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**BOARD OF DIRECTORS CHARACTERISTICS,
SUPERVISORY BOARD AND CHINA LISTED
FINANCIAL FRAUD COMPANIES**



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**MASTER OF SCIENCE
(INTERNATIONAL ACCOUNTING)
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**BOARD OF DIRECTORS CHARACTERISTICS, SUPERVISORY BOARD
AND CHINA LISTED FINANCIAL FRAUD COMPANIES**



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Kolej Perniagaan
(College of Business)
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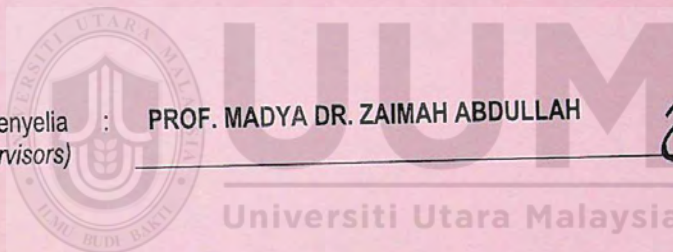
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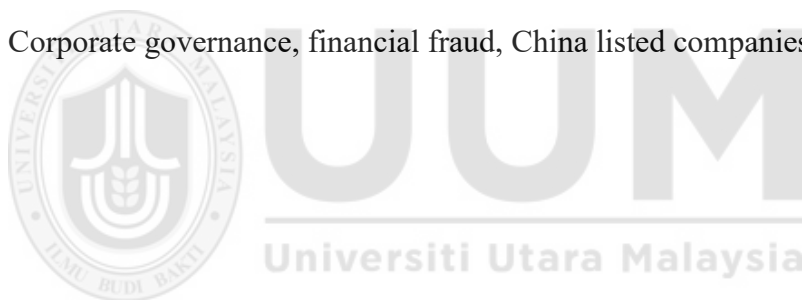
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ABSTRACT

This paper aimed to study the factors affecting financial fraud in listed companies to help investors effectively prevent major losses caused by corporate fraud, and to provide a basis for regulatory and legislative bodies to improve relevant controls. More importantly, it aimed to alert listed companies to the seriousness of the problem of financial fraud in order to improve financial reporting quality. This study involved an empirical analysis of the relationship between certain governance characteristics and financial fraud in Chinese listed companies from 2018 to 2022. The research design comprised descriptive analysis, correlation analysis and regression analysis of 50 companies that committed financial fraud and 50 companies that did not commit fraud. The empirical results showed that the size of the board of directors and the shareholding ratio of the largest shareholder were significantly negatively correlated with financial fraud, while the proportion of independent directors, CEO duality, the financial professional background of the members of the board of supervisors, and the size of the board of supervisors were not significantly associated with financial fraud.

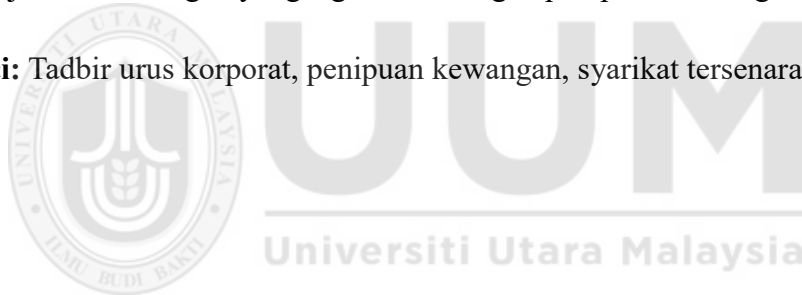
Keywords: Corporate governance, financial fraud, China listed companies



ABSTRAK

Kajian ini bertujuan untuk mengenalpasti faktor-faktor yang mempengaruhi penipuan kewangan dalam syarikat tersenarai untuk membantu pelabur mencegah kerugian besar yang disebabkan oleh penipuan korporat, dan untuk menyediakan asas kepada badan kawal selia dan perundangan untuk menambah baik kawalan yang berkaitan. Lebih penting lagi, ia bertujuan untuk memberi kesedaran kepada syarikat tersenarai tentang keseriusan masalah penipuan kewangan bagi meningkatkan kualiti pelaporan kewangan. Kajian ini melibatkan analisis empirikal hubungan antara ciri tadbir urus dan penipuan kewangan dalam syarikat tersenarai China dari 2018 hingga 2022. Reka bentuk penyelidikan terdiri daripada analisis deskriptif, analisis korelasi dan analisis regresi bagi 50 syarikat yang melakukan penipuan kewangan dan 50 syarikat yang tidak melakukan penipuan. Keputusan empirikal menunjukkan bahawa saiz lembaga pengarah dan nisbah pegangan saham pemegang saham terbesar berkorelasi secara negatif dengan penipuan kewangan, manakala bahagian pengarah bebas, dualiti CEO, latar belakang profesional kewangan ahli lembaga penyelia, dan saiz lembaga penyelia tidak menunjukkan hubungan yang signifikan dengan penipuan kewangan.

Kata Kunci: Tadbir urus korporat, penipuan kewangan, syarikat tersenarai di China



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Figure 3.1 Research Framework

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CSRC	China Securities Regulatory Commission
SZSE	Shenzhen Stock Exchange
SSE	Shanghai Stock Exchange
CSMAR	China Stock Market & Accounting Research
SPSS	Statistical Product and Service Solutions
DUAL	Duality
SUPERSIZE	Supervisory Board Size



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

With the information and growth of the capital markets, financial fraud has become a common problem in companies. As market economy develops and the number of listed companies increases, financial fraud has become a more prevalent issue throughout time, showing the characteristics of diversification and concealment. For example, the American cosmetics company Avon was exposed in 2019 for financial fraud. The company was accused of fraud on a global scale involving inflated sales and profits, among other things. Investors' interests were harmed, the company's stock price fell precipitously, and its reputation suffered greatly as a result of this occurrence (De Vido, 2018). In 2019, PT Garuda Indonesia (Persero) Tbk (GIAA) manipulated data in its financial reporting to conceal its true position, involving the false declaration of profits, the abuse of company assets and the violation of financial ethics. These falsifications involved the company's top management and raised widespread questions about corporate governance and internal control (Aviantara, 2023). In the United States in 2020, Luckin Coffee falsified sales data in its financial statements to mislead investors and regulators by exaggerating actual sales performance (Hu, 2021). German company Wirecard's "elaborate, scheming fraud" in 2020 resulted in more than \$2 billion going missing (Chen, 2022). NMC Health Plc, a healthcare company in the United Arab

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the results and the research as a whole. It then puts forward suggestions for improving the governance structure of listed companies and preventing financial fraud. Finally, it looks forward to the direction of future research.

5.1 Conclusions

This study aimed to explore the relationships between governance characteristics of listed companies and financial fraud, to help investors effectively predict the likelihood of corporate financial fraud and make good investment decisions, as well as to provide effective suggestions for listed companies to avoid financial fraud and to achieve compliant corporate financial reporting. Among the governance characteristics of listed companies, this study examined board size, proportion of independent directors, CEO duality, proportion of shares held by the largest shareholder, size of supervisory board, and financial professional background of the supervisory board members as independent variables, and the size of the company and the performance of the company as the control variables, to explore whether there was a significant relationship between these variables and financial fraud.

The results show that significant negative impact relationships on FRAUD were identified for BOARDSIZE and PLARGEST, while %OUTSIDE, DUAL,

SUPERSIZE and EXPERTISE were not significant. Overall, an effective corporate governance structure and asset management can reduce the risk of financial fraud.

5.2 Recommendations

Listed companies need to pay attention to several aspects in the governance of financial fraud:

First, the size of the board of directors of listed companies should be set at a reasonable level, and members should have professional ability and experience and receive regular training to improve the governance level and the transparency of decision-making.

Secondly, listed companies should increase the proportion of independent directors and strengthen their participation in decision-making to ensure their independence and impartiality. At the same time, listed companies should avoid the phenomenon of two positions to prevent the excessive concentration of power that increases the risk. In addition, listed companies should enhance their ownership structure. Coordination of shareholder interests and avoidance of interest violation are essential for optimizing a listed company's ownership structure; Rationally expand the size of the board of supervisors, improve the ability of internal supervision, formulate a strict internal control system, and strengthen the supervision of the management.

Finally, listed companies should improve corporate performance, formulate an effective performance appraisal system, ensure the transparency and authenticity of financial reports, in order to reduce the risk of financial fraud.

5.3 Limitation and Areas for future Research

Despite the extensive study undertaken by several domestic and international experts on the causes, mechanisms, and governance approaches related to financial fraud, China has a very poor implementation of real financial fraud governance. Therefore, the study of financial fraud governance countermeasures needs continuously updating, and the governance of financial fraud is an evolving process. For this study, the researcher excluded listed companies that were specialized in nature (such as those in the financial industry) and companies which had committed financial fraud for several consecutive years, so the sample size is too small. The research on the factors affecting fraud was not comprehensive. In the future, the impact of other factors on financial fraud will be further studied to make the governance of financial fraud more comprehensive and effective.

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