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Corporate Governance and Fraudulent Financial Reporting in Nigerian Quoted Banks

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Abstract

The study examined corporate governance and fraudulent financial reporting in Nigerian quoted banks. This study used a sample of 12 quoted banks in the Nigerian Stock Exchange that have consistently published their annual audited financial report for the period of 2012 to 2019. The data collected are analyzed using descriptive statistics, correlation analysis and panel regression approach. The results showed that board independence have a negative and insignificant relationship with fraudulent financial reporting, board size showed a negative and insignificant relationship. It was however revealed that audit committee had a positive but insignificant relationship; while ownership structure has a positive and significant relationship with fraudulent financial reporting at 1% level of significance. The study therefore recommended that banks management should strategically consider the ownership structure of the bank because it leads to the presence of fraudulent financial reporting.
Keywords: *Audit Committee Existence, Board Independence, Board Size, Corporate Governance, Fraudulent Financial Reporting and* ownership structure.
JEL Codes: G18, G22, M42

1. Introduction

The issue of fraudulent practices has become a global concern particularly in recent times due to the reported cases of fraudulent financial reporting (FFR) in companies. Corporate governance (CG) has become a great global concern because of the rising frequency and widespread pattern of deliberate accounting irregularities and fraudulent financial reporting as well as the growing number of consequent corporate failures witnessed in Nigeria (Nwachukwu, 2007). Good corporate governance practice enables companies to respect the rule of law, play by the rules guiding businesses and hold ethics and professionalism in the highest esteem. The presence of consolidation in the Nigerian banking sector witnessed the failure of well-known banks with larger asset base due to the fundamental weaknesses in CG. Salaudeen, *et al.*, (2015) argued that during the investigation process of Cadbury corporate fraud, Akintola Williams and Deloitte was indicted for assisting management to manipulate the financial statement.

Fraudulent financial reporting (FFR) simply refers to the intentional misstatements and falsifications of figures in the financial statement which do not give a true picture of the financial position of the business organizations (Mukah, 2020). Fraudulent financial reporting undermines the reliability, quality, transparency and integrity of financial reporting process, jeopardizes the integrity and objectivity of the auditing professional especially auditors and auditing firms and also diminishes the confidence of the capital markets as well as market participants in the reliability of financial information (Akhidime, 2019). Financial reporting is usually maintained to attract unsuspecting investors or obtain underserved accounting-based rewards, by presenting an exaggerated, misleading or deceptive, state of a company's financial affair. Corporate governance provides a platform that ensures that quality financial reports are published and made public to users within the acceptable regulated time (Shehu & Garba, 2014).

In the report of CBN and NDIC (1995), the mitigating factors against effective functioning of the Nigerian banking industry is the problem of heavy crunch of non-performing loans and advances, capital inadequacy, non-compliance with monetary policies, poor corporate governance, poor planning and control, lack of financial transparency, poor asset and liability management (NDIC, 1995). However, the financial causes of fraudulent accounting lie in the conflicts of interest among management of troubled banks. In the aftermath of the incessant financial scandals that rocked several big companies around the world, including Nigeria, it was reported that poor corporate governance dynamics and use of outdated governance code were among the causal factors (Dennis & Ogoun, 2018). Consequent upon the incidence, several regulatory changes have been put in place in many jurisdictions in order to strengthen the control over managers by setting up good board and audit committee structures (Hassan, 2015).

As a result, most recent studies have increased their enquiry on FFR from the dimension of CG characteristics with different conclusions. On FFR, available literatures show that numerous Nigerian researchers (Ogbeide, 2018; Akhidime, 2019; Modugu & Anyaduba, 2013; Ogiedu & Odia, 2013) have examined the dimensions of CG characteristics, as well as audit firm and company-related characteristics - in which they offered differing conclusions, however only few (Dennis & Ogoun, 2018; Nenyiaba & Okoye, 2015; Anichebe, Agbomah & Agbagbara, 2019) only few researchers have considered the effect of CG on FFR. Apart from Akhidime (2019) and Ogbeide (2018), majority of the other related studies were based on manufacturing sector (Ogiedu & Odia, 2013; Agbaje & Dare, 2018; Dennis & Ogoun, 2018). These studies to fail to applied the Beneish M-score in measuring FFR which is the key knowledge gap in this study to be filled. Therefore, the study addressed the gap in knowledge by sampling quoted deposit money banks to examine the effect of CG on FFR in Nigeria banks for the period covering 2012 to 2019. Also, the extension of the period to 2019 constitute period gap in knowledge. Given the rational for the study, the specific objectives are to examine the effect of board independence, board size, audit committee existence and ownership structure on fraudulent financial reporting in Nigeria banks.

2. Literature Review

2.1 Fraudulent Financial Reporting

Financial reporting (FR) is the process of communicating financial information in a given corporate organisation to the users of accounting information (Oji & Ofoegbu, 2017). Zikra, *et al.,* (2018) are of the view that the usefulness of information content in financial statements is a motivation for management to improve the performance of the business organisation in order to maintain continuous sustainability. According to Ojiofor, *et al.* (2021), FR is the degree at which accounting information vividly give a true and fair view of company. Zikra, *et al.,* (2018) argued that management uses the financial information to carry out an act of fraudulent reporting through the manipulation of financial statements rendered to the stakeholders. FFR reporting is the intentional, deliberate, misstatement or omission of material facts, or accounting data which is misleading and, when considered with all available information would cause the user of financial information to change his or her judgment or decision.

FFR is a means of deceiving the users of the financial statement with the intention of committing fraud. In the view of Wells (2017), FFR is the intentional misstatements and omissions of amounts on the disclosures in financial statements to users of financial information through deceit. Mukah (2020) posited that likelihood of FFR is the falsification of financial amounts, alteration of accounting records, misrepresentations, and improper capitalization of expenses in the determination of fraud". However, FFR is caused by fraudulent audit confirmations, falsification of financial amounts, alteration of accounting records, misrepresentations and improper capitalization of expenses.

2.2 Corporate Governance

Corporate governance (CG) is a simple practice of just doing things fairly and rightly (Sudhir, 2017). CG as conceptualized by O'Donovan (2003) refers to an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business survey, objectivity, accountability and integrity. Its reliance on external marketplace commitment and legislation is an added advantage on healthy board culture which safeguards policies and processes. Zain-aldiniMaymand (2011) defined CG as a mechanism for managing, directing and supervising the activities of the company with the aim of creating value for shareholders. CG has recently assumed considerable significance as a veritable tool for ensuring corporate board diversity. Good CG requires companies to adopt practices and policies which comprise performance accountability, effective management control system, fair representation of professionally qualified, non-executive and independent directors on the board, the adequate timely disclosure of information and the prompt discharge of statutory duties (Charumathi & Krishnan, 2011).

In Nigeria, CG is not absolutely another term as the Companies and Allied Matters Act (CAMA) 1990 as revised in 2004, basically gives the legitimate system to running organisations. This legitimate system pursues the Anglo-Saxon model of CG because of the nation's history. Be that as it may, joined with worldwide occasions in financial reporting cycle and exercises of some perceived institutional bodies, there is a restored accentuation for successful CG rehearse. CG rose as a particular idea (Ofo, 2012) in Nigeria with the issuance of the principal Nigerian Code of Corporate Governance (NCCG) in the year 2003 by the Nigeria Securities and Exchange Commission (SEC). As indicated by Arabsalehi and Ziaee (2010), the code of corporate governance in Nigeria in 2003, is viewed as the standard in the corporate society in Nigeria. Up until this point, a large portion of the arrangements contained in the NCCG, controls and prerequisites presently by and by in Nigeria are sourced from key arrangements of the Organisation for Economic Cooperation and Development (OECD) on standards of CG and other international CG reports (Abdulmalik & Che-Ahmad, 2015).

Apart from the Nigerian code of best practices on CG issued by SEC in 2003, various other corporate governance codes have equally evolved in Nigeria most of which are industry specific. These codes include: Code of CG for Banks in Nigeria post consolidation 2006 issued by the Central Bank of Nigeria, the Code of CG for Licensed Pensions Operators 2008 issued by Pension Commission, Code of CG for Insurance Industry in Nigeria 2009 issued by the National Insurance Commission. Corporate accountability gained importance in the post structural adjustment program (SAP) era in Nigeria. This era witnessed the growth of privately owned corporations and financial institutions in Nigeria. The largely informal nature of most businesses and the high level of government owned enterprises then posed some challenges to the practice of CG, resulting in weak corporate culture and consequently high incidence of corporate failures in these institutions (Aina & Adejugbe, 2015). The Securities Exchange Commission Code (SEC CODE) and other codes are complementary to Companies and Allied Matters Act (CAMA) 2004.

2.2.1 Board Independence

Board independence is a fundamental attribute of CG. Literature on corporate governance suggests that board independence is premised on separation of ownership from control of a company. Independent non- executive directors with "the right skill sets, who have no business and other relationships which could interfere with the exercise of independent judgment or the ability to act in the best interest of the shareholders, are viewed to be in a better position to monitor management than inside directors. Due to the high degree of impartiality of board independence, they stand up to the CEO to protest the interest of all shareholders (Duchin, 2010). Ibadin, *et al.* (2012), argued that proportion of independent non-executive directors with the correct arrangement of skills, which have no business that could meddle with the activity of an independent decision, are seen to more likely check the activities of the managers than internal directors.

2.2.2 Board Size

Board size is the total number of directors sitting on the board of any corporate organization. A board can be effective if its decision power and influences on the managers is very strong. The effectiveness of the board of directors and effect on performance of the firm has been studied widely. Board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). Hermalin and Weisbach (2003) argued the possibility that boards with larger number of directors can be less operational than boards with small number of directors. They stated that when the number of directors on the board becomes too high, it often tends into a more symbolic role, instead of achieving its proposed function as part of the management. Ammari, *et al.,* (2014) affirmed that large board size offers adequate number of people to manage the work load of the board easily, the responsibility is divided among many members and larger size provides more perspectives.

The Board must meet on regular basis, retain full control over the company and monitor the executive management. A clearly accepted division of responsibilities is necessary at the head of the company so no one person has complete power, answerable to no-one (Khanchel, 2007). Consequently, the separation of the post of the Chairman and the Chief Executive Officer is highly favoured by good corporate governance. Remember that this was identified in the case of Lever Brothers Nigeria Plc in 1998 when the Chairman/Managing Director who was the Chief Executive Officer more or less unilaterally changed the accounting basis of stock valuation of the company.

2.2.3 Audit Committee

The audit committee (AC) is considered as an additional internal governance mechanism whose impact is to improve the FR quality, management of a company and hence reduces the activities of FFR. AC is important in monitoring the board of director's oversight functions to enhance the transparency and integrity of FR (Dogan, *et al.,* 2007). Consequently, AC is responsible for the review of FR system, overseeing the independence and objectivity of the external auditors in a company. They also perform other functions such as commenting on and approving accounting policies, reviewing the financial statements, appointing and deciding the remuneration of external auditors, discussing the scope of, reviewing the auditors work, maintaining and reviewing the adequacy of internal controls for effective financial reporting quality with respect to best practices (Felo, *et al.,* 2003). The AC existence is an avenue for directors to discuss the disclosure of financial statements. In Nigeria, AC was created by the Companies and Allied Matters Act, (CAMA 2004) as one of the CG attributes that would help monitor the oversight functions of the board of directors. According to section 359 (4) of CAMA (2004), AC shall consist of an equal number of directors and representatives of the shareholders of the company which is subject to a maximum number of six members.

2.2.4 Ownership Structure

The CG has been variously defined by different researchers, and these several definitions have evolved over the years. Some researchers are of the view that corporate governance is set of mechanisms proposed to mitigate agency related problems that arise owing to ownership separation and control between the managers and shareholders (Armstrong *et al.,* 2010). Ownership of companies and the crisis associated with the style of ownership has also become a center of agenda for both business leaders and regulators all over the world. Corporate governance mechanism that can moderate organization performance is ownership structure of the firm (van Essenet, Otten, & Carberry, 2015). The extent to which the board can monitor executives will be affected by ownership concentration and distribution (institutional, block, and director shareholdings) and the influence of these owners, particularly major shareholders (Sanchez-Marin & Baixauli-Soler, 2014). The greater monitoring usually associated with block ownership can be a substitute for a good incentive alignment mechanism that is able to effectively restrain executive pay and improve organizational performance (Ntim, 2013).

2.3 Theoretical Review

The study was anchored on the broken trust theory because the theory helps to address the incidence of FFR committed by employees and management of company.

2.3.1 Broken Trust theory

The broken trust theory was developed by Albrecht, Albrecht, and Albrecht (2004). The theory helps to explain corporate executive fraud in a given company. The issue of trust that exists between management and shareholder is broken when there is breach of trust by board members. Albrecht, et al., (2004) assert that the factors that were responsible for the corporate executives to break the trust accorded them in the management of the company are pressure from the executives to meet the desired expectation of the financial analyst. However, breaching trust by managers undermines the agency and stewardship rules of business ethics. Therefore, the opportunity to commit fraud through FFR was created by the process of weak internal control system by breaking the agency and stewardship relationship and rationalization of the corporate executives' attitude of fraudulent reporting.

2.4 Empirical Review

Basuony, *et al.* (2016) examined board characteristics, ownership structure and audit report lag in 11 Middle-Eastern countries. The independent variables (board characteristics and ownership structure) were proxy by board size, board independent, CEO duality, director ownership, own concentration, foreign ownership and institutional ownership. The analysis was implemented on 201 firms for the period 2009-2013. Ordinary least square and regression were used for the analysis of the study. The result of the study showed that board independence is significant to audit report lag and financial statement fraud. Dennis and Ogoun (2018) studied the significant effect of CG codes in curbing fraudulent activities in private organisations in Nigeria and found out that board independent director and audit committees independent directors exert negative and significant effect on fraudulent activities. Alzoubi (2016b) examined the association between internal CG mechanisms and earnings management and selected a sample of 62 companies listed on the Amman Stock Exchange, Jordan. In addition, the study used cross sectional modified Jones (1995) model to estimate the earnings management (discretionary accruals) and used regression analysis method to test the significant level of the impact of the independent variables on dependent variable (earnings management). The result indicated that ownership structure has a significant influence on earnings management. The study recommended that ownership structure should be a significant factor to hold on by management to check the tendency of earnings management. Bao and Lewellyn (2017) examined ownership structure and earnings management with a sample of 1200 firms in 24 emerging markets. The study incorporated firms' ownership predictors along with national institutional dimensions to explore why firm decision makers in emerging markets. The findings indicated that controlling ownership is positively related to earning management.

Obigbemi, *et al.* (2017) investigated ownership structure and earnings management practices with a sample of 137 companies listed in Nigeria stock exchange and adopted modified Jones (1995) model to measured earnings management (discretionary accruals). In addition, the study used Pearson moment correlation coefficient and ordinary least square regression techniques to measure the research model and result showed that ownership structure has a significant relationship with earnings management and financial statement practices in Nigeria. The study therefore recommends that business regulators at all level should monitor ownership structure of companies for improving financial reporting. In South Africa, Abata and Migiro (2016) sampled data from 24 quoted companies for the period covering the period of 2008 to 2013 to examine the effects of CG variables on earnings management using some selected listed firms from the manufacturing and banking sectors. The dependent variables are board size, board independence, AC independence and AC size, ownership structure and audit quality. The study adopted multiple regressions to test the formulated hypotheses. They found out that the independent variables were positively and negatively not significant in influencing earnings management and financial statement fraud. The study recommended that regulatory bodies of quoted companies in Nigeria should constantly discharge their supervisory roles by monitoring the companies' activities to ensure compliance in order to cushion the incidence of financial statement fraud.

Similarly, Anichebe, *et al.* (2019) sampled quoted agricultural firms in the Nigeria stock exchange covering 2013 and 2017 to empirically examine the determinants of financial statement fraud likelihood. The dependent variable, financial statement fraud is measured by Beneish M-score. The binary regression is adopted to test the formulated hypotheses. They found AC size, board independence, board members financial expertise and financial statement fraud is positively and significantly related while board size has positive and insignificant impact on financial statement fraud likelihood while firm size as a control variable impacted positively and significantly on financial statement fraud likelihood and firm performance measured by return on assets is not significantly related to financial statement fraud likelihood. Waris, *et al.*, (2020), investigated the impact of auditor characteristics, independent director's characteristics and economic attributes influences financial reporting quality. The study was done in Pakistan. Secondary data covering the period of 2010 to 2017 was collected from listed Pakistani listed. The regression result shows that board independence and FFR was positively related. A study conducted by Subair *et al.,* (2020) on the effect of board characteristics on financial statement fraud". The study was carried out in Nigeria where 39 manufacturing companies were sample for the period 2013-2019 and financial statement fraud was measured by Beneish M-score. They employed quantitative research design and binary logit regression in the analysis of data. The results showed that board independence, board expertise and board diligence exert a negative effect on financial statement fraud.

In same vein, Lippolis and Grimaldi (2020), did a study in Italy to ascertain the relationship between board characteristics and the effectiveness of the monitoring of earnings manipulation activities in family-controlled companies. The study was conducted in Italy by sampling 297 Italian listed companies covering the year 2014 to 2016 and used correlation analysis and univariate regression. The results show that independent directors exert an insignificant relationship with FFR proxied by earnings management. Anichebe, *et al.,* (2019) sampled quoted agricultural firms in the Nigeria stock exchange covering 2013 and 2017 to empirically examine the determinants of financial statement fraud likelihood and documented that board size has positive and insignificant impact on financial statement fraud likelihood while firm size as a control variable impacted positively and significantly on financial statement fraud likelihood and firm performance measured by return on assets is not significantly related to financial statement fraud likelihood. Alzoubi (2016b) examined the association between internal CG mechanisms and earnings management and selected a sample of 62 companies listed on the Amman Stock Exchange, Jordan. The result indicated that ownership structure has a significant influence on earnings management. Similary, Aifuwa and Embele (2019), studied the impact of board characteristics on financial reporting quality of listed manufacturing firms. The study was carried out in Nigeria where secondary data were collected from 169 listed companies as at 31st May, 2018). They used descriptive statistics, inferential statistics and generalized linear model regression in analysis of data. The results revealed that board expertise positively enhance FFR at 5% while board independence and board diversity had insignificant impact on FFR.

3. Data and Methods

The study made use of panel research design to examine the relationship between corporate governance and fraudulent financial reporting for the period of 2012 to 2019. The panel design assumes cross sectional heterogeneity and time heterogeneity among the sampled banks. The sample size was based on the population of nineteen (19) quoted banks in Nigeria Stock Exchange as at 31 December, 2019 (NSE, 2019). In this study, simple random sampling technique was used to select twelve (12) banks to form the sample size of the study.

3.1 Model Specification

The study adopted panel regression model which was specified in econometric form in model as;

$FRF_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 BS_{it} + \beta_3 ACE_{it} + \beta_4 OWNSit + z_{it} + \varepsilon_{it}$ .... (1)

Where;

FRF = Fraudulent financial reporting. It was measured by Beneish M-score proposed by Feruleva and Shtefan (2017) was used for bank manipulators. The five variable of the model is given in equation (1);

M Score = -6.065+ .823 DSRI + .906 GMI + .593 AQI + .717 SGI + .107 DEPI …….. (1)

The five (5) indicators of every single bank are put in to the Beneish regression model. If the M-score is greater than (-2.76) benchmark, the bank should be flagged as earnings manipulators. The M-score model and its 5 indicators were Days Sales in Receivables Index (DSRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI) and Depreciation Index (DEPI)

BI = Board independence. It was measured by the proportion of non-executive directors to the total board size

BS = Board size. It was measured by the number of directors sitting on the board.

ACE = Audit committee existence. It was measured by the frequency (number) of audit committee meeting in the financial year

OWNS = Ownership structure. It measured by the proportion of shares owned by board ownership above 5%.

The a priori sign; $\beta_{1,}\ \beta_{2,}\ \beta_{3,}\ \beta_4 > 0$

β_0 = constant

β = variables that vary across companies but do not vary over time

ε_{it} = error terms over the cross section and time.

4. Data Analysis and Discussion of Findings

4.1 Descriptive Statistics

The descriptive statistic result revealed on the average fraudulent financial reporting (FRF) of quoted banks in Nigeria was -2.02. According to Feruleva and Shtefan (2017), aggregate score value of fraud above -2.76 signify manipulation of earnings. The result supported view that quoted banks in Nigeria were not free from manipulating the audited financial reports because the value of FFR (-2.02 > -2.76). The standard deviation of FFR of quoted banks in Nigeria was 1.43. This indicates that there was low variation in the manipulation of financial reports among the quoted banks in Nigeria. Board independence (BI) has an average value of 61.09 with a corresponding standard deviation value of 11.27. This indicates that about 61% of the board members among the sampled banks were non-executives and the standard deviation value of 11.27 reveals a moderate variation in board independence. Board size (BS) has an average value of 13.88 with a corresponding standard deviation value of 3.26. This means that average board size of the sampled banks was fourteen (12), and the standard deviation value of 3.26 reveals a low variation in board size.

On the average, audit committee existence (ACE) measured by frequency of audit meeting was 4.26 with a corresponding standard deviation value of 1.09. This implies the frequency of audit meeting on the average was 4 times. Ownership structure (OWNS) was measured by board ownership on the average was 9.35 with a corresponding standard deviation value of 15.18. This indicates that about 9.35% of the ownership structures among the sampled banks in Nigeria were board shareholders. The Jarque-Bera (JB) statistics showed that fraudulent financial reporting, board independence and ownership structure were normally distributed at 1% level of significance while board size and audit committee existence were abnormally distributed.

Table 1: Descriptive Statistics

Variables	Mean	Std. Deviation	Skewness	Kurtosis	Jarque-Bera	P-value	Obs
FRF	-2.02	1.45	4.30	28.66	2930.11	0.00	96
BI	61.09	12.27	0.88	2.90	12.59	0.00	96
BS	13.88	3.26	-0.08	2.46	1.25	0.53	96
ACE	4.26	1.09	0.28	4.04	5.70	0.06	96
OWNS	9.35	15.18	2.27	8.07	186.27	0.00	96

Source: Authors' Computation, 2022

4.2 Correlation Matrix

The correlation matrix results revealed in table 2 show that board independence (BI) was negatively and moderately associated with fraudulent financial reporting (FRF= -0.18). This implies that increase in number of non-executive directors might lead to a decrease in FFR. Board size (BS) was negatively and weakly associated with fraudulent financial reporting (FRF= -0.05). This implies that increase in board size might lead to a decrease in FFR. Also, audit committee existence (ACE) was positively and moderately associated with fraudulent financial reporting (FRF= 0.17). This implies that frequency of AC meeting might lead to an increase in fraudulent financial reporting. Ownership structure (OWNS) was positively and moderately associated with fraudulent financial reporting (FRF= 0.43). This indicates that increase in ownership structure an increase in FFR. To check for multicolinearity problem, a variance inflation factor is conducted and the aggregated mean centered VIF value of 1.27 < 10 reveals the absence of multicolinearity problem in our model as stated by Field (2009) as shown in table 3.

To test the formulated hypotheses, panel analysis was conducted. Then, the Hausman test shown in table 4 was used to verify which of the panel models (fixed effect and random effect panel data estimation techniques) that best explained the relationship between corporate governance and fraudulent financial reporting. The probability value of 0.0089 which was significant at 1% level reveals that fixed effect panel regression result was preferable. Therefore, the fixed panel result would form the basis of policy recommendations and implications in this study. It was observed that R^2 value of 0.255713 implies that about 26% of the proportion of variations in fraudulent financial reporting which was explained by corporate governance variables. This was supported by adjusted R-squared value of 16%. The F-statistic value of 2.62 with probability value (0.01) < 0.05 showed that the fixed panel regression fitted is valid and acceptable for investigating the relationship between corporate governance and fraudulent financial reporting.

Table 2: Correlation Analysis

Variable	FRF	BI	BS	ACE	OWNS
FRF	1				
BI	-0.18	1			
BS	-0.05	-0.50	1		
ACE	0.17	-0.26	0.11	1	
OWNS	0.43	-0.15	-0.09	0.13	1

Source: Authors' Computation, 2021

Table 3: Variance Inflation Factor

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	2.284135	127.0859	NA
BI	0.000181	39.06015	1.501167
BS	0.002413	27.29405	1.411952
ACE	0.016378	17.62653	1.086728
OWNS	8.54E-05	1.498904	1.083287

Aggregate value Centered VIF = 1.27

Source: Authors' Computation, 2022

Table 4: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.538013	4	0.0089

Source: Authors' Computation, 2022

4.3 Corporate governance and fraudulent practices

The fixed effect results showed that board independence (BI) has a (coefficient=-0.01, t-value =-1.95 and p-value =0.3426). This means that there was no significant relationship between board independence and fraudulent financial reporting (FRF) at p>0.05. It therefore means that increase in board independence would lead to a decrease in fraudulent financial reporting but it was statistically insignificant. Board size (BS) has a (coefficient=-0.04, t-value =-0.91 and p-value = 0.3613). This means that there was no significant relationship between board size and fraudulent financial reporting (FRF) at p> 0.05. This means that increase in board size would lead to a decrease in fraudulent financial reporting but it was statistically insignificant. Audit committee existence (ACE) has a (coefficient=0.16, t-value = 1.22 and p-value = 0.2233). This means that there was no significant relationship between audit committee existence and fraudulent financial reporting (FRF) at p> 0.05. It implies that frequency of audit committee meeting would lead to an increase in fraudulent financial reporting but it was statistically insignificant. Ownership structure (OWNS) has a (coefficient=0.03, t-value = 4.07 and p-value =0.0001). This means that there was a significant relationship between ownership structure and fraudulent financial reporting (FRF) at 1% level. The positive coefficient value of 0.03 accounted for 3% increase in fraudulent financial reporting. It therefore means that changes in ownership structure would significantly lead to an increase in fraudulent financial reporting. The results were presented in Table 5.

Table 5: Fixed Panel Regression Results

Variable	Coefficient	t-test	P-value
C	-1.62	-1.03	0.3052
BI	-0.01	-0.95	0.3426
BS	-0.04	-0.91	0.3613
ACE	0.16	1.22	0.2233
OWNS	0.03	4.07	0.0001

R-Square = 0.255713
Adjusted R-Square = 0.158246
F-Statistic = 2.62
Prob (F-Statistic) = 0.006298
Durbin Watson Statistic = 2.317848

Source: Authors' Computation, 2022

4.4 Discussion of Findings

The regression results show that board independence has a negative and insignificant relationship with fraudulent financial reporting. The result was consistent with the findings of Dennis and Ogoun (2018), Aifuwa and Embele (2019) and Lippolis and Grimaldi (2020) that board independence has no relationship with fraudulent financial reporting while contrary to the findings of Anichebe, *et.al,* (2019), Waris, *et al,* (2020), Subair, *et al,* (2020) that board independence has a relationship with fraudulent financial reporting. The study therefore suggested that we should accept the hypothesis that board independence has no relationship with fraudulent financial reporting. Board size has a negative and insignificant relationship with fraudulent financial reporting. The result was consistent with the findings of Abata and Migiro (2016) that board size has no relationship with fraudulent financial reporting while contrary to the findings of Anichebe, et. al, (2019) that board size has a relationship with fraudulent financial reporting.

The study therefore accepts the hypothesis that board size has no relationship with fraudulent financial reporting. Audit committee existence has a positive and insignificant relationship with fraudulent financial reporting. The result was consistent with the findings of Dennis and Ogoun (2018) and Abata and Migiro (2016) that audit committee existence has no relationship with fraudulent financial reporting. The study therefore suggested that we should accept the hypothesis that audit committee existence has no relationship with fraudulent financial reporting. Ownership structure has positive and significant relationship between with fraudulent financial reporting at 1% level. The result was consistent with the findings of Alzoubi (2016b), Bao and Lewellyn (2017) and Obigbemi, *et al,* (2017) that ownership structure has no relationship with fraudulent financial reporting while contrary to the findings of Abata and Migiro (2016) that ownership structure has a relationship with fraudulent financial reporting. The study therefore suggested that we should reject the hypothesis that ownership structure has no relationship with fraudulent financial reporting.

5. Conclusion and Recommendations

The study empirically examined the relationship between corporate governance and fraudulent financial reporting in Nigeria Banks. The outcome of the panel regression showed that board independence has a negative and insignificant relationship with fraudulent financial reporting, board size has a negative and insignificant relationship with fraudulent financial reporting, audit committee existence has a positive and insignificant relationship with fraudulent financial reporting and ownership structure has positive and significant relationship between with fraudulent financial reporting at 1% level. Based on these outcomes, it can be concluded that the tendency to reduce the incidence of fraudulent financial reporting in Nigeria banks is insignificantly motivated by lower board size and board independence. However, the significant variables of interest ownership structure which poses significant positive effect on fraudulent financial reporting. Implicationally, the study showed that inferences regarding the direction of the effect of corporate governance mechanisms on fraudulent financial reporting may not validly be generalized within the premise of the banking sector in Nigeria.

Based on the findings of the study, the following recommendations were made

(i) Stakeholders of deposit money bank should increase the number of independent directors sitting on the board in order to reduce the incidence of fraudulent financial reporting in the long-run. The presence of board independence was insignificant and adversely influences fraudulent financial reporting.

(ii) Stakeholders of deposit money bank should note that larger board size experience low level of fraudulent financial reporting in the long-run as a result of its negative coefficient value.

(iii) Bank managers should conscious of audit committee existence because it was positively influence fraudulent financial reporting. The managers should also ensure frequently of audit committee meeting increases the level of fraudulent financial reporting and statistically insignificant.

(iv) Banks management should strategically consider the ownership structure of the bank because it leads to the presence fraudulent financial reporting. Therefore, ownership structure should be properly checked in order to reduce the incidence of fraudulent financial reporting.

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