CORPORATE FRAUD: THE ROLE OF FORENSIC ACCOUNTANTS AND LITIGATION SUPPORT SERVICES IN KENYA

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1.1 CORPORATE FRAUD: AN OVERVIEW

At the mention of the word fraud one immediately thinks of the various scandals that have rocked this country, in fact one can say that corporate fraud has now become endemic. Judging from the world wide perspective, Kenya is no exception to this new phenomenon to hit the financial world like a storm.

The famous Ponzi scheme perpetuated by one Bernard Madoff, caused ripples in the United States economy. It is believed that Madoff caused losses of almost $65 billion to his investors. The former NASDAQ chairman, who headed his stock brokerage firm Bernard Madoff LLC, is said to have begun this scheme in the early 1980's. Unsuspecting investors lost billions of dollars in what was described as one of the biggest fraud in recent history. Much closer home a similar story is told of the stock brokerage firm, Nyaga stockbrokers. The firm went under when it was discovered that it traded in their clients' shares without their consent. Soon after, Discount Securities Limited also collapsed.

Corporate fraud however is not limited to securities fraud but it involves a broad spectrum of activities including deception, embezzlement, corruption, bribery, forgery, extortion, collusion, theft, conspiracy, misappropriation, concealment of material facts and false representations. Basically fraud is any kind of activity that uses deception as its modus operandi. With this in mind, numerous scandals can be categorized as fraudulent activities. In Kenya, the some scandals can be attributable to fraudulent activity. For example, the Anglo-leasing fiasco is still to be resolved while the Triton Petroleum deals remain a mystery. Fraudulent activities are not only a preserve of the private sector; the public sector is not left behind. The National Social Security Fund (NSSF), the Ministry of Education, Kenya Pipeline has proved that fraud is even more rampant in public institutions.

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1 Named after Charles Ponzi who defrauded Americans in the 1920’s with his ‘merry-go’ round scheme.
3 The Ponzi scheme was a type of fraudulent activity where investors were deceived into investing in a scheme that promised high returns. Investors were paid returns from the investor's own capital rather than from returns on investments. This scheme was named after Charles Ponzi, who used this fraud in the 1920s in the United States.