

ROLE OF CORPORATE GOVERNANCE IN MITIGATING FINANCIAL FRAUD

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial
fulfilment of the requirements for the Master's Degree

by

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “ROLE OF CORPorate GOVERNANCE IN MITIGATING FINANCIAL FRAUD”. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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August, 2024

REPORT OF RESEARCH COMMITTEE

Mr. Raju Thakuri has defended research proposal entitled "**Role of Corporate Governance in Mitigating Financial Fraud**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Keshar Singh Khati and submit the dissertation for evaluation and viva voce examination.

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We, the undersigned, have examined the dissertation entitled "**Role of Corporate Governance in Mitigating Financial Fraud**" presented by Raju Thakuri a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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Abbreviations

AC	Audit Committee
BS	Board Size
CAR	Capital Adequacy Ratio
LEV	Leverage
NPL	Non Performing Loan
NRB	Nepal Rastra Bank
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Science Research

Abstracts

The purpose of this research is to evaluate how corporate governance reduces financial fraud. The study has chosen two independent variables to measure fraud: the capital adequacy ratio and nonperforming loans. Independent firm-specific and corporate governance variables include board size, audit committee meetings, return on equity, return on assets, and leverage. The purpose of this research is to evaluate the state of corporate governance in the banking industry in Nepal and investigate the effects of firm-specific and corporate governance characteristics on variables used to measure fraud. Using a convenience sample technique, the secondary data were taken from the eight commercial banks' published annual reports. SPSS Software Version 25 was used to analyze the data using a quantitative approach and descriptive analysis. The significance and importance of corporate governance of Nepalese commercial banks are tested using multiple regression models.

The study employs data from eight commercial banks covering the years 2075 to 2080. The results indicate that while board size and leverage have no significant effect on fraud measurement factors, ROA, ROE, and the number of audit committee meetings have a significant impact on fraud measuring variables. The study concludes that leverage, ROA, and ROE all positively relate to capital adequacy ratio. The size of the board and the frequency of audit committee meetings are positively correlated with the capital adequacy ratio. The relationship between leverage and non-performing loans compared to the total loan is negative for both ROE and leverage.

Keywords: Corporate Governance, Financial Fraud, Audit Committee, Board Size, Financial Performance

CHAPTER I

INTRODUCTION

1.1 Background of the study

Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. (OECD, 1999).

The term "corporate governance" describes the leadership and management style of businesses. Companies cannot be accountable to their various stakeholders without corporate governance. Corporate governance is defined by a number of academics as the highly visible core component of corporate governance. Corporate governance can be regarded as a mechanism that is utilized to be able to direct and control firms and organizations (Amarneh, 2014).

Shiefer and Vishny (1997) finds that Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Corporate governance frameworks aim to protect the interests of shareholders by ensuring that management acts in their best interests. This includes establishing mechanisms for shareholders to participate in decision-making processes and have access to timely and accurate information. Effective corporate governance typically involves a board of directors that oversees the management of the company. The board is responsible for setting strategic objectives, monitoring performance, and appointing executives who are responsible for day-to-day operations.

Corporate governance frameworks establish mechanisms for accountability and oversight. This includes the role of boards of directors in overseeing management and ensuring that internal controls are in place to detect and prevent fraud. Boards that actively fulfill their oversight responsibilities are more likely to identify red flags or irregularities that could indicate fraudulent activities. Financial statement fraud is

intentional fraud against users of financial statements. The cheating technique used is to make mistakes and manipulate the presentation of financial statements intentionally (ACFE, 2020).

Financial statement fraud is the intentional falsification of financial information in order to defraud investors, creditors, or other stakeholders. This can be done by both internal and external parties (Carmichael 2020). Similarly, ACFE (2020) finds that Financial statement fraud is an act of fraud committed intentionally to provide information that misleads users of financial statements because it contains errors and manipulations. This deliberate carelessness is significant because it has the potential to influence the choices that interested parties will make. Financial statement fraud is committed with the intention of keeping share prices high, giving investors the impression that their money is safe.

Financial statement fraud occurs in organizations for various reasons, often stemming from a combination of factors that create opportunities, incentives, and rationalizations for individuals or groups within the organization to engage in deceptive practices. Baskaran et al., 2020; Saluja et al., 2022) finds out that Financial Pressure, Oppourtunities for fraud (Opportunity), rationalization of fraudulent behavior (Rationalization), thecapability to engage in fraudulent actions (Capability), and the actions themselves (Action) are critical contributors to Financial Statement Fraud.

When organizations or individuals face financial difficulties or performance expectations that they perceive as difficult to meet through legitimate means, it can create a motivation or pressure to engage in fraudulent activities. This pressure can be internal (within the organization) or external (from stakeholders such as investors or creditors). Similarly, Organizations with inadequate controls or oversight are more susceptible to financial statement fraud. Opportunities for fraud arise when individuals or groups perceive that they can manipulate financial information or transactions without being caught. Lack of monitoring, poor segregation of duties, and loopholes in policies or procedures increase the likelihood of fraud. (Romney et al., 2020).

Rationalization involves the mental processes through which individuals justify or excuse their fraudulent behavior to themselves or others. It includes minimizing the ethical implications, blaming external factors, or convincing oneself that the fraud is necessary or justified. Perpetrators of financial statement fraud often rationalize their actions by convincing themselves that their behavior is acceptable given the circumstances. This may involve believing that the fraud will benefit the organization in the long run, justifying it as a temporary measure, or blaming external pressures or circumstances beyond their control. Rationalization such as auditor turnover affects financial fraud. ((Lee & Ha, 2021; Siddiq & Suseno, 2019).

Capability refers to the knowledge, skills, authority, and access to resources that individuals or groups possess to execute fraudulent activities. It includes technical expertise in accounting or financial reporting, authority to override controls, and access to confidential information. Those involved in financial statement fraud must have the necessary capabilities to manipulate financial data or transactions. This includes understanding accounting principles, knowing how to exploit weaknesses in systems or controls, and having the authority or access needed to carry out fraudulent actions without detection. This was confirmed by the research findings which showed that capability has an effect on Financial Statement Fraud (Nugroho & Diyanty, 2022; Putra, 2019; Santoso & Surenggono, 2018).

Action refers to the actual fraudulent behaviors or actions taken by individuals or groups within an organization to manipulate financial statements or reports. This includes falsifying records, misrepresenting financial results, hiding liabilities, inflating revenues, or creating fictitious transactions. Financial statement fraud involves specific actions or behaviors that distort the true financial position or performance of an organization. These actions are deliberate and aimed at deceiving stakeholders, such as investors, creditors, regulators, or the public, about the true financial health and operations of the organization. Elvin Bastian (2024) finds Action is also the contributors to Financial Statement Fraud.

Financial statement fraud is an illegal act because it can mislead users of financial statements (Lokanan & Sharma, 2018). Even yet, it can be challenging to anticipate the expenses associated with fraud cases because not all fraud instances are discovered and not all fraud cases are reported. As a result, various approaches are

required to forecast fraud. (Alleyne & Howard, 2005; Farrell & Franco, 1999; Seetharaman et al., 2004). The report of (ACFE 2020a,2020b) verified that financial statement fraud is most common in the banking sector, and it mostly affects developing nations like the ASEAN region. This requirement seems incongruous given that banking is a highly regulated industry with strict oversight standards. (Vishnani et al., 2019). It is claimed in this instance that managers can utilize opportunity as a place to commit financial statement fraud. (Wu & Wang, 2018).

Earning management, a term used to describe financial statement fraud schemes where the value of profit recognition deviates from the financial statements, affects unreliable financial statements and may lead to investors making incorrect decisions (Kurniawansyah, 2018). This earnings management practice is included in the LLP (Loan Loss Provision) component in the banking setting as a significant and subjective component that facilitates managers' financial statement deception (McNicolas & Stubben, 2018). Furthermore, the ability to detect fraudulent activity in banking also depends on financial stability. Hidayatullah and Praptoyo (2018) demonstrate how managers may engage in financial statement fraud when banks fail to meet the required minimum capital adequacy ratio.

According to the Capital Market Management Agency (BPPM) in a number of nations, public businesses that have adopted corporate governance have been able to stop financial statement fraud (Sutoyo & John, 2005). Because corporate governance is a tool to ensure that directors and managers (insiders) can act in the best way for the benefit of outside investors, creditors, or shareholders (Jackson et al., 2009), there is a significant relationship between corporate governance and fraud (Shi et al., 2017). In this case, corporate governance is required to stop and discourage financial reporting fraud by managers. According to Zam et al. (2014), inadequate corporate governance can result in fraud and expose flaws in the company's management and monitoring system. Therefore, senior management is more likely to fail to stop fraud or break financial laws themselves when a company has strong corporate governance or effective controls (Lou & Wang, 2009). As a result, corporate governance must be strengthened to prevent managers from turning away stakeholders.

1.2 Problem statement

Financial fraud is still a major problem in business settings across the globe, putting investors, stakeholders, and the economy at large at serious risk. The accuracy and openness of financial reporting within firms are still under threat from fraudulent actions, even with major developments in corporate governance measures over the past few decades. There is a vital need for additional study to clarify the underlying mechanisms, problems, and opportunities in this domain as the effectiveness of corporate governance in preventing and detecting financial fraud differs greatly among industries and jurisdictions (Grundfest, 2006).

The goal of corporate governance is to protect shareholder interests, maintain accountability, and encourage moral behavior. It includes the structures, procedures, and connections that govern how corporations are run. Board supervision, internal controls, openness in financial reporting, and compliance with regulations are essential elements of good governance. Though theoretically fundamental, the practical implementation of these concepts and their efficacy in reducing financial fraud are still being examined and discussed. (Tricker, 2021)

Allen (2010) verified that diverse degrees of susceptibility to financial fraud are a result of the complexity and diversity of corporate governance systems seen in various businesses and geographical areas. Organizational culture, CEO compensation plans, legal frameworks, stakeholder expectations, and regulatory environments are just a few examples of the many variables that have a big impact on governance results and fraud tendencies. To effectively improve governance procedures and reduce fraud risks, targeted methods requiring an understanding of these contextual elements must be developed. (Bernard, 2001)

The body of research on the subject of corporate governance and financial fraud is quite helpful, but there are still a lot of questions about how certain governance practices and environmental factors combine to either encourage or discourage fraudulent activity. Moreover, empirical studies frequently concentrate on discrete facets of fraud or governance, calling for a more comprehensive and integrated strategy to investigate the complex processes at work.

Thus, by examining the complex relationship between corporate governance standards and the incidence of financial fraud within firms, this thesis research seeks to close these gaps.

In a study, banks were selected for the analysis of mitigation of financial fraud through corporate governance. Kindleberger (1978) defines a bank as a financial institution that accepts deposits and channels those deposits into lending activities, thereby playing a crucial role in the economy's credit intermediation process. Similarly, Mishkin (1991) describes a bank as a financial intermediary that provides a variety of financial services, including accepting deposits, making loans, and facilitating payments, while emphasizing their role in the monetary system. Banks play a critical role in the economy by intermediating funds and providing financial services. Instances of financial fraud in banks can have significant ripple effects on depositors, investors, and the overall financial system. Therefore, understanding how corporate governance impacts fraud prevention and detection in banks is crucial for maintaining financial stability.

Banks are subject to strict regulatory frameworks and participate in intricate financial operations. Due to its intricacy, there is a greater chance of financial fraud, including interest rate manipulation, insider trading, and financial statement misreporting. (Calomiris, 2014). The impact of various governance methods and structures on the probability and detection of such frauds can be investigated through research. Allen (2011) has found that a lot of regulatory monitoring is placed on banks with the goal of safeguarding stakeholders and maintaining financial stability. Strong corporate governance structures assist banks in adhering to these rules and reduce the possibility of infractions that might result in accusations of fraud or fines. Stakeholder trust can be damaged by financial fraud in banks, which has an impact on workers, investors, depositors, and the community at large. Examining how corporate governance can help stop financial fraud can improve banks' accountability, ethics, and transparency while also protecting shareholder interests. (Chew, 2013).

Financial fraud in banks has a long history of being reported in various countries. These incidents can be analyzed through research to find trends, underlying issues, and governance flaws that aided in the fraud. Such empirical data can help shape corporate governance best practices meant to lower the likelihood of fraud. (Allen et

al.,2011). Arun and Turner (2004) emphasized the following factors in order to highlight the necessity of strengthening corporate governance in the banking industry in emerging nations.

- i. In an economy like this, banks hold a mostly dominating position and are seen as growth engines.
- ii. Due to improper development of the financial markets, banks serve as the majority of business primary source of funding
- iii. The primary depository for economic savings is a bank.
- iv. Recent deregulation has given bank managers more latitude in managing the banks from the government.

Therefore, it's more crucial than ever to have enough control over the banking industry to prevent another catastrophe such to those that struck East Asia in 1997 and the United States in 2008. Corporate governance changes are especially important for developing nations like Nepal because they increase capital market savings and draw in more foreign direct investment (Maskey, 2004). Only when Nepal Rastra Bank (NRB), the country's central bank, released corporate governance guidelines in 2002 did the corporate governance scenario take off. The only current benchmark for corporate governance is the Nepal Rastra Bank's (NRB) regulatory regulations. The two most notable banking crises in Nepal are the bank run of Nepal Bangladesh Bank (NB Bank) in November 2006 and the ViborBikas Bank (VBB) crisis in 2011 (Sapkota, 2016), in which the Central Bank (NRB) had to save VBB. The crisis at ViborBikas Bank is comparable to that of Lehman Brothers (Sapkota, 2016). In a similar vein, one of the worst moments for the Nepalese banking industry occurred with the collapse of the Nepal Development Bank in 2009 (Sapkota, 2016). Nonetheless, the three examples were connected to the shortcomings in the application of corporate governance. The Nepal Rastra Bank, the country's central bank, released guidelines to improve corporate governance in 2005, but it also revealed multiple bank failures.

By updating and changing rules and guidelines, Nepal Rastra Bank (NRB), the country's central bank, has continuously worked to enhance bank governance. Some of the recommendations developed to guarantee improved governance in banks are the most recent complete directive, guidelines for stress testing, guidelines for the

CEO's compensation, etc. Even with these rules and regulations, corporate governance is nevertheless difficult since bad actors often find new ways to embezzle public funds. Nepalese organizations still lack a culture of good governance and sufficient attention to the interests of the general public. The line separating management from ownership is still unclear. In Nepal, there is a significant problem with directors and employees engaging in fraudulent activity (Khatiwada, 2015). The CEO of KIST bank (2013) and H&B bank (2012) were accused with misappropriation. In a similar vein, NABIL (2011) and Himalayan Bank (2012) were charged with employee theft of the ATM pin number.

Taking into consideration the background of the study and problem statement the following research questions are the basis for the setup of the study:

- i) How does corporate governance influence the control and prevention of financial fraud in Nepal?
- ii) How does board size influence the likelihood of financial fraud within banks?
- ii) What role does the audit committee's oversight and governance practices play in detecting and preventing financial fraud?

1.3 Objectives of the study

Various objectives of the study are as follows :

- i) To assess the current status of corporate governance in banking sector, in the context of Nepal.
- ii) To analyze the relationship between board size and financial fraud within banks.
- iii) To examine the impact of corporate governance variables and firm specific variables on fraud measuring variables.

1.4 Hypothesis

Financial statement fraud can be avoided with the aid of corporate governance. While some research (Hsu & Yang, 2022; In'airat, 2015; Md Nasir & Hashim, 2021) have suggested that corporate governance can help prevent fraud, other studies have found that it is unable to stop financial statement fraud (Sunaryo et al., 2019). The size of board and audit committee, two components of corporate governance that should fortify the organization's internal controls, are evaluated for efficacy in this study.

Studies show that there is frequently no discernible difference in profitability between fraud-committing and non-fraudulent businesses. For example, while specific financial ratios affected the probability of fraud, profitability itself did not much change between fraudulent and non-fraudulent organizations, according to a study looking at companies registered on the Indonesia Stock Exchange (Aisyah, Rachmawati & Saefullah, 2022). Another study made the suggestion that companies going through extended periods of supernormal performance would be more inclined to commit fraud in order to keep their positive standing. The implication is that although performance in the near term could seem strong, it can conceal dishonest activities that endanger stability in the long run. A company's reputation and investor trust may suffer as a result of financial statement fraud, which could have a negative impact on the company's market value and future profitability (David et al., 2016). Taking these statements into consideration, the first hypothesis is :

H1: There is negative relationship between financial performance and financial fraud.

The boards are crucial to the framework of corporate governance because they super-monitoring to guarantee the company's prosperity. Because they have the most authority within a firm, boards are in charge of ensuring the accuracy and legitimacy of financial statements when it comes to financial information (Alzoubi and Selamat 2012). A sizable board that gathers the opinions and experiences of different managers will successfully support the supervisory role with overall control (Fathi 2013). Big boards reduce the possibility of financial statement fraud and are associated with exceptional performance on the reputation of the organization (Orozco et al., 2018; Kalbuana et al., 2022). Nonetheless, a number of other studies' conclusions indicate that board size has little bearing on financial statement fraud (Nguyen et al. 2022; Shan et al. 2013; Salleh and Othman 2016). As a result, the study's second hypothesis is:

H2: There is negative relationship between board size and financial fraud.

The audit committee is a crucial component of the corporate governance framework because it examines the independence and integrity of the business's financial statements.

In order to prevent financial statement fraud, an effective audit committee can promote better and more efficient monitoring and assessment (Razali and Arshad 2014). Moreover, financially educated audit committee members are better able to identify and stop fraudulent financial reporting (Kamarudin et al. 2014). Nonetheless, the results of Razali and Arshad's (2014) study demonstrate that audit committee expertise has little bearing on financial statement falsification. In light of this justification, the third hypothesis of the study is:

H3: There is negative relationship between audit committee meetings and financial fraud.

1.5 Rationale of the study

For the banking industry in Nepal, it is essential to comprehend corporate governance and how it relates to financial fraud. The economy depends heavily on banks, and any problems relating to fraud can have a big impact on the public's trust in the financial system. The significance of robust corporate governance structures has been emphasized by global financial fraud incidents. It is possible to evaluate how local government policies reduce or increase the risk of fraud by applying this knowledge to the Nepalese environment.

A number of parties are impacted by financial fraud, including the economy as a whole, employees, shareholders, and depositors. Analyzing corporate governance procedures helps banks better safeguard the interests of these stakeholders. (Andrei, 1986). Regulatory compliance and effective business governance are frequently related. Examining the governance procedures of Nepalese banks facilitates the assessment of the suitability of current legislation and the identification of opportunities for enhancement. By addressing knowledge gaps unique to Nepal, this topic's research adds to the body of academic literature. It can offer factual data and conceptual understandings that advance international conversations on financial fraud and corporate governance. The study's conclusions can help bank management understand the best strategies for corporate governance. This may result in useful suggestions for improving governance systems to more successfully stop and identify financial fraud. (Chew, 2007).

Having a deeper understanding of the relationship between financial fraud and corporate governance aids in the development of risk management strategies for banks. This entails spotting early indicators of fraud and taking preventative action to lower risks. Aguilera (2017) investigated that the ethical norms and values of accountability, transparency, and integrity are intimately related to corporate governance. Gaining a greater grasp of the ethical problems Nepalese banks face is made possible by examining these characteristics in the context of financial fraud.

The goal of this research is to ascertain how various aspects of good governance affect the reduction of financial fraud. The number of audit committees, board member size, ROE, and ROA are utilized as independent variables to determine their impact on non-performing loans and the capital adequacy ratio. In the context of Nepal, this study will guarantee the banks' ability to determine whether corporate governance has an effect on reducing financial fraud. The banks can utilize this study to keep their audit committee participation and number of board members.

1.6 Limitations of the study

There are 20 commercial banks in the nation that are currently in operation, however not all of them are included in the study. For the study's purposes, just eight banks are taken into account. Results from the study would have been more reliable if all 20 banks had been included. The study included board member size, ROE, ROA, and the number of audit committee meetings and the leverage as independent factors. Other variables that were left out were the number of board meetings, the proportion of female directors, the competency of internal auditors, and others. The study sample consisted solely of commercial banks; as a result, the connection between the dependent and independent variables may differ for development banks, insurance firms, microfinance, and other non-financial institutions. The study's entire component is based on publicly available information and secondary data. As a result, the validity of secondary data and information influences the consistency of the findings and conclusion.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

A literature review, which comprises a detailed evaluation and analysis of recent academic articles on a particular subject or research topic, is an essential part of scholarly work. The facts and conclusions from earlier relevant investigations by different researchers are covered in this chapter. The research and data were pertinent to additional examination of the relationship between corporate governance and financial fraud.

2.2 Theoretical review

Similar to the word government, governance ultimately comes from the Greek verb "kubernao," which means "to steer." In the 1990s, a political scientist and economist coined the phrase "governance," which was then promoted by organizations like the World Bank, IMF, and UNO. Neoclassical economics is the source of many theories of governance as a process. Based on the suppositions of the contemporary economy, those theories constructed deductive models to explain how national actors may have established and maintained informal organizations like networks and commons governance, as well as formal organizations like states and corporations.

2.2.1 Evolution of corporate governance

Over the years, a number of variables have influenced corporate governance, including changes in regulations, public expectations, business scandals, and economic advancements. Formalized frameworks for managing and administering corporations were required in the 19th century as a result of the Industrial Revolution, which fueled the rise of larger and more complex businesses. During this time, boards of directors came into being, with the purpose of supervising business operations and defending the interests of shareholders. During this pivotal period of industrialization, these boards were essential in establishing strategic directions, maintaining accountability, and overseeing the increasingly complex operations of corporate entities. Governments started forming regulatory agencies in the early 20th century with the intention of monitoring business operations and defending the interests of the

general public. During this time, corporate responsibility was also heavily stressed, with an emphasis on transparency and making sure that business decisions reflected the interests of shareholders. These innovations played a pivotal role in molding the fundamental principles of contemporary corporate governance, thereby laying the groundwork for regulatory frameworks designed to uphold moral ideals and safeguard stakeholders within a progressively intricate business milieu.

In the mid to late 20th century, the expansion of corporate governance codes became a prominent focus as countries developed formal guidelines and principles for governing corporations. This period coincided with globalization, characterized by increased international trade and investment, which highlighted the necessity for standardized governance practices that could transcend national borders. However, this era was also marked by significant corporate scandals such as Enron and WorldCom, which exposed severe lapses in transparency, accountability, and ethical behavior within corporations. These scandals catalyzed regulatory reforms aimed at restoring public trust and ensuring that corporate governance frameworks were robust enough to prevent such abuses in the future. The implementation of the Sarbanes-Oxley Act in the United States and the adoption of international standards like the OECD Principles of Corporate Governance have had a substantial impact on global governance practices in the twenty-first century. The objectives of these programs have been to improve ethical standards, accountability, and transparency internationally. Simultaneously, there has been a discernible change in focus towards ethics, sustainability, and corporate social responsibility (CSR), which is indicative of wider societal norms and environmental issues. Furthermore, in order to bring corporate behavior into line with ethical norms and shareholder interests, investors are becoming more active in governance matters and advocating for better board monitoring and more equitable executive remuneration policies. This trend is known as shareholder activism.

According to current trends, digital transformation is improving cybersecurity measures, data analytics, and virtual board meetings. It also has a significant impact on governance. In addition, there is a growing social movement in favor of diversity and inclusion, which is encouraging leadership positions and boards to more fairly represent a range of experiences and viewpoints. Furthermore, since investors and

stakeholders place a high value on ethical and sustainable practices, environmental, social, and governance (ESG) criteria have become essential in evaluating companies. This has led to the development and improvement of contemporary governance practices to better meet the needs of society and the environment.

2.2.2 Financial statement fraud and fraud theory development

Misstatements and deliberate omission of account information from the financial statement are signs of financial reporting fraud, also known as financial statement fraud. Financial information is deceptive when facts are omitted or misrepresented. Financial statement fraud refers to the intentional underreporting or omission of pertinent data combined with dishonest accounting techniques. Financial statement users may be persuaded to change their decisions by the false information provided (Rezaee, 2002).

By identifying the warning signs of fraud, or Red Flags, and determining whether they are actually signs of fraud, auditors, managers, staff members, and examiners can identify faked financial statements (Albrecht et al., 2011). Additionally, according to Albrecht et al. (2011), there are six (six) distinct classifications into which symptoms can be divided: 1. Accounting anomalies; 2. Weak internal controls; 3. Analytical anomalies; 4. Excessive lifestyles; 5. Unusual conduct; and 6. Tips and complaints. These kinds of scams should be avoided by being aware of the warning indicators of financial statement fraud.

Compared to stealing, fraud has more detrimental effects on all fronts. The circumstances surrounding fraud both domestically and globally provide proof that fraud is still a booming industry. In order to combat fraud, numerous studies are conducted to forecast and explain fraudulent behavior. This allows for the implementation of targeted countermeasures. Since the 1950s, a number of theories have evolved with the purpose of minimizing fraud.

2.2.3 The pentagon fraud model and financial statement fraud

According to Saluja et al. (2022), the Pentagon Fraud Model is a theoretical construct that facilitates the comprehension and examination of the elements that give rise to financial statement fraud. It highlights five essential components that might lead to or facilitate financial statement fraud; these components are sometimes shown as pentagons. These components are: 1) Pressure is a metaphor for the emotional or

financial strain that can lead people or organizations to perpetrate deception. This could be due to a desire to reach financial goals, issues with one's own finances, or other incentives to commit fraud (Hashim et al., 2020). 2) Opportunity refers to the situations or settings that give rise to the possibility of deception (Roemer & Trannoy, 2015). Financial statement fraud can occur as a result of a company's systems being vulnerable, insufficient oversight, or weak internal controls (Zakaria et al., 2016). 3) Rationalization is the mental process people use to rationalize their dishonest actions (Offei et al., 2022). They might persuade themselves that their acts are in some manner required, appropriate, or justified. 4) The ability to commit a fraudulent conduct is defined as having the necessary abilities, information, or resources (Wahyudi et al., 2022). This can involve command over financial procedures, access to private information, or technical know-how. 5) The actual fraudulent act is carried out through the action. It entails taking particular actions to falsify facts, distort financial data, or use other deceitful tactics (Lokanan, 2018). Organizations and auditors can evaluate the existence and interaction of these components in a company's activities and culture by using the Pentagon Fraud Model (Ratmono & Frendy, 2022). This eventually promotes accountability, transparency, and the integrity of financial reporting inside an organization by allowing them to identify, stop, and deal with the underlying causes of Financial Statement Fraud (Jeppesen, 2019; Roszkowska, 2021; Shonhadji & Maulidi, 2021).

2.2.4 Corporate governance and financial statement fraud

Financial statement fraud can be avoided with the aid of corporate governance. While some research (Hsu & Yang, 2022; In'airat, 2015; Md Nasir & Hashim, 2021) have suggested that corporate governance can help prevent fraud, other studies have found that it is unable to stop financial statement fraud (Sunaryo et al., 2019). The board of commissioners and audit committee, two components of corporate governance that should fortify the organization's internal controls, are evaluated for efficacy in this study.

2.2.5 State of the art

According to agency theory, information asymmetry and competing interests between agents and principals are the causes of agency conflicts (Jensen & Meckling, 1976).

The right to manage and make decisions in the best interests of the principle and the business resides with management acting as agents. One kind of agent accountability is the financial statement, which reports financial performance to the principal. Financial statements are often fabricated by agents in an effort to appear successful and profit from the manipulation. Beginning with the fraud triangle (Jacobs & Cressey, 1954), fraud theory has developed in recent years. Other concepts that have been introduced include the fraud diamond (Wolfe & Hermanson, 2004), the fraud pentagon (G. Vousinas, 2018), and the fraud hexagon (G. L. Vousinas, 2019). The hexagon hypothesis incorporates stimulation, capability, opportunity, rationalization, collusion, and ego, building upon previous ideas. According to G. L. Vousinas (2019), the model developed using hexagon theory is known as the SCCORE model. The structure of corporate governance facilitates the administration of a company that is transparent, accountable, responsible, independent, and equitable. The goal of good governance is to shield financial reporting from unfavorable pressures (Hsu & Yang, 2022).

2.3 Empirical review

An empirical review is a systematic analysis of actual research projects and experiments to better understand a particular problem. It uses actual measurements and observations to shed light on the topic, identify trends, and advance understanding. This kind of assessment is essential for shaping future investigations based on real studies finished in various contexts.

Afrizon (2024) examined the moderating role of company governance in the financial statement fraud analysis. The findings of the analysis demonstrated that while integrity had a negative influence, pressure, competence, and arrogance had a favorable affect on the tendency of financial statement fraud. These results suggest that specific personal traits may play a role in financial reporting deception. The study did discover, however, that company governance considerably moderates the connection between these elements and financial statement fraud. This shows that the influence of these individual elements on the probability of fraudulent financial reporting can be lessened by the existence and efficacy of corporate governance procedures.

Bastian (2024) set out to find out how the Pentagon Fraud Model affected the five main variables—Pressure, Opportunity, Rationalization, Capability, and Action—that are associated with the likelihood of Financial Statement Fraud (FSF). Improving prevention and detection techniques as well as knowledge of the fundamental causes of fraud were the goals. The study also attempted to investigate the potential moderating effect of Islamic Corporate Governance (ICG) on the correlation between FSF risk and the Pentagon Fraud Model components. The study's conclusions support earlier research showing that a number of factors, including pressure from the financial or psychological system, chances for deception, the ability to commit fraud, and the deceptions themselves, play a major role in financial statement fraud. The study also emphasizes how ICG modifies these elements and suggests that it can improve corporate governance procedures in Islamic financial institutions and reduce FSF risk.

With reference to the SCCORE components (stimulus, capability, collusion, opportunity, rationalization, and ego), Diah et al.,(2024) sought to analyze financial statement fraud using the SCCORE model, ascertain the moderating effect of corporate governance on the relationship between the SCCORE model and financial statement fraud, and develop recommendations for a financial statement fraud detection model that includes corporate governance as a moderating factor. One of the main conclusions was that the association between financial statement fraud and the SCCORE model may be mitigated by corporate governance. In particular, the study discovered that while capability and rationality do not influence financial statement fraud, stimulant, collusion, opportunity, and ego do.

Violeta (2024) sought to address the way the M-Beneish score, which measures corporate governance, affects the incidence of financial fraud. The analysis's findings validate the majority of the study's hypotheses and show that the M-Beneish score is adversely affected by a poor implementation of the corporate governance score and its constituent parts, AUDIT, EQUIL, INDEP, and GenF. This suggests that financial fraud will rise in response to a low corporate governance score. According to these results, the danger of fraudulent financial reporting may be reduced with the support of stronger corporate governance practices, such as an efficient audit committee, a fair ownership structure, independent board members, and gender diversity.

Andayani & Wuryantoro (2023) provided a general overview of the ways in which financial statement fraud detection, good corporate governance (GCG), and corporate social responsibility (CSR) work together to minimize false financial statements. The main conclusions showed that financial statement fraud detection, social responsibility, and good governance can all reduce financial statement fraud. The study also underlined the need for ethical principles and a corporate culture that discourages the use of misleading financial statements to help efforts at prevention and detection. This emphasizes how crucial it is to avoid fraud in a multimodal way that includes social responsibility and governance procedures to guarantee the accuracy of financial reporting.

Diah.,et al (2023) set out to look into how financial statement fraud during the COVID-19 outbreak was impacted by company governance. The main conclusions showed that there is a strong negative correlation between board size and financial statement fraud, indicating that larger boards are better at preventing fraud. The study did not discover any correlation between financial statement fraud and foreign board experience or audit committee financial expertise. Furthermore, there was no proof that internal audit competency affected financial statement fraud. Overall, the findings point to the potential importance of some corporate governance practices, such as board size, in preventing financial statement fraud during the COVID-19 pandemic, while noting the lack of a substantial impact of other variables, such as audit expertise and international experience.

Sinebe & Jeroh (2023) intended to assess corporate governance measures that do not individually influence the perpetration of financial statements' fraud among listed non-finance firms in Nigeria. According to the findings, the presence of independent directors on the board, varying CEO tenures, and high institutional ownership alone do not sufficiently mitigate fraudulent activities. The research suggests that future revisions of Nigeria's governance codes should prioritize developing a comprehensive strategy to combat financial statements' fraud, rather than placing excessive emphasis solely on board structure, director independence, or CEO tenure. This holistic approach is advocated to strengthen governance frameworks and enhance fraud prevention measures effectively across corporate entities in Nigeria.

Thamlim & Reskino (2023) examined the effects of pressure, opportunity, rationalization, competency, and arrogance the five pillars of the fraud pentagon theory on the identification of false financial reporting in Indonesia's real estate and property market between 2019 and 2021. According to the researcher's investigation, identifying signs of fake financial reporting was significantly aided by both financial stability and efficient monitoring. Financial goals, outside pressure, total accruals, director changes, and CEO duality, however, had no effect on the identification of signs of dishonest financial reporting. The study also looked at the function of institutional ownership and the audit committee in corporate governance, and discovered that these factors had no moderating effect on the effect of the fraud pentagon parts on the signal of fraudulent financial reporting. According to these results, corporate governance procedures do not seem to have a major moderating effect on the detection of fraudulent financial reporting in the Indonesian property and real estate sector. Instead, certain fraud pentagon factors, such as financial stability and efficient monitoring, are more pertinent.

Using operational risk as a moderating factor, Ety & Agustina (2022) determined whether implementing effective corporate governance might lower the incidence of misleading financial statements in banks. The main conclusions were that financial statement fraud and bank governance do not significantly correlate. On the other hand, the study found that operational risk moderates the association between financial statement fraud and bank governance. This shows that while strong operational risk management may help increase bank governance's ability to decrease fraudulent financial reporting activities, solid corporate governance procedures alone may not be able to directly mitigate financial statement fraud.

Cholisoh & Hadziq (2021) study was to ascertain how much Good Corporate Governance (GCG) in Islamic banking affected fraud indicators, particularly at Bank BNI Syariah. The main conclusions were that funding fraud is significantly impacted by the Good Corporate Governance variable at the same time. On the other hand, partial testing revealed that the GCG variable had no bearing on financing fraud. This implies that while the general use of GCG principles in Islamic banking can assist reduce the risk of fraud, specific GCG elements could not directly affect the rate at which fraudulent acts occur. The findings emphasize how crucial it is to take into

account GCG's overall effects rather than depending just on one GCG component to combat financial fraud in Islamic banking.

Hermanto & Purwaningsih (2021) determined how corporate governance practices affected the likelihood of fraud in financial statements. Financial statement fraud is less common when the audit committee is successful, according to the researcher's logistic regression analysis. The likelihood of fake financial statements, however, was shown to be unaffected by the size of the board of directors, indicating that a company's board size has not been able to successfully stop dishonest financial reporting. According to these results, certain corporate governance practices like having a robust audit committee can assist reduce the likelihood of financial reporting fraud, but the size of the board as a whole might not have as much of an impact on preventing fraud.

Ali & Hashim (2020), aimed to explore the relationship between fraud risk assessment and good corporate governance among companies listed in the Muscat Stock Market in the Sultanate of Oman. Findings from the research indicated that responses were received from 110 organizations, representing approximately 96% of the total population. The study concluded that fraud risk assessment plays a significant role in directly impacting good corporate governance. It further suggested that adopting and effectively implementing fraud risk assessment measures could contribute significantly to achieving and maintaining good corporate governance standards within these companies.

Martins & Ventura (2020) examined how corporate governance structures affect the possibility of fraudulent financial reporting (FFR) by Brazilian businesses. The main conclusions were that corporate governance structures have a direct or indirect impact on FFR mitigation by lowering the likelihood of bankruptcy or profits manipulation. In particular, the study discovered that while audit-related policies are more closely linked to minimizing profits manipulation, board-related governance practices are more effective against anticipated insolvency.

In order to build a fraud detection model that assesses how well corporate governance reduces fraud risk, Birol (2019) combined financial data with non-financial characteristics pertaining to corporate governance practices. The new rules pertaining

to corporate governance principles and their implementation in Turkey have not yet had the anticipated effect of lowering the risk of fraud, according to the researcher's review of companies listed on Borsa Istanbul. In line with other research, the study did discover albeit in a consistent manner that the profitability and debt positions of businesses have an impact on the likelihood of creating false financial statements, offering hints about possible misstatements. These results imply that other financial indicators can still provide information about the possibility of false financial reporting, even when corporate governance procedures have not yet shown to be successful in preventing fraud.

Pirollo, Nasta, & Magnanelli (2017) determined whether financial statement fraud incidence and severity were correlated with corporate governance standards. Because people with knowledge asymmetry can profit personally from fraud, the researchers proposed that high agency difficulties and weak governance can lead to fraudulent behaviors. To gauge the effectiveness of the governance structure, the researchers created a corporate governance index using a sample of 101 listed businesses where fraud had been found. According to their data, there is a direct correlation between financial statement fraud's frequency and severity and the corporate governance system's quality. This suggests that a more robust governance framework might lessen agency issues and discourage dishonest behavior; the impact is amplified for companies that include a blockholder. These results imply that a strong corporate governance framework might effectively discourage fraud.

Taherinia, Tavakoli & Tavakoli (2017) examined 158 firms that were listed on the Tehran Stock Exchange between 2011 and 2015 in order to determine how corporate governance affected fraud contingency in the cognitive valuation theory. The study's conclusions showed that the probability of fraud and external corporate governance, particularly institutional ownership, do not significantly correlate. The findings imply that institutional ownership does not lessen agency issues by increasing oversight and control over managerial opportunistic behavior, which would reduce the probability of fraud. These results suggest that, in the setting of the Tehran Stock Exchange during the study period, external corporate governance mechanisms such as institutional ownership could not be useful in discouraging dishonest financial reporting.

In the context of Nepal, Rauniyar et al., (2016) sought to ascertain the role that corporate governance plays in preventing fraud. The study's conclusions indicated that a larger board is associated with a lower incidence of corporate fraud. Furthermore, a reduction in corporate fraud is correlated with increases in debt and return on equity (ROE). In addition, the research indicates that larger companies have superior fraud control than smaller companies. These findings imply that good corporate governance techniques, such having a bigger board and more capable financial management, can lessen the possibility of fraud in Nepalese businesses.

In summary, the risk of financial statement fraud can be reduced with the aid of efficient corporate governance procedures. Robust oversight procedures, such having an impartial board, a fair ownership structure, and a robust audit committee, can discourage dishonest behavior. The efficacy of the audit committee is one corporate governance issue that can have a big impact on the probability of fraud. The size of the board, institutional ownership, and financial stability are a few more variables that might be important in identifying and preventing fraud. The efficacy of corporate governance in mitigating fraudulent activities may differ among many nations and situations. Larger businesses and improved financial management, for instance, can aid in the control of fraud in Nepal, whereas new corporate governance laws in Turkey have not yet had the anticipated effect on fraud risk. All things considered, these studies demonstrate the value of strong corporate governance in stopping and identifying financial statement fraud, as well as the necessity of more investigation to pinpoint the precise elements and situations that affect how successful governance procedures are.

Table 1

Summary table of empirical review

S. N	Name of Article and Author	Objectives	Methodology	Findings
1	FACTORS AFFECTING FINANCIAL STATEMENT FRAUD WITH CORPORATE GOVERNANCE AS A MODERATING VARIABLE - STUDY ON PUBLIC ACCOUNTING FIRMS IN JAKARTA. Afrizon (2024)	To analyze the factors influencing financial statement fraud with corporate governance as a moderating variable.	The sample of this study was 110 auditors with at least two years of experience and S1 education. Primary data was collected through an online questionnaire distributed to respondents via Google Forms.	Pressure, competence, and arrogance positively influence the tendency of financial statement fraud, while integrity has a negative influence. Corporate governance is proven to moderate the relationship between these factors and financial statement fraud.
2	Pentagon fraud model and financial statement fraud: The moderating role of Islamic corporate governance. Bastian (2024)	To investigate the impact of Pentagon Fraud Model in five key factors, namely Pressure, Opportunity, Rationalization, Capability, and Action, on the risk of Financial Statement Fraud (FSF).	The research employed a quantitative approach, with 270 samples. Statistical techniques, including regression analysis and data analysis were carried out using Smart PLS software .	Pressure, Opportunity, Rationalization Capability, and Action are critical contributors to Financial Statement Fraud.

3	MODERATION OF CORPORATE GOVERNANCE IN FINANCIAL STATEMENT FRAUD INVESTIGATION WITH THE SCCORE MODEL (Diah et al., 2024)	To analyze FSF using the SCCORE model, determine the moderation of corporate governance on the effect of the SCCORE model on FSF.	Quantitative research , secondary data and the total sampling technique was used and the observed data amounted to 529. Data were analyzed using multiple linear regression methods with the SPSS program.	Stimulus, collusion, opportunity, and ego affect financial statement fraud, even though capability and rationalization accomplish not.
4	Corporate governance and financial fraud occurrence – case study on Romanian companies. Violeta (2024)	To approach the way in which corporate governance influences the occurrence of financial fraud, expressed by the M-Beneish score.	The study is conducted on a sample of 65 companies listed on BSE (Bucharest Stock Exchange), for the 2016-2022 period. The data were processed using threestage general least square (GLS, with iteration, igls, option).	A poor adoption of the corporate governance score and its components - AUDIT, EQUIL, INDEP, GenF - negatively influences the M-Beneish score, i.e. a low corporate governance score will give way to an increase in financial fraud.
5	GOOD CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND	To serve an overview of how corporate social responsibility (CSR), good corporate governance	Qualitative content analysis is the research method used in publication of scientific articles.	Financial statement fraud can be decreased by good governance, social responsibility and financial statement

	FRAUD DETECTION OF FINANCIAL STATEMENTS. Andayani & Wuryantoro (2023)	(GCG), and financial statement fraud detection work together to reduce fraudulent financial statements.		fraud detection.
6	Corporate Governance and Financial Statement Fraud during the COVID-19: Study of Companies under Special Monitoring in Indonesia. Diah et al., (2023)	To investigate the way corporate governance affected financial statement fraud during the COVID-19 pandemic.	The type of research in this study is quantitative, using secondary data, analyzed by the logistic regression method which was applied using the SPSS 25 program. The sampling technique used is total sampling, and the data amounted to 134.	Board size has a significant negative effect on financial statement fraud, no effect of international board experience on financial statement fraud. There is no evidence that shows the effect of audit committee financial expertise and internal audit competence on financial statement fraud.
7	Corporate governance and financial statements' fraud: Evidence from listed firms in Nigeria. Sinebe & Jeroh (2023)	To Measure of corporate governance that do not exert individual influence on the perpetration of financial statements' fraud.	Relying on secondary data from a total of 20 Nigerian non-financial listed firms. This work adopted the ex-post facto design and specifically employed the purposive sampling approach. Descriptive statistics,	Simply having independent directors on the board, longer or shorter CEO tenure, or high institutional ownership may not be sufficient safeguards against fraudulent activities .

diagnostic tests and regression techniques were used during the analytical process.

8	<p>Fraudulent Financial Reporting with Fraud Pentagon Perspective: The Role of Corporate Governance as Moderator. Thamlim & Reskino (2023)</p>	<p>To investigate the impact of fraud pentagon theory with the importance of corporate governance on the detection of fraudulent financial reporting in the Indonesia property.</p>	<p>The statistical technique used in this research is panel data with multiple regression analysis methods with PLS (Partial Least Square) Smart PLS 3 software. Purposive sampling became the sampling technique used in the research and obtained 132 sample data units.</p>	<p>Financial target, external pressure, total accruals, change in director, and CEO duality do not affect the detection indication of fraudulent financial reporting. However, corporate governance consisting of audit committee and institutional ownership did not moderate the effect of fraud pentagon elements on indication of fraudulent financial reporting.</p>
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9	Does Bank Governance Reduce Financial Statement Fraud? The Moderating Role of Operational Risk Ety & Agustina (2022)	To examine whether the implementation of good corporate governance can reduce fraudulent financial statements activity in banks, using the moderating role of operational risk.	This study uses a quantitative approach with an explanatory research model. The population determined is all 25 commercial banks listed on the IDX. The data analysis technique used the Moderated Regression Analysis (MRA) method analyzed with SPSS Software.	The research findings reveal no significant relationship between Bank governance and financial statement fraud directly. However, operational risk is shown to have a moderating role in the relationship between Bank governance and financial statement fraud.
10	Implementation of GCG (Good Corporate Governance) on the Prevention of Fraud Financing in Islamic Banks Cholisoh & Hadziq (2021)	To determine the extent of the influence of Good Corporate Governance in Islamic banking on indications of fraud, especially at Bank BNI Syariah.	This research is mixed-method research. Researchers used primary and secondary data. The data analysis is using multiple regression with descriptive analysis using SPSS.	Good Corporate Governance variable simultaneously has a significant effect on financing fraud, but if tested partially, the GCG variable has no effect on financing fraud.

11	Corporate Governance Mechanisms and Possible Financial Statements Containing Fraud Hermanto & Purwaningsih (2021)	To ascertain effect of Corporate Governance mechanisms on the possibility of financial statements containing fraud.	The design is quantitative nature and relies on secondary data. Purposive sampling is used and samples were taken by as many as 100 companies in the non-financial sector. Binary logistic regression is used.	Audit committee's effectiveness negatively affects the fraud of financial statements. The board's size variable does not affect the possibility of financial statements containing financial fraud.
12	Impact of Fraud Risk Assessment on Good Corporate Governance: Case of Public Listed Companies in Oman. Ali & Hashim(2020)	To identify the relationship between fraud risk assessment and good corporate governance of companies .	A quantitative method with a descriptive cross-sectional survey design has been utilized and data have been analysed by utilizing PLS-SEM.	Fraud risk assessment has a significant direct impact on good corporate governance, and implementation of the fraud risk assessment will assist in the achievement of good corporate governance.
13	The Influence of Corporate Governance on the Mitigation of Fraudulent Financial Reporting. Martins & Ventura (2020)	To analyze the influence of the corporate governance structure in terms of mitigating the likelihood of fraudulent financial reporting (FFR) by firms in Brazil.	This study analyzes a sample of public companies and collected financial data available from the Thomson Reuters database for the 314. The z score and m score is applied to studies on bankruptcy prediction	The board-related governance practices are more effective against predicted bankruptcy, and audit-related practices are more related to reducing earnings manipulation.

			and earnings manipulation respectively.	
14	CORPORATE GOVERNANCE AND FRAUD DETECTION: A STUDY FROM BORSA ISTANBUL. Birol (2019)	To construct a fraud detection model via measuring the effectiveness of corporate governance on fraud risk.	The hypotheses have been created based on assumptions and tested with the logistics regression. 134 companies listed in Istanbul Stock Exchange have been studied via benefiting their financial statements published between 2010 and 2014.	New regulations about corporate governance principles and their applications in Turkey have not made the expected effect on fraud risk yet. Profitability and indebt positions of companies have an impact on the risk of preparing fraudulent financial statements.
15	PREVENTING FINANCIAL STATEMENT FRAUDS THROUGH BETTER CORPORATE GOVERNANCE. Pirolo, Nasta & Magnanelli (2017)	To test a negative relation between the quality of the corporate governance and the fraud , in order to confirm whether a strong level of corporate governance system might help at mitigating and avoid fraudulent behaviours.	This research, has been conducted on a sample of 202 listed firms. A multinomial logistic regression on a cross-sectional analysis has been used.	The results demonstrate that a ‘good’ quality of corporate governance reduces the likelihood of fraud occurrence and its magnitude.

16	Corporate Governance and Financial Fraud: Cognitive Evaluation Theory Insights on Agency Theory Prescriptions in Companies in Tehran Stock Exchange. Taherinia, Tavakoli & Tavakoli (2017)	To investigate the effect of corporate governance on fraud contingency in the cognitive valuation theory that has evaluated fraud contingency in 158 companies .	The systematic removal method was used in this research. The research was done in a five years period, from 2011 to 2015. The 158 companies that have been accepted in Tehran's stock exchange had been chosen for the sample and others crossed out.	There isn't any meaningful relationship between external corporate governance (institutional ownership) and the likelihood of fraud. Institutional ownership cannot affect the likelihood of fraud through more inspections on managers in order to control opportunistic demeanor and decreasing agency.
17.	Impact of corporate governance in controlling fraud in the context of Nepalese commercial banks Rauniyar et al., (2016).	To determine the impact of corporate governance in controlling fraud in the context of Nepal.	The study is based on secondary data. The data are collected from Banking and Financial Statistics published by Nepal Rastra Bank, NRB Directories, legal provisions and concerned by-laws regarding corporate governance. The multiple regression models are applied.	The conclusion of the study is increase in board size leads to decrease in corporate fraud. Similarly, increase in leverage and ROE leads to decrease in corporate frauds. Larger firms are able to control the fraud than that of smaller firms.

2.4 Research gap

There doesn't seem to be any research on the precise relationship between corporate governance practices and financial frauds in the banking industry in Nepal when it comes to the topic of "Role of Corporate Governance to mitigate financial fraud" in Nepalese banks.

Previous study has mostly concentrated on the overall effect of corporate governance on the financial performance of Nepalese commercial banks, according to the search results. Although these research offers insightful information about the function of corporate governance, they don't go into great detail about financial frauds and how, in the context of Nepalese banking, corporate governance may either exacerbate or lessen them. In a similar vein, earlier research on corporate governance in Nepal's banking sector is comparatively out of date and might not account for the most recent changes to the legal framework and business practices.

These studies could explore the specific corporate governance systems (e.g., audit committee, internal controls, board composition, etc.) that are linked to a higher or lower incidence of financial fraud in Nepalese banks in order to close this research gap. These studies could look at how supervisory and regulatory frameworks affect company governance and how well they function to stop financial fraud. In addition to analyzing the most recent information on corporate governance, financial performance, and fraud incidences in the banking industry in Nepal, these studies also locate and access more recent secondary data sources.

CHAPTER III

RESEARCH METHODOLOGY

The general research techniques utilized to carry out this study based on objectives are described in this chapter. The research design, study population, sample design, data collection tool, analytic techniques, research framework, and variable definitions are just a few of the topics covered in this chapter.

3.1 Research design

Descriptive design were used in this study to address the concerns brought up by the corporate governance of the chosen commercial banks in Nepal as a means of reducing financial fraud. The descriptive study design facilitates fact-finding and the search for sufficient data regarding the elements of financial fraud and corporate governance. A comprehensive view of the situation is provided by this type of design, which entails the methodical gathering and presentation of data.

The aim of the research design is to examine the correlation between the bank's non-performing loan variable (dependent) and the capital adequacy ratio (dependent) with ROA, ROE, Leverage, Board Size and Number of Audit Committee Meetings (independent). Consequently, the link between the variables is analyzed using comparative study designs.

3.2 Population, sample and sampling design

The secondary data that were collected, representing 20 commercial banks in Nepal according to the Bank Supervision Report 2022/23 of Nepal Rastra Bank, which is population for this study, served as the foundation for this investigation. Quantitative methods were used in the study. The weekly bulletin of Nepal Rastra Bank, the supervision report of Nepal Rastra Bank, the yearly reports of the individual banks, the Nepal Stock Exchange (NEPSE), and the financial statements of the separate banks have all provided the essential secondary data and information. Eight banks have been chosen as a sample for this study. Convenience sampling is used in the process of choosing banks. But in the last five years, banks have merged. The sample represents all 20 commercial banks in Nepal. The list of selected banks for the study are presented in the table.

Table 2

Selection of commercial banks along with study period

S.N	Name of banks	Study Period	No. of observations
1	Agriculture Development Bank Ltd.	2075/76-2079/2080	5
2	Citizens Bank International Ltd.	2075/76-2079/2080	5
3	Everest Bank Ltd.	2075/76-2079/2080	5
4	Himalayan Bank Ltd.	2075/76-2079/2080	5
5	Kumari Bank Ltd.	2075/76-2079/2080	5
6	Macchapuchre Bank Ltd.	2075/76-2079/2080	5
7	NMB Bank Ltd.	2075/76-2079/2080	5
8	NIC Asia Bank Ltd.	2075/76-2079/2080	5
	Total Number of Observations		40

Source: Bank and Financial Institutions Regulation Department (NRB), 2023

3.3 Nature, sources of data and data collection instrument

The research is predicated on secondary data. The year-end reports of each bank, the quarterly bulletin of Nepal Rastra Bank, the supervision report of Nepal Rastra Bank, the Nepal Stock Exchange (NEPSE), and the financial statements of the individual banks have all provided the essential secondary data and information. Among the study's independent corporate governance variables are the capital adequacy ratio and non-performing loan (NPL), which serve as tools for fraud supervision and control. The key bank performance, or debt position, is considered the variable that facilitates the detection of fraud and the appropriate course of action.

Its goal is to demonstrate the causal linkages that exist between two or more variables. One variable is regarded as the independent variable (cause), and the other as the dependent variable (effect). Board size, ROE, ROA, and the number of audit committee meetings and the leverage are the independent factors in the study, while the capital adequacy ratio and non-performing loans are the dependent variables.

3.4 Methods of analysis

Data analysis is a procedure that includes tabulating, coding, modifying, and classifying the gathered data (Kothari, 2004). To present and evaluate the findings, the researcher employed a descriptive research approach. The information has been

examined and interpreted and is shown in various tables and figures. The data have been presented and analyzed using regression analysis, correlation analysis, mean, and standard deviation.

The research's data analysis methodology was explained in the manner as follows.

3.4.1 Descriptive analysis

Mean

After adding up all of the numbers in a set and dividing by the total number of values, the mean, also known as the arithmetic mean, is determined. The mean is a basic descriptive statistic that summarizes the central tendency of a dataset in an understandable manner. It is an essential tool for comprehending and analyzing data.

Standard deviation

The standard deviation is a statistical technique used to describe the level of variation or dispersion in a set of data points. It gauges how far a dataset's mean deviates from each individual data point in the dataset. The standard deviation is an essential metric for comprehending how data are distributed and dispersed around the central tendency. In statistical analysis, data interpretation, and risk assessment, it is extensively utilized.

3.4.2 Correlation analysis

A statistical technique for determining the direction and intensity of a relationship between two variables is correlation analysis. It assists in determining if and to what extent the variables have a linear association. These studies have computed the Pearson Correlation coefficient. It makes the assumptions that the variables have a linear relationship and a normal distribution.

3.4.3 Regression analysis

A dependent variable and one or more independent variables can have a relationship estimated using the statistical method of regression analysis. Regression analysis is primarily used to predict future values of the dependent variable by using the independent variables to determine the relationship between the variables and the strength of that relationship. Understanding and forecasting correlations between various metrics is made possible with the use of regression analysis. It is an essential

method in data analysis and statistical modeling because of its adaptability and interpretability. Linear, multiple, and nonlinear regressions are the three types of regression analysis that are most frequently used. To determine the relevance and significance of corporate governance in Nepalese commercial banks, multiple regression models are used in these studies.

The model

The primary goal of this research is to investigate how corporate governance might reduce financial fraud in the setting of banks in Nepal. Using the following models, the relationship between financial fraud and corporate governance has been explained.

More specifically,

$$CAR = \beta_0 + \beta_1 ROA + \beta_2 ROE + \beta_3 LEV + \beta_4 BS + \beta_5 AC + e.$$

$$NPL = \beta_0 + \beta_1 ROA + \beta_2 ROE + \beta_3 LEV + \beta_4 BS + \beta_5 AC + e.$$

Where, the CAR and NPL is used as the fraud measuring variables

CAR = Capital adequacy ratio

NPL = Non-performing loan to total loan

Firm Specific Variables

ROA = Return on assets

ROE = Return on equity

LEV = Leverage

Corporate Governance Variables

BS = Board size

AC = Audit committee

3.5 Research framework and definition of variables

The current study builds the research framework based on the research objectives and the literature review. The systematic explanation of the relationship between the dependent and independent variables is provided by the study's conceptual framework. Reaching the study objective and keeping the research challenge in focus are beneficial. A research report benefits from a description of the framework in two ways: it defines the research variables and makes the relationships between the variables clear.

The research framework, which is related to the statement's problem, provides context for the formulation of the particular research question that serves as the main source of information.

The figure below displays the research's framework.

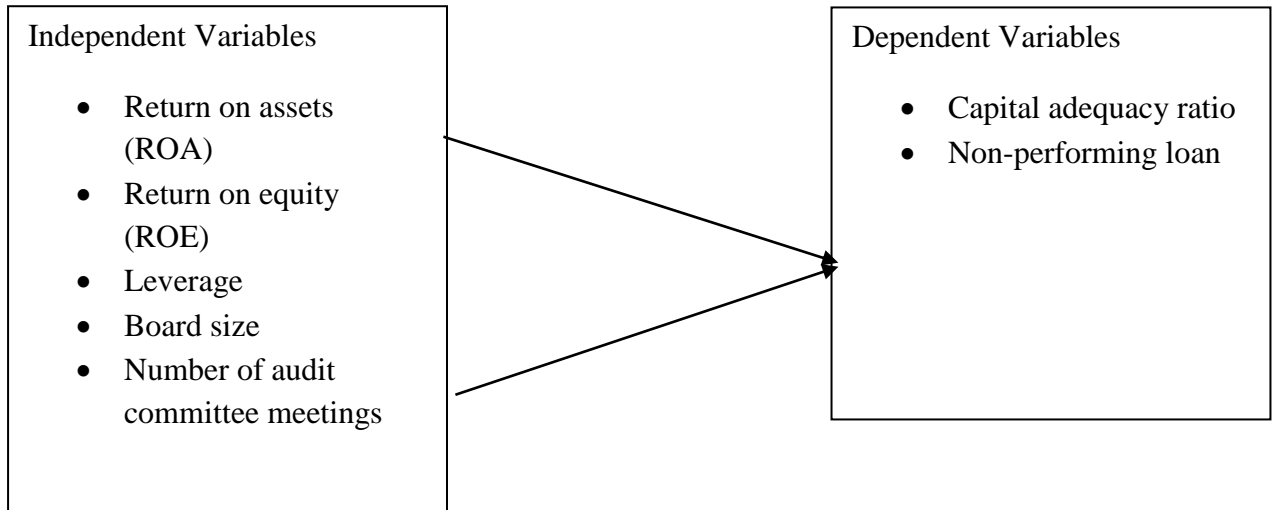


Figure 1 Research framework for the study

Source : Impact of corporate governance in controlling fraud in the context of Nepalese commercial banks, Nepalese Journal of Management,2016

The purpose of these studies is to demonstrate cause-and-effect connections between two or more variables. One variable is regarded as the independent variable (cause), and the other as the dependent variable (effect). Board size, ROE, ROA, and the number of audit committees are the independent factors in the study, while the capital adequacy ratio and non-performing loans are the dependent variables.

Return on assets (ROA)

The profitability of a business in relation to its total assets is measured by a financial ratio called return on assets, or ROA. It displays the effectiveness with which a business uses its resources to turn a profit.

Return on equity (ROE)

A financial indicator that assesses a company's profitability in relation to the equity held by its shareholders is called return on equity (ROE).

Leverage

The use of debt or borrowed money to raise possible returns on investment is referred to as leverage. It enables companies to grow beyond what they could do with just their own funds.

Board size

The total number of directors on a company's board of directors is referred to as board size. In addition to being a crucial component of corporate governance, the size of the board can have a big impact on business performance and the prevention of financial fraud.

Audit committee

As part of strong corporate governance procedures, the audit committee is a crucial board-level role that offers impartial monitoring and examination of a business's financial reporting, internal controls, and audit procedures.

Capital adequacy ratio

A bank's capital in proportion to its risk-weighted assets is determined by its capital adequacy ratio, or CAR. It is a crucial sign of the soundness of a bank's finances and capacity to withstand losses.

Non-performing loan

A bank loan that is in default or almost in default that lowers the bank's earnings and limits its capacity to lend is known as a non-performing loan. For banks, managing NPLs is a major concern.

CHAPTER IV
RESULTS AND DISCUSSION

4.1 Results

The process of examining, purifying, converting, and modeling data in order to find relevant information, make inferences, and aid in decision-making is known as data analysis. To comprehend links, patterns, and trends in data, a range of methods and strategies are used. Transforming material from an unprocessed state into a comprehensible presentation is the aim of analysis. It is the process of creating a response to the query by looking over and analyzing the available information.

4.1.1 Descriptive analysis

The table exhibits descriptive analysis, including the maximum, minimum, mean, and standard deviation for each variable, regarding the effects of different independent variables on the capital adequacy ratio and non performing loans.

Table 3

Descriptive analysis

	N	Minimum	Maximum	Mean	Std. Deviation
CAR	40	11.75	20.37	13.8062	1.84230
NPL	40	.12	4.97	1.5173	1.21078
ROA	40	.14	2.77	1.2745	.48004
ROE	40	1.47	22.73	12.0852	4.24027
LEV	40	7.29	19.27	10.5875	2.53298
Board Size	40	5.00	8.00	6.7250	.71567
Audit Committee meetings	40	4.00	63.00	19.1000	15.02442
Valid N (listwise)	40				

Source: SPSS V25

In table 3, the CAR, which measures bank stability, has a mean value of 13.81, indicating that, on average, the banks in this sample keep a robust capital buffer above the minimum required by regulation. The CAR values are comparatively stable

throughout the sample, as evidenced by the low standard deviation of 1.84. The percentage of loans that are in default is indicated by the NPL ratio. The average of 1.52 denotes a moderate amount of nonperforming loans; nevertheless, the maximum number of 4.97 implies that certain institutions might be dealing with serious difficulties. The 1.21 standard deviation suggests that there is a lot of variation between the banks. A bank's ability to profitably utilize its assets is indicated by its ROA. The broad range from 0.14 to 2.77 shows differences in operational efficiency, but the mean of 1.27 points to a respectable degree of profitability. The 0.48 standard deviation demonstrates this variability. The profitability in relation to shareholders' equity is measured by ROE. An impressive mean of 12.09 indicates good equity management. On the other hand, the standard deviation of 4.24 indicates notable variations in the organizations' performance, and the maximum of 22.73 suggests that certain banks are extraordinarily profitable. The amount of debt a company utilizes to finance its assets is indicated by its leverage. While the range shows that some banks are significantly more leveraged than others, the mean of 10.59 points to a reasonable amount of leverage. A significant variance in leverage throughout the sample is indicated by the standard deviation of 2.53. Governance and decision-making processes can be impacted by board size. The average score of 6.73 indicates that the boards of the banks are typically of a moderate size. The limited range and standard deviation suggest that board sizes are similar across most banks, which may point to a common governance framework. A indicator of supervision and governance is the quantity of audit committee meetings. A dedication to governance is indicated by the mean of 19.10, while some banks hold much more meetings, as indicated by the maximum of 63.00. A significant variation in governance procedures is shown in the large standard deviation of 15.02.

4.1.2 Correlation analysis

A statistical technique called correlation analysis is used to determine the direction and strength of a linear relationship between two variables. It measures how closely two continuous variables are related. Through correlation, the study can forecast how one variable will affect the direction of another. Following the indication of the descriptive statistics, the Pearson correlation coefficient was calculated, and the outcome is shown in Table 4.

Table 4

Pearson's correlation matrix dependent and independent variables

		Correlations						
		CAR	NPL	ROA	ROE	LEV	BS	AC
CAR	Pearson Correlation	1						
	Sig. (2-tailed)							
NPL	Pearson Correlation	.227	1					
	Sig. (2-tailed)	.159						
ROA	Pearson Correlation	.547**	-.322*	1				
	Sig. (2-tailed)	.000	.043					
ROE	Pearson Correlation	.041	-.632**	.679**	1			
	Sig. (2-tailed)	.801	.000	.000				
LEV	Pearson Correlation	.665**	.089	.502**	-.073	1		
	Sig. (2-tailed)	.000	.584	.001	.655			
BS	Pearson Correlation	.120	-.032	.203	.265	.013	1	
	Sig. (2-tailed)	.462	.846	.209	.099	.938		
AC	Pearson Correlation	.357*	.033	.064	.129	.322*	.203	1
	Sig. (2-tailed)	.024	.840	.696	.428	.042	.209	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source : SPSS V25

The bivariate Pearson coefficients between the variables are shown in the table 4. Based on data from eight banks covering the years 2075–2076 and 2079–2080, the correlation coefficients were calculated. NPL stands for non-performing loan; LEV stands for leverage; BS stands for board size; AC stands for audit committee meetings per year; and CAR stands for capital adequacy ratio.

The p-value is a crucial measure of the statistical significance of the correlation coefficient between two variables in correlation analysis. The commonly used alpha thresholds for interpreting p-values are 0.05 and 0.01. A correlation is considered statistically significant if the p-value is less than these criteria; a p-value beyond these limits suggests that there is no significant correlation. A weak positive correlation that is not statistically significant is shown by the Pearson correlation coefficient between the Capital Adequacy Ratio (CAR) and Non-Performing Loans (NPL) as the p value is more than 0.05. This suggests that a rise in the CAR, which measures a bank's

capacity to absorb potential losses, does not always translate into a decrease in the percentage of non-performing loans. Consequently, banks with higher capital adequacy may still struggle to manage loan quality effectively. The Capital Adequacy Ratio (CAR) and Return on Assets (ROA) have a statistically significant positive correlation, as indicated by the Pearson correlation coefficient as the p is less than 0.01 . This suggests that banks with higher CARs which indicate stronger financial stability and a stronger buffer against potential losses are also likely to have higher profitability relative to their total assets, which reflects efficient use of their assets and overall operational efficiency in producing returns. The changes in the capital adequacy ratio (CAR) do not have a meaningful impact on return on equity (ROE) as the p value is more than 0.05. This suggests that other factors may be more important in determining ROE and that there is no direct correlation between the CAR and ROE. The Capital Adequacy Ratio (CAR) and leverage have a strong positive correlation as the p value is less than 0.01 which means that banks with higher CARs a sign of stronger financial stability and a larger capital base are also more likely to use leverage, which means they borrow more money to fund their operations, which may increase financial risk while also improving return on equity. The Capital Adequacy Ratio (CAR) and Board Size do not correspond significantly as the p value is more than 0.05 which implies that there is no meaningful relationship between the size of the board of directors and the bank's capital adequacy, meaning that changes in board size are not related to changes in the CAR and that other factors may have a greater influence on a bank's stability and capital management. The Capital Adequacy Ratio (CAR) and the effectiveness of the audit committee have a moderately positive correlation as the p value is less than 0.05. This means that banks with higher CARs a measure of their financial stability and strength also tend to have more effective audit committees. It also implies that stronger capital adequacy is linked to improved governance and oversight, which may improve risk management and overall financial performance.

The relationship between return on assets (ROA) and non-performing loans (NPL) is moderately negative as the p value is less than 0.05, meaning that as the amount of non-performing loans rises, ROA tends to fall. This suggests that banks with a higher percentage of non-performing loans are less efficient at turning a profit from their assets, which can have a negative effect on their overall financial performance and

operational effectiveness. Non-Performing Loans (NPL) and Return on Equity (ROE) have a strong negative correlation as the p value is less than 0.01, meaning that when NPL levels rise, ROE tends to fall. This implies that NPLs have a significant negative effect on the bank's ability to generate returns on its owners' capital, which could result in lower dividends and stock prices. It also implies that NPLs have a substantial negative impact on profitability from the perspective of shareholders. The data indicates that there is no significant correlation between Non-Performing Loans (NPL) and Leverage (LEV) as the p value between them is more than 0.05. This implies that there is no meaningful relationship between the amount of non-performing loans and the bank's leverage, meaning that changes in the percentage of non-performing loans are not related to changes in the amount that the bank borrows to finance its assets. Instead, other factors may have a greater influence on the bank's leverage decisions. There is no significant correlation between board size and non-performing loans as the p value is more than 0.05 which suggests that there is no meaningful relationship between the number of NPLs and the size of the board of directors, meaning that changes in board size are not related to changes in the percentage of NPLs. Instead, other factors may be more important in influencing loan performance and management. The level of non-performing loans does not have a meaningful relationship with the effectiveness of the audit committee, implying that variations in the audit committee's performance are not associated with changes in the proportion of non-performing loans. Other factors may be more influential in determining both loan performance and governance effectiveness. The correlation between Non-Performing Loans and the effectiveness of the Audit Committee indicates no significant correlation.

The Return on Equity (ROE) and Return on Assets (ROA) exhibit a robust positive correlation as the p value is less than 0.01. This implies that banks that enhance their ability to use assets profitably (higher ROA) also typically yield higher returns for their shareholders (higher ROE). This correlation highlights how crucial efficient asset management is to generating profitability, implying that banks with superior asset utilization will probably increase shareholder value by improving their financial performance. The correlation between leverage (LEV) and return on assets (ROA) is strongly positive as the p value is less than 0.01, meaning that banks with higher returns on their assets are also probably going to use more debt in their capital

structure. This link indicates a purposeful use of debt to support expansion and operations. It also suggests that banks with higher ROAs may leverage their financial position to further boost returns. However, because reliance on debt can magnify both potential benefits and losses, this greater leverage also carries additional financial risk. The bank's return on assets is not significantly correlated with either the size of the board or the efficacy of the audit committee, suggesting that these governance elements may not have a direct impact on the bank's profitability in relation to its total assets. It is probable that other operational and financial factors have a greater influence on ROA performance.

The data indicates that there is no significant correlation between the bank's return on equity (ROE) and leverage (LEV) as the p value is more than 0.05. This means that there is no relevant association between the two variables. Put differently, fluctuations in a bank's use of debt to finance its assets do not correspond to variations in shareholder returns. There may be a positive association between the size of the board of directors and the bank's return on equity, as indicated by the correlation between board size and ROE, which is marginally significant. Even while the evidence suggests that larger boards might be linked to greater ROE, more research is necessary because the correlation is not strong enough to be certain. This relationship might suggest that a more diverse board could help with better oversight and decision-making, which could increase shareholder profitability, but more data and analysis would be required to draw a firm conclusion. The efficacy of the audit committee does not appear to have a substantial relationship with the bank's return on equity, as indicated by the lack of significant correlation between ROE and the committee's effectiveness. There is no significant correlation between the bank's leverage and the size of the board of directors.

The correlation between Leverage (LEV) and the effectiveness of the Audit Committee indicates a moderate positive correlation as the p value is less than 0.05, this suggests that banks with higher leverage are likely to have more effective audit committees. The effectiveness of the audit committee and board size did not significantly correlate, indicating that there is no substantial relationship between the two. This shows that the effectiveness of the audit committee and board size is unrelated.

The correlation matrix reveals several significant relationships among the effectiveness of the audit committee, board size, and various financial metrics. There is a positive correlation between CAR and ROA as well as LEV as the p value between them is less than 0.01, suggesting that banks with enough capital tend to be more profitable and make good use of leverage. The moderately favorable connection seen with the Audit Committee implies that improved capital sufficiency may be accompanied by enhanced governance. Higher non-performing loans have a negative impact on profitability and returns to shareholders, as seen by the substantial negative correlations found between NPL and both ROA and ROE as the p value is less than 0.05. There is a substantial positive correlation between ROA and ROE as the p value is less than 0.01, indicating that better returns for shareholders can be achieved through effective asset management. Leverage demonstrates a strong positive correlation with both CAR and the Audit Committee as the p value is less than 0.05, suggesting that banks with superior governance frameworks may also make better use of leverage. The association between the Audit Committee and CAR and LEV suggests that the Committee is involved in the overall governance and financial health of the bank. The size of the board did not significantly correlate with the other variables as the p value is more than 0.05 with any other variables, indicating that the size of the board may not have a direct impact on the governance or financial performance of the bank.

4.1.3 Regression analysis

The capital adequacy ratio and non-performing loan have been used to define the fraud measuring variable in order to investigate the relationship between the corporate governance variable and the fraud measuring variable. Table shows the outcome of the regression of firm specific variable and corporate governance on capital adequacy ratio.

4.1.3.1 Regression analysis of corporate governance and firm specific variable on capital adequacy ratio

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803 ^a	.645	.592	1.17610

a. Predictors: (Constant), AC, ROA, BS, LEV, ROE

Source: SPSS V25

In table 5, Return on Assets (ROA), Return on Equity (ROE), Leverage (LEV), Board Size (BS), and Audit Committee (AC) are the independent variables in the model that account for 64.5% of the variation in the Capital Adequacy Ratio (CAR), is explained by the independent variables.

Table 6

Anova Table

Anova Table						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.339	5	17.068	12.339	.000 ^b
	Residual	47.029	34	1.383		
	Total	132.368	39			

a. Dependent Variable: CAR

b. Predictors: (Constant), AC, ROA, BS, LEV, ROE

In table 6, the anova table shows that the overall regression model is statistically significant, with an F-value of 12.339 and a p-value less than 0.01. This means that the independent variables (AC, ROA, BS, LEV, ROE) collectively explain a significant portion of the variation in the dependent variable (CAR). The regression Sum of Square 85.339 indicates that the model explains a substantial amount of the total variation in CAR.

Table 7

Regression analysis of independent variables on capital adequacy ratio

Coefficient table

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	11.226	2.221		5.054	.000*
	ROA	3.725	.921	.971	4.043	.000*
	ROE	-.292	.091	-.672	-3.226	.003*
	LEV	.006	.136	.008	.042	.967
	BS	.063	.279	.025	.227	.822
	AC	.046	.015	.374	2.968	.005*

a. Dependent Variable: CAR

Source: SPSS V25

*Regression has significant impact at 0.01 level.

Regression analysis data from eight banks covering the years 2075–2076 to 2079–2080 were used to create the results using a linear regression model in table 7. Specifically, ROA, ROE, LEV, BS, and AC stand for return on assets, return on equity, leverage, board size, and audit committee meetings. The model 1 is $CAR = \beta_0 + \beta_1 ROA + \beta_2 ROE + \beta_3 LEV + \beta_4 BS + \beta_5 AC + e$.

When compared to other factors in the model, ROA has a significant impact on CAR, as indicated by the standardized coefficient (Beta) of 0.971. Because standardized coefficients are expressed in standard deviations, it is possible to compare the relative strengths of the predictors in the regression model. When the beta value of an independent variable in a model is near to 1, as in this instance, 0.971, it indicates that ROA is the primary predictor of CAR. This implies that variations in ROA have a significant impact on CAR, indicating that management should pay close attention to this area. At any conventional level, the link between ROA and CAR is statistically significant, as indicated by the significance level (p-value) of 0.000. This indicates that the likelihood that the observed link is the result of random chance is less than 0.1%.

Assuming all other model variables remain constant, the unstandardized coefficient (B) of -0.292 indicates that the Capital Adequacy Ratio (CAR) should decline by 0.292 units for every unit increase in ROE. A decline in CAR as ROE rises may indicate that a company's capital buffer is being reduced in response to increased returns on equity. This could happen if businesses are giving shareholders larger returns (via dividends or share buybacks, for example) as opposed to holding onto their earnings to bolster their capital base. Stakeholders may have concerns about this relationship since it could indicate possible difficulties with capital adequacy. When considering ROE in relation to other variables in the model, the standardized coefficient (Beta) of -0.672 shows that ROE significantly reduces CAR. The expression of standardized coefficients in standard deviations facilitates the comparison of the relative strength of the predictors in the regression analysis. Although it does so in a negative way, a beta value of -0.672 indicates that ROE is a significant predictor of CAR. This indicates that the CAR tends to decline dramatically when ROE rises. This relationship emphasizes the possible trade-off between giving shareholders profits and keeping sufficient capital reserves, which is something that management must take into account. At conventional levels, the association between ROE and CAR is statistically significant, as indicated by the significance level (p-value) of 0.003. The conclusion that ROE has a significant negative effect on CAR is supported by the low p-value. Stakeholders have reason to believe that this association is both practically and statistically meaningful. This discovery may lead to additional research on how businesses handle their capital reserves and equity returns. The p value between leverage (LEV) and Capital Adequacy Ratio (CAR) is more than 0.05 is found in regression analysis as indicated on Table 7.. These findings imply that LEV has no significant impact on CAR and changes in leverage do not substantially affect a company's capital adequacy within this model, as LEV has a minor impact on CAR. While assessing their capital structures and risk management plans, financial managers should take this conclusion into account and concentrate on other, more significant issues that could have an impact on CAR.

The Capital Adequacy Ratio (CAR) is projected to grow by 0.063 units for every unit increase in board size, holding all other factors equal, according to the unstandardized coefficient (B) of 0.063. This is a very slight gain, though. The results of the

investigation show that the regression between BS and the Capital Adequacy Ratio is statistically insignificant and inconsequential as the p value is more than 0.05. When all other factors remain equal, the Capital Adequacy Ratio (CAR) is predicted to rise by 0.046 units for every unit increase in the efficacy or presence of an audit committee, according to the unstandardized coefficient (B) of 0.046. A stronger audit committee may have a beneficial impact on capital adequacy, which is a crucial component of financial stability, as indicated by this positive association. Audit Committee Meetings has significant impact on is revealed by the investigation as the p value is less than 0.05. The efficacy of the audit committee is a significant predictor of CAR, as shown by the positive coefficient, low p-value, high t-value, and small standard error. This insight highlights the need of prioritizing the development and upkeep of a strong audit committee for financial managers and decision-makers in order to improve capital sufficiency and overall financial stability.

4.1.3.2 Regression of corporate governance and firm specific variable on non performing loan

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.697 ^a	.486	.410	.92971

a. Predictors: (Constant), AC, ROA, BS, LEV, ROE

Source: SPSS V25

In table 8, model summary, there appears to be a substantial positive regression between the expected and actual values of non-performing loans, as indicated by the R value of 0.697. This suggests that there is a significant impact between the independent variables and the amount of non-performing loans (NPL), i.e., changes in these predictors are linked to changes in NPL. The independent variables in the model may account for about 48.6% of the variability in non-performing loans, is explained

by the independent variables ROA, ROE, LEV, Board Size and Audit Committee Meetings.

Table 9

Anova Table

Anova Table						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	27.785	5	5.557	6.429	.000 ^b
	Residual	29.388	34	.864		
	Total	57.174	39			

a. Dependent Variable: NPL

b. Predictors: (Constant), AC, ROA, BS, LEV, ROE

In table 9, the Anova table indicates that the regression model is statistically significant with an F-value of 6.429 and a p-value of less than 0.01. This suggests that the independent variables collectively explain a significant portion of the variation in Non-Performing Loans (NPL). The regression explains 27.785 of the total variation in NPL, while the residuals account for 29.388, indicating that the model has a reasonable fit.

Table 10

Regression analysis of independent variables on non performing loan.

Coefficient table						
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	3.742	1.756		2.131	.040
	ROA	1.421	.728	.563	1.951	.059
	ROE	-.313	.072	-1.097	-4.379	.000*
	LEV	-.167	.108	-.349	-1.549	.131
	BS	.173	.220	.102	.785	.438
	AC	.019	.012	.230	1.520	.138

a. Dependent Variable: NPL

Source: SPSS V25

*Regression has significant impact at 0.01 level.

Regression analysis data from eight banks covering the years 2075–2076 to 2079–2080 were used to create the results using a linear regression model in table 10. Specifically, ROA, ROE, LEV, BS, and AC stand for return on assets, return on equity, leverage, board size, and audit committee meetings. The model 2 is $NPL = \beta_0 + \beta_1 ROA + \beta_2 ROE + \beta_3 LEV + \beta_4 BS + \beta_5 AC + e$.

When all other variables are held constant, the change in the dependent variable (NPL) associated with a one-unit change in the independent variable (ROA) is represented by the unstandardized coefficient (B). In this instance, the unstandardized coefficient of 1.421 indicates that NPL rises by 1.421 units for every unit increase in ROA. The standardized beta (Beta) of 0.563 means that NPL increases by around 0.563 standard deviations for every standard deviation increase in ROA. Given that there is no correlation between ROA and NPL, the null hypothesis has a 5.9% probability of being true, as indicated by the p-value of 0.059, which also indicates that a more extreme result may be seen. This suggests that the regression between ROA and NPL is only marginally significant, as the p-value is somewhat higher than the generally accepted significance level of 0.05.

Keeping all other variables equal, the unstandardized coefficient of -0.313 indicates that NPL falls by 0.313 units for every unit increase in ROE. Assuming all other factors remain constant, the standardized coefficient (Beta) of -1.097 shows that, for every standard deviation increase in ROE, NPL falls by approximately 1.097 standard deviations. The inverse link between ROE and NPL is suggested by the negative sign. The ROE has significant negative impact on NPL is indicated in table 10, by the p-value, which is less than 0.05. According to the unstandardized coefficient of -0.167, when all other variables remain constant, NPL falls by 0.167 units for every unit increase in leverage (LEV). This implies a relationship between lower levels of nonperforming loans and increased leverage. The standardized coefficient (Beta) of -0.349 means that, assuming all other factors remain fixed, NPL drops by around 0.349 standard deviations for every standard deviation rise in leverage. Leverage and nonperforming loans have a moderately inverse relationship, as indicated by the beta value's negative sign. This p-value indicates that the regression between LEV and NPL is not statistically significant which means LEV has no significant impact on NPL as it exceeds the generally accepted significance level of 0.05.

With all other factors held equal, the unstandardized coefficient of 0.173 indicates that for every unit increase in board size, NPL increases by 0.173 units. There is a very weak positive correlation between board size and NPL, as indicated by the standardized coefficient (Beta) of 0.102. This indicates that an increase in board size of one standard deviation is correlated with an increase in NPL of approximately 0.102 standard deviations. The association between board size and NPL is not statistically significant, as indicated by the p-value of 0.438, which is significantly larger than the traditional significance level of 0.05. It refers that board size also has no significant impact on NPL. According to the unstandardized coefficient of 0.019, all other things being equal, NPL rises by 0.019 units for every unit increase in the efficacy or presence of an audit committee meetings. There is a moderately positive correlation between the audit committee meetings and NPL, as indicated by the standardized coefficient (Beta) of 0.230. Since the p-value of 0.138 is greater than the significance level of 0.05, it may be concluded that there is no statistically significant relationship between the audit committee meetings and NPL and the audit committee meetings too has no significant impact on NPL.

4.2 Discussion

The impact of corporate governance characteristics that aid in reducing financial fraud in Nepalese banks has been the primary focus of the study. The capital adequacy ratio and nonperforming loans were the dependent factors in this study, whereas the independent variables included return on equity, leverage, number of directors on the board, and frequency of audit committee meetings. The study's findings are derived from a focus on the eight commercial banks that were chosen.

In correlation analysis, ROA, ROE and LEV are positively related to each other. Similarly, there is positive relation of ROA, ROE and LEV on CAR. LEV has positive relation on NPL, but ROA and ROE have negative relation on NPL. ROA, ROE, LEV has positive relation on both Board Size and Number of Audit Committee Meetings. Board size and Audit Committee Meetings have positive relation to each other. Similarly, Both Board Size and Number of Audit Committee Meetings has positive

relation to CAR. Board Size has negative relation to NPL, whereas Number of Audit Committee has positive relation to NPL.

In regression analysis, it is found that ROA and Number of Audit Committee Meetings have significant positive impact on CAR whereas ROE has significant negative impact on CAR. Both LEV and Board Size have positive impact on CAR but they are not statistically significant. ROA, Board Size and Number of Audit Committee Meetings have positive impact on NPL, but they are not statistically significant. ROE and LEV have negative impact on NPL, whereas ROE is only statistically significant to NPL but LEV is not statistically significant.

Based on the correlation analysis, ROA and ROE have positive relation to each other. Similarly ROE and LEV have positive relation to each other. This findings were similar to the findings of Rauniyar et al.,(2016). ROA has positive relation to LEV. This findings were not consistent to the findings of Rauniyar et al.,(2016). ROE and LEV have positive relation to CAR. The results of this study agreed with Rauniyar et al.,(2016) findings. ROA has positive relation to CAR. This findings were not similar to the findings of Rauniyar et al.,(2016). Both ROA and ROE have negative relation to NPL. This findings were similar to the findings of Rauniyar et al.,(2016). Similarly in the study, LEV has positive relation to NPL. The findings were not similar to the result of Rauniyar et al.,(2016). LEV has positive relation to both Board Size and Number of Audit Committee Meetings. This result agreed with the findings of Rauniyar et al.,(2016). Both ROA and ROE have positive relation to Board Size and Number of Audit Committee Meetings. This findings were not similar to those of Rauniyar et al.,(2016). Both Board Size and Number of Audit Committee Meetings have positive relation on CAR. This result agreed with findings of Rauniyar et al.,(2016). Board Size has negative relation to NPL whereas Number of Audit Committee Meetings has positive relation to NPL. This findings were consistent to the findings of Rauniyar et al.,(2016). There are a number of reasons for the variations in the study results, such as sample characteristics, methodological choices, and economic situations. These factors are critical to take into account when analyzing correlation data since they have a substantial impact on the relationships found in financial studies. Future studies could investigate these differences more thoroughly

by using longitudinal research to examine how these correlations change over time or by performing comparison analysis in various circumstances.

Based on the regression analysis, there is positive relation of Board Size and LEV to CAR. This findings were similar to those findings of Rauniyar et al.,(2016). Both Board Size and Lev have no significant impact on CAR. This result is inconsistent to the findings of Diah et al.,(2023) and Martins & Ventura (2020) but the result is consistent to the findings of Hermanto & Purwaningsih (2021). Similary ROA and Number of Audit Committee Meetings have positive relation to CAR but ROE has negative relation to CAR. This findings were not consistent to the findings of Rauniyar et al.,(2016). ROA and Number of Audit Committee Meetings have positive significant impact on CAR. The result were inconsistent to the findings of Thamlin & Reskino (2023) but the result were consistent to the findings of Hermanto & Purwaningish (2021) and Martins & Ventura (2020). Non performing loan to total ratio has negative relation with audit committee. Similary there is negative relation of NPL with ROE and LEV. The result of the study agreed with the findings of Rauniyar et al.,(2016). ROA, Board Size and Number of Audit Committee meetings have positive relation to NPL. This findings were inconsistent to the findings of Rauniyar et al.,(2016). ROE has negatively significant impact on NPL whereas ROA, LEV, Board Size and Number of Audit Committee Meetings has no significant impact on NPL.

Significant differences in sample size, industry focus, or geographic context can affect the outcome of a regression. Compared to the other research, this one used a different collection of banking institutions, which may have affected the associations that were found. Over time, the economic landscape may shift. Because the study was carried out during a time when regulations were changing, the findings might differ from those of studies carried out under more stable circumstances. Different results can be obtained by using different statistical procedures, such as changing the variables included in the regression analysis or its type.

According to the correlation analysis, there is a positive relationship between ROA, ROE, and LEV. This indicates that banks prefer to improve their profitability indicators (ROA and ROE) in connection with increasing their leverage. Increased

leverage can increase returns on assets and equity, suggesting that banks are making better use of borrowed money to make more money. Results indicating that, with proper management, leverage can result in higher profitability lend credence to this link (Frank & Goyal, 2009). These factors have strong correlations and are significant at the 0.01 level. There are favorable correlations between CAR and ROA, ROE, and LEV. This suggests banks are more likely to keep a stronger capital position if they are more profitable (ROA and ROE) and use more debt. In order to maintain financial stability and comply with regulations, banks must have a strong CAR because it indicates their capacity to withstand losses (Ghosh, 2015). The correlation coefficient (CAR) between ROA and leverage is 0.01 significant, indicating a strong positive association. In order to ensure financial soundness and compliance, more effective supervision and governance may be made possible by larger boards, as indicated by the positive correlation found between Board Size (BS) and Audit Committee (AC) meetings. There is a positive significant relationship between CAR and the number of audit committee meetings at the 0.05 level. According to this relationship, banks' overall performance can be improved by having a well-designed governance system. The findings of this investigation were consistent with those of Awad & Mohamed (2020) and Martins & Ventura (2020).

The negative correlations between ROA and ROE and NPL suggest that profitability indicators decrease as the number of non-performing loans rises. The significant negative relationships are shown between ROE and ROA at the 0.01 and 0.05 levels, respectively. This is consistent with previous research that highlights the negative effects of non-performing loans (NPLs) on a bank's financial performance because greater NPL rates can result in larger loan loss provisions, which lower profitability. The investigation's conclusions agreed with those of Alshatti (2015) and Ghosh (2015). In contrast, there is a positive correlation between LEV and NPL. This implies that banks with more leverage might also have higher non-performing loan levels, possibly as a result of riskier lending practices brought on by higher borrowing. This relationship demonstrates the difficulties in risk management that increase leverage brings. The findings of this investigation were consistent with those of Louzis, Vouldis & Metaxas (2020) . The negative correlation between NPL and board size suggests that larger boards could be better at managing risk, which would reduce the amount of non-performing loans. This implies that credit risk can be reduced by good

governance. The results of this study agreed with those of Zakaria et al. (2018). The positive association between the NPL and the Audit Committee implies that, even while the committee is essential to supervision, the difficulties in managing loan portfolios may also be reflected in it. This could mean that some risk factors that cause NPL are still common even in the face of supervision. The results of this study agreed with Zhang & Liu's (2022) findings.

ROA is a measure of a bank's efficiency at turning a profit from its assets. As indicated in Table 5, a positive correlation with CAR indicates that the capital adequacy ratio improves along with a rise in ROA. This suggests that banks with higher levels of profitability are better equipped to withstand losses, which improves their capacity to maintain financial stability and satisfy capital requirements from regulators. The relationship between CAR and ROA is positively significant. The investigation's conclusions agreed with those of Zhang and Dong (2019). Relative to shareholders' equity, profitability is measured by ROE. Given that they are negatively significant, the negative association with CAR suggests that higher returns on equity may be correlated with worse capital adequacy. Regulators and stakeholders may be concerned about this since it suggests that banks with higher ROE may be taking on more risk and possibly jeopardizing their capital buffers. The study's findings were consistent with those of Zhang and Dong (2019). The amount of borrowed money used by a bank to finance its assets is reflected in its leverage. A somewhat positive correlation with CAR suggests that increased leverage marginally improves capital adequacy. Leverage and CAR have no statistically meaningful association. The weak relationship between leverage and capital ratios, however, suggests that leverage may also raise risk exposure. Sadiq & Rahman (2020) also concluded that there is positive but weak and insignificant relationship between CAR and Leverage. The composition of the board of directors has an impact on the processes of governance and decision making. A favorable correlation with CAR implies that larger boards could result in improved risk management and monitoring, which would promote greater capital adequacy ratios. This suggests that having strong governance frameworks can improve a bank's capacity to keep adequate capital reserves. Board size and CAR have no statistically significant association. The study's findings were consistent with those of Rahman & Rahman (2018). The number of audit committee meetings is a good indicator of how much supervision and examination a bank undergoes. A strong

and positive correlation with CAR implies that active audit committees support improved capital management procedures, assisting banks in maintaining sufficient capital levels to cover possible losses. The results of this study agreed with findings of Almatari & Rahman (2020).

The study's findings were similar with those of Godlewski (2008) as these studies also show a positive correlation between NPL and ROA, indicating that, in some circumstances, ROA may rise in combination with an increase in NPLs. This might happen if banks are making riskier loans, which raises the rewards on loans that succeed but simultaneously increasing NPLs. A positive relationship would suggest that, in spite of the default risk, banks are pursuing aggressive lending tactics that produce larger profits. In a rising economy, this strategy might work, but in a downturn, it might cause large losses. The relationship between ROA and NPL is complex and multidimensional. Although some research points to a positive association under some circumstances, some of the literature points like Makri et al., (2014) to a negative link whereby larger NPLs reduce profitability by raising operational and financial risk. This implies that maintaining a good ROA and overall bank performance depends on efficient NPL management. Banks may have difficulty remaining profitable if their ROE declines as non-performing loans NPL increase. Increased NPL frequently result in increased operating expenses associated with debt collection, litigation, and the requirement for improved risk management procedures. The strong inverse link highlights how crucial efficient credit risk management is. In order to reduce the likelihood of defaults, banks with high NPL ratios may need to review their lending procedures, increase credit evaluations, and improve loan performance monitoring. This result is consistent with previous research, which indicates that higher NPLs have a detrimental impact on bank profitability. Studies by Boudriga et al., (2010) and Makri et al., (2014), for example, support the idea that asset quality is essential to sustaining profitability by confirming the correlation between higher NPL levels and worse ROE. Leverage and NPL have a negative association, indicating that as leverage rises, non-performing loan levels tend to fall. According to this, banks with larger levels of leverage might be more adept at managing their loan portfolios, which would lead to fewer defaults. Leverage and non-performing loans have a negative association, indicating that as leverage rises, non-performing loan levels tend to fall. According to this, banks with larger levels of

leverage might be more effective at managing their loan portfolios, which would lead to fewer defaults. Higher leverage banks might implement stricter risk control procedures to make sure they can pay off their debt. This may prompt more cautious lending practices and a decrease in non performing loans. The theory that leverage affects asset quality is supported by the literature. Leverage, for instance, was found to have a negative effect on NPL ratios by Abdioglu & Aytekin (2016), suggesting that better loan performance can result from proper leverage management. Banks should carefully assess their leverage strategy in light of the negative link found between leverage and NPL. A balance must be struck so as not to jeopardize asset quality, even while increased leverage can boost returns. Raising debt shouldn't result in higher default rates; instead, effective risk management and monitoring systems should be in place.

A positive correlation between board size and NPL is indicated by the coefficient. This implies that a higher percentage of non-performing loans may be correlated with larger boards. One conclusion that may be made is that larger boards could result in more intricate decision-making procedures, which could make it more difficult to respond quickly to new risks, such as managing loan portfolios. The identification and mitigation of factors contributing to loan defaults may be delayed by this complexity. The positive but insignificant correlations found indicate that although a larger board is necessary for good governance, the underlying problems that cause a rise in non-performing loans might not be sufficiently addressed by this size of board. The results of this study agreed with findings of Muttakin & Ullah (2012) . Although it is somewhat smaller than the correlation for board size, the coefficient for audit committee meetings still demonstrates a positive but insignificant link with NPLs. This suggests that there is a little positive correlation between the frequency of audit committee meetings and the rise in non-performing loans. This may suggest that even with increased scrutiny, the audit committee's ability to resolve problems pertaining to loan performance may be restricted. It calls into doubt the caliber of the risk management and compliance-related conversations and decisions made during these sessions. The study's findings were consistent with those of Alzahrani (2019).

Having more audit committee meetings does not guarantee that risk associated with loan performance will be effectively managed. This would suggest that talks about

credit risk and loan performance indicators need to be narrowed down. The results indicate that in order to effectively control the variables leading to non-performing loans, banks might need to review their governance frameworks and risk management procedures. Although frequent audit committee meetings and larger boards are typically regarded as desirable governance practices, their link with increased non-performing loans suggests that these characteristics are insufficient on their own to mitigate credit risk. Improved approaches emphasizing efficient supervision and proactive risk management might be required to lower the number of non-performing loans.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

The system of policies, procedures, and practices that direct and regulate an organization is known as corporate governance. It includes the interactions between different stakeholders, including as shareholders, the board of directors, management, and other parties with an interest in the corporate structure. Ensuring accountability, equity, and openness in a company's activities is the main goal of corporate governance, as this eventually builds stakeholder confidence. Corporate governance has a crucial role in reducing financial fraud. Robust internal controls and an efficient board of directors are examples of effective governance arrangements that assist avoid wrongdoing by creating distinct lines of accountability and oversight. By guaranteeing that management behaves in the best interests of the business and its stakeholders, these systems are intended to identify and discourage fraudulent conduct. Moreover, values like ethics and transparency are essential to corporate governance because they encourage responsible decision-making and open communication, which lowers the risk of financial fraud. Ensuring the integrity of financial reporting and safeguarding stakeholders' interests are contingent upon robust corporate governance, which in turn plays a pivotal role in the organization's sustained viability and prosperity.

Concerns about accountability, transparency, and financial performance have drawn more attention to corporate governance in Nepalese banks. Thriving confidence among stakeholders, including investors, consumers, and regulatory authorities, is contingent upon the banking sector's strong governance norms, which are critical to Nepal's economic progress. The central regulatory body, Nepal Rastra Bank (NRB), has highlighted the necessity of better governance frameworks in banks and financial institutions (BFIs). Problems include inadequate supervision procedures, a lack of transparency, and bad governance practices have been documented; these have prompted legal challenges and regulatory attention. For example, current research shows that governance concerns frequently affect more than just financial metrics, impacting overall performance and stakeholder confidence. Examining the present

governance standards in Nepalese banks, the study focuses on board composition, audit committee meetings, return on assets (ROA), return on equity (ROE), and leverage. Based on the results, recommendations for better governance standards will be made, which may help reduce financial fraud and improve the stability and performance of Nepal's banking industry. In order to investigate the associations between variables in research investigations, two basic statistical approaches are used: regression analysis and correlation. The study has the potential to evaluate the state of corporate governance in the banking industry because it had selected an eight-bank sample from Nepal's 20 commercial banks and used secondary data.

ROA, ROE and Number of Audit Committee Meetings have significant impact on fraud measuring variables whereas Board Size and Leverage have no significant impact on them. Important indicators of a bank's efficiency and profitability are ROE and ROA. While a higher ROE shows that a bank is giving its shareholders strong returns, a higher ROA shows that the bank is using its assets to create earnings in an efficient manner. Stakeholders keep a careful eye on these metrics, which have the power to change opinions about governance procedures and financial health. Given that efficient management is usually linked to increased profitability and transparency, robust ratios may suggest that the bank is less likely to participate in fraudulent activity. Meeting frequency for the audit committee is an important aspect of governance. Frequent meetings advocate for proactive supervision and involvement in keeping an eye on financial procedures and regulatory compliance. By taking a proactive stance, possible fraud risks can be found and reduced, improving the accuracy of financial reporting. Research has indicated that a higher frequency of meetings is associated with improved governance procedures, which in turn results in fewer cases of financial fraudulent activity. Based on the hypothesis, the study concludes that there has been a comparable relationship between the corporate governance characteristics and managing fraud. There is negative relationship between bank performance and financial fraud. Similarly, there is negative relationship between number of audit committee meetings and financial fraud.

Although having a larger board might seem like an effective strategy for supervision, studies have shown that this is not necessarily the case for improved governance. Larger boards may cause issues with cooperation and accountability, which reduces

their effectiveness in stopping fraud. The lack of discernible effect implies that simply growing the size of the board does not always improve governance or lower the risk of fraud. Excessive leverage may be a sign that a bank is depending more on debt to fund its operations, which could raise financial risk instead of improving governance. Leverage may not have a substantial effect on fraud measurement variables, which could indicate that financial structure by itself is insufficient to provide information about fraud risk or governance efficacy. Rather, the supervision procedures and management styles might be more important in reducing fraud. The significance of financial success and proactive governance in mitigating fraud risk is highlighted by the substantial effects of ROA, ROE, and the number of audit committee meetings on fraud measurement variables. On the other hand, the fact that Board Size and Leverage had no discernible influence shows that these elements by themselves do not ensure good governance or the prevention of fraud. This contrast highlights the fact that banks should not only modify structural components like board size or leverage ratios, but also concentrate on improving their operational efficiency and governance standards. Due to insignificant relationship between Board Size and Leverage to fraud measuring variables, hypothesis for them could not be accepted.

5.2 Conclusion

The profitability and efficiency of a bank can be determined by looking at its ROA and ROE. Higher ROE suggests the bank is giving shareholders substantial returns, while greater ROA indicates the bank is efficiently employing its assets to produce earnings. Due to their potential to affect opinions regarding a bank's financial stability and governance practices, stakeholders keep a careful eye on these measures. Since effective management is frequently associated with higher profitability and transparency, the bank may be less inclined to engage in fraudulent activity if its ROA and ROE ratios are robust.

One important component of corporate governance is the frequency of audit committee meetings. Frequent meeting schedules are a sign of proactive supervision, active participation in regulatory compliance monitoring, and financial process monitoring. Audit committees can enhance financial reporting accuracy by proactively identifying and mitigating potential fraud risks. The study indicate that more frequent meetings are linked to improved governance practices and a decrease in

financial fraud. The study comes to the conclusion that financial fraud and bank performance, as determined by ROA and ROE, are negatively correlated. Similarly, there is a link between financial fraud and the quantity of audit committee sessions that is negative. This demonstrates the significance of strong governance standards and operational effectiveness in reducing the risk of fraud. Financial institutions ought to concentrate on improving these factors instead of just making changes to structural elements like board composition or leverage ratios.

Larger boards could seem like a good way to supervise, but the study has shown that better governance doesn't always follow from larger boards. Bigger boards may cause problems with accountability and collaboration, which will lessen their ability to stop fraud. Over leveraging could indicate that a bank is depending more on debt to fund its operations, which could raise financial risk rather than improve governance. Leverage by itself, meanwhile, might not be able to reveal enough about the effectiveness of governance or the risk of fraud. The study highlights the importance of active governance methods, especially regular audit committee meetings, and financial performance indicators in lowering the risk of financial fraud in banking organizations. The key to reducing the danger of fraud is to concentrate on strong governance standards and operational efficiency.

5.3 Implications

The study emphasizes how crucial audit committee meetings are to lowering financial malfeasance. To guarantee proactive supervision and efficient monitoring of financial practices, banks should place a high priority on the number and caliber of these meetings. The results imply that careful consideration should be given to the selection and function of independent directors. Enhancing governance and lowering the risk of fraud can be achieved by making sure that independent directors are actually independent and qualified to provide unbiased supervision. According to the study, improving board size alone will not increase the effectiveness of governance. Rather, banks ought to concentrate on the makeup of the board, making sure that there is a good mix of expertise and diversity that encourages efficient supervision and decision-making. Members of the audit committee and directors must get ongoing training and development in order to guarantee that they have the skills needed to recognize and successfully reduce fraud risks. authorities must to set up systems to keep an eye on how well banks are implementing corporate governance principles.

This includes evaluating the effectiveness of the audit committee on a regular basis and the effect that governance arrangements have on financial results.

In order to improve financial performance and lower the risk of fraud, banks should see investments in governance processes as essential. Examples of these activities include strengthening the roles of audit committees and boards.

Transparency and trust in the institution's financial reporting can be promoted and strengthened by involving stakeholders, such as shareholders and regulatory agencies, in talks regarding governance standards. It is recommended that the banking industry embrace a culture of ongoing governance practice enhancement. Better financial results and increased stakeholder confidence can result from regular examinations of governance arrangements and their efficacy in combating fraud. The study emphasizes how important it is for banks to concentrate on good governance procedures, especially through the audit committee, in order to reduce the risk of fraud and improve overall financial performance. The consequences encompass policy formulation, regulatory frameworks, and pragmatic governance tactics implemented by financial organizations.

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APPENDICES

1. Agriculture Development Bank

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	14.24	15.59	16.94	19.29	20.37
Non-performing loan%	2.78	2.09	1.88	2.84	3.29
Return on assets (ROA)%	0.5	0.9	1.59	1.86	2.77
Return on equity (ROE)%	3.92	6.67	11.2	11.7	14.71
Board Size (Number)	7	7	7	7	7
Audit committee meetings in a year(times)	40	48	48	22	51
Leverage(%)	12.24	13.62	14.42	16.47	19.27

Source : Annual Report of Agriculture Development Bank

2. Citizens Bank International Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	12.12	12.69	13.02	13.7	15.14
Non-performing loan%	3.39	2.22	1.64	1.55	1.13
Return on assets (ROA)%	0.95	1.11	1.29	1.19	1.74
Return on equity (ROE)%	9.01	10.21	11.17	11.22	11.71
Board Size (Number)	5	7	7	7	7
Audit committee meetings in a year(times)	7	14	16	14	16
Leverage(%)	10.01	10.45	11.02	11.85	13.46

Source : Annual Report of Citizens Bank International

3. Everest Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	13.3	11.89	12.48	13.38	13.74
Non-performing loan%	0.79	0.12	0.12	0.22	0.16
Return on assets (ROA)%	1.41	1.13	0.89	1.42	1.94
Return on equity (ROE)%	13.25	10.77	8.56	13.5	17.32
Board Size (Number)	7	7	7	7	7
Audit committee meetings in a year(times)	12	12	13	12	15
Leverage(%)	11.17	10.78	11.24	11.92	12.38

Source : Annual Report of Everest Bank Ltd

4. Himalayan Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	12.31	11.75	13.89	14.89	12.6
Non-performing loan%	4.93	1.59	0.48	1.01	1.12
Return on assets (ROA)%	0.47	1.09	1.68	1.79	2.21
Return on equity (ROE)%	4.65	10.76	14.89	15.4	18.34
Board Size (Number)	7	7	7	7	7
Audit committee meetings in a year(times)	11	9	11	5	5
Leverage(%)	9.03	10.49	11.21	11.76	11.63

Source : Annual Report of Himalayan Bank Ltd

5. Kumari Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	12.11	12.63	13.71	15.35	11.75
Non-performing loan%	4.97	1.11	0.96	1.39	1.01
Return on assets (ROA)%	0.14	1.22	1.04	0.76	1.17
Return on equity (ROE)%	1.47	12.28	10.43	6.71	10.5
Board Size (Number)	7	5	5	5	5
Audit committee meeting in a year(times)	20	12	12	13	16
Leverage(%)	8.13	9.83	10.64	12.01	10.89

Source : Annual Report of Kumari Bank Ltd

6. Macchapuchre Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	13.58	13.36	12.06	13.02	12.79
Non-performing loan%	2.26	1.04	0.62	0.52	0.37
Return on assets (ROA)%	0.87	1.02	1.02	1.02	1.61
Return on equity (ROE)&	10.06	11.64	12.5	10.92	15.1
Board Size (Number)	7	7	7	6	7
Audit committee meeting in a year(times)	14	16	15	19	22
Leverage(times)	9.01	8.62	8.67	9.57	11.88

Source : Annual Report of Macchapuchre Bank Ltd

7. NMB Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	13.33	13.59	15.08	15.08	15.45
Non-performing loan%	2.87	1.33	2.27	2.68	0.82
Return on assets (ROA)%	1.19	1.35	1.32	1.09	1.83
Return on equity (ROE)%	11.65	12.95	12.08	8.94	13.32
Board Size (Number)	7	7	6	7	7
Audit committee meeting in a year (times)	6	5	6	10	4
Leverage(%)	7.57	7.57	7.58	8.57	7.29

Source : Annual Report of NMB Bank Ltd

8. NIC Asia Bank Ltd

Variables	Fiscal year				
	79/80	78/79	77/78	76/77	75/76
Capital adequacy Ratio%	13.36	13.38	12.47	13.5	13.32
Non-performing loan%	0.88	0.53	0.5	0.75	0.46
Return on assets (ROA)%	1.23	1.2	1.09	1.32	1.56
Return on equity (ROE)%	16.39	18.43	17.09	19.26	22.73
Board Size (Number)	7	7	7	8	7
Audit committee meeting in a year(times)	63	58	23	20	29
Leverage(%)	8.5	8.8	7.36	8.35	8.24

Source : Annual Report of NIC Asia Bank Ltd

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Abstracts The purpose

of this research is to evaluate how **corporate governance** reduces **financial fraud. The**

study has chosen two independent variables to measure fraud: the capital adequacy ratio and nonperforming loans.

Independent firm-specific and corporate governance variables include board size, audit committee meetings, return on equity, return on assets, and leverage.