

Applying the Fraud Hexagon Framework to Serba Dinamik Berhad: A Corporate Governance Perspective

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Abstract

Corporate fraud continues to undermine investor confidence and governance structures worldwide. While the Fraud Triangle has long provided a foundation for understanding fraud, recent scholarship has expanded the model into the Fraud Hexagon, incorporating six dimensions: pressure, opportunity, rationalization, capability, arrogance, and collusion. This paper applies the Fraud Hexagon to the case of Serba Dinamik Berhad, a Malaysian oil and gas services company embroiled in one of the country's most significant corporate scandals. Using a qualitative case study approach, the analysis demonstrates how systemic governance failures, executive arrogance, and collusion amplified fraud risks. The findings highlight the importance of auditor independence, board oversight, and regulatory enforcement in emerging markets.

Keywords: Fraud Hexagon, Serba Dinamik, Fraud Triangle, Corporate Governance

1. Introduction

Fraud in corporate settings remains a pervasive and critical concern for regulators, auditors, and investors alike. Beyond its immediate financial consequences, fraud erodes trust in capital markets, undermines governance structures, and destabilizes broader economic systems. The academic and professional communities have long sought conceptual frameworks to explain why individuals and organizations engage in fraudulent behavior. Among the most influential is the Fraud Triangle (Cressey, 1953), which posits that fraud arises when three conditions converge: pressure, opportunity, and rationalization. While this model has provided enduring insights, its explanatory power has been increasingly questioned in light of complex, large-scale corporate scandals.

Subsequent refinements have sought to capture additional dimensions of fraud risk. The Fraud Diamond (Wolfe & Hermanson, 2004) introduced capability, recognizing that fraud requires not only motive but also the skill and authority to execute. The Fraud Pentagon (Marks, 2012) added arrogance, reflecting the role of managerial hubris and disregard for oversight. Most recently, the Fraud Hexagon (Vousinas, 2019) incorporated collusion, acknowledging that fraud is often facilitated through networks of actors rather than

isolated individuals. Together, these developments underscore that fraud is multidimensional, shaped by organizational culture, governance weaknesses, and systemic pressures.

This study applies the Fraud Hexagon framework to the case of Serba Dinamik Berhad, a Malaysian corporation charged with falsifying financial information in one of the country's most high-profile corporate scandals. Serba Dinamik's trajectory—from rapid expansion and market acclaim to regulatory investigation and criminal charges—provides a unique lens through which to examine how governance weaknesses, executive behavior, and organizational culture converge to enable fraud. By situating the case within the Fraud Hexagon, this paper contributes to both theoretical refinement and practical understanding of fraud risk, offering insights for regulators, auditors, and policymakers in emerging markets where governance enforcement remains contested.

The primary objective of this study is to apply the Fraud Hexagon framework to the case of Serba Dinamik Berhad in order to illuminate how multiple dimensions of fraud risk interact within a real-world corporate scandal. Specifically, the paper seeks to (i) identify how pressure, opportunity, rationalization, capability, arrogance, and collusion manifested in Serba Dinamik's organizational practices; (ii) demonstrate the explanatory value of the Fraud Hexagon compared to earlier models such as the Fraud Triangle and Fraud Diamond; and (iii) derive governance and policy implications for regulators, auditors, and boards in emerging markets. By situating the Serba Dinamik case within a multidimensional fraud framework, this study contributes to academic discourse by extending fraud theory beyond individual motivations to systemic organizational dynamics. Practically, it offers insights for strengthening audit quality, enhancing board oversight, and reinforcing regulatory enforcement mechanisms, thereby bridging theoretical refinement with actionable governance reforms.

2.0 Literature Review

2.1 Evolution of Fraud Models

The study of fraud has evolved considerably over the past seven decades, reflecting both theoretical refinement and the increasing complexity of corporate misconduct.

- **Fraud Triangle (Cressey, 1953):**
The Fraud Triangle remains the foundational model in fraud research. It posits that fraud occurs when three conditions converge: *pressure* (often financial or performance-related), *opportunity* (enabled by weak controls or oversight), and *rationalization* (the cognitive justification of unethical behavior). While influential, the model has been critiqued for its simplicity, as it primarily focuses on individual motivations rather than organizational or systemic dynamics.
- **Fraud Diamond (Wolfe & Hermanson, 2004):**
To address these limitations, Wolfe and Hermanson introduced the Fraud Diamond, adding *capability* as a fourth dimension. Capability recognizes that fraud requires not only motive but also the skill, authority, and positional power to exploit weaknesses in systems. This addition shifted the focus toward managerial competence and organizational hierarchies, acknowledging that not all individuals under pressure can commit fraud—only those with the requisite ability and access.
- **Fraud Pentagon (Marks, 2012):**
Marks further expanded the framework by introducing *arrogance*, defined as the sense of superi-

ority or entitlement that leads individuals to disregard rules and oversight. This dimension highlights the role of executive hubris, often observed in high-profile scandals where leaders believe they are untouchable. Arrogance connects fraud to corporate culture, emphasizing how tone at the top can normalize misconduct.

- **Fraud Hexagon (Vousinas, 2019):**

Vousinas advanced the model by incorporating *collusion*, recognizing that fraud is frequently a collective rather than individual act. Collusion underscores the importance of networks—whether internal (between executives and employees) or external (with suppliers, auditors, or regulators)—in facilitating fraudulent schemes. The Fraud Hexagon thus provides a more holistic framework, capturing the interplay between personal motives, organizational structures, and systemic enablers.

Taken together, the evolution from triangle to hexagon reflects a paradigm shift: fraud is no longer seen as the product of isolated actors but as a multidimensional phenomenon embedded in organizational ecosystems.

2.2 Corporate Governance in Malaysia

Malaysia has made notable progress in strengthening corporate governance, particularly following the Asian Financial Crisis of 1997. The **Malaysian Code on Corporate Governance (MCCG)**, first introduced in 2000 and most recently revised in 2021, emphasizes accountability, transparency, and integrity in corporate practices (Securities Commission Malaysia, 2021). Key provisions include requirements for **board independence**, **audit committee oversight**, and **timely disclosure of information** to stakeholders.

Despite these reforms, enforcement challenges persist. Scholars and practitioners note that compliance is often **form over substance**, with boards meeting independence requirements on paper but lacking genuine autonomy in practice (Ecovis Global, 2021). Politically connected corporations and family-controlled firms remain particularly vulnerable, as concentrated ownership structures can undermine accountability.

Moreover, regulatory bodies such as the Securities Commission Malaysia (SC) and Bursa Malaysia face resource constraints in monitoring complex multinational operations (The Edge Malaysia, 2021). This creates gaps in enforcement, allowing misconduct to persist until scandals erupt. The Serba Dinamik case illustrates these vulnerabilities: despite governance codes, weak board independence and resistance to auditor scrutiny enabled fraudulent practices to escalate.

2.3 Case Background: Serba Dinamik Berhad

Serba Dinamik Holdings Berhad (hereafter *Serba Dinamik*) was incorporated in 1993 in Malaysia and rapidly established itself as a global engineering services provider, specializing in operations and maintenance (O&M), engineering, procurement, construction and commissioning (EPCC), and information technology (IT) solutions for the oil and gas, power generation, and utilities sectors (Securities Commission Malaysia, 2021). The company's growth trajectory was marked by aggressive expansion into international markets, including the Middle East, Central Asia, and Africa, positioning itself as a flagship Malaysian multinational in the energy services industry.

Following its listing on Bursa Malaysia in 2017, Serba Dinamik attracted significant investor confidence, reporting robust revenue streams and ambitious project portfolios. Its corporate narrative emphasized technological innovation and global competitiveness, aligning with Malaysia's broader economic agenda

of promoting internationally recognized homegrown enterprises (The Edge Malaysia, 2021). However, this success narrative began to unravel in 2021 when its external auditor, KPMG, raised concerns over **suspicious transactions amounting to RM4.54 billion**. These transactions involved contracts and receivables that lacked sufficient documentation and verification, prompting questions about the authenticity of reported revenues and the reliability of financial disclosures (Ecovis Global, 2021).

The dispute between Serba Dinamik and KPMG escalated when the company filed a lawsuit against its auditor, alleging negligence and reputational damage. This unprecedented move highlighted tensions between corporate management and audit independence, raising broader concerns about governance culture in Malaysia. Subsequently, the Securities Commission Malaysia (SC) initiated investigations, leading to charges against Serba Dinamik's executives for submitting false information in its financial statements (Securities Commission Malaysia, 2021).

The scandal revealed systemic weaknesses in Serba Dinamik's governance structure. Despite compliance with the **Malaysian Code on Corporate Governance (MCCG)** in form, the company's board independence and oversight mechanisms were questioned. Analysts noted that concentrated ownership and executive dominance undermined accountability, while regulatory enforcement lag allowed questionable practices to persist until external scrutiny intensified (Malaysian Code on Corporate Governance, 2021).

In academic terms, the Serba Dinamik case exemplifies how rapid corporate expansion, coupled with weak governance safeguards, can create fertile ground for fraud. It underscores the importance of auditor independence, board vigilance, and regulatory enforcement in ensuring the integrity of financial reporting. Moreover, the case provides a critical lens through which to apply advanced fraud frameworks such as the **Fraud Hexagon**, which captures the multidimensional nature of misconduct beyond the traditional Fraud Triangle.

3. Methodology

3.1 Research Design

This study adopts a qualitative case study design, which is particularly appropriate for exploring complex fraud phenomena within their organizational and regulatory contexts. A case study approach enables an in-depth examination of the interplay between governance structures, managerial behavior, and systemic vulnerabilities. The case of *Serba Dinamik Berhad* was selected because of its prominence in Malaysia's corporate governance landscape, the scale of the alleged misconduct, and the availability of rich secondary data sources that allow for triangulation.

3.2 Data Sources

Data were collected from multiple secondary sources to ensure both breadth and depth of analysis. Regulatory filings, including enforcement actions by the Securities Commission Malaysia and disclosures from Bursa Malaysia, provided official documentation of the case. Audit reports, particularly those produced by KPMG, offered insight into the flagged transactions and subsequent disputes. Media coverage, such as investigative reporting from *The Edge Malaysia* and other financial press, contributed contextual detail and public perspectives. Finally, scholarly commentary on fraud models and Malaysian governance frameworks supplied theoretical grounding. The use of multiple sources enhanced validity by capturing diverse perspectives and reducing reliance on any single narrative.

3.3 Analytical Framework

The Fraud Hexagon, developed by Vousinas (2019), was operationalized as the guiding analytical framework. Each of its six dimensions—pressure, opportunity, rationalization, capability, arrogance, and collusion—served as a priori codes for thematic analysis. This framework was chosen because it extends beyond the traditional Fraud Triangle, offering a multidimensional lens that captures both individual motivations and systemic enablers of fraud.

3.4 Coding Process

Thematic coding was conducted through a structured and iterative process. In the initial deductive phase, each data source was reviewed line by line, and relevant segments were coded against the six dimensions of the Fraud Hexagon. For example, references to “RM4.54 billion suspicious transactions” were coded under *Opportunity*. In the secondary inductive phase, emergent sub-themes were identified within each dimension. For instance, within *Arrogance*, sub-themes such as “litigation against auditors” and “public defiance” were observed. A cross-case comparison was then undertaken to identify convergence and divergence across sources. Regulatory filings tended to emphasize *Collusion*, whereas media reports highlighted *Pressure*. Finally, codes were consolidated into higher-order themes aligned with the Fraud Hexagon dimensions. For example, “investor confidence demands” and “market expectations” were grouped under *Pressure*.

3.5 Reliability and Validity

Several strategies were employed to enhance the reliability and validity of the analysis. Triangulation was achieved by cross-referencing multiple sources, including regulatory, audit, media, and scholarly materials. Peer debriefing was used to review coding decisions against established fraud literature, thereby minimizing researcher bias. An audit trail was maintained throughout the process, documenting coding rationales and analytic decisions to ensure transparency and replicability.

3.6 Limitations

Despite its strengths, the study is subject to certain limitations. The reliance on secondary data may omit insider perspectives that could provide deeper organizational insights. Media framing may introduce bias, as investigative reporting often reflects editorial perspectives. Furthermore, as a single case study, the findings are not generalizable across contexts. Nevertheless, the case study design provides depth of understanding and theoretical insight into the multidimensional nature of fraud.

4. Fraud Hexagon Analysis

The Fraud Hexagon framework (Vousinas, 2019) provides a multidimensional lens for understanding financial statement fraud. It identifies six interrelated drivers—pressure, opportunity, rationalization, capability, arrogance, and collusion—that together explain how misconduct emerges and persists. Applying this framework to Serba Dinamik Berhad reveals how systemic weaknesses, managerial behavior, and regulatory gaps converged to produce one of Malaysia’s most significant corporate scandals.

4.1 Pressure

Listed companies face constant pressure to meet market expectations. As Vousinas (2019) notes, “stimulation or pressure is the trigger that motivates individuals to commit fraud.” For Serba Dinamik, the

pressure was acute: analysts expected consistent revenue growth following its 2017 listing. According to *The Edge Malaysia* (2021), “Serba Dinamik’s meteoric rise was underpinned by ambitious contracts and expansion narratives that investors took at face value.” This environment incentivized management to sustain the illusion of performance, even when underlying operations faltered.

4.2 Opportunity

Fraud requires opportunity, often facilitated by weak controls. KPMG, Serba Dinamik’s external auditor, flagged irregularities in May 2021 involving RM2.32 billion in sales transactions, RM652 million in receivables, and RM569 million in materials on site balances across 11 counterparties (Thomas Philip Advocates & Solicitors, 2022). These findings revealed significant gaps in documentation and verification. Regulatory lag compounded the issue; as the Securities Commission Malaysia later acknowledged, enforcement action was necessary “to promote the integrity and reliability of financial statements of public listed companies” (SC, 2022). Such weaknesses provided fertile ground for manipulation.

4.3 Rationalization

Fraud is sustained through rationalization. Vouras (2019) emphasizes that perpetrators often “justify their actions as temporary or necessary.” Serba Dinamik adopted a defensive narrative, portraying auditors as negligent. Ecovis Global (2021) observed that “the impending legal suit was allegedly linked to negligence, breach of contractual and statutory duties of the audit firm.” By framing itself as the victim of audit malpractice, the company rationalized its resistance to scrutiny, legitimizing misconduct internally and externally.

4.4 Capability

Capability refers to the authority and skill required to override safeguards. Senior executives at Serba Dinamik possessed both. Investigators discovered 59 company and personal stamps belonging to external parties, suggesting the ability to fabricate or validate documents at scale (SC, 2022). As Wolfe and Hermanson (2004) argued in their *Fraud Diamond*, “fraud cannot occur without the capability to exploit internal control weaknesses.” In Serba Dinamik’s case, executive authority and technical expertise enabled the orchestration of complex schemes that bypassed oversight.

4.5 Arrogance

Arrogance reflects managerial hubris. Marks (2012) described it as “a sense of superiority that leads individuals to believe they are beyond the reach of controls.” Serba Dinamik exemplified this when it sued KPMG for negligence, a move that compromised the auditor’s ability to continue its engagement (*The Edge Malaysia*, 2021). Even after charges were filed, executives maintained public defiance, insisting on their version of events. This arrogance eroded trust in governance institutions and signaled a corporate culture resistant to accountability.

4.6 Collusion

Fraud is rarely solitary; collusion amplifies its scale. Vouras (2019) stresses that “collusion transforms individual misconduct into systemic deception.” In Serba Dinamik’s case, the use of multiple external stamps implied collaboration with third parties to validate questionable transactions. Weak board independence further facilitated management’s aggressive accounting practices. As the SC (2022) noted,

enforcement action targeted not only the company but also its CEO, directors, and officers, underscoring the collective nature of the misconduct.

The Serba Dinamik case illustrates how **pressure to perform, opportunities from weak controls, rationalization of misconduct, executive capability, managerial arrogance, and collusion** converged to produce systemic fraud. The Fraud Hexagon provides a richer explanatory framework than earlier models, capturing the multidimensional nature of the scandal. For regulators and policymakers, the case underscores the urgent need to strengthen auditor independence, enhance board oversight, and enforce governance codes with greater rigor.

5. Discussion: Fraud Hexagon and Systemic Governance Failure

The application of the Fraud Hexagon to the case of Serba Dinamik Berhad demonstrates that the scandal was not merely opportunistic misreporting but a manifestation of deeper systemic governance failures. While traditional models such as the Fraud Triangle (Cressey, 1953) and Fraud Diamond (Wolfe & Hermanson, 2004) emphasize individual motivations and capabilities, the Fraud Hexagon (Vousinas, 2019) introduces two critical dimensions—arrogance and collusion—that were central to Serba Dinamik’s misconduct. These dimensions highlight the cultural and structural enablers of fraud, underscoring that corporate scandals often emerge from organizational ecosystems rather than isolated acts.

5.1 Arrogance and Collusion as Central Drivers

Arrogance reflects managerial hubris and disregard for oversight. Marks (2012) argued that arrogance is “a sense of superiority that leads individuals to believe they are beyond the reach of controls.” Serba Dinamik exemplified this when it sued its external auditor, KPMG, for negligence after the firm flagged RM4.54 billion in suspicious transactions (The Edge Malaysia, 2021). This unprecedented move undermined audit independence and signaled a corporate culture resistant to accountability. Even after charges were filed, executives maintained public defiance, insisting on their version of events (Securities Commission Malaysia, 2021). Such behavior illustrates how arrogance can erode trust in governance institutions and normalize misconduct.

Collusion, meanwhile, transforms individual fraud into systemic deception. Vousinas (2019) emphasizes that “collusion is the glue that binds fraudulent schemes together, enabling them to persist and expand.” In Serba Dinamik’s case, investigators discovered 59 company and personal stamps belonging to external parties, suggesting collaboration in fabricating or validating documents (SC, 2022). Weak board independence further facilitated management’s aggressive accounting practices, indicating complicity at the governance level. Collusion thus amplified the scale of fraudulent activities, making them more difficult to detect and more damaging to stakeholders.

Together, arrogance and collusion reveal that Serba Dinamik’s scandal was not simply opportunistic misreporting but a systemic failure of governance. These dimensions underscore the importance of examining fraud not only through individual psychology but also through organizational culture and structural weaknesses.

5.2 Policy Implications

5.2.1 Strengthening Auditor Independence

Auditor independence is a cornerstone of financial integrity. The Serba Dinamik case illustrates how management pressure and litigation can compromise audit effectiveness. As Ecovis Global (2021) noted, “the impending legal suit was allegedly linked to negligence, breach of contractual and statutory duties of the audit firm.” Strengthening auditor independence requires both regulatory safeguards and cultural change. Regulators should enforce stricter rules on auditor rotation, prohibit undue influence from management, and enhance protections for auditors who raise concerns. International standards, such as those issued by the International Federation of Accountants (IFAC), provide useful benchmarks for ensuring independence and professional skepticism.

5.2.2 Enhancing Board Oversight with Genuine Independence

Board oversight is often compromised by concentrated ownership and executive dominance. In Malaysia, compliance with the Malaysian Code on Corporate Governance (MCCG) is frequently “form over substance,” with boards meeting independence requirements on paper but lacking genuine autonomy (Haniffa & Hudaib, 2006). Serba Dinamik’s board failed to challenge management’s aggressive accounting practices, illustrating the dangers of weak oversight. Enhancing board independence requires not only regulatory enforcement but also cultural change within corporations. Independent directors must be empowered to question management, supported by training in fraud risk and governance best practices.

5.2.3 Improving Cross-Border Regulatory Cooperation

Serba Dinamik’s operations spanned multiple jurisdictions, complicating oversight. Cross-border fraud requires coordinated regulatory responses. As Coffee (2007) argued, “globalization of capital markets has outpaced the globalization of regulation.” Improving cooperation among regulators—through information sharing, joint investigations, and harmonization of standards—is essential to address multinational fraud. Malaysia’s regulators should strengthen ties with counterparts in jurisdictions where Serba Dinamik operated, ensuring that oversight is not undermined by jurisdictional fragmentation.

5.2.4 Expanding Whistleblower Protections

Whistleblowers play a critical role in detecting fraud, yet they often face retaliation. The Serba Dinamik case underscores the need for robust protections to encourage early reporting. As Dyck, Morse, and Zingales (2010) found, whistleblowers are among the most effective mechanisms for uncovering fraud. Expanding protections requires both legal safeguards and cultural change. Malaysia’s Whistleblower Protection Act (2010) provides a foundation, but enforcement remains weak. Strengthening protections, ensuring anonymity, and incentivizing reporting can enhance fraud detection and deter misconduct.

5.3 Broader Implications

The Serba Dinamik scandal illustrates that fraud in emerging markets is often systemic, rooted in governance weaknesses and cultural norms. The Fraud Hexagon provides a richer framework for understanding these dynamics, capturing dimensions absent in earlier models. For policymakers, the case underscores the importance of strengthening institutional capacity, fostering a culture of accountability, and aligning governance practices with international standards.

The Fraud Hexagon reveals that Serba Dinamik's scandal was not merely opportunistic misreporting but a systemic governance failure. Arrogance and collusion—dimensions absent in earlier models—were central to the misconduct. Policy implications include strengthening auditor independence, enhancing board oversight, improving cross-border regulatory cooperation, and expanding whistleblower protections. Together, these measures can help prevent future scandals, restore investor confidence, and promote the integrity of corporate governance in Malaysia and beyond.

6. Conclusion

The application of the Fraud Hexagon to the case of Serba Dinamik Berhad demonstrates that the scandal was not merely opportunistic misreporting but a manifestation of systemic governance failure. Earlier models such as the Fraud Triangle (Cressey, 1953) and Fraud Diamond (Wolfe & Hermanson, 2004) provided valuable insights into individual motivations and capabilities, yet they fall short in explaining the organizational culture and collective dynamics that underpin large-scale corporate fraud. By incorporating *arrogance* and *collusion*, the Fraud Hexagon (Vousinas, 2019) offers a more comprehensive framework that captures the structural and cultural enablers of misconduct.

The Serba Dinamik case illustrates how arrogance—manifested in managerial hubris and disregard for oversight—undermined audit independence and eroded trust in governance institutions. As Marks (2012) observed, arrogance reflects “a sense of superiority that leads individuals to believe they are beyond the reach of controls.” This was evident when Serba Dinamik sued its external auditor, KPMG, after the firm flagged RM4.54 billion in suspicious transactions (The Edge Malaysia, 2021). Such defiance exemplifies how arrogance can normalize misconduct and weaken accountability mechanisms.

Collusion further amplified the scandal, transforming individual misreporting into systemic deception. Vousinas (2019) emphasizes that collusion “binds fraudulent schemes together, enabling them to persist and expand.” In Serba Dinamik's case, investigators discovered 59 company and personal stamps belonging to external parties, suggesting collaboration in fabricating or validating documents (Securities Commission Malaysia, 2022). Weak board independence and oversight facilitated management's aggressive accounting practices, highlighting how collusion at multiple levels can entrench fraud within organizational systems.

From a policy perspective, the case underscores several critical implications. First, auditor independence must be strengthened to ensure professional skepticism is not compromised by managerial pressure or litigation. As Coffee (2007) argued, auditors serve as “gatekeepers” whose independence is essential to the integrity of financial markets. Second, board oversight must be enhanced through genuine independence rather than formal compliance. Haniffa and Hudaib (2006) found that Malaysian boards often meet independence requirements in form but lack substantive autonomy, a weakness evident in Serba Dinamik's governance structure. Third, cross-border regulatory cooperation is vital in addressing fraud within multinational corporations. Globalization of capital markets has outpaced regulatory harmonization, creating enforcement gaps that fraudsters exploit (Coffee, 2007). Finally, whistleblower protections must be expanded to encourage early detection of misconduct. Dyck, Morse, and Zingales (2010) demonstrated that whistleblowers are among the most effective mechanisms for uncovering fraud, yet they often face retaliation without adequate safeguards.

Critically, the Serba Dinamik scandal reveals that fraud in emerging markets is not simply the product of opportunistic individuals but the outcome of systemic weaknesses in governance, regulation, and corporate culture. The Fraud Hexagon provides a richer explanatory framework, capturing dimensions absent in earlier models and highlighting the collective nature of misconduct. For policymakers,

regulators, and scholars, the case underscores the need to move beyond individualistic models of fraud toward systemic approaches that integrate cultural, structural, and institutional factors.

In conclusion, the Serba Dinamik case demonstrates that effective fraud prevention requires more than compliance with governance codes; it demands genuine independence of auditors and boards, robust regulatory cooperation, and strong whistleblower protections. Only by addressing these systemic vulnerabilities can emerging markets strengthen investor confidence, safeguard financial integrity, and prevent the recurrence of large-scale corporate scandals.

7. Conflict of Interest

This academic research based on the other published research. It cannot be generalized and no conflict of interest to be disclosed

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