EFFECT OF FRAUD RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF NON-GOVERNMENTAL ORGANISATIONS IN NAIROBI COUNTY

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DECLARATION

This research project is my original work and has not been presented for examination to any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This project is dedicated to my family for their inspiration, encouragement and prayers towards the successful completion of this course. I pay glowing tribute and gratitude to the Almighty God who has given me the strength and wisdom to undertake this course.

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ABSTRACT

According to the International Standards on Auditing (ISA), fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees or third parties involving the use of deception to obtain an unjust or illegal advantage whereas the ISACA (Information Systems Audit & Control Association) state that an intentional miss explanation that results to a party incurring damages especially in monetary form describes fraud. Fraud risk management practices influence the financial performance hence sustainability of Non-Governmental Organization. Several fraud risk management techniques are deployed within organizations to curb the vice; anti-fraud policies, fraud detection and fraud deterrence mechanisms. This study sought to establish the relationship between fraud risk management and financial performance of non-governmental organizations in Nairobi. The objective of the study was to evaluate the effect of fraud risk management on financial performance of non-governmental organizations in Nairobi. The researcher utilised a descriptive research design. Questionnaires were employed in collecting data from a sample of 170 finance managers from registered and compliant NGOs in Nairobi. Stratified random sampling method was applied: the population was divided into three financial based strata; huge, medium and small sized NGOs. The study collected quantitative data and analyse it using descriptive analysis methods. Inferential statistics (correlation and regression analysis) was also applied in deriving the relation between the dependent and independent variables. The study established that the Nairobi based NGOs have suffered from fraud occurrences hence it is a matter of interest within these organisations with most of them undertaking a daily or weekly monitoring of fraud. Generally, the researcher concluded that anti-fraud policies, fraud deterrence and fraud detection significantly impact financial performance of the Nairobi based NGOs. These variables explain up to 63.4% of the variation in financial performance within the NGOs. The researcher therefore recommended that the organizations should undertake a more frequent fraud monitoring process and utilize strategies such as staff supervision, safe controls when accessing systems, clear division of duty, monitoring work performance, fraud risk register and fraud awareness training, whistle blower strategy, fines and penalty and strict legal consequences as strategies to deter fraud. The organizations should also sufficiently allocate resources towards fraud risk management so as to help them save on fraud investigation

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ACRONYMS AND ABBREVIATIONS

ACFE	Association of Certified Fraud Examiners
CBIZ	Century Business Services Inc.
COSO	Committee of Sponsoring Organisations of the Tread way Commission
EABL	East Africa Breweries Limited
GDP	Gross Domestic Product
ISA	International Standards on Auditing
ISACA	Information Systems Audit & Control Association
KCB	Kenya Commercial Bank
NGOs	Non-Governmental Organizations
NFP	Not-For-Profit Organization
PWC	Price-Waterhouse Coopers
SPSS	Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Century Business Services Inc. (2015) defined fraud as an intentional act by a single or a group of individuals within the management of an organisation, those assigned with governance duties, employees of the organisation or third parties, involving the use of deception to attain an unjust or illegal advantage. On the other hand, the International Standards on Auditing (2015) explained fraud as being a deliberate action by a single or set of individuals within an organisation' management, employees or related parties engaging in the use of deception so as to illegally gain advantage. The organisation further adds that the party involved deliberately conceals and/or omits truth which results to a negative impact on the organisation or individual. Fraud is perceived by (Greenidge & Sealy, 2010) to occur in three main categories namely; corruption, asset misuse (cash and inventory) and financial statement fraud (misrepresentation of financial performance). An assertion by Idowu (2009) affirmed that fraud affects all organisations (profit making and not-for-profit) through loss of organisation' monies thus leading to lack of sufficient resources for business, further resulting drained customer confidence and time resources through investigations.

According to a 2012 annual fraud report by the Association of Certified Fraud Examiners, most firms end up losing up-to 5% of their business collection to fraud annually. Besides, Kroll (2013) noted that up-to 70% of companies reported suffering from at least one type of fraud. A figure that revealed a rise from the previous 61% in the year 2012. Different researchers have pointed out a number of causes of fraud within organisations. However, according to Kanu and Okorafor (2013), causes of fraud greatly vary depending on the environment. They further classified the causes as being technological, legal, personal, social and management. On the other hand, Khanna and Arora (2009) associated fraud to overworked staff, low organizational compliance and insufficient training of staff. Grant, Miller and Alali (2008) underscored the important of organizations to minimize the chances of fraud occurring through establishing effective risk management practices against fraud such as developing anti-fraud policies, employee awareness/training, proper internal controls and good governance among others. However, for these fraud management strategies to be effective, it must begin with the organisation' management and clarity on the risk strategy and methodology of governance.

According to Kerine (2015), Non-Governmental Organisations also suffer from challenges in their projects ranging from performance to reliability. Financial performance is now treated as the main thing within the development circles of NGOs; it generally explains the ability of a specific project to remain viable and in operation even after the termination of external support. Not all projects run by these NGOs are able to achieve this fete of sustainability. Given the rapidity in which NGOs are established, they are obviously too recent, as institutions, to build up capacity to manage themselves properly and professionally facing financial mismanagement (Bujra and Dejumobi, 2002). Thomson (2010) asserted that most NGOs projects in Kenya rely heavily on external funding without which most of the projects would collapse. According to Hamilton and Slatten, (2013), NGOs still remain as targets of fraudsters, giving rise to disrepute, despite their contribution to communities. As a result, NGOs experience pressure from stakeholders including governments in which they operate under, regional and international regulators, NGOs rating agencies and donors to remain accountable and sustain financial performance.

1.1.1 Fraud Risk Management

Fraud risk management implies the process effected by an organisation's directors and/or management with an intent of identifying potential fraud activities that may influence the entity and contain risks within its risk appetite (Committee of Sponsoring Organisations of the Treadway Commission, 2004). In the recent past, fraud risk management has evolved as an aspect of development that influences organizational performance (Grant, Miller & Alali, 2008). Fraud risk management practices are usually defined by fraud risk management environment, policies and procedures, risk measurement practices, risk mitigation practices, risk monitoring practices and internal control practices among others (Kanu & Okorafor, 2013). A near similar argument was floated by Kummer, Kishore and Peter (2014) who asserted that businesses recognize the need of controlling all risks and their related aspects including risks that are well known to an organisation the familiar and the risks that organisations can easily quantify. Fraud risk management in this case has become an area of development in organizational performance (Grant et al., 2008). They also add that for a risk management strategy to be effective, it must begin with the organisation' management and clarity on the risk strategy and methodology of governance. Different fraud risk management methodologies are used by businesses to contain fraud. These techniques include anti-fraud policies, management style, fraud detection and deterrence mechanisms and internal controls. According to Bierstaker, Brody and Pacini

(2006), organizations should establish and maintain a policy on fraud to guide employees. However, Bierstaker (2009) adds that these policies should consider cultural differences of employees that determines how they react to incidences of fraud. On the other hand, Naicker (2006) asserts that fraud detection entails the identification of fraud as soon as it takes place whereas fraud deterrence refers to measures that seek to stop fraud from occurring according. Grant, Miller and Alali (2008) refer to internal controls as methodologies established to offer sufficient assurance that management achieves effectiveness and efficiency in implementing its operations, accuracy of in financial reporting and compliance to applicable rules and regulations while Schachler, Juleff and Paton (2007) define management style as the system through which organizations are controlled.

1.1.2 Financial Performance

Paquita (1993) defines financial performance of an NGO as its ability to secure revenues in relation to a need, so as to constantly maintain or increase its productive processes, produce anticipated results and to obtain a surplus. Occurrence of fraud impacts organizations through loss of organisational monies which leads to less funds available to undertake its mandate, drained customer confidence and wasted business time resource through investigations (Neely, 2011). Kroll (2013) noted that 70 % of companies reported suffering from at least one type of fraud. This was up from the previous 61% in the year 2012. Paquita also listed financial and strategic planning, diversification of revenue sources, sound administration and finance and own income generation as pillar for financial performance. Kummer, Kishore and Peter (2014) argue that throughout, several cases of well-established organizations successfully achieving the two objectives but continued experiencing difficulties financially have been recorded. The trio add that organizations have concluded through their experiences that good fundraising and self-income generating procedures are not sufficient without being accompanied by efficient and effective procedures for administration and finances, and budget planning alongside strategic planning.

The monetary measure of an organization' policies, regulations and modality of operation is referred to as financial performance. Several different ways are used to measure the financial performance for Not-For-Profit organizations. According to the Century Business Services Inc. (2015), the performance may be reflected in the firm's Current Ratio, Viability Ratio, Change in Net Assets, Operating Reliance Ratio, Fundraising Efficiency Ratio, and Operating Margins. In Kenya, fraud has had major impact on organizations giving rise to great losses (Chelangat, 2014). In a study by Githecha (2013), the researcher reveals that banks need to embrace fraud management strategies so as to reduce losses incurred as a result of fraud therefore improving financial performance in his study on fraud risk management strategies and financial performance that was restricted to the Kenyan banking sector. Mahinda (2012) in his study that targeted Kenyan commercial banks while assessing determinants of occupational fraud concluded that traits of employees affect the occupational fraud. A similar study was conducted by Kiragu et al. (2013) who concluded that these institutions are to address occupational fraud from both staff and institutional structural perspectives.

1.1.3 Fraud Risk Management and Financial Performance

Fraud risk management affect the financial performance of Non-Governmental Organization (Grant, Miller, & Alali, 2008). Wanjiku (2013) established that most organizations develop fraud risk management measures and further asserted that companies with better developed risk practices record better financial performance. These organisations generally outperform their counterparts by effectively utilizing resources that are not adequate and managing their exposure to risk thus giving rise to a financial save to the organization. Most global organizations invest substantially in their human capital, processes and technology so as to enhance the control business risk. Overly, these risk investments initiatives are majorly geared towards the financial controls that purpose to achieve organizational financial performance (Greenlee et al., 2007). The authors generally argue that fraud is rampant and perpetrates with ease among the NGOs as compared to the profit making organisations. However, most organizations with better established fraud risk management practices perform better financially (Wanjiku, 2013), hence fraud risk management techniques can be employed to enhance the performance of NGOs.

Different NGO managements raise diverse arguments in connection to fraud and mostly assume that since their organizations undertake noble duties, their employees and volunteers do not engaged in fraud (Rothschild & Milofsky, 2006). A further argument by Buckhoff and Parham (2009) affirm that these misplaced beliefs make the organization not develop the necessary controls towards protecting their assets. Douglas and Mills (2000) add that depending on trust, the incomplete verification of revenue streams, weak controls, absence of expertise within the organizations and over-reliance on volunteers enhance the problem of fraud. However, with the current competitive business world, the overall need for fraud risk management has increased with an aim of enhancing the financial performance of these organisations. Organizations which have been impacted by fraud end up losing monies which may further result to funds not being available to effectively attain the organization's business. This may further erode customer confidence and time that may have to be spend on investigations.

1.1.4 Non-Governmental Organisations in Kenya

Vikal (1997) defined Non-Governmental organisations as self-governing, not-for-profit organisations that are geared towards improving the quality of life to the disadvantaged. By 2012, the Kenyan NGO sector accounted for up-to 5% of the country's gross domestic product (GDP) and one of the huge employers (Kenya Bureau of Statistics, 2012). The Kenyan, NGOs are regulated by The National Council of NGOs, also termed as the Non-Governmental Organisations Council (NGO Council). It is a self-regulating and a non-partisan body made up of all registered NGOs in the country (NGO Council, 2017). The organisation came to existence in August 1993 under the Non-governmental Organizations Co-ordination Act of 1990 as a platform for all non-governmental agencies. According to the NGO council, currently all registered NGOs in the country are members of the council. The council has a membership of over 8,500 NGOs who need to submit their annual work plan and a membership fee.

These NGOs serve citizens across varied sectors including: agriculture, water, education, environment, health, human rights, gender and development, children‘s rights, poverty alleviation, peace, population, training, counselling, small scale enterprises, disability and many others. On the other hand, the NGO Council serves as the overall leader in the NGO sector. The NGO coordination act spells a requirement to all NGOs to submit an annual return including the audited accounts for organisations with a budget of over one million; however, according to the NGO coordinating board, approximately 20% of the registered NGOs are compliant (NGO Council, 2017). The council also assets that fraud practices have been on the increase within NGOs thus having a great influence on their financial performance. In addition, Wanjiku (2013) revealed that NGOs record challenges in relation to fraud that majorly emanate from running their activities based on trust as a result of volunteerism. According to Greenlee et al. (2007), most of these organisations are un-willing to tackle the issue of fraud through implementation of these practices. They further assert that with the occurrence of fraud generally giving rise to lose of monies within organizations, among the NGOs, this result to the organizations not having enough funds to execute their mandate due to eroded donor confidence.

1.2 Research Problem

Organizations lose up to 5 % of their revenue each year (ACFE, 2012) resulting to them, especially NGOs, not having enough funds to execute their mandate. According to Stulz (1996), fraud risk management practices have a great effect on the financial performance of both profit making and NGOs. However, most NGOs still register a low degree in the implementation of the fraud risk management practices in their operations (Neely, 2011). Even with critical contributions to society, all NGOs are continuously targeted by unscrupulous people and groups, giving rise to scandal and disrepute among these organisations (Hamilton & Slatten, 2013). Generally, fraud is easily perpetrates the NGOs as compared to the for-profit-organisations (Greenlee et al., 2007). Fraud in Kenya has been on the rise and NGOs also form part of the statistics. Greenlee et al. cited a number of aspects that result to NGOs being more vulnerable to fraud that include: operating mostly an atmosphere of trust, challenges in evaluating specific revenue streams (including individual cash donations), weak established internal controls, insufficient organisational and financial expertise, and over-reliance on volunteer boards. However, most organizations with better established fraud risk management practices perform better financially (Wanjiku, 2013), hence they can be used to enhance the performance of NGOs.

Besides, little research has been done to establish the level and impact of fraud in NGOs compared to profit seeking businesses. In a study conducted by Tyge, Kishore and Peter (2014) on the effect of risk management on not for profit organisations in New-Zealand and Australia, the three concluded that organisations without an experience in fraud rely on ineffective prevention measures. Besides, Okoye and Gbegi (2013) carried out a study on the evaluation of the effect of fraud and related crimes on the Nigerian Economy. The study revealed that, weak internal controls increase the chances of fraud. Similarly, Akinyomi (2012), examined fraud and its prevention. However, the researcher limited this study to the Nigerian Banking sector.

Kerine (2015) in her study on factors influencing financial sustainability of NGOs in Nakuru County concluded that staff training ensures continued staff competence. She however fails to address financial performance linking it up to fraud management. On the other hand, Kiragu et al. (2013) sought to establish the impact of growth in banks on occupational fraud risk. This research was however restricted to the commercial banks in Kenya. The results of the study revealed that there was no significant impact of growth in the banking sector on occupational fraud risk. Odhiambo (2013) assessed the financial fraud and liquidity and financial performance. This study was also restricted to the commercial banks in Kenya. This study established that financial fraud loss and liquidity ratios strongly and significantly affect financial performance within the banking sector in Kenya.

From the reviewed studies, it is therefore clear that there exists a knowledge gap as most of these studies were based on profit making organization hence their findings may not be easy to adopt in NGOs. In addition, the studies done on NGOs mostly targeted organizations outside Nairobi which is the current study' study area. The researcher will therefore seek to fill this gap by answering the research question: does fraud risk management affect financial performance of non-governmental organizations headquartered in Nairobi?

1.3 Objective of the Study

The objective of the study was to evaluate the effect of fraud risk management on financial performance of non-governmental organizations in Nairobi.

1.4 Value of the Study

NGOs today widely reach and positively influence communities but according to Neely (2011), these organizations are however under constant pressure from governments, regulators, watchdog groups, charity rating agencies, donors and the community to demonstrate accountability and performance. The findings in this research therefore sought to provide a knowledge platform to policy holders within the relevant bodies in the country in relation to fraud risk management within the NGO sector.

NGOs mostly rely on internal structures, policies and training to cut down on risk exposures while seeking to enhance many lives when providing a variety of activities. This study will therefore facilitate the management of these organizations in making decisions relating to implementation of fraud risk management practices.

With the current increase in fraud incidences, there exists need to assess fraud risk management in order to give insights on this research gap. The findings of the study therefore assist scholars and researchers in the field of fraud risk management and financial performance through enhancing the existing knowledge and also generating new knowledge that can be used by these researchers and scholars in undertaking future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter engages different debates on fraud risk management and the highlighted major issues relating to financial performance of NGOs in Kenya. This section therefore summarises the theoretical review; the lifecycle of fraud management, fraud risk management techniques and relationship between fraud risk management and financial performance. It also captures the empirical review and research gaps and the conceptual framework.

2.2 Theoretical Review

A number of theories have been floated that explain the rationale of fraud risk management. However, the researcher will base this study on two major theories; the Fraud Triangle Theory and the Self Control Theory.

2.2.1 The Fraud Triangle Theory

The fraud triangle theory was floated by Albrecht, Howe and Romney (1984). The theory states that fraud entails three aspects that include; perceived pressure and chance and the rationalization fraud. They add that the listed aspects form the fraud triangle. Besides, it is viewed that the three elements making up the fraud triangle do not stand alone but associate with each other such that with a greater perceived opportunity, or the intensity of the pressure goes higher, then the lower the rationalization for one to engage in fraud (Dunn, Albrecht & Albrecht, 2001). On the other side, an argument by Rae and Subramaniam

(2008) viewed fraud as a multi-faced matter hence a unification of several factors. Rae and Subramaniam further asserted that in a number of cases, however under developed an organisation's internal controls are, fraud instances may be at zero while at some instances, an organization may set in place very good internal controls but employees of the organization may still look for ways round the internal controls in order to engage in fraud. Enhanced understanding of how the three aspects; opportunities, pressures and rationalizations facilitate the committing of fraud in an organizations may facilitate the management in identifying with ease the areas prone to fraud hence work towards strengthening these areas (Dunn et al., 2001).

Individuals engaged in fraud need to develop methods to rationalize their deeds presenting them as acceptable (Dunn et al., 2001). Lack of integrity and moral reasoning by an individual may be blamed for the urge of the same individual to justify a fraudulent act (Rae & Subramaniam, 2008). Rationalization by people engaged in fraud rises from a thought that the victims are indebted to them hence worth to get more than it stands currently (Mutua, 2011).Other people bear attitudes, traits or ethical believes that propel them to willfully engage in fraudulent act (Cohen et al., 2011). Hillison et al., (1999) states that people with well-established moral codes are able to avoid the using rationalizations to justify fraudulent acts; It is however vital for internal auditors to work with an assumption that everybody has the capability of justifying the commission of fraud.

2.2.2 Self Control Theory

The self-control theory as cited by (Holtfreter et al., 2010) asserts that individuals bearing a low degree of self- control have a higher probability of committing crime. People who have no self-control tend to be impulsive, have little sensitive physical other than mentally, are not risk averse, are shortsighted and less verbal (McMullen, 1999). The theory argues that children learn low self-control from their parents as they bring them up. It further argues that absenteeism parenting may give rise to children who are not able to control their gratification, engage in risky behavior, inconsiderate of other people' feelings and cannot manage their impulses (Holtfreter et al., 2010). McMullen, (1999) also adds that people with greater abilities of self-control finally find out the low likelihood of long-term benefit and high chance of apprehension that can be linked to criminal enterprise.

The aspect of self-control features mostly in the research of crime, especially fraud. According to Strayhorn (2002), as an aspect of interest, shortcomings in self-control stand out as critical role in psychopathology, and awakes to be the point of interest of studies carried out by other individuals, that include delay of satisfaction, self-regulation, impulsivity, and self-discipline. These aspects assists point out the criticality of self-control in relation to healthy development, that include impulsivity and its influence towards impulse control issues, trait disorders alongside addictions. It is also near impossible to overestimate the importance of self-control with reference to fraud management.

2.2.3 Financial Control Theory

This theory was propounded by Ostman (2009) and asserts that the existing and possible roles of financial tools in any firm are most essential. In line with this, it is points that payments, financial instruments, accounting, control models and economic calculations, both inside and without of the firm, need to be explained in line with the internal traits characteristics alongside their possible impact. The author noted that developing the link between different activities and financial processes, from a financial control perspective is critical. This theory puts a natural focus on the organisation so that they are perceived from different latitudinal areas. The initial one pertains to the human beings' functions of what is attained through firms, their activities and output. The second relates to the structure of the firm and activities, and of interactions that different sections have among themselves. The third section encapsulates the control systems in relation to the repetitive procedures and methods which are utilized to relate current and future functions to resources both inside and outside. The earlier listed financial control tools are viewed to be important from a single business' perspective besides the larger economic systems. The final area pictures the specific processes of individual organizations for certain matters. Ostman also stated that structure and financial control system are inseparable. This theory is very relevant to this study in the sense that it facilitates better comprehension of the intricacies around financial performance with respect to financial controls that are hereby viewed as financial controls.

2.3 Fraud Risk Management Techniques and their Application

According to Al-Tamimi and Al-Mazrooei (2007), an efficient risk management process demands an effective reporting and review structure which sees to it that identification and assessment of risk is accurately undertaken and the correct control techniques efficiently developed. A number of fraud risk management techniques are utilized by various organizations to contain the vice. These techniques include anti-fraud policies, fraud detection and fraud deterrence mechanisms which also encapsulates internal controls.

2.3.1 Anti-fraud policies

The assertion by ACFE (2012), referred to anti-fraud policies as organisation policies set so as to curb and manage the occurrence of fraud within the organisation. All organisation are required to develop and maintain working policies on fraud that provide guidance to their employees (Bierstaker, Brody & Pacini, 2006). These policies need to take into account cultural differences of the organisation' employees that impact how the way they react towards incidences relating to fraud (Bierstaker, 2009). Wright (2007) asserted that fraud policies should be implemented in the entire organization; no level of management should be excused from these policies. Wright adds that this depicts the organization's commitment towards effectively containing fraud and also reveals the organization's approach and attitude towards the occurrence of fraud. On the other hand, Ledgerwood & White (2006) argued that these policies should clearly spell to all employees what is expected of them, the manner in which their roles and responsibilities should be executed and the resultant consequences in the event of contra-performance.

So as to effectively impact an organisation, Bierstaker (2009) indicated that the policies should capture an organisation' corporate governance. Schachler, Juleff and Paton (2007) asserted that it relates with developing structures and responsibility allocation inside the organizations. An effectively developed governance framework provides a platform for an efficient operational risk management (Basel Committee, 2011). An organisation's leadership attitude explains the pillar of ethical behaviour that spread all over the organization (Law, 2011). The organisation' leadership need to provide guidance in establishment an effective risk management culture which gives room for appropriate clear standards and incentives for professionalism and non-fraud behaviour.

2.3.2 Fraud detection

An assertion by ACFE (2012) defined fraud detection as the identification of fraud immediately it takes place. Naicker (2006) adds that both fraud detection and fraud deterrence are critical and need to be implemented together so as to attain complete efficiency in fraud risk management. Besides, fraud detection should be a non-ending process because methodologies of committing fraud keep mutating among the fraudsters immediately they become aware that there earlier methods have been identified and deterred. A number of studies have researched on fraud detection and its related mechanisms (Owusu-Ansah et al., 2002), effective and results of fraud detection (Alleyne et al., 2010) and the measures of the fraud (Khondkar & Siegel, 1998).

However, most of these studies were linked up to profit making firms and the unique set-up of non-profit making organization make it impossible to apply these results relating to for-profit organizations. For instance, trust is an important requirement for success in a non-profit organization. According to the findings by Tyge-F, Kishore and Peter (2014), a majority of the non-profit organizations barely utilize fraud detection instruments hence making them more susceptible to fraud. Tyge-F et al. however add that this may be attributed to the lack of expertise in pointing out the efficient and most effective fraud detection instruments. A number of fraud detections mechanisms have been pointed by different researchers that include fraud risk assessment (Knap & Knap, 2001); ethical organisational culture (Albrecht et al., 2009) and internal and external audits (IIA, 2014).

2.3.3 Fraud deterrence

Fraud deterrence refers to measures that seek to stop fraud from occurring according to ACFE (2012). Becker’s research (Becker, 1974) on the economics of crime offers information on the manner in which firms curb fraud occurrence by asserting that individuals may be deterred from getting involved in fraudulent activities when organizations put in place higher fines and penalties. She also adds that this increases the probability of detecting fraud. In support of this argument, Garoupa (2001) states that this approach may yield no results if wealthy criminals are subjected to a low fine. Punishment that is little or completely in-existent denies individuals an opportunity to base their resolutions on moral aspects since they escape with the unwarranted behaviour while attaining individual gains. Kimani (2011) argues that a good fraud deterrence strategy should involve clear division of duties, staff supervision, monitoring work performance and ensuring that when systems are accessed proper control are in place. Fraud deterrence can be enhanced by an organization through training of its staff on risk management.

Well established internal control mechanisms enhance fraud deterrence (Kimani (2011). Internal controls were viewed as processes established in order to give sufficient assurance that an organisation’ leadership attains effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Grant, Miller, & Alali, 2008). On the other hand, Rae and Subramanian (2008) confirmed that internal controls curb the occurrence of fraud through checking and enhancing an organization's financial reporting processes alongside ensuring compliance with the set laws and regulations. These controls provide avail sufficient confidence towards ensuring cost effective actions are put in place so as to restrict deviations from the organization's set structures to intolerable heights. The efficiency of the laid down internal controls need to be frequently evaluated in order to identify if the system is running as purposed (Fadzil et al., 2005). Generally, internal controls need to insist on, accurate determination and assessment of risks, implementations that effectively manage the various levels of operation, information systems that accurately and timely reports anomalies.

2.4 Determinants of Financial Performance of NGOs

Financial performance is a key aspect in the sustenance and effectiveness among NGOs. An argument by Lynn (2013) asserts that the greater the number of sources of financial aid, the better financially an NGO is. According to Boas (2012) financial aid describes funding opportunities to non-governmental organisations from donor or grant maker, national governments towards facilitating their activities. Boas (2012) further asserts that, NGOs with an intention of diversifying their revenue lines and enhancing the reliability funding towards their projects are required to make a determine whether they intend to attain this long-term objective only through; activities targeted towards donors and grant makers, alongside non-intensive self-financing projects or also take into consideration, starting critical activities that would result to profits for the organisation, mostly designed to take the shape of a social enterprise. Boaz also asserts that organizations that focus on donors and grant makers seek to: enhance international and national sources of project revenue, establish an undertaking with donors who are with a reliable reputation and willing to fund overhead and start-up costs.

According to Chitere (2010), another aspects within NGOs that determine their financial success is resource mobilization. Chitere explains resource mobilization as several aspects that seek to minimize the reliance on a specific category of income, donor or grant makers, country that is the key source of revenue for their projects alongside currency through which many of all project fundings are paid out. Additionally, a 2015 report by the Abt Associates on NGO sustainability revealed that financial performance and efficiency in NGOs are typically evaluated using three variables: Net income which is the surplus of revenue to expenses; Liquidity that refers to the ability to address cash requirements to pay bills and Solvency which assesses the association between assets and debt or liabilities. The report further indicates that these measures provide a better picture of financial performance when utilized in combination and not separately. Besides, Mohammed and Elio (2015) listed a number of performance measurements that can be applied within the NGO sector. These include quality (quality of services offered to beneficiaries), partnership (degree of relevant networking attained), Outcome performance (the extent to which the expected outcomes have been attained), program non-financial and financial efficiency (the degree of utilization of financial and financial resources in order to meet the expected demands) operational efficiency (the ratio between an output gained from the business and an input to run a business operation) and financial transparency (ability to develop reports for the relevant stakeholders).

Chitere however asserts that NGOs in Kenya are still struggle to sufficiently raise financial resources towards their project implementations as a result of the NGOs not having effective leadership. In addition, some of these organisations lack transparency in their operations thus denying opportunities to beneficiaries' towards participating in identifying, prioritizing and implementing projects. Many NGOs do not have administrative and equipment capabilities such as computers for processing project proposals, correspondence and reports that further facilitate timely mobilization of resources. An argument by Wanyama (2009) confirms that resources are mostly handed to those NGOs that bear the capability of producing fancy proposals a number of the NGOs miss out on this aspect.

Alymkulova and Seipulnik (2005) add to the assertion by Boas (2012) explaining that diversification of revenue another key NGO financing strategy. A more sustainable method to NGO funding is establishing a financing that kills reliance on any single line of revenue, be it an external or an internal source (Alymkulova & Seipulnik, 2005). There however exists a difficulty in establishing a formula based on percentages that are to be secured from the different sources of financial resources in order advice on the optimum mix. Notwithstanding, hitting a balance for the portion of external and internal generated funding is key in allowing an NGO meet its operating and administrative costs while still managing its freedom towards determining its program and activity priorities, without the interference from funders (Alymkulova & Seipulnik, 2005). Developing a truly sustainable NGO implies dealing with multiple challenges that entail both internal factors that seek to strengthen organizational capacity alongside external aspects of developing a clearer regulatory environment while securing funding for NGO initiative (Rasler, 2007). In fact, Irish and Simon (1999) insisted that these organisations need to attain organizational and effective self-governing capacities prior to seeking financial sustainability.

2.5 Empirical Literature Review

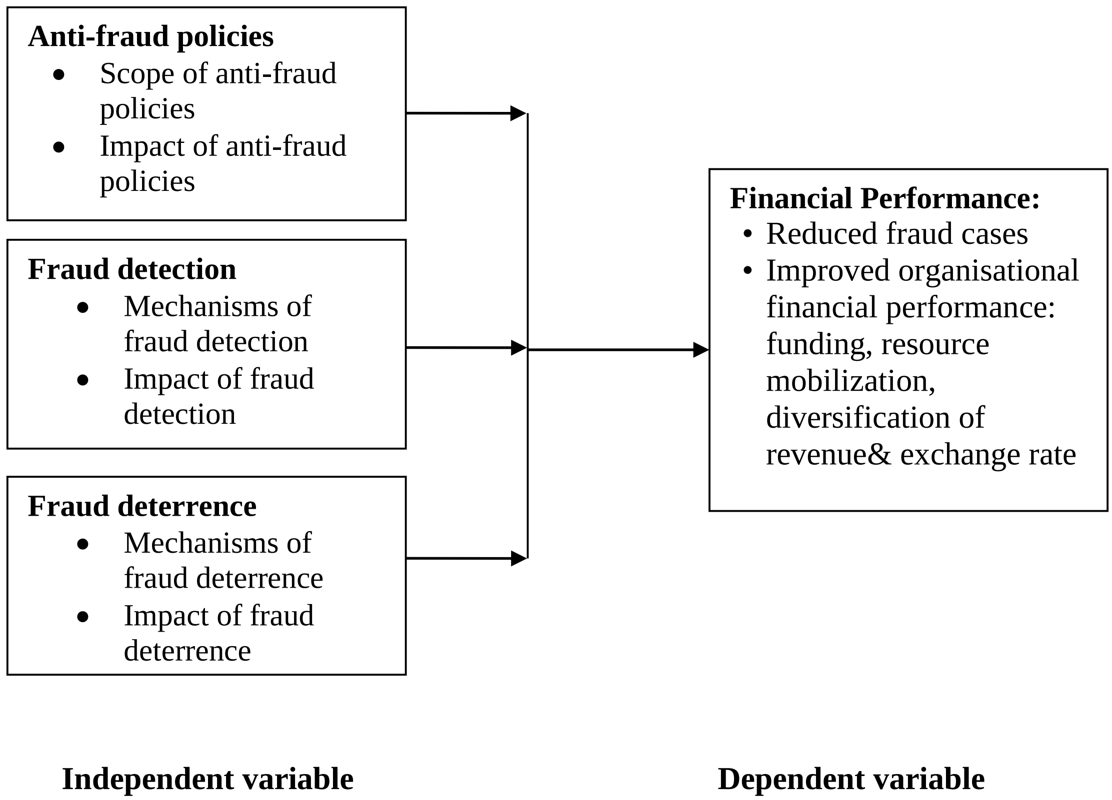
According to Alymkulova and Seipulnik (2005) among the biggest problems facing NGOs is how to sustain and finance NGO activities considering the turbulent operating environment in which they operate in. In Kenya, NGOs experience sustainability and reliability problems towards their activities. Sustainability, which as a result of financial performance describes the possibility of a given project to stand operational with the termination of external support. Kunguru et al, (2002) asserts that most NGOs projects in Kenya rely heavily on external funding without which most of the projects would collapse. According to the NGO coordination board, revenue of about $285 million was received in 2005, of this amount, close to 90% come from donors. Many Kenyan companies that channelled their corporate social responsibility funds through NGOs have also started own foundations like; Safaricom, Equity Bank, EABL and KCB. These Foundations have also diverted funds that were once channelled to NGOs (Rawlings, 2010). According to these studies, financial performance within NGOs can be measured using parameters such as number of donors in partnership with the organization and the amount of money donated to the organization.

An assertion by Jarzabkowski, (2005) indicated that any change in the operating environment of an organization calls for the consideration of internal realignment and reshaping of strategy. In line with this, Ann (2015) argues that some NGOs in Kenya have had to engage in income generating activities in order to enhance their financial performance. Non-Governmental Organisations in Kenya mostly rely on external donors

(Ann, 2015). This therefore implies that their most of their funding are in currencies other than the Kenya shilling. Exchange rates therefore turn out to be important avenues through which the organisations can save on the funding revenues from external donors. Claire (2014) argued that many NGOs however lack a well-established and effective strategy to make them reap from currency exchange. As a result, most of these NGOs are exposed to rate volatility more specifically when undertaking activities within emerging markets, that are sometimes difficult to navigate and sensitive to changes. Claire adds that it is therefore critical for NGOs to internally and with their foreign exchange providers establish clear and proven plans towards purchase of currency and risk management and effective foreign exchange practices. This will assist them avoid common pitfalls and provide practical steps towards enhancing their financial sustainability.

2.6 Conceptual framework

Figure 2.1: Conceptual framework showing relationship between dependent and independence variable



2.7 Knowledge Gap

A number of researcher have conducted studies in relation to fraud risk management and organisational financial performance. For instance, in a study carried out by Chiezey & Onu (2013) on the impact of fraud and fraudulent practices on the performance of banks in Nigeria within the period 2001-2011. Evaluative research design was used to determine the nature, magnitude and economic consequences of fraud on banks in Nigeria. The study found out that poor internal controls leads to increase in fraud and fraudulent activities. This study was however restricted to banks in Nigeria hence the results may not be a reflection of what happens in the NGOs scenario.

Similarly, Akinyomi (2012), examined fraud in the Nigerian Banking sector and its prevention. The researcher utilised a descriptive study design and established that the major cause of fraud in the Nigerian banking sector include the involvement of staff members in all stages of fraud including initiation, execution and concealment. This study however failed to link fraud to financial performance and was restricted to the banking sector.

On the other hand, Tyge-F et al. (2014) studied the fraud and risk management in NFP organizations. The study utilized a confirmatory research design. The findings depicted that organizations that have not recorded any or few fraud cases depend to a very low degree on ineffective prevention measures. However, the occurrence of fraud triggers a learning process within the organisations that give rise to greater comprehension of internal controls thus more suitable risk management. The research was however restricted to organisations in Australia and New Zealand and thus the findings may not necessarily be applicable to the Kenyan scenario. Besides, the study failed to associate fraud risk management to financial performance of these organisations.

Khanna and Arora (2009) conducted a study that sought to investigate the reasons for bank frauds and implementation of preventive security controls. The study was however restricted to the Indian Banking Industry. The goal of the research was further limited to evaluation of the causes of frauds in financial institutions. The duo administered a survey to 253 respondents of different banks who were identified through multistage random cluster sampling method. The study revealed that the employee fraudulent activities is one of the major explanations for fraud in the banks. They further explain employee involvement within three factors aspects; motivation, identification and job satisfaction.

A research on risk management practices and Islamic Banks was carried out by Ahmed *et al*. (2011). The trio sought to establish the organisation's aspects that greatly impact the risk management practices of Islamic banks in Pakistan. The research measured credit, operational and liquidity risks against size, leverage, NPLs ratio, capital adequacy and asset management for the period of four years from 2006 to 2009. The research established that size of Islamic banks have a statistically significant association with financial risks (credit and liquidity risk) but operational risk was determined to have a negative and insignificant relationship. The study however did not link risk management to NGOs.

Njenga and Osiemo (2013) researched on fraud risk management and performance of firms. They restricted their study to deposit-taking microfinance institutions in Kenya and assessed anti-fraud policies, fraud detection and systems of internal controls against performance. A descriptive research design was used to conduct the research. The findings indicated that most organisations have well established internal controls and anti-fraud policies to help curb fraud. Besides, most of these organisations also have their managements committed towards curbing fraud. However, the study was limited to the financial sector hence these findings may not be a reflection of the NGO sector.

In addition, Odhiambo (2013) did a research that sought to link financial fraud and liquidity and financial performance. The study was however restricted to the commercial banks in Kenya. The researcher established that financial fraud loss and liquidity ratios had a positive, strong and significant effect on financial performance of commercial banks in

Kenya. Both studies utilised a descriptive study design, However, the studies were limited to the banking sector in Kenya hence the findings do not reflect the state in the NGO sector.

Silvanus and Solomon (2016) conducted a study on determinants of Financial Sustainability for Non-Governmental Organizations. They however limited this study to NGOs based in Nakuru County and only evaluated two variables against financial sustainability; financial resource mobilization capacity and internal financial control systems. The study conclllulded that organisational capacity to mobilize financial resources did not have a significant impact on the NGOs sustainability. Besides, organisational internal financial controls were identified as having a positive and significant effect on financial sustainability of the NGOs within Nakuru County. The study employed a descriptive study design.

On the other hand, Wanyama (2009) conducted a research on interfacing the state and the voluntary sector for African development. This study was limited to the Western Kenyan scenario. In this study, Wanyama established that ineffective service provision, embezzlement of funds by leaders, illiteracy among members, delay in remitting and default on contributions are some of the financial factors affecting NGOs in Western Kenya. He added that there exists an increasing requirement to utilise home grown organisations such as NGOs to execute government and community projects, therefore the requirement to enhance the organisations’ transparent and accountable financial controls.

From the reviewed studies, it evident that most of the studies conducted in relation to fraud risk management have not linked the same to organisational performance and more specifically financial performance. Besides, these studies have been carried out of the country or targeted mostly the financial sector hence their findings may not directly be applicable to the Kenyan scenario. These facts therefore proof the existence of a knowledge gap that this study seeks to fill by answering the question; what is the effect of fraud risk management on financial performance of NGOs in Nairobi, Kenya?

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter submits the blueprint of this study's methodology that was adopted; from data collection to data analysis and presentation. This section captures the following information; research design, target population, sampling, data collection and finally data analysis.

3.2 Research Design

A study design refers to the structure adopted by a researcher in relation to the assessment targeted at seeking answers to the study objectives (Lewis et al., 2012). They further cite that the study design oughts to take into consideration the source from which the stufy puroposes to collect data and the limitations such as money, time, ethical issues and access to data. On the other hand, Mugenda and Mugenda (2009) stated that a study design should include an outline of the research work to enable the representation of results in an understandable form. This study was anchored on a descriptive study design approach. Besides, Kothari (2005) asserted that a descriptive research describes the existing conditions and attitudes through observation and interpretation techniques.

3.3 Target Population

Population refers to the subject that includes persons or cases or objects upon which assessment will be undertaken (Mugenda & Mugenda, 2009). A population must entail common observable traits and grant each element a probability that is equal of making it into the final sample. On the other hand, Mugenda and Mugenda described target population as the persons or cases or objects upon which a study seeks to generalize its findings. According to the NGO Council (2017), the general population for this study comprised of approximately 8,500 finance managers from all the registered NGOs in Kenya. However, a total of 1,700 finance manager was targeted from the head offices of all the 20% registered and compliant NGOs, in relation to submission of annual returns. These groups were targeted since they are directly involved in either developing or implementing the daily running financial procedures and controls for their various NGOs and therefore knowlegable in the subject under research.

3.4 Sampling

In sampling, the sample size is said to be representative if has similar characteristics as the population (Zikmund, 2003). It is however not mandatory to carry out a research on the whole population so as to attain precision and reliability in a study's findings (Mugenda & Mugenda, 2009). The duo further asserted that a popultaion representation of 10% - 30% is a good representation of the population. Therefore, of the total target population of 1,700 finance managers based in Nairobi NGOs, 170 managers were sampled, representing 10% of the target population. The researcher however divided the target population into three strata depending on their financial base: Huge-sized (Turnover >Ksh. 200million annually), Medium-sized (Turnover > Ksh. 50million but < Ksh. 200million) and Small-sized NGOs (Turnover < Ksh. 50 million). The stratified random sampling method allowed for comparisons between sub-groups with homogeneous characteristics. The sample elements were then purposively selected from the strata.

Table 3.1: Sample Distribution

NGO Category	Population	Proportion	Sample
Huge-sized	240	10%	24
Medium-sized	880	10%	88
Small-sized	580	10%	58
TOTAL	**1700**		**170**

Source: NGO Council (2017)

3.5 Data Collection

This research only utilised primary data. This provided a deeper perspective on the effect of fraud risk management on financial performance of Nairobi based NGOs. Semi-structured questionnaires were used to collect primary data from the respondents. With most of the targeted respondents perceived to be literate, questionnaires were key instruments in collecting the primary data. The questionnaires were itemized so as to capture the background information for both the respondents and organisation and each specific research objective.

3.6 Data Analysis

The research collected both quantitative and qualitative data. The data was then analysed based on each specific objectives. Qualitative data was mostly from the open-ended questions in the questionnaires and the financial statements. Content analysis was used to analyse this type of data. As per Krisppendorff (2012), content analysis is indigenous to communication research and is potentially one of the most important research techniques in social sciences. Analysis of quantitative data obtained from the questionnaires was carried out Statistical Package for Social Sciences (SPSS). Descriptive analysis methods including mean, mode, range and standard deviation measures were used to analyse the demographic characteristics of the population, organisation and the fraud risk management techniques used within the Kenyan NGOs.

To evaluate the financial performance of the NGOs, the study evaluated the change in number of fraud cases, organisational funding, resource mobilization, diversification of revenue sources and exchange rate. To determine the relationship between fraud risk management and financial performance within Non-Governmental Organizations in Nairobi, correlational analysis method was applied whereas regression analysis was used to test the nature of association between the categorical variables. The multiple regression model shown below guided the study;

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

Where; Y – Financial performance

$\beta 0$ - Constant

$\beta_1, \beta_2, \beta_3$ - Regression coefficients

X_1- Anti-fraud policies

X_2- Fraud detection

X_3 –Fraud deterrence

ε - Error term

3.7 Diagnostic Tests and Test of Significance

In order to conduct proper diagnostic tests and test of significance, the research focused on stating the null and alternative hypotheses. The test statistic was also calculated. The P-value was also obtained (using a table or statistical software). There after a comparison of P-value with α was determined in order to decide whether the null hypothesis should be rejected or accepted.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study' overall objective was to determine the effect of fraud risk management on financial performance of non-governmental organisations in Nairobi County. The results of the study were summarized under the sub-sections: background information, fraud risk management, antifraud techniques, fraud detection, fraud deterrence, financial performance of the NGOs and the association between fraud risk management and financial performance. Percentages, frequency distributions, mean, standard deviations and correlation values were utilized in presenting the findings.

4.2 Response Rate

The researcher distributed a total of 170 questionnaires to its targeted respondents. Out of the issued questionnaires, 152 were filled to completion and returned. The study therefore registered an 89.4% response rate.

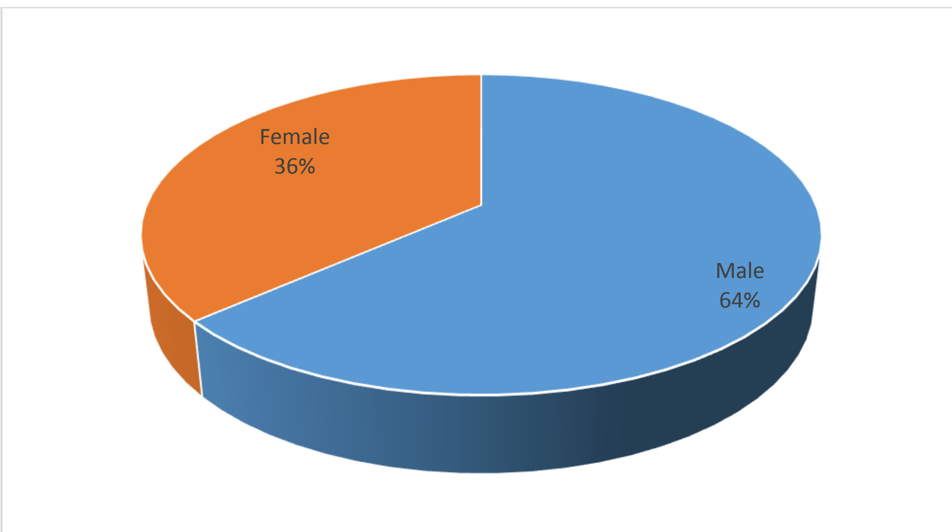
4.3 Background Information

The study collected and analysed a background information on both the respondents (gender and length of service in the organisation) and the organisation (organisational activity, years of operations and average annual gross revenue). The findings were presented in the subsequent sub-sections.

4.3.1 Gender of the Respondents

The findings on the gender of the respondents were summarized in table 4.1 below. From the results, 64% (97) of the respondents were male while 55 representing 36% were female. This further indicates that more men than women work as finance managers within the Nairobi based NGOs hence the sector' finance department is gender imbalanced.

Figure 4.1: Gender of the Respondents

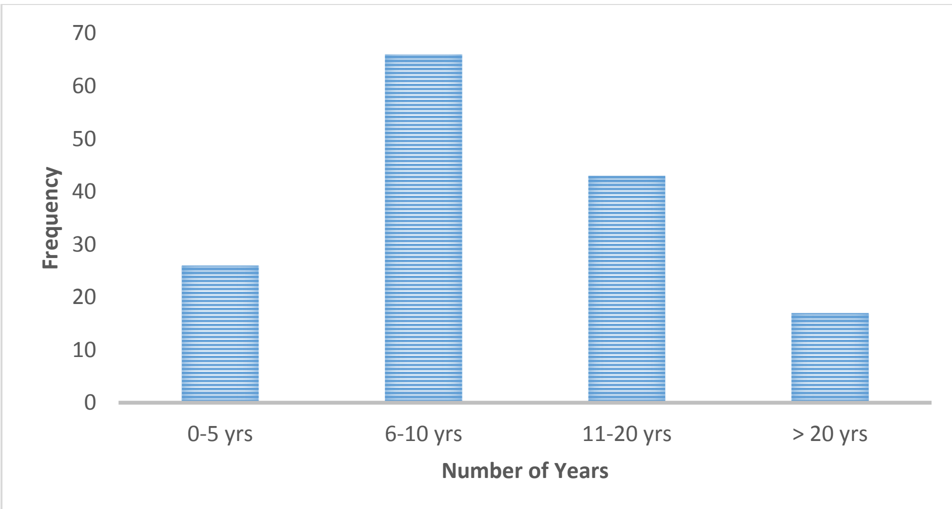


Source: Field Data (2018)

4.3.2 Work Period

The study sought to establish the length of time the respondents had serviced their current organisations. The findings as presented in Figure 4.2 revealed that Most (66, 43%) had worked in their current organisations for not between 6 and 10 years. Above one-third (60, 39%) had worked in their organisations for more than 10 years whereas 0n 17% (26) had served for less than 5 years. This enhanced the reliability of the findings since the respondents were well versed with the operations of their organisations.

Figure 4.2: Work Period



Source: Field Data (2018)

4.3.3 Activities Engaged by the Organisation

The respondents were requested to list the type of activity their organisations engage in. From the findings, the researcher established that the Nairobi based NGOs are undertake different activities that include education, humanitarian activities, legal support, health, advocacy, religious support, children and women support, economic support, trainings and youth empowerment, girl child support and peace initiatives. This therefore reveals that the findings of the research covered a variety of sub-sector within the NGO filed hence improving the reliability of the findings.

4.3.4 Organisational Background Information

The study collected and analyzed information on the targeted organisations. The information captured included the number of years of operation for the organisation and their average annual gross revenue. The findings were as presented in table 4.1 below.

From the results in table 4.1, nearly one-half (75, 49.3%) of the respondents indicated that their organisations had been in operations for between 11 and 20 years. More than one third (61, 40.2%) had operated for more than 20 years while 14 (9.2%) had operated fpr between 6 and 10 years. Only 1.3% representing 2 organisations had been in operation for less than 5 years. The findings depict that the responses obtained from these organisations were reliable since a majority (98.7%) had been in operation for more than 5 years.

In relation to the average annual gross income, the findings revealed that slightly above one-half (50.7%, 77) had an annual gross revenue of between 50 million and 200 million. Only 19% (29) of the organisations had a revenue greater than 200 million annually whereas nearly one-third (30.3%, 46) registerd a revenue of less than 50 million annually. These results improve the reliability of the results since all NGOs (small, medium and large) have a substantial representation.

Table 4.1: Organisational Background Information

		Frequency	Percent
Years of Operations	0 - 5 years	2	1.3
	6 – 10 years	14	9.2
	11 – 20 years	75	49.3
	Above 20 years	61	40.2
	Total	**152**	**100.0**
Average Gross Income Per Year	< Ksh. 50M	46	30.3
	Ksh. 50M – 200M	77	50.7
	>Ksh. 200M	29	19.0
	Total	**152**	**100.0**

Source: Field Data (2018)

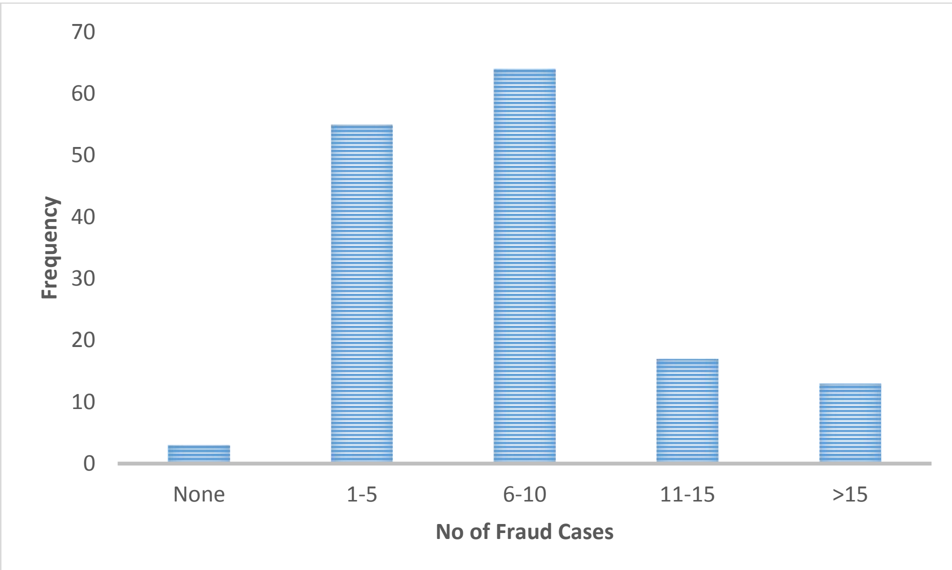
4.4 Fraud Risk Management

The study sought to determine the number of fraud cases the organizations have suffered in the past few years and the frequency the organization uses to monitor fraud risk indicators so as to pre-empt fraudulent activities. The findings were summarised in section 4.4.1 and 4.4.2.

4.4.1 Number of Fraud Cases

The results as depicted in figure 4.3 indicate that only 2 (3%) of all the targeted organisations had not suffered fraud while more than two-thirds (119, 78%) had recorded at least one fraud case but not more than 10 cases. 20% (30) of the organisations indicated as having suffered more than cases fraud cases. These findings therefore indicate that fraud is a matter of interest within NGOs.

Figure 4.3: Number of Fraud Cases



Source: Field Data (2018)

4.4.2 Fraud Monitoring

The findings in table 4.2 below revealed that most (49, 30.9%) of the respondents indicated that their organizations daily or weekly monitor fraud whereas only 19 (12.5%) of the organizations carry out an annual monitoring. Monthly and quarterly monitoring of fraud is undertaken by more than one-third (64, 42.1%) of the organisations. Besides, 20 (13.2%) of the organisations conduct a semi-annual monitoring of fraud. These findings further confirm that fraud has been treated by most of the NGOs in Nairobi as an issue of interest.

Table 4.2: Fraud Monitoring

		Frequency	Percent
Frequency of Fraud Risk Monitoring	Monthly	47	30.9
	Quarterly	17	11.2
	Semi-Annually	20	13.2
	Annually	19	12.5
	Others	49	32.2
	Total	**152**	**100.0**

Source: Field Data (2018)

4.5 Anti-Fraud Policies

The researcher collected and analyzed data on three anti-fraud techniques; anti-fraud policies, fraud detection and fraud deterrence. The results were summarized in sections 4.5.1 to 4.5.2 below.

4.5.1 Anti-Fraud Policies

The research sought to determine the opinion of the respondents on their level of satisfaction on the various aspects relating to anti-fraud policies within their organizations. The respondents were to give their feedback in a likert scale: 1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree. The mean of 1.00 – 1.49 implied strongly agree, 1.50 – 2.49 implied agree, 2.50 – 3.49 implied not sure whereas 3.50 – 4.49 implied disagree while 4.49 – 5.00 implied strongly disagree. The standard deviation on the other hand will be used to evaluate the degree of variability of data such that a standard deviation of > 1.0 implied heterogeneity whereas a standard deviation of < 1.0 implied homogeneity.

From the results of the findings as presented in table 4.3 below, it was evident that the respondents agreed that the organisations have well-established anti-fraud policies to guide its employees at all levels of management. This was depicted by the mean of 2.29 and the standard deviation of 0.437. Besides, the mean of 2.89 and standard deviation of 0.448 indicated that the respondents were not sure whether the anti-fraud policies clearly define employee' responsibility and resulting consequences in the event of occurrence fraud. Similarly, the mean of 3.49 and standard deviation of 0.513 revealed that it was not conclusive if fraud detection and prevention in the organisation is effectively supported by the organization' anti-fraud policies. The respondents however disagreed on whether the anti-fraud policies consider the cultural differences and diversity in responding to fraud among the employees (mean 0.402, sd 0.552).

Table 4.3: Anti-Fraud Policies

Services	N	Min	Max	Mean	Std. Dev.
The organisation has well-established anti-fraud policies to guide its employees at all levels of management.	152	1	5	2.29	.437
The anti-fraud policies clearly defines employee' responsibility and resulting consequences in the event of occurrence fraud.	152	1	5	2.89	.448
Fraud detection and prevention is effectively supported by the organization' anti-fraud policies.	152	1	5	3.49	.513
The anti-fraud policies consider the cultural differences and diversity in responding to fraud among the employees.	152	1	5	4.02	.552
Valid N (listwise)	152				

Source: Field Data (2018)

4.5.2 Fraud Detection

Using a likert scale (1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree) the respondents were requested to give feedback on their opinion pertaining various aspects relating to fraud detection in their various organisations. The responses were analysed and presented in table 4.4. From the results, the mean of 1.00 – 2.49 implied agree/strongly agreed, 2.50 – 3.49 implied not sure whereas 3.50 – 5.00 implied disagree/strongly disagreed whereas the standard deviation of > 1.0 implied heterogeneity whereas a standard deviation of < 1.0 implied homogeneity.

The results summarized in table 4.4 below reveal that respondents agreed that the selection of the suitable and effective fraud detection instruments is enhanced by availability of expertise within the organization (mean 1.87. sd 0.399) and that the organizations' audits (internal and external) significantly contribute towards fraud detection (mean 0.238, sd 0.514). In addition, it was also clear from the mean of 2.09 and the standard deviation of 0.364 and the mean of 1.77 and the standard deviation of 0.487 that success in detecting fraud depends greatly on the support from the top management and that ethical organisational culture influences the success in detecting fraud within the organization respectively. However, the mean of 4.17 (sd 0.466) revealed that the organizations have not successfully implemented a great number of fraud detection instruments whereas the mean of 4.35 (sd 0.562) confirmed that the organizations' fraud detection processes do not mostly rely on technology.

Table 4.4: Fraud Detection

Fraud Detection Aspects	N	Min	Max	Mean	Std. Dev
The organization has successfully implemented a great number of fraud detection instruments.	152	1	5	4.17	.466
Selection of the suitable and effective fraud detection instruments is enhanced by availability of expertise within the organization.	152	1	5	1.87	.399
The organization's audits (internal and external) significantly contribute towards fraud detection.	152	1	5	2.38	.514
The organization' fraud detection processes mostly rely on technology.	152	1	5	4.35	.562
Success in detecting fraud depends greatly on the support from the top management	152	1	5	2.09	.364
Ethical organisational culture influences the success in detecting fraud within the organization.	152	1	5	1.77	.487
Valid N (listwise)	152				

Source: Field Data (2018)

4.5.3 Fraud Deterrence

The study sought to determine the various fraud deterrence strategies employed by the organisation in fighting fraud. They were to indicate their opinion on how often the organisation employs them in fighting fraud in the following dimensions: 1=Very Often, 2=Often, 3=Not sure, 4=Not Often, 5=Not at all. From the results, the mean of 1.00 – 2.49 implied very often/often, 2.50 – 3.49 implied not sure whereas 3.50 – 5.00 implied not often/not at all whereas the standard deviation of > 1.0 implied heterogeneity and a standard deviation of < 1.0 implied homogeneity in the responses obtained.

From the results summarized in table 4.5, it was evident that the organisations very often employ staff supervision and ensuring safe controls when accessing systems. These were revealed by the mean of 1.21 (sd 0.378) and 1.47 (sd 0.401) respectively. The mean of 2.08 (sd 0.514), 2.33 (sd 0.346) and 2.41 (sd 0.377) depicted that the NGOs often utilise clear division of duty, monitoring work performance, fraud risk register and fraud awareness training in seeking to deter fraud. It was also clear that the organisations do not often utilise the whistle blower strategy that include use of incentives, hotline, and protection. This was depicted by the mean of 4.03 and the standard deviation of 0.572. Besides, the organisation, do not often also employ the use of high fines and penalties as strategies towards deterring fraud as revealed by the mean of 3.99 and standard deviation of 0.473. However, the mean of 2.86 and standard deviation of 0.555 indicated that the findings were not conclusive as to how often the organisations use strict legal consequences to fight the occurrence of fraud.

Table 4.5: Fraud Deterrence

Aspects	N	Min	Max	Mean	Std. Dev
Clear division of duty	152	1	5	2.08	.514
Staff supervision	152	1	4	1.21	.378
Monitoring work performance	152	2	5	2.33	.346
Whistle blower strategy; incentives, hotline, protection	152	1	5	4.03	.572
Ensuring safe controls when accessing systems	152	1	5	1.47	.401
Strict legal consequences	152	2	5	2.86	.555
High fines and penalties	152	1	4	3.99	.473
Fraud risk register	152	1	4	1.98	.296
Fraud awareness training	152	2	5	2.41	.377
Valid N (listwise)	152				

Source: Field Data (2018)

4.6 Fraud Risk Management and Financial Performance

The study analyzed data relating to fraud risk management and financial performance. This captured the impact of fraud on financial performance of NGOs, efficiency of fundraising and various aspects of fraud risk management and financial performance. The findings were summarized in sections 4.6.1 to 4.6.3 below.

4.6.1 Impact of Fraud on Financial Performance

From the results summarized in table 4.6 below, it was evident that most (72, 47.4%) of the respondents indicated that fraud had a medium impact on the financial performance of their organisation. More than one-half (77, 50.7%) revealed that the impact was either great or very great. Only 3 (2.0%) indicated that that they were not sure of the impact of fraud on financial performance of the NGOs while none was of the opinion that there was no impact of fraud on financial performance of the NGOs.

Table 4.6: Impact of Fraud on Financial Performance

		Frequency	Percent
Impact on Fraud on Financial Performance	No Impact	0	0.0%
	Medium Impact	72	47.4%
	Not sure	3	2.0%
	Great Impact	48	31.6%
	Very Great Impact	29	19.1%
	Total	**152**	**1**

Source: Field Data (2018)

4.6.2 Efficiency of Fundraising

The results presented in table 4.7 indicated that nearly three-quarters (74.3%, 113) of the organisations were at least efficient in fundraising. On the other hand, only 19.7% (30) were either inefficient or very inefficient in fundraising. Only 5.9% (9) of the respondents were not sure of the efficiency of their organisations in fundraising.

Table 4.7: Fundraising Efficiency

		Frequency	Percent
Fundraising Efficiency	Very Efficient	31	20.4%
	Efficient	82	53.9%
	Not sure	9	5.9%
	Inefficient	19	12.5%
	Very Inefficient	11	7.2%
	Total	**152**	**100%**

Source: Field Data (2018)

4.6.3 Aspects of Fraud Risk Management and Financial Performance

The researcher sought to determine the relationship between fraud risk management and financial performance. The respondents were required to give feedback on a likert scale: 1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree. From the results, the mean of 1.00 – 2.49 implied agree/strongly agreed, 2.50 – 3.49 implied not sure whereas 3.50 – 5.00 implied disagree/strongly disagreed whereas the standard deviation of > 1.0 implied heterogeneity and a standard deviation of < 1.0 implied homogeneity.

The results in table 4.8 reveals that the organizations' fraud risk management techniques mostly focus on financial controls (mean 2.01, sd 0.511), that fraud risk management techniques have influenced the organizations' financial stability as a result of improved confidence from funders (mean 1.63, sd 0.421) and that availability of funds for the organizations' activities have been supported by the existence of good fraud risk management techniques (mean 2.48, sd 0.472). Besides, the respondents disagreed that the organizations have sufficiently employed resources towards fraud risk management that have result to a financial save (mean 4.27, sd 0.443) and that well established fraud risk management techniques have seen the organizations save a lot on fraud investigation (mean 3.69, sd 0.429). The mean of 2.97 (sd 0.566) depict that the respondents were not sure as to whether the organizations' fraud risk management practices have improved their financial sustainability.

Table 4.8: Aspects of Fraud Risk Management and Financial Performance

	N	Min	Max	Mean	Std. Dev
The organization’s fraud risk management practices have improved its financial sustainability.	152	1	5	2.97	.566
The organization has sufficiently employed resources towards fraud risk management that have result to a financial save.	152	1	5	4.27	.443
The organization’s fraud risk management techniques mostly focus on financial controls.	152	1	5	2.01	.511
Availability of funds for the organization’s activities have been supported by the existence of good fraud risk management techniques.	152	1	5	2.48	.472
Well established fraud risk management techniques have seen the organization save a lot on fraud investigation	152	1	5	3.69	.429
Fraud risk management techniques have influenced the organization’s financial stability as a result of improved confidence from funders	152	1	5	1.63	.421
Valid N (listwise)	152				

Source: Field Data (2018)

4.7 Correlation Analysis

The findings on the level relationship between the independent and dependent were summarized as indicated in table 4.9. From the results it was evident that there exists strong positive relationships between the dependent and independent variables. Besides, all the independent variables had a positive relationship with each other. The strongest relationship between the independent and the dependent variable was in fraud deterrence and financial performance (0.757). This implied that an improvement in fraud deterrence greatly improves the financial performance of the NGOs. This also indicated that fraud deterrence was the key variable among the three independent variables. The correlation values of 0.722 and 0.699 also reveal that an enhancement in anti-fraud policies and fraud detection respectively, greatly and positively impact the financial performance of the NGOs. This further indicates that these variables are also key in enhancing financial performance in NGOs.

Table 4.9: Correlation Analysis

	Anti-Fraud Policies	Fraud Detection	Fraud Deterrence	Financial Sustainability
Anti-Fraud Policies	1			
Fraud Detection	0.396	1		
Fraud Deterrence	0.441	0.510	1	
Financial Sustainability	0.722	0.699	0.757	1

Source: Field Data (2018)

4.8 Regression Analysis

Regression analysis was conducted so as to determine the cumulative impact of anti-fraud policies, fraud detection and fraud deterrence on financial sustainability of Nairobi based NGOs. The results were as presented in tables 4.10 and 4.11. From the results in table 4.10, the coefficient of determination, R^2, describes the percentage of variation on financial performance of the NGOs that is explained by the changes in anti-fraud policies, fraud detection and fraud deterrence. The R^2 value of 0.634 implies that the independent variables explain up to 63.4% of the variation in financial performance of the NGOs. The significance value of 0.003 (< 0.05) further implies that the cumulative effect of anti-fraud policies, fraud detection and fraud deterrence on financial performance is statistically significant.

Table 4.10: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.
1	.796a	.731	.689	.571	0.003

a. Predictors: Constant, anti-fraud policies, fraud detection, fraud deterrence

Source: Field data (2018)

From table 4.11, the regression model for the study is generated as:

$$Y = 2.04 + 0.099X_1 + 0.079X_2 + 0.133X_3 + \varepsilon$$

The findings further depict that the constant value of 2.04 reveal that with all the independent variables (anti-fraud policies, fraud detection and fraud deterrence) set as zero, financial performance would be 2.04. The findings further reveal that with the other variables held constant, a unit increase or decrease in anti-fraud policies, fraud detection and fraud deterrence results to 0.099, 0.079 and 0.133 units increase or decrease in financial performance of the Nairobi based NGOs respectively.

Table 4.11: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.04	.454		1.55	.000
	Anti-fraud policies	.099	.039	.053	.494	.003
	Fraud detection	.079	.033	.081	1.37	.001
	Fraud deterrence	.133	.051	.097	2.23	.000

Dependent Variable: Financial Performance

Source: Field Data (2018)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings as captured in the previous chapter, conclusions and recommendations made from these findings, implication for of the study and suggestions for further studies according to the researcher.

5.2 Summary

The results based on the background information for the respondents and the organisation established that more men (64%) than women (36%) work as finance managers within the Nairobi based NGOs. Most (43%) of the respondents had worked in their current organisations for not between 6 and 10 years whereas only 17% had served for less than 5 years. This enhanced the reliability of the findings since the respondents were well versed with the operations of their organisations. Only 1.3% of the respondents asserted that their organisations had been in operation for less than 5 years. The findings depict that the responses obtained from these organisations were reliable since a majority (98.7%) had been in operation for more than 5 years. In relation to the average annual gross income and in line with the findings by Wanjiku (2013), the findings revealed that more than one-half (50.7%) had an annual gross revenue of between 50 million and 200 million with only 19% of the organisations having a revenue greater than 200 million annually. These results improve the reliability of the results since all NGOs (small, medium and large) have a substantial representation.

The findings on fraud risk management within the NGOs depicted that only 3% of all the targeted organisations had not suffered fraud while 20% of the organisations indicated as having suffered more than 15 cases fraud cases. These results were also established by Wanjiku (2013). These findings therefore indicate that fraud is a matter of interest within NGOs. The results further revealed that most of the organizations undertake a daily or weekly monitoring of fraud whereas only 12.5% of the organizations carry out an annual monitoring. These findings further confirm that fraud has been treated by most of the NGOs in Nairobi as an issue of interest.

The findings on anti-fraud policies confirmed that the organisations have well-established anti-fraud policies to guide its employees at all levels of management and that the respondents were not sure whether the anti-fraud policies clearly define employee' responsibility and resulting consequences in the event of occurrence fraud, contrary to the argument by Ledgerwood and White (2006). Similarly, it was not conclusive if fraud detection and prevention in the organisation is effectively supported by the organization' anti-fraud policies. It was also evident that the anti-fraud policies do not consider the cultural differences and diversity in responding to fraud among the employees.

The results on fraud detection confirmed that the selection of the suitable and effective fraud detection instruments is enhanced by availability of expertise within the organization and that the organizations' audits (internal and external) significantly contribute towards fraud detection. In addition, it was also clear that success in detecting fraud depends greatly on the support from the top management and that ethical organisational culture influences the success in detecting fraud within the organization respectively. As also asserted by Tyge-F, Kishore and Peter (2014), the results confirmed that the organizations have not successfully implemented a great number of fraud detection instruments and that the fraud detection processes do not mostly rely on technology.

The findings on fraud deterrence evidenced that the organisations very often employ staff supervision and ensuring safe controls when accessing systems. The results also depicted that the NGOs often utilise clear division of duty, monitoring work performance, fraud risk register and fraud awareness training in seeking to deter fraud. It was further evidence that the organisations do not often utilise the whistle blower strategy that include use of incentives, hotline, and protection. These results are in line with the findings by Kimani (2011). Besides, the organisation, do not often also employ the use of high fines and penalties as strategies towards deterring fraud. However, the findings were not conclusive as to how often the organisations use strict legal consequences to fight the occurrence of fraud.

From the results, it was evident that fraud has at least a medium impact on the financial performance of most (98%) of the NGOs. These findings are in line with the assertions by Grant, Miller and Alali (2008). The findings on fundraising efficiency of the organisations revealed that most (74.3%) of the organisations were at least efficient in fundraising with only 19.7% being either inefficient or very inefficient in fundraising. These results were contrary to the findings by Wanjiru (2014). It was also evident that the organizations' fraud risk management techniques mostly focus on financial controls, fraud risk management techniques have influenced the organizations' financial stability as a result of improved confidence from funders and that availability of funds for the organizations' activities have been supported by the existence of good fraud risk management techniques. Such assertion were also made by Greenlee et al. (2007). Besides, the respondents disagreed that the organizations have sufficiently employed resources towards fraud risk management that have result to a financial save and that well established fraud risk management techniques have seen the organizations save a lot on fraud investigation. The results were however not conclusive as to whether the organizations' fraud risk management practices have improved their financial sustainability.

The correlation results revealed that that there exists strong positive relationships between the dependent and independent variables. Besides, all the independent variables had a positive relationship with each other. The strongest relationship between the independent and the dependent variable was in fraud deterrence and financial performance (0.757) followed by anti-fraud policies (0.722) then fraud detection (0.699). This implied that an improvement in fraud deterrence, anti-fraud policies and fraud detection greatly improves the financial performance of the NGOs. This also indicated that fraud deterrence was the key variable among the three independent variables. The three variables also significantly explain up to 63.4% of the variation in financial performance of the NGOs.

5.3 Conclusion

The study concluded that the Nairobi based NGOs have suffered from fraud occurrences hence it is a matter of interest within NGOs with most of the organizations undertaking a daily or weekly monitoring of fraud. The researcher also concluded that the NGOs have well-established anti-fraud policies to guide their employees at all levels of management. However, the anti-fraud policies do not consider the cultural differences and diversity in responding to fraud among the employees.

The study also concluded that the selection of the suitable and effective fraud detection instruments is enhanced by availability of expertise within the organization and that the organizations' audits (internal and external) significantly contribute towards fraud detection. In addition, detecting fraud depends greatly on the support from the top management and that ethical organisational culture influences the success in detecting fraud within the organization respectively. However, the study asserts that the NGOs have not successfully implemented a great number of fraud detection instruments and that the fraud detection processes employed do not mostly rely on technology.

Based on the findings on fraud deterrence, the researcher concluded that NGOs very often employ staff supervision and ensuring safe controls when accessing systems. Further conclusions assert that the NGOs often utilise clear division of duty, monitoring work performance, fraud risk register and fraud awareness training in seeking to deter fraud. However, the organisations do not often utilise the whistle blower strategy, use of high fines and penalties as strategies towards deterring fraud.

In relation to the findings on the association between fraud risk management and organisational performance, the researcher concluded that fraud has an impact on the financial performance of the NGOs. The study further concludes that fraud risk management techniques in the NGOs mostly focus on financial controls and have influenced the organizations' financial stability as a result of improved confidence from funders. However, the researcher further concluded that the organizations have sufficiently employed resources towards fraud risk management which have seen the organizations save a lot on fraud investigation.

Generally, the researcher concluded that anti-fraud policies, fraud deterrence and fraud detection significantly impact financial performance of the Nairobi based NGOs. These variables explain up to 63.4% of the variation in financial performance within the NGOs.

5.4 Recommendation

With the findings indicating that fraud has an impact on financial performance of the NGOs and with most of the NGOs having suffered from at least a fraud incidence, the researcher recommends that most of the organizations should seek to undertake a more frequent fraud monitoring process; daily or weekly monitoring.

The researcher also recommends that the organisations should develop clear anti-fraud policies that offer guidance to employees, define employee' responsibility and resulting consequences in the event of occurrence fraud. The policies should also be considerate of the cultural differences and diversity in responding to fraud among the employees.

The researcher also recommends that the organizations' should significantly enhance their audits so as to improve fraud detection. The top management should also offer unending support to fighting fraud. The study further recommends the implementation of diverse fraud detection instruments and the automation of the fraud detection processes.

From the results of the findings, the researcher recommends the use of staff supervision, safe controls when accessing systems, clear division of duty, monitoring work performance, fraud risk register and fraud awareness training, whistle blower strategy, fines and penalty and strict legal consequences as strategies to deter fraud. The organizations should also sufficiently allocate resources towards fraud risk management so as to help them save a lot on fraud investigation.

5.5 Implication of the Study on Policy, Theory and Practice

The results of this study are key to policymakers within the NGO sector and more specifically the NGO coordinating board since they facilitates them in developing policies targeted at enhancing the formulation of policies around fraud risk management within the sector. These policies will in turn assist minimize the general occurrence of fraud within NGOs thus improving their financial performance.

The findings are also important to future scholars and researcher since it provides a platform for future research through providing relevant literature that facilitate future related studies. The results generally affirm the theoretical and empirical knowledge on fraud risk management and financial performance in NGOs. This is through incorporating variables such as anti-fraud policies, fraud detection and fraud deterrence.

Theoretically, the findings of the study add value to the Fraud Triangle Theory through advocating for intensity of the pressure thus lowering the rationalization for one to engage in fraud. The research also adds value to the Self Control Theory and the Financial Control Theory by giving insights as to how self-control can be utilised in managing the occurrence of fraud within NGOs and allowing for better comprehension of the intricacies around financial performance with respect to financial controls respectively.

5.6 Suggestions for Further Studies

The study's key objective was to describe the effect of fraud risk management and organisational performance. The researcher however limited the study area to NGOs only based in Nairobi Kenya. Therefore, similar research can be conducted on other study areas other than Nairobi so as to improve the reliability of the conclusion arrived at in this research. Besides, similar study may be conducted while assessing the impact of other variables such as management support and structure, audits, organisational culture, financial transparency, operational efficiency and fraud awareness on their influence on financial performance.

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APPENDICIES

Appendix I: Questionnaire

Questionnaires Code: ………………… **Interview date: …………………..**

Instructions

This questionnaire is designed to collect information on relationship between fraud risk management and financial performance of NGOs in Kenya. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick appropriately and also kindly provide answers in the blank spaces provided.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate gender.

   Male [ ] Female [ ]

2. How long have you worked in this organization?

   0-5yrs [ ] 6-10yrs [ ] 11-20yrs [ ] Above 20yrs [ ]

3. What activities does your organisation engage in?

   ....

   ....

4. How many years has the organization been in operation?

   0-5yrs [ ] 6-10yrs [ ] 11-20yrs [ ] Above 20yrs [ ]

5. What is the average annual gross revenue for the organization?(Kshs)

   Less than 50 Million [ ]

   Between 50 Million and 200 Million [ ]

   Above 200 Million [ ]

SECTION B: FRAUD RISK MANAGEMENT

6. How many fraud cases has your organization suffered in the past few years?

   None [ ] 1-5 [ ] 6-10 [ ] 11-15 [ ] Above 15 [ ]

7. How frequent does the organization monitor fraud risk indicators to pre-empt fraudulent activities?

   Monthly[ ] Quartely[ ] Semi-Annually[ ] Annually[ ] Other (Specify) …………

SECTION C: ANTI-FRAUD TECHNIQUES

8. Below statements relate to anti-fraud policies as an aspect of fraud risk management technique. Please indicate your opinion on the following scale [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Aspect	**1**	**2**	**3**	**4**	**5**
The organisation has well-established anti-fraud policies to guide its employees at all levels of management.					
The anti-fraud policies clearly defines employee' responsibility and resulting consequences in the event of occurrence fraud.					
Fraud detection and prevention is effectively supported by the organisation' anti-fraud policies.					
The anti-fraud policies consider the cultural differences and diversity in responding to fraud among the employees.					

9. The following statements relate to fraud detection as an aspect of fraud risk management technique. Please indicate your opinion on the following scale [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Aspect	**1**	**2**	**3**	**4**	**5**
The organisation has successfully implemented a great number of fraud detection instruments.					
Selection of the suitable and effective fraud detection instruments is enhanced by availability of expertise within the organisation.					
The organisation's audits (internal and external) significantly contribute towards fraud detection.					
The organisation' fraud detection processes mostly rely on technology.					
Success in detecting fraud depends greatly on the support from the top management.					
Ethical organisational culture influences the success in detecting fraud within the organisation.					

10. The following aspects relate to fraud deterrence strategy. Please indicate your opinion on how often your organisation employs their use in fighting fraud. Indicate your opinion in the following dimensions [1=Very Often, 2=Often, 3=Not sure, 4=Not Often, 5=Not at all].

Aspect	**1**	**2**	**3**	**4**	**5**
Clear division of duty					
Staff supervision					
Monitoring work performance					
Whistle blower strategy; incentives, hotline, protection					
Ensuring safe controls when accessing systems					
Strict legal consequences					
High fines and penalties					
Fraud risk register					
Fraud awareness training					
Other (Specify)					

SECTION D: FRAUD RISK MANAGEMENT & FINANCIAL PERFORMANCE

11. In your opinion, what impact has the occurence of fraud had on the financial performance of your organisation?

    No impact [ ] Medium impact [ ] Not sure[ ] Great impact[ ] Very great impact [ ]

12. How do you rate the efficiency of fundraising in your organisation?

    Very Efficient [ ] Efficient [ ] Not sure[ ] Not Efficient [ ] Very Inefficient [ ]

13. The following statements refer to the relationship between fraud risk management and financial performance. Please indicate your opinion on the following dimensions [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Statement	**1**	**2**	**3**	**4**	**5**
The organization's fraud risk management practices have improved its financial performance.					
The organization has sufficiently employed resources towards fraud risk management that have result to a financial save.					
The organization's fraud risk management techniques mostly focus on financial controls.					
Availability of funds for the organization's activities have been supported by the existence of good fraud risk management techniques.					
Well established fraud risk management techniques have seen the organization save a lot on fraud investigation.					

Fraud risk management techniques have influenced the organization's financial stability as a result of improved confidence from funders.					

END

THANK YOU