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The Role of Board Composition in Mitigating Financial Statements Fraud Among Nigerian Listed Firms

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Abstract: This study examines the impact of board composition, specifically board size (BS) and board diligence (BD), on financial statement fraud among Nigerian firms, using the Beneish M-Score as a proxy for fraud detection. The analysis incorporates firm size (FSIZ) and leverage (LEV) as control variables to account for their influence on financial reporting practices. Employing a Huber-weighted robust regression model to address issues of heteroscedasticity and outliers, the findings reveal that neither board size nor board diligence significantly affects financial statement fraud. Conversely, firm size exhibits a significant positive relationship with financial fraud, suggesting that larger firms face greater pressure to manipulate financial statements. Leverage demonstrates a significant negative relationship, highlighting the role of creditor oversight in reducing fraud risks. The results underscore the need for enhanced governance practices and stronger regulatory frameworks to improve accountability and transparency in Nigeria's corporate sector. The study recommends focusing on board quality, strategic oversight, and aligning governance practices with global standards to mitigate financial fraud and foster a sustainable corporate environment.

Keywords: Board Composition, Board Size, Board Diligence, Financial Statement fraud, Beneish M-Score

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1. INTRODUCTION

Financial statement fraud remains a critical issue in today's business environment, impacting firms, investors, and the broader economy. This type of fraud, often perpetrated through manipulating financial information to mislead stakeholders, can devastate investor trust and significantly diminish firm value (ACFE, 2021). The misrepresentation of financial statements can lead to severe economic consequences, including eroded market stability, inflated stock prices, and misleading credit ratings, all of which hinder informed decision-making by investors (Chen *et al.*, 2016; Jones, 2019). Recent cases of financial fraud in Nigeria underscore its relevance, with companies such as Oando Plc and Cadbury Nigeria facing scrutiny for accounting irregularities, which emphasizes the necessity for effective governance mechanisms to mitigate these risks (Afolabi & Omole, 2020). Effective detection and prevention measures for financial statement fraud are therefore essential in maintaining the integrity and transparency of financial reporting (Beneish *et al.*, 2018).

Board composition plays an indispensable role in corporate governance by influencing the oversight of management and the firm's strategic direction. An effective board structure, with the right mix of skills, independence, and diligence, enhances the board's capacity to monitor and guide firm management, leading to improved accountability and decision-making (Adams & Ferreira, 2017; Fama & Jensen, 1983). Empirical studies indicate that diverse and competent boards are better equipped to oversee management practices, thereby mitigating risks associated with mismanagement and financial irregularities (Petra, 2016; Liu *et al.*, 2022). In Nigeria, regulatory changes mandating the composition of boards, such as the Code of Corporate Governance by the Financial Reporting Council (FRC), highlight the growing importance placed on board structure in achieving corporate accountability and performance (Adewumi & Adebisi, 2023).

A growing body of research links board composition with the propensity for financial statement fraud within firms. Studies suggest that boards with diverse and skilled members tend to exhibit greater oversight capabilities, which reduces the likelihood of fraudulent reporting (Beasley, 1996; Farber, 2005). Moreover, board diligence, measured by board meeting frequency and attendance rates has been associated with increased scrutiny of management's financial reporting, which acts as a deterrent to fraudulent activities (Vafeas,

2017). In Nigeria, research highlights that firms with larger, more diligent boards demonstrate a lower incidence of financial misreporting, supporting the notion that board composition is instrumental in fraud mitigation (Ofoegbu *et al.*, 2022; Uadiale, 2019).

Research examining board size and diligence as proxies for board composition provides valuable insights into their relationship with financial statement fraud, measured by the Beneish M-score. Large boards are thought to enhance fraud detection due to the diversity of perspectives, which fosters a more robust oversight environment (Adams & Mehran, 2019; Chou *et al.*, 2020). Similarly, board diligence, reflected in frequent and well-attended meetings, strengthens the board's control functions, thereby reducing the risk of financial misstatements (Larcker & Tayan, 2017). Studies employing the Beneish M-score to identify fraudulent financial practices have shown a negative association with both board size and diligence, implying that these elements of board composition serve as effective fraud deterrents (Dechow *et al.*, 2019; Beneish *et al.*, 2020).

Despite substantial research on corporate governance and financial fraud, several gaps remain. First, empirical gaps exist in that many studies focus on developed economies, with limited research on emerging markets like Nigeria where regulatory frameworks differ (Owolabi & Omoteso, 2021; Elumah & Atu, 2022). Theoretical gaps are also present, as most governance frameworks have not fully addressed the dynamic role of board composition in fraud prevention, specifically within African contexts. Methodologically, there is a lack of longitudinal studies that assess the impact of board composition on financial fraud over time, which limits the understanding of causality (Armstrong *et al.*, 2015; Smith & Rees, 2023). Additionally, real-world gaps are apparent, as many Nigerian firms still grapple with weak enforcement of governance codes, highlighting the need for context-specific studies that address local challenges in corporate governance and fraud prevention (Adewuyi & Olabode, 2020).

Given these gaps, this study seeks to fill an empirical void by examining board composition's role in financial fraud mitigation specifically within Nigerian listed firms, adding to the literature on emerging markets. The study will explore whether established governance theories hold true in the Nigerian context, particularly regarding the effectiveness of board size and diligence in fraud prevention (Okoye & Abubakar, 2022).

Given the gaps identified above, there is a critical need for this empirical study to investigate the relationship between board composition and financial statement fraud in the context of Nigerian listed firms. Addressing these gaps is crucial to understanding the effectiveness of board composition as a governance mechanism within emerging economies (Nwosu & Mba, 2021). Such an investigation will provide evidence-based insights for regulatory bodies, policymakers, and firms striving to enhance corporate governance practices and fraud prevention strategies, specifically tailored to the Nigerian market (Egwu & Alade, 2022).

The general objective of this study is to examine the role of board composition in mitigating financial statement fraud among Nigerian listed firms. Focusing on board size and diligence as proxies for board composition, this study aims to provide a deeper understanding of how governance structures can effectively deter fraudulent practices within financial reporting (Beneish *et al.*, 2018; Jones, 2019). This objective is critical in providing actionable insights to regulators and corporate governance practitioners, particularly as they seek to develop policies that can strengthen corporate governance frameworks and reduce fraud within Nigeria's capital markets (Ajayi & Okechukwu, 2023).

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Conceptual Review

This study's conceptual framework examines how board composition influences the occurrence of financial statement fraud, with an emphasis on board size and diligence as key components of board composition. The framework posits that a larger and more diligent board can strengthen corporate governance, reducing the likelihood of fraudulent reporting as measured by the Beneish M-Score.

2.2. Financial Statement Fraud

Financial statement fraud refers to the intentional misrepresentation of a company's financial information, often aimed at deceiving stakeholders, manipulating stock prices, or meeting financial targets. This form of fraud involves various deceptive techniques such as overstating revenues, understating expenses, and misreporting assets or liabilities to present a misleading view of the firm's financial health (Chen *et al.*, 2020; ACFE, 2021). Financial

statement fraud is particularly concerning as it can erode investor trust, disrupt markets, and result in severe legal consequences for those involved. The Beneish M-Score, developed by Professor Messod Beneish, is a widely recognized model used to detect potential earnings manipulation. By evaluating financial ratios and other indicators, the M-Score helps identify anomalies that suggest fraud (Beneish *et al.*, 2018). It combines variables such as days' sales in receivables index, gross margin index, and asset quality index to produce a score, with values above a certain threshold indicating a higher likelihood of fraudulent activity (Dechow *et al.*, 2019).

2.3. Board Composition

Board composition pertains to the structure and characteristics of a company's board of directorsencompassing factors such as the board's size, independence, diversity, and diligence. A well-composed board is essential for effective corporate governance, providing oversight and accountability mechanisms that mitigate risks associated with management decisions (Petra, 2016; Adams & Mehran, 2019). For this study, board composition is measured through two key proxies: board size and board diligence. Board size refers to the total number of directors on the board, while board diligence encompasses aspects such as meeting frequency and attendance, indicating the board's active involvement in oversight functions (Larcker & Tayan, 2017).

2.3.1. Board Size and Financial Statement Fraud

Board size refers to the total number of directors serving on a company's board. This characteristic has implications for governance effectiveness, as a larger board may provide diverse perspectives, skills, and increased oversight capability (Adams & Ferreira, 2017). However, the effectiveness of a larger board depends on how well directors collaborate and manage decision-making processes, as overly large boards can sometimes suffer from coordination issues (Zhang *et al.*, 2021). The literature provides mixed findings on the impact of board size on fraud mitigation, indicating the need for further empirical exploration (Liu *et al.*, 2022).

Studies that have examined the relationship between board size and financial statement fraud measured by the Beneish M-score reveal varying findings. In terms of a positive and significant relationship, some scholars argue that

larger boards contribute to effective fraud detection, as the diversity of skills and experience allows for more comprehensive oversight (Adams & Mehran, 2019; Alhassan *et al.*, 2020). Conversely, a negative and significant relationship has been observed in studies indicating that larger boards, while intended to enhance governance, may struggle with coordination, leading to oversight inefficiencies (Chen *et al.*, 2018; Zhang *et al.*, 2021). Other research shows non-significant relationships, with findings suggesting that board size alone is not sufficient to deter fraudulent activities, as other factors, such as board independence and expertise, are crucial in effective governance (Petra, 2016; Larcker & Tayan, 2017). Based on the above conflicting views of scholars, we state our first hypothesis as follows:

H_{01}*: Board size has no significant impact on financial statement fraud among Nigerian listed firms.*

2.3.2. Board diligence and financial statement fraud

Board diligence refers to the active involvement of the board in governance functions, typically measured by meeting frequency and director attendance rates. Diligent boards tend to engage more effectively in monitoring management, reviewing financial statements, and identifying red flags in financial reporting (Vafeas, 2017). Board diligence is therefore crucial for ensuring that directors are well-informed and actively contributing to the board's oversight responsibilities (Adams & Mehran, 2019).

In examining board diligence and financial statement fraud, studies have produced varied results. For instance, a positive and significant relationship has been documented by researchers who find that diligent boards, characterized by regular meetings and active participation, reduce fraud risks due to increased scrutiny of financial reports (Chou *et al.*, 2020; Larcker & Tayan, 2017). On the other hand, studies showing a negative and significant relationship suggest that excessively frequent meetings could be counterproductive, as they may indicate reactive rather than proactive governance (Alhassan *et al.*, 2020; Adams & Ferreira, 2017). Non-significant findings also exist, with some researchers arguing that meeting frequency alone does not ensure effective oversight, and that the quality of board engagement is a more crucial factor (Vafeas, 2017; Zhang *et al.*, 2021). Premised on the argument above, we postulate the second hypothesis as shown below:

H_{02}*: Board diligence has no significant impact on financial statement fraud among Nigerian listed firms.*

2.4. Theoretical Framework

Several theoretical frameworks offer insights into the role of board composition in mitigating financial statement fraud. First, the *Agency Theory* emphasizes the separation between ownership and control within firms, suggesting that boards serve as a mechanism to align management's actions with shareholders' interests (Jensen & Meckling, 1976; Fama & Jensen, 1983). According to this theory, an effectively composed board can reduce agency conflicts and prevent fraudulent financial reporting by enhancing oversight (Armstrong *et al.*, 2015; Petra, 2016). Second, the *Resource Dependence Theory* posits that boards are essential resources that provide firms with valuable connections, expertise, and support to navigate external challenges (Pfeffer & Salancik, 1978). This theory argues that board size and diversity are critical for resource acquisition, which indirectly strengthens governance and deters fraud (Hillman *et al.*, 2009; Adams & Mehran, 2019). Third, the *Stewardship Theory* suggests that managers act as stewards who work toward the firm's best interests, countering the assumption of self-interest in Agency Theory (Davis *et al.*, 1997). Stewardship Theory implies that diligent boards foster trust and a collaborative environment, thus reducing the likelihood of financial misconduct (Donaldson & Davis, 1991; Larcker & Tayan, 2017).

Agency Theory emerges as the most relevant framework for examining the relationship between board composition and financial statement fraud, as it directly addresses the issues of oversight and control in corporate governance. This theory provides a foundation for understanding how a well-composed board can act as a check on management's decisions, thereby reducing the risk of fraudulent reporting (Fama & Jensen, 1983; Armstrong *et al.*, 2015). Conceptualizing the board as an agent representing shareholders, Agency Theory highlights the importance of board characteristics such as size and diligence in enhancing monitoring functions, which is particularly relevant in fraud-prone environments like Nigeria (Petra, 2016; Zhang *et al.*, 2021). This framework is selected due to its strong empirical foundation and its alignment with the study's objective to investigate how board structure influences fraud mitigation in listed firms, making it a suitable basis for this study's hypotheses.

3. METHODOLOGY

This study adopts a quantitative research design with a positivist research philosophy, emphasizing objective measurement and statistical analysis to examine the relationship between board composition and financial statement fraud among Nigerian listed companies. The population comprises all listed companies in Nigeria. The study employed purposive sampling method to select a sample of 84 non-financial Nigerian listed firms from the total population of publicly traded companies in Nigeria. This method was used to ensure that the selected firms met specific criteria relevant to the study's objective in examining the impact of board composition (board size and board diligence) on financial fraud mitigation.

The study applied the following criteria to determine the sample: (i). Data availability – Only firms with complete and accessible annual reports and financial statements were included. This ensured consistency and reliability in measuring financial fraud using the Beneish M-Score. (ii). Exclusion of financial firms – The study focused exclusively on non-financial firms, as financial institutions operate under different regulatory frameworks, which could introduce additional governance dynamics. (iii) Industry representation – Firms from various sectors were included to provide a diverse yet relevant sample for analyzing corporate governance practices in fraud prevention. (iv) Time frame consideration – The sample selection was based on firms that had sufficient historical financial data for statistical analysis within the study's defined period.

However, the potential biases that could arise from the use of purposive sampling approach are the exclusion of firms with missing or incomplete data. This study only included firms with accessible and complete financial statements, which could systematically exclude companies with poor governance practices or a history of financial fraud, precisely the entities that might have provided the strongest insights into fraud mitigation. Additionally, over-representation of well-governed firms makes the sampling technique bias, since firms with more transparent reporting are more likely to be included in the sample, the study may underestimate the prevalence of financial fraud and overstate the effectiveness of board composition in mitigating fraud. Sectoral differences in governance standards is another potential bias. The sample consists solely of non-financial firms, excluding financial institutions that

operate under different regulatory frameworks. Financial institutions, such as banks and insurance companies, are heavily regulated and may have distinct governance mechanisms that influence fraud mitigation differently from non-financial firms. Also, generalizability issues (that is, external validity bias) is another possible bias as the study is limited in applicability to private and small firms. The study focuses only on listed firms, meaning that the results may not be generalizable to private companies or small-and medium-sized enterprises (SMEs), which often lack strong governance structures and may be more susceptible to fraud. Again, narrowing the study to Nigeria-specific context poses likely bias. The study is limited to Nigerian firms, and while the findings are valuable for understanding corporate governance in Nigeria, they may not apply to other emerging markets or global contexts where regulatory environments and cultural factors differ. Lastly, the impact of economic cycles and regulatory changes may affect the outcome of sampled firms based on time period bias. The study's findings are based on a specific period, but economic downturns, regulatory shifts, or corporate scandals could significantly influence board composition and fraud detection practices over time. If the study's sample period coincides with a time of heightened regulatory scrutiny or financial crises, it may not accurately reflect long-term trends.

The selection of these proxies {(Board Size (BS) and Board Diligence (BD)} is based on their theoretical and empirical relevance in corporate governance research, particularly in the context of financial fraud mitigation. Other board characteristics, such as board independence, gender diversity, or CEO duality, could also influence fraud mitigation. However, the study specifically focuses on board size and diligence because of empirical evidence in fraud research as these proxies have been extensively studied in financial fraud detection literature. Similarly, data availability on board size and diligence are quantifiable and consistently reported in company disclosures, making them easier to analyze statistically. Regulatory relevance in Nigeria is another factor as Nigerian corporate governance guidelines emphasize board composition and diligence as key governance factors, making them policy-relevant.

The independent variable, board composition, is represented by two proxies: board size (BS) and board diligence (BD), while financial statement fraud, the dependent variable, is measured using the Beneish M-Score. Secondary data were collected from the annual reports and accounts of the sampled companies

to ensure consistency and objectivity. Reliability and validity were ensured through the selection of well-established variables, measurement proxies, and data sources commonly used in governance and fraud studies, providing credibility to the findings.

3.1. Model Specification

Functionally, the study's model specification is as shown below:

$$FSF = f(BS, BD) \quad (1)$$

Econometrically, the model is specified as follows:

$$BMS_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BD_{it} + \beta_3 FS_{it} + \epsilon_{it} \quad (2)$$

Where: FSF = Financial Statement Fraud (Proxy by Beneish M-Score)

BMS_{it} = Beneish M-Score for firm i at time t.

BS_{it} = Board Size for firm i at time t.

BD_{it} = Board Diligence for firm i at time t.

FS_{it} = Firm Size for firm i at time t, control variable.

3.2. Data Analysis Technique

The data analysis approach involves descriptive statistics (mean, standard deviation, frequencies) and diagnostic tests for normality, heteroskedasticity, and multicollinearity, using the Jacques Bera Skewness/Kurtosis test and Pearson Correlation Matrix. Panel regression analysis was performed using fixed and random effects models to account for individual firm differences over time. The Breusch and Pagan Lagrange Multiplier Test helped determine the choice between OLS and panel models, while the Hausman test guided the decision between fixed and random effects. Heteroskedasticity and serial correlation tests ensured robust results, with corrections applied as necessary. STATA software was chosen for its proficiency in handling panel data, offering robust solutions for multicollinearity and serial correlation, thus ensuring accurate and reliable results.

4. DATA ANALYSIS AND INTERPREPATIONS

This section presents the results of the statistical analyses on the data collected from 84 listed non financial companies in Nigeria. In this section, we examine the frequency of the earnings quality categories of our sampled non financial companies as shown in table 1.

Table 1: Sampled Non Financial Companies Frequency Table

Sub-Industry Distribution in Nigeria

Sectors	*Frequency*	*Percentage (%)*
Consumer Goods	18	21.43
Services	18	21.43
Industrial Goods	13	15.48
Oil and Gas	7	8.33
Conglomerates	6	7.14
Healthcare	6	7.14
Agriculture	4	4.76
Construction & Real Estate	4	4.76
ICT	4	4.76
Natural Resources	4	4.76
Total	**84**	100.00

Source: Researcher Computation (2025)

The table above presents the frequency distribution of sub-industries in Nigeria for the year 2022, excluding financial services. Consumer Goods and Services sectors accounted for the highest frequency of firms, each representing 21.43% of the total. Industrial Goods followed with 15.48%, while Oil and Gas, Conglomerates, and Healthcare each contributed less than 10%. Smaller sectors such as Agriculture, Construction & Real Estate, ICT, and Natural Resources each represented 4.76%. The total sample size consists of 84 firms.

4.1. Descriptive Statistics

In this section, we examine the descriptive statistics for both the independent and dependent variables of interest.

Table 2: Descriptive Statistics for Listed Non Financial Companies in Nigeria

Variable	*Mean*	*Median*	*Maximum*	*Minimum*	*Std. Dev.*	*N*	*JB (Normality)*
BMS	-2.20	-2.6	184	-16	6.90	834	. (0.00***)
BS	9.00	9	23	3	2.80	1081	. (0.00***)
BD	4.60	4	11	1	1.30	959	. (0.00***)
FSIZ	16.00	16	25	11	2.20	1110	43.42 (0.00***)
LEV	76.00	59	2354	0.76	146.00	1110	. (0.00***)

Note: BMS = Beneish M-Score; BS: Board Size; BD: Board Diligence; FS: Firm Size (Control Variable), LEV: Leverage (Control Variable)

Source: Researcher Computation (2025)

The descriptive statistics table summarizes key metrics of the variables in the study, including mean, median, maximum, minimum, standard deviation, and normality tests. Normality p-values are marked with *, **, and *** to indicate significance at the 5%, 1%, and 0.1% levels, respectively. These results provide an overview of the central tendencies, variability, and distributional characteristics of the data, with the Skewness/Kurtosis tests offering additional insights into normality.

The table highlights the average values of the variables, with the mean Beneish M-Score (BMS) at -2.2 and a median of -2.6, indicating that most firms likely fall within non-manipulative financial reporting thresholds. The mean board size (BS) of 9.00 reflects a typical board composition of nine members, while the average board diligence (BD), measured by the number of meetings, is 4.6 per year, underscoring active board oversight. The maximum and minimum values for each variable further illustrate the range of observations, emphasizing the diversity within the sample.

Standard deviations reveal the extent of variability across the dataset. For instance, leverage (LEV) has a high standard deviation of 146, indicating significant differences in firms' financial structures. In contrast, board diligence exhibits a lower standard deviation of 1.3, suggesting more consistency in meeting frequency. The normality tests, based on adjusted chi-squared (JB) values, show significant deviations from normality at the 0.1% level for all variables. This underscores the importance of employing robust analytical techniques and diagnostic corrections, such as heteroskedasticity adjustments, to ensure the validity and reliability of subsequent analyses. The table serves as a critical foundation for understanding the data and supports the development of rigorous statistical models.

4.2. Correlation Matrix

In examining the association among the variables, we employed the Pearson correlation coefficient (correlation matrix) and the results are presented in the table below.

Table 3: Correlation Analysis

	BMS	BS	BD	FSIZ	LEV
BMS	1.0000				
BS	0.0151	1.0000			
BD	0.0367	0.2109	1.0000		
FSIZ	0.0296	0.4960	0.2650	1.0000	
LEV	-0.0298	-0.1747	-0.0116	-0.0982	1.0000

Source: Researcher Computation (2025)

The correlation matrix table provides insights into the relationships between the study variables: Beneish M-Score (BMS), Board Size (BS), Board Diligence (BD), Firm Size (FSIZ), and Leverage (LEV). Correlation coefficients closer to 1 or -1 indicate strong positive or negative relationships, respectively, while coefficients near 0 suggest weak or no relationships.

The correlation between BMS and BS is weakly positive (0.0151), suggesting a negligible relationship between financial statement fraud and board size. Similarly, BMS shows a weak positive correlation with BD (0.0367) and FSIZ (0.0296), indicating limited association with board diligence and firm size. Conversely, the correlation between BMS and LEV is weakly negative (-0.0298), suggesting a slight inverse relationship between financial statement fraud and leverage.

Among the independent variables, BS and FSIZ exhibit a moderate positive correlation (0.4960), indicating that larger boards are often associated with larger firms. BD is moderately correlated with FSIZ (0.2650), suggesting that larger firms may engage in more frequent board meetings. However, LEV shows weak negative correlations with BS (-0.1747), BD (-0.0116), and FSIZ (-0.0982), reflecting minimal association between leverage and these governance-related variables.

4.3. Linear Regression

In testing the hypotheses for this study, we used ordinary least square linear regression.

Table 4: Regression Results

Statistic	*Expected Sign*	*Huber-Weighted Robust Regression*
Constant	-	-2.95 (0.000***)
Board Size (BS)	+/-	-0.01 (0.527)
Board Diligence (BD)	+	0.01 (0.621)
Firm Size (FSIZ)	+	0.04 (0.047*)
Leverage (LEV)	-	-0.01 (0.000***)
F-Value / p-Value		12.50 (0.000***)
Ramsey RESET / p-Value		0.61 (0.6118)
Hausman Test / p-Value		0.02 (0.440)
Heteroskedasticity (p-Value)		0.00 (0.000***)
R-Squared		0.0026
Observations		808

Source: Researcher Computation (2025)

The table above presents regression results comparing a robust regression model and a Huber-weighted robust regression model. The coefficients and p-values for key variables, including Board Size (BS), Board Diligence (BD), Firm Size (FSIZ), and Leverage (LEV), are reported along with test statistics such as the F-value, Ramsey RESET, and Hausman test. Significant p-values are denoted with *, **, and *** for 5%, 1%, and 0.1% significance levels, respectively.

The results for board size (BS) reveal a coefficient of -0.01 with a p-value of 0.527, indicating that board size has no statistically significant effect on financial statement fraud as measured by the Beneish M-Score. This finding suggests that, in the context of Nigerian firms, the number of board members does not substantially influence the likelihood of financial manipulation. Similar results have been observed in prior studies, such as Petra (2016), Zhang *et al*. (2021), and Vafeas (2017), which argue that simply increasing board size does not guarantee improved governance or fraud prevention. However, this result contrasts with studies like Beasley (1996) and Farber (2005), which emphasize that larger boards bring diverse perspectives and enhance oversight capacity, potentially reducing fraudulent activities. The non-significance of board size in this study may reflect inefficiencies in governance practices among Nigerian firms, where larger boards face coordination challenges or lack the strategic focus required to curb financial fraud. This finding underscores the need to consider not just the size of the board but its composition and functionality within the specific regulatory and cultural context of Nigeria.

Board diligence (BD) has a coefficient of 0.01 with a p-value of 0.621, indicating that it does not significantly impact financial statement fraud. This suggests that the frequency of board meetings alone is not a strong determinant of fraud mitigation in Nigerian firms. Studies such as Vafeas (2017) and Zhang *et al*. (2021) support this result, highlighting that procedural meetings may not translate into effective oversight. Conversely, research by Farber (2005), Larcker and Tayan (2017), and Chou *et al*. (2020) suggests that diligent and engaged boards can play a critical role in preventing fraudulent practices. The lack of significance in this study could reflect the possibility that board meetings in Nigerian firms are focused more on compliance and procedural matters rather than strategic fraud detection. This highlights the importance of improving the quality and focus of board activities rather than merely increasing their frequency.

Among the control variables, firm size (FSIZ) has a positive coefficient of 0.04 and is significant at the 5% level (p = 0.047). This indicates that larger firms in Nigeria are more likely to engage in financial manipulation. This finding aligns with studies like Chen *et al*. (2020) and Dechow *et al*. (2019), which attribute this trend to the higher performance pressures faced by large firms. However, it contradicts findings from Adams and Mehran (2019) and Hillman *et al*. (2009), which argue that larger firms tend to have stronger governance mechanisms that mitigate fraud risks. The observed relationship in this study could be due to weak enforcement of governance regulations in Nigeria, where larger firms may exploit their influence to engage in manipulative practices. Leverage (LEV), on the other hand, has a negative coefficient of -0.01, highly significant at the 0.1% level (p = 0.000), indicating that highly leveraged firms are less likely to commit financial fraud. Leverage demonstrates a significant negative relationship, highlighting the role of creditor oversight in reducing fraud risks (Ali *et al*., 2025). Firms with high leverage are subjected to greater external oversight, reducing managerial discretion over financial manipulation (Beasley, 1996). Since lenders have a direct financial stake in a firm's health, they conduct rigorous audits and enforce compliance measures to protect their investments. The pressure from lenders ensures that firms adhere to regulatory and financial disclosure requirements. This aligns with the study's findings that leverage has a significant negative effect on financial fraud (Ajayi & Okechukwu, 2023). Firms with high leverage have limited flexibility for fraudulent earnings management due to strict debt agreements (Zhang *et al*., 2021). Firms with low leverage may need stronger internal governance mechanisms to compensate for the lack of external monitoring (Vafeas, 2017). Creditors serve as external governance agents, reinforcing transparency in financial reporting (Chou *et al*., 2020). This agrees with the creditor-monitoring hypothesis, where lenders closely monitor highly leveraged firms, discouraging fraudulent behavior. Studies like Farber (2005) and Beasley (1996) support this finding, while Petra (2016) and Chou *et al*. (2020) argue that high leverage can increase financial distress and fraud risk. The significant negative relationship in this study may reflect the strong influence of creditors as external governance agents in Nigeria.

Lastly, the constant term is -2.95, significant at the 0.1% level (p = 0.000). This indicates a baseline Beneish M-Score when all independent variables are zero, suggesting that, in the absence of governance and control factors,

firms are generally less likely to engage in financial fraud. This aligns with global trends that associate non-manipulative financial behavior with baseline governance structures (Beneish, 1999; Dechow *et al.*, 2019). The constant serves as a benchmark for understanding how additional variables shift the likelihood of financial fraud. In the Nigerian context, this baseline may also reflect the influence of unobserved cultural or systemic factors that inherently reduce financial fraud risks.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

This study investigates the influence of board composition, specifically board size (BS) and board diligence (BD), on financial statement fraud among Nigerian firms, using the Beneish M-Score as a proxy for fraud. The findings reveal that neither board size nor board diligence significantly impacts financial fraud, suggesting that current governance structures may not effectively mitigate fraudulent practices in the Nigerian corporate context. However, firm size (FSIZ), a control variable, exhibits a significant positive relationship with financial fraud, implying that larger firms face greater risks of financial manipulation, likely due to heightened performance pressures. Conversely, leverage (LEV) shows a significant negative association with financial fraud, indicating that higher leverage reduces the likelihood of manipulation, possibly due to increased creditor oversight. These results underscore the need for more robust and effective governance mechanisms to address financial misconduct and enhance accountability in Nigerian firms.

5.2. Recommendations

To address the findings, firms should focus on improving the effectiveness and functionality of their boards rather than merely increasing their size or meeting frequency. Board training programs, stricter selection criteria, and the inclusion of independent directors or fraud specialists can enhance governance quality. Furthermore, regulatory authorities must intensify their monitoring efforts, particularly for larger firms, by enforcing stricter compliance standards, disclosure requirements, and penalties for fraudulent activities. Creditors should also continue to serve as external governance agents, leveraging

audits and financial covenants to deter fraud. Lastly, policymakers should align Nigerian corporate governance practices with global standards through reforms that emphasize transparency, accountability, and the enforcement of governance codes. By implementing these measures, the risk of financial fraud can be significantly reduced, fostering trust and sustainability in Nigeria's corporate sector.

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