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**1**

# EFFECTS OF FORENSIC ACCOUNTING TECHNIQUES AND CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

## Samuel Ajibade DadaA, Olusola Esther IgbekoyiB,

**Muyiwa Emmanuel DagunduroC**

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| **ARTICLE INFO** | **ABSTRACT**  **Purpose:** This study aimed to investigate the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria. |
| **Article history:**  **Received** 03 July 2023 |
| **Accepted** 06 October 2023 | **Theoretical framework:** This study drew upon Agency Theory, to provide a theoretical foundation for examining the governance of a company and the conflicts of interest that arise among its shareholders, managers, and major debt providers. This was introduced to support the concepts of forensic accounting and corporate  governance. |
| **Keywords:** |
| Forensic Accounting; Corporate Governance; Financial Performance; Deposit Money Banks; Board Structure; Ownership Structure. | **Design/ Methodology/Approach:** This study employed *ex-post facto* and panel data research designs. This study obtained data from the annual audited reports of deposit money banks that were listed in Nigeria. The study focused on a population of fifteen  (15) deposit money banks listed on the Nigerian Exchange Group (NGX). The study employed a purposive sampling technique to select ten (10) firms due to the availability of a complete dataset of the targeted population. This study covered a period of eleven years from the year 2012 to 2022. The collected data in this study underwent analysis using both descriptive statistics and panel regression analysis techniques.  **Findings:** The results found that forensic accounting and corporate governance had a significant effect on the financial performance of listed deposit money banks in Nigeria. This implies that these factors interact and contribute significantly to the banks' financial performance. |
|  | **Conclusion:** It was concluded that fraud case disclosure highlights the significance of transparency and reporting mechanisms in deterring fraudulent activities and safeguarding banks' financial performance. |
|  | **Recommendation:** The study recommends that deposit money banks should prioritize and improve the disclosure of fraud cases and mitigate fraud and other financial irregularities occurrences in order to cushion its adverse effects on financial performance and foster investor confidence. |
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*A Master in Accounting. Department of Accounting, Afe Babalola University Ado-Ekiti. Nigeria. E-mail:* [*dadasa@abuad.edu.ng*](mailto:dadasa@abuad.edu.ng) *Orcid:* [*https://orcid.org/0009-0007-2719-5708*](https://orcid.org/0009-0007-2719-5708)

*B PhD in Accounting. Department of Accounting, Adekunle Ajasin University. Nigeria. E-mail:* [*olusola.igbekoyi@aaua.edu.ng*](mailto:olusola.igbekoyi@aaua.edu.ng) *Orcid:* [*https://orcid.org/0000-0001-9887-3755*](https://orcid.org/0000-0001-9887-3755)

*C Master in Accounting. Department of Accounting, Afe Babalola University Ado-Ekiti. Nigeria. E-mail:* [*dagundurome@pg.abuad.edu.ng*](mailto:dagundurome@pg.abuad.edu.ng) *Orcid:* [*https://orcid.org/0000-0002-1177-7101*](https://orcid.org/0000-0002-1177-7101)

**EFEITOS DAS TÉCNICAS DE CONTABILIDADE FORENSE E GOVERNANÇA CORPORATIVA NO DESEMPENHO FINANCEIRO DE BANCOS DE DEPÓSITO DE DINHEIRO LISTADOS NA NIGÉRIA**

**RESUMO**

**Objetivo:** Este estudo teve como objetivo investigar o efeito da contabilidade forense e da governança corporativa no desempenho financeiro dos bancos de depósito listados na Nigéria.

**Referencial Teórico:** Este estudo baseou-se na Teoria da Agência para fornecer uma base teórica para examinar a governança de uma empresa e os conflitos de interesse que surgem entre seus acionistas, gestores e principais credores de dívida. Isso foi introduzido para apoiar os conceitos de contabilidade forense e governança corporativa. **Desenho/ Metodologia/Abordagem:** Este estudo empregou desenhos de pesquisa ex post facto e de dados em painel. Este estudo obteve dados dos relatórios anuais auditados de bancos de depósito de dinheiro listados na Nigéria. O estudo centrou-se numa população de quinze (15) bancos de depósito de dinheiro listados no Nigerian Exchange Group (NGX). O estudo empregou uma técnica de amostragem proposital para selecionar dez (10) empresas devido à disponibilidade de um conjunto completo de dados da população-alvo. Este estudo abrangeu um período de onze anos, do ano de 2012 a 2022. Os dados coletados neste estudo foram analisados por meio de estatística descritiva e técnicas de análise de regressão em painel.

**Constatações:** Os resultados revelaram que a contabilidade forense e a governação corporativa tiveram um efeito significativo no desempenho financeiro dos bancos de depósito de dinheiro cotados na Nigéria. Isto implica que estes factores interagem e contribuem significativamente para o desempenho financeiro dos bancos.

**Conclusão:** Concluiu-se que a divulgação de casos de fraude destaca a importância da transparência e dos mecanismos de comunicação para dissuadir atividades fraudulentas e salvaguardar o desempenho financeiro dos bancos.

**Recomendação:** O estudo recomenda que os bancos de depósitos deem prioridade e melhorem a divulgação de casos de fraude e mitiguem ocorrências de fraude e outras irregularidades financeiras, a fim de amortecer os seus efeitos adversos no desempenho financeiro e promover a confiança dos investidores.

**Palavras-chave:** Contabilidade Forense, Governança Corporativa, Desempenho Financeiro, Bancos de Depósitos, Estrutura de Conselho, Estrutura de Propriedade.

**EFECTOS DE LAS TÉCNICAS DE CONTABILIDAD FORENSE Y EL GOBIERNO CORPORATIVO EN EL DESEMPEÑO FINANCIERO DE LOS BANCOS DE DINERO DE DEPÓSITO QUE COTIZAN EN NIGERIA**

**RESUMEN**

**Propósito:** Este estudio tuvo como objetivo investigar el efecto de la contabilidad forense y el gobierno corporativo en el desempeño financiero de los bancos de depósito que cotizan en bolsa en Nigeria.

**Marco teórico:** Este estudio se basó en la teoría de la agencia para proporcionar una base teórica para examinar el gobierno de una empresa y los conflictos de intereses que surgen entre sus accionistas, gerentes y principales proveedores de deuda. Esto se introdujo para respaldar los conceptos de contabilidad forense y gobierno corporativo.

**Diseño/Metodología/Enfoque:** Este estudio empleó diseños de investigación ex post facto y de datos de panel. Este estudio obtuvo datos de los informes anuales auditados de los bancos de depósito de dinero que cotizan en Nigeria. El estudio se centró en una población de quince (15) bancos de depósito de dinero que cotizan en el Nigerian Exchange Group (NGX). El estudio empleó una técnica de muestreo intencional para seleccionar diez

(10) empresas debido a la disponibilidad de un conjunto de datos completo de la población objetivo. Este estudio cubrió un período de once años desde el año 2012 hasta 2022. Los datos recopilados en este estudio se sometieron a análisis utilizando estadísticas descriptivas y técnicas de análisis de regresión de panel.

**Hallazgos:** Los resultados encontraron que la contabilidad forense y el gobierno corporativo tuvieron un efecto significativo en el desempeño financiero de los bancos de depósito que cotizan en Nigeria. Esto implica que estos factores interactúan y contribuyen significativamente al desempeño financiero de los bancos.

**Conclusión:** Se concluyó que la divulgación de casos de fraude resalta la importancia de la transparencia y los mecanismos de presentación de informes para disuadir actividades fraudulentas y salvaguardar el desempeño financiero de los bancos.

**Recomendación:** El estudio recomienda que los bancos de depósito de dinero deben priorizar y mejorar la divulgación de casos de fraude y mitigar el fraude y otras irregularidades financieras para amortiguar sus efectos adversos sobre el desempeño financiero y fomentar la confianza de los inversores.

**Palabras clave:** Contabilidad Forense, Gobierno Corporativo, Desempeño Financiero, Bancos de Depósito de Dinero, Estructura del Directorio, Estructura de Propiedad.

# INTRODUCTION

In recent years, the Nigerian banking sector has undergone significant growth and transformation as a result of rapid technological advancements, globalization, and increasing regulatory requirements (Odi, 2020). This sector plays a crucial role in driving the nation's economic development. However, this growth has not been without challenges, as financial scandals, fraudulent activities, and corporate governance failures have plagued the industry. The increasing occurrence of financial fraud and corporate misconduct globally has led to a growing recognition of the importance of forensic accounting and effective corporate governance in detecting and preventing such activities (Akindele, 2019).

These issues have eroded public trust and confidence in the banking sector, necessitating the adoption of robust mechanisms to mitigate risks and safeguard stakeholders' interests. As the financial landscape becomes more complex and sophisticated, the need for robust corporate governance and effective financial performance monitoring has become paramount. Amidst this dynamic environment, forensic accounting has emerged as a crucial tool for promoting transparency, mitigating fraud risks, and safeguarding the interests of stakeholders in the banking industry (Chi-Chi & Ebimobowei, 2019).

Forensic accounting, a specialized branch of accounting, focuses on utilizing investigative techniques to uncover financial irregularities, detect fraudulent activities, and evaluate internal controls. By combining accounting expertise, investigative skills, and legal knowledge, forensic accountants play a pivotal role in uncovering financial misconduct, ensuring compliance with regulatory frameworks, and enhancing corporate governance practices (Uche, 2020). There are concerns regarding the accountability of key decision- makers, transparency of financial reporting, and the prevention of fraudulent activities have raised questions about the adequacy of existing governance mechanisms.

Furthermore, effective corporate governance practices are crucial in ensuring the proper management and control of banks. Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships between various stakeholders and aims to align the interests of principals (shareholders) and agents (managers and directors) within an organization. Strong corporate governance

mechanisms promote transparency, accountability, and ethical behavior, thereby enhancing the financial performance of banks (Okegbale, 2021).

Given the importance of both forensic accounting and corporate governance, it is essential to understand their impact on the financial performance of listed DMBs in Nigeria. This study aims to investigate the relationship between forensic accounting, corporate governance, and financial performance in the Nigerian banking sector. By examining this relationship, valuable insights can be gained to enhance the effectiveness of forensic accounting practices and corporate governance mechanisms, leading to improved financial performance. The findings of this study will contribute to the existing literature by providing empirical evidence on the role of forensic accounting and corporate governance in enhancing financial performance in the banking sector. The results will help regulators, policymakers, and banking professionals understand the significance of implementing robust forensic accounting practices and effective corporate governance mechanisms to reduce agency problems, financial fraud, and misconduct.

The remainder of this paper is presented as follows; Section Two contains a summary of the literature and the formulation of theories, previous studies will be reviewed, gaps in literature will be analyzed and hypotheses formulated; Section Three will be the research methodology where the research design, population, sampling techniques, method of data collection and analysis will be discussed; Section Four involves a statistical overview and discussion of findings, Section Five includes the conclusion and recommendation.

# THEORETICAL REFERENTIAL

This section will give definitions to the concepts of this study and thereby show the link between forensic accounting, corporate governance, and financial performance.

## Financial Performance

Financial performance is a measure of a company's ability to raise and distribute capital within a specific time period (Adewara et al., 2023). It encompasses factors such as capital sufficiency, liquidity, solvency, efficiency, leverage, and profitability (Dagunduro et al., 2022; Kolawole et al., 2023; Nguyen et al., 2023). The performance of a company's finances reflects its capacity to manage and govern its own resources and serves as an indicator of the overall financial health of the business sector (Naz et al., 2018; Nguyen et al., 2023). Financial performance demonstrates how effectively a company utilizes its resources to maximize profits

and wealth for its owners. Financial ratios are the most commonly used performance metrics in finance and statistical analysis, although a comprehensive assessment considers various other measures as well (Adewara et el., 2023; Dagunduro et al., 2023). When evaluating a company's financial health, the information in its financial statements is typically summarized using the traditional approach of financial indices based on the financial position and income statement analysis. Managing performance is one of the key objectives of management, who are responsible for the day-to-day operations of the organization (Fatihudin et al., 2018; Kolawole et al., 2023)).

## Forensic Accounting

Forensic accounting is a specialized field of accounting that combines accounting principles and investigative techniques to analyze financial information, detect and prevent fraud, and provide evidence for legal proceedings (Akkeren & Buckby, 2019). It involves the application of accounting knowledge and skills to investigate financial irregularities, assess financial damages, and uncover financial misconduct. Forensic accountants often work closely with law enforcement agencies, lawyers, and corporate entities to investigate and resolve financial disputes, including fraud, embezzlement, money laundering, and other financial crimes (Uche, 2020).

They utilize various techniques such as data analysis, financial statement analysis, interviewing witnesses, and reconstructing financial transactions to uncover evidence and present findings in a clear and concise manner suitable for legal proceedings. The goal of forensic accounting is to provide accurate and reliable financial information and analysis that can be used in legal settings to support litigation, arbitration, or dispute resolution processes (Abbas et al., 2019). The Central Bank of Nigeria (CBN) has taken steps to establish a code of conduct and a sub-committee on corporate governance to address the unique requirements of the financial sector. The global financial scandals and corporate failures have underscored the significance of effective corporate governance, which aims to enhance shareholder value and meet the expectations of stakeholders (Sule et al., 2019).

## Corporate Governance

Corporate governance refers to the practices, guidelines, and laws that regulate how corporations are managed and operated. It encompasses the structures, processes, and practices that a company adopts to oversee and direct its operations and affairs (Ahmed et al., 2023).

Good corporate governance ensures fairness, openness, transparency, and accountability in a company's dealings with its stakeholders. It involves the effective management of resources, the protection of shareholders' interests, and the enhancement of long-term shareholder value (Alfonso & Castrillion, 2021; Kumo et al., 2023). The concept of corporate governance is primarily associated with control mechanisms aimed at preventing agency loss, as highlighted in the literature.

It emphasizes the responsibility of managers to run the business profitably and successfully while considering the interests of shareholders separately. Effective corporate governance leads to economic efficiency by promoting value-adding activities, optimal resource allocation, and meeting societal expectations (Mohamad & Sori, 2011). Corporate governance is supported by various internal and external monitoring systems, including market mechanisms, internal monitoring, and regulatory frameworks. Market mechanisms involve block shareholders, the capital market, and the managerial labor market (Ahmed et al., 2023; Kumo et al., 2023).

Internal monitoring systems focus on processes within the company, while regulatory frameworks provide guidelines and rules for corporate governance practices. In Nigeria, the Nigerian Code of Corporate Governance 2018 provides recommendations and principles for implementing good corporate governance (Azim, 2012). It covers areas such as the board of directors, assurance, relationship with shareholders, business conduct and ethics, sustainability, and transparency. Compliance with these principles is crucial for improving firm performance and fostering a culture of good governance in Nigerian companies (Akande, 2016).

Board structure

Board structure refers to the composition, roles, and responsibilities of the board of directors within an organization (Nguyen et al., 2023). It defines how the board is structured and organized to effectively oversee and govern the company's operations (Khatib et al., 2020). The board of directors plays a crucial role in providing strategic guidance, making key decisions, and ensuring accountability within the organization (Ahmed et al., 2023). Board structure is essential for establishing effective governance practices, promoting transparency, and ensuring accountability within an organization. It provides a framework for the board to fulfill its responsibilities and aligns its composition and processes with the company's strategic goals and values (Akande, 2016).

Ownership structure

Ownership structure refers to the distribution and composition of ownership in a company, indicating the ownership interests and control rights held by various individuals or entities. It provides insights into how ownership is divided among shareholders and the extent of their influence over corporate decision-making (Al-Matari et al., 2014). Ownership structure plays a vital role in shaping corporate governance practices, influencing decision-making processes, and determining the distribution of profits and control within a company. It can impact managerial behavior, long-term strategic planning, and the protection of shareholder rights. Understanding the ownership structure is crucial for investors, regulators, and stakeholders to assess corporate governance practices and potential agency conflicts (Bhagat & Bolton, 2019).

Forensic accounting and financial performance

Forensic accounting and financial performance are interconnected, and the implementation of forensic accounting practices can have a significant impact on the financial performance of an organization (Akindele, 2019). Forensic accounting techniques are designed to prevent and detect financial fraud within organizations. By conducting thorough investigations, forensic accountants can identify and mitigate fraudulent activities that could otherwise lead to financial losses. This proactive approach to fraud prevention helps safeguard the financial resources of the organization and improves its overall financial performance (Okogbale, 2021).

Forensic accounting involves assessing and managing financial risks within an organization. By identifying potential risks and implementing preventive measures, forensic accountants can reduce the likelihood of financial irregularities and losses. This risk mitigation strategy enhances the financial stability and performance of the organization by protecting its assets and ensuring the accuracy and reliability of financial information (Odi, 2020). Forensic accounting practices promote transparency and accountability within organizations. By implementing robust internal control systems, conducting regular audits, and investigating financial discrepancies, forensic accountants contribute to a culture of transparency and accountability. This, in turn, enhances investor confidence, improves the organization's reputation, and positively influences its financial performance (Fatihundin et al., 2018).

Forensic accounting plays a vital role in strengthening corporate governance mechanisms. By evaluating the effectiveness of internal controls, assessing compliance with

regulations and standards, and identifying governance gaps, forensic accountants help organizations improve their governance practices. Strong corporate governance frameworks are associated with better financial performance, as they promote responsible decision-making, risk management, and ethical behavior (Naz et al., 2018). Forensic accounting ensures compliance with legal and regulatory requirements. By conducting investigations, gathering evidence, and presenting findings in a court of law, forensic accountants assist in resolving legal disputes and addressing regulatory non-compliance. Compliance with applicable laws and regulations is crucial for maintaining the organization's reputation and avoiding penalties, which can positively impact financial performance (Abbas et al., 2019).

Instances of financial fraud or mismanagement can damage stakeholder confidence in an organization. Forensic accounting helps restore trust and confidence by demonstrating a commitment to identifying and addressing financial irregularities. Restored stakeholder confidence can lead to increased investments, improved access to capital, and enhanced financial performance (Uche, 2020). The implementation of forensic accounting practices contributes to improved financial performance by preventing and detecting fraud, mitigating financial risks, enhancing transparency and accountability, strengthening governance mechanisms, ensuring legal and regulatory compliance, and restoring stakeholder confidence (Sule et al., 2019).

Corporate governance and financial performance

Corporate governance and financial performance are closely interconnected in the business world. Effective corporate governance practices can significantly impact a company's financial performance, while poor governance can lead to negative consequences for the organization. Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships between various stakeholders, such as shareholders, management, board of directors, employees, and other stakeholders (Alhares, 2020). The primary objective of corporate governance is to enhance shareholder value, protect the interests of stakeholders, and ensure the long-term sustainability and success of the company. Financial performance, on the other hand, refers to the measure of a company's ability to generate profits and create value for its shareholders. It includes indicators such as profitability, return on investment, revenue growth, cash flow, and overall financial health. Good corporate governance promotes transparency in financial reporting and operations (Alaoubi & Almomani, 2021).

Transparent financial reporting enables investors and stakeholders to have a clear understanding of the company's financial position, performance, and risks. It enhances investor confidence and attracts capital. Moreover, strong accountability mechanisms ensure that management and directors are responsible for their actions, leading to better decision-making and improved financial performance. Effective corporate governance structures include robust risk management practices (Kyere & Ausloos, 2020). A well-functioning board of directors and audit committees can oversee risk management processes, ensuring that potential risks are identified, assessed, and mitigated in a timely manner. Proper risk management reduces the likelihood of financial crises or significant losses, safeguarding the company's financial performance. Corporate governance mechanisms, such as shareholder rights and protections, play a crucial role in attracting and retaining investors. When investors have confidence in the company's governance practices, they are more likely to invest in and support the company's growth. Strong investor protection measures are associated with improved access to capital and lower costs of capital, which positively impact financial performance (Young et al., 2020).

The composition, independence, and expertise of the board of directors are critical factors in corporate governance. An effective board with diverse skills and experience can provide valuable guidance, oversight, and strategic direction to the company. A capable board is more likely to make informed decisions, identify growth opportunities, and enhance financial performance (Elkelish, 2018). It is important to note that the relationship between corporate governance and financial performance is complex and multifaceted. While good governance practices are associated with positive financial outcomes, other external factors, and industry- specific dynamics also influence financial performance. Nevertheless, companies that prioritize and implement strong corporate governance practices tend to create an environment that supports and enhances financial performance, fostering long-term success and value creation (Katmon & Farooque, 2018).

## Theoretical Framework

This study drew upon Agency Theory, which was originally developed by Jensen and Meckling (1976), to provide a theoretical foundation for examining the governance of a company and the conflicts of interest that arise among its shareholders, managers, and major debt providers. The theory defines the agency relationship as a contractual arrangement between the owners (principals) of a company and its managers (agents), where the owners delegate decision-making authority to the management to operate the company on their behalf.

Ideally, the owners expect the agents to act in the best interests of the shareholders (Nguyen et al., 2023). However, it is challenging to create a perfect contract that ensures managers always prioritize the owners' interests, as managerial decisions may also impact their own personal welfare. This raises the fundamental question of how managers, as agents, can be incentivized or motivated to act in the shareholders' best interests.

Within the context of agency theory, financial performance serves as a crucial metric for assessing the effectiveness of agency relationships. It provides an objective measure to evaluate whether agents are indeed acting in the best interests of the principals. Consistent underperformance in financial performance indicators may indicate the presence of agency problems, such as managerial opportunism or a lack of commitment to fulfilling responsibilities. In this regard, forensic accounting plays a vital role in investigating and identifying any financial irregularities or misconduct that may impact financial performance.

In summary, agency theory offers a theoretical framework for understanding the dynamics between principals and agents within an organization. The integration of forensic accounting as a preventative measure enables the detection and mitigation of agency problems, while corporate governance mechanisms establish a structure to manage and oversee agency relationships. Ultimately, the evaluation of financial performance serves as a key indicator to gauge the effectiveness of these relationships, leading to the resolution of agency problems, improved corporate governance and enhanced financial performance.

## Empirical Review

Between 2010 and 2016, Alhares (2020) investigated the impact of ownership structure and board structure on risk-taking as assessed by research and development (R&D) intensity in OECD countries using panel data of 300 enterprises from Anglo-American and European countries. The correlations are investigated using the standard least square multiple regression analysis approach. Alternative measurements and endogeneities had no effect on the results. The findings reveal that institutional ownership, board size, independent directors, and board diversity all have a detrimental impact on risk-taking, with Anglo-American countries having a stronger impact than Continental European countries. Director ownership, on the other hand, is statistically insignificant, according to the findings.

Alaoubi and Almomani (2021) investigated the role of forensic accounting in the relationship between corporate governance and accounting information quality in Jordanian public shareholding companies, with the study population consisting of all external certified

accountants and the study sample consisting of a random sample of external certified accountants. External certified accountants were given (217) questionnaires. The study data was subjected to the multiple regression equation and the hierarchical regression equation test. The findings showed that there was a statistically significant impact on the application of governance standards in its many dimensions.

Ali and Fathyah (2020) focused on combining related literature and empirical research in order to enhance the projected powers of forensic accounting on corporate governance maturity, particularly for publicly traded businesses. The two major responsibilities of forensic accounting will be identified in this paper: preventative and detective roles. By combining agency theory, fraud triangle theory, and path dependence theory, this research indicates that fraud risk assessment plays a mediating function between forensic accounting and corporate governance maturity. The effect of CEO duality on the effective tax rate of listed food and beverage firms was studied by Ezejiofor and Ezenwafor (2020).

Likewise, Bhuiyan and Roudaki (2018) employed multivariate analysis to investigate the existence of related party transactions (RPTs) and the functions of auditors in insolvent financial companies in New Zealand. The study posits that nearly half of the failing finance firms were engaged in RPTs using a sample of 65 firms (including 38 failed finance firms) and 219 firm-year data. RPTs were mostly represented by interlocking directors and audited by non- Big4 auditors in the collapsed corporations, showing that lesser monitoring quality may assist RPTs. The paper also shows evidence that firms that participated in RPTs were later convicted of improper accounting and disclosure procedures using a sub-sample.

Kyere and Ausloos (2020) used cross-sectional regression to investigate the influence of excellent corporate governance on the financial performance of non-financial listed enterprises in the United Kingdom. Using cross-sectional regression methods, five corporate governance mechanisms are studied on two financial performance measures, return on assets (ROA) and Tobin's Q. The results of an empirical test conducted on 252 companies listed on the London Stock Exchange in 2014 show a positive or negative link, but occasionally no effect, between corporate governance procedures and financial success. Their findings suggest that by selecting the appropriate corporate governance mechanisms, a company's finances can be improved.

In a sample of 100 Australian and Sri Lankan companies, Pratheepkanth et al. (2016) investigate the relationship between board qualities and company performance. Size, gender ratio, fraction of non-independent members, and experience are among the factors examined by

the Board. The degree to which the economy has developed is thought to have a confusing effect on the results. According to the findings, Australian boards are substantially larger than those in Sri Lanka; both countries' boards are male-dominated; and while board structure provides predictive insight into business success, only a few particular qualities are important. The larger Australian boards had a substantially stronger influence on business performance than the relatively smaller Sri Lankan boards, according to this study. The review of the effects of board size on corporate success should be expanded in future study.

Elkelish (2018) examined the link between corporate governance risk and agency expenses in various countries. Institutional Shareholder Services Europe (S.A.) provided corporate governance risk indicators for 4,135 companies in 27 countries. The DataStream database was used to extract agency costs and other control variables from annual financial reports. The study hypothesis was tested using an ordinary least squares multiple regression analysis model. Across countries, agency charges have a strong negative influence on corporate governance risk. However, the extent to which corporate governance measures are implemented varies by geographic region and industry type. In the non-financial sector, the link between corporate governance risk and agency costs is clearer than in the finance sector. After multiple statistical checks, these findings were found to be reliable.

To discover project governance mechanisms that correspond with success, Young et al. (2020) built a theoretical model of project governance and evaluated it with secondary industry data acquired from 51 global organizations and 66,817 replies. Five project governance mechanisms (Vision, Change, Sponsor, KPI, and Monitor) were found to have a strong relationship with project success and to be effective at various points of the project lifecycle. In the UK listed firms, Katmon and Farooque (2018) looked on the impact of internal corporate governance on the relationship between disclosure quality and earnings management. The findings reveal that for all proxies in restricting earnings management, regressions consistently report a strong negative relationship between earnings management and disclosure quality. Corporate governance characteristics, on the other hand, are usually unrelated to earnings management. This demonstrates an expanding trend of disclosure quality outperforming internal governance procedures in terms of earnings management.

Using a regression model using panel data from 24 Asian nations from 2006 to 2015, Anwar et al. (2019) explore the extent to which governance affects enterprises' cost of equity capital in Asian countries. The findings show that the Quality of Corporate Governance (QCG) index has a considerable impact on lowering the cost of equity for Asian companies. According

to the agency hypothesis, explicit corporate governance variables such as board independence, audit committee independence, ownership concentration, and CEO duality have a substantial relationship with a firm's cost of equity in Asian countries.

Using US-based enterprises, Hussain et al. (2018) empirically explores the relationship between corporate governance and triple bottom line sustainability performance using agency theory and stakeholder theory. In fact, they claim that no single explanation can account for all of the hypothesized correlations.

The study aims to address the gaps in the existing studies by examining the relationship between forensic accounting, corporate governance, and financial performance. While previous studies have explored the impact of fraud on listed deposit money banks' performance and factors influencing corporate governance, none have explored the role of forensic accounting in corporate governance as a solution to improving financial performance. This study seeks to fill this gap by investigating the effect of forensic accounting on the corporate governance and financial performance of listed deposit money banks in Nigeria.

The study will take a different perspective and provide a deeper understanding of these variables by incorporating the information asymmetry theory, unlike previous studies that predominantly used the agency theory. Additionally, the study intends to assess three metrics of financial performance, namely returns on assets, returns on equity, and Tobin's q, within a single study, which has not been done in developed economies. Overall, this study aims to contribute to the literature by exploring the relationship between forensic accounting, corporate governance, and financial performance, particularly in the context of listed deposit money banks in Nigeria. By addressing this research gap, it seeks to provide valuable insights and a more comprehensive understanding of the topic. Based on these, the null hypotheses will be stated as follows:

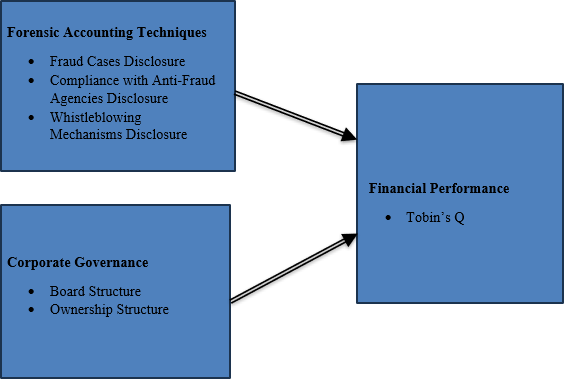
**H01:** There is no significant difference between forensic accounting and financial performance of the listed deposit money banks in Nigeria.

**H02:** There is no significant difference between corporate governance and financial performance of the listed deposit money banks in Nigeria.

## Conceptual Framework

The study aims to shed light on the effects forensic accounting and corporate governance practices can have on the financial performance of the listed deposit money banks.

Figure 1 Conceptual Framework to show the interaction between Forensic Accounting, Corporate Governance and Financial Performance of listed financial institutions on the Nigerian Exchange Group.



Source: Author’s Concepts (2023)

# METHODOLOGY

This study employed *ex-post facto* and panel data research designs. The purpose was to collect and analyze data that were retrospectively recorded over a specific time period and were available in the administrative records and accounts of deposit money banks listed on the Nigerian Exchange Group (NGX). These records were deemed sufficient, representative, and reliable for conducting the study. The study utilized secondary data obtained from the annual reports and audited financial statements of deposit money banks that were listed in Nigeria. The study focused on a population of fifteen (15) deposit money banks listed on NGX. The study employed a purposive sampling technique to select ten (10) firms due to the availability of complete dataset of the targeted population. The collected data in this study underwent analysis using both descriptive and inferential statistical methods. Descriptive statistics such as mean, median, mode, and standard deviation were employed to summarize and describe the data. Additionally, panel regression analysis was conducted.

## Model Specification

The econometric model for this study was specified in line with the previous study of Bhasin (2017) and Ahmed (2019) respectively to analyze the relationship that exists between the financial performance of quoted banks in Nigeria, forensic accounting and corporate governance. This stated as follows:

## Model

FP = β0+ β1FCD + β2CAD + β3WMD + β4BSIZE + β5BINDE + β6BGOVO + β7INTO + ε it

Where:

FP = Financial Performance FCD = Fraud Cases Disclosure

CAD = Compliance with Anti-Fraud Agencies Disclosure WMD = Whistleblowing Mechanisms Disclosure

BSIZE = Board Size

NINDE = Board Independence

BGOVO = Block Government Ownership BINTO = Block Institutional Ownership ε it = Error term

β0 = Intercept

β1, β2, β3, β4, β5, β6, β7 = The Coefficients of the unknown variables

The *a-priori* expectation = β1, β2, β3, β4, β5, β6, β7 > 0, the implication of this is that a positive relationship is expected between the explanatory variables and the explained variable.

Table 1: Operationalization of Variables

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **Type** | **Source** | **Description and Measurements of variables** | **Reference** |
| Performance (Tobin’s Q) | Dependent | Audited  Annual report | Market capitalization divided by total shares (%). | (Kyere &  Ausloos, 2020) |
| Fraud Cases Disclosure (FCD) | Independent | Audited Annual report | Measured as a dummy where "1" is assigned to the bank with annual reports with cases of fraud reported information  and "0" for otherwise | (Bhasin, 2017) |
| Compliance with Anti-Fraud Agencies Disclosure (CAD) | Independent | Audited Annual report | Measured as a dummy where "1" is assigned to the bank with annual reports with compliance with anti-fraud policies and procedures information and "0" for  otherwise. | (Bhasin, 2017) |
| Whistleblowing Mechanisms Disclosure (WMD) | Independent | Audited Annual report | Measured as a dummy where "1" is assigned to the bank with annual reports with the existence and effectiveness of  internal reporting mechanisms for | (Bhasin, 2017) |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | whistleblowing information and "0" for otherwise. |  |
| Ownership Structure (OS) | Independent | Audited Annual Report | **Block Government Ownership** Measured as the shares ownership concentration of all the block government shareholders with 5% and above shares ownership (%)  **Block Institutional Ownership** Measured as the shares ownership concentration of all the block institutional shareholders with 5% and above shares  ownership (%) | (Ahmed, 2019) |

Source: Researcher’s Compilation (2023)

# RESULTS AND DISCUSSIONS

In an attempt to examine the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria, the study begins with the characteristic of the variables with the aid of descriptive statistics; this is presided over by the panel unit root test. The test outcomes of these estimations are given as follows:

## Descriptive Statistics

Table 2: Descriptive Statistics of Variables

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FP** | **FCD** | **CAD** | **WMD** | **BSIZE** | **BINTO** | **BGOVO** | **BINDE** |
| Mean | 0.858532 | 0.263636 | 0.809091 | 0.754545 | 13.26364 | 0.323679 | 0.005505 | 0.610342 |
| Median | 0.792701 | 0.000000 | 1.000000 | 1.000000 | 14.00000 | 0.345850 | 0.000000 | 0.583333 |
| Maximum | 2.550000 | 1.000000 | 1.000000 | 1.000000 | 20.00000 | 0.798900 | 0.293200 | 0.909091 |
| Minimum | 0.630000 | 0.000000 | 0.000000 | 0.000000 | 6.000000 | 0.000000 | 0.000000 | 0.000000 |
| Std. Dev. | 0.264616 | 0.442621 | 0.394816 | 0.432326 | 3.030963 | 0.237315 | 0.029711 | 0.126090 |
| Skewness | 4.074403 | 1.072906 | -1.572911 | -1.182952 | -0.143979 | 0.055391 | 8.577512 | -0.344162 |
| Kurtosis | 22.36862 | 2.151128 | 3.474050 | 2.399375 | 2.607148 | 1.847972 | 81.86938 | 7.613806 |
| Jarque-Bera | 2023.754 | 24.40669 | 46.38757 | 27.30865 | 1.087407 | 6.139107 | 29858.92 | 99.73792 |
| Probability | 0.000000 | 0.000005 | 0.000000 | 0.000001 | 0.580594 | 0.046442 | 0.000000 | 0.000000 |
| Sum | 94.43855 | 29.00000 | 89.00000 | 83.00000 | 1459.000 | 35.60467 | 0.605600 | 67.13757 |
| Sum Sq.  Dev. | 7.632381 | 21.35455 | 16.99091 | 20.37273 | 1001.355 | 6.138717 | 0.096219 | 1.732964 |
| Observations | 110 | 110 | 110 | 110 | 110 | 110 | 110 | 110 |

Source: Author’s Computation (2023)

Table 2 revealed the descriptive test conducted on the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria. The average values of financial performance, fraud cases disclosure, compliance with anti- fraud agencies disclosure, whistleblowing mechanism disclosure, board size, board independence, block government ownership and block institutional ownership stood at 0.858532, 0.263636, 0.80909, 0.754545, 13.26364, 0.323679, 0.005505 and 0.610342

respectively. The degree of variation measured by standard deviation indicated that board size

has the highest rate deviation while the lowest discrepancy rate is blocked by government ownership. In the same vein, the asymmetry given by the Skewness output indicated that FP, FCD, BINTO, and BGOVO have long-right tails due to their positive values while CAD, WMD, BSIZE, and BINDE have a long-left tails. The Kurtosis showed that FP, CAD, BGOVO, and BINDE are leptokurtic as their values are above 3 while FCD, WMD, BSIZE, and BINTO are platykurtic since they have values that are below 3. The outcome of Jarque-Bera statistics showed that only BSIZE is normally distributed while others are not.

## Panel Unit Root

Table 3: Unit Root Test

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variables |  | Panel Unit Root Test Method | |  |
|  | Levin, Lin & Chu (LLC) | | ADF Fisher statistics | |
|  | LLC statistics | Integration order | ADF Fisher statistics | Integration order |
| FP | -5.33332 | I(1) | 44.4029 | I(1) |
| FCD | -2.18232 | I(1) | 17.4113 | I(1) |
| CAD | -3.35717 | I(1) | 12.6310 | I(1) |
| WMD | -11.92419 | I(1) | 5.07119 | I(1) |
| BSIZE | -4.72799 | I(0) | 35.7768 | I(0) |
| BINDE | -4.96349 | I(1) | 62.2177 | I(1) |
| BGOVO | -29.6191 | I(0) | 21.2932 | I(0) |
| BINTO | -180.490 | I(0) | 34.1534 | I(0) |

Source: Author’s Computation (2023)

The panel unit root outcome of the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks using LLC and ADF test statistics is reported in Table 3. The Table revealed that FP, FCD, CAD, WMD, and BINDE were stationary after their conversion to first difference using Levin, Lin & Chu (LLC) and ADF Fisher statistics while BSZE, BGOVE, and BINTO were stationary at level. The status of the panel unit root provided the led way to estimate using pooled least square, fixed and random effect models.

## Correlation Analysis

Table 4: Correlation Analysis

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | FP | FCD | CAD | WMD | BSIZE | BINTO | BGOVO | BINDE |
| FP | 1 | -0.16121 | 0.06556 | 0.16615 | -0.23637 | 0.41819 | -0.03360 | -0.00690 |
| FCD | -0.16120 | 1 | 0.29065 | 0.24538 | -0.03860 | -0.05089 | -0.06917 | -0.07182 |
| CAD | 0.06556 | 0.29065 | 1 | 0.69042 | -0.15688 | 0.15301 | -0.00773 | 0.04589 |
| WMD | 0.16616 | 0.24538 | 0.69043 | 1 | -0.14620 | 0.35143 | 0.05724 | 0.06942 |
| BSIZE | -0.23637 | -0.03861 | -0.15689 | -0.14620 | 1 | -0.19437 | 0.02654 | -0.49183 |
| BINTO | 0.41819 | -0.05089 | 0.15302 | 0.35143 | -0.19438 | 1 | 0.05232 | 0.16667 |
| BGOVO | -0.03361 | -0.06918 | -0.00773 | 0.05724 | 0.02654 | 0.05232 | 1 | 0.09808 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| BINDE | -0.00690 | -0.07182 | 0.04590 | 0.06942 | -0.49183 | 0.16666 | 0.09808 | 1 |

Source: Author’s Computation (2023)

Table 4 revealed the correlation analysis of the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria. The result revealed that fraud cases disclosure, the board size, block government ownership, and block institutional ownership have a negative correlation of -0.16120, -0.23637, -0.03361, and -0.00690 respectively with the financial performance of deposit money banks while compliance with anti-fraud agencies disclosure, whistleblowing mechanism disclosure, and board independence have a positive correlation of 0.06556, 0.16616, and 0.41819 respectively.

## Estimates of Parameters for Panel Regression Model

Table 5: Pooled LS (PLS) Random Effect (RE) and Fixed Effect (FE) Specification

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Dependent Variable FP | | | | |
| Independent Var |  | Pooled OLS | Fixed Effects | Random Effects |
| Constant |  | 1.316563\*\*\* (5.931897) | 1.093707\*\*\* (4.891062) | 1.301651\*\*\* (7.044156) |
| FCD |  | 0.109149\* (2.019283) | 0.053565 (0.982981) | 0.107288\*\* (2.388829) |
| CAD |  | 0.014151  (0.174764) | 0.010707  (0.141744) | 0.012376  (0.184734) |
| WMD |  | 0.044551  (0.576143) | 0.013547  (0.189700) | 0.043732 (0.683062) |
| BSIZE |  | -0.023373\*\*\*  (-2.676867) | -0.017520  (-1.659376) | -0.023054\*\*  (-3.156415) |
| BINDE |  | 0.415158\*\*\* (3.959991) | 0.221298  (1.624573) | 0.410552\*\*\* (4.684387) |
| BGOVO |  | -0.373891  (-0.486496) | -1.505994\*\*  (-2.225045) | -0.433478  (-0.682501) |
| BINTO |  | -0.448491\*\*  (-2.153525) | -0.087770  (-0.379416) | -0.430149\*\*  (-2.473349) |
| No. observations |  | 110 | 110 | 110 |
| R-squared |  | 0.262011 | 0.542935 | 0.254508 |
| Adjusted R2 |  | 0.211365 | 0.464300 | 0.203347 |
| F-statistics |  | 5.173351 | 6.904511 | 8.974626 |
| Prob. (F-Statistics) |  | 0.000046 | 0.000000 | 0.000000 |
| Dubin-Watson |  | 1.052529 | 1.487377 | 1.068325 |

Note: t-Statistic is provided in parentheses. \*, \*\*, \*\*\* indicate the significance at 10%, 5% and 1% level respectively.

Source: Author’s Computation (2023)

Table 5 presents the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria, the study used panel regression analysis of pooled least square, fixed effect, and random effect models. The pooled least square,

fixed, and random effect showed that if all the independent variables (fraud cases disclosure (FCD), compliance with anti-fraud agencies disclosure (CAD), whistleblowing mechanism disclosure (WMD), board size (BSIZE), board independence (BINDE), block government ownership (BGOVO), and block institutional ownership (BINTO) stood are held constant financial performance (FP) of the deposit money bank will increase by 1.316563, 1.093707 and 1.301651 units respectively in the three models. Similarly, the coefficient of fraud cases disclosure has a positive coefficient in all three models with a value of 0.109149, 0.053565, and 0.107288 for pooled least square, fixed, and random effect respectively. This implied that a unit increase in fraud cases disclosure will increase the financial performance of deposit money banks in Nigeria by 0.109149, 0.053565, and 0.107288 units respectively.

The value of the coefficient is only significant under the random effect result. More so, the coefficient of compliance with anti-fraud agencies’ disclosure has insignificant positive coefficients of 0.014151, 0.010707, and 0.012376 units under the pooled least square, fixed, and random effect respectively. The result indicates that a unit increase in anti-fraud agencies’ disclosure will increase the financial performance of deposit money banks in Nigeria. In the same vein, whistleblowing mechanism disclosure has an insignificant positive coefficient of 0.044551, 0.013547, and 0.043732 units under the pooled least square, fixed, and random effect respectively. This implied that a unit increase in whistleblowing mechanism disclosure will lead to 0.044551, 0.013547, and 0.043732 respective units for pooled least square, fixed, and random effect models. Board size is negative and significant under the pooled least square and random effect with a value of -0.023373 and -0.023054 units respectively. The result implied that a unit increase in board size will lead to -0.023373 and -0.023054 respective unit decrease under the pooled and random effect models while this coefficient is also negative but not significant under the fixed effect with a value of -0.017520 units.

Similarly, board independence has a significant and positive coefficient of 0.415158 and 0.410552 units under the pooled least square and random effect respectively. The result implied that a unit increase in board independence will lead to 0.415158 and 0.410552 unit increases under the pooled least square and random effect model respectively while it indicates a positive but insignificant relationship of 0.221298 with the financial performance of deposit money bank in Nigeria. Block government ownership has an insignificant negative relationship with the financial performance of deposit money banks with a value of -0.373891 and -0.433478 units for pooled least square and random effect respectively while its effect is significant under

the fixed effect result. The result implied that a unit increase in block government ownership will lead to a decrease in the financial performance of deposit money banks.

Lastly, the coefficient of block institutional ownership is negative and significant under the pooled least square and random with a value of -0.448491 and -0.430149 unit respectively while its effect is also negative but not significant under the fixed effect result as it showed a coefficient of -0.087770 unit. The F-statistics that reveal the statistically significant of the whole model when combined revealed that the three models used in explaining the effect of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria are statistically significant.

## Hausman Test Result

Table 6: Result of the Hausman Test

|  |  |  |  |
| --- | --- | --- | --- |
| Correlated Random Effects - Hausman Test | | | |
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 51.715388 | 7 | 0.5261 |

Source: Author’s Computation (2023)

From Table 6, the Chi-square probability value is 0.5261 which is not significant; hence the random effect model is accepted and therefore used for forecasting and prediction in this study.

## Discussion and Implication of Findings

The increasing prevalence of financial fraud and corporate misconduct on a global scale has emphasized the importance of forensic accounting and effective corporate governance in identifying and preventing such activities. This study focused on investigating the impact of forensic accounting and corporate governance on the financial performance of listed deposit money banks in Nigeria. The study utilized the Husman test to compare fixed and random effect models, with the random effect model chosen for further analysis.

The results revealed a significant positive effect of disclosure of fraud cases (FCD) on the financial performance of deposit money banks in Nigeria. This suggests that disclosing fraud cases helps mitigate the adverse effects on the banks' performance and aids in reducing the occurrence of fraud. These findings align with previous research by Kyere and Ausloos (2020), Elkelish (2018), Anwar et al. (2019), and others. However, compliance with anti-fraud agencies’ disclosure (CAD) and whistleblowing mechanism disclosure (WMD) showed an

insignificant positive relationship with financial performance. This implies that while there is some connection between compliance with anti-fraud measures and financial performance, it is not a substantial enough link to significantly influence the banks' financial success. Therefore, more efforts or strategies are needed to strengthen the banks' performance in terms of financial outcomes, beyond just complying with anti-fraud regulations and whistleblower mechanisms.

On the other hand, this study found a significant negative relationship between board size (BSIZE) and the financial performance of deposit money banks in Nigeria. Based on this, the statement suggests that this study's findings show that as the size of the board of directors of deposit money banks in Nigeria increases, their financial performance tends to decrease. In other words, having a larger board appears to have a negative impact on the banks' financial performance. This could imply that larger boards might lead to inefficiencies or challenges in decision-making processes that can hinder the banks' ability to achieve better financial results. Furthermore, this study highlighted that board independence (BINDE) has a significant and positive effect on the financial performance of deposit money banks in Nigeria. In essence, this study suggests that having an independent board of directors in deposit money banks in Nigeria is associated with better financial performance. This could imply that a board that is free from undue influences and conflicts of interest is better equipped to make decisions that positively impact the bank's profitability, efficiency, and overall financial success. These results support the findings of Alaoubi and Almomani (2021), Alhares (2020), and Kyere and Ausloos (2020) and others.

Additionally, block government ownership (BGOVO) is negatively related but insignificantly impacting financial performance. The statement implies that while government ownership might have some influence on financial performance, there might be other factors at play that are more influential in determining the entity's financial performance. Also, block institutional ownership BINTO) has a negative significant effect on the financial performance of deposit money banks in Nigeria. This statement suggests that having a significant amount of ownership by institutional investors is associated with poorer financial performance. This implies that the presence of institutional ownership might lead to decisions or influences that negatively affect the bank's financial metrics, such as profitability, efficiency, or other relevant indicators. These findings are consistent with previous studies by Alhares (2020), Alaoubi and Almomani (2021), Ali and Fathyah (2020), Bhuiyan and Roudaki (2018), and others.

In summary, the collective predictive ability of all independent variables, including fraud cases disclosure, compliance with anti-fraud agencies disclosure, whistleblowing mechanism disclosure, board size, board independence, block government ownership, and block institutional ownership, was statistically significant, suggesting that these variables together play a crucial role in predicting the financial performance of deposit money banks in Nigeria. Overall, the interpretation indicates that the study's findings show that the considered independent variables, including various aspects related to fraud, compliance, governance, and ownership, together have a meaningful impact on predicting the financial performance of deposit money banks in Nigeria. This implies that these factors interact and contribute significantly to the banks' financial performance.

# CONCLUSION AND RECOMMENDATIONS

This study investigated the importance of forensic accounting and effective corporate governance in the context of the increasing prevalence of financial fraud and corporate misconduct globally. This study focused specifically on listed deposit money banks in Nigeria. The findings revealed that disclosing fraud cases has a significant positive impact on the financial performance of deposit money banks in Nigeria. This suggests that such disclosure helps mitigate the adverse effects of fraud on the banks' performance and reduces the occurrence of fraudulent activities. Additionally, the study showed a significant negative relationship between board size and block institutional ownership with the financial performance of these banks, emphasizing the need for careful consideration in these areas to enhance financial performance. On the other hand, board independence was found to have a significant and positive effect on financial performance, while block government ownership had a negative impact, though it was not statistically significant. Overall, the collective predictive ability of the various independent variables examined in the study is essential in forecasting the financial performance of deposit money banks in Nigeria. It was concluded that fraud case disclosure highlights the significance of transparency and reporting mechanisms in deterring fraudulent activities and safeguarding banks' financial performance.

Based on the empirical findings, several recommendations are put forth to enhance the financial performance of deposit money banks in Nigeria:

1. Deposit money banks should prioritize and improve the disclosure of fraud cases and mitigate fraud and other financial irregularities occurrences in order to cushion its adverse effects on financial performance and foster investor confidence.
2. Banks must actively improve compliance with anti-fraud agencies and whistleblowing mechanisms. Implementing effective compliance strategies will help mitigate fraudulent activities and contribute to better financial performance.
3. Banks should carefully evaluate their board sizes and strive for a size that allows effective communication, collaboration, and informed decision-making can contribute to better financial performance.
4. Banks should prioritize and maintain a high level of independence within their boards and efforts should be directed towards selecting board members who are free from undue external influences and conflicts of interest.
5. Deposit money banks should assess their ownership structures and understand how different ownership entities impact their financial results. Strategies to align the interests of institutional owners with the bank's financial success might be explored.

By adopting these recommendations, deposit money banks in Nigeria can strengthen their financial performance and create a robust foundation for sustainable growth and stability.

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