



Corporate Governance and Corporate Fraud: An Examination of Interaction Effects in Nigeria

Temple Moses^{1*}

¹*Department of Accounting, Faculty of Management Sciences, University of Port Harcourt, Port Harcourt, Nigeria.*

Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

Article Information

DOI:10.9734/AJARR/2019/v4i130098

Editor(s):

(1) Dr. Shao-Yi Hsia, Associate Professor, Department of Mechanical & Automation Engineering, Kao-Yuan University, Kaohsiung City 82151, Taiwan, R.O.C.

(2) Dr. Folk Jee Yoong, Lecturer, Segi University, Malaysia.

Reviewers:

(1) Ellis Kofi Akwaa-Sekyi, University of Lleida, Lleida, Spain.

(2) Elżbieta Szczepankiewicz, Poznan University of Economics and Business, Poland.

(3) Borislav Kolaric, Serbia.

Complete Peer review History: <http://www.sdiarticle3.com/review-history/46903>

Original Research Article

Received 16 November 2018

Accepted 28 February 2019

Published 14 March 2019

ABSTRACT

This research paper examined the relationship between corporate governance and the commission of corporate fraud among quoted companies in Nigeria. The research utilized a sample of eighteen (18) companies whose data were collected through content analyses on the basis of the availability of information from annual reports and other media reports. Data for the study were analyzed using a binary logit multiple regression analysis method. The findings of the study showed that there is a negative relationship between the independence of the board of directors and corporate fraud. The findings further show that there is a negative relationship between the commitment of the audit committee to their roles and corporate fraud. Finally, the findings show that there is a positive relationship between ownership structure and the phenomenon of corporate fraud in organizations. From the findings of the study, it is concluded that increasing the number of independent members in the board of directors will increase the ability of the board of directors to checkmate fraud commission. However, the ability of independence of board members to forestall corporate fraud is below the optimal level. It is also concluded that the commitment of the audit committee is an important deterrent of corporate fraud. Finally, increased concentration of ownership with only a

*Corresponding author: Email: drtemplemoses@gmail.com;

few individuals will lead to increased fraud. Thus, it is recommended that the number of independent members in the board of directors be statutorily increased. Finally, it is recommended that the concentration of ownership in a few hands be discouraged.

Keywords: Corporate governance; corporate fraud; interaction effects; audit committee; ownership structure.

1. INTRODUCTION

Corporate organizations are constantly under threat of fraud from sources both within and external to the firm. Even though frauds perpetrated by external sources can be quite serious, however, most notable frauds in organizations are usually the handiwork of the organizations' members. A chronicle of most fraud cases in organizations will likely show that management frauds have the most serious and many cases existence threatening effects. From WorldCom to Enron and Cadbury, Oceanic Bank, Intercontinental Bank, the collapse of these big businesses was directly or indirectly linked to fraud perpetrated by top management. Ashamu, [1] and Nwude [2] 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. By extension, fraud by an organization's management also reflects a failure in its corporate governance structure, because the mechanisms to check the excesses of an organization's top management are vested mainly in its corporate governance.

One of the most important roles of corporate governance is to monitor and control the business operations and the organization's management which also includes financial monitoring and control. According to Beasley [3], weak corporate governance structures are likely to give rise to weak internal controls which may invariably contribute to the level of fraud committed by or involving top management. As noted by Chen, Kao, Tsao, and Wu [4], corporate governance exist to promote and facilitate transparency and accountability in operations of the organizations so as to protect the interests and rights of shareholders to equitable and fair treatment and to guarantee timely and accurate disclosure of financial information on all material matters. As noted by DaCosta [5] and Ene and Bello [6], corporate scandals reveal wide weaknesses in internal and external controls in companies, which should be detected by good corporate governance practices because effective corporate governance mechanisms

should reduce the likelihood of creative accounting and corporate frauds. However, as illustrated by the global financial crisis in 2007/2008 and failure of several high profile organizations, governance weaknesses persist in corporate organization.

Consequently, weak internal controls occasioned by the failure of corporate governance may be fatal for the organization's survival and success. For example, when the audit committee - a corporate governance mechanism, fails in its role, it may result in corporate fraud. However, failure of the audit committee may be more symptomatic of a compromised corporate governance system, such as when a board of director(s) member with the intent to perpetrate fraud facilitates the appointment of compromised or compromise-able individuals into the audit committee for their selfish purpose. Ownership structure can also be a mechanism to deter or encourage corporate fraud. Thus as asserted by Langnan and Weibin [7], ownership structure that is concentrated in the hands of a few individuals can be a signal of poor corporate governance as such concentrated ownership will give too many discretionary powers to a few persons who are more likely to use such powers to serve personal interests to the detriment of other shareholders. However, where ownership is more diffused, such discretionary powers will not be available without oversight.

Though corporate governance cannot in itself serve to completely eliminate corporate fraud, it can serve to reduce it considerably using in-built mechanisms like internal control systems, audit committee among others. Good corporate governance ensures that organizations are properly managed for optimal performance in the best interests of shareholders and other stakeholders. Poor corporate governance practices may open the organization to malpractices like corporate/management fraud. According to Sadique [8], the nature of corporate fraud varies considerably, encompassing accounting/financial statement fraud, asset misappropriation, corruption and bribery, money laundering, and intellectual property infringement

among others. The form it takes notwithstanding, management fraud owing to the sheer size of the organization's resources usually involved has very serious implications for the firm's survival and future operations.

Due to the covert nature, management fraud tends to stay hidden for very long periods of time with the possibility of causing more long-term harm the longer it stays concealed. The covert nature of corporate fraud according to Zervos [9] makes it very difficult to detect which according to him is due to the fact that perpetrators employ a lot of ingenuity and sophistication to conceal the way in which the fraud is committed. However, it is also important to note that fraud is likely to stay concealed for very long when top executives of the firm plays an active role in either its perpetration or its concealment. Whichever is the case point to failure in corporate governance. Price water house Coopers (PwC) [10] opines that the consequences of corporate frauds are very damaging, going beyond monetary loss. Indicating that the collateral consequences of fraud include confidence crises in business relationships, staff morale, share prices, brand image, and reputation and these collateral costs are more injurious to the organization when the fraud is perpetrated by the management. The above indicates that even though corporate governance cannot in itself serve to completely eliminate corporate fraud, it can serve to reduce it considerably using in-built mechanisms like internal control systems, audit committee among others. On the other hand, weak corporate governance can threaten the existence organization. To this end, this research effort is geared towards examining the relationship between corporate governance and corporate fraud among quoted companies in Nigeria.

1.1 Statement of Problem

Following the series of high profile fraud cases involving top management in oceanic bank and intercontinental bank, the former governor of the Central Bank of Nigeria (CBN) Sanuusi Lamido and his counterpart in the Securities and Exchange Commission (SEC) Arumma Oteh undertook far reaching reforms of the corporate governance structures of commercial banks to forestall such cases in the future. To this end, the reforms in the sector included: Reduction in the size of board of directors; inclusion of more independent members, reduction in the tenure of the MD/CEO; abolition of the dual role of

chairman/MD and was abolished; and adjustments in the size, structure and expertise of the audit committee among many other changes. Despite measures taken to mitigate the problem, fraud continues to be a serious challenge to business not only in Nigeria but also around the world.

Thus around the world, there exist copious volumes of previous research on the relationship between corporate governance and management/corporate fraud [5,11,6,12,13,15, 16]. However in the case of Nigeria, little research searchlights have been beamed on this area. Most researches focus mainly on management fraud (or some aspects of it) and its effects on the performance of the organization [6,17]. On the other hand, others focus on corporate governance and firm performance [18,19,20,21,22] 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 relationship between corporate governance with specific reference to the activities of the audit committee, independence of the board of directors and ownership structure and how they relate with corporate fraud in quoted companies in Nigeria.

1.2 Study Hypotheses

The abovementioned debate offers the background for three essential hypotheses that trail the relationship between corporate governance and corporate fraud, postulated in the null form:

- Ho₁:** Audit committee commitment does not have a significant relationship with corporate fraud in quoted companies in Nigeria.
- Ho₂:** Board independence does not have a significant relationship with corporate fraud in quoted companies in Nigeria.
- Ho₃:** Ownership structure does not have a significant relationship with corporate fraud in quoted companies in Nigeria.

2. LITERATURE REVIEW

2.1 Theoretical Framework

Several theories have been proposed to explain and help resolve the relationship conflicts which tend to surface when ownership and management are separated in an organization.

These include the agency theory, stakeholders' theory as well as the stewardship theory. Freeman [23] identified the emergence of stakeholder groups as important components to the organization requiring adequate consideration. He defined stakeholders as any group or individual who has the potential to affect or is potentially affected by the organization's activities. Stakeholder theory assumes that the good performance of an organization depends on the contributions of different stakeholders. These stakeholders – shareholders as well as other interest parties all have a stake in the organization and can choose how to behave towards the organization based on available information. The stewardship theory on the other posits that managers will naturally act in the best interest of the principal. According to Cullen, Kirwan, and Brennan [24] stewardship perspective suggests that the attainment of the organization's success also brings satisfaction to the steward. The steward thus derives greater utility from helping achieve organizational goals rather than personal goals as both (organizational and personal goals) has gained congruence over time. In this case, corporate governance is not essential for monitoring and controlling the activities of managers who are granted greater autonomy built on trust but to increase their competence and commitment.

Even though each of these in some way deepens the understanding of relationships in organizations, this study adopts the agency theory which explicitly recognizes the problems associated with the separation of ownership from management and proposes the use of corporate governance as a mechanism to deal with such problems [25,26,27,28]. The agency theory posited that the agents (managers) are self-serving individuals whose activities need to be curtailed through the corporate governance mechanism.

The agency theory view of the organization posits that shareholders forgo decision-making rights (control) and delegates such to the manager to act in the shareholders' best interests. Owing in part to the separation between the shareholders and managers, the corporate governance system is intended to help align their motivations [29,27,30]. The agency theory assumptions are based on delegation and control, where controls minimize the potential abuse of the delegation. This control function is primarily exercised by the board of directors.

Agency theory assumes therefore that problem arises due to conflict of interest between management as agents and shareholders (owners) as principals. Thus, corporate governance sets the goals for the agent as well as the reward/punishment for the achievement or failure of the agent.

2.2 Review of Concepts

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 [15]. Sreeti [31] 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 [32]. According to Fratini and Tettamanzi [12], 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 [17].

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.

2.2.2 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 [33], corporate fraud involves misappropriation, theft or embezzlement of a corporate organization's assets. The Chartered

Institute of Management Accountants [34] 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 [35] 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.

2.3 Empirical Review

In a similar study, Chen, Firth, Daniel, Gao, and Rui [36] 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 [37] 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 [16] 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 2001 to 2005. 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 [38] 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 [39] 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 [14] 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 [13] 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 researches focus mainly on management fraud (or some aspects of it) and its effects on the performance of the organization [6,17] 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 relationship between corporate governance and corporate fraud in quoted companies in Nigeria. To this end, the purpose of this research is to examine the relationship between corporate governance in terms of audit committee commitment, board independence and ownership structure and corporate fraud among quoted companies in Nigeria.

3. MATERIALS AND METHODS

Adopting the ex-post facto research design, data for the study was collected from secondary sources using the method of content analyses. Using a sample of 18 firms selected from across different sectors of the economy quoted on the Nigeria stock exchange whose financial available are readily available on their individual websites and also on the Nigeria Stock Exchange (NSE) website. Sectors represented in the data include three (3) banks, three (3) insurance companies, four (4) industrial goods companies, five (5) consumer goods (foods and beverages) and two (2) pharmaceuticals and one (1) other of unspecified sector. Period covered is the last reported five (5) financial years (2013-2017) of the firms. Archived information/documents were also relied on for data especially regarding corporate fraud which firms are not willing to make public in their financial statements. Using content analyses, data on board independence, audit committee commitment, and ownership structure were collected from the annual reports of the concerned companies while data on corporate fraud is based on media reports and litigation documents and reports. Corporate fraud (CORPFRAUD) was measured using dummy variables (1 and 0) for the presence or absence of reported fraud and fraud litigation (within the study period) in the organization; board independence (INDPBOARD) is measured as the ratio of outside directors in the board of directors; audit committee commitment (AUDITCMNT) is measured as the cumulative attendance of audit committee meetings by the

members of the audit committee; and ownership structure (OWNERSHIP) is measured by the percentage of shares held by the ten (10) biggest shareholders. Adopting a modified version of the model used by Huang and Thiruvadi (2015) to investigate the relationship between corporate fraud and corporate governance, we posit that:

$$\text{Corporate fraud} = f(\text{corporate governance}) \quad (1)$$

Where corporate fraud is denoted as CORPFRAUD; corporate governance is measured as board independence (INDPBOARD), audit committee commitment (AUDITCMNT) and ownership structure (OWNERSHIP), the above equation is rewritten as:

$$\text{CORPFRAUD} = \beta_0 + \beta_1 \text{INDPBOARD} + \beta_2 \text{AUDITCMNT} + \beta_3 \text{OWNERSHIP} + \mu_t \quad (2)$$

Where:

CORPFRAUD = Corporate fraud
 INDPBOARD = Board independence
 AUDITCMNT = Audit committee commitment
 OWNERSHIP = Ownership structure

4. RESULTS AND ANALYSES

The descriptive statistics show that the skewness of the data set gave values of -0.156; 0.240 and 0.348 respectively for independence of the board of directors (INDPBOARD), audit committee commitment (AUDITCMNT) and ownership structure (OWNERSHIP) of quoted companies. This result implies that while board independence has a negative skewness, audit committee commitment and ownership structure are positively skewed. However, the entire data set approach normality in skewness. The result further show that the kurtosis values for the data set gave values of 2.321, 2.294 and 2.508 respectively for the independence of the board of directors (INDPBOARD), audit committee commitment (AUDITCMNT) and ownership structure (OWNERSHIP) of quoted companies - these values display characteristics of normal kurtosis albeit with a negative slant.

Table 1. Descriptive statistics

	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability	Obs
CORPFRAUD	0.498312	-0.26907	1.072398	15.01966	0.000548	90
INDPBOARD	0.085039	-0.15601	2.320933	2.094331	0.350931	90
AUDITCMNT	0.082876	0.240161	2.293811	1.894330	0.387839	90
OWNERSHIP	16.31815	0.348108	2.507691	1.168880	0.106192	90

Source: Field Survey 2019 and Author's Computation

Finally, the Jarque-Bera statistic for the variables gave values of 2.094; 1.894 and 1.169 and Probability values of 0.351 and 0.388 and 0.106; respectively for the independence of the board of directors (INDPBOARD), audit committee commitment (AUDITCMNT) and ownership structure (OWNERSHIP) of quoted companies. Considering that the null hypothesis for the Jarque-Bera statistic is that the data set is normally distributed around the mean, we do not reject the null hypotheses and conclude that all the variables are normally distributed. It should, however, be noted that the results of the descriptive statistic for the dependent variable (corporate fraud) is ignored in the above analysis as it is a binary series and so not amenable to the test.

The binary logit regression result in table 2 above show that independence of the board of directors (INDPBOARD) had a negative relationship with the corporate fraud (CORPFRAUD) implying that increased board independence would lead to a reduction in corporate fraud among quoted companies. Furthermore, audit committee level of commitment (AUDITCMNT) to their role had a negative relationship with corporate fraud (CORPFRAUD) with the implication that higher commitment to the audit role would lead to decreased corporate fraud. Finally, ownership structure (OWNERSHIP) indicated a positive relationship with the implication that higher concentration of ownership in the hands of few individuals would increase the incidence of fraud while lower concentration is predicted to lead to lower incidence of corporate fraud. The results also show that audit committee commitment (AUDITCMNT) to the role and ownership structure (OWNERSHIP) is statistically significant in explaining the phenomenon of corporate fraud among quoted companies in Nigeria. However, independence of the board of directors does not have a statistically significant relationship with corporate fraud implying that board independence cannot be relied on to explain the phenomenon of corporate fraud in Nigeria.

5. DISCUSSION OF FINDINGS

This research paper examined the relationship between corporate governance and the commission of corporate fraud among quoted companies in Nigeria, using a sample of eighteen (18) companies whose data were collected through content analyses. The findings of the study showed that there is a negative relationship between the independence of the

board of directors and corporate fraud among quoted companies in Nigeria. This indicates that an increase in the number of independent board members will lead to a decrease in corporate fraud. Thus, independent members in the board of directors will be less likely to be drawn into compromising situations where fraud becomes the endgame. Furthermore, proceeds of corporate fraud tend to favour executives within the organization to the detriment of external members. Hence, independent directors will be more likely to kick against fraud if made aware of it. Finally, most independent board members have a reputation to protect and may not be welcoming of fraud as executive directors.

The findings of Chen and Lin [16] further buttressed the above finding by showing in their study that firms experiencing corporate fraud have lower independent board members than those with 'no-fraud' experience. They 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. Chen, Firth, Daniel, Gao, and Rui [36] also demonstrated that boardroom characteristics are important determinants of corporate fraud. Particularly, 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.

The findings further show that there is a negative relationship between the commitment of the audit committee to their roles and corporate fraud. Here, commitment is measured as the number of meetings attended by the audit committee members. Thus, with the attendance of more meetings by members of the audit committee, the likelihood of corporate fraud will be reduced considerably. This essentially means that more time will be devoted to their primary responsibility of oversight on the financial activities of the organization. However, in a similar study, Huang and Thiruvadi [13] showed that an audit committee meeting frequency is not associated with the reduction in fraud while the audit committee size does not significantly affect fraud prevention. But financial expertise of audit committee members is significantly associated with fraud prevention. Guisepp and Lamboglia [14] also showed that the probability of financial statements frauds decreases with increases in the number of the audit committee meeting.

Table 2. Binary logit regression results

Dependent Variable: CORPFRAUD

Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)

Date: 01/06/19 Time: 14:13

Sample: 1 90

Included observations: 90

Convergence achieved after 5 iterations

Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	7.418903	3.010303	2.464504	0.0137
INDPBOARD	-5.815494	3.860388	-1.506453	0.1320
AUDITCMNT	-8.151526	3.693588	-2.206939	0.0273
OWNERSHIP	0.076329	0.019602	3.893865	0.0001
McFadden R-squared	0.301615	Mean dependent var		0.566667
S.D. dependent var	0.498312	S.E. of regression		0.408283
Akaike info criterion	1.044603	Sum squared resid		14.33578
Schwarz criterion	1.155706	Log likelihood		-43.00715
Hannan-Quinn criter.	1.089407	Deviance		86.01431
Restr. Deviance	123.1617	Restr. log likelihood		-61.58086
LR statistic	37.14741	Avg. log likelihood		-0.477857
Prob(LR statistic)	0.000000			
Obs with Dep=0	39	Total obs		90
Obs with Dep=1	51			

Source: Field Survey 2019 and Author's Computation

Finally, the findings show that there is a positive relationship between ownership structure and the phenomenon of corporate fraud in organizations. This indicates that increased concentration of share in the hands of few people increases the likelihood fraud. This is because increase concentration of shares in a few hands will reduce the potency of oversight as concentrated ownership will lead to more decision making powers concentrated with the few majority shareholders. It becomes easy to pressure management to act in the interest of the most powerful in the organization. In a similar study, Chen et al. [36] showed that ownership and board characteristics are important in explaining fraud with the outcome that firms with concentrated ownership are more prone to corporate fraud than those with more diffused ownership. Matoussi and Gharbi [39] showed in their study that the board of directors dominated by family members and with tenure of outside directors are more likely to commit fraud in the financial statement. However, Lee and Jin [37] showed in their findings that institutional ownership is negatively associated with corporate fraud and lowers the risk of financial misreporting and fraud.

6. CONCLUSION AND RECOMMENDATIONS

From the findings of the study, it is concluded that increasing the number of independent

members in the board of directors will increase the capacity of the board of directors to checkmate fraud commission. However, the ability of independence of board members to forestall corporate is below the optimal level. It is also concluded that the commitment of the audit committee is an important deterrent of corporate fraud. Finally, increased concentration of ownership with only a few individuals will lead to increased perpetration of corporate fraud. Thus, it is recommended that the number independent members in the board of directors be statutorily increased. In addition, 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. Finally, it recommended that the concentration of ownership in a few hands be discouraged through legislation so as to reduce the prevalence of fraud in firms with concentrated ownership.

7. CONTRIBUTION AND LIMITATION

This research contributes to the literature on corporate governance and how it relates to corporate fraud with specific reference to business organizations in Nigeria. Its findings of a negative relationship between corporate fraud and corporate governance mechanisms such as audit committee and board independence provide evidence confirming the agency theory

position that corporate governance provides control mechanisms that help to minimize potential abuse as a result of the separation of ownership and management. This finding is also echoed in most empirical research in the subject matter in other climes. However, the tendency of business organizations in Nigeria to conceal cases of fraud is a serious limitation to the study.

COMPETING INTERESTS

Author has declared that no competing interests exist.

REFERENCES

1. Ashamu SO. Fraud management in the Nigerian banking industry: Evidence from Nigeria. *Journal of Technology, Entrepreneurship and Rural Development*. 2014;5(1):125-137.
2. Nwude C. Bank fraud and the Nigerian banker. *Journal of the Chartered Institute of Bankers of Nigeria*. 2006;7.
3. Beasley MS. An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review*. 1996;71(4):443-465.
4. Chen A, Kao L, Tsao M, Wu C. Building a corporate governance index from a perspective of ownership and leadership for firms in Taiwan. *Corporate Governance: An International Review*. 2007;15(2):251-261.
5. DaCosta APP. Corporate governance and fraud: Evolution and considerations, corporate governance and strategic decision making; 2017. Available:<https://www.intechopen.com/books/corporate-governance-and-strategic-decision-making/corporate-governance-and-fraud-evolution-and-considerations>
6. Ene EE, Bello AIE. The effect of corporate governance on banks' financial performance in Nigeria. *Journal of Business and Management*. 2016;18(11): 99-107.
7. Langnan C, Weibin L. Corporate governance and fraud: Evidence from China. *Journal of Corporate Ownership and Control*. 2007;4(3).
8. Sadique RM. Corporate fraud: An empirical analysis of corporate governance and earnings management in Malaysia. A PhD Dissertation, Lincoln University, Australia; 2016.
9. Zervos K. Responding to fraud in the 1990s, conference proceedings, Canberra: Australia Institute of Criminology; 1999.
10. PricewaterhouseCoopers. Economic crime: People, culture and controls, fourth bi-annual global economic crime survey. Martin Luther University, Germany & PricewaterhouseCoopers International; 2007.
11. Lutui R, Ahokovi T. Financial fraud risk management and corporate governance. Proceedings of the 15th Australian Information Security Management Conference, Edith Cowan University, Perth Australia. 2017;5-13.
12. Fratini F, Tettamanzi P. Corporate governance and performance: Evidence from Italian companies. *Open Journal of Business and Management*. 2015;3:199-218.
13. Huang H, Thiruvadi S. Audit committee characteristics and corporate fraud. *International Journal of Public Information Systems*. 2015;12(5):71-82.
14. Guiseppa D, Lamboglia R. The relationship between corporate governance characteristics and financial statement fraud: An empirical analysis of Italian listed companies. Department of Business Administration, University of Pisa, Italy; 2014.
15. Tarek YM. Corporate governance: An overview around the globe. Grant Thornton, Egypt; 2012.
16. Chen L, Lin W. Corporate governance and corporate fraud: Evidence from China. *Journal of Corporate Ownership & Control*. 2007;4(3).
17. Abdulazeez DA, Ndibe L, Mercy AM. Corporate governance and financial performance of listed deposit money banks in Nigeria. *Journal of Accounting and Marketing*. 2016;5(1):153.
18. Adekunle A, Aghedo EM. Corporate governance and financial performance of selected quoted companies in Nigeria. *Simon, European Journal of Business and Management*. 2014;6(9).
19. Uwuigbe OR. Corporate governance and share price: Evidence from listed firms in Nigeria. *International Multidisciplinary Journal*. 2013;7(2):129-143.
20. Onakoya AB, Fasanya IO, Ofoegbu DI. Corporate governance as correlate for firm performance: A pooled OLS investigation of selected Nigerian banks. *IUP Journal of Corporate Governance*. 2014;13(1):7.

21. Ojulari OM. The impact of corporate governance on performance of quoted companies in Nigeria. Proceedings of the First Middle East Conference on Global Business, Economics, Finance And Banking, paper ID_D462; 2014.
22. Ibrahim MA, Jehu P. The effect of board composition on the informativeness of financial reporting quality: Empirical evidence from Nigeria. Journal of Business and Management. 2018;20(3):54-60.
23. Freeman E. Strategic management: A stakeholder approach. Prentice-Hall, Englewood Cliffs, NJ, USA; 1984.
24. Cullen M, Kirwan C, Brennan N. Comparative analysis of corporate governance theory: The agency-stewardship continuum. Annual Conference of Irish Accounting and Finance Association, Institute of Technology Tralee; 2006.
25. Fama EF, Jensen MC. Separation of ownership and control. Journal of Law and Economics. 1983;26:301–325.
26. Lipton M, Lorsch JW. A modest proposal for improved corporate governance. Business Lawyer. 1992;481:59-77.
27. Yermack D. Higher market valuation of companies a small board of directors. Journal of Financial Economics. 1996;40: 185-202.
28. Osuagwu G. Implication of corporate governance on the performance of deposit money banks in Nigeria. Arabian Journal of Business and Management. 2013;2(1): 107-119.
29. Eisenhardt KM. Agency theory: An assessment and review. Academy of Management Review. 1989;14(1):57–74.
30. Jensen M, Meckling, W. Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics. 1976;3(4):405–360.
31. Sreeti R. Corporate governance – Concepts and issues. International Journal of Finance, Insurance and Risk Management, India Institute of Directors. 2012;4(1).
32. Al-Baidhani AM. The role of audit committee in corporate governance: A descriptive study. International Journal of Research Methodology in Social Science. 2016;2(2):45-57.
33. Jenfa BI. Internal control and fraud prevention: Accountants' perspective. Journal of Association of National Accountants of Nigeria. 2002;10(4):30-39.
34. Chartered Institute of Management Accountants. Corporate fraud, Topic Gateway Series No.57, London, UK; 2009.
35. Sunil K, Rawat DS, Rajarao V. Financial and corporate frauds, Grant Thornton and the Associated Chambers of Commerce and Industry (ASSOCHAM), New Delhi, India; 2016.
36. Chen G, Firth M, Daniel N, Gao NN, Rui OM. Ownership structure, corporate governance, and fraud: Evidence from China. Journal of Corporate Finance. 2006;12:424–448.
37. Lee J, Jin L. Ownership structures and risk of financial misreporting: Evidence from China. Journal of Corporate Ownership and Control. 2012;9(3).
38. Matoussi H, Gharbi I. Board independence and corporate fraud: The case of Tunisian firms, The Economic Research Forum (ERF), Working Paper 620; 2011.
39. Wilbanks RM. Audit committee oversight of fraud risk. PHD Dissertation, Coles College of Business, Kennesaw State University. Kennesaw, GA, Paper 601; 2014.

© 2019 Moses; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Peer-review history:

*The peer review history for this paper can be accessed here:
<http://www.sdiarticle3.com/review-history/46903>*