EFFECT OF FINANCIAL FRAUD MANAGEMENT PRACTICES ON PROFITABILITY OF STATE CORPORATIONS IN KENYA

EVALYNE WAYUA NGUI

D61/74406/2014

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2018

DECLARATION

I declare that this research project report is my original work and has not been submitted for examination in any other institution.

Signature………………………...Date………………………….

MS. EVALYNE WAYUA NGUI

REG NO: D61/74406/2014

This research project report has been submitted for examination with our approval as the University Supervisors.

Supervisor

Signature………………………………. Date……………………………….

MR. JAMES NGANGA

Department of Finance and Accounting School of Business

University of Nairobi

DEDICATION

This work is dedicated to my family for the encouragement. To my colleagues, classmates and to all the financial institutions in Kenya, this is a study that depicts the need for adoption of standard anti-fraud practices.

ACKNOWLEDGEMENT

First and foremost, I want to thank the Lord for offering me fine health and taking me through the whole of the project, may His name be glorified forever.

Secondly, I am indebted to people who gave me inspiration to pursue my studies at the University of Nairobi and those that guided me while in the process of this research project on the effect of financial fraud practices on profitability of state corporations in Kenya.

I hereby send my regards to my supervisor Mr. James Nganga. He was a source of inspiration, positive criticism and support throughout the proposal tenure. Without his sincere guidance and advice, this work would have been lacking in many ways. Thank you very much and may you be divinely blessed.

My gratitude to my daughter, family and friends for being a great source of emotional and material support. To my colleagues and friends at work, for being such a resourceful, inspiring and a reference point of wisdom.

May the good Lord bless you all abundantly.

ABSTRACT

Lately series of fraud both in the public division and the private area of the economy have been uncovered. The violations are without uncertainty executed under the supervision of the inside reviewers of the association. False monetary announcing can destabilize adequacy of money related revealing of legitimate establishments. Along these lines, there is have to embrace measures to avoid extortion. This specific examination hence explored the impact of money related misrepresentation the executives rehearses on execution of state partnerships in Kenya. The investigation was additionally guided by the accompanying explicit goals; to look at the fakes confronting state enterprises in Kenya, to set up the misrepresentation the executives rehearses utilized by state organizations in Kenya and to decide the impact of monetary extortion the board rehearses on productivity of state partnerships in Kenya. The specialist utilized expressive research design. The study used census sampling to select one senior personnel from department dealing with fraud management as they were in a good stead of offering the most informed response on the same. The sample size was therefore 27 respondents from state corporations in Kenya. The findings show that common frauds were concealing material statements, demand draft fraud rogue traders and manipulating records, forged or fraudulent documents, increasing vendor invoices and inconsistent overtime hours for a cost center. The study established that commonly applied in employee and third-party screening included job rotation, internal audit and security checks. There is also use of conducting internal investigation, surprise audits and progressive sanctions. The government should put measures that ensure that employees working in state corporations get to know the consequences of engaging in fraudulent activities. Employees should be encouraged to report fraud cases in a confidential way such as remaining anonymous even to the officer he/she is reporting to. Therefore, mechanisms such as using a third party to relay the information should be encouraged. the study came across limitations like limited time set aside for the research and the limited scope of study and Respondents reluctancy due to fear that the information may be used negatively against them for instance to intimidate them or provide an unwanted image concerning the firms. the study however had further suggestion for research like a study on the challenges facing fraud management practices on profitability should be undertaken.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
ANOVA	Analysis Of Variance
ATM	Automatic Teller Machine
PwC	Price Waterhouse Coopers
RoA	Return on Assets
SPSS	Statistical Package for Social Science
US	United States

CHAPTER ONE

INTRODUCTION

1.1 Introduction

In recent years, noteworthy scandals that have been experienced in organizations all over the world hence reducing the confidence that the public as well as the shareholders have on financial and non-financial statements. More than two hundred thousand instances of online extortion were submitted in the United Kingdom in 2006, twofold the measure of certifiable burglaries. The examination uncovered that 75% of card extortion was submitted on-line in 2006. The worldwide market is worried about misrepresentation in high and low places (Adesola, 2008), notwithstanding the nearness of Sarbanese-Oxley enactment of 2002 in the United States and the distributing of Higgs Report and Smith report in the United Kingdom in 2003 because of the fall of Enron and other huge organizations in US, extortion still happens (Basel Committee, 2011).

The floods of corporate disappointments have put more prominent obligation and undertaking on bookkeepers to set themselves up with the abilities to identify and follow up on markers of poor corporate administration, botch, cheats and other wrong doings (Okunbor&Obaretin, 2010). It is totally crucial for bookkeepers at all dimensions to have the important abilities and information for distinguishing, recognizing and safeguarding the proof of all types of abnormalities and extortion. State organizations have not been saved in this. Executing a standard, adept money related condition investigation can give important data on the present and future condition of a nation's funds. Predictable examination can feature potential monetary issues and give data important to convenient restorative activity. Tending to the shortcomings and reinforces of a misrepresentation the executives framework prompts financial wellbeing and guarantees that assets are accessible to support the dimension and nature of administrations expected by citizens (Barth et al., 2007).

Misrepresentation might be characterized into two wide routes: nature of fraudsters and technique utilized in doing the extortion. Based on the idea of the fraudsters, extortion might be classified into three gatherings, in particular; interior, outer and blended fakes. Interior extortion identifies with those submitted by individuals from staff and executives of the associations, outer misrepresentation is submitted by people not associated with the association and blended misrepresentation includes untouchables conspiring with the staff and chiefs of the association. Karwai (2002) detailed that the distinguishing proof of the reasons for misrepresentation is exceptionally troublesome. He expressed that cutting-edge associations cheats ordinarily include a mind-boggling web of trick and misleading that frequently veil the real reason. Ajie and Ezi (2000) are of the view that reviews have appeared on the normal 6 out of each 10 staff would search for approaches to take, given the chance and in this manner no one but 4 could be typically genuine.

1.1.1 Kenyan State Corporations

In Kenya, State corporations are the enterprises in which the administration holds an extensive offer capital that is over half or which are controlled by and are required to answer to the state. They are set up by the Corporations Act part 446 of the laws of Kenya and are offered independence to work under explicit orders so as to enhance benefit conveyance to the general population. Despite the fact that they are represented by the Board of Directors they as a rule work inside the supervision of parent Ministries under which their order is related. As per GoK (2018) there were one hundred and ten (110) Kenyan State Corporations spread over every one of the fourteen services as at 30th June 2018.

The historical backdrop of state possessed partnerships goes back to the beginning of pioneer rule where companies were set up for the most part in transport, correspondence and farming to empower the usage of the provincial domain. Purposeful techniques were set by the administration for improvement went for the decolonization of, expanding neighborhood investment in the economy, advancing advancement and provincial equalization and additionally achieving more noteworthy open control of the economy.

With the aim of accelerating the accomplishments of these targets, the legislature built up new enterprises in different divisions of the economy, for example, business, industry, the travel industry, development, protection and keeping money. The quantity of financially arranged state-possessed undertakings in Kenya rose to 240 by the mid-80s. Independent of the certainty set in the organizations and despite the fact that they appeared to forces' extraordinary potential as operators of national advancement, they have consistently performed inadequately therefore turning into a weight on the exchequer. The partnerships are predominantly influenced by monetary wrongdoings including resource misappropriation, gift, defilement, acquirement misrepresentation, bookkeeping extortion and cyber-crime.

1.2 Problem Statement

A survey conducted by Price Waterhouse Coopers (PwC) in 2011 found Kenya to be harboring the highest number of fraudulent cases in the world. The most common type of crime reported was theft or asset misappropriation followed by accounting fraud, corruption and money laundering (Mbaire, 2012). The fraud cases mainly perpetrated through tenders are most common among the officials in the state corporations. In November 2015 a contract worth 41 million Kenya shillings was fraudulently awarded to telecommunication today limited by National Water Conservation and Pipeline Corporation officials (Daily Nation, 2016). The recent reported case of fraud has been the NYS scam which left 791 million Kenya shillings unaccounted for. There is the likelihood that the scams have been on-going though only those involving huge sum of money have been reported.

Fraudulent financial reporting can destabilize efficacy of financial reporting of reputable institutions. Thus there is need to adopt measures to prevent fraud. Though many companies have always had internal accountants to monitor and curtail any anomalies or complications that arise through the course of regular business transactions, there are still cases of fraudulent activity. In recent years, most institutions have attempted to conform to requirements for fraud prevention by adopting fraud prevention strategies. Most state corporations have tried to engage auditors in an effort to curb occurrences of fraud cases. The external auditors may at times collaborate with the organization in accomplishing the crimes thus covering up the fraud. In Kenya, a study by Kyalo, Kalio and Ngahu (2014) on role of fraud prevention in enhancing effective financial reporting in county governments in Kenya, concluded that fraud prevention influences effective financial reporting in the county government. An investigation on the documented financial fraud management practices in Kenya revealed that no such study had been specifically done on state corporations. This particular study therefore investigated the effect of financial fraud management practices on performance of state corporations in Kenya.

1.3 General Objective

The main aim of this research was to investigate the effect of financial fraud management practices on profitability of state corporations in Kenya.

1.3.1 Specific Objectives

The research was further guided by specific objectives;

i. To examine the frauds facing state corporations in Kenya
ii. To establish the fraud management practices used by state corporations in Kenya
iii. To determine the effect of financial fraud management practices on profitability of state corporations in Kenya

1.4 Value of the Study

The findings and recommendations may go a long way in improving corporate service delivery so as to have an efficient and effective public sector.

The study may inspire prospective researchers to explore more dimensions of fraud in state corporations. As such, the study forms the basis for future research. Academicians can find this study resourceful with regards to literature and act empirical review for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the research done on effect of financial fraud management practices on profitability of state corporations in Kenya. The chapter also presents the theoretical and empirical review as well as the conceptual framework of the study.

2.2 Theoretical framework

2.2.1 Classical Fraud Theory

Classical fraud theory has since quite a while ago clarified the reasons that an individual winds up engaged with budget summary (or any sort of) extortion. This hypothesis recommends that people wind up included as a result of the misrepresentation triangle, clarified as an apparent chance, saw weight, and justification (Cressey, 1953). The main component of the extortion triangle is an apparent weight. Most weights include a monetary need, despite the fact that non-budgetary or saw weights, for example, eagerness, the need to report superior to real execution, a test to beat the framework, or even dread can inspire misrepresentation.

The second component of the misrepresentation triangle is seen opportunity. The culprit must trust that the individual can submit the misrepresentation and not get captured or that on the off chance that the individual in question gets captured, nothing genuine will occur. Like weights, openings don't need to be genuine; they should just be seen as genuine by the culprit. Third, misrepresentation culprits require an approach to justify their activities as adequate.

These three elements comprise the fraud triangle. The importance of the fraud triangle in explaining fraud has gained popularity in recent years. In 2002, the American Institute of Certified Public Accountants – the main United States bookkeeping proficient association – incorporated the extortion triangle. The initial contributor to the fraud triangle was Edwin Sutherland (1949). As a result of his contribution, Edwin Sutherland was credited with coining the term white-collar crime.

2.2.2 Fraud Management Lifecycle Theory

Wesley (2004) depicts blackmail the official's lifecycle as a framework life cycle. Webster's vocabulary insinuates a lifecycle as "a movement of stages in edge and helpful activity through which a living thing goes between dynamic rehashes of a foreordained basic stage" (1997, 1976, &1941) and moreover implies a framework as "an interconnected or interrelated chain, social event or system" (1997, 1976, and 1941).

The Fraud Management Lifecycle is made up eight stages; demoralization, expectation, distinguishing proof, control, examination, approach, examination and arraignment. This speculation suggests that the last stage, arraignment, is the summit everything being equivalent and disillusionments in the Fraud Management Lifecycle. There are dissatisfactions in light of the way that the deception was productive and triumphs in light of the way that the coercion was perceived, a suspect was recognized, anchored, and charges recorded. The arraignment orchestrate consolidates asset recovery, criminal pay, and conviction with its pro impediment regard (Wesley 2004). The interrelationships among all of the stages or center points in the Fraud Management Network are the building squares of the deception the officials life cycle theory.

Githecha (2013) observes that the theory is indispensable in light of the way that it plainly exhibits the periods of distortion danger the administrators sequentially. Besides, the speculation furthermore exhibits what institutional methodology should set up for deception to be effectively administered. The theory at any rate does not elucidate the drivers of blackmail inside the business banks. This speculation anticipate uniform social, legitimate, and mechanical applications in the organization of deception. This theory does not try to elucidate deception the board practices in a space when such structures and systems crash and burn.

2.2.3 Deterrence Theory

Criminal prevention relates to the exclusion or diminishing of wrongdoing out of dread of lawful discipline, and the primary hypothesis can be followed to the utilitarian savants Beccaria (1738– 94) and Bentham (1748– 1832) who trusted that individuals are roused on a very basic level to get delight and stay away from agony. To the degree that potential guilty parties foresee joy from wrongdoing, they can be discouraged by expanding the agony related with it. Specifically, potential wrongdoers can be discouraged by making legitimate discipline certain, celeritous and serious, with assurance being the probability of being gotten and rebuffed for wrongdoing, celerity being the quickness' of discipline, and seriousness being the measure of discipline (Von Hirsch et al. 1999).

The theory is important because it states that fraudulent individuals can be deterred from committing a crime by making punishments certain, celeritous and severe. Such punishments are made through laws and CBK rules. However, suicidal or psychotic opponents may not be deterred by either forms of deterrence. Also escalation of perceived threat can make it easier for certain measures to be inflicted on commercial banks by its regulator resulting in higher taxes.

2.3 Fraud management practices

2.3.1 Internal controls

Internal controls can either be soft or hard controls. Hard controls are intended to change worker conduct or activities; they are effortlessly watched and moderately simple for inner reviewers to test. Key components of hard controls incorporate arranging, assignments, duties, and approval (Combee et al., 2015). Delicate controls allude to the way of life and conduct of both administration and representatives; delicate controls identify with the work environment frame of mind on accomplishing hierarchical targets (Combee et al., 2015). Delicate controls are progressively hard to test because of their to a great extent immaterial nature. Abdelrahim (2014) clarified the trouble in discovering the level of viability of a delicate control. It is easy to decide if an element has a formal implicit rules, yet deciding how viably it is executed is significantly more troublesome (Abdelrahim, 2014). Delicate controls are immaterial controls, and precedents may incorporate confidence, respectability, moral atmosphere, strengthening, transparency and shared qualities (Abdelrahim, 2014). Hard and delicate controls should supplement each other so as to alleviate the extortion chance in the most suitable way (Chtioui and

ThiéryDubuisson, 2011). Frankenberg and Herremans (1995) contended that the best inside controls exist when formal and casual or hard and delicate frameworks are consistent.

2.3.2 Training

So as to accomplish a genuine consistence culture, associations must comprehend that misrepresentation avoidance and location preparing is basic, just like the dispersal of extortion mindfulness all through the association (Stein, 2012). Preparing ought to be conveyed at the season of enlisting, and intermittently from that point; it is prescribed that the preparation incorporate procedures for acknowledgment of blessings and engaging, irreconcilable circumstances, doubt revealing/secured revelations, criminal and additionally considerate review against culpable people, breaking the strategy rules, and examination gauges (PwC, 2007). Progressing extortion mindfulness preparing enables an association by making more workers who can recognize dangers, which expands the capacity for the substance to deflect and identify deceitful movement (Strand, Judd, and Lancaster, 2002). Hierarchical chiefs who are straightforwardly included with extortion control ought to be reasonably arranged. Extra supporting or helpful attributes would incorporate learning of law and extortion related enactment and a decent information of human practices (Albrecht et al., 2012). Authoritative supervisors must guarantee that representatives comprehend the rules and procedures; when deceitful acts are researched, an absence of clear rules is an exceptionally basic reason utilized by guilty parties (PwC, 2008).

2.3.3 Employee and third party screening

Research has discovered that the larger part of extortion (71.4%) is executed by representatives (PwC, 2008). At the point when a monetary downturn happens and there is a diminishing number of lucrative occupations, educational programs vitae (CV) extortion and misquoted data on representative employment applications are normal practice. Because of the expanded rivalry, compelling screening is a need (Engleman and Kleiner, 1998). At the very least, it is contended that worker screening and criminal checks must happen as a major aspect of the due steadiness process while considering procuring another representative. In a perfect world, worker screening ought to be reached out to outsider suppliers. Associations ought to embrace an a lot more extensive way to deal with screening than the customary techniques for letters, references, and meetings. Engleman and Kleiner (1998) expressed that while the individual meeting is the most ordinarily utilized determination strategy, it is frequently the weakest—in spite of the fact that correspondence and social aptitudes might be watched, genuineness and reliability can't be distinguished (p. 165). "The expense of appropriate screening is far exceeded by the expense of one awful enlist" (PwC, 2008). An assortment of strategies past the standard criminal check ought to be utilized to choose and contract the correct hopeful (Brody, 2010).

2.3.4 Whistleblower protection

Operators are a productive wellspring of data (ACFE, 2014), with whistle blowing saw as a displayed system for doing fighting the hazard of pressure. Whistleblowing hotlines are a reaction instrument utilized by agents and others to report sketchy lead (Albrecht et.al, 2012). The foundation of an enemy of extortion condition depends upon a gathering of incapacitation factors, including tone from the best, source hotlines, and witness insurances (Dorminey et.al, 2012). Bhal and Dadhich (2011) focused on the centrality of the relationship between tone from the best and productive source structures; they set that moral association is essential, particularly when there is a high danger of observer striking back. Van Akkeren and Tarr (2015) set that these 'securities' are not exhaustive, particularly when associations are made among open and private bit substances.

The adequacy of an informant can be controlled by the degree to which the detailed activity, unfortunate behavior, improper practice, or exclusion is ended inside a sensible time period (Near and Miceli, 1995). Source hotlines are a wellspring of 'tips' (ACFE, 2014) and are portrayed as a "correct, accommodating and secure procedure for delegates to report distortion concerns or any variations from the norm to a free assembling without fear of striking back" (Pergola and Sprung, 2005). Hotlines are a particularly astute suggests for recognizing word related coercion and abuse (Bierstaker et al., 2006). Formal whistleblowing segments, for instance, hotlines, can give an incredible method to driving a distinction in culture (Church, Gallus, Desrosiers, and Wacawski, 2007). The dimension of assistance for witnesses inside affiliations can be assessed by paying little heed to whether the affiliation unequivocally verbalizes its whistleblowing game plan (Lee and Fargher, 2013).

2.4 Empirical Review

Gikiri (2012) completed an investigation to decide the impact of extortion hazard the board rehearses in business banks and their impact on misrepresentation chance presentation. The fundamental target was to locate the consolidated impact of extortion chance administration rehearses; misrepresentation anticipation and misrepresentation identification on misrepresentation chance rate in Commercial banks in Kenya. Abdulrasheed, Babaitu and Yinusa (2012) examined the impact of deception on bank execution in Nigeria. The examination revealed that Nigerian banks recorded the most amazing occasions of distortion in 2008. Delayed consequence of the examination exhibits that, there is a gigantic association between banks advantage and total whole of benefits drew in with coercion.

Adeyemo (2012) analyzed the nature, causes, impacts and solution for bank misrepresentation in Nigeria. The investigation demonstrated that the fight for isolation, revealing and requital of misrepresentation, guilty parties must be battled on two broad fronts. First is to lessen the compulsion to submit extortion and second is to expand the odds of discovery. Akindele (2011) discovered that absence of sufficient preparing, correspondence hole, and poor administration abilities were the best reasons for misrepresentation in banks. He prompted that satisfactory interior control system be set up and that laborers' fulfillment and solace be dealing with.

Idowu (2009) completed an examination went for discovering methods for limiting the rate of misrepresentation in Nigerian Bank's Findings of this investigation uncovered that, such a significant number of parts added to the rate of fakes in banks among which are poor organization of methodologies and frameworks, inadequate working conditions, bank staff staying longer on an explicit business and staff feeling confounded due to poor pay. Nwude (2006) finished an examination on bank swindles. The procedure he got incorporated a joint effort with bank staff of various units with sorted out review to perceive the distortion structures and characteristics in the keeping cash industry.

Kuria and Moronge, (2013) directed an examination on the impacts of protection extortion control system on the development of the protection business with spotlight on protection firms in Kenya. To accomplish its target, the examination received a distinct research plan. The information was acquired basically from case chiefs and hazard directors of the organizations. The objective populace was the 49 insurance agencies in Kenya. An enumeration was utilized inferable from the little size of the objective populace. Surveys were utilized as the device for gathering information. The investigation was finished by utilization of a spreadsheet program and introduced in tables and outlines. The examination discovered that direction does not help in misrepresentation control and had little effect on the development of the protection part. Innovation and administration then again had been utilized to battle extortion in the protection business and helped misrepresentation relief as well as advance development of the part.

2.5 Conceptual framework

The conceptual framework will show the relationship between fraud management practices (independent variables) and profitability (dependent variables). The indicators of independent variables will be internal controls, training, employee and third party screening and whistleblower protection. The dependent variable will be measured using return on assets (ROA).

Independent Variable **Dependent Variable**

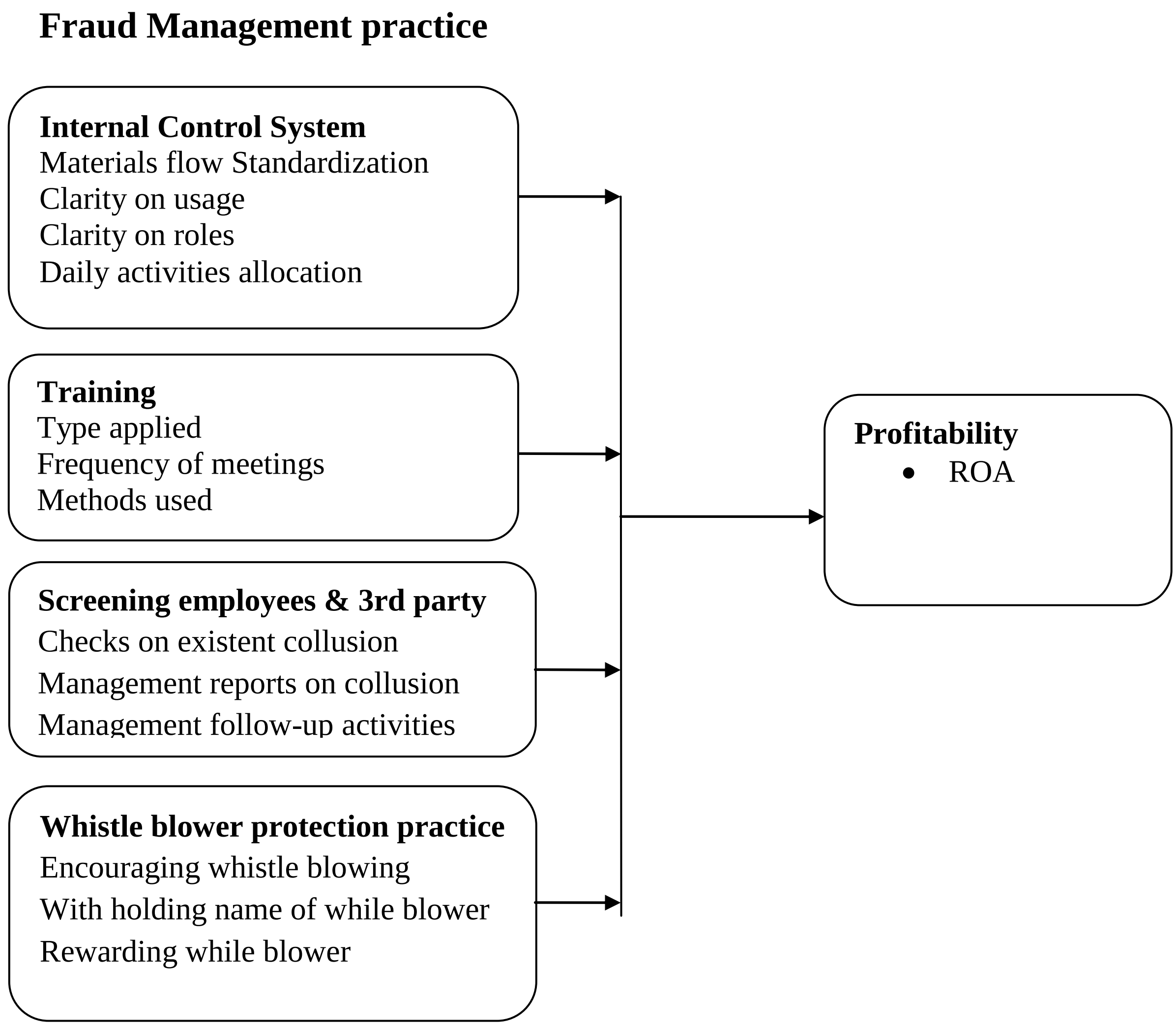

Figure 1: Conceptual Framework

2.6 Summary of Literature Review

A number of studies have been carried out in the area of fraud. The literature has tackled the concepts of fraud risk management practices as well as financial performance of firms. Given the existing risk, the management of fraud risk management is essential for survival and profitability today.

A lot of studies focused on fraud risk management practices without linking them to the profitability of commercial state corporations in Kenya. This is the gap in literature that this study is attempting to fill by empirically investigating the effects of fraud management practices and profitability of commercial state corporations in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

This part sets out the examination strategy that was followed in finishing the investigation. It includes a plan for the accumulation, estimation and investigation of information. This part is organized into; explore configuration, target populace, examining structure, information accumulation instruments, information gathering methodology lastly information examination.

3.2 Research Design

The scientist utilized enlightening exploration plan. As indicated by Mugenda, (2008), an enlightening report is worried about discovering the what, where and how of a wonder and all things considered empower the investigation accomplish its destinations. A graphic overview investigate looks to acquire data that depicts existing wonders by getting some information about their usage, disposition, conduct or qualities.

3.3 Population

The target population of study was state corporations in Kenya. According to the GoK (2018) there are twenty seven (27) commercial state Corporations in Kenya. The target population offers a holistic view of what frauds are involved in commercial state corporations in Kenya and how they mitigate the same.

3.4 Sample

The study used census sampling to select one senior personnel from department dealing with fraud management as they were in a good stead of offering the most informed response on the same. The sample size was therefore 27 respondents from state corporations in Kenya. Random sampling was used to get the sample size from the population of public sector organizations in Kenya. The respondents comprised of the head of the office of the state corporations in Kenya.

3.5 Data Collection

The study employed both primary and secondary means of data collection. Secondary data was collected from company's annual reports, magazines and websites. Primary data was gathered through questionnaires. Questionnaires are favored as their reactions are assembled standardizedly making them more target than meetings, rush to gather data and conceivably data can be gathered from a huge bit of a gathering (Burns, 2000). The polls were semi-structured– have both open and close-finished inquiries for subjective and quantitative information individually.

The questionnaire comprised of closed ended questionnaires as well as a few open ended ones. A five point Likert scale ranging from not at all (1) to (5) a very large extent was used to construct some of the items. Likert scale questions are the most frequently used variation of the summated rating scale.

3.6 Data Analysis Methods

3.6.1 Data Cleaning Procedures

The information produced from organized inquiries was coded, numbered and characterized under various factors for simple ID and afterward condensed in answer rundown sheet.

Likewise, reactions from unstructured inquiries on supposition testing will be written in a different sheet and composed in subjects. These topics were utilized to answer explore questions. Mugenda and Mugenda (2003) saw that measurable calculation done in graphic insights incorporates: frequencies, rates, implies, standard deviation were utilized in this investigation. Enlightening insights were utilized to investigate the essential information of quantitative nature.

3.6.2 Analytical Model

Multiple regression was used to determine the relationship between the independent and the dependent variables. The following formula was used;

$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where

Y = profitability measured by ROA,

β_0 is the constant

X_1 = internal controls measured by materials flow standardization, clarity on usage clarity on roles, daily activities allocation

X_2 = training measured by type applied, frequency of meetings, methods used

X_3 = employee and third party screening measured by checks on existent collusion, management reports on collusion, management follow-up activities

X_4 = whistleblower protection measured by encouraging whistle blowing, withholding name of while blower, rewarding while blower

ε = Error term

β_1, β_2, $\beta_{3,}$ β_4 and β_5 are coefficients

3.7 Test of significance

The study tested the overall significance of the model by use of ANOVA. Further, the study determined the significance of each variable in influencing the dependent variable by use of coefficients table generated using multiple regression.

CHAPTER FOUR

PRESENTATION AND INTERPRETATION

4.1 Introduction

This part covers information investigation, introduction and understanding of the general data of the respondents which incorporates the investigation of the respondents' socioeconomics. It additionally handles the exploration addresses where every one of the inquiries is replied by the examination of the got information and exhibited through tables. The point if the investigation was to evaluate the impact of money related extortion the executives rehearses on benefit of state enterprises in Kenya. The examination utilizes different factual instruments (SPSS) for removing the information. The information was accumulated utilizing a survey and in addition optional data.

4.2 Response Rate

The information gathering instruments, polls were sent to 27 leader of the workplace of the state organizations in Kenya. An aggregate of 24 surveys were sent back completely finished making a reaction rate of 88.8%. The reaction rate is in accordance with Mugenda and Mugenda (2003) who proposed that for speculation a reaction rate of half is satisfactory, 60% is great and a reaction rate of 70% and over is brilliant for investigation and detailing. The reaction rate exhibits a readiness to react to the review by the members.

4.4 Types of fraud

The respondents were asked to indicate the extent to which the given frauds occurred in their organizations. They responded as shown in Table 3.

Table 1: Types of fraud

Types of fraud	Mean	Std. Dev
Concealing material statements	4.42	1.358
Demand draft fraud Rogue traders	4.11	.972
Forged or fraudulent documents	3.95	1.294
Inconsistent overtime hours for a cost center	2.94	1.242
Increasing vendor invoices	3.04	1.247
Management decisions are dominated small group	2.15	.751
Manipulating records	4.03	1.241
Money laundering	2.21	1.306
Obtaining finances through false presences	2.19	.745

The respondents indicated that frauds that occurred to a great extent were concealing material statements (mean=4.42, SD=1.358), demand draft fraud rogue traders (mean=4.11, SD=0.972) and manipulating records (mean=4.03, SD=1.241). Frauds that occurred to a moderate extent were forged or fraudulent documents (mean=3.95, SD=1.294), increasing vendor invoices (mean=3.04, SD=1.247) and inconsistent overtime hours for a cost center (mean=2.94, SD=1.242). Money laundering (mean=2.21, SD=1.306), obtaining finances through false presences (mean=2.19, SD=0.745) and management decisions are dominated by small group (mean=2.15, SD=0.751) occurred to a little extent.

4.5 Financial Fraud Management Practices

The study aimed at finding out the financial fraud management practices in commercial state-owned companies in Kenya. The study specifically investigated the effectiveness of internal control system, training, employee and third-party screening and whistleblower protection as financial fraud management practices.

4.5.1 Internal Controls

4.5.1.1 Extent of effectiveness of Internal Controls

The study sought to establish the extent to which their organization had placed good internal controls for preventing employee fraud

Table 2: Extent of effectiveness of Internal Controls

Internal Controls	Frequency	Percentage (%)
Not at all	2	8.3
Little extent	4	16.7
Moderate extent	3	12.5
Great extent	5	20.8
Very great extent	10	41.7
Total	**24**	**100**

The synopsis demonstrates that 41.7% of respondents showed that interior control framework was powerful to an extremely extraordinary degree, 20.8% showed, as it were, 16.7% to a moderate degree, 12.5% to a moderate degree and 8.3% not in the least. It tends to be finished up in this way that inward controls in the business state-claimed organizations in Kenya was powerful.

4.5.1.2 Internal Control System

The study required respondents to indicate the extent to which the given internal control methods contributed towards managing fraud in their organization. The findings are shown in Table 5.

Table 3: Internal Control System

Internal Control System	Mean	Std. Dev
Board, audit committee and senior management oversight	4.11	.972
Use of information technology to prevent fraud	2.25	.694
Establishment of strong internal controls	3.94	.842
Proactive data analysis	3.04	1.247
Law enforcement investigation	4.15	.751
Monitoring systems designed to detect fraud	4.11	1.241
Management review	3.91	1.306
Account reconciliation	4.19	.745

The respondents indicated that to a great extent account reconciliation (mean=4.19, SD=0.745), law enforcement investigation (mean=4.15, SD=1.247) and board, audit committee and senior management oversight (mean=4.11, SD=0.972) acted as measures to control fraud. They further indicated that to a great extent monitoring systems designed to detect fraud (mean =4.11, SD=1.241), establishment of strong internal controls (mean=3.94, SD=1.247), management review (mean=3.91, SD=1.247) were effective in curbing fraud. Proactive data analysis (mean=3.04, SD=1.247) was effective to a moderate extent while use of information technology to prevent fraud (mean=2.25, SD=1.247) was to a little extent used as an internal measure to curb fraud.

4.5.2 Training

4.5.2.1 Extent of effectiveness of Training

The study sought the extent of effectiveness of training in the commercial state owned companies in Kenya.

Table 4: Extent of effectiveness of training

Training	Frequency	Percentage (%)
Not at all	2	8.3
Little extent	1	4.2
Moderate extent	6	25
Great extent	10	41.7
Very great extent	5	20.8
Total	**24**	**100**

An aggregate of 41.7% of respondents showed that preparation was compelling, as it were, 20.8% shown to an extremely incredible degree, 25% to a moderate degree, 8.3% not in any manner and 4.2% to a little degree. It very well may be finished up in this manner that preparation in the business state possessed organizations in Kenya was successful.

4.5.2.2 Training

The study sought to examine the influence of training on profitability of commercial state owned companies in Kenya. The study required respondents to indicate the extent to which the given means of training contributed towards managing fraud in their organization. The results are presented in Table 7.

Table 5: Training

Training	Mean	Std. Dev
Fraud risk awareness training	4.36	.836
Fraud risk assessment program	3.92	1.228
Establishment of effective code of conduct and related standards	4.32	.843
Specific and General training	4.06	1.082
Employee support program	4.03	1.150
Fraud risk awareness training	4.19	.669

Communicating to the employees that management took appropriate action	4.01	1.205

To a great extent fraud risk awareness training (mean=4.36, SD= SD=0.836), establishment of effective code of conduct and related standards (mean=4.32, SD=0.843) and fraud risk awareness training (mean=4.19, SD=1.150) helped in curbing fraud. The response also shows that specific and general training (mean=4.06, SD=1.082), employee support program (mean=4.03, SD=1.150), communicating to the employees that management took appropriate action (mean=4.01, SD=1.205) and fraud risk assessment program (mean=3.92, SD=1.228) were effective to a great extent.

4.5.3 Employee and third party screening

4.5.3.1 Extent of effectiveness of Employee and third party screening

They respondents were asked to indicate the extent of effectiveness of and third party screening in the commercial state owned companies in Kenya. The response is as shown in Table 8.

Table 6: Extent of effectiveness of employee screening

Employee screening	Frequency	Percentage (%)
Not at all	2	8.3
Little extent	5	20.8
Moderate extent	3	12.5
Great extent	10	41.7
Very great extent	4	16.7
Total	**24**	**100**

From the finding in table 4.7, 41.7% showed that worker and outsider screening was viable, as it were, 20.8% demonstrated to somewhat, 12.5% show to a moderate degree, 16.7% extremely incredible degree while 8.3% demonstrated to not in any manner. The outcome suggests along these lines that worker and outsider screening in the business state claimed organizations in Kenya is powerful.

4.5.3.2 Influence of employee and third party screening and profitability

The study sought to examine the influence of employee and third party screening on profitability of commercial state owned companies in Kenya.

Table 7: Influence of employee and third party screening and performance

Employee screening	Mean	Std. Dev
Security checks	4.08	.537
Surprise audits	3.28	.721
Job rotation	4.49	.534
Prosecution of the offender	2.63	1.203
Conducting internal investigation	3.39	.829
Progressive sanctions	2.95	.682
Internal audit	4.18	.427
Recovery of the stolen funds	2.48	1.107

Response shows that to a great extent job rotation (mean=4.49, SD=0.534), internal audit (mean=4.18, SD=0.427) and security checks (mean=4.08, SD=0.537) were effective. Further response indicates that to a moderate extent, conducting internal investigation (mean=3.39, SD=0.829), surprise audits (mean 3.28 SD=0.721) and progressive sanctions (mean=2.95, SD=0.682) were effective. Further ways such as prosecution of the offender (mean=2.63, SD=1.203) and recovery of the stolen funds (mean=2.48, SD=1.107) were effective to a little extent.

4.5.4 Whistle Blower Protection

4.5.4.1 Extent of effectiveness of Whistle Blower Protection

The study sought the extent of effectiveness of whistle blower protection in the commercial state owned companies in Kenya. The response is summarized in Table 10.

Table 8: Extent of effectiveness of whistle blower protection

Whistle blower protection	Frequency	Percentage (%)
Not at all	2	8.3
Little extent	3	12.5
Moderate extent	5	20.8
Great extent	8	33.4
Very great extent	6	25
Total	**24**	**100.0**

From the discoveries greater part of the respondents (33.4%) showed that informant security was compelling, all things considered, 25% to an exceptionally incredible degree, 20.8% to a moderate degree, 12.5% to a little degree and the staying 8.3% not in the least.

4.5.4. Whistle Blower Protection

The investigation tried to analyze the impact of informant security on productivity in the business state possessed organizations in Kenya. Concentrate required the respondents to show the degree to which methods for informant security helping in overseeing extortion in their association.

Table 9: Whistle Blower Protection

Whistle blower protection	Mean	Std. Dev
Reward for whistle blower	3.56	1.060
Fraud Department	3.52	1.120
Antifraud policy	4.20	.894
Confessions	3.89	.780
Performance appraisal on fraud prevention	3.92	.836
Whistleblowing hotline	4.04	.667
Internal tip-off	3.54	.891
External tip-off	3.46	1.179
Disclosing the results of internal investigations to the regulator	3.86	.926

Methods such as antifraud policy (mean=4.20, SD=0.894), whistleblowing hotline (mean=4.04, SD=0.667) were effective to a great extent. Other ways that contributed towards curbing fraud to a great extent were performance appraisal on fraud prevention (mean=3.92, SD=0.836), confessions (mean=3.89, SD=0.780) and disclosing the results of internal investigations to the regulator (mean=3.86. SD=0.926). To a moderate extent reward for whistle blower (mean=3.56, SD=1.060), internal tip-off (mean=3.54, SD=0.891), fraud Department (mean=3.52, SD=1.120) and external tip-off (mean=3.46. SD=1.179) contributed towards managing fraud.

4.6 Challenges

The respondents were required to rate the extent to which the given challenges deterred the process of fraud management in their organizations. The response is as presented in Table 4.11.

Challenges	Mean	Std. Dev
Failure of the management to establish a standard internal control system	4.23	.960
Failure of the auditor in assessing quality of internal controls	3.28	.752
Failure of reporting the presence of weak internal controls	4.20	.814
Lack of measures installed to deal with employee fraud	2.19	.765
Ineffective trainings	3.32	.811
Problem eliminating the culture set by the employees	4.04	.736
Reluctance to provide information to investors and auditors	4.14	.391
Internal supervising systems fail to protect whistle blowers	4.06	.571
Whistle blowers harassment by co-workers upon disclosure of fraud	2.36	.472

Challenges that were experience to a great extent included failure of the management to establish a standard internal control system (mean=4.23, SD=0.960), failure of reporting the presence of weak internal controls (mean=4.20, SD=0.814), and reluctance to provide information to investors and auditors (mean=4.14, SD=0.391). Other challenges that occurred to a great extent were internal supervising systems fail to protect whistle blowers (mean=4.06, SD=0.571) and problem eliminating the culture set by the employees (mean=4.04, SD=0.736). Ineffective trainings (mean=3.32, SD=0.811) and Failure of the auditor in assessing quality of internal controls (mean=3.28, SD=0.752) occurred to a moderate extent. Whistle blowers harassment by co-workers upon disclosure of fraud (mean=2.36, SD=0.472) and lack of measures installed to deal with employee fraud (mean=2.19, SD=0.765) were experienced to a little extent.

4.7 Inferential Statistics

A multivariate relapse show was connected to decide the general centrality of every one of the autonomous factors concerning gainfulness. The regression model was as follows:

$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e$

Y = profitability measured by ROA,

β_0 is the constant

X_1 = internal controls

X_2 = training measured

X_3 = employee and third party screening

X_4 = whistleblower protection

ε = Error term

β_1, β_2, β_3, β_4 and β_5 are coefficients

Table 10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.698[a]	.488	.474	.406

b. Predictors: (Constant), internal controls, training, employee and third party screening, whistleblower protection

From Table 12, R^2 is 0.488 indicating that the independent variables explain only 48.8% of the influencers of profitability of commercial state owned companies in Kenya.

Table 4.11: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.053	4	8.513	4.261	.000[b]
	Residual	37.847	19	1.992		
	Total	71.900	23			

b. Predictors: (Constant), internal controls, training, employee and third party screening, whistleblower protection

The *F*-ratio in the **ANOVA** tests whether the overall regression model is a good fit for the data. Table 4.13 shows that the independent variables statistically significantly predict the dependent variable, $p < .05$.

Table 4.12: Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.236	.370		14.136	.000
Internal controls	.478	.065	.454	7.362	.000
Training	.845	.116	.762	7.292	.000
Employee and third party screening	.582	.092	.477	6.298	.000

The established multiple linear regression equation becomes:

$Y = 5.236 + 0.478X_1 + 0.845X_2 + 0.582X_3$

Where

Constant=5.236,

internal controls, training, employee and third party screening, whistleblower protection

internal controls β_1=0.478, training β_2=0.845, and employee and third party screening β_3=0.582.

internal controls significantly influence profitability of commercial state corporations in Kenya *($p < 0.05$, p=0.000)*. The unstandardized beta for internal controls which is β=0.478 implies that if all other independent variables were held constant a unit increase in internal controls would increase profitability by 0.478.

Training significantly influence profitability of commercial state corporations in Kenya *($p < 0.05$, p=0.000)*. The unstandardized beta for training (β=0.845) shows that if all other independent variables were held constant a unit increase in training would increase profitability by 0.845.

Employee and third party screening also significantly influence profitability of commercial state corporations in Kenya *($p < 0.05$, p=0.000)*. The unstandardized beta for employee and third party screening (β=0.582) indicates that if all other independent variables were held constant a unit increase in employee and third party screening would increase profitability by 0.582.

From the above, it is clear that internal controls, training, employee and third party screening, have a significant influence on performance.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section entails discussion of main data results, end drawn from the discoveries featured and proposal made there-to. The ends and proposals drawn were centered around tending to the target of the examination.

5.2 Summary of the findings

The findings show that common frauds were concealing material statements, demand draft fraud rogue traders and manipulating records, forged or fraudulent documents, increasing vendor invoices and inconsistent overtime hours for a cost center. Others were money laundering, obtaining finances through false presences) and management decisions are dominated by small group.

From the findings internal controls in the commercial state owned companies in Kenya was effective. Effective internal controls were account reconciliation, law enforcement investigation, and board, audit committee and senior management oversight, monitoring systems designed to detect fraud, establishment of strong internal controls and management review. Additionally there was proactive data analysis and use of information technology to prevent fraud.

Findings show that training in the commercial state owned companies in Kenya was effective. The indicated use of fraud risk awareness training, establishment of effective code of conduct and related standards and also fraud risk awareness training. They further mentioned use of specific and general training, employee support program, communicating to the employees that management took appropriate action) and fraud risk assessment program.

As shown in the findings employee and third party screening in the commercial state owned companies in Kenya is effective. Method commonly applied in employee and third party screening included job rotation, internal audit and security checks. Further, there was use of conducting internal investigation, surprise audits and progressive sanctions. Insignificant methods were prosecution of the offender and recovery of the stolen funds.

Findings illustrate that there was use of antifraud policy, whistleblowing hotline, performance appraisal on fraud prevention, confessions and disclosing the results of internal investigations to the regulator. Additionally use reward for whistle blower, internal tip-off, fraud Department and external tip-off was effective to a moderate extent.

Finally, the findings demonstrate the challenges to include failure of the management to establish a standard internal control system, failure of reporting the presence of weak internal controls and reluctance to provide information to investors and auditors. In addition there were challenges such as internal supervising systems fail to protect whistle blowers and problem eliminating the culture set by the employees, ineffective trainings and failure of the auditor in assessing quality of internal controls. Uncommon challenges were whistle blowers harassment by co-workers upon disclosure of fraud and lack of measures installed to deal with employee fraud.

5.3 Discussion

Common frauds are concealing material statements, demand draft fraud rogue traders and manipulating records, forged or fraudulent documents, increasing vendor invoices and inconsistent overtime hours for a cost center. Akindele (2011) discovered that absence of sufficient preparing, correspondence hole, and poor initiative abilities were the best reasons for misrepresentation in banks. Others were illegal tax avoidance, acquiring funds through false existences) and the board choices are commanded by little gathering. Abdelrahim (2014) clarified the trouble in learning the level of viability of a delicate control. It is easy to decide if an element has a formal implicit rule, yet deciding how successfully it is executed is significantly more troublesome (Abdelrahim, 2014). Effective internal controls include account reconciliation, law enforcement investigation, and board, audit committee and senior management oversight, monitoring systems designed to detect fraud, establishment of strong internal controls and management review. Few companies opt for proactive data analysis and use of information technology to prevent fraud.

Stein, (2012) recommends use of training to achieve a true compliance culture and creating awareness on fraud existence. Effective means of training are use of fraud risk awareness training, establishment of effective code of conduct and related standards and also fraud risk awareness training. Strand, Judd, & Lancaster, (2002) suggests that employees should be trained on ways of identifying fraud within their department. Use of specific and general training, employee support program, communicating to the employees that management took appropriate action and fraud risk assessment program is also common.

5.4 Conclusion

The study concludes that common frauds facing commercial state corporations are concealing material statements, demand draft fraud rogue traders and manipulating records, forged or fraudulent documents, increasing vendor invoices and inconsistent overtime hours for a cost center. The study concludes internal controls are effective in controlling financial fraud. Means commonly used in internal controls are account reconciliation, law enforcement investigation, and board, audit committee and senior management oversight, monitoring systems designed to detect fraud, establishment of strong internal controls and management review. The study also concludes that training is an effective measure of fraud management. Effective training means are use of fraud risk awareness training, establishment of effective code of conduct and related standards and also fraud risk awareness training. Others are use of specific and general training, employee support program, communicating to the employees that management took appropriate action) and fraud risk assessment program.

The study also concludes that employee and third-party screening is an effective measure of managing financial fraud. The study establishes that commonly applied in employee and third-party screening included job rotation, internal audit and security checks. There is also use of conducting internal investigation, surprise audits and progressive sanctions. Insignificant methods were prosecution of the offender and recovery of the stolen funds. The study further concludes that there is use of antifraud policy, whistleblowing hotline, performance appraisal on fraud prevention, confessions and disclosing the results of internal investigations to the regulator. Additionally, there is use reward for whistle blower, internal tip-off, fraud Department and external tip-off. Finally, the study concludes that organizations are faced with several changes in manageing fraud within their organizations. Common challenges are failure of the management to establish a standard internal control system, failure of reporting the presence of weak internal controls and reluctance to provide information to investors and auditors. Others include internal supervising systems fail to protect whistle blowers and problem eliminating the culture set by the employees, ineffective trainings and failure of the auditor in assessing quality of internal controls.

5.5 Recommendation

The following are the recommendations:

i. The state should put measures that ensure that employees working in state corporations get to know the consequences of engaging in fraudulent activities.

ii. Employees should be encouraged to report fraud cases in a confidential way such as remaining anonymous even to the officer he/she is reporting to. Therefore mechanisms such as using a third party to relay the information should be encouraged.

5.4 Limitations of the study

There was a serious reluctance on the part of the respondent to give out data on institution fraud. The respondent would admit that there are fraud cases but are active in court and therefore would not want to comment on them. It would have been interesting to research on financial fraud by several other industries and their impact on prifitability.

Securing face to face interviews proved to be challenge. This is because the senior managers had busy schedules. In addition, there was limited stipulated time for carrying this research. To counter this, appointments had to be sought and scheduled, sometimes outside the official working hours.

The data on financial fraud was recorded by the respondents and the tendency to avoid full disclosure was evident resulting in chances that the figures may not be complete.

The study's limitations included limited time set aside for the research and the limited scope of study. Respondents' reluctance in providing information for fear that the information may be used negatively against them for instance to intimidate them or provide an unwanted image concerning the firms.

5.5 Suggestion for Further Research

Further studies should examine the entire population of the state corporations in Kenya. This will enable generalization of the findings in the entire industry. Secondly, there is need to replicate these results to other sectors such as manufacturing industry and agricultural industry to establish the relationship between fraud management practices and profitability. There might be other practices that have equally important contribution towards fraud management practices. Therefore, other studies should focus on other practices not considered and how they can be incorporated in the variable to enhance further research in the same.

REFERENCES

Abdelrahim, A. (2014). Are soft controls better than hard controls? Internal Auditor, Middle

East, (March).

Adeyemo, K. A. (2012). Frauds in Nigerian banks: Nature, deep-seated causes, aftermaths and

probable remedies. *Mediterranean Journal of Social Sciences, Vol 3(2)*

Albrecht, W. S., Albrecht, C. O., & Albrecht, C. C. (2008). Current Trends in Fraud and its

Detection. Information Security Journal: A Global Perspective, 17(1), 2–12.

Albrecht, W. S., Albrecht, C. O., Albrecht, C. C., & Zimbelman, M. F. (2012). Fraud examination. South-Western Cengage Learning. Mason, OH.

Albrecht, W. S., Howe, K. R., & Romney, M. B. (1984). Deterring Fraud: The Internal Auditor's

Perspective. Altomonte Springs, FL: The Institute of Internal Auditors' Research Foundation.

Association of Certified Fraud Examiners (ACFE). (2014). Report to the Nations on occupational fraud and abuse. Association of Certified Fraud Examiners. Retrieved from https://www.acfe.com/rttn/docs/2014-report-to-nations.pdf

Bhal, K. T., & Dadhich, A. (2011). Impact of Ethical Leadership and Leader– Member Exchange

on Whistle Blowing: The Moderating Impact of the Moral Intensity of the Issue. Journal of Business Ethics, 103(3), 485–496.

Biegelman, M. T., & Bartow, J. T. (2012). Executive roadmap to fraud prevention and internal

control: Creating a culture of compliance. John Wiley & Sons.

Bierstaker, J. L., Brody, R. G., & Pacini, C. (2006). Accountants' perceptions regarding fraud

detection and prevention methods. Managerial Auditing Journal, 21(5), 520–535.

Brody, R. G. (2010). Beyond the basic background check: hiring the "right" employees.

Management Research Review, 33(3), 210–223.

Church, A. H., Gallus, J. A, Desrosiers, E. I., & Waclawski, J. (2007). Speak-Up All You Whistle-blowers: An OD Perspective on the Impact of Employee Hotlines on Organizational Culture. Organization Development Journal, 25(4), P159

Combee, J., Dijkman, M., Ockels, G., Verziljbergen, T., de Vries, B., van der Wijk, H. (2015).
Discussion paper - Soft controls - What are the starting points for internal auditors. Institute of Internal Auditors Netherlands(IIAN), (June).

Combee, J., Dijkman, M., Ockels, G., Verziljbergen, T., de Vries, B., van der Wijk, H. (2015).
Discussion paper - Soft controls - What are the starting points for internal auditors. Institute of Internal Auditors Netherlands(IIAN), (June).

Daily nation (November 18, 2015). 12 parastatal officials charged with Sh41m fraud. Retrieved
on February 16. http://www.nation.co.ke/news/12-parastatal-officials-charged-with-Sh41m-fraud/-/1056/2961432/-/ryhdnrz/-/index.html

Engleman, D., & Kleiner, B. H. (1998). Effective employment screening practices. Career
Development International, 3(4), 164–168.

Falkenberg, L., & Herremans, I. (1995). Ethical behaviours in organizations: Directed by the
formal or informal systems? Journal of Business Ethics, 14(2), 133–143.

Idowu, A. (2009). An Assessment of fraud and its management in Nigeria commercial banks.
European Journal of Social Science, 10(4).

Karwai, S.A. (2002). Bank Fraud: Can ShariahPrevent it? Journal of Business Administration,
2(1), *62 – 78*

Kuria and Moronge (2013). Effect of fraud management practices on the growth of insurance companies in Kenya. *International Journal of Innovative Social & Science Education Research 2(1):26-39*

Kyalo1 S. M. Kalio A. M., Ngahu S. (2014). Role of Fraud Prevention in Enhancing Effective

Financial Reporting in County Governments in Kenya: Case of Nakuru County, Kenya. International Journal of Science and Research (IJSR). Volume 3 Issue 10: 2108-2114

Mbaire F. (2012). Why Kenya tops in ECONOMIC CRIMES. Retrieved on February 16.

http://www.kim.ac.ke/management-magazine/article/1333627696/why-kenya-tops- economic-crimes

Modugu K. P. and Anyaduba J.o. (2013). Forensic Accounting and Financial Fraud in Nigeria:

An Empirical Approach. *International Journal of Business and Social Scienc. Vol. 4 No. 7: 281-289*

Olukowade E. and Balogun E. (2015). Relevance of Forensic Accounting in the Detection and

Prevention of Fraud in Nigeria. Historical Research Letter. Vol.23: 17-25

Onuorah A. C. and Appah E. (2012). Fraudulent Activities and Forensic Accounting Services of

Banks in Port Harcourt, Nigeria. Asian Journal of Business Management 4(2): 124-129.

PricewaterhouseCoopers (PwC). (2008). A guide to its prevention, detection and investigation.

1–46. Retrieved fromhttp://www.pwc.com.au/consulting/assets/risk-controls/fraud-control-jul08.pdf

PricewaterhouseCoopers (PwC). (2014). Global Economic Crime Survey 2014.

Retrieved

http://www.pwc.com/gx/en/services/advisory/consulting/forensics/economiccrime-survey.html

Stein, B. A. (2006). Achieving sustainable compliance with technology and culture. Keeping Good Companies, 58(6), 330.

Wesley, K. Wilhelm (2004).The fraud management lifecycle theory: A holistic approach to fraud management. *Journal of Economic Crime Management*

APPENDICES

Appendix I: Questionnaire

Part I: Background Information

1. Gender

    Male [ ]

    Female [ ]

2. What is your highest education level?

    Diploma [ ]

    Undergraduate degree [ ]

    Postgraduate degree [ ]

3. What is your age bracket?

    18 - 25 years [ ]

    26 - 35 years [ ]

    36 - 45 years [ ]

    46 - 55 years [ ]

    56 and above [ ]

Types of Fraud

4. To what extent do the following frauds occur in your organization?

Fraud	**1**	**2**	**3**	**4**	**5**
Concealing material statements					
Demand draft fraud Rogue traders					
Forged or fraudulent documents					
Inconsistent overtime hours for a cost center,					
Increasing vendor invoices					
Management decisions are dominated small group					
Manipulating records					
Money laundering					
Obtaining finances through false presences					
Phishing and Internet fraud					

Part II: Financial Fraud Management Practices

Section A. Internal Control System

5. Indicate to the extent to which you think your organization has placed good internal control system for preventing employee fraud.

Not at all [ ]

Small Extent [ ]

Neutral [ ]

Large Extent [ ]

Very Large Extent [ ]

6. To what extent has the following measures of internal control system acted as a fraud management practice.

Internal Control	**1**	**2**	**3**	**4**	**5**
Board, audit committee and senior management oversight					
Use of information technology to prevent fraud					
Establishment of strong internal controls					
Proactive data analysis					
Law enforcement investigation					
Monitoring systems designed to detect fraud					
Management review					
Account reconciliation					

Section B. Training

6. Indicate to the extent to which you think your organization has implemented training as a fraud management practice.

Not at all [ ]

Small Extent [ ]

Neutral [ ]

Large Extent [ ]

Very Large Extent [ ]

7. To what extent has the following measures of training helped acted as a fraud management practice.

Training	**1**	**2**	**3**	**4**	**5**
Fraud risk awareness training					
Fraud risk assessment program					
Establishment of effective code of conduct and related standards					
Specific and General training					
Employee support program					
Fraud risk awareness training					
Communicating to the employees that management took appropriate action					

Section C. Employee Screening

8. To the extent has your organization implemented employee screening as a fraud management practice.

   Not at all [ ]

   Small Extent [ ]

   Neutral [ ]

   Large Extent [ ]

   Very Large Extent [ ]

9. To what extent has the following measures of employee and third party screening acted as a fraud management practice.

Screening employees & 3rd party	**1**	**2**	**3**	**4**	**5**
Security checks					
Surprise audits					
Job rotation					
Prosecution of the offender					

Conducting internal investigation					
Progressive sanctions					
Internal audit					
Recovery of the stolen funds					

Section D. Whistle Blower Protection

10. To what extent do you agree that the ineffectiveness of the whistle blower system as a fraud management practice?

    Not at all [ ]

    Small Extent [ ]

    Neutral [ ]

    Large Extent [ ]

    Very Large Extent [ ]

11. To what extent have the following measures of whistle blower protection practice acted as a fraud management practice?

Whistle blower protection practice	**1**	**2**	**3**	**4**	**5**
Reward for whistle blower					
Fraud Department					
Antifraud policy					
Confessions					
Performance appraisal on fraud prevention					
Whistleblowing hotline					
Internal tip-off					
External tip-off					
Disclosing the results of internal investigations to the regulator					

Part III: Challenges

12. To what extent do the following challenges deter the process of fraud management practice in your organization?

Challenges	**1**	**2**	**3**	**4**	**5**
Failure of the management to establish a standard internal control system					
Failure of the auditor in assessing quality of internal controls					
Failure of reporting the presence of weak internal controls					
Lack of measures installed to deal with employee fraud					
Ineffective trainings					
Problem eliminating the culture set by the employees					
Reluctance to provide information to investors and auditors					
Internal supervising systems fail to protect whistle blowers					
Whistle blowers harassment by co-workers upon disclosure of fraud					

Appendix II: Commercial State Corporations in Kenya

1. New Kenya Co-operative Creameries
2. Nyayo Tea Zones Development Corporation
3. Kenya Railways Corporation
4. Kenya National Shipping Line
5. Kenya Power and Lighting Company
6. South Nyanza Sugar Company
7. Kenya Ports Authority
8. School Equipment Production Unit
9. Kenya Pipeline Company
10. Pyrethrum Board of Kenya
11. Kenya Literature Bureau
12. Postal Corporation of Kenya
13. Kenya Electricity Generating Company
14. Nzoia Sugar Company
15. Kenya Broadcasting Corporation
16. Numerical Machining Complex
17. Kenya Airports Authority
18. Jomo Kenyatta Foundation
19. National Oil Corporation of Kenya
20. Kenya Postal Corporation of Kenya
21. National Housing Corporation
22. East African Portland Cement Company
23. National Cereals and Produce Board
24. Kenya Seed Company Limited
25. Kenyatta International Conference Centre
26. Kenya Meat Commission
27. Kenya Wine Agencies