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FINANCIAL STATEMENTS FRAUD AND FINANCIAL PERFORMANCE

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ABSTRACT: ***The broad objective of the study was to theoretically review literature on financial statements fraud and financial performance. It became imperative to conduct this study following the series of quest to observe the impact of financial statements fraud on corporate financial performance in the face of the novel corona virus (covid-19) pandemic globally, Nigeria inclusive. The study is a conceptual paper in which a holistic review of literature was done on the impact of financial statements fraud on corporate financial performance in Nigeria which provided a theoretical frame of reference for the study. The study also compared past studies to show their weaknesses and strength. Flowing from the theoretical observations, the study recommends that future research empirically test the conceptual framework developed in this paper especially in a developing nation like Nigeria for substantiation purpose taking the factors accounting for observed dissimilarity in previous studies into consideration.***

INTRODUCTION

Admittedly, accounting is a social artifact as well as the language of business (Ashamu, 2014). Business dealings and events are interpreted into figures and recorded in monetary terms (Ugwuanyi & Ugwu, 2012) which are properly recorded in accounting form to show managerial stewardship. These economic events (when documented, summarized and evaluated) offer the required financial accounting information desired by management for informed and adequate decision making (Agbaje & Oloruntoba, 2018; Ashamu, 2014). Financial statements are comprehensive reports describing the activities of an enterprise. The International Accounting Standard Board (IASB, 2007a) describes financial statements as reporting statements of all relevant accounting information in a systematic way that is easily understood for use by those who run the given enterprise for the purpose of applying it to the routine operations of the enterprise.

The understanding of the significance of financial statements is based on its ability to give exact financial position of the organisation and how such information can be useful for the routine operations of the organisation by diverse users of accounting information (Agbaje & Oloruntoba, 2018). Flowing from the above, users of financial statements are managers of the firm, owners of the enterprise, employees of the organisation, customers, creditors, the government, journalists and everybody who has something to do with the company (Agbaje & Oloruntoba, 2018). The corporate annual report is made up of the statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows, statement of changes in equity, notes to the accounts (Agbaje & Oloruntoba, 2018). However, such financial information is complex to comprehend as it is usually followed by attached explanations about how decisions are made in the enterprise (Izzalqurny, Subroto, & Ghofar, 2019; Agbaje & Oloruntoba, 2018).

Fraud is a serious problem that has overwhelmed the business community. The concerns of preventing fraud are increasing as the incidences and negative effect of fraud have increased over the years. Financial statements fraud is found to be the most worrying as it involves management of the company and causes the highest loss to investors. Exposure of fraud in financial statements is one of the main concerns for capital market participants and for other stakeholders because market players such as investors will suffer financial losses when fraud occurs in public companies (Kamal, Salleh, & Ahmad, 2016). Fraud is a major concern for organizations globally. Governments and regulators are now focusing on management's duty for effective fraud management programs. It is not a matter whether your organization is large or small or what country or industry your organization is in, as long as humans are involved in organizations, the risk of fraud is real. Financial statements fraud can take a number of methods, such as reporting fictitious revenue, preparing accounting information for diverse period, hiding indebtedness or expenditure, wrong reporting, wrong assessment of property values (inappropriate asset evaluation).

When reporting income, over reporting expenditure is done by firms that try to evade tax, it is clear from available evidence that accounting for fictitious revenue and bringing revenue from a different period to another are common in most financial statements (Kankpang, 2016; Ogoun & Obara, 2013). Corporate fraud has substantial financial and non-financial influences on businesses. The impacts of corporate fraud affect not only the companies and their shareholders, but also employees, social stability and the public at large (Kankpang, 2016). Among those that suffer from corporate fraud are those that rely on published information to assess corporate performance and make investment decisions such as stockholders and the general public. The unfavourable effects of corporate fraud have stimulated strong control and monitoring mechanisms to be enacted, with the goal of controlling corporate and management activities (Kankpang, 2016; Kara, Ugurlu, & Korpi, 2015).

Fraudulent financial reporting (FFR) is a major form of fraud that will continue to characterize the business world. There is a consensus of opinion in the literature that the magnitude of fraud cannot and has not been adequately captured as most instances of fraud go undetected and most are not reported. These frauds have had unfavourable effects on the capital markets and eroded the trust of the investing public. Financial reporting fraud can also have a devastating impact on a company's reputation, to the point of threatening its existence. The corporate scandals of the late 1990s and early 2000s resulted in major losses for investors and a precipitous decline in investor confidence in the U.S. capital markets. Although it is generally accepted that the Sarbanes-Oxley Act of 2002 has improved corporate governance and decreased the incidence of fraud, recent study (Mansor, 2015) and surveys indicate that investors and management continue to have concerns about financial statements fraud.

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 (Ogoun & Obara, 2013). Some of these organizations, for instance, Enron and WorldCom have obliterated billions of dollars in investor esteem while moving towards liquidation (Perols & Lougee, 2011). There are several kinds of frauds but the highest is financial statements fraud. This kind of fraud has the most critical money related effect on organizations compared to the several other kinds of fraud. Asides the monetary impact, such fraud has an effect on the reputation of the firm. These corrupt activities deprive business of large amounts of money or profit, or make businesses insolvent, or lead to increased economic, physical and social costs. All the above fraudulent activities are sources of risk because their occurrence are difficult to predict and when they occur, this could disrupt the operations of a business as well as carefully formulated plans of businesses thereby precipitating a chain of undesirable consequences. The remaining part of this study is structured as follows: Section 2 presents the concept of financial performance; section 3 focuses on financial statements fraud; section 4 presents review of prior empirical studies; section 5 presents review of theories; section 6 knowledge gap in studies; section 7 present the conclusions and recommendations.

Financial Performance

Financial performance measures those that have been entrusted with managing the assets and liabilities of an organization through appointment by shareholders to carry out the routine operations of the organization (MacCarthy, 2017). It is the result of all the organization's operations and strategies that have been developed to oversee the operations of an organization over a stated period of time usually within 12 months (Ugwuanyi & Ugwu, 2012). Good financial performance means an rise in shareholders' value which leads to growth of investment/share price and motivates shareholders to make further investment for sustained positive economic growth. Financial measures of financial performance include return on assets (ROA), return on equity (ROE) as well as the Tobin Q (Athar, Irfan, & Majid, 2012).

ROA is a measure of how efficiently the asset of an organization has been used to generate returns within a period of time. Kuang, Ching, and Yi (2010) define return on assets as a ratio of earnings before interest, tax and depreciation (EBITD) and the entire assets of the firm. This definition or measurement is preferred because it pays attention to the tax and depreciation accounted for in earnings and also the source of finance used in generating returns. Ogoun and Obara (2013) aligned with this definition and documented that return on assets is the revenue/returns before extraordinary earnings divided by the total assets of the company. ROA is also described at the profits earned for a period in relation to the amount of total assets invested for that period. A higher return on assets ratio signifies that the company tends to be efficient and effective in utilizing available assets to generating net income (Ugwuanyi and Ugwu, 2012). Agbaje and Oloruntoba (2018) define ROA as company's profit after tax over the accounting value of its Net assets. Their found a negative relationship between total risks and return on assets. When risks are on the rise, there tends to be a significant decrease in a firm's return on assets. This may be as a result of increasing the organization's capital-debt structure.

Financial Statements Fraud

Fraud is a global phenomenon that affects all continents and all sectors of the economy. Fraud comprises a wide-range of dishonest practices and illegal acts involving intentional deception, or misrepresentation. In other words, mistakes are not fraud. Indeed, in fraud, groups of unscrupulous individuals manipulate, or influence the activities of a target business with the intention of making money, or obtaining goods through illegal or unfair means. Fraud cheats the target organization of its legitimate income and results in a loss of goods, money, and even goodwill and reputation (Rezaee, 2002). Holtfreter (2004) defined financial statements fraud as 'the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements in order to deceive financial statement users. Management fraud is usually seen as the same as the financial statement fraud due to the fact that the preparation and presentation of financial reporting information is the sole task of the management. Each time that there exit a financial statements fraud, the management is always aware of it (Bhasin, 2013).

Fraud is a broad concept but basically there are two types of fraud seen in practice. The first one is the misappropriation of assets and the second one is the fraudulent financial reporting. On the other hand, fraudulent financial reporting involves an intentional distortion of the financial statements such as reporting sales that did not happen, reporting income into the current year that actually belongs in the next year, capitalizing expenses improperly or reporting an expense in the next year that should be reported in the current year. Financial statements fraud is typically conducted by management or with their consent and knowledge. Yu (2013) defined corporate securities fraud as a firm's or its manager's misconduct behavior, which causes material value loss to shareholders or stakeholders (such as creditors, customers and suppliers) and which may trigger regulatory and/or legal enforcements. Author also underlined the overlap in definitions of corporate fraud and accounting fraud; accounting fraud is defined as an intentional misstatement of financial reports, in violation of generally accepted accounting principles.

Arakumar (2015) observe that financial reporting fraud appears in various ways, he further maintain that regular attempt in advancing financial statement involves: over reporting income, understanding expenses and liabilities, timing differences, incorrect valuation of assets and third party related transactions. Fraud in financial reporting has been explained differently by researchers and practitioners. Uwuigbe, Olorunshe, Uwuigbe, Ozordi, Asiriuwa, Asaolu et al. (2019) sees financial reporting fraud as the deliberate fraud committed by management which causes injury to investors and creditors through materially misleading financial statements. Apart from those who commit their money into the firm, also those the firm owes, them that examine the financial records are also affected by the fraud. They could be affected by losing money, position, integrity etc. (Holtfreter, 2004).

Deception in financial reporting appears in various means which includes over reporting income by acknowledging unearned revenue, increasing the value of asset, and improper expense recognition (Akintoye & Asaolu, 2008). Financial report scam like increase in income that does not go along with cash and sudden consistent growth in sales will automatically indicate a red flag. Everette (2012) defined red flag as a warning sign in the financial statement which should be notice or dealt with. Financial statements fraud is the deliberate fraud committed by management that injures investor and creditors with materially misleading financial statement (Mansor, 2015). Misstatement or accounting irregularities in financial statement can arise from error or fraud. It is therefore important to differentiate between financial statement error and financial statement fraud. Financial statement error refers to unintentional misstatement in financial statement, including the omission of an amount or a disclosure (Asaolu & Erin, 2019). Aburime (2012), further explained several methods by which financial statement fraud is considered to be common.

These include fictitious sales, improper expense recognition and inappropriate asset valuation. With regards to financial information, revenue, gain or long term properties are mostly over reported, but loss of income, expenditure or debt are usually under reported. According to Ogoun and Obara (2013), over reporting income, gains or long term property indicates that companies are strong but under reporting loss of revenue, spending, debts shows an increase in the value and capital of the firm. Brennan and McGrath (2007) 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. Corporate fraud and misconduct remains a constant threat to public trust in the confidence building of the capital markets.

Fraud is an intentional act, committed to secure an unfair or unlawful gain or advantage by the perpetrator. While the monetary loss owing to fraud is significant, the full impact of fraud on an organization can be staggering. In fact, the losses to reputation, goodwill, and customer relations can be devastating. When fraudulent financial reporting occurs, serious consequences ensue. The damage that results is also widespread, with a sometimes devastating “ripple” effect. In general, financial statement fraud techniques works by overstating assets and revenues and generally this is done by recording revenues prematurely or by using fictitious records. The experience of auditors is an important factor for finding out financial statement fraud (Holtfreter, 2004). Fraud can negatively affect industry peers. Disclosure of negative information can force new (and lower) valuation of companies within the sector. Literature refers to it as information spillover effect. On the contrary, competitors could benefit from fraud by customers outflow from the accused company, what is called industry competition effect. The magnitude of these two effects determines the overall effect of fraud on rival companies.

Beneish Model is an accounting-based earnings manipulation detection model that has strong out of-sample power to predict cross-sectional returns. Companies with a higher probability of manipulation (M-score) earn lower returns on every decile portfolio sorted by size, book-to market, momentum, accruals, and short interest. The predictive power of M-score stems from its ability to forecast changes in accruals and is most pronounced among low-accrual (ostensibly high-earnings-quality) stocks (Beneish, Lee, & Nichols, 2013). Altman Z-score model works well on financial statements that are not manipulated while Beneish M-score is used to determine whether the financial statement is manipulated (MacCarthy, 2017).

Created by Professor Messod Beneish, the M-Score is a mathematical model that uses eight financial ratios to identify whether a company has manipulated its earnings (Rezaee, 2002). Beneish M-Score is a standard model in capturing revenue manipulation. It is from the statistics of the firm contained in the monetary report that the variables are created, at the end of every calculation, the m –score is used to explain the extent to which the revenue record was altered. Beneish and Nichols (2012) explain further that to determine the earning manipulation using an alternative fraud detection model that involves five variables from the eight variables of Beneish (1999) model. The variables are constructed from the company's financial statements and create a score to describe the degree to which the earnings have been manipulated. There are eight variables taken into account for developing the M-Score, as listed below: DSRI - Days' sales in receivable index GMI - Gross margin index AQI - Asset quality index SGI - Sales growth index 14 DEPI - Depreciation index SGAI - Sales and general and administrative expenses index LVGI - Leverage index TATA - Total accruals to total assets M-Score that based on the 8 variables as above, calculated by using the formula; M = -4.84 + (DSRI +GMI + AQI + SGI + DEPI + SGAI +TATA+ LVGI) After calculation, the variables are joined to realize an m – score for the firm. An M-score of < - 2.22 suggest that the firm has no fictitious revenue, an M-score > than - 2.22 indicates that the firm is having fictitious revenue. DSRI - Days' sales in receivable index is used to measure the changes made in respect of receivables consistent with the changes made in respect of sales.

A DSRI score of 1.031 or below indicates that, the financial statements in respect of the DSRI were not manipulated but a score of 1.465 and above indicates that, the financial statements in respect of the DSRI have been manipulated or an indication that, the company has changed its credit terms and now granting more credit than before. When this does not show a fair consistent trend then it suggests that either more sales are made on credit terms rather than through cash sales or the company is having difficulty in the collection of cash from trade debtors. A rising DSRI might be the perfect legal activity of a company extending more credit to customers and companies that overstated revenue.

Therefore, a sharp rise in the DSRI score provides signals to the forensic investigators that, the financial statements are manipulated or terms of credit have changed (Özcan, 2018). An important increase in this index is based not only on the accountancy of consignment sales recorded as trade receivables and sales toward the increase in income as well as profit of the company, but also on the creation of trade receivables from current accounts of group companies. These two applications are considered as the indicators of the manipulation of financial information. According to Beneish (1999), a large increase in days‽ sales in receivables could be the result of a change in credit policy to spur sales in the face of increased competition, but disproportionate increases in receivables relative to sales could also suggest revenue inflation. As a consequence, it is expected that a large increase in receivables increases the likelihood of earnings manipulation. GMI - Gross margin index is used to measure the ratio of a prior year's GMI to that of the current year review.

The GMI score of 1.041 or lower indicates that gross profit of the current period is not manipulated but a score of 1.193 indicates that gross profit of the company is manipulated (Perols & Lougee, 2011). Earning quality is a very important aspect for evaluating a company's financial health. This, therefore, create temptation to manipulate earnings when things are not going on well (Brennan, & McGrath, 2007). AQI - Asset quality index is used to measure the proportion of total assets of the current year to the previous year. According to Kara, Ugurlu and Korpi (2015), when an AQI ratio greater than 1.0 is an indication that some expenses or intangible assets have been capitalized and others have been deferred for the future. An increase in AQI indicates that additional expenses are being capitalized to avoid writing-off to the statement of comprehensive income in order to preserve profit (Özcan, 2018). SGI - Sales growth index is used to measure sales in the current year over the sales of a previous year. SGI is used to measure the sales figure in the current year.

A score of 1.134 or below is an indication of non-manipulation and a score above 1.607 indicates that, the sales figures have been manipulated. MacCarthy (2017) observed that, companies with high growth rate find themselves highly motivated to commit fraud when the trends reverse. In such situations, there is a potential increase beyond a certain percentage that may cause suspicion (Brennan, & McGrath, 2007). This index compares sales between two consecutive years. An increase in sales could mean the company is doing well. However, growth companies are more susceptible to earnings manipulation as they will want the perception of continuous growth maintained (Amoa-Gyarteng, 2014). Though other factors may be responsible, growth in sales does not necessarily prove the manipulation of financial information. According to prior studies such as Kara, Ugurlu, and Korpi (2015), companies that take sales growth into account are more likely to have earning manipulation compared to other companies. This happens due to the structure of debt or equity and the needs of resources which resulted in pressure on managers to have high rate of sales in their companies. This pressure will increase if the prices of stock decrease, and in turn manipulation of financial statements increases. DEPI - Depreciation index is used to measure the ratio of the depreciation expense against the company's value of PPE in the current year against that of the previous year. A DEPI ratio of 1.001 or lower is an indication that, DEPI has not been manipulated.

According to Beneish (1999), a score above 1.077 is an indication that, the assets value has been revalued or the useful life of the assets has been extended or adjusted upward. SGAI - Sales and general and administrative expenses index is used to measure the ratio of sales, general and administrative expenses for the current year over the previous year. A score of 1.001 or below is an indication that SGAI has not been manipulated. According to Beneish (1999) a disproportionate increase in sales indicates a negative signal about the company future prospects. According to Kara et al. (2015) a disproportional increase in SGAI is an indication of a negative signal about the company's future prospects. A positive relation gives an indication that there is probability of manipulation (Özcan, 2018). LVGI - Leverage index is used to measure the company's ratio in terms of total debt to total assets for the current year divided over the previous year's ratio. A LEVI greater than 1 implies that there is an increase in leverage position in the company and that the company has taken more debt to operate or to run the business for the period under review (Beneish, Lee, & Nichols, 2013).

Total accrual to total assets (TATA) is used to measure the ratio of change in working capital accounts other than cash and less depreciation. The growth of TATA usually indicates that goodwill and amortization numbers in the financial statements have being tampered with. A mean score of 0.018 is an indication that there is non-financial manipulation while a mean score of0.031 and above is an indication that the financial data have been tampered with (Beneish, Lee, & Nichols, 2013). This index captures accounting profits which are not real and are not supported by profits at hand. High accruals at the time of decreasing cash could be an indication of revenue manipulation (Amoa-Gyarteng, 2014). The reason behind this variable being included into this model is to determine any manipulation of financial information applications based on increase in revenue or decrease in expense or vice versa within the framework of accrual basis.

MacCarthy (2017) determined whether Altman Z-score and Beneish M-model could detect financial fraud and corporate failure of Enron Corporation. Five-year financial information was collected from the US SEC Edgar database covering the period 1996 to 2000. The Beneish model revealed that the financial statements for the five years studied were manipulated by management. On the basis of the analysis, it was argued that stakeholders would be better protected when the two models are used simultaneously than when only the Altman Z-score is used and therefore recommended that Altman Z-score and Beneish M-Model should be used together as an integral part of every audit.

Review of Prior Empirical Studies on Financial Statements Fraud and Financial Performance

Ogbonna and Ebimobowei (2012) examined the influence of principled financing standard on the value of monetary reports in the banking system of the Nigerian economy with original and calculated information. The data was analyzed using econometrics models of diagnostics checks, ADF, OLS and Granger causality estimation. Findings of the research indicated that principled financing standards have reasonable influence on monetary reporting in banking sector of the country. The study recommends that financial experts as those entrusted with monetary information should abide by the principles and rules of the profession. Another study by Aburime (2012) focused on developing the influence of bribery on the assumed profit of a bank in Nigeria. The author employed information of about 358 samples of 48 different banks within the period of 1996 to 2006. The result from the estimation showed that dishonesty in financial reports in banks has a reasonable affirmative influence on the profits made by banks in Nigeria context, having the view that successes made by scammers are mostly caused by bankers. The study further affirmed that banks are used as possible conduct pipes for corrupt financial flow. Hence, the study recommended that further study.

Uwuigbe et al. (2019) studied the association between financial statement fraud and governance among business organizations in Nigeria. A population of 122 non-financial companies registered on Nigeria stock exchange was limited to 20 firms employing the rule of thumb based on stratified and simple random technique for a period of 2012 to 2016. The panel regression was used for data analysis. The dependent variable (fraud in the financial statements) was measured using the Beneish M-score model while the independent variable was measured using audit committee independence, board structure. Findings showed that an insignificant association exists amid audit committee independence, the composition of the board and financial statement fraud. It was therefore suggested that in reducing the occurrence of financial statement fraud, less emphasis should be placed on audit committee independence, board composition and independent non-executive director's effectiveness.

Agbaje and Oloruntoba (2018) assessed the impact of financial statement fraud on profitability of selected Nigerian manufacturing firms covering 2002 to 2016. The study focused on ascertaining the effect of variables of financial statements fraud on ROA. To achieve these objectives, descriptive research design was used for the study while secondary data was collected from the financial reports of the selected firms and website of Security and Exchange Commission. The Analysis of Covariance (ANCOVA) was used and STATA II econometric method was adopted in the analysis of the data. Beneish model was adopted in the analysis of the financial reports to create a dummy variable for the selected firms from 2002 to 2016 and validations of the parameters were ascertained using various statistical techniques such as t-test, co-efficient of determination (R2), F-statistics and Wald chi-square. Three hypotheses were formulated and tested using the t-statistics at 5% level of significance. The findings of the analysis revealed that there is a significant relationship between financial statement fraud and profitability in Nigerian manufacturing industry. It was found that increase in fictitious revenue in manufacturing industry would lead to low profitability. The implication of this is that increase in fictitious revenue would lead to decrease in performance. The study therefore recommended that pragmatic policy options need to be taken in the manufacturing industry to effectively manage fictitious revenue, in order to enhance manufacturing industry performance in the country and also financial statement fraud should be adequately inculcated into the internal control system of manufacturing firms for the effective running of the manufacturing industry in Nigeria.

Dalnial, Kamaluddin, Sanusi, and Khairuddin (2014) investigated whether there are any significant differences between the means of financial ratios of fraudulent and non-fraudulent firms and to identify which financial ratio is significant to detect fraudulent reporting. The sample comprised of 65 fraudulent firms and 65 samples of non-fraudulent firms of Malaysian Public Listed Firms, available between the year of 2000 and 2011. The study found that there are significant mean differences between the fraud and non-fraud firms in ratios such as total debt to total equity, account receivables to sales. In addition, z score which measures the bankruptcy probability is significant to detect fraudulent financial reporting. Izzalqurny, Subroto, and Ghofar (2019) aimed to prove the research hypothesis that there are effects of financial ratios, which consist of profitability, leverage, and liquidity on the financial statements fraud risk and the quality of auditors are able to moderate the relationship between financial ratios to financial statements fraud. The study used a population of manufacturing companies that publish their financial statements on the Indonesian Stock Exchange in 2016 to 2017.

A purposive sampling technique was used so that the study sample amounted to 275 firm years. The dependent variable uses the financial statements fraud risk with the proxy Dechow F-score. The independent variable consisted of profitability with ROA ratio, leverage using the calculation of the ratio of total liabilities to total assets, and liquidity using the calculation of the ratio of total current assets to current liabilities. The Hypothesis test was conducted using moderated regression analysis (MRA). The results of this study indicate that the financial statements fraud risk is influenced by financial liquidity ratios, while financial ratios of profitability and leverage have not been proven to affect financial report fraud. This study provides a contribution by providing evidence that the quality of auditors can suppress fraudulent actions on financial statements with low profitability. This research provides information to regulators to pay more attention to companies that experience liquidity problems, and become input for regulators to make rules that improve the quality of auditors.

Subair, Salman, Abolarin, Abdullahi, and Othman (2020) examined the nexus between financial statement fraud and corporate governance elements using panel data collected from firms under the agricultural sector of the Nigeria stock exchange between 2013 and 2017 financial year. Longitudinal design and binary log it regression technique were employed in analyzing the data. The result reveal that about 52% of financial statement fraud likelihood can be attributable to corporate governance variables in quoted agricultural companies in the Nigeria Stock Exchange. The findings reveal that agricultural companies should improve the effectiveness of their board audit committee, increase the number of corporate governance members with accounting and or financial knowledge and independence. Abu, Okpeh, and Okpe (2016) investigated the influence of board characteristics on the financial performance of listed deposit money banks in Nigeria for the period of 2005 to 2014. The total number of listed deposit money banks as at 31st December, 2014 were seventeen (17) out of which a sample of fifteen (15) were used for the study. The study categorically seeks to examine whether board characteristics (proxy by executive director, independent director, grey director, women director and foreign director) has any influence on the performance of listed deposit money banks in Nigeria. The study adopted multiple regression technique as a tool of analysis and data were collected from secondary source through the annual reports and accounts of the sampled banks. The findings show that foreign director is significantly and positively correlated or influenced the performance of deposit money bank, while the grey director have negative significant effect on the performance of deposit money banks in Nigeria. Other variables such as executive director, independent non-executive director and women director have no significant impact on banks performance in Nigeria.

Therefore, the study among others recommended that the management of deposit money banks in Nigeria should increase the number of foreign directors on board to a certain number as they have skills, expertise, experience and would like to protect their integrity, reputation and professional competence with creativity and innovation to manage the relationship between the boards and stakeholders leading to an improvement in the bank financial performance. Similarly, the number of grey directors on board should be reduced to an average of three (3) or four (4) as the case may be in order to overcome its negative effect on performance. Moses (2018) investigated the role of corruption and financial statement fraud in business failure in Nigeria. Data for the study was collected through the issuance of a structured questionnaire to professional accountants and auditors and analyzed using descriptive statistics and the OLS method of multiple regression analyses. The results of the analyses showed a positive relationship between the prevalence of corruption and the phenomenon of business failure as well as a positive relationship between financial statement fraud and business failure in Nigeria. From the findings, it was concluded that corruption increases the risk of business failure by causing an increase in the cost of doing business. It was also deduced that the menace of financial statement fraud significantly increases the risk of business failure. Thus, a reduction in institutional corruption will have a considerable effect on the ability of businesses to survive and thrive. It is recommended that the government take serious measures to curb the problem of corruption to guarantee safe economic environment for businesses to navigate. It is also recommended that regulators take proactive measures to reduce the incidences of financial statement fraud perpetrated in the country.

Kurant (2014) examined the consequences of fraudulent misreporting of SEC enforcement actions target companies and its impact on their industry competitors. Using recent data (2006 to 2012) for U.S. market, the research concentrates on changes of firms' returns and risk. Changes in returns are measured following a standard event methodology abnormal returns; changes in risk are measured using the change in three different risk measures: total risk, systematic risk and residual risk. The research documents that cumulative abnormal return results vary depending on the method of calculation used.

Using value-weighted index and raw returns CARs are negative for fraud companies but positive for peers. When the equally-weighted index and risk measures are introduced, CARs for both groups are positive. Results are subject to considerable variability. In addition, results show that fraud disclosure causes an increase in total risk and residual risk but a decrease in systematic risk. Division of the sample into quintiles gives much higher significance. Mpiana (2017) investigated the effects of corporate scandals on the financial performance of the firm listed in the NSE in Kenya. Three research questions guided the study namely; what was effect of corporate scandals on the NSE listed firm's share prices? Do corporate scandals have any effect on the NSE listed firm's profitability? And what is impact of corporate scandals on the NSE listed firm's liquidity? The research methodology included the research design which includes a multiple case study of five selected and listed firms in NSE. The study has found that corporate scandal influence the firms share price negatively, however in some companies the scandals did not influence the firm's share price.

Also, those corporate scandals affect the firm's profitability and sales performance. Thus the study found that there was statistical significance between the corporate scandal and the firm's profitability and sale performance on NSE listed firms in Kenya. The study found that there was statistical significance between the corporate scandal and the firm's profitability and sale performance on NSE listed firms in Kenya. The findings indicated that corporate scandal has a greater influence to the sales performance. This is because once the company is reported to be involved on fraud customers and suppliers who are partner in businesses tend to withdraw. Finally, the study found out that corporate scandals affect the firm's liquidity negatively. Thus, there is statistical significant between corporate scandals and the NSE listed liquidity. Kankpang (2016) explored the effect of corruption schemes on the operational cost of manufacturing companies. The study was conducted using the survey design. The key research elements involved in the study were the top management as well as employee of manufacturing companies operating in southern Nigeria quoted in the Nigerian Stock Exchange. The total number of employees spread across the entire manufacturing companies operating in the regions under the study are fifty thousand, three hundred and eighty –five (50,385) employees as reported in NSE Fact Book, 2016. The study sample was selected from the population using the Taro Yamane (1967) formula drawn across the entire seventy (70) manufacturing firms quoted in the Nigerian Stock Exchange. Data were obtained from both primary and secondary sources using the questionnaire and desk research. The ordinary least squares (OLS) simple regression analysis, percentages and coefficient of correlation statistical tools were used in testing the degree of relationship existing between the various variables in the research hypotheses and relevant questions raised in the study. Data gathered were presented and analyzed using descriptive statistic for the purpose of establishing the variability of the responses to the survey instrument. The study identified corruption as a universal phenomenon rampaging businesses as well as economies globally in both developed and developing countries. The study found that against the apriori expectations, corruption schemes have been found to have a very insignificant effect on the overall costs of doing business in the Nigeria economy.

The following recommendations based on the findings and conclusions drawn from the study are made: Preventive controls such as segregation of duties, access rights and restrictions, effective supervision, strict and responsive authorization and approvals, frequent job rotation, compulsory holidays and annual vacations at all levels of the organization should be put in place to ensure that fraud and financial misconduct is prevented from occurring in the first instance. While significant check and balances should be put in place to ensure that the payroll reflects only those duly employed and are working in the organization to minimize to the barest minimum the occurrence of payroll related schemes in companies. Lastly, recruitment and selection procedures should be designed to ensure that only qualified individuals with the right personal traits are employed into the organizations' work force. Kamal, Salleh, and Ahmad (2016) stated that financial statement frauds (FSF) are becoming rampant phenomena in current economic and financial landscapes. They empirically investigated the abilities of two financial-based models namely the Beneish's M-score and Dechow's F-score, to detect and predict FSF for Malaysian companies. In addition, this study compares the accuracy including the error rates between the two models. Financial data of Malaysian listed companies from 2001 to 2014 are used using a matched pair in this study. The study examines 164 samples consisting of 82 fraudulent and 82 non-fraudulent companies from the Malaysian public listed companies available between the years 2001 and 2014 with financial data collected from Osiris and annual reports. Samples classified as fraudulent companies were companies that have been reported to have fraud in the enforcement releases obtained from SC. A matched pair samples was used; whereby each fraudulent company was matched with a corresponding non fraudulent firm on the basis of industry obtained from the SIC code and financial year. Financial statement variables of non-fraudulent companies were obtained from the same year as the fraudulent companies in order to control for general macroeconomics conditions. The findings reveal that both Beneish and Dechow models are effective in predicting both the fraudulent and non-fraudulent companies with average accuracy at 73.17% and 76.22%, respectively. The results also indicate that Dechow F-score model outperforms the Beneish Mscore model in the sensitivity of predicting fraud cases with 73.17% compared to 69.51%. On the efficiency aspect, the Dechow F Score model is found to have lower type II error (26.83%) than Beneish M Score model (30.49%). This finding suggests that Dechow F Score model is a better model that can be used by the regulators to detect FSF among companies in Malaysia.

Review of Theory

Legitimacy theory is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions (Schman, 1995). The theory believes that organization tries to carry out their activities within the context of what is acceptable by the people and those information disclosures are necessary ways for organizations to create acceptability through the provision of necessary information concerning the organization.

Kaplan and Ruland (1991) expanded to propose that the acceptability concept should consider all necessary persons and their contributions in generating the resources needed for the organizations‟ activities which are mostly needed for their success and their acceptability by the public. Legitimacy theory better explains the rationale behind financial statement fraud; hence the study encapsulates this study. The new economic, social and environmental challenges dictate to the organizations and to the governments, to respect the rules, values and norms, and to voluntarily disclose social and environmental information in order to probe their compliance. Therefore, legitimacy theory plays the role of a justifiable factor for the disclosure of the environmental information (Perols & Lougee, 2011). The global financial crisis and the instability of the financial markets put pressure on the organizations to re-evaluate their values system and to emphasize the importance of legitimacy. The correlation of the tangible financial resources with the intangible legitimacy resources is important for shaping a new organizational vision. Many scholars have criticized the enhancement of the legitimacy theory (Mobus, 2005; Owen, 2008).

Legitimacy theory was sometimes seen only as a plausible explanation of managerial motivations‟ without any real effort to determine how a disclosure "...may or may not promote transparency and accountability towards non-capital provider stakeholder groups" (Owen, 2008) and not like an instrument to be used for making viable predictions (Mobus, 2005). Thus, the organizations must voluntarily disclose social and environmental information in order to legitimate their legitimacy. The disclosure of information must be accompanied by concrete actions realized in compliance with social and environmental norms and values.

Knowledge Gap Identified

Having reviewed prior empirical studies on financial statements fraud and financial performance, it is thus noteworthy to recognize the knowledge gap identified which then forms the basis on which this study contributes to knowledge. Prior studies (Aburime, 2012; Agbaje & Oloruntoba, 2018; Ogbonna & Ebimobowei, 2012; Uwuigbe et al., 2019) tend to empirically study governance mechanisms, financial statements fraud and firms financial performance without considering a more different measure of financial statements fraud (Beneish M Score model). There have been fewer studies on financial statements fraud and financial performance of manufacturing companies in Nigeria (Agbaje & Oloruntoba, 2018). The Beneish M Score model for detecting financial statements fraud is the main focus of this study.

CONCLUSION

The broad objective of the study was to review extant literature on financial statements fraud and financial performance. Fraudulent activities are sources of risk because their occurrences are difficult to predict and when they occur, this could disrupt the operations of a business as well as carefully formulated plans of businesses thereby precipitating a chain of undesirable consequences. Thus, financial statements fraud is not a blessing but curse. This study recommends that further empirical studies should be done to test the theoretical background established in this study.

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