



**RISK MANAGEMENT AND INTERNAL CONTROL
DISCLOSURES AND ITS RELATION WITH
OWNERSHIP STRUCTURE AND INTERNAL AUDIT
ACTIVITIES: EVIDENCE FROM MALAYSIA**

BY

ABDIAZIZ HASSAN WARSAME

**A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)**

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

JULY 2019

ABSTRACT

Disclosure of risk management and internal control (DRMIC) is an essential characteristic to promote investors' confidence in the capital market and to enable them to make decisions. Disclosing more of risk management and internal control would make financial information more useful as it is relevant to business operations. In addition, the revised regulation for reporting the statement of risk management and internal control in the annual reports proposed by Bursa Malaysia activates the idea of this study to extend the literature on disclosure of risk management and internal control. Thus, the main objective of this study is to examine the impact of ownership structures and internal audit activities on disclosure of risk management and internal control among Malaysian public listed companies. The disclosure of risk management and internal control is measured based on a disclosure index. The kinds of ownership structures are managerial ownership, institutional ownership, and foreign ownership. On the other hand, internal audit activities comprise of risk-based audit plan, approval of audit charter, quality assurance on internal audit performance and compliance to internal audit standards. The agency theory is used to clarify the study's framework and to test a sample of 204 Malaysian listed non-financial companies for the financial year end of 2010 and 2017. The results show that the risk based audit plan, the approval internal audit chart by the audit committee and the quality assurance on internal audit activities are highly significant and positively related with DRMIC at one percent level of significant. While, profitability, liquidity, and leverage are found to have negative and significant relationships with the DRMIC but the level of foreign ownership has a positive relationship at five percent level. However managerial ownership, institutional ownership, the compliance of internal audit activities on international standards of internal auditing and firm size have no significant relationship with DRMIC. The study adds value to the current empirical studies in the DRMIC and suggests the importance of the DRMIC in the annual reports of the public listed firms as Malaysia leads the Asian countries on the disclosure level of RMIC.

خلاصة البحث

يُعدُّ الكشف عن إدارة المخاطر والرقابة الداخلية من الخصائص الأساس لتعزير ثقة المستثمرين في سوق رأس المال وتمكينهم من اتخاذ القرارات، ويجعل المعلومات المالية أكثر فائدة؛ لصلتها بالعمليات التجارية، وعليه؛ انبثقت فكرة هذا البحث من اللائحة المنقحة للإبلاغ عن بيان إدارة المخاطر والرقابة الداخلية في التقارير السنوية التي اقترحتها بورصة ماليزيا؛ إذ يُسهم في توسيع نطاق دراسات الكشف عن إدارة المخاطر والرقابة الداخلية؛ والهدف الرئيس منه دراسة تأثير هيكل الملكية ونشاطات التدقيق الداخلي في الكشف عن إدارة المخاطر والرقابة الداخلية بين الشركات الماليزية العامة، فيُقاس مستوى الإفصاح عن إدارة المخاطر والرقابة الداخلية بناءً على مؤشر الإفصاح، وتُقسم أنواع هيكل الملكية إلى: الملكية الإدارية، والملكية المؤسسية، والملكية الأجنبية، وتشمل نشاطات التدقيق الداخلي: خطة التدقيق القائمة على المخاطر، والموافقة على ميثاق التدقيق، وضمان جودة أداء التدقيق الداخلي، والامتثال لمعايير التدقيق الداخلي؛ وقد استخدم البحث نظرية الوكالة؛ لتوضيح إطاره واختبار عينة من 204 شركات غير مالية في السنتين الماليتين 2010 و 2017؛ وأظهرت النتائج أن خطة التدقيق المعتمدة علي المخاطر، ومخطط التدقيق الداخلي، وضمان الجودة في نشاطات التدقيق الداخلي؛ كلها ترتبط ارتباطاً إيجابياً قوياً بالكشف عن إدارة المخاطر والمراقبة الداخلية عند درجة معنوية تبلغ 1%، في حين أن الربحية، والسيولة، والرافعة المالية؛ كلها ترتبط ارتباطاً معنوياً سلبياً بالكشف عن إدارة المخاطر والرقابة الداخلية، وبينما ظهر أن مستوى الملكية الأجنبية علاقة إيجابية بالكشف عن إدارة المخاطر والرقابة الداخلية عند درجة معنوية تبلغ 5%؛ ظهر أن الملكية الإدارية، والملكية المؤسسية، وامتثال نشاطات التدقيق الداخلي للمعايير الدولية للتدقيق الداخلي، وحجم الشركة؛ كلها لا ترتبط بالكشف عن إدارة المخاطر والمراقبة الداخلية، وهكذا؛ يُعدُّ هذا البحث إضافة إلى الدراسات التجريبية الحديثة في إدارة المخاطر والرقابة الداخلية، وتشير نتائجه إلى أهمية الكشف عن إدارة المخاطر والرقابة الداخلية في التقارير السنوية للشركات المدرجة في البورصة؛ إذ تتفوق ماليزيا على الدول الآسيوية في ذلك.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Nor Hafizah Binti Zainal Abidin
Supervisor

.....
Fatimah Binti Mat Yasin
Co-Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
HairulAzlanAnnuar
Examiner 1

.....
Maslina Binti Ahmed
Examiner 2

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting).

.....
Suhaiza Ismail
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting)

.....
Hassanuddeen Abdul Aziz
Dean, Kulliyah of Economics
and Management Science

DECLARATION

I hereby declare that this dissertation is my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Abdiaziz Hassan Warsame

Signature..... Date.....

COPYRIGHT

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**RISK MANAGEMENT AND INTERNAL CONTROL
DISCLOSURES AND ITS RELATION WITH OWNERSHIP
STRUCTURE AND INTERNAL AUDIT ACTIVITIES:
EVIDENCE FROM MALAYSIA**

I declare that the copyright holder of this dissertation are jointly owned by the student and IIUM.

Copyright © 2019 Abdiaziz Hassan Warsame and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Abdiaziz Hassan Warsame

.....
Signature

.....
Date

This dissertation is dedicated to my beloved parents and siblings.

ACKNOWLEDGEMENTS

Firstly, Almighty praises be to Allah s.w.t. for granting me health and the persistence to carry out this study. I highly appreciate and am thankful to all who have assisted in the writing of this dissertation. Special thanks and my deepest appreciation to my supervisors, Dr. Nor Hafizah Zainal Abidin and Dr. Fatimah Binti Mat Yasin who have introduced and guided me to a new perspective of auditing and provided me invaluable advice throughout my dissertation journey.

Secondly, my unceasing gratitude to my parents for their prayers and to my brother, Hussein Ahmed Warsame, whose financial and moral support has aided the completion of my study.

Finally, not forgetting my friends and the IIUM staff whose encouragement, inspiration and provision have been vital in my years at the university

TABLE OF CONTENTS

Abstract	ii
Abstract in arabic	iii
Approval page	iv
Declaration	v
Copyright	vi
Acknowledgements	viii
List of Tables	xii
List of Figures	xiii
List of Abbreviations	xiv
CHAPTER ONE: INTRODUCTION.....	1
1.1 Introduction.....	1
1.2 Background of the study	1
1.3 Problem statement	4
1.4 Research objectives	6
1.5 Research questions.....	7
1.6 Motivation of the study.....	7
1.7 Significance of the study	8
1.8 Scope of the study.....	8
1.9 ORGANISATION OF THE STUDY	9
1.10 Conclusion	10
CHAPTER TWO: LITERATURE REVIEW.....	11
2.1 Introduction.....	11
2.2 Corporate Disclosure	11
2.2.1 Disclosure of Risk Management and Internal Control.....	14
2.2.2 Malaysian Disclosure Requirements of Risk Management and Internal Control.....	17
2.2.3 Prior Studies on Disclosure of Risk Management and Internal Control	21
2.3 Ownership structure and disclosure.....	22
2.3.1 Managerial Ownership.....	24
2.3.2 Institutional Ownership.....	26
2.3.3 Foreign Ownership.....	28
2.3.4 Prior Studies on Ownership Structure and Disclosure of Risk Management Internal Control.....	29
2.4 Internal Audit Activities and Disclosure	30
2.4.1 Risk-Based Audit Plan	32
2.4.2 Internal Audit Charter Approval	33
2.4.3 Internal Audit Quality Assurance	34
2.4.4 Internal Audit Compliance Standards	35
2.4.5 Prior Studies on Internal Audit Activities and Disclosure of Risk Management and Internal Control.....	36
2.5 Literature gaps	37

2.6 conclusion	38
CHAPTER THREE: THEORY AND HYPOTHESIS DEVELOPMENT	39
3.1 Introduction.....	39
3.2 Theoretical perspective.....	39
3.2.1 Agency Theory.....	39
3.2.2 Ownership Structure: Agency Theory	40
3.2.3 Internal Audit Activities: Agency Theory	43
3.2.4 Disclosure of Risk Management and Internal Control: Agency Theory Perspective	44
3.3 Research framework	46
3.4 Hypothesis development.....	47
3.4.1 Managerial Ownership.....	48
3.4.2 Institutional Ownership.....	49
3.4.3 Foreign Ownership.....	49
3.4.4 Risk-Based Audit Plan.....	51
3.4.5 Internal Audit Charter Approval.....	52
3.4.6 Internal Audit Quality Assurance	52
3.4.7 Internal Audit Compliance Standards	53
3.4.8 Control Variables	54
3.5 Conclusion	56
CHAPTER FOUR: RESEARCH METHODOLOGY.....	57
4.1 Introduction.....	57
4.2 Research design	57
4.3 Sample selection	57
4.4 Variable measurements.....	60
4.4.1 Dependent Variable.....	61
4.4.2 The Independent Variables	64
4.4.2.1 Managerial Ownership	64
4.4.2.2 Institutional Ownership	64
4.4.2.3 Foreign Ownership	65
4.4.2.4 Risk-Based Audit Plan.....	65
4.4.2.5 Internal Audit Charter Approval.....	66
4.4.2.6 Internal Audit Quality Assurance	66
4.4.2.7 Internal Audit Compliance Standards.....	67
4.4.3 Control Variables	67
4.4.3.1 Firm Size.....	68
4.4.3.2 Profitability.....	68
4.4.3.3 Liquidity	68
4.4.3.4 Leverage	69
4.5 Data analysis	69
4.5.1 Descriptive Analysis	69
4.5.2 Multiple Regression Analysis	69
4.6 Model development	70
4.7 Conclusion	71
CHAPTER FIVE: RESULT ANALYSIS AND DISCUSSIONS.....	72
5.1 Introduction.....	72

5.2 Descriptive analysis	72
5.3 Analysis on disclosures.....	75
5.3.1 2010 Disclosure Results.....	75
5.3.2 2017 Disclosure Results.....	76
5.3.3 Correlation Analysis	78
5.3.4 Regression Analysis.....	79
5.4 Discussion.....	84
5.4.1 Research Question 1.....	85
5.4.2 Research Question 2.....	86
5.5 Conclusion	91
CHAPTER SIX: CONCLUSION.....	92
6.1 Introduction.....	92
6.2 Summary of the study	92
6.3 Implications of the study	93
6.3.1 Implication for Theory	94
6.3.2 Implication for Regulators and Practitioners	95
6.4 Limitations of the study and suggestions for futher research.....	96
6.5 Conclusion	97
References.....	99

LIST OF TABLES

Table 2.1 Summary of Prior Studies on Disclosure of Risk Management and Internal Control	21
Table 2.2 Summary of Prior Studies on Disclosure of Risk Management and Ownership Structure	29
Table 2.3 Summary of Prior Studies on Internal Audit Activities and Disclosure of Risk Management and Internal Control	36
Table 4.1 Listed Companies Based on Sectors	58
Table 4.2 Target Population	59
Table 4.3 Sample Selection	60
Table 4.4 Risk Management and Internal Control Disclosure Index	62
Table 4.5 Summary of Variables	71
Table 5.1 Descriptive Statistics N= (204)	73
Table 5.2 Analysis of Mandatory Disclosures (2010)	75
Table 5.3 Analysis of Voluntary Disclosures (2010)	76
Table 5.4 Analysis of Mandatory Disclosures (2017)	77
Table 5.5 Analysis of Voluntary Disclosures (2017)	77
Table 5.6 Pearson Correlation	78
Table 5.7 Multiple Regression Analysis Results (2017)	80
Table 5.8 Summary of the Research Hypotheses	91

LIST OF FIGURES

Figure 3.1	Research Framework	47
------------	--------------------	----

LIST OF ABBREVIATIONS

BMLR	Bursa Malaysia Listed Requirements
DIC	Disclosure of Internal Control
DRMIC	Disclosure of Risk Management and Internal Control
IAA	Internal Audit Activities
IC	Internal Control
ICD	Internal Control Disclosure
IIA	Institute of Internal Auditing
MCCG	Malaysian Code of Corporate Governance
PPF	Professional Practice Framework
RBA	Risk Based Audit
RM	Risk Management
RMIC	Risk Management and Internal Control
SIC	Statement on Internal Control
SRMIC	Statement of Risk Management and Internal Control
UAE	United Arab Emirates
UK	United Kingdom
US	United States
VICD	Voluntary Internal Control Disclosure

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This section introduces the sections of the first chapter which includes the background of the study in Section 1.2, followed by problem statement, proposed research objectives and questions in Sections 1.3, 1.4 and 1.5 respectively and the motivation of the study in Section 1.6 and Section 1.7 for research significance. Lastly this chapter will demonstrate the scope of the study in Section 1.8 and Section 1.9 for the conclusion of the chapter.

1.2 BACKGROUND OF THE STUDY

The increased demand for providing higher level of disclosure is due to the complications of business environment, operations and regulatory endorsements and also to increase transparency and decrease information asymmetries encountered by the stakeholders (Rodríguez & Noguera, 2014). Thus, to meet the desires of stakeholders it is needed to deliver a valuable annual report that comprises of the traditional financial statements and other additional units (Amran et al., 2008). Certainly, non-financial information offers important and pertinent information to investors. This can be seen in the annual report which is the main source of information to stakeholders and investors that cover both financial and non-financial information (Abrahamson & Amir, 1996; Short, 2009).

In recent years risk management and risk information have received substantial care after the main failures of corporations in United States (US), Western Europe and Asia corporations (Iatridis & Alexakis, 2012; Alnasser, 2012). Linsley and Shrives

(2006) defined risk as an inevitable element of any business enterprise. A firm is not only exposed to financial risks but also to non-financial risks comprising risks related to the business and variations of the environmental economic which may considerably impact the business. Corporate risk is defined as every important event, danger, threat, opportunity, or damage that may influence business operations.

Moreover, in early 1998 a discussion on the status of risk reporting started when the Institute of Chartered Accountants in England and Wales (ICAEW) issued a debate paper called “Financial Reporting of Risk – Proposals for a statement of Business Risk”. An annual report on risk management should be provided by the directors to simplify decision makers who are familiar in the market to take a decision (Linsley & Shrivess, 2006). However, the information in recent annual reports offers certain disclosures on risk in a way shareholders are unfamiliar with. Thus shareholders face a lack of understanding of how business risks can affect the company and how to manage the risks (Linsley & Shrivess, 2006).

Thus, the regulatory agencies of US, United Kingdom (UK), Germany and Australia have started to acknowledge the importance of risk and implemented many ways to enhance the disclosure of risk management. For instance, the Security Exchange Commission (SEC) under no: 48 “Financial Reporting Release” requires the information on market risk to be disclosed by registered firms in qualitative and quantitative methods through management discussion and analysis, and notes to the accounts sections. Similarly, in the UK the regulatory agency of operating and financial review endorses public companies to disclose the analysis of key risks that may affect the future of the business and it strongly encourages the presence of strong and clear discussion of the trends. In Germany, it is also required that risk management information be disclosed in a separate statement apart from the

consolidated financial statements. In Australia, regulatory also focuses on risk management issues by issuing principals and recommendations such as principal 7 on the recognition of risk management (Haron et al., 2010).

In Malaysia, Practice Note 9 under Bursa Malaysia Listing Requirement in 2001 first required that public listed companies to report the statement of internal control. Later in 2013 Bursa Malaysia Listing Requirements also required that a company to disclose in the statement of risk management and internal control and also to follow the guidelines of the statement of risk management and internal control (SRMIC).

According to Ismail and Rahman (2011) corporate governance information about internal control and risk management system is able to assist companies to achieve the desires of their investors by informing them the future of companies' financial position. However, the disclosure of reported earnings will increase the shareholders' doubt about their reliability. This will result a demand of essential characteristics to evaluate the security and sustained safety of their investments by looking at the written declarations in internal control reports. Internal control disclosure can be seen as a checking instrument that solves the agency problem in public listed companies when shareholders see the information is trustworthy and applicable (Ashbaugh-Skaife et al., 2007).

Therefore, these developments on risk management and internal control have attracted the attention of the researchers to focus on the companies' disclosure practices specifically in the areas of social and environmental accountability, risk management and intellectual property. In reality, amongst all these areas risk management appears to be the least researched (Linsley & Shrides, 2006).

1.3 PROBLEM STATEMENT

In recent years, non-financial sectors have also given consideration to the importance of reporting financial and non-financial risks. Business environment is increasingly volatile and uncertain due to many factors. Changes in economic and environmental regulations, more complex business structures and managing risks, increasing dependence on financial tools, international transactions and aggravated corporate crises are due to the current attention of non-financial sectors to report and disclose financial and non-financial risks (Dobler, 2008).

For instance, risk reporting” gained more attention during the 2007 and 2018 financial crisis and credit crunch respectively which challenged the world. Through these challenges companies needed to develop strategies to predict risks and create full transparency about risks in the annual reports which is important for the existence of any organization. Every company is to meet with the needs of its stakeholders which mean to disclose full information on all sides of the company and to take good decisions including risks.

Hence, scholars and regulators view risk management and internal control information could be the key to achieve high-quality corporate reporting. Thus, the Malaysian Code of Corporate Governance (MCCG, 2012) states that the board of directors should establish a sound risk management framework and internal control system to maintain market integrity and protect investors’ interests and enhance their confidence in the Malaysian capital market.

The lack of risk information may mislead investors in their investment decision-making process. This would subsequently lead investors to make wrong investment decision which could end up in a huge loss or disaster to investors. Thus, Bursa Malaysia required its public listed firms to follow the Statement on Risk

Management and Internal Control (Guidance for Directors of Public Listed firms) on their report of the state of RMIC to their shareholders.

In addition, subsequent to multibillion-dollar fraudulent cases like Transmile Group Berhad, Megan Media Holdings Berhad and 1Malaysia Development Bhd (1MDB) on corporate accounting and reporting scandals, policy makers have a substantial interest to debate the issues of corporate governance specifically internal control which is seen as mechanism to improve financial reporting quality and diminishes governance problems. Likewise, Baltaci and Yilmaz (2006) reported that the aim of any IC is to improve the performance of the company's operation by preventing actions that consequence surplus, improper allocation, and corruption.

Moreover, shareholders require being aware of the capability of a company's RMIC. They need that the internal control system can assist them by assessing the sustained safety and security of their investments in the company. Thus, RMIC is to prevent and detect significant weaknesses of operation and give assurance on the company's ability to minimize risks that may harmfully affect shareholders and allow the company to achieve its objectives because the existence of more risk management disclosure would help them in their portfolio investment decisions (Ashbaugh-Skaife et al., 2007).

Hence, there have not been through investigations in the opinion of the researcher on the comparison between the levels on the disclosure of internal control DIC (voluntary period) and disclosure of risk management and internal DRMIC (mandatory period) which is the first objective of this study. The author believes that not doing thorough investigations will result in lack of awareness on the practitioners' response to the regulatory amendments like Practice Note 9 BMLR.

Similarly, the level of ownership concentration effects on the quality of risk management and internal control disclosure due to the limits of share decentralization by shareholders, which makes them need high quality of disclosure (Haron et al., 2010). For instance, institutional investors, being one of the significant shareholders, see important governance as a mechanism to monitor management's behavior and to align management's interests with those of the shareholders (Jensen, 1993). In addition to that, the presence of the internal audit in a company is able to enhance the RMIC quality. The internal audit is to assess IC and risk in an efficient and effective manner. This is in the line with the role of internal audit being one of the governance mechanisms to fulfill stakeholders' expectations in providing assurance on internal control and risk management processes (Uzun, 2009). It is believed that an in-depth study of these issues in the case of Malaysia is lacking.

Hence, this study also intends to observe the impact of ownership structure and internal audit activities on disclosures of risk management and internal control.

1.4 RESEARCH OBJECTIVES

The objectives of the study are:

1. To analyze the level of disclosure of risk management and internal control in 2010 and 2017 annual reports of Malaysian public listed companies.
2. To examine the relationship between ownership structures, internal audit activities and disclosure of risk management and internal control in the annual reports of public listed companies in Malaysia.

1.5 RESEARCH QUESTIONS

Based on the above research objectives, the research questions of this study are as follows:

RQ1: What are the level of disclosures of risk management and internal control in 2010 and 2017 annual reports of Malaysian public listed companies?

RQ2: What are the relationships between ownership structures, internal audit activities and the disclosure of risk management and internal control among listed companies in Malaysia?

1.6 MOTIVATION OF THE STUDY

This study is motivated by the importance of risk management and internal control to the investors, regulates and also the firms. In addition, most studies on the disclosure of risk management and internal control; ownership structure and internal audit function (Meijer, 2011; Hunziker, 2013; Jiang et al., 2014; Ege, 2015; Holt, 2012) were carried out in developed countries and only limited number of researches (Haron et al., 2010; Adzrin et al., 2015; Ahmad et al., 2015) have been conducted in developing countries like Malaysia. Moreover, firms often use RMIC disclosures to reduce information asymmetry by releasing useful disclosures (Elliott & Jacobson, 1994). Liu (2006) showed that the quantity of information gained by investors through disclosure is the amount of new material consisted in the disclosure and its reliability.

Second, the study is also motivated to check the practitioners' response to the regulatory amendments such as Practice Note 9 BMLR through studying the extent of disclosure during DIC (voluntary period) and DRMIC (mandatory period) as risk

management should be additional information being disclosed. Further, study on impact of IA and DRMIC is scant. The study will also provide empirical evidence on how different ownership structures influence the disclosure of risk management and internal control among listed companies in Malaysia.

1.7 SIGNIFICANCE OF THE STUDY

This study will contribute to the prior literatures about the relationship between the disclosure of risk management and internal control with ownership structure and internal audit features in diverse ways. Firstly, it will provide evidence on how different ownership structures respond to implement the introduced guidelines for the DRMIC. Secondly, it also provides additional empirical evidence on how a number of factors (firm size, profitability, liquidity, leverage) also determine the disclosure of risk management and internal control for Malaysian public listed companies by applying update data (2017 annual reports). Thirdly, the findings should also provide empirical evidences to market regulators, such as Bursa Malaysia in assessing the current disclosure level (mandatory period) for complying the recent disclosure guidelines on risk management and internal control and how the disclosure level was at voluntary period. Fourth, this study underlines the importance of internal audit activities and in enhancing the extent of disclosure on risk and control.

1.8 SCOPE OF THE STUDY

The study focuses on the annual reports of non- financial industry types of public listed companies in Bursa Malaysia since it is mandatory for public listed companies to comply with the requirements of MCCG and report the extent of its compliance in its annual report. The study only covers disclosure of risk management and internal

control (under the statement of risk management and internal control), which form part of the disclosure on corporate governance practice and exclude management reporting on risk and control which is under management report.

1.9 ORGANISATION OF THE STUDY

The structure of the dissertation is as follows: **Chapter 1: Introduction.** This preliminary chapter delivers an explanation on the matters, objectives, motivations, scope and the significance of the study. **Chapter 2: Literature Review.** This chapter presents the review of prior literature on the impact of ownership structure and internal audit quality on disclosure of risk management and internal control. After the literature review process, this chapter will show some of the gaps that are still not covered by past studies. **Chapter 3: The Theory and Hypothesis Development.**

This chapter discusses the Agency Theory as it relates on corporate governance mechanisms. The presentation of theoretical framework is followed by how the hypotheses are developed. This chapter also discusses the predictable relations of the independent and control variables on disclosure of risk management and internal control. **Chapter 4: Research Methodology.** This chapter includes the research design, mainly the sample selection and data collection methods, measurement of the variables and data analysis method to test the developed hypotheses. **Chapter 5: Result analysis and Discussions.** In this chapter, the findings of the study will be analyzed and interpreted and will be compared with findings from prior studies.

Chapter 6: Conclusion and Limitations.

This chapter will conclude the findings from this study including the limitations and suggestions for future research.

1.10 CONCLUSION

This chapter has addressed and discussed the definitions and concepts of risk management and internal control in the background of the study through numerous sources. In addition, the statement of the problem was discussed by addressing the consequences on disclosure of risk management and internal control. This followed by research objectives, questions, motivation and significant of the study by highlighting the contribution of the study to the stakeholders. Finally, the scope of the study was mentioned. The following chapter will discuss the literature review and the gap of the study.