

**PUBLIC SECTOR GOVERNANCE AND FRAUDULENT FINANCIAL REPORTING IN TERRITORY INSTITUTIONS IN NIGERIA (TETFUND SPONSOR)**

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**ABSTRACT**

This study centered on public sector governance and fraudulent financial reporting in territory institutions in Nigeria. The broad objective of this study was to determine the extent to which ineffective internal control, lack of accountability, weakness of audit committee as well as lack of internal audit independence promote fraudulent financial reporting in tertiary institutions in Nigeria.

The instrument used for the purpose of this research was gathered through primary source. The researchers administered one hundred (100) questionnaires to respondents comprises of staff (employees) of the University of Benin, Benson Idahosa University, Wellspring University and Federal Polytechnic, Auchi, Edo State. Out of one hundred (100) questionnaires administered, ninety-four (94) were retrieved and were used for the analysis. The hypotheses were tested using Ordinary Least Square (OLS) regression technique.

The findings from analysis revealed that the issue of effective internal control should be taken seriously in the tertiary institutions. It is also recommended that large proportions of the members in the audit committee are financially literate in order to reduce the fraudulent financial reporting in the tertiary institutions.

**Keywords:** Ineffective Internal Control, Lack of Accountability, Weakness of Audit Committee, Lack of Internal Audit Independence and Fraudulent Financial Reporting.

**Introduction**

The public sector could be best described as the life wire of any government and the greatest asset of the state in its quest for socio-economic development (Igbokwe-Ibeto&Osakede,

2020). Anazodo, Okoye and Chukwuemeka (2012) described public sector as the administrative bureaucracy which occupies an essential position in the political system of nations. Ijeoma and Oghoghomeh (2014) opined that public sector comprises governments and all publicly owned, controlled and or publicly funded agencies, enterprises, and other entities of government that deliver public programs, goods, or services. Chukwuebuka and Chidubem (2011) opined that public sector in Nigeria failed to measure-up with their counterparts across the globe because it lacks in transparency and accountability. Akani and Ogbeide (2017) disclosed that there is daily occurrence of financial frauds, embezzlements, corrupt and sharp practices which go unnoticed, undetected, uninvestigated in the public sector as well as fraudulent practices and fraudulent financial reporting.

Fraudulent financial reporting has been a great and consistent concern among practitioners and regulators and has received considerable attention in the accounting literature (Soliman & Ragab, 2014). It has been argued that fraudulent financial reporting masks the true financial results and position of businesses and obscures facts that stakeholders ought to know (Soliman & Ragab, 2014). According to Ijeoma and Aronu (2013) fraudulent financial reporting is a term used to refer to the aggressive use of choices available under accounting rules, to present the most fattening view of a company possibly in its financial statement. It involves the pushing of accounting principles to the limit of their flexibility or even beyond so as to improve their annual statements. Similarly, Thank God and Onukogu (2018) opined that fraudulent financial reporting is a deceptive tool used by management to falsify earnings report in the financial statement, which gives an untrue reflection of the firm's financial strength and performance. This unethical practice is not in the best interest of stakeholders as it has influenced corporate failures in both developed and developing nations. Fraudulent financial reporting thrives in private or public sectors due to bad economic conditions, weak law enforcement, pre-emptive measures, and uncertainty (Egolum, Celestine & Onyinyechukwu, 2021). However, internal factors such as ineffective corporate governance open up the environment that allows for such activities (Egolum, Celestine & Onyinyechukwu, 2021).

To effectively abolish the act of fraudulent financial reporting in the public sector, sound public sector governance is needed. Etim, Jeremiah and Jeremiah (2020:2) posited "public sector governance concerns accountability tasks in relation to the specific goals of this sector, which are not limited to service delivery but also include the impact of the policies on the community or the society at large".

In the light of the above, the study examines public sector governance and fraudulent financial reporting in territory institutions in Nigeria.

### **Statement of Research Problem**

Financial report (annual report/financial statements) is a major method corporate organization employ to communicate to its stakeholders/shareholders its financial outcome as well as the organization position. Financial experts as well as investors make use financial report (annual report/financial statements) to make investment decisions. The fundamental purpose of financial report is to make available information concerning an organization that is helpful to a wide range of investors in making investment decision (Atu, Atu, Enegebe&Atu, 2016). The financial report (financial statement) of any firm is expected to have the required qualitative attributes as stated by International Financial Reporting Standards which include relevance, comparability, timeliness, understand ability, faithful representation and verifiability (Aifuwa&Emebe, 2019). However, the authenticity of this purpose is being queried by the users of corporate financial report due to the possible effects of creative accounting perpetrated by corporate board.

In spite of the presence of regulatory authorities, we have experienced a lot of corporate collapses in recent years, case in point the accounting scandals by Cadbury Plc, Intercontinental Bank Plc, and Oceanic Bank Plc. This no doubt brought about uncertainty in the minds of investors as regard the credibility, integrity and reliability of corporate financial report.

Numerous studies have so far carried out on fraudulent financial reporting (creative accounting) in both developed and developing nations, for example; Ojomolade and Adejuwon (2020), Siyanbola, Benjamin, Amuda and Lloyd, (2020), Tyoakosu and Ekpe (2018), Al-Sakini and Al-Awawdeh (2015), Ijeoma, N. & Aronu, C. O., (2013), Ijeoma, N. B. (2014), Akenbor and Ibanichuka (2012), Osazevbaru (2012) among others.

To the best of the researcher's knowledge, none of these studies conducted so far emphasized on public sector governance and fraudulent financial reporting in territory institutions in Nigeria. This create room for knowledge gap and the need for this study, hence this research tries to fill this gap by empirically investigate public sector governance and fraudulent financial reporting in territory institutions in Nigeria with the aid of boosting the empirical studies on the subject matter.

It is against this backdrop the following research questions are raised:

1. To what extent does ineffective internal control influence fraudulent financial reporting in tertiary institutions in Nigeria?
2. How does lack of accountability promote fraudulent financial reporting in tertiary institutions in Nigeria?

3. To what extent does weakness of audit committee encourage fraudulent financial reporting in tertiary institutions in Nigeria?
4. Does lack of internal audit independence promote fraudulent financial reporting in tertiary institutions in Nigeria?

### **Objective of the Study**

The broad objective of this study is to examine public sector governance and fraudulent financial reporting in tertiary institutions in Nigeria. The specific objectives of the study are to:

1. examine the extent to which ineffective internal control influence fraudulent financial reporting in tertiary institutions in Nigeria.
2. examine the extent to which lack of accountability promote fraudulent financial reporting in tertiary institutions in Nigeria.
3. examine the extent to which weakness of audit committee encourage fraudulent financial reporting in tertiary institutions in Nigeria.
4. ascertain the extent to which lack of internal audit independence promote fraudulent financial reporting in tertiary institutions in Nigeria.

### **Research Hypotheses**

The hypothesis tested in the course of this study is stated in its null form as follows:

- Ho<sub>1</sub>: Ineffective internal control does not significantly influence fraudulent financial reporting in tertiary institutions in Nigeria.
- Ho<sub>2</sub>: Lack of accountability does not significantly promote fraudulent financial reporting in tertiary institutions in Nigeria.
- Ho<sub>3</sub>: Weakness of audit committee does not significantly encourage fraudulent financial reporting in tertiary institutions in Nigeria.
- Ho<sub>4</sub>: Lack of internal audit independence does not significantly promote fraudulent financial reporting in tertiary institutions in Nigeria.

### **Literature Review**

### **Concept of Fraudulent Financial Reporting**

Nwoye, Anichebe and Osegbue (2020:1) disclose that “fraudulent financial reporting has remained a widely researched area in accounting for the last two decades; this is because it is assumed as the most important ethical issue facing the accounting profession”. Fraudulent financial reporting is a multifaceted and difficult trend happening in corporate organization in spite of their business area or size. The literature contains definitions of fraudulent financial reporting according to numerous writers. In spite of this, there is no agreement on the most excellent definition as well as explanation of the concept. For example; Ubesie, Ogbu and Mbah (2019:106) see fraudulent financial reporting “as a strategy used by the management of a company to deliberately manipulate the company’s earnings so that the figures match a predetermined target for the purpose of income smoothing”.

Obigbemi, Omolehinwa, Mukoro, Ben-Caleb and Olusanmi (2016:2) defined fraudulent financial reporting “as an act of maximizing the loopholes in the financial reporting laws, to maximize personal, group, or organizational objectives at the detriment of another group of individuals who may be directly or indirectly affected by such decisions”. Obigbemi, Omolehinwa, Mukoro, Ben-Caleb and Olusanmi (2016:2) buttress that “fraudulent financial reporting can take the form of fraudulent financial reporting such as recording anticipated sales in the books as turnover for the present year, as well as the reduction in the cost of research and development”. Obigbemi, et al (2016:2) affirmed that “fraudulent financial reporting could also involve the use of discretionary accruals, the accumulation of accrued expenses in the bid to give a different picture of the financial well-being of the company”.

Farouk and Isa (2018) defined “fraudulent financial reporting as the deliberate dampening of fluctuations about some level of earnings considered being normal for the firm”. As opined by Nwaobia, Kwarbai and Fregene (2019) “fraudulent financial reporting is seen as accounting practices by management intended to influence or misrepresent reported earnings through the use of accounting methods or accelerating expense or under-accruing expense or untimely recognition or deferment of revenue transactions (depending on target objective) or using other methods crafted to influence earnings”. The term is understood to refer to “systematic misrepresentation of the true income and assets of corporations or other organizations” (Omoye&Eriki, 2014:553) or innovative ways of characterizing income, assets and liabilities (Donaldson & Werhane, 2009).

Okafor and Ezeagba (2018) described “fraudulent financial reporting refers to the use of accounting knowledge to influence the reported figures, while remaining within the ambit of accounting rules and regulations, so that instead of showing the actual performance or position of

the company, they show what the management wants the stakeholders perceive about their company”.

According to Mishra and Malhotra (2016) “fraudulent financial reporting distorts the quality and credibility of financial reporting and can in the process, hamper effective decision making by investors and other stakeholders of a company”. According to Shubita (2020) “the main reason for the interest in fraudulent financial reporting lies in the fact that the net incomes recorded in books are used for many purposes, including asset valuation and executive remuneration”. Shubita (2020) added that “managers need to meet their possible needs and thus reporting better results through different content”. Decisions based on operating activities impact firm cash flow. One method of managing earnings is by controlling accruals without cash-flow results, hereafter referred to as accrual manipulation (Shubita, 2020).

## **Components of Public Sector Governance**

### **Internal Control**

Hanoon, Khalid, Rapani, Aljajawy, Waeli (2021) described internal control as "a process carried out by the board of directors, management and other personnel of an entity designed to provide reasonable assurance as to the achievement of operational, reporting and compliance objectives."

Owusu-Boateng, Amofa and Owusu (2017) conceptualized internal control system as a procedure of accounting planned in ensuring efficient safeguard of assets or implementing a policy that will avoid fraud and error in the management of organizational processes and values. Internal control system is a critical part of administering an organization as it entails the plans, methods, and procedures used to meet an organization’s vision, mission, goals and objectives; and by acting in that way, sustain performance based executive. Internal control assists managers to achieve required results through effective management of resources (Muhunyo&Jagongo, 2018).

Internal control is the process designed and implemented by those charged with governance, management, and other personnel, to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Otieno&Nyangechi, 2013).

According to Babatunde (2013), internal control is desired to provide some assurance to stakeholders that scarce resources are not diverted away from basic considerations inherent in financial management system design. The diversion of scarce resources has profoundly affected

the traditional accountability of corporate organizations in Nigeria where internal control system is sometimes sidelined to the extent of poor accountability.

### **Accountability**

Accountability is all about being answerable to those who have invested their trust, faith, and resources to you (Onuorah&Appah, 2012). Adegite (2010) defined accountability as the obligation to demonstrate that work has been conducted in accordance with agreed rules and standards and the officer reports fairly and accurately on performance results vis-à-vis mandated roles and plans. It means doing things transparently in line with due process and the provision of feedback. Accountability can also be defined as obligations to demonstrate, review, and take responsibility for performance, both in the results achieved in the light of agreed expectations, and the means used. In other words, the government is accountable when it conducts its business in an open, transparent and responsive manner (Duenya, Upaa&Tsegba, 2017).

### **Audit Committee**

Dauda (2015) described audit committee as the committee of company's board of directors vested with important responsibilities to on behalf of the company shareholders, to oversee the financial reporting process, the integrity of companies' financial statement, the company's compliance with legal requirements, the external auditor's qualification, independence and performance and the internal audit function. Emeh and Appah (2013) defined audit committee as a committee appointed by a company as a liaison between the board of directors and the external auditors; this committee normally has a majority of non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner.

Aderemi, Osarumwense Kehinde and Egbide (2016) posited that the audit committee is a central element of one of such reforms that can enhance the quality of financial reporting through an open and candid communication and a good working relationship with a company's board of directors, internal and external auditors. Similarly, Sharinah, Mohd and Azlina (2014) maintained that an audit committee is a sub-committee of a corporate governance structure. The committee plays a significant role in monitoring the financial reporting process as delegated by the Board of Directors. According to them, there are four fundamental responsibilities of an audit committee – assessing risk and control environment, overseeing financial reporting, evaluating the audit process and reviewing conflict of interest and related party transaction. These roles and responsibilities require the members of the audit committee to have specific characteristics and background to effectively and efficiently perform their task.

### **Internal Audit Independence**



Independence refers to mental attitude of auditors to refuse any interventions by client when they perform audit function and report audit findings and opinion. It also refers to honest and objective attitudes of auditors as independent parties to report opinion (Wiguna, Hardi, Hariyani& Putra, 2020). In real field, it is difficult to be independent because auditors face three reasons: auditors are paid by clients; as service providers, auditors want to give satisfaction to their costumer; independence maintenance means lose client. General condition for auditor independence is auditors cannot be involved in audit activity when they still have unfinished business with clients. Independence is needed to builds trust from financial statement users (Wiguna, Hardi, Hariyani& Putra, 2020).

The concept of independence is subject to uncertainty and ambiguity as it has no interpretation or a single meaning across the people (Lin et al., 2011). Nevertheless, for this study's purpose, independence is described as the concept of being free from management influence when accountants are performing their accounting activities and giving out their reports (Belay, 2017). Independence is critical to the auditor's report reliability since, if they are not independent in appearance and facts, their reporting will not be credible and creditors as well as investors will not trust them. The assurance services they provide gain their credibility and value from the basic assumptions of independence in appearance and mind. Moreover, accounting involves entire management process as they increase the reliability of information, issue reasonable opinions, maintains objectivity and therefore requires being independent (IIA, 2010). Independence exists when accountants are able to act with integrity, objectivity, impartiality and free from conflict of interest. Independence in appearance means how accountants should be viewed by the public and others. Conflict of interest is when a reasonable individual with adequate knowledge of all essential facts, claim that an accountant or any member of the group is incapable of making impartial judgment and exercising objectivity in regard to the conduct of the financial reporting (Zain et al, 2016). Subsequently, accountants need to be independent from those they are supposed to report about for the purpose of performing their activities without interference. Independence in conjunction with objectivity improves accuracy and reliability of accountants' work and gives employers confidence that they can trust their reports and results (Cohen & Sayag, 2010). Accountants' status and position in an organization is essential in maintaining their independence. It helps them work objectively and perform their work independently (Mabil, 2019).

### **Review of Empirical Studies**

Some studies have been conducted in many countries on public sector governance and fraudulent financial reporting. Some of these studies are discussed below:



### **Ineffective Internal Control and Fraudulent Financial Reporting**

Samaie and Nahandi (2020) investigated the relationship between the weakness of internal controls and fraudulent financial reporting with an emphasis on the adjustment role of external audit quality. This research was conducted during 2012 – 2017 years for active companies operating in Tehran stock Exchange by selecting 114 companies as a statistical sample and using logistic regression tests in E-Views statistical software. The results showed that, contrary to society's perception, there is no statistically significant relationship between the weakness of internal controls and fraudulent financial reporting .

Setiyawati, Iskandar and Basar (2018) examined the quality of financial reporting through increasing the competence of internal auditors and accrual basis. The survey was conducted in the provincial/district government in West Java and Banten as many as 37 regional governments. The results showed that internal auditor competencies had a positive effect on the quality of financial reporting.

Oguda, Odhiambo and By aruhanga (2015) ascertained the effect of internal controls on fraud prevention and detection in district treasuries of Kakamega County. Purposive sampling method was used to select Treasury Staffs while simple random sampling method was used to select Heads of Departments to respond to the data collection instruments. The study used closed ended questionnaires designed for treasury staff and their clients and was administered by the researcher through drop and pick method. Key respondents were Senior Treasury Staffs and Heads of Departments in Kakamega County. Data collected was analysed using both descriptive and inferential statistics using Statistical Package for the Social Science (SPSS). Reliability and Validity of data collection instruments was ascertained through the test-retest method. Findings of the study revealed that there was a statistically significant and positive relationship between the adequacy of internal control systems and fraud prevention and detection in district treasuries in Kakamega County .

### **Lack of Accountability and Fraudulent Financial Reporting**

Yusnaini, Ghozali, Fuad and Yuyetta (2017) examined the effects of fraud type and accountability on internal auditor perceived responsibility for fraud detection. The 3 x 2 between subject experimental design was conducted to address the research questions. Data analysis conducted used one-way anova and independent sample t-test. The results show that there are no significant differences for internal auditors to detect fraud. The study also showed that accountable internal auditors demonstrate a higher perceived responsibility in detecting fraud than anonymous .

### **Weakness of Audit Committee and Fraudulent Financial Reporting**

Fali, Aminu, Macauley and Yahaya (2019) investigated the impact of audit committee on fraudulent financial reporting of listed deposit money banks in Nigeria. The study adopts correlational research design of which secondary data were extracted from the 13 sampled deposit money banks listed on the Nigerian Stock Exchange for the period 2008-2017. The study employed Random Effects Model (REM) to analyze the data. The results revealed that audit committee financial expertise and audit committee busyness have negative significant impact on fraudulent financial reporting; audit committee tenure has a negative insignificant impact on fraudulent financial reporting. Audit committee meeting and audit committee share ownership have positive insignificant impact on fraudulent financial reporting .

Sae-Lim and Jermsittiparsert (2019) investigated the relationship between the audit committee and earnings quality. They used two models to measure earnings quality, the first introduced in the year 1991 by Jones (very commonly used) and the second introduced in the year 2002 by Dechow and Dichev. Their results show that the audit committee curtails fraudulent financial reporting activities in firms. We also define the conflicts between the two measures of earnings quality and the audit committee. Fraudulent financial reporting was usually found where the majority of the audit committee consisted of independent directors. The audit committee should be independent and perform an unbiased role in the development of the firm.

ThankGod and Onukogu (2018) investigated the impact of audit committee expertise and fraudulent financial reporting prniversityes of quoted food & beverages manufacturing firms in Nigeria. Secondary data were collected from the annual reports of 15 sampled firms using convenience sampling methodology which was mostly dictated by data availability. The study period covered 2006 to 2016. Fraudulent financial reporting was measured by discretionary accruals, using modified Jones (1991) model. Time series data was used to estimate discretionary accrual for each respective sampled firm as at 2016 financial year-end. Ordinary Least Square based regression was then applied on the cross-sectional estimates of the discretionary accruals, taking cross-section of audit committee quality dimensions (i.e. committee expertise, committee size and meeting frequency) as independent variables. It was found out that committee size was redundant due to constancy of data points, meeting frequency failed the test of statistical significance at 5% level.

Amar (2014) examine the relationship between independence audit committee and the proceeded measures of fraudulent financial reporting. Using a sample consisting of 279 firm-year observations concerning the years ranging from 2002 to 2005, the results of this study shows that the audit committee independence is linked to fraudulent financial reporting.

## **Methodology**

### **Research Design**

The study adopted a survey research design that utilized questionnaires to obtain data from the respondents. The study also adopted the cross sectional survey research because of the large number of respondents who participated through questionnaire administration within a particular period of time and through it evidence evaluated and hypotheses generated. This is consistent with Cooper (2003) who indicated that survey research is the gathering of information for the purpose of understanding and predicting some aspects of the population of study as it offers respondents greater anonymity, thereby encouraging respondents to disclose their feeling and attitude more readily.

### **Population of the Study**

The population of this study consists of the entire staff of selected tertiary institutions in Edo State. The institutions are: University of Benin, Benson Idahosa University, Wellspring University and Federal Polytechnic, Auchi.

### **Sampling Technique and Sample Size**

A sample size of one hundred (100) respondents was conveniently selected from the selected tertiary institutions (University of Benin, Benson Idahosa University, Wellspring University and Federal Polytechnic, Auchi) using the convenience sampling technique.

### **Sources of Data**

In view of the need to utilize accurate data for this research, primary data will be obtained through a structured questionnaire to elicit responses from respondents to meet the requirements of this research. The data for the foregoing study will be obtained from primary source only.

### **Model Specification**

The variables used in the model were obtained from the questionnaires distributed.

Expressing equation in econometric form, we have

$$FFREP = f(\text{INICO, LAACT, WEACO, LINAU})$$

The model in its econometric form is specified as follows:

$$\text{FFREP} = \beta_0 + \beta_1\text{INICO} + \beta_2\text{LAACT} + \beta_3\text{WEACO} + \beta_4\text{LINAU} + U_t$$

Where:

FFREP = Fraudulent Financial Reporting

INICO = Ineffective Internal Control

LAACT = Lack of Accountability

WEACO = Weakness of Audit Committee

LINAU = Lack of Internal Audit Independence

$U_t$  = Stochastic error term

$\beta_0$  = Intercept

$\beta_1 - \beta_4$  = Parameters to be estimated

### **Method of Data Analysis**

The main statistical tool to be employed in this research is “Ordinary Least Square Technique (OLS)” which helps us to estimate the value of the dependent variables, when we are given the value of one or more independent variables. Other statistical test like descriptive statistics, correlation matrix will also be used to analyze the data. The Ordinary Least Square is a statistical tool that enables the researcher to establish if there is any relationship between two variables. The computation of Ordinary Least Square is based on the outcomes of the regression which is used to test the various hypotheses formulated previously in chapter one of this study.

### **Data Presentation and Analysis**

In this chapter, we perform the presentation and analysis of the data used for the empirical evaluation of public sector governance and fraudulent financial reporting in territory institutions in Nigeria. The analysis involves two methods, the use of simple percentages, tables and the Ordinary Least Squared (OLS) econometric method, with the goal of providing estimated coefficients that are valid enough to test the hypothesized relationships in the study. The primary data collected from the ninety-four (94) respondents were first converted into simple averages for both the dependent variable and the independent variables and then the OLS was performed on them in order to determine the hypothesized relationship between Ineffective Internal Control

(INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), Lack of Internal Audit Independence (LINAU) and Fraudulent Financial Reporting (FFREP).

A total of one hundred(100) questionnaires were administered to the respondents. Ninety-six of the questionnaires were properly filled and returned. The analysis and interpretation of data as well as testing of hypothesis is based on the ninety-four (94) questionnaires retrieved which represent 94% percent response rate as shown in table 4.1a below. This response rate is quite high.

**Background Information of Respondents**

**Table 1:Socio-Demographic Characteristics of the Respondents**

<b>Characteristic</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percent (%)</b>
Sex	Male	63	67.0
	Female	31	33.0
	<b>Total</b>	<b>94</b>	<b>100</b>
Highest Educational Qualification	OND/Diploma	10	10.6
	HND/B.Sc.	29	30.9
	MBA/MSC	51	54.3
	Ph.D.	4	4.3
	<b>Total</b>	<b>94</b>	<b>100</b>
Work Experience	0-5yrs	24	25.5
	6-10yrs	22	23.4
	11-15yrs	31	33.0
	16-20yrs	9	9.6
	21yrs and above	8	8.5
	<b>Total</b>	<b>94</b>	<b>100</b>
Marital Status	Single	38	40.4
	Married	51	54.3
	Divorced	2	2.1
	Widowed	3	3.2
	<b>Total</b>	<b>94</b>	<b>100</b>

*Source: Author’s Computation, 2021*

The sex distribution of respondents reveals 63 for males and 31 for females, making a total of 94. This shows a percentage distribution as 67.0 and 33.0 percent respectively for male and female. From this evidence, the percentage of over 67.0 percent shows that more male are involved in the survey than the female.

In Table 4.2 above, the respondents' educational qualifications are reported. It shows that MBA/MSC holders are more in the university surveyed; it made up over 54.3 percent of the entire respondents that were sampled. HND/B.Sc. and other types of degree holders are the other groups that seem to have some considerable numbers in the group with percentage responds rates of 30.9%; while the least are the OND/Diploma holders with only (10.6 percent) followed by Ph.D. Degree holders (4.3 percent).

In the same Table 4.2 above, the respondents' work experience is analyzed. The analysis shows that between 11 – 15 years has the highest number of frequency (31) representing 33.0%, followed by 0 – 5 years with 24 frequency, representing 25.5%. This closely followed by 6 – 10 years with 22 frequency representing 23.4%, followed by 16 – 20 years with 9 frequency representing 9.6%. The least is 21years and above with 8 frequency rate representing 8.5%.

In the same Table 4.2 above, the marital status of the sampled respondents were analyzed. Of the 94 respondents, 38 frequency, representing 40.4% are Single, 51 frequency, representing 54.3 are Married, only 2 frequency representing 2.1 are divorcees, while 3 presenting 3.2 are widowed.

### **Reliability Test**

In this study, we structured questionnaires across the variables (Ineffective Internal Control, Lack of Accountability, Weakness of Audit Committee, Lack of Internal Audit Independence and Fraudulent Financial Reporting (FFREP)). In analyzing our data, we conducted reliability test using Cronbach Alpha test to test the reliability of the structured questions. The result was presented in the table below.

**Table 2: Reliability Test**

<b>Variable</b>	<b>Cronbach Alpha</b>	<b>No. of Items</b>
Ineffective Internal Control	0.957	4
Lack of Accountability	0.971	4
Weakness of Audit Committee	0.961	4
Lack of Internal Audit Independence	0.965	4

Fraudulent Financial Reporting (FFREP)	0.969	5
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**Source: SPSS 24, 2021**

The table above revealed that the Cronbach’s Alpha values of the given variables were all above the benchmark of 0.50 (Ineffective Internal Control, Lack of Accountability, Weakness of Audit Committee, Lack of Internal Audit Independence and Fraudulent Financial Reporting (FFREP)). In the measurement of the reliability of Fraudulent Financial Reporting (FFREP), all the five (5) questions structured were reliable for the measurement of the internal consistency of the variable. These justified a good reliability of the questions set in measuring the variables. The higher  $\alpha$  coefficient shows that the stronger the interrelationship of each item of measures.

**Descriptive Statistics**

**Table 3: Descriptive Statistics**

	<b>FFREP</b>	<b>INICO</b>	<b>LA ACT</b>	<b>WEACO</b>	<b>LINAU</b>
Mean	19.05319	13.58511	14.45745	13.78723	14.98936
Median	20.00000	15.00000	16.00000	15.00000	16.00000
Maximum	25.00000	20.00000	20.00000	20.00000	20.00000
Minimum	5.000000	4.000000	4.000000	4.000000	4.000000
Std. Dev.	5.344814	5.101991	4.865204	4.972770	4.680076
Skewness	-0.891599	-0.503629	-0.685920	-0.452319	-1.013242
Kurtosis	2.784577	1.952286	2.303695	1.982228	2.960887
Jarque-Bera	12.63596	8.273063	9.269919	7.262392	16.09033
Probability	0.001804	0.015978	0.009707	0.026484	0.000321
Sum	1791.000	1277.000	1359.000	1296.000	1409.000
Sum Sq. Dev.	2656.734	2420.819	2201.330	2299.745	2036.989
Observations	94	94	94	94	94

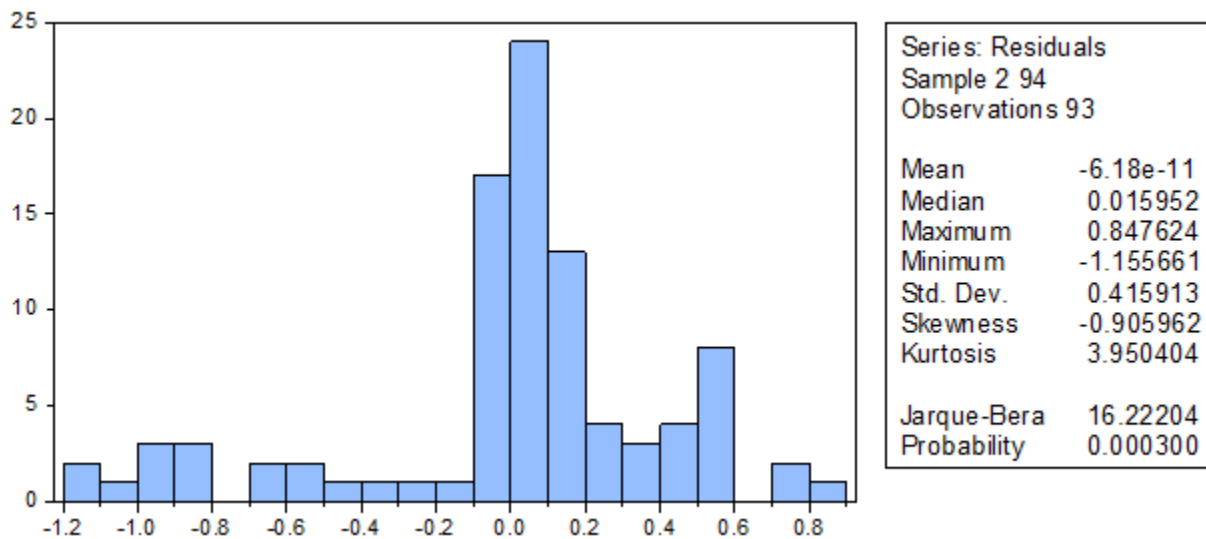
**Source: Eviews 9 (2021)**

The descriptive statistics in table 4.4 shows the characteristics of the variables from the respondents that formed the overall sample of the study. As observed, the mean value of the dependent variable Fraudulent Financial Reporting (FFREP) showed positive values ranging



from 5.000000 to 20.000000 suggesting that the level of Fraudulent Financial Reporting (FFREP) of the selected bank for the period under review skewed towards the positive. The mean values of all the other independent variables [Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), Lack of Internal Audit Independence (LINAU)] equally showed positive values with mean values of 13.58511, 14.45745, 13.78723 and 14.98936 respectively. The standard deviations of each of the variables showed minimal dispersion ( $\pm$ ) from the mean values which are highly desirable. More so, the probability values of the Jarque-Bera test for all factors are significantly lower than the 0.05 indicating that the series are uniformly distributed.

**Figure 1: Normality Test**



**Source: Researchers Computation, 2021**

The histogram normality and other descriptive statistics of the regression variables are revealed in the normality test above. The result showed a mean Jarque-Bera test of 16.22204 and associated probability value of 0.003000 which is significantly lower than the 5% level indicating that not all the series are evenly distributed. Thus, the issue of endogeneity arising from the heterogeneous nature of the data are likely evident.

**Table 4: Correlation Analysis**

Covariance Analysis: Ordinary

Date: 1/10/21 Time: 17:06

Sample: 1 94

Included observations: 94

Correlation t-Statistic Probability	FFREP	INICO	LAACT	WEACO	LINAU
FFREP	1.000000 ----- -----				
INICO	0.868076 37.04451 0.0000	1.000000 ----- -----			
LAACT	0.886097 56.91849 0.0000	0.881535 49.21741 0.0000	1.000000 ----- -----		
WEACO	0.873000 40.43521 0.0000	0.888216 61.92647 0.0000	0.885844 56.39807 0.0000	1.000000 ----- -----	
LINAU	0.886562 57.91594 0.0000	0.863955 34.75082 0.0000	0.885782 56.27080 0.0000	0.862301 33.93549 0.0000	1.000000 ----- -----

**Source: Eviews 9 (2021)**

Table 4 presents the correlation matrix of variables adopted in the study. The aim is to show how the variables are related among themselves and to also check for possible high correlations which could lead to multicollinearity problem. As observed from the result, an insignificant positive correlation exists between the dependent variable Fraudulent Financial Reporting (FFREP) and

the variables of Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO) and Lack of Internal Audit Independence (LINAU) at 0.86, 0.88, 0.87 and 0.88 respectively. However, none of the variables pass the scale at 1% level of confidence. But the positive relationship suggests that all the independent variables move in the same direction with the dependent variable. It is also observable that the issue of high-correlation is not evident among the variables as none of the correlation coefficients is above 0.90.

**Table 5: Variance Inflation Factors**

Variance Inflation Factors

Date: 1/10/21 Time: 17:03

Sample: 1 94

Included observations: 93

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
INICO	0.011101	12.24852	2.770253
LAACT	0.012541	15.35364	3.027909
WEACO	0.009282	10.65225	2.457633
LINAU	0.010910	14.46346	2.833430
C	1.109389	6.477862	NA
AR(1)	0.003995	1.171320	1.065899

**Source: Eviews 9 (2021)**

The result of the variance inflation factor in Table 3 shows the absence of multicollinearity. The centered VIF values of the explanatory variables are far below the benchmark of 10. The explanatory variables of Ineffective Internal Control (INICO) reported a centered VIF of 2.770253; Lack of Accountability (LAACT)3.027909; Weakness of Audit Committee (WEACO)2.457633 and Lack of Internal Audit Independence (LINAU)2.833430. All the variables of the model recorded a centered VIFs that are not substantially different from 1.00 and are not indicative of the problem of multicollinearity.

**Estimation Results**

The results of the initial output of the Ordinary Least Square (OLS) was not interpreted, reason being that, the results showed a low value of Durbin Watson (D.W.) statistic of 0.43 suggesting the presence of autocorrelation (see Appendix for details). In order to correct the autocorrelation, the equation was re-estimated by adjusting for autoregressive one AR(1). The final output estimate of the equation is shown in Table 6 below.

**Table 6: OLS Regression Analysis (Final Output)**

Dependent Variable: FFREP

Method: Least Squares

Date: 1/10/21 Time: 17:02

Sample (adjusted): 2 94

Included observations: 93 after adjustments

Convergence achieved after 42 iterations

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INICO	0.075879	0.105363	0.720169	0.0034
LAACT	0.452439	0.111986	4.040124	0.0001
WEACO	0.102038	0.096341	1.059134	0.0025
LINAU	0.397686	0.104452	3.807377	0.0003
C	2.777903	1.053275	2.637395	0.0099
AR(1)	0.892197	0.063203	14.11644	0.0000
R-squared	0.993928	Mean dependent var	18.98925	
Adjusted R-squared	0.980504	S.D. dependent var	5.337510	
S.E. of regression	0.430177	Akaike info criterion	1.223047	
Sum squared resid	15.91452	Schwarz criterion	1.413673	
Log likelihood	-49.87169	Hannan-Quinn criter.	1.300016	
F-statistic	2346.248	Durbin-Watson stat	1.543490	
Prob(F-statistic)	0.000000			
Inverted AR Roots	.89			

**Source: Researcher’s Computation via Eviews 9 (2021)**

As shown in the above table, the R-squared coefficient of determination stood at 0.99 which indicates that the model explains about 99% of the systematic variations in the dependent

variable Fraudulent Financial Reporting (FFREP). The Adjusted  $R^2$  which controls for the effect of inclusion of successive explanatory variables on the degrees of freedom was 0.98% meaning that about 2% of the systematic variations in Fraudulent Financial Reporting (FFREP) were not explained by the model after adjusting for the degree of freedom. However, the proportion of the variation not captured by the model has been addressed by the error term. The F-statistics value and the associated p-value stood at 2346.248 and 0.000000 respectively indicating that the hypothesis of a joint statistical significance of the model cannot be rejected as 5% level of significance and the linearized specification of the model can be assumed as appropriate.

The evaluation of the slope coefficients of the independent variables revealed the existence of positive relationship between Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), Lack of Internal Audit Independence (LINAU) and the dependent variable Fraudulent Financial Reporting (FFREP) as depicted by the slope coefficient of 0.075879, 0.452439, 0.102038 and 0.397686 respectively. It is worthy to note that all the variables of Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), and Lack of Internal Audit Independence (LINAU) passed the significance test at 5% level, meaning they significantly promote Fraudulent Financial Reporting (FFREP) based on the findings. Thus, a positive change in Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), and Lack of Internal Audit Independence (LINAU) will likely increase Fraudulent Financial Reporting (FFREP) significantly by up to 0.00, 0.00, 0.00 and 0.00 respectively. Lastly, the Durbin-Watson value of 1.54 suggests that there is no evidence of autocorrelation among the error term.

### **Test of Hypotheses**

The employed hypotheses are statistically tested below as shown in their null form. The study sets its decision rule for the acceptance of the hypothesis at 5% level of significance; hence, the null hypothesis would be rejected if the probability value is less than 5% (0.05). The following are the results of the tested hypothesis:

#### **Hypothesis One:**

$H_{01}$ : Ineffective Internal Control has no significant effect on Fraudulent Financial Reporting.

The first hypothesis of the study seeks to justify if there is significant relationship between Ineffective Internal Control (INICO) and Fraudulent Financial Reporting (FFREP). Utilizing the regression output in the previous table, and judging by the significance level of 0.0034 which is less than the 0.05 significance level as depicted in the regression Table 6, the study therefore

accept the alternative hypothesis and reject the null. This can be concluded that ineffective internal control significantly influence fraudulent financial reporting in tertiary institutions in Nigeria during the period of the study.

### **Hypothesis Two**

H<sub>02</sub>: Lack of Accountability has no significant effect on Fraudulent Financial Reporting.

The two hypothesis of the study seeks to determine whether or not a significant relationship exists between Lack of Accountability (LAACT) and Fraudulent Financial Reporting (FFREP). Based on the regression output in the previous table 6, and judging by the significance level of 0.0001 which is less than the 0.05 significance level as depicted in the regression. The study therefore rejects the null hypothesis and concludes that lack of accountability significantly promote fraudulent financial reporting in tertiary institutions in Nigeria during the period of the study.

### **Hypothesis Three:**

H<sub>03</sub>: Weakness of audit committee does not significantly encourage fraudulent financial reporting in tertiary institutions in Nigeria.

The four hypothesis of the study seeks to determine whether or not a significant relationship exists between Weakness of Audit Committee (WEACO) and Fraudulent Financial Reporting (FFREP). Based on the regression output in the previous table 4.6, and judging by the significance level of 0.0025 which is far less than the 0.05 significance level as depicted in the regression. The study therefore rejects the null hypothesis and concludes that weakness of audit committee significantly encourages fraudulent financial reporting in tertiary institutions in Nigeria during the period of the study.

### **Hypothesis Four:**

H<sub>04</sub>: Lack of internal audit independence does not significantly promote fraudulent financial reporting in tertiary institutions in Nigeria.

The four hypothesis of the study seeks to determine whether or not a significant relationship exists between Lack of Internal Audit Independence (LINAU) and Fraudulent Financial Reporting (FFREP). Based on the regression output in the previous table 6, and judging by the significance level of 0.0003 which is far less than the 0.05 significance level as depicted in the regression. The study therefore rejects the null hypothesis and concludes that lack of internal

audit independence significantly promote fraudulent financial reporting in tertiary institutions in Nigeria during the period of the study.

## **Summary Of Findings, Conclusion And Recommendations**

### **Summary of Findings**

The main aim of this study is to empirically examine public sector governance and fraudulent financial reporting in tertiary institutions in Nigeria. Using primary data collected from ninety-four (94) respondents, the simple percentage, tables and Ordinary Least Squares (OLS) econometric technique were employed in estimating the specified model. The principal conclusions from the study reveal:

1. Ineffective internal control significantly influences fraudulent financial reporting in tertiary institutions in Nigeria.
2. Lack of accountability significantly promotes fraudulent financial reporting in tertiary institutions in Nigeria.
3. Weakness of audit committee significantly encourages fraudulent financial reporting in tertiary institutions in Nigeria.
4. Lack of internal audit independence significantly promotes fraudulent financial reporting in tertiary institutions in Nigeria.

### **Conclusion**

The outcome of this study offers an important insight into public sector governance and fraudulent financial reporting in tertiary institutions in Nigeria. A sample of one hundred (100) respondents comprises of staff of University of Benin, Benin City, BensonIdahosaUniversity, WellspringUniversity and Federal Polytechnic, Auchi, Edo Edo State. The study utilized a single model with Fraudulent Financial Reporting (FFREP) captured as the dependent variable, while the independent variables include Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), Lack of Internal Audit Independence (LINAU). The findings as we gathered through the analysis show that all the variables of Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), and Lack of Internal Audit Independence (LINAU) significantly influences Fraudulent Financial Reporting (FFREP) among selected tertiary institution in Nigeria period under review, hence we can conclude that a unit change in Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit



Committee (WEACO), and Lack of Internal Audit Independence (LINAU) influences Fraudulent Financial Reporting (FFREP) by 0.00, 0.00, 0.00 and 0.00% respectively.

### **Recommendations**

Based on the findings made in the course of this study, particularly the results of the regression models, it is clear that the level of Fraudulent Financial Reporting (FFREP) in the tertiary institutions is highly dependent on Ineffective Internal Control (INICO), Lack of Accountability (LAACT), Weakness of Audit Committee (WEACO), and Lack of Internal Audit Independence (LINAU). Hence, the following recommendations are hereby made:

- i. The study recommended that the issue of effective internal control should be taken seriously in the tertiary institutions. It is also recommended that management of tertiary institutions should invest largely on the training and development of their internal control staff so as to avert the issue of fraudulent financial reporting in the tertiary institutions.
- ii. It is also recommended that public sector policies/programme should be fully implemented so as to enhance public confidence on accountability in the tertiary institutions.
- iii. The study recommended that most of the members in the audit committee are financially literate in order to reduce the fraudulent financial reporting in the tertiary institutions. The study also recommends the strengthening of the regulation of the activities of audit committee members.

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