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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Businesses are always under the risk of fraud from different sources as they relate to the firm. Although most fraud perpetrated by external sources are usually massive and serious. However, this is mostly done in collaboration with insiders. Majority of the fraud cases recorded in organizations indicate that fraud performed at the management level have a stringent and breath-taking effect on the organizational goals. This can be empirically attested to by constant collapse cases of reputable corporations such as WorldCom to Enron and Cadbury, Oceanic Bank, Intercontinental Bank, Access bank and much more, exploring that the successful penetration of such malicious act was inspired by directly or indirectly by top management.

Ashamu, (2014) asserted that corporate fraud is the number one threat to business organizations which is also a reflection of ability (or the lack) of its managers and/or deficiencies in the corporate mechanism. Whenever this malicious act arises by organizations' management it clearly depicts a failure in the existing corporate governance structure guiding its affairs, whereas these structures are in place to help moderate top management excesses.

The collapse of Enron could be said to be the beginning of the serious financial scandals however, the series of corporate failures and distresses continue to grow daily. Other notable companies affected are Cadbury, Cresta bank, Intercontinental bank, Oceanic bank, Parmalat, Northern Rock bank, Lehman Brothers, Nebraska bank, Etisalat, Skye Bank and Diamond Bank of Nigeria. Some of these organizations, for instance, Enron and WorldCom have obliterated billions of dollars in investor esteem while moving towards liquidation, (Akintoye & Asaolu, 2008). There are several kinds of frauds however among all the kinds, the highest is financial statement fraud. This kind of fraud has the most critical money related effect on organizations compared to the several other kinds of fraud (Oghojafor, Olayemi, Okonji & Okolie, 2010). Asides the monetary impact, such fraud has an effect on the reputation of the firm. Consequently, Farrell and Franco (1999) opined that fraud related cost might be hard to appraise in light of the fact that not all misrepresentation is found and not all extortion found is accounted for; in spite of this, various endeavors have been made to estimate fraud, (Holtfreter, 2004) estimated that six percent of companies in the United States lost revenue in 2002 due to financial statement fraud; 491 companies in Australia and New Zealand responded to the KPMG survey and it was discovered that half had encountered fraud costing $457 million, (KPMG,2004 and Lev, 2003) discovered that fraud relating to financial statement would prompt a decline in the market value of the firm and less of revenue for the company, investors begin to lose trust in the companies and the companies would find it difficult to obtain the financial resources needed.

According to Uwuigbe (2011) corporate governance became a global phenomenon following the consistent collapses of eminent companies. Ojeme (2010) contends that poor corporate governance has prompted contradictions amongst board and management offering ascend to board quarrels; unsuccessful board oversight capacities; fake and self-centered rehearses among individuals from the board, administration and staff; the domineering impact of director or MD/CEO, particularly in organizations that have family-control. Poor corporate governance has additionally prompted frail inward controls; rebelliousness with set down inside controls and working systems. Different endeavors have been made towards handling this worldwide challenge with some of these endeavors being the institution of the Sarbanes-Oxley Act, extreme legal penalty e.g. death penalty in some countries like China.

The International Auditing and Assurance Standards Board (IASB) in International Federation of Accountants (2009) clearly indicated in the International Standard on Auditing (ISA 240) that the most extreme duty regarding the recognition and aversion of money related articulation misrepresentation dwells with those accused of the administration of the organization (Uwuigbe, Uwuigbe, Jafaru, Igbinoba & Oladipo, 2016). The weakness of corporate governance has provided incentives for financial statement frauds; the company is not a victim of financial statement fraud but an instrument used to perpetuate the fraud.

Regardless of the different governance structures and frameworks, misappropriation of funds and alteration of financial reports in the interest of the management has remained prevalent in most developing economies including Nigeria (Uwalomwa, Uwuigbe, Eluyela, Olubukola, Obarakpo & Falola 2018). Thereby making the subject matter attract extensive attention and reaction throughout the years because of the inexhaustible collateral damage draining the long-term success of companies; Financial statements are supposed to be reliable tools used by investors when making investment decisions and also used by the stakeholders of the company when appraising the financial performance of the firm (Asiriuwa, Aronmwan, Uwuigbe & Uwuigbe, 2018).

When financial statement fraud occurs, the company is not the victim but rather the instrument of fraud; the perpetrators are within the firm, holding a sufficiently senior position to be able to browbeat other employees into participating in the fraud. Since financial statement fraud occurs within the firm, the best controls to counter it have to be within the firm with one of those counters being the establishment of corporate governance of the company.

1.2 Statement of Problem

In Nigeria the spate of corporate governance failure and fraudulent activities in the last two decade involving top management of high profiled companies (such as Onwuka Interbiz, Peak Merchant Bank; Savanah Bank, Oceanic Bank, Intercontinental Bank, BankPHB, Afribank, Spring Bank, Concord Group Lion of Africa Insurance, Societe Generale Bank Nigeria, Mtel, HITV, Asaba textile mills, Delta Glass, Kaduna Textile Mills, Nigeria Airways Cadbury Plc) in key sectors of the economy is a regular feature in the news media and conferences manifesting in different unique forms. These occurrences have become a serious concern to government, market regulators, investors and other stakeholders. The need to stem the tide has been the underlying approximate denominator of the varied opinions that have been expressed. Different discussion fora held across (Lagos State, River State, Federal Capital Abuja, Kaduna States) the country were all in a bid to clearly understand the nexus between corporate governance and fraud with the ultimate objective of providing enduring recipe to further halt the rising cases of fraud arising from corporate governance failure related to board of directors involvement, negligence, inefficiency and connivance of audit committee members, internal audit function and external audit. The robust debates in these fora provided the much needed intellectual marriage of ideas to re-awaken and entrench the culture of effective corporate governance to strengthen board of directors, audit committee, internal audit function and external audit in the country's business environment. These noble ideas informed the need for the establishment of corporate governance codes at some point in the country. For instance the Nigerian Securities and Exchange Commission issued the Code of Best Practices on Corporate Governance in 2003 which was subsequently replaced by another code in 2011.

The Central Bank of Nigeria (CBN) issued a code of corporate governance for banks in post consolidation in 2006. In 2009, the Nigerian Insurance Commission

(NAICOM) equally issued a code of corporate governance for the insurance industry. In 2011 as part of the process to adopt the International Financial Reporting Standards, the Federal Government set up the Financial Reporting Council which replaced the National Accounting Standard Board (NASB) to manage the adoption process with the aim also to improve corporate financial reporting practice in Nigeria. These efforts apart, the legal framework of the Companies and Allied Matters Act (CAMA) 1990 which replaced the Companies Act of 1968 also regulates corporate organizations conduct in the country.

One then wonders that despite the concerted efforts put together by government and its regulatory agencies to ensure good corporate governance is entrenched in organizations operating in the country, fraudulent practices even at board of directors level are on the increase. For instance the disclosures in Lever Brothers Nigeria (now Unilever), Cadbury Nigeria Plc and Evans Medicals Plc where the company's record did not support inventory balances in the financial statements shows the brazenly huge magnitude of accounting fraud and corporate governance abuses. This has led to questions being raised as to what are the problems. Does it mean that top management of corporations does not comply with corporate governance codes? Could it be that market regulators have failed in their duty to ensure that codes of corporate governance are complied with? Is it that a company's management deliberately institute weak corporate governance mechanisms to aid their fraudulent practices? However, the common underlying factor in an effective corporate governance definition is that it assures safeguards of policies, rules, processes and procedures in an entity by directing and controlling of management activities on good business sagacity, objectivity, accountability and integrity. Thus, if this is what corporate governance truly stands for then one cannot but reasonably conclude that it could prevent fraud. Thus given recent accounting frauds in Nigeria companies and elsewhere in the world and the paucity of studies that addressed corporate governance and fraud issues in Nigeria, this study is concerned with examining the issue of corporate and financial fraud in manufacturing companies in Nigeria.

1.3 Objectives of the Study

The main objective of this study is to determine the effects of corporate governance and financial statement fraud of listed firms in Nigeria. The specific objectives are to:

i. to examine the effects of Board of Director Independence on the likelihood of financial statement fraud in listed firms in Nigeria.

ii. to examine the effects of audit committee financial expertise on the likelihood of financial fraud in listed firms in Nigeria.

iii. to examine the effects of board size on the likelihood of financial fraud in listed firms in Nigeria.

1.4 Research Questions

The study tends to provide answers to the following questions:

i. What are the effects of board of director independence and the likelihood of financial statement fraud in listed firms in Nigeria.

ii. What are the effects of audit committee financial expertise and the likelihood of financial fraud in listed firms in Nigeria.

iii. What are the effects of board size and the likelihood of financial fraud in listed firms in Nigeria.

1.5 Research Hypotheses

The following null hypotheses would be tested in this study.

$H0_1$: Board of director independence has no significant effect on the likelihood of financial statement fraud in listed firms in Nigeria.

$H0_2$: Audit committee financial expertise has no significant effect on the likelihood of financial fraud in listed firms in Nigeria.

$H0_3$: Board size has no significant effect on the likelihood of financial fraud in listed firms in Nigeria.

1.6 Significance of the Study

This study would be beneficial to the following categories:

- **Top executives:** This includes the CEO, Chairman and members of the board. The study would assist them in managing the agency problem which would help widen their perspective of effective corporate governance that results in improved firm performance.
- **Shareholders/Investors:** This study would assist existing shareholders and potential investors to make meaningful investment decision as regards their investments and performance of the companies in which they are stakeholders.
- **Regulators:** This study would assist the regulators in developing better corporate governance regulations that will be more encompassing and contribute effectively to enhancing firm performance and resolving agency conflict.

1.7 Scope of the Study

The study focused on corporate governance and financial statement fraud in listed firms in Nigeria. The study covered a 6years periods (2016 – 2021), using the Annual Reports and Accounts of Bua and Dangote Manufacturing firms.

1.8 Limitations of the Study

Certain draws back were encounter during the course of the research. The limitations of the study span through the non availability of adequate information and data in published journals and article in Nigeria, Covid-19 pandemic which results in social economic disruptions that impacted negatively on execution of the study,. Inadequate internet facilities relating to researcher work. However, these challenges notwithstanding, the researcher worked assiduously hard to ensure that the authenticity and reliability of the outcome of the research was not in any way jeopardized.

1.9 Operational Definition of Terms

Corporate Governance: Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a company is directed, administered or controlled.

Fraud: Is any illegal act, deceit and breach of confidence. It is a misrepresentation with the intention of deceiving another party

Accounting scandal: an event of an accounting nature that causes public outrage or censure such as the understatement of profit, overstatement of assets.

Agency: fiduciary relationship between two parties in which one (the “agent”) is obligated to the other (the “principal”).

Audit Committee: It is a body formed by a company’s board of directors to oversee audit operations and circumstances. Besides evaluating external audit reports, the Committee may evaluate internal audit reports as well.

Board of Directors: A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. The body sometimes has a different name, such as board of trustees, board of governors, board of managers, or executive board.

Financial Reporting: the presentation of financial information about an entity to potential users of such information. The term usually refers to reporting to users outside of the entity.

Insolvency: the situation where entities cannot raise enough cash to meet its obligations, or to pay its debt as they become due for payment.

Return on Assets (ROA): ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is displayed as a percentage and calculated as Profit after Tax/ Total Assets.

Return on Equity: Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as: Profit after tax /Shareholder's Equity.

Stakeholders: persons with interest in an organization such as its owner, employees and creditors.

Shareholder: an individual or group who holds one or more shares in an organization, and in whose name the share certificate is issued.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Conceptual Review

2.2.1 Corporate Governance

Corporate governance characterizes a set of relationships between an organization's management, its board, its shareholders and other stakeholders in addition to providing the structure through which the organization's objectives are set, and progress continually monitored to ensure optimal performance (Tarek, 2012). Sreeti (2012) defined corporate governance as the set of processes, customs, policies, laws, and institutions affecting the way an organization is directed or managed.

Effective corporate governance requires a clear understanding of the respective roles of the board of directors, board committees, top management and shareholders as well as their relationships with each other; and their relationships with other corporate stakeholders of the organization. The major actors in an organization's management between which the corporate governance structure of the organization is established and maintained are the board of directors, shareholders, and management. These key actors also comprise the major members of the different entities that constitute the corporate governance structure (except where otherwise specified by regulatory bodies) including the board of directors, audit committee, corporate governance committee and compensation committee among others.

The most important corporate governance mechanism is the board of directors which is the highest decision-making body within the organization. Among the responsibilities of the board of directors include determining the long objectives of the organization, determining and approving the required corporate strategy to achieve the objectives, selecting and appointing the chief executive, allocating the needed resources for the achievement of objectives, reviewing performance at the end of each financial year among others. The board of directors also makes major inputs in the appointments of other key top management staff as well as oversight committees like the audit committee.

The audit committee is set up as part of the corporate governance monitoring and control mechanism in the company's finance and accounting activities. The audit committee periodically reviews the organization’s financial reports which they make available to the board of directors and shareholders; as well as to regulatory bodies (Al-Baidhani, 2016).

According to Fratini and Tettamanzi (2015), if formed by independent individuals, in particular, the audit committee could enhance the trustworthiness of an internal control system. This fact could exert a positive effect on market perceptions about the organization giving a signal of its abilities to run its operations in a transparent, correct and effective way.

Shareholders’ interests are protected through the activities of audit committee because management may not always act in the interest of corporation’s owners (Abdulazeez, Ndibe & Mercy, 2016).

The organization's ownership structure in terms of the types and composition of shareholders also affects the organization’s corporate governance effectiveness. An organization may have its ownership concentrated in the hands of a few individuals in which case these few individuals (for example family ownership) may have an unduly high influence on the decisions of the management and board. In other cases, an organization may have a highly diffused ownership structure where there are a considerable number of holders of shares of the firm with none of the owners holding too much control. Institutional shareholders like pension funds, hedge funds, insurance and finance companies, and investment banks can also constitute part of the ownership structure of firms. The ownership structure can have a huge effect on corporate governance depending on the investment outlook of the different investor groups.

2.1.2 Corporate Fraud

Fraud involves the use of deception and misrepresentation to make a personal dishonest gain. By extension, when such fraud happens in a corporate setting - especially when it involves an organization's top executives, corporate fraud is said to have been perpetrated. According to Jenfa (2002), corporate fraud involves misappropriation, theft or embezzlement of a corporate organization’s assets. The Chartered Institute of Management Accountants (2009) enumerated the types of corporate fraud to include the following: fraudulent expense claims; theft of cash, physical assets or confidential information; procurement fraud; misuse of accounts; suspense accounting fraud; payroll fraud; financial accounting misstatements; inappropriate journal vouchers; false employment credentials; bribery and corruption. However, Sunil, Rawat, and Rajarao (2016) classified corporate fraud into financial fraud or accounting fraud, misappropriation of corporate assets and obstructive conducts. Financial fraud or financial accounting fraud consists of financial information falsification, by distorting entries in accounting records thus misleading stakeholders.

Through well-known accounting schemes such as capitalizing expenses, swap transactions, accelerated revenues recognition, channel stuffing, and unduly deferring expenses. These types of frauds are mainly committed by management level for which it is also known as management fraud and misappropriation of corporate assets by senior executives through such schemes like granting loans to senior management with no intention of repayment.

Failure to disclose forgiven loans, reimbursing questionable personnel expenses and extraordinary personal expenses charged to the company. Others include insider trading, misuse of corporate property for personal gain, bribery and kickbacks, and corporate tax violations. Finally, Obstructive conduct includes falsification of testimony to regulators, destroying information that may be useful for investigations and concealing information through distortion and the creation of fraudulent information and data.

Corporate fraud is usually committed by individuals within an organization taking advantage of privileged information to defraud investor/shareholders. However, corporate fraud can also be perpetrated by individuals outside the organization but with active collaboration by the organization's management or other employees. Corporate fraud can affect the organization and its stakeholders in several ways. For example, fraud can lead to the failure of the organization in which case investors will lose funds, jobs will be lost by employees. Even where the organization survives, the effect of fraud may take a considerable amount to wear off because corporate fraud leads to loss of confidence by investors, customers/clients, creditors etc.

2.1.3 Historical Overview of Corporate Governance

The foundational argument of corporate governance, as seen by both academics as well as other independent researchers, can be traced back to the pioneering work of Berle and Means (1932). They observed that the modern corporations having acquired a very large size could create the possibility of separation of control over a firm from its direct ownership. Berle and Means' observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioral dimension of the theory of the firm.

Governance is a word with a pedigree that dates back to Chaucer. In his days, it carries with it the connotation "wise and responsible", which is appropriate. It means either the action or the method of governing and it is in the latter sense that it is used with reference to companies. Its Latin root, "gubernare' means to steer and a quotation which is worth keeping in mind in this context is: 'He that governs sits quietly at the stern and scarce is seen to stir' (Cadbury, 1992). Though corporate governance is viewed as a recent issue but nothing is new about the concept because, it has been in existence as long as the corporation itself (Imam, 2006).

Over centuries, corporate governance systems have evolved, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the security laws in the United States were put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East- Asian economic and financial crisis in the second half of 1990s (Flannery, 1996). In addition to these crises, the history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Parmalat, Global Crossing and the international accountants, Andersen (La Porta, Lopez and Shleifer 1999). These were blamed on a lack of business ethics, shady accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse, was met by new elements of an improved system of corporate governance (Iskander and Chamlou, 2000).

2.1.4 Corporate Governance Mechanisms

One consequence of the separation of ownership from management is that the day to today decision-making power (that is, the power to make decision over the use of the capital supplied by the shareholders) rests with persons other than the shareholders themselves. The separation of ownership and control has given rise to an agency problem whereby there is the tendency for management to operate the firm in their own interests, rather than those of shareholders' (Jensen and Meckling, 1976; Fama and Jensen, 1983). This creates opportunities for managers to build illegitimate empires and, in the extreme, outright expropriation. Various suggestions have been made in the literature as to how the problem can be reduced. Some of the mechanisms (based on Shleifer and Vishny, 1997), and their impediments to monitor and shape banks' behaviour are discussed below:

2.1.5 Shareholders

Shareholders play a key role in the provision of corporate governance. Small or diffuse shareholders exert corporate governance by directly voting on critical issues, such as mergers, liquidation, and fundamental changes in business strategy and indirectly by electing the boards of directors to represent their interests and oversee the myriad of managerial decisions. Incentive contracts are a common mechanism for aligning the interests of managers with those of shareholders. The Board of directors may negotiate managerial compensation with a view to achieving particular results. Thus small shareholders may exert corporate governance directly through their voting rights and indirectly through the board of directors elected by them.

However, a variety of factors could prevent small shareholders from effectively exerting corporate control. There are large information asymmetries between managers and small shareholders as managers have enormous discretion over the flow of information. Also, small shareholders often lack the expertise to monitor managers accompanied by each investor's small stake, which could induce a free-rider problem.

Large (concentrated) ownership is another corporate governance mechanism for preventing managers from deviating too far from the interests of the owners. Large investors have the incentives to acquire information and monitor managers. They can also elect their representatives to the board of directors and thwart managerial control of the board. Large and well-informed shareholders could be more effective at exercising their voting rights than an ownership structure dominated by small, comparatively uninformed investors. Also, they could effectively negotiate managerial incentive contracts that align owner and manager interests than poorly informed small shareholders whose representatives, the board of directors, can be manipulated by the management. However, concentrated ownership raises some corporate governance problems. Large investors could exploit business relationships with other firms they own which could profit them at the expense of the bank. In general, large shareholders could maximize the private benefits of control at the expense of small investors.

2.1.6 Debt Holders

Debt purchasers provide finance in return for a promised stream of payments and a variety of other covenants relating to corporate behaviour, such as the value and risk of corporate assets. If the corporation violates these covenants or default on the payments, debt holders typically could obtain the rights to repossess collateral, throw the corporation into bankruptcy proceedings, vote in the decision to reorganize, and remove managers.

However, there could be barriers to diffuse debt holders to effectively exert corporate governance as envisaged. Small debt holders may be unable to monitor complex organization and could face the free-rider incentives, as small equity holders. Also, the effective exertion of corporate control with diffuse debts depends largely on the efficiency of the legal and bankruptcy systems. Large debt holders, like large equity holders, could ameliorate some of the information and contract enforcement problems associated with diffuse debt. Due to their large investment, they are more likely to have the ability and the incentives to exert control over the firm by monitoring managers. Large creditors obtain various control rights in the case of default or violation of covenants. In terms of cash flow, they can renegotiate the terms of the loans, which may avoid inefficient bankruptcies. The effectiveness of large creditors however, relies importantly on effective and efficient legal and bankruptcy systems. If the legal system does not efficiently identify the violation of contracts and provide the means to bankrupt and reorganize firms, then creditors could lose a crucial mechanism for exerting corporate governance. Also, large creditors, like large shareholders, may attempt to shift the activities of the bank to reflect their own preferences. Large creditors for example, as noted by Myers (1997) may induce the company to forego good investments and take on too little risk because the creditor bears some of the cost but will not share the benefits.

According to Oman (2001), corporate governance mechanisms including accounting and auditing standards are designed to monitor managers and improve corporate transparency. Furthermore, a number of corporate governance mechanisms have been identified analytically and empirically.

Davis, Schoorman and Donaldson (1997) suggest that governance mechanisms "*protect shareholders' interest, minimise agency costs and ensure agent-principal interest alignment*". They further opined that agency theory assumptions are based on delegation and control, where controls "*minimise the potential abuse of the delegation*". This control function is primarily exercised by the board of directors.

However, in other to address the specific objectives of this research, this study will focus on the internal/ insider mechanisms of corporate governance as they relate to banking operations.

2.1.7 Linkage between Corporate Governance and Firm Performance

Better corporate governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision-making. In expectation of such an improvement, the firm's value may respond instantaneously to news indicating better corporate governance. However, quantitative evidence supporting the existence of a link between the quality of corporate governance and firm performance is relatively scanty (Imam, 2006).

Good governance means little expropriation of corporate resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance. As investors and lenders will be more willing to put their money in firms with good governance, they will face lower costs of capital, which is another source of better firm performance. Other stakeholders, including employees and suppliers, will also want to be associated with and enter into business relationships with such firms, as the relationships are likely to be more prosperous, fairer, and long lasting than those with firms with less effective governance.

Implications for the economy as a whole are also obvious. Economic growth will be more sustainable, because the economy is less vulnerable to a systemic risk. With better protection of investors at the firm level, the capital market will also be boosted and become more developed, which is essential for sustained economic growth. At the same time, good corporate governance is critical for building a just and corruption-free society. Poor corporate governance in big businesses is fertile soil for corruption and corruptive symbiosis between business and political circles. Less expropriation of minority shareholders and fewer corruptive links between big businesses and political power may result in a more favorable business environment for smaller enterprises and more equitable income distribution (Iskander and Chamlou, 2000).

According to a survey by McKinsey and Company (2002) cited in Adams and Mehran (2003), 78% of professional investors in Malaysia expressed that they were willing to pay a premium for a well-governed company. The average premium these investors were willing to pay generally ranged from 20% to 25%. Many scholars have attempted to investigate the relationship between good governance and firm performance in a more rigorous way.

2.1.8 The Role of Internal Corporate Governance Mechanisms in Organisational Performance

According to the Asian Development Bank (1997), Dallas (2004) and Nam and Nam (2004) cited in Kashif (2008), various instruments are used in financial markets to improve corporate governance and the value of a firm. Economic and financial theory suggests that the instruments mentioned below affect the value of a firm in developing and developed financial markets. These instruments and their role are as follows:

Role of Auditor

The role of auditor is important in implementing corporate governance principles and improving the value of a firm. The principles of corporate governance suggest that auditors should work independently and perform their duties with professional care. In case of any financial manipulation, the auditors are held accountable for their actions as the availability of transparent financial information reduces the information asymmetry and improves the value of a firm (Bhagat and Jefferis, 2002).

However, in developing markets auditors do not improve the value of a firm. They manipulate the financial reports of the firms and serve the interests of the majority shareholders further disadvantaging the minority shareholders. The weak corporate law and different accounting standards also deteriorate the performance of the auditors and create financial instability in the developing market.

Role of Board of Directors' Composition

The board of directors can play an important role in improving corporate governance and the value of a firm (Hanrahan, Ramsay and Stapledon, 2001). The value of a firm is also improved when the board performs its fiduciary duties such as monitoring the activities of management and selecting the staff for a firm. The board can also appoint and monitor the performance of an independent auditor to improve the value of a firm. The board of directors can resolve internal conflicts and decrease the agency cost in a firm. The members of a board should also be accountable to the shareholders for their decisions as argued by Vance (1983), Anderson and Anthony (1986), Nikomborirak (2001) and Tomasic, Pentony and Bottomley (2003).

The board consists of two types of directors; outsider (independent) and insider directors. The majority of directors in a board should be independent to make rational decisions and create value for the shareholders. The role of independent directors is important to improve the value of a firm as they can monitor the firm and can force the managers to take unbiased decisions. The independent directors can also play a role of a referee and implement the principles of corporate governance that protect the rights of shareholders (Bhagat and Jefferis, 2002; Tomasic, Pentony and Bottomley, 2003).

Similarly, internal directors are also important in safeguarding the interests of shareholders. They provide the shareholders with important financial information, which will decrease the information asymmetry between managers and shareholders as argued by Bhagat and Black (1999) and Bhagat and Jefferis (2002). The board size should be chosen with the optimal combination of inside and outside directors for the value creation of the investors. The boards of directors in the developing market are unlikely to improve the value of a firm, as the weak judiciary and regulatory authority in this market enables the directors to be involved in biased decision-making that serves the interests of the majority shareholders and the politicians providing a disadvantage to the firm (Asian Development Bank, 1997).

Role of Chief Executive Officer

The Chief Executive Officer (CEO) of an organization can play an important role in creating the value for shareholders. The CEO can follow and incorporate governance provisions in a firm to improve its value (Brian, 1997; Defond and Hung, 2004). In addition, the shareholders invest heavily in the firms having higher corporate governance provisions as these firms create value for them (Morin and Jarrell, 2001).

The decisions of the board about hiring and firing a CEO and their proper remuneration have an important bearing on the value of a firm as argued by Holmstrom and Milgrom (1994). The board usually terminates the services of an underperforming CEO who fails to create value for shareholders. The turnover of CEO is negatively associated with firm performance especially in developed markets because the shareholders lost confidence in these firms and stop making more investments. It is the responsibility of the board to determine the salary of the CEO and give him proper remuneration for his efforts (Monks and Minow, 2001). The board can also align the interests of the CEO and the firm by linking the salary of a CEO with the performance of a firm. This action will motivate the CEO to perform well because his own financial interest is attached to the performance of the firm as suggested by Yermack (1996).

The tenure of a CEO is also an important determinant of the firm's performance. CEOs are hired on short-term contracts and are more concerned about the performance of the firm during their own tenure causing them to lay emphasis on short and medium-term goals. This tendency of the CEO limits the usefulness of stock price as a proxy for corporate performance (Bhagat and Jefferis, 2002). The management of a firm can overcome this problem by linking some incentives for the CEO with the long-term performance of the firm (Heinrich, 2002).

The Role of Board Size

Board size plays an important role in affecting the value of a firm. The role of a board of directors is to discipline the CEO and the management of a firm so that the value of a firm can be improved. A larger board has a range of expertise to make better decisions for a firm as the CEO cannot dominate a bigger board because the collective strength of its members is higher and can resist the irrational decisions of a CEO as suggested by Zahra and Pearce (1989).

On the other hand, large boards affect the value of a firm in a negative fashion as there is an agency cost among the members of a bigger board. Similarly, small boards are more efficient in decision-making because there is less agency cost among the board members as highlighted by Yermack (1996).

Role of CEO Duality

Similar to the other corporate governance instruments, CEO duality plays an important role in affecting the value of a firm. A single person holding both the Chairman and CEO role improves the value of a firm as the agency cost between the two is eliminated (Alexander, Fennell and Halpern, 1993). On the negative side, CEO duality lead to worse performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO pursues his own interest at the cost of the shareholders (White and Ingrassia, 1992).

Role of Managers

Managers can play an important role in improving the value of a firm. They can reduce the agency cost in a firm by decreasing the information asymmetry, which results in improving the value of a firm (Monks and Minow, 2001). Managers in the developed market create agency cost by under and over investment of the free cash flow.

Shareholders are disadvantaged in this case as they pay more residual, bonding and monitoring costs in these firms.

Managers in developing financial markets generally play a negative role in the value creation of investors. The rights of the minority shareholders are suppressed and the firms in these markets cannot produce real value for shareholders as actions of the managers mostly favour the majority shareholders. The management and the shareholders in a developing market do not use the tools of hostile takeover and incentives to control the actions of managers. In the case of a hostile takeover, the managers are forced to perform well to be able to hold their jobs. Similarly, appreciation and bonuses can motivate managers to produce value for shareholders (Bhagat and Jefferis, 2002).

The ownership of the management in a firm has an important bearing on its value (Morck, Shleifer and Vishny, 1988). Also, firms can improve their value in developing markets by streamlining the interests of managers with those of the shareholders. This results in the convergence of the goals of shareholders and managers ultimately improving the value of the shareholders as suggested by Mehran (1995).

2.2.1Organizational Performance

Organizational performance is the effective and efficient manner which managers of organizations utilize resources to achieve set objectives which managers are responsible for achieving the stated objectives. Without objective, capable management resources remain under-utilized and never become productive. The trend today is to set ambitious objective and to achieve them with fewer resources (Tepper & Taylor, 2003). Performance is regarded as behaviour, the way in which organization, teams, and individuals get work done. According to Armstrong (2005), the level of firm performance is based on how effectively and efficiently, managers utilize resources to achieve set objectives which managers are responsible for in discharge of their duties. Ployhart, Weekley and Ramsey (2009) pointed out that jobs at the organizational level lead to human resources and are represented by the unit aggregate of individual personality. The differences in personality predicted individual service performance and employee satisfaction; however not all individual differences are beneficial. March and Sutton (1997) found that of 439 articles in the Strategic Management Journal, the Academy of Management Journal and Administrative Science Quarterly over a three year period, 23% included some measure of performance as a dependent variable. In contrast to the dominant role that organizational performance plays in management fields, it is the limited attention paid by researchers to what performance is and how it is measured. The most common metrics used to measure organizational performance are profitability and growth. However, measuring these variables in small and medium businesses can be challenging in contrast to large corporations of which the process of data gathering can be objective or subjective. Given the competitive nature and market dynamic of organizations and the difficulty of gaining access to past financial data from some organizations, most research in this area has relied on a survey-based approach to measure performance. In most cases, the performance of the firm is measured by the perception of the owner or manager providing responses to the survey (Justin, Bell, Payne, Kreiser, 2010). Hawawini, Subramanian and Verdin, (2003) argue that industry or external firm factors play a more important role in dictating the influence of organizational performance. On the other hand, Opler and Titman (1994) suggest that firm specific (internal) factors seem to be the major determinants of the operating performance, and are the main drivers for competitive advantage which is crucial for surviving economic downturns. Klein, Shapiro, and Young (2004) examined the relationship between corporate governance and firm value. The study employed corporate governance index (CGI) and Tobin‟s Q to proxy firm‟s value. The empirical evidence revealed that corporate governance indices are not factors that determine firm value.

2.2.2 Measurement of Organizational performance

Corporate measurement is the measure performance of division, measure performance of product or service, measure performance of equipment and persons. Meanwhile, these performances can be measured in terms of profitability**,** liquidity and efficiency, etc. (Ilaboya, 2005). Corporate governance causes improved economic activities of the bank leading to high earnings per share, liquidity, asset base (investment) and dividend per share. Therefore, corporate governance affects bank total profit. Profitability is the relative tendencies of profit making in alternative courses of action or decision (Ilaboya, 2005). Bititci, Carrie and McDevitt (1997) argue that performance measurement is at the heart of the performance management process and it is of critical importance to the effective and efficient functioning of performance management. The business performance of the company is measured based on the market condition and the performance in accounting measure. According to Waiganjo, Mukulu and Kahiri (2012) the measurement of firm performance is not easy for business organizations because of its various objectives of profitability and social responsibility and ability to adjust to the ever changing environment among other objectives. In simple terms, performance refers to the degree of accomplishment of the tasks that makes up an individual's job. The performance is to be appraised to know how the employee has taken up his job or work. One's performance is measured on the basis of his achievement. It is a qualitative consideration and when we say the employees are performing well, it means they are productive. Measuring organizational performance is to assess and harness the diverse net impact of workers tasks accomplished on organizational output or effectiveness (Kifordu, Egwuenu & Ukpere, 2016). Productivity assessment of each unit/department in any organization enables management to identify and address factors that obstructs employees‟ effectiveness or commitment. Consistent measure of productivity level of each unit against set goals across the organization provides a platform for assessing workers performance. Profitability is an absolute measure of the overall amount of Net Income earned by a transaction. Profit is used as an index to measure performance; it measures the net effectiveness and soundness of business efforts and an ultimate test of business performance (Okoli, 2006). Therefore, employee satisfaction and customer satisfaction remain useful measures of organizational performance. In summary, based on the above discussion, the quality of performance measurement is critical to determining outcomes about whether leadership matters, although not all studies have been well designed in this respect. In addition, extant research findings have shown that perceived measures of performance can be a reasonable substitute of objective measures of performance (Wan-Jing & Tung, 2005) and have a significant correlation with objective measures of financial performance. Youndt, Snell, Dean and Lepak (1996) posit that, the difficulty in obtaining objective measures of firm performance and suggest asking managers to assess their own firm’s performance relative to others in the same industry or sector. Organizational performance can be measured by Return on Equity (ROE), return on assets (ROA), earnings per share (EPS), market value to book value of equity ratio (MVBR),etc.

2.2.3 Corporate governance Characteristics

Corporate performance is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. Corporate governance has recently assumed considerable significance as a veritable tool for ensuring corporate survival. In Nigeria, most of the business failures in the recent past are attributed to failure in corporate governance practices (Sanusi, 2010). Corporate governance provides the legal structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. In other word, corporate governance is all about running an organization in a way that guarantees that its owners or stockholders receives legally a fair return on their investment, while the expectations of other stakeholders are also met (Magdi & Nedareh, 2002). It addresses the need for organizational stewards or managers to act in the best interest of the firm"s core stakeholders, particularly, minority shareholders or investors, by ensuring that only actions that facilitate delivery of optimum returns and other favorable outcomes are taken at all times.

2.2.4 Board Size and Organizational Performance

Board size is the total number of directors sitting on the board of any corporate organization. The determination of an ideal board size for an organization is very important because the number and quality of directors in a firm determines and influences the board functioning and hence firm performance. One of the disadvantages associated with large board is communication coordination problem which makes large board has less efficient monitor than small board. The director's free- rider problem is also more intense in large board than small board (Jensen, 2003). Proponents of large board size believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. They are also capable of reducing the dominance of an overbearing CEO and hence put the necessary checks and balances. It is the duty of Board of Directors to ensure that the organization is taking full advantage of the opportunities at its disposal and that market value of the firm is increasing. 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, 2003).

Jensen (2003) further asserted that larger boards could be less effective than small boards. Increase in board's size occurs with increase in agency problem (such as director free-riding) within the board and the board becomes less effective. The agency problem also increases with board size as there are more conflicting groups representing their own diverse interest. In addition, free- riding also increases as some directors‟ neglect their monitoring and controlling duties to other colleagues on the board. Most companies also have a representative of minority shareholders ob board that is not usually increased with increasing board size. Brown and Caylor (2004) also suggest that a board size between 6 to 15 members is deal to enhance the firm performance. Yermack (1996) documented that firm having small board sizes have higher stock market value and increased firm performance. Yoshikawa and Phau (2003) opine that a small board size escapes the difficulty of organizing and coordinating large group of directors and ensures effectiveness and performance of the firm. These arguments are however inconsistent with the resource dependency theory which professes that larger board size seems to be better since a large number of overall connections with organizations and directors outside the firm provide more sources of information for the director and a level of environmental awareness not readily available to management (Muth & Donaldson, 1998).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 favored 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. Kathuria and Dash (1999) argued that firm's performance increases if the board size increased but the contribution of an additional board member decreases as the size of the board increases. Studies that find a negative relationship between board size and firm performance include Mak and Yuanto (2002) which examine the relationship board size and firm performance. The empirical evidence from their study revealed that a negative relationship between board size and firm performance. This means that increase in board size would lead to a significant decrease in organizational performance. Also, Aggarwal, Isil, Rene and Rohan (2007) examine the relationship board size and firm performance. They found out that no significant relationship exist between board size and firm valuation. Corporate Governance indices bestow higher rating to firms with independent boards. Bhagat and Black (2002) found no correlation between the degree of board independence and four measures of firm performance, controlling for a variety of other governance variables, including ownership characteristics, firm and board size and industry. These researchers found that poorly performing firms were more likely to increase the independence of their board. Dare (1998) state that non- executive directors are effective monitors firm's strategy related issues. They are able to provide independent expert judgment when dealing with the executive directors in areas such as pay awards, executive director appointments and dismissals. O'Sullivan and Wong (1999) recorded that, non- executive directors in the board become less effective if they continue with the same board for many years. Topal and Dogan (2014) investigated the impact of board size on financial performance in Turkey. The result showed that a significant positive relationship exists between board size and financial performance. This means that increase in board size would significantly lead to increase in financial performance. Moscu (2013) conducted a study on the impact of board size on firm performance in Romanian listed company on the floor of the stock exchange. The study revealed that board size has a positive and insignificant on firm performance proxy by ROA and ROE. This means that an insignificant relationship exists between board size and firm performance in Romania listed firms. Based on the review literature, we therefore formulate hypothesis that board size has a significant impact on organizational performance.

2.2.5 Director's Share and Organizational Performance The directors, with their vast wealth of experience, provide leadership and direct the affairs of the business with high sense of integrity, commitment to the firm, its business plans and long-term shareholder value. Corporate governance rankings of companies are also one of the considerations of investors when evaluating stock prices (Berthelot, Morris & Morrill, 2010). Board members are the individuals that shareholders rely on to ensure that their investment is protected and well managed (Brennan, 2010). This makes the board of directors one of the most critical internal corporate governance mechanisms. The composition of corporate boards is of vital importance within corporate governance as it pertains to identifying structures that align the interests of management and stakeholders (Rose, 2007). Directors are effective monitors of firm's strategy related issues. They are able to provide independence expert judgment when dealing with the executive directors in areas such as pay awards, executive director appointment and dismissals. Furthermore, Bohren and Bernt (2003) showed that the amount of stock owned by individual directors is significantly correlated with various measures of firm performance as well as CEO turnovers in poorly performing firms. Short and Keasy (1999) investigated whether there is a non- linear relationship between managerial ownership and business performance in UK. Business performance is measured based on return on shareholders' equity and market value. They employ the cubic model to investigate the relationship between the variables. With this model, the coefficients of managerial ownership variables (DIR, DIR2, and DIR3) will be able to determine their turning points (indicating the maximum and the minimum points of the managerial performance).

Wiwattanakantung (2000) examined the relationship between managerial shareholders and firm performance in Thailand. The managerial shareholding is classified into three levels (25% -50%, 50%-75% and beyond 75%). This study compares these three levels of managerial shareholders with non-managerial controlling shareholders. The empirical finding revealed that there is no significant relationship between managerial shareholders and business performance based on the return on assets and the sales- asset. This leads to the existence of non-linear relationship between the variables. Asikhia (2010) conducted a study on the relationship between strategic managerial orientation and performance of banks. The result revealed that strategic managerial orientation is positively and significantly related with bank performance. The marketing competence has reasonable influence on business performance. The bank uses classification scale for developing model which studies the merger between other banks. The manager should be attentive in providing good performance, which needs consideration of most important strategic variables and activities. The management must take decision as to merge with other companies or buy over (Asikhia, 2010).

Coles, McWilliams and Sen (2001) examined the relationship between non-executive directors and firm performance. They found out that there is no significant relationship between non-executive directors‟ representation and performance. Based on the review literature, we therefore formulate hypothesis that directors‟ share has a significant impact on organizational performance. Based on the review literature, we therefore formulate hypothesis that director’s share has a significant impact on organizational performance.

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency theory as a useful economic theory of accountability helps to explain the development of the audit. Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals‟ ability to monitor whether or not their interests are being properly served by the agents (Casterella, Jensen, & Knechel, 2007). It is built on the premises that there is an agency relationship wherein the principal delegates work to the agent. As a result, there evolves risk sharing and conflict of interest between the two parties. It is the belief that the agent will be driven by self-interest rather than the desire to maximize the profits for the principal. The theory describes the conflicts that arise as a result of the separation of ownership and control. The economic principal-agent theory considers „institutions as nexus for contracts" and according to Jensen and Meckling (1976) and Furubotn and Richter (2005), the principal agent relationship is a contract relationship where the principal establish appropriate incentives for the agent. However, since principal and agent have different incentives and because of information asymmetry and external disturbances, the principal is not able to adequately monitor the agent's actions. Therefore the economic principal-agent theory is about the principal designing remuneration plans for the agent to protect himself against opportunistic behavior.

2.3.2 The Resources Dependence Theory

This theory provides a platform for board of directors to use their over sight functions to manage the resource of the firm (Hillman, Canella & Paetzold, 2000). The resources of a given firm in which the board manage include all assets, capabilities, organizational processes, firm attributes, information, and knowledge in order to improve efficiency and effectiveness of the business organization (Daft, 2006). The resource dependence theory emphasizes that organizations attempt to exert control over their environment by co-opting the resources needed to survive. In the resource dependence role, outside directors might bring resources to the firm, such as information, skills, access to key constituents (e.g., suppliers, buyers, public policy decision makers, social groups) and legitimacy. According to this theory, the board is a strategic resource, which provides a linkage to various external resources in a business organization (Ingley & van der Walt, 2001).

2.3.3 Expectancy Theory

Expectancy theory thrives on the idea that people prefer certain outcomes from their behaviour to others by given level of performance. The theory stresses that level of performance depends upon the perceived expectation regarding effort expending in achieving the desired outcome. An employee who desires promotion will only achieve high performance if he/she believe his/her behaviour will lead to promotion or else he/she will not exert effort (Vroom, 1964). An employee may be unwillingly to work hard if that person believes his effort will not lead to task accomplishment or there are no rewards for performance or the employee does not value the rewards. According to the expectancy theory, individual will be motivated to perform by two expectancies. Expectance is the probability that the effort put forth will lead to the desired performance. The second expectancy (instrumentality) is the probability that a particular performance will lead to certain preferred outcomes. When the probability of some effort will not be rewarded, the employee will not be highly motivated to perform a certain task. Job-related non-monetary incentives serve this end. It should also be ensured that individuals have the time and equipment to attain the performance goals. Second, a positive relation between required performance and reward can be reinforced. Performance objectives should be defined clearly and there should be a link between rewards employees value and the required performance to get it. This can be possible if the goals are set clearly. Third, rewards and outcomes that are of value to the employees can be chosen. Nonmonetary incentives provide variety of choices to the employees. This theory postulates that rewards or punishments serve as the means of ensuring that people act in a desire ways. The theory states that employee only work for money and that they are only motivated when rewards and penalties are tied to level of performance.

2.4 Empirical Review

D’onza and Lamboglia (2018) explored the link amid fraud in the financial statement and corporate governance of registered firms in Italy, spanning through the period of 2001-2016 with a sample size of 26 companies. The result shows that having an audit committee who confides their operations within the corporate governance codes stipulated in Italy have a higher proximity to reduce risk and the occurrence of fraud and the more audit meetings the more likely the reduction of risk occurrences.

Wan, Wan, and Roshayani (2018) scrutinized the association amid the structure of corporate governance and the probability of fraudulent financial reporting across 227 listed public companies in Malaysia for the period of 2010- 2016. This was done using an integration of Beneish M-score model and Altman’s Z-score model. The results of the analysis indicated that an effective corporate governance structure would reduce the possibility of fraud.

Aliyu and Ishaq, (2018) examined the impact of monitoring characteristics have on the financial reporting quality of oil marketing firms listed on Nigeria Stock Exchange for the period 2000-2016. The research discovered that separation of power, directors’ independence, shareholdings of managers and audit committee independence significantly affect the quality of financial report of firms in the oil marketing in Nigeria.

Shab (2017) carried out a research to analyze the influence of independence, knowledge and experience of members of the audit committee on financial reporting quality. Based on the research, it was discovered that the ineffectiveness of the independence, expertise and experience of the audit committee is the cause of ineffective performance of oversight functions.

Furthermore, In’airat (2017) investigated on how corporate governance affects the reduction of fraud in organisations. The research explored how corporate governance affect the level of fraud. Three salient roles were explored: internal audit (IA), internal control (IC) and external audit (EA). They were investigated based on three dimensions: existence, implementation and effectiveness. The result of this study shows that IA is the most significant tool for reduction of fraud among the three components used and also indicates effectiveness as the most significant dimension for the reduction of fraud.

Beasley (2017) explored the connection amid the combination of the board and financial statement fraud in companies in North Carolina. The mechanisms for measuring board composition were number of board members, audit committee and outside directors. The result of the analysis showed that audit committee had an insignificant association with fraud related to financial statement, though a larger board and an upsurge in the tenure of external directors would minimize financial statement fraud.

Klein, (2017) examined the association amid board characteristics, audit committee and earnings management. An adverse association was found between audit committee and abnormal accruals, an adverse relationship was also found amid firm characteristic and abnormal accruals. The result depicts that board independence and a rise in the proportion of outside directors in the audit committee would reduce the manipulation of earnings.

Nguyen, (2017) investigated the degree to which directors and ownership features relate to earnings management. 570 non-financial companies registered on Vietnam stock exchange spanning from 2010-2015. Result of the analysis showed an insignificant association amid the fraction of non-executive directors and manipulation of earnings.

Murdock (2016) explored the consequence of the features of audit committee on the quality of financial disclosure. The selected sample was 101 firms listed on the Nigerian stock exchange between 2010-2014. Multivariate regression was introduced to confirm the relationship. The result showed that the independence of the audit committee, financial knowledge and share ownership significantly influence the quality of financial reporting.

In a similar study, Chen, Firth, Daniel, Gao, and Rui (2016) who examined the effect of ownership structure, boardroom characteristics and corporate fraud in China using bi-variate and multivariate analyses. The results of the multivariate analyses showed that ownership and board characteristics are important in explaining fraud. However, using a bivariate probit model, they demonstrated that boardroom characteristics are important, while the type of owner is less relevant. In particular, the proportion of independent directors, number of board meetings, and the length of tenure of the board chairman are associated with the incidence of fraud. However, Lee and Jin (2015) showed in their findings that institutional ownership is negatively associated with earning management and lowers the risk of financial misreporting and fraud Chen and Lin (2015) investigated the relationship between corporate governance and corporate fraud in China by using logit multivariate regression and employing a sample of 176 firms listed in China for the period 2005 to 2014. From the results, it was revealed that firms experiencing corporate fraud have lower independent board members than those with 'no-fraud' experience. The findings also showed that firms with chief executive officers being the chairmen of the board of directors are more likely to commit corporate fraud than other firms with the separated roles. This finding supports the argument for greater independence in BODs.

Matoussi and Gharbi (2011) investigated the link between corporate financial statement fraud and board of directors on a sample of 64 Tunisian firms, with 32 fraud firms matched by 32 no fraud similar (control) companies. The findings show that there is a significant difference in governance characteristics between fraudulent and control firms. Thus confirming the importance of governance characteristics in explaining the probability of fraud since firms with a board of directors dominated by family members and with tenure of outside directors are more likely to commit fraud in the financial statement.

Wilbanks (2014) examined how audit committees fulfill their responsibilities for assessing fraudulent financial reporting risk by focusing on social influence/risk aversion relationship. The results of the survey of 136 audit committee members from mid-sized US public companies indicated that there is no association between audit committee members' personal or professional relationship ties to management or other corporate governance actors and audit committee members' overall reliance on these actors to assess fraud risk. However, the results show links between the audit committee's actions to assess fraud risk and its personal ties to the chief executive and chief financial officers; and certain control variables including the board of director independence and audit committee size.

Guiseppe and Lamboglia (2014) analyzed the relationship between corporate governance characteristics and financial statement fraud in Italian listed companies during the period 2001-2011 with the intention to establish whether certain governance characteristics may have favored the commission of accounting irregularities. Results from the logit regression analysis show that the existence of an audit committee that is compliant with the requirements of the Italian corporate governance code reduces the likelihood of frauds. Additionally, the probability of financial statements frauds decreases with increases in the number of the audit committee meeting.

Huang and Thiruvadi (2015) examined the relationship between audit committee characteristics (number of meetings, audit committee size and financial expertise of members) and fraud. Using a final sample of 218 firms from S&P and audit committee characteristics data collected from the SEC database, the findings show that audit committee meeting frequency is not associated with fraud prevention while audit committee size does not significantly affect fraud prevention. However, financial expertise of audit committee members is significantly associated with fraud prevention. Thus, from the findings, it can be surmised that the financial expertise of audit committee members is an important factor in the prevention/reduction of corporate fraud.

Around the world, there exist large volumes of previous research on the relationship between corporate governance and management/corporate fraud a few of which have been cited in the empirical review above. However in the case of Nigeria, little research search light have been beamed on this area. Most research focus mainly on management fraud (or some aspects of it) and its effects on the performance of the organization (Ene and Bello, 2016; Abdulazeez, Ndibe, and Mercy, 2016) with none appearing to recognize its linkages to the corporate governance mechanism. The present study aims to bridge this gap in research by examining the effects of corporate governance and financial fraud in manufacturing companies in Nigeria. To this end, the purpose of this research is to examine the relationship between corporate governance in terms of audit financial expertise, board size and board of director independence and financial fraud among quoted manufacturing companies in Nigeria.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

In this chapter, the research methodology followed in the study is discussed. This includes the research design, sampling design, measuring instruments and data analyses.

3.2 Research Design

Kumar, (2005) defined a research design as a procedural plan that is adopted by the researcher to answer questions validly, objectively, accurately and economically. A research design helps a researcher to conceptualize an operational plan to undertake the various procedures and tasks required to complete the study and to ensure that these procedures are adequate to obtain valid, objective and accurate answers to the research questions.

This study will adopt a descriptive research design. According to Mugenda and Mugenda (2005), descriptive research is a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. A descriptive study determines and reports the way things are. The choice of the descriptive study design is based on the fact that the research is interested on the state of affairs already existing in the field and no variable will be manipulated. This study therefore will be able to generalize the findings to a larger population. The main focus of this study will be quantitative. However some qualitative approaches will be used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

3.3 Population

The population of the study was made up of all the firms listed in the NSE as at 31st December 2021.

3.4 Sample Size

A sample is a small group obtained from accessible population, (Mugenda & Mugenda, 2003). Sampling is the procedure a researcher uses to gather people, places or things to study, (Kombo & Tromp, 2006). The purposive sampling was used to get appropriateness and required sample because it is a technique that allows a researcher to use cases that the required information with respect to the objective (Mugenda 2003).The sample of size for this study is management staff of Dangote Manufacturing company.

3.5 Data Collection

Secondary data was collected from published annual reports and websites of Dangote Manufacturing company. The secondary data provided a reliable source of the information needed by researcher to investigate the phenomenon and seek efficient ways for problem solving situations (Uma, 2003).

3.6 Data Analysis

Both quantitative and qualitative analysis data was obtained from the study, using ordinary least square (OLS) regression technique.

3.7 Model Specification

Multiple regressions model was used. Hair, Black, Babin, Anderson and Tatham (2006) claimed that s multiple regressions are the best method used to predict multivariate association as it eliminates automatically any independent. This study employed the following model;

$FNFD = \beta o + \beta_1 BSIZE + \beta_2 BDI + \beta_3 ACFE + et$

Where:

FNFD = Financial Fraud.

BSIZE= represents Board Size; the terms of measurement will be total number of directors on the board.

BDI= Board Independence.

ACFE= Audit Committee Financial Expertise

Ut= the error term which account for other possible factors that could influence

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The study applied descriptive statistics and regression analysis to analyze the various corporate governance variables on the one hand, and the dependent variables financial statement fraud on the other hand. This chapter presents data analysis and interpretation of the results.

4.2 Data Presentation

The presentation of the data used are summarized in the descriptive statistics in Table 4.1

Table 4.1: Descriptive Statistics

Variable	**FNF**	**BSIZE**	**ACFE**	**BODIND**
Mean	0.76	6.68	0.51	0.47
Maximum	1.00	8.00	0.75	0.60
Minimum	0.00	5.00	0.33	0.33
Std. Dev.	0.44	0.95	0.14	0.15
Jarque-Bera	6.46	7.93	2.31	6.62

Probability	0.04	0.01	0.31	0.03

Source: Researchers' summary of result

The results provide some insight into the nature of c corporate governance and financial statement fraud in listed firms in Nigeria. First, we observe that within the study period the companies had similar board size between five and eight members. 50% of the sampled companies have board members that possess financial know-how. Second, majority of the board members are not independent directors. Third, on the average, most of the firms' audit committee size meets an average of 6 times annually. Lastly, the Jarque–Bera (JB.) which test for normality or existence of outliers or extreme value among the variables shows that all the variables are normally distributed except board members financial expertise.

4.3 Correlation Analysis

Table 4.2 Pearson correlation matrix

	FNF	**BSIZE**	**BDI**	**ACFE**
FNF	1.0			
BSIZE	0.01	1.0		
BDI	-0.11	-0.41	1.0	
ACFE	0.4	0.7	0.37	1.0

Source: Researchers summary of E-view 8 correlation analysis

The use of correlation matrix is to check for multi-collinearity and to explore the relationship between each explanatory variable and the dependent variable. The correlation analysis show that there exists positive relationship between financial statement fraud likelihood and audit committee effectiveness, board members financial expertise, board size, but negatively related with board independence. Finally, no two explanatory variables were perfectly correlated thus multi-collinearity among the variables does not exist.

Table 4.3

Variable	**Coefficient**	**Std. Error**	**z-Statistic**	**Prob.**
C	**29.22**	**5.40**	**5.41**	**0.00**
ESIB	**0.06**	**1.37**	**0.05**	**0.96**
BDI	**11.14**	**5.13**	**2.17**	**0.03**
ACFE	**5.30**	**2.03**	**2.61**	**0.02**
McFadden R-squared	**0.53**	Mean dependent var		**0.76**
LR statistic	**14.66**	Avg. log likelihood		**2.26**
Prob(LR statistic) 0.023				

Source: Researchers summary of binary logit regression Analysis from E-view 8

The result of McFadden R-squared value indicates that 53.22% changes in the financial statement fraud likelihood of companies can be attributable to the changes in the corporate governance variables used in the study. The Probability (LR statistic) of 0.02 indicates that the model is well specified at 5%.

The results of the independent variables reveal that Board size (BSIZE) have positive coefficient value of 0.06 but corresponding *p*-value = 0.96 is not statistically significant at

5% indicating that board size have no significant impact on financial statement fraud likelihood.

Board independence (BDI) have positive coefficient value of 11.14 with corresponding *p*-value = 0.03 is significant at 5% indicating that board independence have significant impact on financial statement fraud likelihood.

Audit Committee financial expertise (ACFE) have positive coefficient value of 5.30 with corresponding *p*-value = 0.02 is significant at 5% indicating that board members financial expertise have significant impact on financial statement fraud likelihood. The results from the control variables reveal that while firm size is statistically significant at 5% with *p*-value = 0.01 indicating that firm size have significant impact on financial statement fraud likelihood, firm performance proxy by return on assets have no significant impact on financial statement fraud likelihood with *p*-value = 0.17.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

i. Board of Director Independence (BDI) have significant effect on the likelihood of financial statement fraud in listed firms in Nigeria.

ii. Audit committee financial expertise (ACFE) have significant effect on the likelihood of financial fraud in listed firms in Nigeria.

iii. Board size (BSIZE) has significant effect on the likelihood of financial fraud in listed firms in Nigeria.

5.2 Conclusion

Financial statement fraud has been identified as the bane of not only financial institutions in Nigeria particularly the banking industry, but also a pervasive problem even in the advanced economies. One factor adduced for the spate of financial statement fraud is the ineffectiveness of corporate governance. This study investigates the effects of corporate governance and financial statement fraud of listed firms in Nigeria.. The study concludes that increasing the number of independent members in the board of directors will increase the capacity of the board of directors to checkmate fraud. However, the ability of independence of board members to forestall corporate is below the optimal level.

5.3 Recommendations

This study made the following recommendations:

i. It is important to ensure that independent members appointed into the board of directors are individuals with very good reputation and character who will be less likely to acquiesce to or get involved in fraudulent activities.

ii. That the board should focus more on other characteristics of the audit committee such as financial expertise as this may significantly reduce the occurrence of financial statement fraud.

iii. Reduction of board size will be critical to the success and survival of firms. The size of the board must not be unwieldy so that firm's businesses can be managed effectively and efficiently by the board members.

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Appendix

Variable	**FNF**	**BSIZE**	**ACFE**	**BODIND**
Mean	0.76	6.68	0.51	0.47
Maximum	1.00	8.00	0.75	0.60
Minimum	0.00	5.00	0.33	0.33
Std. Dev.	0.44	0.95	0.14	0.15
Jarque-Bera	6.46	7.93	2.31	6.62
Probability	0.04	0.01	0.31	0.03

Pearson correlation matrix

	FNF	**BSIZE**	**BDI**	**ACFE**
FNF	1.0			
BSIZE	0.01	1.0		
BDI	-0.11	-0.41	1.0	
ACFE	0.4	0.7	0.37	1.0

Source: Researchers summary

ABSTRAC*T*

This study examined corporate governance and financial statement fraud in Nigeria. The objectives of the study are examine the effects of board of director independence; audit committee financial expertise and board size on financial fraud in the manufacturing companies in Nigeria. The secondary data for this study were sourced from published annual reports and websites of Bua and Dangote Manufacturing firms. The Ordinary Least Square (OLS) regression techniques and descriptive statistics were used in analyzing the data. The results of the study reveals that board of director independence; audit committee financial expertise and board size have significant effect on financial fraud of listed manufacturing firms in Nigeria. It is therefore recommended among others that independent members appointed into the board of directors are individuals with very good reputation and character who will be less likely to acquiesce to or get involved in fraudulent activities also, the board should focus more on other characteristics of the audit committee such as financial expertise as this may significantly reduce the occurrence of financial statement fraud.