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Fraudulent Financial Reporting Cases in Malaysia: A Descriptive Analysis

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Abstract
The objective of this study is to explore the background of the companies involved in fraudulent financial reporting and the impacts to the offenders as well as the companies after the fraud was revealed by the regulator. In Malaysia, the main regulator empowered to investigate fraudulent financial reporting case is Securities Commission of Malaysia. The offenders involved in furnishing false information to the Securities Commission or Bursa Malaysia were charged under Capital Market and Services Act 2007. Prior to 2007, the offenders were charged under Securities Industry Act 1983. In this study, the fact of the case of 22 fraudulent companies listed in the criminal prosecution under enforcement action of Securities Commission of Malaysia's website were extracted and analyzed. The results reveal that most fraudulent financial reporting cases occurred a few years before the introduction Malaysian Code of Corporate Governance (MCCG) 2000 and a few years before the MCCG was revised in 2007. Industrial product sector was the sector most frequently involved in fraudulent financial reporting. The financial reports were manipulated in three aspects namely audited accounts, quarterly reports and corporate proposals. In most cases, the offenders involved in such fraud scheme were the top management mostly directors.
Keywords: Fraudulent Financial Reporting, Securities Commission, Fraud, Case, Malaysia

Introduction

Fraudulent financial reporting has been an issue of great concern worldwide following the collapsed of once venerable companies such as Enron and WorldCom. Fraudulent financial reporting is a category occupational fraud a long side with asset misappropriation and corruption. It is a fraud schemes, in which the perpetrator intentionally causes a material misstatement or omission in the organization's financial statements. According to the 2020 Global study on occupational fraud and abuse which analyzed 2,504 cases between January 2018 and September 2019, fraudulent financial reporting is the least used scheme (10% of cases) yet the costliest category of occupational fraud. It results in median loss of USD 954,000 per case (ACFE, 2020). In other words, it is reported as the first rank of enormous losses. Asset misappropriation which involves an employee stealing or misusing the employing organization's resources, occurs in the vast majority of fraud schemes (86% of cases) however, these schemes produce the lowest median loss at USD 100,000 per case. The third category, corruption which includes offenses such as bribery, conflicts of interest, and extortion falls in the middle in terms of both frequency and financial damage. This scheme occurs in 43% of cases and cause a median loss of USD 200,000. Since these three types of fraud are frequently undetected and often never reported, so it is difficult to determine the full scope of global losses.

In Malaysia, fraudulent financial reporting cases have started to surface even before the collapse of Enron. Based on the securities commission enforcement record, the first case of submitting false information was committed by the director of Ganad Corporation Bhd in 1995. Towards the end of 1990's, a few more similar cases arose in companies such as Kiara Emas Asia Industries Bhd and Chase Perdana Bhd. The highest frequency of such fraud occurred between 2004 and 2007 involving companies such as Transmile Group Bhd, Welli Multi Corporation Bhd and MEMS Technology Bhd (Wan Abdullah et al., 2012). Prior to 2007, the offences related to fraudulent financial reporting were charged under Securities Industry Act 1983. Later, the cases were charged under Capital Market and Services Act 2007 (CMSA) when this new Act came into force on 28 September 2007 (Sulaiman, 2008).

The widespread occurrence of fraudulent financial reporting has led researchers to conduct study in various aspect of fraudulent financial reporting. The review of previous literatures on fraudulent financial reporting reveals that many empirical studies have been carried out by researchers in the area of fraudulent financial reporting or in a similar area. Much research was carried out within the purview of audit (Bonner et al., 1998; Carcello & Nagy, 2004; Kinney et al., 2004; Knapp & Knapp, 2001; Owusu-Ansah et al., 2002). Others were related to detection of fraud (Barsky et al., 2003; Kaminski et al., 2004; Persons, 1995; Spathis, 2002); the characteristics that predispose fraudulent financial reporting (Beasley, 1996; Holtfreter, 2005; Lavery et al., 2000; Saksena, 2001; Summers & Sweeney, 1998; Turpen & Messina, 1997); behavioural intention (Carpenter & Reimers, 2005; Yusoff et al., 2020; Weidman et al., 2004); the effect of establishment of audit committee on fraudulent financial reporting (Badolato et al., 2013; Beasley, 1996; Ghafran, 2013; Huang & Thiruvadi, 2010); managerial ownership (Baek et al., 2009; Chen et al., 2006); ownership concentration (Al-Rassas & Kamardin, 2015); motives for fraudulent financial reporting (Kanjanapathy & Hashim, 2019; Lau & Ooi, 2016) and fraud prevention (Azis et al., 2020).

However, to this date, no study in Malaysia has been specifically conducted to explore the background of the companies involved in fraudulent financial reporting and the impacts to the offenders as well as the companies after the fraud was revealed by the regulator. If this study is not carried out, the overall understanding about the background of the companies involved in fraudulent financial reporting and the impacts to the offenders as well as the companies after the fraud was revealed will be unclear. Therefore, this study attempts to explore the background of the companies involved in fraudulent financial reporting and the impacts to the offenders as well as the companies after the fraud was revealed by the regulator.

Literature Review

Fraudulent Financial Reporting

Fraudulent financial reporting is defined as the intentional, deliberate, misstatement or omission of material facts, or accounting data to mislead and, when considered with all the information made available, would cause the reader to alter his or her judgment in making a decision, usually with regards to investments (ACFE, 2020). In other words, the fraudulent financial reporting is generally defined as the intended deceives or misrepresents in one way to others (Zin et al., 2020). There are five basics of financial statement fraud, which are fictitious sales, improper expenses recognition, incorrect asset valuation, hidden liabilities and unsuitable disclosures (Mat Zin et al., 2020). Fraudulent financial reporting may occur anywhere and has become increasingly prominent in the eyes of the public and the world's regulators as it may be committed by individuals across all professions. Reinstein, Moehrle and Reynolds-Moehrle (2006) documented that financial statement fraud begins with financial and morale problems in the company, in which the company's control environment is lacking which encourages inefficiency within its auditing procedures. These findings were supported by Carcello and Palmrose (1994); Dechow, Hutton and Sloan (1996) and Lys and Watts (1994) who found that financial distress and poor financial performances are the most important reason for financial statement fraud occurrences. While occurring less often than other types of fraud, fraudulent financial reporting usually does the most harm to organizations (Dalnial et al., 2014). As a consequence, fraudulent financial reporting has received much attention from the public, the financial community and regulatory bodies.

Enforcement Action in Malaysia

The main statute regulating the securities market in Malaysia is Capital Market and Services Act 2007 (CMSA). Under the CMSA, the Securities Commission is authorized to initiate criminal proceedings as well as civil actions for contravention of the securities law, in addition to administrative sanctions that may be imposed without having recourse to the courts. The CMSA is a consolidating Act which now encompasses the former Securities Industry Act 1983, the Futures Industry Act 1993 and Part IV of the Securities Commission Act 1993 which deals with fund raising activities. The CMSA is supported by the Capital Markets and Services Regulations 2007, the Licensing Handbook and the Guidelines on Regulation of Markets. The CMSA which was passed by Parliament in May 2007, came into force on 28 September 2007 (Sulaiman, 2008). Hence, any public listed companies involves in fraudulent financial reporting will now be charged under CMSA.

Methodology

The sample data of this study consist of 22 public listed companies that were involved in fraudulent financial reporting. They were manually identified from the criminal prosecution list under enforcement action of Securities Commission of Malaysia's website. There are various types of offences being listed under criminal prosecution such as furnishing false information, money laundering, insider trading, criminal breach of trust, short selling, market manipulation, illegal fund management activities and defrauding a stockbroking company. The offence relates to fraudulent financial reporting is furnishing false information either to Securities Commission of Malaysia or Bursa Malaysia Berhad (previously known as Kuala Lumpur Stock Exchange (KLSE)). The offence was previously charged under section 122B and 122C of Securities Industry Act 1983. Now, the offence is charged under section 369 and 370 of Capital Market and Services Act 2007 (Sulaiman, 2008). The information about the offender, the fact of the case and the penalty imposed were extracted from the criminal prosecution record of Securities Commission of Malaysia. Additional information related to the type of market, the business sector, year of delisting, the availability of annual report and the auditor that audited the companies in the year of fraud is obtained from the Bursa Malaysia website.

Findings and Discussions
This section will discuss the findings of the study. The discussion will first describe the background of the fraudulent companies then followed by discussing the impacts to the offenders as well as the companies after the fraud was revealed.

Table 1.1: Summary of the type of market, the business sector, year of delisting, the availability of annual report and the auditor

No.	Name of Company	YOF	Market	Sector	De-listing	Audit Firm
1	Ganad Corporation Bhd	1995	Main	IP	No Annual Report	No information
2	Westmont Industries Bhd	1996	Main	IP	No Annual Report	No information
3	Kiara Emas Asia Industries Bhd	1997-2000	Main	CP	No Annual Report	No information
4	Wembley Industries Holdings Bhd	1998	Main	Properties	15/09/2008	Arthur Andersen& Co
5	Chase Perdana Bhd	1998	Main	IP	22/05/2008	Shamsir Jasani Grant Thorton
6	Idris Hydraulic (M) Bhd	1999	Main	Financial	No Annual Report	No information
7	Tat Sang Holdings Bhd	2000	Main	CP	27/10/2003	Saw & Co.
8	Pilecon Engineering Bhd	2001	Main	Construction	14/01/2010	HLB I.M. Chieng & Co
9	Plantation and Development (M) Bhd	2001	Main	Properties	22/09/2010	Arthur Andersen& Co
10	Polymate Holdings Bhd (PHB)	2003	Main	IP	19/10/2006	Ahmad Abdullah & Goh
11	United U-Li Corporation Bhd	2004	Main	IP		Roger Yue, Tan & Associates
12	Transmile Group Bhd	2004-06	Main	T&S	24/05/2011	Deloitte & Touche
13	INIX Technologies Holdings Bhd	2005	Ace	Technology		Azman, Wong, Salleh & Co
14	Welli Multi Corporation Bhd	2005	Main	IP	17/08/2009	Deloittee Kassim Chan
15	Kosmo Technology Industrial Bhd	2006	Main	IP	09/06/2009	Shamsir Jasani Grant Thorton

16	Megan Media Holdings Bhd	2006	Main	IP	23/04/2008	KPMG
17	Satang Holdings Bhd	2007	Main	IP		Leou & Associates
18	LFE Corporation Bhd	2007	Main	T&S		KPMG
19	MEMS Technology Bhd	2007-09	Ace	Technology	12/11/2010	KPMG
20	Axis Incorporation Bhd	2007-08	Main	IP	03/06/2011	Crowe Horwath
21	Linear Corporation Bhd	2009	Main	IP		Wong Liu & Partners
22	Silverbird Bhd	2010-11	Main	CP	24/10/2014	Crowe Horwath

Table 1.1 above shows that 90.9% (20 companies) of the companies were under main market. Five companies were identified to have committed fraud repeatedly. Kiara Emas Asia Industries Bhd repeated fraud for four consecutive years. Transmile Group Bhd and MEM Technology Bhd repeated fraud for three consecutive years. Whilst, Axis Incorporation Bhd and Silverbird Bhd repeated fraud for two consecutive years. The repeated fraud led to increase in observation to 31. The frequency of fraud eventually turned out to be as in Table 1.2 below

Table 1.2: Frequency of fraud

Year	**Frequency**
1995	1
1996	1
1997	1
1998	3
1999	2
2000	2
2001	2
2003	1
2004	2
2005	3
2006	3
2007	4
2008	2
2009	2
2010	1
2011	1
Total	**31**

Table 1.2 above indicates that most fraudulent financial reporting cases occurred between 1998 and 2001 and later between 2004 and 2007. The frequency of occurrence between 1998 and 2001 occurred before Malaysian Code of Corporate Governance 2000 (MCCG) became effective. The

occurrence of fraud cases during this period that led to the introduction MCCG 2000 which aimed to promote sound corporate governance standards in Malaysia (Md Nasir & Hashim, 2020). During that period, weak corporate governance structures were believed to be the reason behind the financial statement fraud (Yang et al., 2017). Later, the frequency of fraudulent financial reporting cases were on the rise again between 2004 and 2007 could be attributed to the fact that at that time the MCCG was still at its infancy stage and required improvements. As a consequence, the MCCG was revised in 2007 to strengthen the effectiveness of the corporate governance as a control mechanism to prevent fraud. As for frequency of fraud among business sector, it be summarised as Table 1.3 below.

Table 1.3: Frequency of business sector

Sector	**Frequency**	**Percent**
Construction	1	5%
Consumer product	3	14%
Financial	1	5%
Industrial product	11	50%
Properties	2	9%
Technology	2	9%
Trading and services	2	9%
Total	**22**	**100%**

The Table 1.3, above reveals that 50% (11 companies) of the fraudulent companies came from industrial product sector. The justification could be due to weakness in the internal control system and the complexity of industrial product business. Such weaknesses provided opportunity for the offenders to commit fraud.

Next, by referring back to Table 1.1, the annual report of four fraudulent companies have been removed from the Bursa Malaysia website namely Ganad Corporation Bhd, Westmont Industries Bhd, Kiara Emas Asia Industries Bhd and Idris Hydraulic (M) Bhd. The possible reason could be that they have filed for bankruptcy or changed status to private companies. As a consequence, information about the auditor for these four companies cannot be obtained. Table 1.1 also reveals that thirteen companies were delisted from Bursa Malaysia. They were either ceased operation or changed status to private companies.

In relation to auditor, two fraudulent companies (Wembley industries Bhd and Plantation and Development (M) Bhd) were audited by Arthur Anderson which was in the Big 5 group before 2002. Nevertheless, Arthur Anderson was doomed to cease operation in 2002 following the collapse of Enron in the USA. Since then, the professional accountancy service network shrunk to Big 4. The current Big 4 firms comprise accounting network Deloitte, Ernst & Young KPMG and PricewaterhouseCoopers. After 2002, four companies were audited by Big 4. Transmile Group Bhd was audited by Deloittee and Touche, whilst Megan Media Holdings Bhd, LFE Corporation Bhd and MEMS Technology were audited by KPMG. This finding indicates that engaging Big 4 to audit the company does not give any guarantee that the occurrence of fraudulent financial reporting could be prevented. Lindsey et al. (2002) stated among the factors that cause audit failure are weak internal control, weak or non-existence of audit committee, auditor offered non-audit services which affect independence, failure on part of auditor to enquire about fraud and auditor fails to uphold appropriate professional standards in completing audit. Park (2017) claimed that powerful clients could also result in audit failure.

Next, this study discovered that five companies changed name a few years after they were involved in fraud. First, Ganad Corporation Bhd which changed name to Axis Incorporation Bhd in 2005. Second, Plantation and Development (M) Bhd which changed name to Fountain View Development Bhd in 2003. Third, Welli Multi Corporation Bhd which changed name to Energreen Corporation Bhd in 2008. Next, Satang Holdings Bhd which changed name to Destini Bhd in 2011 and the fifth one Silverbird Bhd which is now known as High-5 Conglomerate Bhd since 2013.

Table 1.4: Summary of fact of case and penalty

No.	Name of Company	YOF	Offender	Fact of case	Penalty/Sentence
1.	Ganad Corporation Bhd	1995	Director	Gan, a director of Ganad Corporation Bhd (Ganad), was charged for submitting false information to the SC, which was provided in Ganad's audited accounts for two financial year ends, in connection with Ganad's listing proposal. The turnover, trade debtors and profit before tax figures reflected in the audited accounts were inflated.	Gan was fined RM600,000 (in default 6 months imprisonment). The fine was paid.
2.	Westmont Industries Bhd	1996	Director	Chong, Vincent and Chok had caused the submission of misleading information that is contained in the unaudited results of Westmont Industries Berhad Group for year ended 31 December 1996 to KLSE.	Chong was fined RM400,000 (in default 12 months imprisonment).
3.	Kiara Emas Asia Industries Bhd	1997-2000	Accountant Auditor	Tan, a former accountant of Kiara Emas Asia Industries Bhd (KEAIB) and Ravandaran, a former audit partner of Messrs. Arthur Andersen & Co. who was in-charge of KEAIB's audit were both charged on 13 August 2004 for furnishing false information to the SC. The information was said to be contained in the "Follow Up Questionnaires" of KEAIB for the	On 13 December 2012, both Tan and Ravandaran were acquitted and discharged by the Sessions Court at the end of the prosecution's case.

				financial years ended 31 March 1997, 1998, 1999 and 2000 on the status of the utilisation of proceeds of a rights issue by KEAIB when in fact RM16,937,739.20 of the right issue proceeds had been utilized in breach of the conditions of the Securities Commissions' letter of approval dated 14 November 1996.	
4.	Wembley Industries Holdings Bhd	1998	Director	Peter Ling, a director of Wembley Industries Holdings Bhd (WIHB) was charged for knowingly and willfully permitting the furnishing of a false statement to the KLSE in relation to WIHB's affairs. The false statement was in WIHB's announcement to KLSE dated 25 February 1998 which stated that none of the directors or substantial shareholders of WIHB have any interest, direct and/or indirect, in the disposal of its subsidiaries when in fact he had an indirect interest in the disposal.	Peter Ling was acquitted and discharged on 26 December 2008.
5.	Chase Perdana Bhd	1998	Executive chairman	Tan Sri Datuk Dr. Mohan, executive chairman of Chase Perdana Berhad (CPB), caused to be submitted false information in CPB's corporate proposal to the SC. The false information was that he did not hold any shares in CPB when in fact he did.	The executive chairman was compounded RM1,000,000 for the offence on 30 January 2003.
6.	Idris Hydraulic (M) Bhd	1999	Director	Ishak, a director of Idris Hydraulic (M) Berhad (IHMB), was charged on 24 July 1999 for falsely disclosing in IHMB's proposal to the SC that he did not hold any shares in KFC Holdings (M) Bhd (KFC). The information submitted was in connection with a proposal for the acquisition of an asset of KFC by IHMB.	He was fined RM400,000 (in default 6 months imprisonment).

7.	Tat Sang Holdings Bhd	2000	Director	Lim, a director of Tat Sang Holdings Bhd (Tat Sang), knowingly authorised the furnishing of false statements to the KLSE in respect of Tat Sang's annual accounts for the year ended 31 July 2000. The false statements relate to: Fixed assets balance that was inflated through the inclusion of fictitious invoices; Other debtors balance that was inflated through the inclusion of payments pursuant to fictitious agreements; and Revenue figure that was inflated through the inclusion of fictitious sales.	Lim was sentenced to 5 months and imposed a monetary fine of RM200,000 (in default 2 months imprisonment).
8.	Pilecon Engineering Bhd	2001	Executive chairman	Tan, the Executive Chairman of Pilecon Engineering Berhad (Pilecon), failed to inform the SC upon becoming aware that information previously submitted to SC may be misleading. The information relates to the directors' recommendation to Pilecon's shareholder to vote in favour of the extension of the expiration date of Pilecon's warrants that was contained in Pilecon's draft circular to shareholders.	The executive chairman was compounded RM1,000,000.
9.	Plantation and Development (M) Bhd	2001	Directors	Chua and Gwi, both directors of Plantation & Development Berhad (P&D), and Yong, the Chief Executive Officer of P&D, abetted P&D in utilising its public issue proceeds amounting to RM26,493,335.57 for purposes other than as approved by SC. Chua, also caused the submission of a false statement to SC in relation to the utilisation of the public issue proceeds.	The director was fined RM250,000 (in default 6 months imprisonment).

10.	Polymate Holdings Bhd	2003	Managing director	Ng, former Group Managing Director of Polymate Holdings Berhad (PHB) and Managing Director of ABI Malaysia Sdn Bhd (its wholly owned subsidiary), was charged for knowingly authorising the furnishing of false statements to Bursa Malaysia, namely the inflated revenue and trade receivables of PHB for the year ended 30 September 2003, as contained in PHB's 2003 annual report.	The director was sentenced to a fine of RM300,000 (in default 1 year imprisonment).
11.	United U-Li Corporation Bhd	2004	Managing director cum chief executive officer	Yue Chi Kin ("Yue") was charged under section 122B (b)(bb) read together with section 122C(c) of the Securities Industry Act 1983 for abetting U-Li in making a misleading statement to Bursa Malaysia in its Annual Report and Financial Statements for the financial year ended 31 December 2004.	The managing director cum chief executive officer was sentenced to one year imprisonment and a fine of RM400,000.
12.	Transmile Group Bhd	2004-06	Chief financial officer cum executive director	Gan, former Chief Executive Officer and Executive Director of Transmile Group Berhad (Transmile) was charged for abetting Transmile in making a misleading statement relating to Transmile's revenue in the company's Quarterly Report on Unaudited Consolidated Results for the Financial Year ended 31 December 2006 which was likely to induce the purchase of Transmile's shares by other persons, an offence under section 86(b) read together with section 122C(c) of the Securities Industry Act 1983 (SIA). Gan was also charged in alternative with intent to deceive, furnished a misleading statement to Bursa Malaysia in the same financial statement, an offence under section 122B(a)(bb) read together with section 122(1) of the SIA.	The chief financial officer cum executive director was sentenced to a fine of RM2.5million (in default, 18 months' imprisonment) and 1 day imprisonment.

13.	INIX Technologies Holdings Bhd	2005	Directors Senior account executive	Mok, Cheong & Jimmy (directors of Inix Technologies Holdings Bhd) were charged with 4 charges under s.122B(b)(bb) of the Securities Industry Act 1983 (SIA) for knowingly authorising the furnishing of false statements to Bursa Malaysia in relation to Inix's 4 quarterly reports for FYE 31 July 2006; i.e. 31 October 2005, 31 Jan 2006, 30 April 2006 and 31 July 2006.In addition they were charged under s.55(1)(a) of the Securities Commission Act 1993 (SCA) for causing the issuance of Inix's Prospectus, which contained information that is false. Normah (Senior Account Executive of Inix) was charged with abetting Jimmy in committing all the offences set out above.	Jimmy was fined RM400,000 and to serve a total sentence of imprisonment of 18 months. Mok, Cheong and Normah were fined RM50,000 and are to serve a total sentence of 12 months imprisonment each.
14.	Welli Multi Corporation Bhd	2005	Chief executive officer cum executive director	Ang Sun Beng was at the material time the Managing Director of Welli Multi Corporation Berhad (WMCB) while co-director Ang Soon An was a member of its Audit Committee. They were each charged with four counts under section 122B(a)(bb) SIA 1983 read together with section 122(1) SIA 1983 for furnishing misleading statements in WMCB's annual report for FYE 2005 and the first 3 quarterly reports of FYE 2006 to the SC and Bursa Malaysia Securities Berhad respectively.	The Chief executive officer cum executive director was compounded RM100,000.
15.	Kosmo Technology Industrial Bhd	2006	Managing director Executive director	Norhamzah was at the material time the Group Managing Director while Mohd Azham was an executive director of Kosmo Technology Industrial Berhad ("Kosmo Tech"). Both Norhamzah and Mohd Azham were charged under section 122B(a)(bb) read together with	Norhamzah the MD was sentenced to imprisonment for a total of 2 years and is liable to a total fine of RM1.45 million. Mohd Azham the ED was

			Account Manager	section 122(1) of the Securities Industry Act 1983 and section 369(a)(B) read together with section 367(1) of the Capital Markets & Services Act 2007 for furnishing false statements to Bursa Malaysia Securities Berhad in relation to Kosmo Tech's eight quarterly reports on the unaudited consolidated results for the financial years 2006 and 2007. Lim Hai Loon, the Accounts Manager of Kosmo Tech at the material time was charged for abetting Kosmo Tech in furnishing the false statements to Bursa Malaysia Berhad in relation to Kosmo Tech's eight quarterly reports on the unaudited consolidated results for the financial years 2006 and 2007.	sentenced to imprisonment for a total of 2 years and is liable to a total fine of RM1.45 million. Lim Hai Loon the account manager was sentenced to imprisonment for a total of 1 year and is liable to a total fine of RM560,000.
16.	Megan Media Holdings Bhd	2006	Executive chairman cum director Financial controller	The false information was in relation to the revenue in MMHB's Quarterly Report on Consolidated Results for the Financial Period ended 31 January 2007.	The executive chairman cum director was sentenced 18 months imprisonment and a fine of RM300,000.
17.	Satang Holding Bhd	2007	Executive chairman and managing director Executive Directors	Jamaluddin (Executive Chairman and Managing Director), Gan (Executive Director) and Hakim (Executive Director) were charged with knowingly authorizing the furnishing of false statements to Bursa Malaysia in 4 of its quarterly financial reports.	Jamaluddin, Gan and Hakim were charged on 4 December 2008. They were acquitted by Sessions Court on 17 May 2010.
18.	LFE Corporation Bhd	2007	Director	Alan Rajendram a/l Jeya Rajendram, a former director of LFE Corporation Berhad (LFE), was charged on 24 June 2010 with two charges under	The director was sentenced to a jail term of 12 months and a fine of

				s.122B(b)(bb) of the SIA and two charges under s.369(b)(B) of the CMSA 2007 for knowingly permitting the furnishing of false statements by LFE to Bursa Malaysia Securities Berhad in relation to LFE's unaudited financial results for all four quarters for its financial year ended 31 December 2007. The false statements were in relation to fictitious purchases of RM119 million made by LFE International Ltd, a subsidiary of LFE.	RM300,000 for each charge (4 charges).
19.	MEMS Technology Bhd	2007-09	Director	Ooi Boon Leong, the Director and substantial shareholder of Mems Technology Berhad, was charged for knowingly authorised the furnishing of a misleading statement to Bursa Malaysia Berhad. The misleading statement is in relation to Mems Technology Berhad group's revenue for year ended 31 July 2007 contained in its condensed consolidated income statements for the 12 month period ended 31 July 2007.	The director was sentenced to 6 months imprisonment and a fine of RM300,000.
20.	Axis Incorporation Bhd	2007-08	Directors	Saipuddin Lim and Lee Han Boon were each charged with five counts of furnishing false statements relating to the revenue of Axis Incorporation Berhad ("Axis") to Bursa Malaysia. The charges which were preferred under section 122B(b)(bb) of the Securities Industry Act 1983 (SIA) and section 369(b)(B) of the Capital Markets and Services Act 2007 (CMSA) were in relation to false statements contained in Axis' four quarterly reports for the Financial Year 2007 and the quarter ending 31 March 2008.	Lee Han Boon was sentenced to 7 months imprisonment and RM200,000 fine. Saipuddin Lim was sentenced to 12 months imprisonment. Koh Tee Jin was sentenced to one (1) day imprisonment and a fine of RM200,000.

21.	Linear Corporation Bhd	2009	Executive chairman and Executive director	Alan Rajendram was charged under section 369(b)(B) of the Capital Markets and Services Act 2007 (CMSA) for furnishing a false statement to Bursa Malaysia Securities Bhd in relation to the affairs of Linear Corporation Berhad (Linear). The false statement was in relation to an announcement made by Linear on 29 December 2009 that its wholly owned subsidiary, LCI Global Sdn Bhd, had accepted a RM1.6 billion construction project awarded by Global Investment Group, a Seychelles incorporated company, to design and construct a district cooling plant of 350,000 RT (refrigeration tonnes) in Manjung, Perak, for what was termed as the 'King Dome Project'.	The director was sentenced to 7 months imprisonment and a fine of RM100,000 (in default, 6 months jail).
22.	Silverbird Bhd	2010-11	Managing director Chief Executive Officer	Tan Han Kook and Ching Siew Cheong were each charged with seven and eight counts respectively of furnishing false statements relating to the revenue of Silver Bird Group Berhad to Bursa Malaysia. The charges which were preferred under section 369(b)(B) of the Capital Markets and Services Act 2007 (CMSA) were in relation to false statements contained in Silver Bird Group Berhad's quarterly reports for financial years 2010 and 2011.	Tan Han Kook and Ching Siew Cheong were charged on 11 September 2013. On 10 June, they were acquitted from all charges.

Sources: Securities Commission of Malaysia

Table 1.4 above shows that the financial reports were manipulated in three aspects namely audited accounts (11 companies), quarterly reports (7 companies) and corporate proposals (4 companies). Next, most of the fraudulent financial reporting cases have been caused by top management consisting of directors, chairman, chief executive officer and financial controller. Brennan & McGrath (2007) claimed that it is the ability of the top management to override controls and direct others to commit and conceal the fraud that gives rise to fraud.

Nevertheless, as a consequence of their actions, the law in Malaysia has sentenced them with a rather severe punishment. The highest amount of fine being imposed so far was RM2,500,000. It was imposed on former Chief Executive Officer and Executive Director of Transmile Group Berhad. The lowest amount of fine was RM100,000 which was imposed on the director of Linear Corporation Bhd. With regards to imprisonment, the longest period so far is 2 years. The sentence was imposed on two directors of Kosmo Technology Industrial Bhd. Apart from imprisonment, the two directors were also liable to a total fine of RM1.45 million each.

Conclusion

The objective of this study is to explore the background of the companies involved in fraudulent financial reporting and the impacts to the offenders as well as the companies after the fraud was revealed by the regulator. This study reveals that most fraudulent financial reporting cases occurred a few years before the introduction MCCG2000 and a few years before the MCCG was revised in 2007. Industrial product sector was the sector most frequently involved in fraudulent financial reporting. The study further discloses that annual report of four fraudulent companies were no longer available in Bursa Malaysia website after the companies were involved in fraud. Thirteen fraudulent companies were delisted after the offence was revealed. Six fraudulent companies were audited by the Big 5 then later the Big 4. The financial reports were manipulated in three aspects namely audited accounts, quarterly reports and corporate proposals. The study also found out that five companies changed name a few years after they were involved in fraud. In most cases, the offenders involved in such fraud scheme were the top management mostly directors. Next, the penalties and sentences imposed on offenders were considered fair in relation to offences committed. The highest amount being fined was RM2,500,000 and the longest period of imprisonment was 2 years. The limitation of this study is that it only identifies fraudulent companies from the criminal prosecution list of Securities Commission’s website. Future research should extend to identify cases under case compounded and media releases of Securities Commission as well as media releases of Bursa Malaysia.

This study makes theoretical and contextual contributes to the existing knowledge in the following ways. Firstly, it highlights a few characteristics of fraudulent companies in Malaysia such as the business sector of the companies, the period fraud frequently occurred and the documents that were manipulated by the offenders. Secondly, it reveals the consequences to the offenders and the companies after the offenders were found guilty by the court. Thirdly, this study can be a source of reference for future research. Finally, it is expected that this study will provide useful information to the business players and regulators in relation to impacts of fraudulent financial reporting on the employment and economic growth of the nation.

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