

Firm Characteristics and Fraudulent Financial Reporting: An Application of the M-Score Model in Nigeria and Kenya

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Abstract

*The study examined the impact of firm characteristics on fraudulent financial reporting in Nigeria and Kenya. The objective of the study was to examine the impact of firm size, leverage, institutional ownership and firm profitability on fraudulent reporting. **The population of the study comprised of quoted non-financial companies in the Stock Exchange and Nairobi Stock Exchange for the period of 2012 to 2018. The data collected were analysed using descriptive statistics, correlation and robust least square regression analysis. It was observed from the descriptive statistics that there is presence of fraudulent financial reporting among the quoted non-financial companies in Nigeria and Kenya. The regression results revealed that the firm size was statistically insignificant; leverage was statistically significant, institutional ownership was statistically insignificant in Nigeria and firm profitability was statistically. The study recommended that shareholders and investors in Nigeria and Kenya should invest in lowly leverage firms because it high leverage firm increases the level of fraudulent financial reporting.***

Keywords: *Beneish M-Score, Fraudulent Financial Reporting, Firm Size, Institutional Ownership, Leverage, Firm, Profitability.*

Introduction

Financial statement is a formal record of financial activities of business organisations, person or other entity. Financial statements are aimed to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decision. For a business enterprise, all the relevant financial information presented in a structured manner and in a form easy to understand is called the financial statements (Dabor & Adeyemi, 2009). According to Agbaje and Dare (2018.p.66), users of financial statement

are "managers of the firm, shareholders, employee, creditors, investors, government, journalists and other stakeholders of the company are very interested in the level of professionalism displayed the accountants and auditors". Fraudulent financial reporting is seen as transaction frauds intended to facilitate the theft or conversion of organizational assets to one's personal use and statement frauds involving the intentional misstatement and omission of certain financial values to enhance the appearance of profitability and financial position to deceive stakeholders (Ehikioya, 2009).

Fraudulent financial reporting is perpetrated through the process of overstatement and understatement of items of accounts with the intention to cover up figures. Meanwhile, fraudulent financial reporting undermines the reliability, quality, transparency and integrity of the financial reporting process, jeopardizes the integrity and objectivity of the auditing profession especially auditors and auditing firms and also diminishes the confidence of the capital markets as well as market participants in the reliability of financial information. Fraudulent financial reporting in the past decades has been accompanied by lawsuits against auditors because of their suspected negligence in not detecting the financial fraud. As a result, auditors have risked the loss of money and loss of their reputations. This situation have pushed auditors and the related organization and institutions to improve the audit processes in order to be more effective in identifying risk and collecting evidence for issuing audit opinions on Financial Statements (Adeyemi & Olowookere. 2011).

The practices of fraudulent financial reporting is fast becoming a key challenge for stakeholders in the global corporate setting and resulted to high demand of forensic accounting skills and high public demand for transformation of corporate governance system (Bhasin, 2013) Therefore, the most common forms of statement fraud are overstated revenue and inventory, while the most common forms of transaction fraud are fictitious payables and the conversion of corporate assets to personal use. The detection of fraud indicators in financial statements has an important effect in determining financial statement fraud. *Because of the difficulty of determining fraudulent financial statements, both qualitative and quantitative techniques were employed by auditors.*

Prior studies in developing and developed countries were acknowledged: Anichebe.. Agbomah and Agbagbara (2019) found out that audit committee size, board independence, board members financial expertise and fraudulent financial reporting is positively and significantly related while board size has positive and insignificant impact on fraudulent financial reporting likelihood while firm size as a control variable impacted positively and significantly on financial statement fraud likelihood and firm performance measured by return on assets is not significantly related to financial statement fraud likelihood and Agbaje and Dare (2018) documented that financial statement fraud and profitability was negatively and significantly related. However, the

extensive international findings on fraudulent financial reporting may not be applicable to Nigeria and Kenya. In our opinion research methods and results are influenced by economic, social or legal realities in those countries in which the studies took place creates a knowledge gap (period gap, measurement gap and methodology gap). The vacuum created by existing literature shows that there is need for further studies on relationship between firm characteristics and fraudulent financial reporting among quoted companies in Nigeria and Kenya by application of Beneish M-score model in the measurement of fraudulent financial reporting. The objectives of the study is to examine the influence of firm characteristics (firm size, leverage, institutional ownership and profitability) on fraudulent financial reporting.

Literature Review and Hypotheses Development

Fraudulent Financial Reporting

Financial reporting has been exacerbated by rapid globalization of the world economy and increasing adoption of a set of unified system of International Financial Reporting Standards (IFRS). It is therefore expected that the application of IFRS would result in improved quality of accounting information, including timeliness, but that may not necessarily be the case in most developing countries. Adewale and Ibukun-Falayi (2018) also claimed that most Nigerian companies are still lacking in some financial reporting quality dimensions though they have adopted IFRS. One observable point of note from these submissions is that the IFRS affects some financial reporting quality constructs (such as timeliness), in different jurisdictions, remains a lingering question yet to be sufficiently and perfectly answered. Association of Certified Fraud Examiners (ACFE) (2016) view financial statement fraud as a declaration of company's financial position by falsification, intentional misstatements and omitting certain elements of the statements and with the intention of deceiving the users of the statements, Spathis (2002) defines fraudulent financial reporting as the falsifications of figures in the financial statement which do not a true picture of the financial position of the business organisations. The accounting profession in Nigeria has been under intense pressure due to rising public expectations which is as a result of series of financial failures that occurred during the recessionary years of the late 80's till date. In the opinion of Zikra, Yohanis and Grace (2018), management uses the financial information to carry out an act of fraud by reporting cooking financial statements to the stakeholders. Fraudulent financial reporting is the intentional, deliberate, misstatement or omission of material facts, or accounting data which is misleading and, when considered with all available information would cause the user of financial information to change his or her judgment or decision.

Beneish M-Score Model

Beneish (1999) probit model of earnings manipulation states that financial statement distortions or preconditions that might prompt companies to engage in earning manipulation as a result of earnings management. It was observed that companies that had to restate their earnings to comply with GAAP are classify as GAAP violators of earnings manipulation in their financial statement. The Beneish probit model of earnings manipulation classified group of companies that had large discretionary accruals and had increasing sales but were not identified as GAAP violators in earnings manipulation. Anh and Linh (2016), argue that the M-score model is one of the useful techniques in detecting earnings manipulation behaviors of the companies and it could be applied for an improvement in financial reporting quality and a better protection for investors. Beneish's probit model was considered variables related to financial information that would indicate whether

financial statement fraud exists. The model uses changes in financial data from the year (t-1) before the earnings manipulation event is identified to the event year (1) The variables included Beneish model is as follows: Days sales in receivables index (DSRI). This index compares the change in receivables with the change in sales. An increase in the days in receivables could "suggest revenue manipulation, Gross margin index (GMI). This index assesses the deterioration of the gross margin rate in the event year t as compared to the year t-1, Asset quality index (AQI). This measures whether the company has the propensity to record cost deferrals. It is calculated by comparing the change in noncurrent assets (excluding property plant and equipment) as a percentage of total assets. Sales growth index (SGI), Depreciation index (DEPI). This index measures the change in depreciation rate from year t-1 to year t. If this is greater than 1. this means that the depreciation rate has slowed, which could mean that earnings are being manipulated upwards, Sales, general, and administrative expenses index (SGAI). This index compares the percentage of sales, general, and administrative expenses to sales from year t-1 to year 1. If the increase in these expenses is disproportionate, it is considered a "negative signal about the company's future prospects, Leverage index (LVGI). This index measures the debt to asset ratio from year t to year t-1. An increase in leverage can indicate a desire to manipulate earnings to meet debt covenants. Total accruals to total assets (TATA). This ratio measures the proportion of earnings which are cash-based. The higher positive accruals are associated with a higher a higher likelihood of earnings manipulation. The M-Score is a mathematical model that uses eight financial ratios to identify whether a company is manipulating its earnings. The variables are constructed from the company's financial statements and create a score to describe the degree to which the earnings have been manipulated in a given listed company. It should be noted that the Beneish probit model M- Score revealed that M-Score of less than -2.22 suggests that the company will not be a manipulator of earnings. An M-Score of greater than -2.22 signals that the company is likely to be a manipulator of earnings which result to financial statement fraud (Beneish, 1999).

Firm Size

The size of the firm plays an important role in determining the kind of relationship the firm enjoys within and outside its operating environment. The larger a company is, the greater the influence it has on its stakeholders. The influence of size in the corporate environment cannot be overemphasized in Nigeria banking environment. Ali, Noor, Khurship and Mahmood (2015) argue that the firms that are large in size have more funds to utilize the best technology and expertise to generate in time financial information to public. Therefore, the large sized firms manage their earning less as compared to small sized firms by keeping in view its reputation and cost in the existence of financial analysts. Larger firms are more likely to design and maintain more sophisticated information and communication technology and effective internal control systems in comparison to smaller firms, reducing the likelihood of manipulating earnings by management. Firms that are larger in size have more cash to invest in modern technology and expertise to generate in time financial information to public. Therefore, the large sized firms manage their cash balances less as compared to small sized firms by keeping in view its reputation and cost in the existence of financial analysts. *Based on the explanations above, the hypothesis is as follows.*

H1: Firm size has a significant impact on fraudulent financial reporting.

Leverage

The presence of leverage makes management to engage in falsification of the financial statement to create a favourable financial position (Baralexis, 2004). Leverage is the mixture of debt in the financing decision of business organizations. However, the higher the debt, the higher the stock market returns (Mohammed, 2017). Leverage can be seen as the amount of money borrowed for business expansion, to increase production level and to maintain production volume and sales as well as aiming for higher earnings for better performance. The higher the amount of debt is a signal of highly leveraged firm. However, high leverage may be beneficial to the business organization in the period of windfalls and cause serious cash flow problems in the period of economic recession which may be able to cover sales revenue and interest payment (Tudose, 2012).

Zarnegar and Hamidian (2016) examined the relationship between profitability, financial leverage and income smoothing at firms listed on Tehran stock exchange with a sample of one hundred and twelve (112) firms for the period of 2010 to 2015. In addition, the study established model and used descriptive. Pearson correlation and multivariate regression statistical analysis approach to analysed data and the result indicated that there is significant and direct relationship between income smoothing, financial statement fraud and financial leverage of the sampled firms. Bassiouny, Soliman and Ragab (2016) examined the impact of firm characteristics on earnings management in Egypt and selected a sample of 300 firm-year observation from the period 2007 to 2011 and adopted the modified Jones model and used descriptive statistics, correlation and regression statistical method to analysed the data. The findings showed that there is a significant positive relationship between firms' financial leverage and earnings management as well as financial statement fraud. Vakilifard and Mortazavi (2016) examined whether leverage lead to move from accrual-based earnings management to real earnings management and financial statement fraud. The statistic sample of the study was 118 firms listed in Tehran Stock Exchange over the period of 2008- 2013. The multiple regressions result show that managers tend to engage more in real earnings management than accrual-based earnings management once leverage is increasing. Anagnostopoulou and Tsekrekos (2017) examined the effect of financial leverage on real and accrual based earnings management and used regression analyses method to analysed data and found out that leverage levels have positively and significantly affect upward real earnings management, with no significant effect on income-increasing accruals earnings management. *Based on the explanations above, the hypothesis is as follows.*

H2 Leverage has a significant impact on fraudulent financial reporting

Institutional Ownership

Ownership structure of a company whether dispersed or concentrated is affected by the incidence of financial fraud that occurs. Barontini, (2008) maintains that firm ownership structure that is fully concentrated has the tendency of feeding the management favourable incentives in order to maximize the value of the firm by bridging the gap between management and shareholders' interests. The relationship between ownership structure and the performance of firms is an important and continued subject in the field of financial management for analyzing this relationship, "up to now different aspects of ownership structure are considered, for instance being insider or non-insider shareholders, shareholders concentration or dispersion, being whole or retail,

being internal (domestic) or being foreign shareholders, being institutional or individual shareholders" (Ezaziet, Sadeghi, Alipour & Amjadi, 2011. p. 164). Bao and Lewellyn (2017) examined ownership structure and earnings management with a sample of one thousand and two (1200) firms in twenty four (24) emerging markets and established indicated that controlling ownership is positively related to earning management. Usman and Yero (2012) examined ownership concentration and earnings management practice of the Nigerian listed conglomerates for a sample of thirty (30) firm-year paneled observations for the period 2004 to 2010. The study proxied earnings management using the modified Jones (1995) model and estimated panel ordinary least square (OLS) and controlled for fixed/random effects. The result shows a significant negative relationship between ownership concentration and earnings management. *Based on the explanations above, the hypothesis is as follows*

H3 Institutional ownership has a significant impact on fraudulent financial reporting.

Profitability

Profitability is defined as the relationship between the cash earnings generated by the company and the investments that earned the excess returns or profit to the organization (Alshatti, 2015). Traditionally, profit maximization is considered as the ulterior motive of every investor. Thus, the management strives to meet this expectation. However, a company can either make profit or a loss at the end of every financial year (Adebayo & Adebisi, 2016). On the premise of profitability in business organizations. "managers are solely to maximize the firms' wealth. Onyeka, Nnado and Iroegbu (2018, p. 2), assert that financial managers principle of cash management must be "based on efficient practices for companies operating manufacturing sector desire to satisfy the diverse interests of stakeholders". However, profitability is defined by Onyeka. Nnado and Iroegbu (2018) as the ability of corporate organisations to generate enough revenue in excess of operating expenses. Profitability is the degree of efficiency and effectiveness with which organizational objectives and goals are achieved. Nyabuti, Memba and Chenge (2016) showed that creative accounting practices have a significant effect on the financial performance of a company and most companies used it abusively hence resulting in most collapses of many firms which brings about financial statement fraud. Agbaje and Dare (2018) conducted a study on the dynamic analysis of financial statement fraud on profitability of manufacturing firms in Nigeria. Financial statement fraud was measured by Beneish model while profitability was measured by ROA for the period of 2002 to 2016. The empirical results show that financial statement fraud and profitability was negatively and significantly related. Ibadin, Izedonmi and Ibadin, (2012) studied how selected corporate governance attributes (such board size and independence; firm size, profitability, Big4 and leverage) affect timeliness of financial reports in Nigeria. They sampled a total of one hundred and eighteen (118) listed firms in Nigeria for the period of 2010 only. They used the above listed corporate governance attributes to proxy for the independent variable, while the timeliness of financial report was proxy by total reporting delay. *Based on the explanations above, the hypothesis is as follows. H4 Profitability has a significant impact on fraudulent financial reporting*

Theoretical Framework

The study was based on the agency theory and theory of inspired confidence to explain the determinants of financial statement fraud.

Agency Theory

The agency theory was developed by Jensen and Meckley (1976). Agency theory is a useful economic theory of accountability that explains the development of the audit. Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents (Casterella, Jensen, & Knechel, 2007). The theory is based on the belief that the agent will be driven by self-interest rather than the desire to maximize the profits for the principal. The idea of agency theory is very useful in this study because in a modern corporation, there is a separation of ownership and management, resulting in agency costs associated with resolving the conflict between the owners and the agents in order to reduce the fraudulent reporting by management. This implies that management cannot be trusted, thereby calling for strict monitoring by the board in order to protect shareholders' interest with quality and timely financial reporting. Also, entrusting resources to the agent and in turn these agents must usually produce a quality report regarding the use of resources both in quantitative and qualitative manner in reducing high level of financial statement fraud.

The Theory of Inspired Confidence

The theory of inspired confidence was developed by Limperg in the year, 1932. It states that the auditor derives his general function in society from the need for an expert and independent opinion based on that examination (Limperg, 1932 cited in Adeyemi & Olowookere, 2011). The function is rooted in the confidence that society places on the effectiveness of the audit and in the opinion of the accountant. This confidence is, therefore, a condition for the existence of that function; if the confidence is betrayed, the function, too, is destroyed, since it becomes useless, which invariably will lead to audit failures. It could be betrayed if the expectation of society is exaggerated, that is, it exceeds what the auditor is capable of performing. The theory of inspired confidence is applicable in this study because it helps to install confidence in the auditor for carrying out thorough checks on the book of accounts prepared by management for determining some fraudulent activities of the staff as well as management. This operation is very fundamental in reducing the level of financial statement fraud.

Methodology

Research Design

The research design adopted for this study is expo-facto research design which helps to examine the impact of firm characteristics on fraudulent financial reporting in some selected quoted companies in Nigeria and South Africa. The justification for using ex-post facto is that they permit the observing of either one or more variables over a given period of time or due to its suitability for the quantitative survey research paradigm that underpins this study. The data relating to the variables are collected at about the same time to basically describe the relationship between the variables under study.

Population of the Study

The population of the study was made up of quoted companies in Nigeria and South Africa. More importantly, the sample population would consist of 170 companies whose shares are quoted on the floor of the Nigerian Stock Exchange (NSE, 2018) and 67 companies whose shares are quoted on the floor of the Nairobi Securities Exchange (NSE, 2018).

Sampling Size and Sampling Technique

The sample size was based on the one-hundred and seventy (170) quoted companies as at 31 December, 2018 in Nigeria Stock Exchange (NSE, 2018 Fact Sheet). However, money deposit banks, insurance companies and other financials were excluded from the sample population. The justification for excluding these companies is based on the fact that these companies are financial service rendering companies. Therefore, we use the statistical formulae of Yamane(1967) to arrive at the sampled size of the remaining total population of 115 quoted companies. This was mathematically expressed as:

$$n = \frac{N}{1 + Ne^2}$$

Where N is the population size, n is the sample size, e is the chance allowed for error or the level of significance. The total population is now 115 listed companies. Given the population size and an assumed significance level of five percent (14%), the sample size is computed as:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{115}{1 + 115(0.14)^2}$$

$$n = 35.34$$

In order to avoid bias, random sampling techniques were used to select 35 quoted non- financial companies among the sampled population.

The sample size of Kenya quoted companies was based on the sixty-seven (67) companies as at 31 December, 2018 in Nairobi Stock Exchange (NSE, 2018). However, banks, support services, insurance and other service companies were excluded from the sample population. The justification for excluding these companies is based on the fact that these companies are service rendering companies. Therefore, the sample size was obtained using the Yamane (1967) formula

$$n = \frac{N}{1 + Ne^2}$$

Where N is the population size

n is the sample size,

e is the chance allowed for error or the level of significance.

The total population is now 38 listed companies

Given the population size and an assumed significance level of five percent (5%), the sample size is computed as:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{38}{1 + 38(0.05)^2}$$

n= 34.70

This value was approximated round-off to thirty-five (35) listed companies. In order to avoid bias, random sampling techniques was used to select 35 quoted non-financial companies among the sampled population.

Model Specification and Measurement of Variables

The functional form is given as;

$$FSF = f(\text{FS: LEV: IOWN; PFT}) \dots\dots\dots(1)$$

While the explicit model in econometric form is given as:

$$FSF-B_0+B_1FS+B_2LEV+B_3IOWN+B_4PFT+\xi_i \dots\dots\dots(2)$$

Where:

FSF- Fraudulent financial reporting

FS - Firm size

LEV-Leverage

IOWN -Institutional ownership

PWT - Profitability

Measurement of Variables

For the measurement of fraudulent financial reporting, we made use of Beneish Messod Score (M score) (1999) model as supported by Anh and Linh (2016) and Omar, Koya and Sanusi,(2014)

$$\text{The M-score} = -4.84 + 0.920 * \text{DSRI} + 0.528 \text{ GMI} + 0.404 * \text{AQI} + 0.892 \text{ SGI} + 0.115 * \text{DEPI} - 0.172 * \text{SGAI} + 4.679 * \text{TATA} - 0.327 * \text{LVGI}$$

The eight indicators of every single nonfinancial listed company are put in to the Beneish regression model. If the M-score is greater than (-2.22) benchmark, the company should be flagged as earnings manipulators. The M-score model and its 8 indicators were Days Sales in Receivables Index (DSRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI), Depreciation Index (DEPI). Sales General and Administrative Expenses Index (SGAI), Leverage Index (LVGI) and Total Accruals to Total Assets (TATA). The measurement of the dependent variable and independent variables were presented in the table below

Table 1: Measurement of Variables

Variables	Definition	Measurement	Source
FSF	Fraudulent financial reporting	Fraudulent financial reporting was measured by Beneish M-score.	Anh and Linh (2016) and Omar Koya and Sanusi, (2014)
FS	Firm size	It was measured by the natural log of total asset.	Oshodin and Ikhatun (2018)
LEV	Leverage	It was measured by the ratio of total debt to total assets.	Al-Najjar and Clark, 2017, Dada, (2015).

IOWN	Institutional ownership	It was measured by the proportion of shares owed by the institutional shareholders.	Abata and Migiro (2016)
PFT	Profitability	It was measured by ratio of profit after tax by total assets	Onyeka, Nnado and Iregbu,(2018).

Source: Researcher's Compilation (2020)

Method of Data Analysis

The study made use of robust least square, correlation analysis and descriptive statistical techniques for the data analyses. Generally, the descriptive analysis of the data was conducted to obtain the sample characteristics in respect to the selected variables. For the purpose of the other objective/hypotheses, the robust least square regression technique was used in determining the interaction effect of the independent variables on the dependent variable. Also, the correlation analysis was use to test the relationship between the variables. The analyses were conducted with EViews a version 9.0 econometric software package was used for the analyses.

Presentation and Discussion of Results

The descriptive statistics shows the description of the mean, standard deviation and normality test. The below is the descriptive statistics of Nigeria for the period of 2012 to 2018.

Table 2: *Descriptive Statistics*

Variables	Mean	Std.Deviation	Jarque-Bera	P-value	Observations
FSF	123.07	2455.68	3236919	0.00	434
FS	7.28	1.57	7212.84	0.00	434
LEV	38.63	29.23	17.14	0.81	434
IOWN	61.48	18.92	47.77	0.00	434
FPT	7.55	113.90	3248773	0.00	434

Source: Author's Computation (2020)

The descriptive statistics shows the description of the mean, standard deviation and normality test. The below was the descriptive statistics of the variables over the given period of the study. The standard deviation of fraudulent financial reporting was 123.07. This indicates that there is high level of fraudulent financial reporting of firms among the quoted non-financial firms in Nigeria and Kenya. The high value of the standard deviation (2455.68) of fraudulent financial reporting signifies the existence of earnings manipulation in the financial statement. It was also observed on the average that fraudulent financial reporting of the sampled firms was 123,07. This implies that fraudulent financial reporting value of 123.07-222 revealed that the sampled firms were not free from financial statement manipulations in the audited annual reports. Firm size (FSI) measured by logarithms of total assets on the average was 7.28 with a corresponding standard deviation value of 1.57. This implies that firm size experience low level of variation among the quoted sampled firms in Nigeria and Kenya. Leverage (LEV) on the average was 38.63 with a corresponding standard deviation value of 29.23. This implies that there was a high level of leverage among the sampled firms as revealed by the standard deviation value. In the case

institutional ownership (IOWN), the variable has an average value of 61.48 with a corresponding standard deviation value of 18.92. This indicates that about 62% of the ownership structures among the sampled firms in Nigeria and Kenya were institutional shareholders. Furthermore, firm profitability (FPT) on the average was 7.55 with a corresponding standard deviation value of 113.90. Lastly, the Jarque-Bera (JB) statistics show that variables were normally distributed at 1% level of significance. The correlation analysis result was presented in table 3 below.

Table 3: Correlation Analysis

Variable	FSF	FS	LEV	IOWN	FPT
FSF	1				
FS	-0.0460	1			
LEV	-0.0032	0.1207	1		
IOWN	-0.0006	0.1483	-0.2461	1	
FPT	0.0007	-0.0290	-0.0907	0.0668	1

Source: Author's Computation (2020)

It was observed from the table above that firm size (FS) and fraudulent financial reporting (FSF) was negatively and weakly correlated (-0.0460). This indicates that increase in the size of the firm might lead to low level of fraudulent financial reporting. Leverage (LEV) and fraudulent financial reporting (FSF) was negatively and weakly correlated (-0.0032). This indicates that changes in leverage might lead to low level of fraudulent financial reporting. Institutional ownership (IOWN) and fraudulent financial reporting (FSF) was negatively and weakly correlated (-0.0006). This implies that increase in institutional ownership might lead to low level of fraudulent financial reporting. In the case of firm profitability (FPT), the variable was positively and weakly correlated with fraudulent financial reporting (FSF = 0.1428). This indicates that increase in firm profitability might lead to high level of fraudulent financial reporting. The robust least square regression result was presented in the table 4 below.

Table 4: The robust least square regression result

Variable	Coefficient	Std.Error	z-Statistic	Prob.
C	-3.169562	0.572836	-5.533101	0.0000
FS	0.011506	0.067274	0.171034	0.8642
LEV	0.010674	0.003631	2.939621	0.0033
IOWN	0.004321	0.005622	0.768645	0.4421
FPT	0.051771	0.000918	56.39733	0.0000
R-squared	0.621912	Adjusted R-square		0.618387
Rw-squared	0.945965	Adjust Rw-square		0.945965
Akaike info criterion	1202.743	Schwartz criterion		1228.149
Deviance	5894.599	Scale		2.218390
Rn-squared statistics	3203.512	Prob (Rn-squared stat.)		0.0000000
Mean dependent var	123.0740	S.D. dependent var		2455.684
S.E. of regression	2470.317	Sum squared resid		2.62E+09

It is observed from the table above that adjusted R' which measures the strength of the effect of independent variables on the dependent variable has the value of 0.618387. This indicates that about 62% of the variation in fraudulent financial reporting is jointly explained by firm size, leverage, institutional ownership and firm profitability. The Rn-statistics value of 3203.512 and its associated p-value 0.00 showed that the model overall was statistically significant.

Following the above, firm size (FS) had a z-statistics value of 0.1710 and a probability value of 0.8642 which is statistically insignificant. This indicates that firm size had insignificant impact on fraudulent financial reporting. The result was contrary to the findings of Anichebe, Agbomah and Agbagbara (2019) that firm size has the likelihood of influencing financial statement fraud. Therefore, we reject the hypothesis that firm size has a significant impact on fraudulent financial reporting. Leverage (LEV) had a z-statistics value of 2.9396 and a probability value of 0.0033 which is statistically significant. This indicates that leverage had a significant positive impact on fraudulem financial reporting at 1% level of significance. The result was in agreement with the findings of Zarnegar and Hamidian (2016), Dalnial, Kamaluddin, Sanusi and Khairuddin (2014) Bassiouny, Soliman and Ragab (2016) that there is a significant positive relationship between firms' financial leverage and fraudulent financial reporting. Therefore, the hypothesis is accepted that leverage has a significant impact on fraudulent financial reporting.

Institutional ownership (IOWN) had a z-statistics value of 0.7686 and a probability value of 0.4421 which is statistically insignificant. This indicates that institutional ownership had insignificant impact on fraudulent financial reporting. The result was in consonance with the findings of Obigbemi, Omolehinwa and Oluku (2017). Bao and Lewellyn (2017), Usman and Yero (2012) and Alzoubi (2016b) while contrary to the findings of Thomsen and Pedersen (2000) Therefore, we the hypothesis is accepted that institutional ownership has a significant impact on fraudulent financial reporting. Firm profitability (FPT) had a z-statistics value of 56.37 and a probability value of 0.0000 which is statistically significant at 1% level of significance. This implies firm profitability has a significant positive impact on fraudulent financial reporting. The result was in agreement with the findings of Agbaje and Dare (2018) and Zikra. Yohanis and Grace (2018) Therefore, the hypothesis is accepted that firm profitability has a significant impact on fraudulent financial reporting

Conclusion and Recommendation

The study examined the impact of firm characteristics on fraudulent financial reporting in Nigeria and Kenya. Fraudulent financial reporting is perpetrated through the process of overstatement and understatement of items of accounts with the intention to cover up figures. It was established from the results that firm size was statistically insignificant, leverage was statistically significant, institutional ownership was statistically insignificant in Nigeria and firm profitability was statistically

Recommendation and Policy Implications

In view of the research findings, the following recommendations are suggested:

1. The management of non-financial quoted companies in Nigeria and Kenya should effectively manage the size of the firm in order to cushion of the effect of fraudulent financial reporting in the long-run.
2. Shareholders and investors in Nigeria and Kenya should invest in lowly leverage firms because it high leverage firms increases the level of fraudulent financial reporting.
3. Management should make modalities against the presence of institutional investors because it increases the level of fraudulent reporting of earnings in the long-run.
4. Shareholders should make strategic decision against increase in firm profitability because it leads to high level of fraudulent financial reporting.

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