

**RISK AND RISK MANAGEMENT DISCLOSURE
AMONG MALAYSIAN COMPANIES**

A thesis submitted to the Graduate School in partial fulfillment of the
requirements for the degree Master of Science (International Accounting),
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by
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ABSTRAK

Objektif kajian ini adalah untuk mengkaji tahap terkini mengenai pendedahan risiko dan pengurusan risiko di dalam laporan tahunan di Malaysia serta hubungannya dengan pembolehubah agensi iaitu saiz firma, kadar keuntungan firma, kadar kecairan firma, kadar risiko firma, komposisi ahli lembaga pengarah dan jawatankuasa audit. Kajian ini menggunakan data daripada 97 firma dari papan utama Bursa Malaysia bagi tahun kewangan 2005.

Hasil daripada kajian mendapati pendedahan risiko yang tertinggi adalah di dalam risiko membuat keputusan dan manakala yang terendah adalah di dalam risiko persekitaran. Dari perspektif industri, industri pembinaan melaporkan pendedahan tertinggi manakala yang terendah adalah dari industri teknologi. Kriteria-kriteria risiko dan pengurusan risiko yang selalu didedahkan adalah dari segi informasi 'kualitatif/masa lampau' dan sebaliknya untuk informasi 'kuantitatif/masa hadapan'.

Kajian ini juga mendapati terdapat hubungan yang positif dan signifikan di antara saiz firma dengan pendedahan risiko dan saiz firma dengan keseluruhan pendedahan risiko dan pengurusan risiko. Perhubungan ini juga di dapati di antara keuntungan firma dan jawatankuasa audit. Sebaliknya, pembolehubah-pembolehubah yang lain (kadar risiko, kecairan dan komposisi ahli lembaga pengarah) tidak signifikan dan tidak mempunyai hubungan dengan pendedahan risiko dan pengurusan risiko.

ABSTRACT

The objectives of this study are to examine the current state of risk and risk management disclosures in annual reports in Malaysia and also to examine the association between risk and risk management disclosures and agency variables (namely size, profitability, leverage, risk, board composition and audit committee). This study used data from 97 main board companies for the year 2005.

This study found that the highest risk disclosure is information for decision making and the lowest is environment risk. In terms of industry, property industry reported the highest volume of risk and risk management disclosures while, the lowest disclosure is displayed by technology companies. The risk and risk management characteristics occurring most frequently is of 'qualitative/past' type and the least disclosed is of 'quantitative/future' type. It is also found that there is greater disclosure of past information as compared to future information.

This study also found that there is a positive and significant association between size and risk disclosure, and between size and overall risk and risk management disclosures. It is also found that there is a positive and significant association between firm profitability and audit committee with the extent of risk management disclosures. In contrast, other variables (namely, risk, leverage and board composition) are found to be statistically insignificant and have no association with the extent of risk and risk management disclosures.

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GLOSSARY AND ABBREVIATIONS

- AAA American Accounting Association
- AICPA Association of International Certified Public Accountants
- AISB Accounting International Standard Board
- BMB Bursa Malaysia Berhad
- CEO Chief Executive Officer
- CICA Canadian Institute of Chartered Accountants
- COSO Committee of Sponsoring Organizations of the Treadway Commission
- FASB Financial Accounting Standards Board
- FEE Federation des Experts Comptables Europeens
- FRR Financial Reporting Release
- FRS Financial Reporting Standards
- ICAEW Institute of Chartered Accountants in England and Wales
- IFRS International Financial Reporting Standards
- ISA International Standards on Auditing
- MACPA Malaysian Association of Certified Public Accountants
- MDA Management Discussion and Analysis
- MIA Malaysian Institute of Accountants
- MICG Malaysia Institute of Corporate Governance
- OFR Operating and Financial Review
- OLS Ordinary Least Square
- UUM Universiti Utara Malaysia

CHAPTER 1

INTRODUCTION

1.0 Introduction

The objectives of the study are to analyze the reporting of risk and risk management information in the annual reports of Malaysian public listed companies and to examine the factors that may influence risk disclosures. The mechanism of this study is illustrated in this first chapter. The first section gives the definition and interrelationships between risk and risk management. It is followed by a review of risk and risk management reporting framework. Then, identification of the research problem is discussed and highlighted. The following section presents the objectives of the study, research questions, and motivation of this study, scope and limitation and also the significance of this study. The last section provides an overview of important areas that need to be discussed in order to complete and achieve the objectives of this study.

1.1 Risk and Risk Management

Risk is defined as the variability or volatility of unexpected outcomes (Jorion and Khoury, 1996 as cited in Khan and Ahmed (2001)). Risk may also be defined as the uncertainty associated with both a potential gain and loss (Solomon, Solomon, Norton and Joseph, 2000). The Financial Committee of the Institute of Chartered Accountants in England and Wales (ICAEW) has defined risk as the “Uncertainty as to the amount of benefits. The term includes both potential gain and exposure to

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