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TAX AVOIDANCE AND MANAGEMENT FRAUD IN MALAYSIAN PUBLIC LIMITED COMPANIES: CONCEPTUAL PAPER

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ABSTRACT

Tax avoidance and management fraud have occurred all over the world every year. This study aims to examine the association between tax avoidance and the incidence of alleged management fraud in Malaysia. Hence, this study attempts to investigate the influence of tax avoidance on management fraud in public companies listed in the Main Market of Bursa Malaysia. This study used secondary data and quantitative analysis. The unit of analysis of this study was companies being prosecuted by the Securities Commission of Malaysia for management fraud from 2017 to 2020. Apart from contributing to the tax avoidance and management fraud literature, this study is expected to benefit various parties especially regulators and policymakers such as the Inland Revenue Board of Malaysia, Bursa Malaysia and Securities Commission of Malaysia to improve the tax system and financial reporting quality in Malaysia. This study enhances public understanding of tax avoidance and management fraud as well as well as contributes to improve detection, deterrence, and investigation of tax avoidance and management fraud.

1. Introduction

Management fraud has become the centre of public concern and it is a global issue to the business, the financial community, regulator, investor, board of directors, academic and the public at large around the world (Kassem, 2018; Dut 2016; ACFE 2020). The issue kept increasing from year to year with the advancement of commerce and technology (Gupta & Gupta, 2015; Dut 2016). It has been recorded with high cases and affected companies in more different ways (PwC, 2020). It is committed by the management of a firm to obtain personal gain (Nelson, 2011). Besides, it is a deliberate misstatement or omission in a financial statement intended to deceive the stakeholders (Howe, 1999; AICPA, 2017; Omar, Johari, & Smith, 2017). This is motivated to make the financial performance of the company look better than it is in reality and it does not accurately reflect the actual performance (Omar et al., 2017). As a result, management fraud involves intentional actions involving the use of deception, which leads to a misstatement in the financial statements, wrongful use of a position, and misappropriation of a firm's assets (AICPA, 2017).

The management fraud imposes tremendous costs and worse effects on the company when the management fraud is discovered by by the public at large (Strawhacker, 2016). Management fraud does not only have severe consequences for an organisation but also its employees and various stakeholders (Saksena, 2001; Carcello & Hermanson 2008; Chenguel, 2020). For example, the revelation of materially misstated financial statements results in large investor loss, subsequently followed by intense media and regulatory scrutiny for the company (Carcello & Hermanson 2008). When management fraud occurs, the consequences to investors, the entity itself and the fraud perpetrators often are severe such as in the case of WorldCom, the chief financial officer was fired, and the company filed for bankruptcy (Saksena, 2001: Strawhacker, 2016; Ortas & Gallego-Álvarez, 2020). Management fraud is not only very costly (Omar et al., 2017) from an economic perspective (Md Nasir, Ali & Ahmed, 2019), but also impacts public trust. Consequently, the management fraud jeopardizes future investment for companies as well as leads to detrimental aftermaths for entire industries.

The scandalous management fraud in large companies like Enron, WorldCom, Xerox, Tyco, Lehman Brothers, American Insurance Group, and Satyam, have resulted in investors' awareness about fraud in general and management fraud in particular to increase and continue (Kassem & Higson, 2012). Association of Certified Fraud Examiners, ACFE (2020) studied the costs and effects of occupational fraud that covered 2,504 cases from 125 countries and found that the fraud caused total losses of more than USD3.6 billion and became the primary factor of organization losses at almost 5% of yearly revenues. Financial statement fraud schemes were the least common type of fraud (ACFE, 2020). There were only 10% of the cases but the costliest that contributed to the loss, about USD954,000 median loss (ACFE, 2020).

Whereas asset misappropriation schemes were the most common, 86% of the cases but least costly, only USD100,000 median loss (ACFE, 2020). The total loss due to occupational fraud each year represents a staggering drain on the global economy (ACFE, 2020). Occupational fraud directly affects jobs opportunity, the production of goods, and public services (ACFE, 2020). Thus, it is important to understand how and why these crimes occurred and how to fight them (ACFE, 2020).

In Malaysia, high-profile management fraud cases like Transmile, Megan Media, Nasioncom, Wimems, Welli Multi and MEMs Technology have surprised the stakeholders and public at large (Razali, Yi, Brahmana and Tak, 2019; Lau and Ooi, 2016; Zainudin and Hashim 2016). The management fraud cases keep increasing despite the introduction of various mechanisms to improve the quality of financial reporting such as the Company Act 2016. The Company Act 2016 has revoked the Companies Act 1965 to change the landscape of company law in Malaysia

(ACCA Global, 2020), revised Bursa Malaysia's listing requirements and the Malaysian Code of Corporate Governance (MCCG). The current revised Code places an increased and progressive corporate governance culture in line with international standards (Securities Commission of Malaysia (SC), 2012).

According to PwC's Global Economic Crime and Fraud Survey 2020 - Malaysia Report (PwC), the survey revealed that 43% of Malaysian respondents have experienced fraud or corruption within the last 2 years as compared to 2018 with only 41%. This showed that there is a 2% raise and the fraud cases still keep increasing. The survey was collected from 5,000 respondents across 99 territories about their experience of fraud over the past 2 years. Almost half of them had suffered at least one fraud and an average of six frauds per company (PwC, 2020). The most common types of fraud experienced by Malaysian organisations in the last two years were customer fraud, cybercrime, and asset misappropriation (PwC, 2020).

Mostly the fraud perpetrators were committed by 40% internal perpetrators, 40% external perpetrators and the balance 20% involved collusion between the two of them (PwC, 2020). The respondents have reported the total cost of fraud losses amounting to USD42 billion and almost 13% of them who have experienced fraud stated that they have lost more than USD50 million (PwC, 2020). This proves that management fraud has become a threat to businesses, and it is a risk that can destroy the businesses (Aghghaleh, Mohamed & Rahmat, 2016).

A prior study by Ghafoor, Zainudin and Mahdzan (2019) contended that tax aggressiveness increased the likelihood of management fraud using a fraud sample of 76 firms in Malaysia from 1996 until 2016. This study extends the prior study by examining the relationship between tax avoidance and management fraud using a new sample from 2017 until 2020. This study investigates the sample due to the new application of the Company Act 2016 and the revised Malaysia Code of Corporate Governance in 2017. Hence, this study attempts to investigate the influence of tax avoidance on the occurrence of management fraud in public companies listed in the Main Market of Bursa Malaysia from 2017 until 2020. This study contributes to the existing tax avoidance and management fraud literature.

Most existing studies in Malaysia examined the relationship between corporate governance and financial reporting fraud (Hasnan, Abdul Rahman & Mahenthiran, 2008; Alwi, Wan Ismail, & Kamarudin, 2013; Abdullah & Said, 2019; Ghafoor et al., 2019). This study aims to broaden the scope of management fraud from a tax perspective. Therefore, this study contributes to the literature on management fraud by providing new empirical evidence on the relationship between tax avoidance and management fraud in emerging countries. To the best of the authors' knowledge, there are a few studies that investigate whether tax avoidance has influenced management fraud (Lennox et al., 2013: Ghafoor et al., 2019). This study developed a statistical model that would help predict the existence of management fraud (Saksena, 1999) through tax avoidance.

This study contributes to the existing tax avoidance and management fraud literatures by examining the influence of tax avoidance on management fraud. This study also helps as a guideline to regulators to be more careful and proficient in their resolves to curb tax avoidance and management fraud. For instance, it will benefit regulatory bodies, such as the SC, Bursa Malaysia and Inland Revenue Board of Malaysia, in developing new policies and procedures, as well as revising the existing rules. This study could be important insights for them to combat tax avoidance and management fraud. They can come out with an effective tax policy and good corporate governance in increasing the level of confidence of the investors in capital markets in Malaysia. This study contributes to the development of future management fraud predictive models by providing evidence of a relationship between tax avoidance and management fraud in the manner predicted by agency theory.

2. Literature Review

2.1 Management Fraud

There are many definitions of fraud defined by previous studies based on numerous types of fraud. The fraud is incurred when someone uses deception with the intention of personal advantage or causing loss to others (Akhbar, 2019). However, this study focuses on fraud in the workplace or occupational fraud. For this literature review, fraud in the workplace is considered fraud committed by management. Management fraud involves intentional misstatements or omission in financial statements or misappropriation of assets in an organization that is executed by top management to deceive financial statement users. The top management refers to the chairman, vice chairman, chief executive officer, president, chief financial officer, and controller (Beasley, 1994). The terms "management fraud", "financial statement fraud" and the "misstatement of financial statements" are used interchangeably in the past studies because it is the responsibility of management. It is committed by top management that abuses power to camouflage or benefit certain parties (Nelson, 2011).

According to Treadway, Batten, Kanaga, Marsh, Storrs and Trautlein (1987), fraudulent financial reporting is an intentional or a reckless conduct, whether an act or omission, resulting in materially misleading financial statements. Salehi, Mansoury and Pirayesh (2009) defined fraud as the intentional distortion of financial statements or other records by persons within or outside an organization to conceal the misappropriation of assets for personal gain. Hassan, Abdul Rahman and Mahenthiran (2014) stated that fraudulent financial reporting is different from earnings management concerning generally accepted accounting principles (GAAP). The earnings management is still within GAAP, but pushing its limits (Hassan et al., 2014) and fraud is outside of generally accepted accounting principles (Perols and Lougee, 2011). Razali et al. (2019) stated that firms using fraud will benefit from a larger increase in their reported net income than firms using income increasing GAAP changes. The fraud caused a significantly larger increase in income than GAAP changes did and also significantly more likely to increase gross profit (Razali et al., 2019).

ACFE (2020), the majority of fraud schemes that occurred was asset misappropriation, which involves an employee stealing or misusing the organization's resources, amounting to 86% of cases. Nonetheless, these schemes cause the lowest median loss at USD 100,000 per case (ACFE, 2020). In contrast, financial statement fraud schemes, in which the perpetrator intentionally causes a material misstatement or omission in the organization's financial statements, are the least common schemes in about only 10% of the cases but the highest cost of occupational fraud amounted to USD954,000 median loss. Also, Gupta and Gupta (2015) showed that bribery, financial statement frauds, misappropriation of assets and procedural frauds are major categories of fraud prevalent in India. The corporate fraud strips off the large taxes that the government could have earned and valuable savings of the investors (Gupta & Gupta, 2015.

There are many incentives that influence management fraud such as an incentive to improve the company's financial appearance to obtain a higher price from a stock or debt offering or to meet the expectations of investors (Treadway et al., 1987). Other incentives are the desire to postpone dealing with financial difficulties, personal gain, additional compensation, promotion, or escape from a penalty for poor performance (Treadway et al., 1987).

The management fraud is more likely incurred when there are factors that can contribute to the fraud committed by the fraudster (Ghafoor et al., 2019). This is based on the fraud triangle theory that was developed by Donald Cressey, an American sociologist (Strawhacker, 2016). There are three components of Cressey's fraud triangle theory, which are pressure or incentive, opportunity, and rationalization. To commit fraud, the perpetrator must have all the components.

A previous study, Perols and Lougee (2011)using a sample of 54 fraud and 54 non-fraud firms in the United States, found that fraud firms are more likely to manage earnings in prior years and that earnings management in prior years is associated with a higher likelihood that firms inflating revenue are committing fraud. Otherwise, Harjoto (2017) found that firms with higher community, employee, environmental and product-related corporate social responsibility have a lower likelihood of fraud. They also found that firms with higher diversity, employee, environmental and product-related corporate social responsibility have lower fraud severity. This showed a positive corporate ethical culture is essential to curb the outbreak of corporate fraud that threatens societal norms. Saksena (2001) determined the relationship between environmental factors and the incidence of management fraud. The study found that firms, where management fraud was detected, were characterized by greater heterogeneity in the environment.

A considerable number of studies have been conducted to investigate management fraud or fraudulent financial reporting in this world (Maulidi, 2020; Ngah, Ismail, & Abd Hamid 2020); Ghafoor, Zainudin, & Mahdzan 2019; Kassem, 2018; Lenard, Yu, York & Wu, 2017; Omar et al., 2017; Zainudin & Hashim, 2016). The previous studies have investigated the factors, perception, indicator, detection, incentives, rationalization and prevention of management fraud. Some studies investigated the perception of management fraud such as Kassem, 2018 and Gupta and Gupta, 2015. Kassem (2018) examined the external auditor's perception of the motivation behind management fraud in Egypt. While Gupta and Gupta (2015) investigated nature and perception fraud in India.

There are also a few studies that examined the detection of management fraud (Wei, Chen, & Wirth, 2017; Hajek & Henriques, 2017; Christianna, Stelios, Konstantinos & Azar, 2019). Wei et al. (2017) examined the detection of management fraud using balance sheets in Chinese public limited companies. While Hajek and Henriques (2017) examined financial fraud detection systems by combining specific features derived from financial information and managerial comments in corporate annual reports. Besides, Christianna et al. (2019) investigated financial statement fraud using machine learning technology. Andoh, Quaye and Akomea-Frimpong (2018) determined drivers of internal fraud and its impact in Ghanaian small-medium enterprises. However, the current study examined the influence of tax avoidance on management fraud using tax avoidance as a factor and indicator for the detection of management fraud.

Furthermore, there was a study that examined the relationship between corporate social responsibility and corporate fraud (Harjoto, 2017). While Kabuye, Nkundabanyanga, Opiso and Nakabuye (2017) studied internal auditor organizational status, competencies, activities and management fraud in Uganda's financial services sector. Major (2019) investigated the characteristics of management fraud research through a systematic literature review, a sample of 35 articles was identified and published in six of the most renowned accounting journals between

2000 and 2017. The study found that management fraud research is mainly conducted by authors from the USA and the vast majority of the articles also concern management fraud in the USA. Unfortunately, the study found that there are only 3 articles from Asia countries. As a result, the majority of the studies on management fraud literature are limited to the USA. Due to the lack of studies in emerging countries, this study will investigate the respective relationship by focusing on the relationship of tax avoidance and management fraud in a developing economy country, Malaysia.

In Malaysia, Omar et al. (2017) studied the effectiveness of an artificial neural network (ANN) in predicting fraudulent financial reporting in small market capitalization companies in Malaysia. Zainudin and Hashim (2016) analyzed the financial ratio in detecting fraudulent financial reporting using 30 samples obtained from the media centre of Bursa Malaysia for the period 2007 to 2013. The study suggested that financial leverage, asset composition, profitability and capital turnover were significant predictors of fraudulent financial reporting. Many other factors can influence management fraud such as institutional investors, board independence, effective audit committee, female on the board, aggressive tax reporting and financial difficulties (Ghafoor et al., 2019). This study aims to examine the relationship between tax avoidance and management fraud in Malaysian Public Limited Companies.

A previous study, Razali et al. (2019) examined the role of tax avoidance on a firm's earnings management for a sample of 149 listed public firms in Malaysia from 2009 until 2013. The study found that tax avoidance was positively significant towards earnings management. This implied that the firms may manage earnings to enjoy tax advantage (Razali et al., 2019). Also, Kasim and Saad (2019) suggested that the effective tax rate for multinational companies in Malaysia was lower than the standard tax rate with a mean ETR of 21.4% as compared to STR of 25% in 2015 and supported the existence of tax avoidance activities among multinational companies in Malaysia. Kassem (2018) found that tax avoidance could motivate management in Egypt to commit financial reporting fraud especially in small companies or family-owned businesses. Stankevicius and Leonas (2015) contributed a hybrid approach model for the prevention of tax evasion and fraud. Hence, based on the aforementioned discussion, this study extends the influence of tax avoidance on management fraud.

On the other hand, Salhi, Riguen, Kachouri and Jarboui (2019) found that there is a negative relationship between corporate governance and tax avoidance. This study focuses on identifying tax avoidance as a factor that may act as indicators for fraud detection of firms in Malaysia. This study is motivated to examine whether tax avoidance is associated with the occurrence of management fraud.

Besides the factors of management fraud, some previous studies examined the perception of management fraud. A study by Gupta and Gupta (2015) examined the perception of corporate frauds in India and their consequences in the business and economic systems. They found that the regulatory system is weak and a lack of professionalism on the board and other executive levels in companies caused corporate fraud. Kassem (2018) explored the perceptions of external auditors on the motivations behind management fraud and revealed that the desire to get remuneration or bonuses and the need to secure financing are the most common motivations behind management fraud in Egypt. Furthermore, Zuberi and Mzenzi (2019) found that business financial strain, social incentives, greed, operating problems, internal pressures and unhealthy work environment motivating the management fraud in Tanzania.

For detection of management fraud, a study by Kabuye et al. (2017) examined the relationship between internal audit organisational status, competencies, activities and fraud management.

Deshmukh et al. (2010) used a signal detection theory approach to analyzing the efficiency and effectiveness of auditing to detect management fraud. Agyemang (2020) assessed the effect of internal controls on fraud prevention in Access Bank Ghana Limited and revealed that there are effective supervision and implementation of an internal control system capable of revealing fraudster's mode of operations in the bank.

In Malaysia, Hassan et al. (2014) examined factors involved with fraudulent financial reporting practices. They also examined the relationship between earnings management and the occurrences of fraudulent financial reporting. The study used a matched sample of 53 firms that were convicted of issuing fraudulent financial statements during the period from 1996 to 2007 and concluded that firms involved in fraudulent financial reporting have poor corporate governance structures. Alwi et al. (2013) examined the relationship between audit committee attributes and the propensity of fraudulent financial reporting using a sample of 116 frauds and non-fraud companies listed on Bursa Malaysia from the year 2005 to 2010. They found that the audit committee independence is positively significant with fraudulent financial reporting. Kamarudin, Ismail, and Mustapha (2012) proved that firms with fraudulent financial statements employed aggressive financial reporting prior years to the occurrence of fraud.

Another study, Hassan et al. (2014) showed that firms involved in fraudulent financial reporting have poor corporate governance structures, audit quality is lower and outside directors seem overcommitted. While Lau and Ooi (2016) investigated the main attempts used and sensible motives for the fraudulent reporting. The study suggested that the most common attempt used was to overstate their reported revenue by recognising fictitious sales from bogus customers and sensible motives for the sample companies to manipulate their financial statements which include capital raising exercises, closeness to defaulting on debt repayments and sustaining equity overvaluations (Lau & Ooi, 2016).

Furthermore, Razali et al. (2019) assessed the issue of accounting fraud through taxation engaged by Malaysian firms. They stated that the taxation report in Malaysia is a self-administered system that allows managers to employ tax avoidance. Tax avoidance is important for firms to increase earnings which increases their shareholder's wealth. Hence, this study examined the relationship between tax avoidance and management fraud in Malaysian public limited companies.

2.2 Tax avoidance

Generally, a firm minimizes taxes by tax planning, tax avoidance or tax evasion. The firm uses legal and illegal means in reducing tax payments. Tax avoidance is a legal way of the tax regime to reduce the amount of tax that is payable by means within the law. According to Razali et al. (2019), tax planning or tax avoidance is exercised by firms in using knowledge of tax laws and within tax requirements. Every firm can use and take advantage of tax avoidance. Tax avoidance is proposed by the Government in planning tax liability. Tax avoidance is a legal reduction of payment tax liability (Windsor, 2017) or reduction of explicit tax (Hanlon & Heitzman, 2010; Riguen, Salhi & Jarboui, 2019).

It is incurred because of the duty not to pay taxes greater than an actual legal liability (Windsor, 2017). The firm also has conflicts of whether they should help governments or not in contributing to their financial needs. This led to a sense of ethical judgment or a strategy of business diplomacy on the part of management and the board of directors (Windsor, 2017). However, the practice of tax avoidance has created a business ethics issue, and some argue that it is immoral to avoid tax (Razali et al., 2019). Tax avoidance means that firms can move across national tax jurisdictions (Windsor, 2017) in minimizing their tax liability. Kasim and Saad (2019) stated that "tax avoidance is associated with the intention of a taxpayer to minimize tax by adopting tax planning mechanisms".

Dodd (2020) defined tax avoidance as when a firm legally exploits the tax system to reduce tax liabilities for example establishing an offshore company in a tax haven.

In sum, tax avoidance means paying as little tax as possible but still within the right side of the law. But sometimes the method of tax avoidance is very aggressive and likely falls under tax evasion which means illegal. Based on Jarboui, Kachouri and Riguen (2020)," tax avoidance constitutes firms' efforts to reduce their tax payments to tax authority through various means, some of which are perfectly legal and others, known as tax aggressiveness, whose legality may be questionable". Kovermann and Velte (2019) stated that when a firm moves far away from tax compliance, the level of tax avoidance of the firm will increase and become more aggressive. As a result, the firms exercise tax avoidance to facilitate wealth expropriation (Tang, 2016).

In Australia, tax schemes that a corporation establishes with the sole purpose of avoiding tax are considered not to comply with the spirit of the law (Lanis & Richardson, 2013). In the United Kingdom, there are many cases such as Gary Barlow, Starbucks, Google and Amazon in connection with tax avoidance and evasion schemes in the media. Consequently, aggressive tax avoidance is associated with administrative punishment and subsequent reputation loss. Then, it also decreases future cash flow and firm value (Chen, Hu, Wang and Tang, 2014). Besides, Chen et al. (2014) stated that Enron structured financing transactions to evade tax and manipulate earnings, which ultimately led to its failure.

According to HMRC (2019), the UK tax collection agency has estimated that the overall cost of tax avoidance in the UK in 2016-17 was £1.7 billion and the tax gap in that year was of £33 billion. Dodd (2020) stated that the UK Government has been working to change the perception of tax evasion as a petty crime by creating a new corporate criminal offense of failing to prevent the facilitation of tax evasion by associated persons. The UK government has introduced hundreds of measures to act against aggressive tax avoidance schemes and reduce the tax gap between the difference between the tax paid and collected (Dodd, 2020).

Many factors contribute to tax avoidance. Riguen et al. (2019) showed that audit quality influences corporate tax avoidance based on a sample consisting of 270 UK firms for a period from 2005 until 2017. The audit quality measured by two proxies audit specialization and audit fees has a negative effect on corporate tax avoidance (Riguen et al., 2019). Whereas Desai and Dharmapala (2006) examined the relationship between corporate tax avoidance and the growth of high-powered incentives for managers and they found that increases in compensation incentives can reduce the level of tax avoidance. Wang and Chen (2012) showed a significant positive correlation between earnings management and tax avoidance. Razali et al. (2019) found that tax avoidance and growth are positively significant towards earnings management. Asiri, Al-hadi, Taylor and Duong (2020) examined the association between investment efficiency and corporate tax avoidance. Using a large sample of U.S. firms over the period 1993–2016, the study showed that there is a positive association between corporate tax avoidance activities and investment inefficiency. Moreover, Ghafoor et al. (2019) found out that aggressive tax reporting and financial difficulties increase the likelihood of fraud commission. As a result, this study will extend the prior studies by examining the influence of tax avoidance on the occurrence of management fraud in Malaysian public limited companies.

2.3 Tax avoidance and management fraud

There is an alternative or opportunity to the firms to minimize their tax liability. The firms have the alternative to minimize tax provision when the Malaysian government introduces a self-assessment system. The firms can submit and report a minimum tax liability based on their financial statement income (Treadway et al., 1987). This introduces new pressures that illustrate the evolutionary nature of fraudulent financial reporting (Treadway et al., 1987). Lennox, Lisowsky and Pittman (2013) examined the association between aggressive tax reporting and the incidence of alleged accounting fraud. The study found out that tax aggressive people in U.S. public firms are less likely to commit accounting fraud. Heltzer, Mindak and Shelton (2012) have found no evidence on the intersection of financial and tax reporting. In contrast, Ghafoor et al. (2019) suggested that aggressive tax reporting and financial difficulties increase the likelihood of fraud commission. Past studies provide mixed findings on the relationship between financial reporting aggressiveness and tax reporting aggressiveness. Hence, this study will extend prior research by examining the influence of tax avoidance on management fraud in Malaysia. This proposed study posited that tax avoidance influences occurrence management fraud in Malaysian public listed companies.

H1: Tax avoidance influences occurrence management fraud in Malaysian public listed companies.

2.4 Agency Theory

Jensen and Meckling introduced Agency Theory in 1976. An agency can be defined as a relationship between two parties, agents and principals (Fama and Jensen 1983). In this theory, the shareholders are referred to as principals and company executives or managers as agents. The agents have been hired by the principals to perform a duty and service on their behalf in managing the business activities (Jensen and Meckling 1976). The principals entrusted and delegated decision-making authority to the agents because it was too costly for each shareholder to individually manage the firm.

But sometimes, in a principal-agent relationship, the agents may make different decisions from the principal due to different interests (Jensen and Meckling 1976) or different attitudes toward risk between them (Saksena, 1999). Saksena (1999) illustrated that the principals were risked neutral while agents were risk-averse. The agent is the decision-maker, but they have little or no risk because any losses will be borne by the principal. This creates the principal-agent problem. Further, this situation could be reduced by a monitoring mechanism by management (Saksena, 1999). But it involves cost to the management in controlling the agent opportunistic behaviour.

Based on the agency theory, the agent has made decisions about corporate tax avoidance on behalf of the principal. The decision about tax avoidance may raise the risk to the principal when the agent used an aggressive approach to reduce tax liability. Agency theory has been applied to explain and solve principal-agent problems between principals and their agents (Jensen and Meckling 1976). The managers should use the resources of the firm to optimise returns for principals. Agency problems arise when agents act on behalf of their benefits to fulfill their own needs before taking into consideration principals' benefits. This happens due to information asymmetry between the agent and principal. The agent has more information and access to the company resources. Thus, many actions have been taken to safeguard principals' interests like compensation incentives based on performance but became agency costs to shareholders.

Moreover, Desai and Dharmapala, (2006) stated that higher-powered incentives encourage the manager to reduce the diversion of rents and engage in more tax sheltering activity. Consequently, higher-powered incentive compensation helps align the incentives of agents and principals and leads managers to be more aggressive in increasing firm value through tax avoidance. Chen et al. (2014) found out that tax avoidance activities increased agency costs as measured by the ratio of period expenses to sales and reduce firm value. The study suggested that tax avoidance does not necessarily increase firm value, because part of the gains is expropriated by opportunistic managers. The tax avoidance activities also involved many costs such as implementation cost, reputation loss, and potential punishment (Chen et al., 2014).

According to Fama and Jensen (1983), agency costs incurred costs of structuring, monitoring, and bonding a set of contracts among agents to solve conflicting interests. Chen et al. (2014) argued that tax avoidance activities are also entangled with corporate governance issues. Management fraud is one example of the agency problem that arises out of the separation of decision control and residual risk-bearing (Beasley, 1994; Saksena, 1999). In this study, agency theory is used to examine the indirect consequences of managers' actions using tax avoidance on management fraud. The managers would exercise aggressive tax avoidance for the interest of the shareholders. This study to certain aspects examines whether the tax avoidance activities and management fraud taken by managers are related to the agency theory.

3. Method

This study untertakes descriptive research design to achieve the objectives of the study which is to examine the influence of tax avoidance on management fraud in Malaysian public listed companies. The aim of using this research design is to determine the relationship between tax avoidance and management fraud and discover whether a relationship exists between variables being investigated. The sample of companies for the proposed study will be taken from Malaysian companies listed in the main market of Bursa Malaysia. The sample data collected was for a period of four years ranging from 2017 to 2020. This study selected the firms that committed fraud from 2017 because SC has revised and published the New Malaysian Code on Corporate Governance and Corporate Governance Strategic Priorities 2017-2020 in 2017 (Malaysian Securities Commission, 2018).

A balanced panel data approach was used to have an observation on similar companies over the years 2017 until 2020. This study identifies the initial sample of firms that commit fraud from the Securities Commissions of Malaysia enforcement releases whilst the financial statement fraud firms list is from the Bursa Malaysia enforcement release (Md Nasir, Ali & Ahmed, 2019). This study uses a purposive sampling method which is financial statement fraud firms (Nasir et al., 2019). The study applies the purposive-sampling technique where all the companies in the population were taken as the sample from specific target groups (Sekaran & Bougie, 2016). The research methodology of this study adopts a positivist research paradigm using a hypothetical- deductive methodology through testing the hypotheses. Data of this study are analysed using IBM Statistical Package for Social Science (SPSS) Version 27. The analysis of this study applies ordinary least square (OLS) regression with the estimation of the equation as follows:

$$FRAUD(Y) = \beta0 + \beta1TAvoid + + \beta2SIZE + \beta3LEV + \beta3ROA + \beta4DUMMYINDUSTRIES + \beta5DUMMYYEAR + \varepsilon$$

This study will employ a dependent dichotomous variable, equal to 1 if the firm was investigated by the Securities Commission of Malaysia and Bursa Malaysia for fraud and 0 otherwise (Hassan et al., 2014; Wei et al., 2017; Luo, Peng & Zhang, 2020). Consistent with the prior studies, the effective tax rate (ETR) is used to measure tax avoidance (Razali et al., 2019; Jarboui, Kachouri Ben Saad & Riguen, 2020).

4. Conclusion

This proposed study aims to investigate the influence of tax avoidance on management fraud in public companies listed in the Main Market of Bursa Malaysia. Tax avoidance is expected to influence and increase the occurrence of management fraud. Tax avoidance can be a factor associated with management fraud. This study has implications for regulators and policymakers. This study that that focuses on management fraud of firms in Malaysia, thus, offers possible insights to auditors, managers, regulators and enforcement authorities in the prevention and detection of tax avoidance and management fraud.

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