent directors will be more successful in overseeing administration operations to prevent immoral managerial behaviour, as stated in agency theory. Furthermore, when a company's performance improves, it will place a higher emphasis on high-quality financial reporting, and directors will be more careful in spotting fraudulent reporting, dipping the risk of earnings handling and financial reporting fraud (Bhatt, 2017, Bzeouich, Lakhal, & Dammak, 2019).

Lack of board independence may result in agency issues, as board members may not operate in the best interests of shareholders (Fama & Jensen 1983). When a company's board of directors has a high level of independence, fraud is unlikely to occur. An independent board can be a useful company governance tool for improving financial reporting quality. According to recent studies, financial statement fraud has a negative association with board independence (Ibadin & Ehigie, 2019; Razali & Arshad, 2014; Anichebe, Agbomah, & Agbagbar, 2019; Nasir, Ali, & Ahemed, 2018). In contrast, from the standpoint of stewardship theory, inside directors have the potential to perform better than outside directors since they have a greater understanding of the business strategies and direction. Internal directors would be more diligent and accountable to the information supplied to stakeholders if they were motivated internally to improve the company's market position, attain long-term organisational aims, and inspire open financial reporting. As a result, internal directors will have a better chance of preventing earnings manipulation and financial statement fraud than external directors. As a result, the firm's performance improves (Shan, 2019; Christensen, Kent, & Stewart, 2010). External directors have identical responsibilities to internal directors, but with a significant variation in terms of independence and influence. Internal directors would have a greater awareness of the company's operations, internal control structure, strategies, and important department employees (Bzeouich, Lakhal, & Dammak, 2019). External directors, on the other hand, lack this insight and operate as professional referees to guarantee that the board's choices are in the best interests of shareholders. As a result, external directors would step in to prevent the manipulation and guarantee that the monitoring tasks are carried out successfully, as internal directors may attempt to capitalise on their advantage by using the loopholes of internal controls and tactics to benefit themselves (Bhatt, 2017).

Board Tenure

The tenure of a board director refers to how long he or she has served on the board of a corporation which is known as his or her tenure. Long-serving board members in the same company can cause them to act and behave as if they are the company’s owners and thus, making their judgments less likely to be challenged by other members of the board or shareholders. As a result, they are more likely to be related to income falsification (Koevoets, 2017; Hu, Hao, Lu, & Yao, 2015; Setyawan & Anggraita, 2018). This is consistent with the fraud triangle idea; in which directors' longevity allows them to build friendly relationships with managers, accountants, and staff, causing them to be less strict in their monitoring obligations (Ahmadi, Nakaa & Bouri, 2018; Koevoets, 2017).

Board members with limited tenure, on the other hand, may not be able to demonstrate their full capacity in engaging with the firm, leading them to be negligent in spotting potential financial report falsifications or fraud (Reguera-Alvarado & Bravo, 2017). According to the fraud triangle theory, short-term board members may feel pressured to present positive results to shareholders in order to build trust and demonstrate their ability to serve the firm, potentially increasing the likelihood of fraudulent reporting. Longer tenure is linked to increased workplace acceptance, allowing for greater involvement in the organisation as more information, skills, and understanding is increased (Livnat et al., 2019; Kim, Mauldin, & Patro, 2014). This is consistent with the stewardship hypothesis, as directors will promote corporate credibility and respect, minimising the chances of accounting information being manipulated. As a result, they will be able to oversee earnings management and false financial reporting (Livnat et al., 2019; Kim, Mauldin, & Patro, 2014; Kim & Yang, 2014). Furthermore, previous research has found a U-shaped relationship between board tenure and financial reporting falsification (Hu et al., 2014, Koevoets, 2017). As a result, directors may be hesitant to manipulate earnings in the early phases, but as they develop expertise, they will be more willing to do so.

Board Age

Previous research has discovered a link between board age with agency theory (Ibrahim & Hanefah, 2016; Shehata, Salhin, & El-Helaly, 2017; Eulerich, Velte, & Uum, 2014). A board with members of varying ages may have an impact on member participation in reaching a consensus on a given decision. Furthermore, the stakeholder approach mandates that the board of directors be diverse in age. Board member variety, which includes people of diverse ages, will provide the board a sense of individuality, helping them to work together successfully to make good decisions (Ibrahim & Hanefah, 2016; Xu, Zhang, & Chen, 2018). The beneficial relationship between age diversity and company success is linked to the capability to effectively monitor the chances of falsification in financial reporting (Xu et.al, 2018; Almashaqbeh, Shaari, & Abdul-Jabbar, 2019). Directors who are young and not overworked are more effective at

monitoring than directors who are older and overworked. They will be more concerned with enduring objectives though attempting to integrate themselves into the company. As a result, the risk of committing earnings manipulation is lower for younger directors due to self-reputation and naive behaviour (Zwet & Kroos, 2015; Girau et al., 2019). On the other hand, board members approaching retirement tend to be more flexible when it comes to following rules. They tend to concentrate on short-range goals.

Board Ethnicity

Diversity of ethnic groups among board members is critical for firms to gain a competitive advantage (Fitzsimmons, 2013). In line with agency theory, ethnic diversity between board members will help to increase the board's independence and create a more effective monitoring mechanism. Each ethnic group has different ideologies, attitudes, views, and cultural backgrounds and will open opportunities for constructive debates and judgment (Aggarwal, Jindal, & Seth, 2019; Gul, Munir, & Zhang, 2016). A study by Wahid (2018) and Conyon and He (2017) both emphasised the importance of having diverse ethnic groups and nationalities on boards of directors in international firms because the board will be able to understand the knowledge of different cultures' practises and norms, which will improve societal acceptance of decisions. This is consistent with the stakeholder theory. In addition, a board with a larger number of ethnic groups is connected with better supervision, which is linked to a decreased inspiration to engage in the falsification of accounting information and misstatements (Nasir, Ali, & Ahmed, 2018; Almashaqbeh, Shaari, & Abdul-Jabbar, 2019). However, researchers discovered that ethnic variety makes it difficult for the directors to reach an agreement on contentious issues (Zwet & Kroos, 2015). Individualism, self-reliance, and independence, among other shared cultural ideas of collective ethnicity, would affect the board's decisions and actions, explaining its fraudulent deeds. The fraud triangle and fraud diamond theories are in agreement with this. As a result, board diversity increases the likelihood of fraudulent reporting and creative accounting, as self-centered boards of directors tend to impair firm performance (Kamarudin, Ismail, & Kamaruzzaman, 2018; Gul et.al, 2018).

Audit Independence

The independence of an audit committee can be defined as external audit members who are elected to serve on an organization's audit committee in order to maintain its objectivity. The audit committee's independence can ensure better and more equitable supervision over management operations. In Malaysia, the rules for independent members of audit committees are strict, ensuring that their decisions are objective. "The Audit Committee should include only of Independent Directors," according to Principle B: Practice 8.4 of the MCCG 2017 (Security Commissions Malaysia, 2017). Furthermore, the audit committee's objectivity would be more likely to avoid misstatements of financial information because they are not prejudiced in assisting organizations and in discovering falsification of financial reporting that has happened in the business (Arslan, Zaman, & Malik, 2014). Pertaining to discovering errors and frauds in financial accounts, an independent audit committee is more observant and diligent (Toh, 2013; Sean et al., 2016; Arslan et.al., 2014; Yunos, Ahmad, & Sulaiman, 2014). Since an independent audit committee is less likely to have ties to the company, they can openly criticise management's judgments. This is in line with the agency theory notion. They will also be more driven to discover fraudulent acts than non-independent directors in order to protect their reputation and popularity. This indicates that having more independent members on the audit committee can lower the risk of earnings manipulation (Kituku & Ahmad, 2016; Razali & Arshad, 2014; Salleh, 2014; Arslan et.al., 2014).

An independent audit committee has previously been found to be effective in reducing financial report fraud induced by managers' self-centered behaviour. Non-independent audit committee members, on the other hand, would feel more connected to the organisation. According to stewardship theory, this will increase audit value and limit the scope of falsification of accounting information. Similarly, other research has found that independent audit committee members' lack of understanding about the company can cause them to be unaware of internal control weaknesses and increase the likelihood of not identifying mistakes in financial information (Ahmad-Zaluki & Wan-Hussin, 2010). Prior literature indicates that there is no meaningful association between audit committee independence and earnings management (Uwuigbe et al., 2019; Ibadin & Ehigie, 2019; Oussii & Taktak, 2017; Yew, 2013).

Audit Financial Expertise

The financial information and expertise that members of the audit committee have in order to perform their tasks competently are referred to as audit financial expertise. This factor's importance is emphasised by the fact that it is mentioned in MCCG 2017 under Principle B: Practice 8.5, which states that audit committee members must be financially educated (Security Commissions Malaysia, 2017). Accounting knowledge is essential for the audit members since any financial misreporting or manipulation of accounting information can be easily recognised (Oussii & Taktak, 2017). Numerous studies agree that the requirement for financial literacy among audit committee members is important in order to strengthen monitoring duties and reduce the risk of manipulation of financial reporting (Badolato, Donelson, & Ege, 2014; Cohen, Krishnamoorthy, & Wright, 2014; Toh, 2013). However, studies by Al-Absy, Ismail, & Chandren (2019) and Mansor et al., (2013) indicated that audit committee skill and earnings management have no significant association. This could be explained by the fact that audit committee members with financial expertise are busier than audit committee members without financial expertise, who has to spend less time observing and scrutinising accounting report for the

businesses (Jaafar et al., 2016). The existence of financial expertise makes it easier to spot potential financial statement errors and misreporting. This is consistent with the diamond fraud theory. The odds of false reporting are significant because the members with financial competence and skill have the potential to perpetrate and hide deception. The contradictory findings make it difficult to draw a clear connection between audit committee members' competence and financial statement fraud.

Board Size

The number of board members is an essential topic that should be investigated, as the difficulty of finding the appropriate board size for a firm to improve its performance is still contested in the literature. Too small board may limit the board's perspective; a board that is too large may stretch the discussion, slowing the decision-making process and causing communication issues. While it is critical to have a board with members from various backgrounds, which necessitates a large board size, it is equally crucial to preserve group cohesion and involvement. According to agency theory, larger boards are linked to a higher possibility of identifying financial statement fraud, as teamwork is important in monitoring responsibilities. A smaller board, on the other hand, has been shown to be more effective since members have a higher level of coordination and can reach consensus faster. Nonetheless, these factors have the potential to undermine the effectiveness of corporate governance (Girau et al., 2019).

The effect of financial statement fraud is amplified when considering board tenure, which is designed to boost directors' confidence in practising creative accounting as they become more knowledgeable of and comfortable with internal control procedures (Dikolli, Mayew, & Nanda, 2014; Livnat et al., 2020). Prior studies have shown that small boards are more effective at monitoring and supervising operations, lowering the risk of falsification in financial reporting (Girau et al., 2019; Afzal & Habib, 2018; Anichebe et.al., 2019). Previous research by Saggar and Singh (2017) and Al Azeez et al. (2019) shows that a greater proportion of board members will be held further answerable in revealing issues in accounting reports. As a result of increased monitoring and inspection, there is a strong incentive for reporting quality to improve. This demonstrates the link between board size and earnings management (Rajeevan & Ajward, 2019; Al Azeez et al., 2019; Bzeouich et.al., 2019; Hasnan, Razali, & Hussain, 2020). A greater proportion of board members are linked to the capability to improve more thoughts and provide better proposals to improve the efficiency of monitoring and earnings management methods (Ahmadi et. al., 2018; Hasnan et.al., 2020).

Audit Committee Effectiveness

The role of an audit committee is imperative in monitoring and fostering good governance in an organization. This is to ensure that financial reports made to users do not mislead and still follow accepted accounting rules (Wahyudi et al., 2019). Therefore, it is important to ensure the effectiveness and efficiency communication between the internal audit function and audit committee (Kevin, 2003). In addition, the members' financial knowledge and understanding are important. This is supported by Alzoubi and Selamat (2012) who claimed that the financial competency of board audit committees improves their monitoring ability which improves the quality of financial reports. The reputation of audit quality should not be overlooked in the occurrence of a company failure (Muñoz-Izquierdo et al., 2019). Therefore, all Malaysian public companies were required to establish audit committees in 1994. The objective is to keep track and enhance corporate governance systems as well as financial reporting procedures. Based on MCCG, the chairman of the audit committee cannot also be the chairman of the board. It must be entirely made up of independent directors. As a result, they must report straight to the head of the company's internal auditors. Previous studies demonstrated that the audit committee's effectiveness can decrease the probability of deception in financial reports (Indrati, Hermanto, Purwaningsih, Agustinah, & Sarikha, 2021; Anichebe et. al., 2019; Razali & Arshad, 2014).

Financial Statement Fraud (FSF)

Theft and financial statement misrepresentation are two types of fraud. Theft occurs when a perpetrator takes an organization's assets for personal gain (misappropriation of assets), whereas financial statement fraud occurs when a perpetrator or perpetrators make false financial statements, such as overstating assets and revenues while understating liabilities and expenses (Makkawi & Schick, 2003). Although asset theft and vendor fraud, from the standpoint of management and politics, do not directly compel criminals to falsify financial statements, they do necessitate dishonest reporting to disguise the fraud. As a result, the feature of financial statement deception dominates all forms of fraud, regardless of their style or structure. Whistleblowers are less likely to report: 1) financial statement fraud than theft, 2) immaterial fraud than substantive fraud, 3) when the perpetrator is aware that his wrongdoing is being noticed, and 4) when other employees in the firm are aware of the fraud, as opposed to when they are not.

Auditors and forensic investigators typically examine financial statements generated by businesses in accordance with the International Financial Reporting Standards (IFRS) to facilitate comparative examination. Skimming, financial statement falsification, tax avoidance, assets theft, fraudulent employee, customer and supplier records, omission of records of specific activities, and inaccuracies are all examples of financial statement fraud.

Manipulation of accrual accounts and changes to accounting policies are the two strategies used to undertake earnings management. Though these acts may be carried out to comply with monthly finances, they are nevertheless deemed financial statement fraud if they are carried out with the goal of fooling the stakeholders considerably. The accrual basis

of accounting does require professional judgment in order to quantify certain areas; nonetheless, financial statement fraud can be linked to managers misusing their judgment to alter financial records in order to deceive external stakeholders.

Agency Theory

Agency theory introduced by Jensen and Meckling (1976) explained the contractual association between the principal and the agent; the interests of shareholders as principals to managers as agents. It is believed that managers as agents have more information about the business's activities, and greedy managers may be involved in unlawful or fraudulent acts to maximize their own capital (Ali, 2020).

Fraud Triangle Theory

Cressey (1953) introduced the fraud triangle theory which explains the conditions that lead to fraud. There are three elements of fraud in financial reporting, namely pressure to achieve goals, opportunities to commit fraud, and rationalization of fraudsters. Fraud can happen because of a variety of factors and occasions that can be used to justify accounting fraud (Putri & Irwandi, 2016).

FRAMEWORK FOR INTERNAL CORPORATE GOVERNANCE MECHANISM

In this study, a theoretical framework on the internal corporate governance mechanism is carried out based on the literature review in Figure 1 below. In this study, financial statement fraud is classified as a dependent variable and internal corporate governance mechanisms are categorised as independent variables. Literature reviews on this subject are obtained from five recent years of studies to ensure the relevancy of this study.

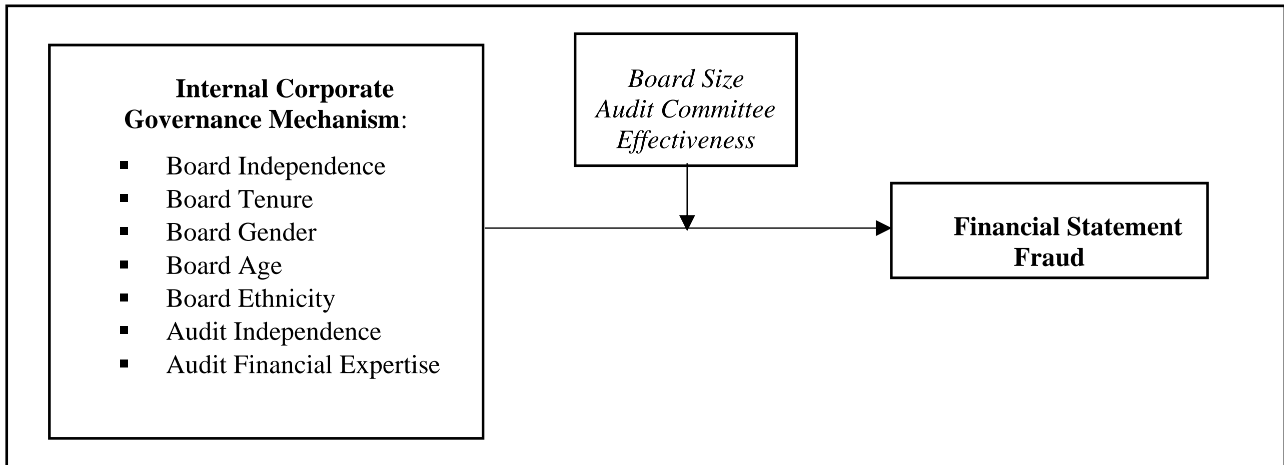

Figure 1. Theoretical Framework for Internal Corporate Governance Mechanism

CONCLUSION

The aim of this study is to investigate the determinants of corporate governance features on financial statement fraud among possible and non-possible fraudulent listed businesses in Malaysia. According to a review of literature, board independence has a negative link with financial statement fraud. In this regard, the chances of earnings manipulation or financial statement falsification would be reduced if there were more independent directors on the board. As a result, a higher level of board independence can be directly linked to agency theory, in which they will be able to supervise management's operations in order to prevent them from engaging in self-interested behaviour. Furthermore, board members' independence allows them to be more accountable for their actions because they are free of bias and the temptation to distort records to make an organisation appear more profitable. With adequate auditing methods on managers' business operations, it aids in safeguarding the interests of shareholders by ensuring that the long-term benefits of business growth are realised. Long-serving board members are believed to be knowledgeable with an organization's internal control methods, as well as amicable with the directors and management, building a bond of loyalty to the business (Setyawan & Anggraita, 2018; Ahmadi et.al., 2018). As a result, they may be influenced to engage in fraudulent reporting activities in order to protect the company's reputation, and they may be more tolerant of their controlling tasks. Furthermore, according to the fraud triangle theory, shareholders may put pressure on short-term directors to perform better and increase the company's earnings. In order to keep their employment and demonstrate their monitoring abilities, the board of directors may commit financial statement fraud. However, in order to advise on the appropriate length of service for directors, the exact tenure restriction cannot be stated with precision.

A higher presence of women on corporate boards of directors has been associated with lower levels of earnings manipulation. Women, it is predicted, will become more measured and reasoned. Members are more successful and creative in exchanging ideas, highlighting the importance of having a higher representation of women on the board. Furthermore, women directors are less hesitant to engage in high-risk operations than men directors because they are more risk-averse. Young directors are less likely to be involved in profits manipulation because their lack of experience prevents them from making use of the organization's reporting fraud opportunities. Furthermore, young directors are likely to be preoccupied with personal development and knowledge in order to establish a reputation within the company. They are less prone to produce accounting issues as a result of their dread of stagnation and meticulous behaviour. Senior members, therefore, would possess the necessary knowledge and experience to have a deeper understanding of the organization's operations, as well as the capacity to discriminate between opportunistic and ethical behaviour. Their knowledge enables them to take advantage of optimal circumstances in order to perpetrate and conceal the deception. They may be less scrutinised and subjected to fewer internal control procedures. This is where the fraud diamond concept comes into play because senior board members would have the opportunity and capability to professionally carry out the deceit.

A board with more ethnic diversity would be able to effectively manage duties to various groups of employees, executives, and shareholders. The differences in attitudes, views and behaviours among board members of diverse ethnic origins would be useful in holding fruitful discussions in order to establish monitoring methods that would be acceptable for the various members of the organisation. As a result, when several ethnic groups assemble in a boardroom with the same mindset of group individualism, there is a high risk of manipulation and false reporting. Furthermore, an increase in the audit committee's number of independent directors will reduce the likelihood of misleading reporting. In terms of audit committee size, however, it is possible to mediate the relationship between audit committee independence and financial statement fraud by increasing the size of the audit committee.

In terms of the adaptation of corporate governance variables in improving the overall performance of businesses, this study contributes to many parties and stakeholders. The findings of this study have implications for developing standards and corporate governance rules that will contribute to productive debates and revisions of the corporate governance structure to suit the needs of Malaysia's public listed firms. As a result, the recommendations will be enhanced and strengthened in order to significantly limit the risk of false reporting. This research has ramifications for the role of board members and the audit committee in increasing shareholder value. This is because board members and the audit committee would be able to determine the optimum composition and conditions for the organization's monitoring operations. Greater board size, board age diversity, and audit committee independence, for example, can all lead to a decreased risk of financial statement fraud. Future research could also look into other aspects of corporate governance, including salary, managerial ownership, state ownership, institutional ownership, board meetings, and audit committee diversity, to better understand the repercussions of financial statement fraud. In addition, the analysis could be conducted by comparing Malaysia's corporate governance structure to that of other countries with similar legislation, norms, economic, and market conditions. These findings will assist in ensuring that Malaysian research is more accurate.

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CONFLICT OF INTEREST

The authors, as noted, certify that they have NO affiliations with or involvement in any organisation or agency with any financial interest (such as honoraria; educational grants; participation in speakers' bureaus; membership, jobs, consultancies, stock ownership, or other equity interest; and expert testimony or patent-licensing arrangements), or non-financial interest (such as personal or professional relationships, affiliations, expertise or beliefs) in the subject matter or materials addressed in this manuscript.

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