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Forensic Accounting And Fraud Control In County Governments In Kenya: Case Study Of Nakuru County Government

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***Abstract:** The senior management of many firms is trying to keep up with the rise in fraud in the twenty-first century. According to the findings of previous studies, fraud can happen even when there are regulations, tools, and models in place. The goal of this study was to determine how the application of policies on forensic accounting contributes to fraud control within the Nakuru County Government. The study anchored on Deterrence Theory. The target population for this study was 1608 staff members. The study used a descriptive research design method. The researcher collected primary data by use of closed-ended questionnaires to the respondents and a data collection sheet for Secondary data. The researcher used Stratified random sampling to select respondents. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS version24). Descriptive and inferential statistics were used to analyze the collected data. Descriptive statistics include frequencies, means, percentages, and standard deviations while inferential statistics included correlation and regression analyses The descriptive findings revealed that forensic accounting had an effect on fraud control in county government. Correlation analysis findings indicated a significant relationship between forensic accounting and fraud control. The correlation coefficients for policies on forensic accounting was 0.918. Based on the regression analysis, the coefficient of determination was R^2 = 0.567 thus forensic accounting explained 56.7% of variation in fraud control in county government. The study recommends that organizations including county governments should adopt forensic accounting in order to combat fraud effectively*

***Key Terms:** Forensic accounting, Fraud, Fraud Control, Forensic Accounting Policies*

I. INTRODUCTION

Fraudulent activities have affected most aspects of the world economy for which Kenya County Governments are not exceptional. According to Kumari and Debnath (2017), studies done on the area of fraud control. The methods commonly used to control fraud in many organizations lack clear and comprehensive policies to effectively manage fraud prevention (Baesens, Vlassselaer, & Verbeke, 2015). Essentially, effective fraud control requires a complex policy framework focused on forensic testing (Baesens, Vlasselaer, & Verbeke, 2015). Current anti-fraud techniques lack robust policies because they often rely on labor-intensive investigations and rely heavily on human skills, which can be extremely costly. Forensic accounting policies are necessary to understand fraud control methods that can detect signs of fraudulent activity and facilitate a thorough review of an organization's financial statements (Savona and Berlusconi, 2015). Noviyati & Winata (2015) proposed an elegant forensic accounting policy called the 5/10/85 principle, which suggests that 5% of employees may steal under any circumstances, 10% will do not steal and 85% may engage in fraud depending on specific conditions within the organization.

Despite various judgments and monitoring by the Central Bank of Kenya on rational policies and fraud control measures, internal fraud typologies and fraud loss have been growing with a reduced recovery rate. Forensic accounting is required because fraudulent acts frequently go undetected, and even when they are, there is insufficient evidence to hold criminals accountable. In spite of measures like the Ethics and

Anti-Corruption Commission (EACC), the Integrated Finance Management Information System (IFMIS), the Director of Public Prosecution (DPP), and the Director of Criminal Investigation (DCI) that have been implemented to combat crime, donors have been hesitant to provide aid to the Kenyan government due to fraud.

Forensic investigation is based on the 85/10/5 tenet, which states that 85% of employees in any type of organization may act fraudulently regardless of their status provided an opportunity for fraud exists, 10% of the staff may act professionally and may shun dishonest behavior, and 5% of the workforce may misappropriate organization resources regardless of the internal control systems in place.

Fraud control plan helps organizations to detect incidences of fraud and at the same time prevent insurgence of fraud incidences. County governments should adopt a robust fraud control plan that can develop timely solutions to control any form of fraud. In an effort to restore public trust in the audit profession, accounting standard setters have increased the steps auditors are expected to take in order to detect fraud. As a result of the Enron and WorldCom debacles, auditors are currently required to adhere to the requirements of Statement on Auditing Standards (SAS) No. 99.

I. STATEMENT OF THE PROBLEM

There has been a growing demand for forensic accounting by many private and public entities as well as government institutions globally. It has been realized that effectsand causes of fraud and technical errors are made by human. In Kenyan, County Governments play a major role in economic growth and development through provision of services to Kenyan citizens. The EACC Annual Report 2015/2016, revealed that complaints and allegations under investigation were found to be 24% on embezzlement of public funds, 10% on public procurement irregularities and 6% on fraudulent acquisition and disposal of public property. The EACC Annual Report 2015/2016 indicated that 34 out of 78 cases involved Executive and County Assemblies. In a general manner out of 101 cases, 48% involved county governments in Kenya. Both financial and non-financial fraud cases are alarming and uncontrollable within counties in Kenya. Amidst government efforts to equip accountants with the necessary skills on forensic accounting, many county governments are not taking steps to seal loopholes on revenue pilferage (EACC Annual Report, 2017/2018). Oguda, Odhiambo, and Byaruhanga (2015) studied the impact of internal control components on fraud detection and prevention in county government of Kakamega and determined that fraud detection loopholes. They believed that improving organizational procedures to downsize the factors that cause fraud is the best way to prevent fraud. Their study is similar to the current study, except that it extends further to study other factors that may influence fraud control in a different region. Therefore, this study sought to investigate the influence of forensic accounting on fraud control in county government of Nakuru.

II. OBJECTIVE OF THE STUDY

The objective of the study is to establish the extent to which implementation of forensic accounting policies influence fraud control in Nakuru County Government

III. REVIEW OF LITERATURE

Forensic accounting policies have been defined in many ways by a number of scholars who had varied schools of thought. Australian accounting journal by Rae, Sands and Subramaniam (2017) agreed that policies on segregation of duties needs to be enhanced because they build organization's internal control system. For instance, organization management should set up fraud control plan which should be cascaded downwards from top management to junior employees. Fraud control plan helps organizations to detect incidences of fraud and at the same time prevent insurgence of fraud incidences. County governments should adopt a robust fraud control plan that can develop timely solutions to control any form of fraud. Similarly, the study by Ngwenya and Munyanyi (2015) in Zimbabwe explained that forensic accounting policies are step by step directions

Forensic accounting procedures serve as methods that organizations can employ to effectively manage their internal controls and mitigate fraud risks. To attain their objectives and reduce the likelihood of fraud, organizations must create and enforce appropriate policies. Guo, Huang, Zhang & Zhou (2016) suggest that organizations with well-designed and employee-oriented forensic accounting policies are less likely to experience ineffective internal controls, as motivated employees strive for the organization's success regardless of circumstances.

In Kenya, county governments were required to establish audit committees as per the Gazette notice of April 16, 2016. The journal of internal Auditing by (Laxman, et al., 2014) asserts that financial statements fraud has been a major problem in many entities due to ineffective policies from audit committee's members. Most audit committee members may be driven by greed and thereby create loopholes for fraud through collusion with management. In particular, they argued that board of directors as well as management team need to establish and maintain robust fraud control policies in the organizations. According to Stephanie (2016), Timely and efficient monitoring of organization policies could help in fraud prevention.

Well-structured policies and regulations concerning approvals, endorsements, reconciliations, authentications, and the division of responsibilities must be meticulously organized and strictly followed by employees. These policies form the foundation of the organization's internal controls, effectively reducing the risk of fraud (Rae & Subramaniam, 2017). Improving communication within departments, encompassing both horizontal, vertical, and lateral channels, is crucial because various individuals perceive forensic accountants differently.

Deterrence theory originates from the writings of 18th-century philosophers Jeremy Bentham (1948) and Beccaria Cesare (1963), who emphasized that humans are self-

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interested and think rationally, guided in their actions by an "economic" "hedonic" calculus. whereby they act in ways that maximize pleasure and minimize pain (Paternoster, 2010; Tombs & Whyte, 2013). An ethics policy helps employees act ethically, promotes a strong public image, and upholds higher ethical standards. Codes of conduct policies play a significant role in promoting a transparent culture and are a fundamental requirement in preventing fraud through the formalization of expected behaviors (Andrade, Hamza & Duarte, 2017).

A study by Wanyiri (2020) focused on internal controls and financial performance of commercial banks. The study did not link internal controls to forensic accounting and fraud control before determining the effect on financial performance. Correlation coefficient results were insignificant which meant that there was no statistical evidence to indicate whether internal controls influence financial performance. Moreover, the coefficient of determination was weak where only 7% of changes in financial performance were explained by internal controls.

A related study by Mugwe (2018) was limited to audit committee independence, composition, technical skills and prudential requirements in the analysis of the performance of commercial banks in Kenya. The study did not address the issues of forensic accounting and fraud control in commercial banks. Cavaliere *et al* (2021) found online fraud negatively affects the banks' performance. The research established the effect of fraud on performance

A study by Muimi (2017) which examined the role of internal audit functions such as compliance to policies, fraud proactive audits, controls of operations and financial reporting in determining level of financial fraud in commercial banks. Moreover, the study aimed at determining the level of financial fraud in commercial banks and did not clearly focus on the element of fraud prevention.

IV. RESEARCH METHODOLOGY

The current study used a descriptive research design. Descriptive research design analyzes the cause-effect relationship between two or more variables. The study target population was 1608 staff from Nakuru County Government Department of Finance and Economic Planning as per the human resource department. The study used the Stratified Sampling technique. Primary data was collected using structured questionnaires for data collection while secondary data was collected using a data collection sheet from the EACC report and Auditor General over the last three financial years from (2020 to 2023). Data analysis was conducted using both descriptive and inferential statistical methods using the Statistical Package for Social Sciences (SPSS version 24). Data was analyzed using descriptive and inferential methods. In descriptive analysis, Frequencies, percentages, means and standard deviations were used to show the views of the respondents on how the application of forensic Accounting policies affects fraud control in county government. Inferential statistics comprised of Pearson Product Moment Correlation Coefficient and simple linear and multiple linear regression to establish the relationship between the application of forensic accounting policies and fraud control.

V. RESULTS

This section presents descriptive and inferential findings that shows the influence of Forensic Accounting Policies on Fraud control in County government of Nakuru

A. FORENSIC ACCOUNTING POLICIES AND FRAUD CONTROL

The study analyzed the extent to which forensic accounting policies influenced fraud control in Nakuru County Government. Results from descriptive analysis is show in Table 1

Item		5	4	3	2	1	Mean	Std Dev.
There are forensic Accounting Policies in theCounty Government	*f*	39	126	13	91	8	3.41	1.116
	%	14.1	45.5	4.7	32.9	2.8		
There is fraudcontrol plan to Curb Fraud	*f*	39	145	8	60	25	3.41	1.226
	%	14.1	52.3	2.9	22.3	9.1		
Our county has a policy on zero tolerance to fraud communicated to employees	*f*	10	79	10	129	49	2.42	1.172
	%	3.6	28.5	3.6	46.6	17.7		
There is an effective fraud reporting mechanism in County Government.	*f*	21	140	14	82	20	3.17	1.158
	%	7.6	50.5	5.1	29.6	7.2		
County Government have a Policy to check and update inventory to reduce cases of fraud	*f*	13	61	15	176	12	2.31	1.007
	%	4.7	22.1	5.4	63.5	4.3		

Table 1: Descriptive Statistics Availability of forensic Accounting Policies

B. CORRELATION ANALYSIS FINDINGS AND DISCUSSIONS

PPMCC analysis was performed to establish the relationship between policies on forensic accounting and fraud control. The results are presented in Table 2:

		Fraud Control
Forensic accounting policies	Pearson Correlation	.918**
	Sig. (2-tailed)	.004
	n	7

Table 2: Results of PPMCC

According to the results of correlation analysis as shown in Table 2, it was indicated that the relationship between forensic accounting policies and fraud control was positive, strong and statistically significant (r=0.918**; p=0.004) at 1% significance level.

C. SIMPLE LINEAR REGRESSION ANALYSIS

R	R^2	Adjusted R^2	Sts. Error of the Estimate
0.753	0.567	0.561	0.0012

Table 3: Model Summary of Forensic Accounting Policies against Fraud Control

According to the results, the coefficient of determination, R^2 was 0.567 which described the predictive accuracy of the model and explanatory power of the independent variable. Therefore, the study concluded that the variable considered in the study was the best with respect to fraud control and had a significant contribution to fraud control.

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	155.176	4	38.794	16.52	0.0000^b
Residual	638.565	272	2.348		
Total	**793.741**	**276**			

Table 4: ANOVA of Forensic Accounting Policies against Fraud Control

From the ANOVA test done the significance value computed was negligible at the 95% level of significance. Supportively the computed F statistic (16.52) was greater than the F critical value which is 3.4. The study then concluded that the variable was stable for drawing valid conclusions regarding fraud control in the county government of Nakuru

VI. CONCLUSION

The study was prompted by the growing issue of fraud in County Governments. The researcher relied on quantitative data supplemented by qualitative data to assess the contribution of forensic accounting to fraud control. The researcher identified the influence of policies on fraud control. This factor was found to significantly influence fraud control.

VII. RECOMMENDATIONS

The study recommends that organizations, including county governments, should adopt forensic accounting to combat fraud effectively. Organizations should establish robust fraud control policies, plans and effective reporting mechanisms. Training and workshops on forensic accounting methods should be provided, and oversight of fraud risk should be improved. The engagement of forensic accounting experts and the acquisition of skills in forensic accounting should be considered.

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