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EFFECT OF BOARD AND AUDIT COMMITTEE CHARACTERISTICS ON FRAUDULENT FINANCIAL REPORTING OF LISTED NON – FINANCIAL FIRMS IN NIGERIA

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ABSTRACT

Persistent concerns over fraudulent financial reporting (FFR) among listed firms in Nigeria raise questions about the effectiveness of board and audit committee oversight. This study empirically examines the effects of board and audit committee characteristics on FFR among listed non-financial firms in Nigeria from 2020 to 2024. Specifically, it investigates board independence, board financial expertise, audit committee independence, audit committee financial expertise, and audit committee meeting frequency. The Beneish M-Score measures FFR. A correlational research design was adopted using secondary data from annual reports of 103 non-financial firms listed on the Nigerian Exchange Group (NGX), employing a census approach. Data were analyzed using Panel Binary Logistic Regression. Findings show that audit committee financial expertise has a positive and significant effect on FFR, suggesting contextual challenges in oversight effectiveness. Board financial expertise and audit committee meeting frequency have negative and significant effects, indicating stronger monitoring. The study recommends strengthening governance effectiveness, independence, ethical commitment, and frequent audit committee meetings.

1. Introduction

Fraudulent Financial Reporting (FFR) results in continuous and growing threat to capital market integrity, investor confidence, and resource allocation efficiency worldwide. High-profile scandals, from Enron (2001) and WorldCom (2002) to Wirecard (2020) and Luckin Coffee (2020), underscore the threatening implications of financial statement manipulation. In Nigeria, renowned cases involving Oceanic Bank Plc (2009), Cadbury Nigeria Plc (2006), and Tingo Mobile (2024) have equally eroded public trust in financial reporting (Uwuigbe et al., 2019).

The Association of Certified Fraud Examiners in 2023 reports that financial statement fraud, though representing only 5% of occupational fraud cases, carries a median loss of US$766,000; a 29% increase from prior reporting periods. Within Nigeria, PricewaterhouseCoopers in 2020 established that approximately 80% of businesses experienced economic crime, with FFR as the most prevalent form.

Corporate governance mechanisms, particularly board and audit committee characteristics, are considered as the primary institutional safeguards against FFR (Marzuki et al., 2019). Agency theory (Jensen & Meckling, 1976) posits that governance mechanisms reduce information asymmetry and constrain managerial opportunism, while Resource Dependency Theory (Pfeffer & Salancik, 1978) emphasises the value of board expertise and networks in securing organisational legitimacy.

Board and audit committee characteristics are widely regarded as the primary safeguards against FFR: Agency Theory (Jensen & Meckling, 1976) holds that governance structures curb managerial opportunism, while Resource Dependency Theory (Pfeffer & Salancik, 1978) emphasises the oversight value of board expertise and independence. Yet Nigerian evidence is inconsistent and largely bank-focused. Studies restricted to deposit money banks report that independent directors and audit committee attributes significantly reduce fraud likelihood (Chukwuma et al., 2025; Ebaid, 2023), while an earlier, broader study found no significant link between audit committee independence, board composition, and fraud (Uwuigbe et al., 2019). Most recent Nigerian studies instead examine ownership structure rather than board mechanisms (Ogbodo et al., 2023; Falope et al., 2024), leaving the non-financial sector, which forms the bulk of the Nigerian Exchange, comparatively unexamined. This empirical fragmentation and sectoral narrowness motivate the present study.

Board independence and board financial expertise are theorised to improve oversight by supplying objective monitoring and the technical competence to challenge questionable accounting judgements, respectively. Nigerian and regional evidence on both remains mixed: independent directors and expert boards have been linked to reduced fraud and misconduct in some studies (Chukwuma et al., 2025; Otuya, 2025; Kwamboka et al., 2025), yet an earlier non-financial-sector study found no significant effect of board composition (Uwuigbe et al., 2019). This contradiction raises the question of how board independence and board financial expertise affect fraudulent financial reporting among listed non-financial firms in Nigeria.

Audit committee independence, financial expertise, and meeting frequency perform a related but more direct monitoring role over financial reporting and the external audit. Evidence here is similarly divided: some studies associate audit committee independence and expertise with lower fraud risk (Chukwuma et al., 2025; Kwamboka et al., 2025), others find financial expertise or meeting frequency insignificant or even positively associated with fraud (Trisanti, 2023; Kwamboka et al., 2025), and an earlier Nigerian study found audit committee independence unrelated to fraud among non-financial firms (Uwuigbe et al., 2019). No recent, sector-wide Nigerian study has resolved these contradictions, prompting the question of how

audit committee independence, financial expertise, and meeting frequency affect fraudulent financial reporting among listed non-financial firms in Nigeria.

Against this background, this study examines the relationship between board and audit committee characteristics and fraudulent financial reporting among listed non-financial firms in Nigeria. Specifically, the study investigates whether board independence affects fraudulent financial reporting among listed non-financial firms in Nigeria; whether board financial expertise affects fraudulent financial reporting among listed non-financial firms in Nigeria; whether audit committee independence affects fraudulent financial reporting among listed non-financial firms in Nigeria; whether audit committee financial expertise affects fraudulent financial reporting among listed non-financial firms in Nigeria; and whether audit committee meeting frequency affects fraudulent financial reporting among listed non-financial firms in Nigeria

This study therefore examines the effect of board independence, board financial expertise, audit committee independence, audit committee financial expertise, and audit committee meeting frequency on fraudulent financial reporting across all 103 listed non-financial firms in Nigeria from 2020 to 2024. Fraudulent financial reporting is proxied using the validated Beneish M-Score model (Beneish, 1999), with relationships estimated using Random Effects Panel Binary Logistic Regression, to generate current, sector-wide evidence for practitioners and policymakers.

2. Literature Review

2.1 Fraudulent Financial Reporting

FFR involves the intentional misrepresentation or exclusion of figures or disclosures in financial statements with the aim of misleading users (ACFE, 2022). It commonly occurs through inflating revenues, understating expenses, altering accounting estimates, or presenting deceptive disclosures (Healy & Wahlen, 1999). The Fraud Triangle Theory (Cressey, 1953) outlines three key drivers of such behaviour: perceived pressure, perceived opportunity, and rationalisation. Corporate governance mechanisms primarily target the opportunity aspect by improving oversight and enhancing chances of detection.

2.2 Board independence and FFR Board independence refers to tendency at which members of a board of directors can exercise objective, unbiased, and impartial judgment in their oversight and decision-making roles, free from undue influence by executive management, controlling shareholders, dominant investors, or other vested interests (Wang et al., 2024). Empirical studies from Saudi Arabia (Ebaid, 2023), Nigeria (Subair et al., 2020; Ibrahim & Yahaya, 2024), and the United States (Caroline & Guclu, 2018) largely indicate a negative association. In contrast, Ekpulu and Iyoha (2021) reported a counterintuitive positive relationship among Nigerian non-financial firms, explaining it as a consequence of the disconnect between formal independence within weak attributing the finding to the gap between formal and substantive independence in weak institutional contexts.

2.3 Board Financial Expertise and FFR

Directors with expertise in accounting, auditing, and financial management can help minimize information asymmetry by enhancing the board's ability to critically evaluate complex financial information and identify possible financial manipulation (El Mahdy et al., 2024; Almulhim, 2023). Similarly, the financial, legal, and educational expertise of board members has been found to play a significant role in curbing fraudulent financial reporting practices (Wang et al., 2026).

Evidence from emerging markets, including studies by Akinadewo et al. (2020), Mousavi et al. (2022), and Ashafoke et al. (2023), indicates that such expertise plays significant role in limiting FFR. However, Anichebe et al. (2019) found a positive relationship in Nigerian agricultural firms, which may be due to context-specific or sample-related factors.

2.4 Audit Committee Independence and FFR

Audit committee independence promotes unbiased oversight of financial reporting and supports auditor autonomy (Bratten et al., 2022). Audit committee independence, however, showed a non-significant relationship with fraudulent financial reporting (Nurliasari & Achmad, 2020); independence alone did not have a statistically meaningful effect on reducing fraud in this sample. Empirical findings by Chukwuma et al. (2025) and Kiprotich & Kinuthia (2024) confirm a negative association in Nigerian banks and Kenyan firms, respectively. In contrast, Ogiriki & Yalah (2021) and Nyamumbo (2024) document unexpected positive relationships, suggesting difficulties in converting formal independence into substantive oversight in weak governance settings.

2.5 Audit Committee Financial Expertise and FFR

The presence of financial expertise on the audit committee enhances its capacity to scrutinize accounting policy decisions, reinforces auditor independence during conflicts with management, and improves the quality of internal control oversight (Xia et al., 2024).

Evidence from Nyamumbo (2024), Kiprotich and Kinuthia (2024), and Mousavi et al. (2022) generally supports a negative association. However, contextual issues, such as expertise lacking independence, potential conflicts of interest, and selection biases, can lead to unexpected outcomes.

2.4 Audit Committee Meeting Frequency and FFR

Audit committee meeting frequency reflects the committee's diligence, commitment, and level of oversight. Holding meetings more regularly facilitates the timely review of financial statements, enables the early identification of internal control deficiencies, and promotes continuous engagement with external and internal auditors. (Alqatamin & Alqatamin, 2024). Empirical studies by Mousavi et al. (2022) and Lucas et al. (2023) support a negative relationship. In contrast, Ogiriki and Yalah (2021) and Nyamumbo (2024) find positive associations, implying that meetings driven by reaction to issues rather than proactive oversight, reverse the expected effect.

Theoretical Framework

This study draws on two theoretical perspectives, agency theory and resource dependency theory (RDT), to explain the relationship between board and audit committee characteristics and fraudulent financial reporting (FFR) in Nigerian listed non-financial firms. Agency theory serves as the primary framework, and RDT serves as a complementary lens.

Agency Theory

Agency theory (Jensen & Meckling, 1976) frames the relationship between shareholders (principals) and management (agents) as contractual, with agents expected to act in principals' interests. The separation of ownership and control, however, generates agency problems rooted in divergent interests, information asymmetry, and monitoring difficulties. Where unchecked, these problems can escalate to FFR, as managers misrepresent performance to conceal self-interested behavior. Jensen and Meckling's (1976) three

agency costs; monitoring, bonding, and residual loss, are especially pronounced in Nigeria, where weak legal enforcement and regulatory oversight expand opportunities for manipulation with limited fear of sanction.

Corporate governance mechanisms, board and audit committee independence, financial expertise, and meeting frequency function as monitoring devices that reduce these agency costs. Specifically:

Board independence enables objective oversight, as independent directors have stronger incentives to protect shareholder interests, making them more likely to constrain fraudulent reporting (Ebaid, 2023).

Board financial expertise reduces information asymmetry by equipping directors to interpret complex transactions, access financial resources, and detect red flags independently of management (Kaituko et al., 2023; Naheed et al., 2022).

Audit committee independence strengthens oversight of financial reporting integrity, enabling committee members to challenge management and constrain earnings management, with the effect strongest where independence is genuinely exercised (Bawuah, 2024).

Audit committee financial expertise provides the technical competence needed to scrutinize accounting estimates and evaluate internal controls, supporting more reliable financial reporting (Alhumoudi, 2024).

Audit committee meeting frequency proxies diligence, with more frequent meetings enabling continuous monitoring and constraining earnings management (Bawuah, 2024; Kaituko et al., 2023).

All five characteristics are theorized to be negatively associated with FFR by enhancing monitoring capacity and constraining managerial opportunism.

Resource Dependency Theory:

RDT (Pfeffer & Salancik, 1978) complements agency theory by emphasizing directors' role in securing external resources such as capital, expertise, legitimacy, and networks; rather than solely monitoring management. Organizations depend on external actors for survival, and firms co-opt directors to manage these dependencies. While RDT does not directly predict FFR, it offers an indirect mechanism: when firms face resource scarcity or pressure from stakeholders (e.g., lenders demanding financial covenants, investors expecting growth), management may resort to fraudulent reporting to sustain the appearance of legitimacy. Strong governance characteristics mitigate this pressure by providing legitimate resources instead.

Independent director*s* bring legitimacy, external networks, and strategic value that enhance firm credibility with stakeholders, reducing pressure toward fraudulent misrepresentation (Habtoor et al., 2024).

Board financial expertise represents human capital that improves access to financial resources and signals credibility to capital providers, lowering the incentive to manipulate figures (Naheed et al., 2022).

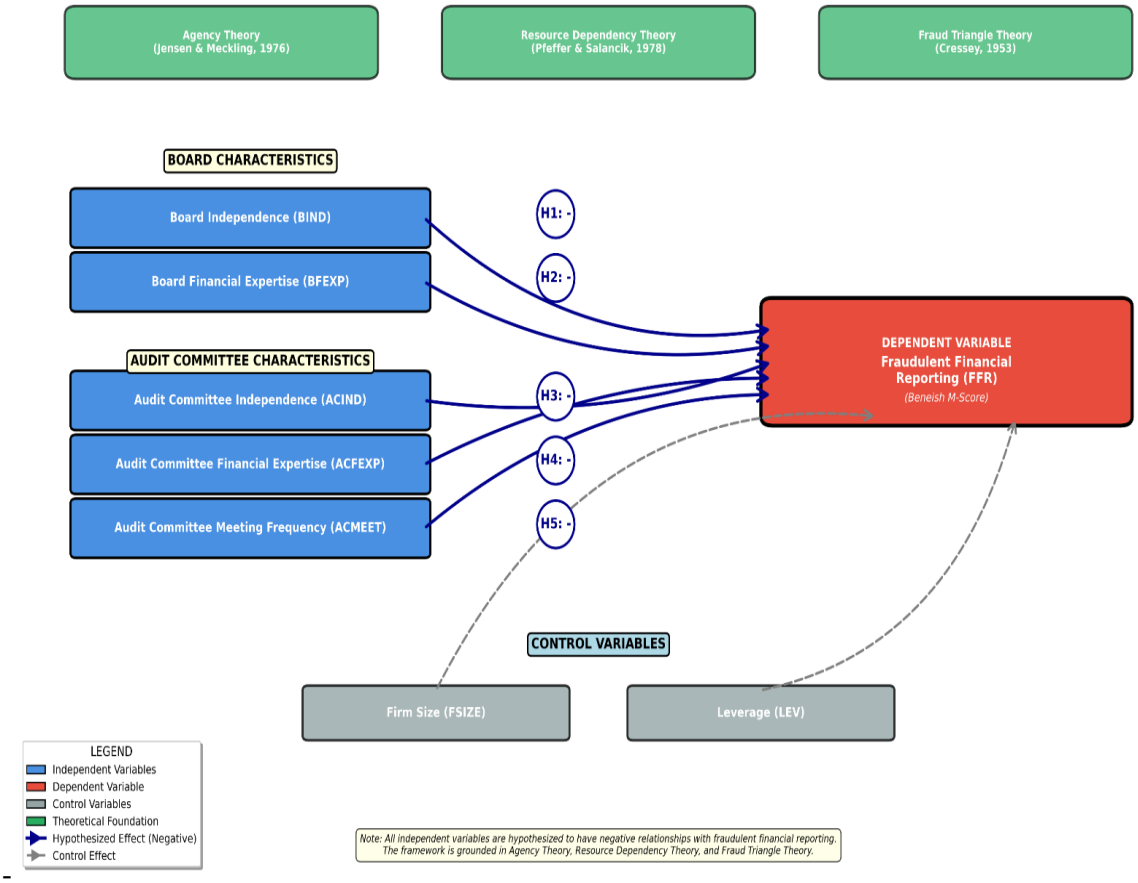
Audit committee independence signals transparency and governance quality to regulators, investors, and creditors, a particularly valuable resource in weak institutional environments such as Nigeria (Bawuah, 2024).

Audit committee financial expertise ensures high-quality financial information as a resource for external stakeholders, reducing information asymmetry and the perceived need for manipulation (Alhumoudi, 2024).

Meeting frequency reflects a resource commitment (time, attention) that signals seriousness about governance and improves stakeholder confidence (Bawuah, 2024). Each characteristic is thus expected to be negatively associated with FFR by reducing environmental uncertainty and resource-dependency pressures.

Agency theory is adopted as the primary framework because it most directly addresses the principal-agent conflict, information asymmetry, and monitoring functions central to this study's variables. RDT is incorporated to capture the resource-provision role of governance structures, a dimension agency theory overlooks, offering a more holistic explanation of why strong governance reduces fraud incentives, particularly in a resource-constrained, institutionally weak context like Nigeria (Naheed et al., 2022).

2.5 Research Framework



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Source: Data processed by Researcher

3. Methodology

3.1 Research Design and Sample

The population of this study comprises all 103 listed non-financial firms on the Nigerian Exchange Group (NGX) across sectors such as Agriculture, Conglomerates, Construction/Real Estate, Consumer Goods,

Healthcare, ICT, Industrial Goods, Natural Resources, Oil & Gas, and Services. A correlational research design was adopted because it permits the examination of the statistical relationship between the governance variables and FFR as they naturally occur in secondary panel data, without manipulation of the variables, and is therefore appropriate for a study of this nature. After applying inclusion criteria, availability of complete annual reports, continuous listing status, and exclusion of newly listed firms, a final sample of 96 companies was retained, producing 480 firm-year observations over the 2020-2024 period. Data were manually sourced from annual reports and audited financial statements.

3.2 Measurement of Variables

Table 3.1

Operationalization of Variables

Variable	Acronym	Measurement	Source	Sign
Dependent Variable				
Fraudulent Financial Reporting	FFR	Measured using the Beneish M-Score (1999). For the purposes of panel binary logistic regression, the M-Score is coded as a binary variable: 1 indicates a firm is classified as likely engaging in fraudulent financial reporting, while 0 indicates a firm is unlikely to engage in FFR.	Beneish (1999)	
Independent Variables				
Board Independence	BIND	Ratio of independent board members to total board members.	Uwuigbe et al. (2019).	
Board Financial Expertise	BFEXP	1 if at least one board member has a finance related degree in the study year; 0 if not.	Mousavi et al. (2022)	-
Audit Committee Independence	ACOMI	Ratio of independent audit committee members to total audit committee members	Klein (2002); Soliman & Ragab (2014).	-
Audit committee Financial Expertise	ACOMFEX	1 if at least one member of the has finance related degree, if not 0	(Handoko & Ramadhani, 2017)	-
Audit Committee Meetings Frequency	ACOMMF	It is the frequency of meeting sessions that the audit Committee attained in the period under study	Mousavi et al. (2022)	-
Firm size	FSIZE	Natural logarithm of firm assets in the year under study	Mousavi et al. (2022).	+
Leverage	LEV	It is measured by the total debts divided by total assets in the period under study	Mousavi et al. (2022).	-

Sources: Author's Compilation (2026)

3.3 Model Specification

Given that the dependent variable is binary, a Random Effects Panel Binary Logistic Regression model was applied. The approach captures unobserved firm-specific heterogeneity, assuming it is not correlated with the explanatory variables:

$$FFR_{it} = \begin{cases} 1 \\ 0 \end{cases} \text{ 1, if firm i engages in fraudulent financial reporting in period t, 0 if otherwise}$$

$$\text{logit}\big(P(FFR_{it}=1)\big) = \ln\left(\frac{P(FFR_{it}=1)}{1-P(FFR_{it}=1)}\right) = \beta 0 + \beta 1 \text{ BDIND} + \beta 2 \text{ BDFEXP} + \beta 3 \text{ ACOMI} + \beta 4 \text{ ACOMFEXP} + \beta 5 \text{ACOMFM} + \beta 6 \text{ FSIZE} + \beta 7 \text{FLEV} + e$$

To ensure robustness, several diagnostic tests were conducted, including the Variance Inflation Factor (VIF) to assess multicollinearity, Hosmer-Lemeshow test for goodness-of-fit, the Wald Chi-Square test for overall model significance, and classification accuracy evaluation. All analyses were performed using STATA 14.

4. Results and Discussion

4.1 Descriptive Statistics

Table 4.1

Descriptive Statistics of Variables

Variable	Obs.	Mean	Std. Dev.	Min	Max
FFRFlag	480	0.4146	0.4932	0	1
BIND	480	0.5001	0.2878	0	0.92
BFEXP	480	0.8563	0.3289	0	1
ACOMI	480	0.0645	0.1530	0	0.6
ACOMFEX	480	0.525	0.4999	0	1
ACOMMF	480	3.4609	1.8742	0	12
FSIZE(Log)	480	16.2564	2.3338	7.9102	21.1746
LEV	480	0.3627	0.2264	0.0004	0.6921

Source: STATA 14 OUTPUT (2026)

The average FFR classification rate was 41.5%, suggesting that this proportion of firm-year observations was identified as likely manipulators based on the Beneish M-Score threshold. Board independence was averaged 50.0% (SD = 0.29), while 85.6% of firms had at least one board member with financial expertise. Audit committee independence was relatively low with a mean of 6.5%, whereas 52.5% of firms had audit committee that included financially knowledgeable members. On average, audit committees convened 3.46 times annually, aligning with the quarterly minimum recommended by the Nigerian Code of Corporate Governance (2018). Firm size had a mean value of 16.26 (measured as the natural logarithm of total assets) average leverage stood at 36.3%.

Table 4.2

Correlation Matrix of Variables

Variables	FFR	BIND	BFEXP	ACOMI	ACOMFEX	ACOMMF	FSIZE	LEV
FFR	1.0000							
BIND	-0.0630 (0.1682)	1.0000						
BFEXP	-0.1412 (0.0019)	0.6555 (0.0000)	1.0000					
ACOMI	-0.0203 (0.6574)	0.1090 (0.0169)	0.1139 (0.0125)	1.0000				
ACOMFEX	0.1061 (0.0201)	-0.0206 (0.6526)	0.0026 (0.9541)	0.1970 (0.0000)	1.0000			
ACOMMF	-0.1072 (0.0188)	0.2933 (0.0000)	0.2868 (0.0000)	0.2318 (0.0133)	0.2676 (0.0000)	1.0000		
FSIZE	0.0407 (0.3731)	0.0437 (0.3396)	-0.0443 (0.3331)	0.2437 (0.0000)	0.1416 (0.0019)	0.1497 (0.0010)	1.0000	
LEV	-0.0104 (0.8208)	0.0946 (0.0383)	0.0472 (0.3019)	0.0681 (0.1363)	-0.1149 (0.0118)	-0.1262 (0.0056)	-0.0590 (0.1972)	1.0000

Source: STATA 14 OUTPUT (2026)

From the above table, FFR exhibits weak negative associations with Board Independence (BIND) and Audit Committee Independence (ACOMI), but these relationships are not statistically significant, suggesting limited evidence that independence alone constrains fraudulent reporting. In contrast, Board Financial Expertise (BFEXP) and Audit Committee Meeting Frequency (ACOMMF) show negative and statistically significant relationships with FFR, implying that financial knowledge at the board level and more frequent audit committee meetings may help reduce the likelihood of fraudulent financial reporting.

However, Audit Committee Financial Expertise (ACOMFEX) presents a weak but significant positive relationship with FFR, indicating that firms with more financially skilled audit committee members are slightly more likely to be associated with manipulation, although the effect remains small. Firm Size (FSIZE) and Leverage (LEV) both display weak and insignificant relationships with FFR, suggesting they do not play a major direct role in explaining fraudulent reporting within the sample.

The inter-correlation among independent variables reveals several significant associations. Board Independence is strongly and positively related to Board Financial Expertise and moderately associated with Audit Committee Meeting Frequency, indicating that more independent boards tend to be supported by financially knowledgeable members and more active oversight. Similarly, Board Financial Expertise is positively linked with both audit committee independence and meeting frequency, reflecting consistency in governance quality. Audit Committee Financial Expertise also correlates positively with audit committee independence, meeting frequency, and firm size, but negatively with leverage.

4.2 Diagonistics Tests

Variance Inflation Factor (VIF) Test for Multicollinearity

Variable	VIF	1/VIF
BIND	1.82	0.5492
BFEXP	1.82	0.5495
ACOMI	1.28	0.7815

Variable	VIF	1/VIF
ACOMFEX	1.15	0.8708
ACOMMF	1.14	0.8758
FIRM SIZE(FSIZE)	1.11	0.9045
Leverage (LEV)	1.06	0.9465
Mean VIF	**1.34**	—

Source: STATA 14 OUTPUT (2026)

Wald Chi-Square Test

Test Statistic	Value
Wald χ^2 (7)	15.31
Probability (p-value)	0.0322

Source: STATA 14 Output (2026)

Hosmer–Lemeshow Goodness-of-Fit Test

Test Statistic	Value
Pearson χ^2	6.94
Probability (p-value)	0.5430

Source: STATA 14 Output (2026)

Classification Results

Measure	Percentage
Sensitivity	24.62%
Specificity	86.48%
Correctly Classified	55.20%

Source: STATA 14 Output (2026)

From the above tables VIF values ranged between 1.06 and 1.82 (mean VIF = 1.34), indicating no evidence of multicollinearity. The Hosmer-Lemeshow test produced a p-value of 0.543 (> 0.05), suggesting that the model fits the data adequately. The Wald Chi-Square statistic (χ^2 = 15.31, p = 0.032) confirmed that explanatory variables are jointly significant. The model achieved an overall classification accuracy of 60.83%, with particularly strong performance in correctly identifying fraud-prone firms (sensitivity = 86.36%).

4.3 Regression Results

The table below presents the Random Effects Panel Binary Logistic Regression results.

The Random Effects Panel Binary Logistic Regression Results

Variable	Odds Ratio	Std. Error	z-value	p-value	Decision
BIND	1.5532	0.8889	0.77	0.442	H01 Fail to Reject
BFEXP	0.4214	0.2094	-2.02	0.043**	H02 Rejected
ACOMI	0.7222	0.6101	-0.39	0.700	H03 Fail to Reject
ACOMFEX	2.0633	0.5568	2.68	0.007***	H04 Rejected
ACOMMF	0.8411	0.0672	-2.17	0.037**	H05 Rejected
FSIZE	1.0531	0.0610	0.89	0.372	—
LEV	1.1925	0.6168	0.34	0.734	—

*Note: *** $p < 0.01$; ** $p < 0.05$. Wald $\chi^2(7) = 15.31$, $p = 0.032$; Log-likelihood = −309.46; $\rho = 9.02$; LR test $\chi^2 = 27.85$, $p < 0.001$.*

4.4 Discussion

Board independence (BIND) showed a positive but statistically insignificant relationship with FFR (OR = 1.5532, p = 0.442), which runs counter to the study's a priori expectation of a negative relationship derived from agency theory. This result aligns with Ekpulu and Iyoha (2021), suggesting that formal board independence does not necessarily ensure effective monitoring within Nigeria's institutional context. Factors such as social ties, political affiliations, and concentrated ownership may weaken the actual independence of directors, limiting the effectiveness of board independence as a standalone mechanism of preventing fraud.

Board financial expertise (BFEXP) recorded a strong negative and statistically significant effect on FFR (OR = 0.4214, p = 0.043), indicating a 57.86% reduction in the odds of fraud, computed as $(1 - 0.4214) \times 100$. This finding is consistent with Mousavi et al. (2022), Akinadewo et al. (2020), and Dhaliwal et al. (2010), and supports both Agency Theory and Resource Dependency Theory. Unlike board independence, which relies heavily on institutional enforcement, financial expertise reflects an intrinsic technical competence that enables directors to identify and challenge manipulation effectively, making it the most robust governance deterrent in this study.

Audit committee independence (ACOMI) exhibited a negative but statistically insignificant relationship with FFR (OR = 0.7222, p = 0.700). This is in line with Nurliasari and Achmad, 2020 (2020) and highlights the difficulty of converting formal independence into meaningful oversight. In Nigeria's relationship-driven corporate environment, audit committee members who meet regulatory independence requirements may still face informal pressures that constrain objectivity, thereby limiting the effectiveness of independence in the absence of stronger complementary governance mechanisms.

Most unexpectedly, the study found that audit committee financial expertise has a positive and statistically significant effect on fraudulent financial reporting (OR = 2.0633, p = 0.007)**,** indicating that a one-unit increase in financial expertise is associated with approximately a 106.33% increase in the odds of FFR**.** This counterintuitive finding contrasts with conventional governance expectations and prior evidence such as Abbott et al. (2004), which associates financial expertise with stronger monitoring.

The counterintuitive outcome contradicts dominant theoretical expectations but aligns with concerns raised by Anichebe et al. (2019), warranting careful interpretation. Several plausible explanations exist: financially skilled members may, in the absence of true independence, apply their technical knowledge to design or conceal complex fraudulent activities; firms anticipating reporting challenges may appoint such experts primarily for symbolic legitimacy; or formal qualifications may not necessarily translate into active or effective use of expertise in practice. This result challenges the assumption that financial expertise invariably enhances governance effectiveness

The result may reflect the Nigerian institutional context, where expertise without genuine independence, ethical commitment, and effective enforcement may not necessarily improve oversight**.** Financially sophisticated members may potentially use their knowledge to support aggressive accounting practices, particularly where they are influenced by management or controlling shareholders. Alternatively, firms already facing reporting difficulties may deliberately appoint financially expert members to provide legitimacy or technical justification for questionable practices, suggesting possible reverse causality or selection effects.

The finding also highlights potential limitations in measuring financial expertise solely through professional qualifications or prior positions, as such measures may not capture the quality, relevance, independence, or ethical application of expertise. From a resource dependence theory perspective, the result challenges the assumption that financial expertise automatically provides valuable monitoring resources, suggesting instead that its effectiveness depends on the institutional and governance environment in which it is exercised.

The study therefore suggests that regulators and firms should move beyond simply requiring financially qualified audit committee members and place greater emphasis on substantive independence, ethical conduct, accountability, and relevant competence**.** Overall, the finding demonstrates that the effectiveness of audit committee expertise is context-dependent and that technical knowledge alone may be insufficient to prevent fraudulent financial reporting

Audit committee meeting frequency (ACOMMF) showed a negative and statistically significant relationship with FFR (OR = 0.8411, p = 0.037), reducing the odds of fraud by about 15.89% for each additional meeting. This finding supports agency theory's emphasis on continuous monitoring and is consistent with Mousavi et al. (2022) and Attionbbott et al. (2004). Regular meetings facilitate ongoing review of financial reports, closer engagement with auditors, and earlier detection of control weaknesses, making diligence a practicable governance tool even in weaker institutional environments.

Regarding the control variables, both firm size (FSIZE: OR = 1.0531, p = 0.372) and leverage (LEV: OR = 1.1925, p = 0.734) were statistically insignificant. This suggests that, within the sampled firms, structural characteristics such as size do not meaningfully affect the likelihood of FFR once governance mechanisms are accounted for.

Confidence Intervals for the Random Effects Panel Logistic Regression

95% Confidence Intervals for the Odds Ratios (Random-Effects Logit)

Variable	Odds Ratio	Std. Err.	z	p-value	95% Conf. Interval	Significant
BIND	1.5532	0.8889	0.77	0.442	[0.5059, 4.7683]	No
BFEXP †	**1.5314**	**0.2094**	**-2.02**	**0.043**	**[0.1592, 1.1160]**	**Yes**
ACOMI	0.7222	0.6101	-0.39	0.700	[0.1379, 3.7827]	No

Variable	Odds Ratio	Std. Err.	z	p-value	95% Conf. Interval	Significant
ACOMFEX	**2.0633**	**0.5568**	**2.68**	**0.007**	**[1.2158, 3.5015]**	**Yes**
ACOMMF	**0.8411**	**0.0672**	**-2.17**	**0.030**	**[0.7192, 0.9836]**	**Yes**
FSIZE	1.0531	0.0610	0.89	0.372	[0.9401, 1.1796]	No
LEV	1.1925	0.6168	0.34	0.734	[0.4327, 3.2863]	No
_cons	0.5752	0.5874	-0.54	0.588	[0.0777, 4.2567]	No

† Note: As reported in the appendix, the odds ratio for BFEXP (1.5314) is inconsistent with its own z-statistic (-2.02) and confidence interval ([0.1592, 1.1160]), which together imply an odds ratio below 1 (consistent with the 0.4214 figure obtained in the earlier model run). This is very likely a transcription error in the STATA output and should be verified against the original .log/.smcl file before the table is finalised for submission.

Source: STATA 14 Output (2026)

The 95% confidence intervals reported above correspond to the random-effects panel logistic regression estimating the likelihood of fraudulent financial reporting (FFRFlag), with 480 firm-year observations across 96 firms. A variable is considered statistically significant at the 5% level if its confidence interval for the odds ratio excludes 1.

Based on this criterion, three variables achieved statistical significance. Audit committee financial expertise (ACOMFEX) recorded an odds ratio of 2.0633 with a 95% confidence interval of [1.2158, 3.5015], lying entirely above 1 and indicating a statistically significant positive association with the likelihood of fraudulent financial reporting. Audit committee meeting frequency (ACOMMF) recorded an odds ratio of 0.8411 with a 95% confidence interval of [0.7192, 0.9836], lying entirely below 1 and indicating a statistically significant negative association with fraudulent financial reporting. Board financial expertise (BFEXP) was significant at the 5% level ($p = 0.043$), though as noted above, its reported odds ratio should be verified, as the underlying z-statistic and confidence interval are consistent with a negative association rather than the positive one implied by the stated odds ratio.

For the remaining variables, board independence (BIND), audit committee independence (ACOMI), firm size (FSIZE), and leverage (LEV) , the confidence intervals for the odds ratios all span across 1, indicating that the true effect could plausibly be null. These variables are therefore not statistically significant predictors of fraudulent financial reporting in this model.

5.Conclusion, Recommendations, Limitation and Contribution

5.1 Conclusion and Recommendations

This study investigated the combined effect of board and audit committee characteristics on fraudulent financial reporting among 96 listed non-financial firms in Nigeria over the period of 2020–2024. The findings present a mixed governance picture: individual governance attributes point in different directions, with board financial expertise and audit committee meeting frequency emerging as effective and significant deterrents to fraud, while formal independence measures were found to be statistically ineffective and audit committee financial expertise unexpectedly increased the likelihood of fraudulent reporting.

A key policy implication is the need for urgent examination of the paradoxical relationship between audit committee financial expertise and FFR. The Financial Reporting Council of Nigeria (FRCN) and Securities and Exchange Commission (SEC) should initiate focused investigations to determine whether this outcome is driven by unethical use of expertise, selection bias in appointments, or limitations in the current

conceptualization of financial expertise. Regulatory frameworks should also clarify that financial literacy alone is insufficient unless supported by genuine independence and effective accountability structures

Furthermore, regulatory bodies should reinforce requirements for board financial expertise by specifying a minimum number of directors with verifiable and up-to-date qualifications in accounting, auditing, or financial analysis. Audit committee meeting frequency should also be aligned with firms' operational complexity and risk profiles. Given this study's finding that board independence and audit committee independence had no significant effect on FFR, the Nigerian Code of Corporate Governance (2018) should be revised to clearly distinguish between formal compliance and substantive effectiveness, with stronger enforcement provisions and enhanced disclosure standards.

In addition, given this study's finding that audit committee financial expertise was associated with a higher, not lower, likelihood of FFR, professional bodies such as ICAN and ANAN should examine whether technical training for individuals serving in governance and oversight roles is being complemented by adequate independence and disciplinary mechanisms Future research should consider qualitative approaches, explore sector-specific governance dynamics, and examine interaction effects among expertise, independence, and institutional context across different emerging markets.

5.2 Limitation of the study

This study has several limitations that should be considered when interpreting its findings. First, it relies exclusively on secondary data from the published annual reports of listed non-financial firms in Nigeria. Inconsistent disclosure practices resulted in missing information on some governance characteristics and necessitated the exclusion of newly listed, suspended, or delisted firms, which may affect the completeness and representativeness of the sample.

Second, fraudulent financial reporting was proxied using the Beneish M-Score, which identifies potential earnings manipulation rather than confirmed cases of fraud. Thus, the measure may classify some legitimate but aggressive accounting practices as potential fraudulent reporting, introducing possible measurement or classification bias.

Third, the study focuses only on listed non-financial firms, limiting the generalisability of the findings to financial institutions and privately held companies. Additionally, although key governance characteristics were examined, other potentially relevant factors, including ownership structure, internal control quality, political connections, and corporate culture,were not incorporated, creating the possibility of omitted-variable bias.

Finally, the study covers a relatively limited period and employs a quantitative approach, which may not fully capture changes in regulatory and economic conditions or the contextual factors underlying governance practices. Future research could address these limitations by using longer study periods, broader samples, alternative fraud-detection measures, additional governance variables, and mixed-method approaches incorporating qualitative evidence.

5.3 Contribution to Knowledge

This study contributes to the literature on corporate governance and fraudulent financial reporting (FFR) by providing empirical evidence from listed non-financial firms in Nigeria. The findings offer nuanced support for agency theory and resource dependence theory, demonstrating that board financial expertise and audit committee meeting frequency significantly reduce the likelihood of FFR. However, the

insignificant effects of board and audit committee independence suggest that formal independence does not necessarily translate into effective monitoring within Nigeria's institutional context.

A particularly important contribution is the positive relationship between audit committee financial expertise and FFR, which challenges the conventional assumption that financial expertise necessarily strengthens monitoring. This finding suggests that expertise may be ineffective, or potentially counterproductive, when not accompanied by genuine independence, ethical conduct, and accountability. The study therefore highlights the importance of considering the institutional context when evaluating the effectiveness of corporate governance mechanisms.

Methodologically, the study contributes by combining the Beneish M-Score with Random Effects Panel Binary Logistic Regression to provide an objective and longitudinal assessment of FFR. By examining multiple board and audit committee characteristics within an integrated framework, the study provides a comprehensive basis for understanding governance mechanisms associated with financial reporting fraud.

Practically, the findings highlight the need for regulators and corporate managers to strengthen the financial competence of boards, substantive audit committee engagement, and the quality rather than merely the formal presence of independence and expertise**.** Overall, the study provides context-specific evidence that can inform corporate governance reforms, regulatory policies, and future research aimed at reducing fraudulent financial reporting and improving investor confidence in Nigeria's emerging capital market.

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