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EFFECTIVENESS OF CORPORATE GOVERNANCE ON DETECTION OF ACCOUNTING FRAUD WITHIN KENYAN UNIVERSITIES

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Abstract

Corporate governance is the system by which organizations are directed and controlled. Empirical evidence suggests that corporate governance has a direct and indirect effect on fraudulent activities within institutions. It's for this reason that this study sought to establish the effectiveness of corporate governance on the detection of accounting fraud within Kenyan universities. The objectives of this study were: to determine the effectiveness of internal controls adopted by Kenya Universities to detect accounting fraud; to examine the effectiveness of the monitoring activities adopted by the Kenyan Universities to detect accounting fraud; to examine the effectiveness of the policies and procedure adopted by Kenyan universities to detect accounting fraud; to identify other risk assessment measures that can be adopted by Kenyan Universities to enhance the detection accounting fraud. The study employed descriptive research design and further used qualitative and quantitative research approaches. The target population for the study was 48 individuals who were financial controllers, chief accountants, and internal auditors within the 16 universities located within Nairobi and Kiambu counties, as indicatedin appendix 1. The findings of the study revealed that the universities studied employed the following measures with in an effort to detect accounting fraud: internal controls, monitoring activities, policies and procedures, and risk assessment measures. The findings further revealed that the four measures were effective in the detection of accounting fraud. The study recommends that other measures have to be developed to enhance the detection of accounting fraud within Kenyan Universities.

Keywords: Accounting Fraud, Corporate Governance, University Fraud

1. Introduction

Corporate governance is the system by which organizations are directed and controlled. It is a set of relationships between company directors, shareholders and other stakeholder's as it addresses the powers of directors and of controlling shareholders over minority interest, the rights of employees, rights of creditors and other stakeholders (Muriithi, 2009). O'Donovan (2003) defines corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. The separation of ownership and control precipitates conflicts of interest between principals and agents. Whereas the basic motivation of owners of capital is to maximize their wealth by enhancing the value of the firm, the objectives of agents are diverse and may include enhancement of personal wealth and prestige. This divergence of interests often leads agents to engage in insider dealings where there are no mechanisms for effective monitoring, ratification and sanctioning of managerial decisions.

It has been argued (Jensen & Meckling, 2006) that agents resort to extraction of private benefits from firms that they manage if they are not shareholders, and thus neither meet the full cost of mismanagement nor share in the residual income of those firms. To remedy managerial failings, a number of governance mechanisms aimed at aligning the interests of agents with those of principals, including equity ownership by managers, may be considered. To enhance their monitoring role, and ensure capital is applied to its intended purpose, shareholders choose from amongst their ranks, individuals to represent them on the board of directors. The Board is therefore, put in place to safeguard the interests of principals from agents who are bent on extracting private benefits from the organization (Jensen & Meckling, 2006). Policy makers around the world have another important reason to be concerned with corporate governance: poor corporate governance also breeds fraudulent actions. Fraud, defined here as the misuse of office for private gain (Rose-Ackerman, 2008), has both demand and supply sides to it.

Kenya is increasingly embracing the concept of corporate governance knowing it leads to sustainable economic growth. Indeed, corporate governance in Kenya is now gaining some level of recognition with very little work in the area even in the well-regulated institutions and sectors. In Kenya, corporate governance in universities is relatively new (Yartey & Adjasi, 2007). The Kenyan Government has realized the importance of corporate governance and its importance on corporate financing and performance and it requires its organs like Capital Markets Authority to enforce corporate governance standards (United Nations Conference on Trade and Development, 2007). However, in this last decade, the higher education sector in Kenya has grown at a rapid rate. Public Universities have been required to supplement government funding with student fees and other sources of commercial income, such as the sale of consultancy services and the commercialization of research and intellectual property. In certain respects, they have needed to become entrepreneurial organizations and, as a result, have required appropriate governance structures that allow them to be nimble and effective in rapidly changing economic environments. Today, even the smallest universities are comparable, in financial and other terms, to some of the most considerable corporations in Kenya.

In November 2011, Price Waterhouse Coopers conducted a Global Economic Crime Survey. Kenya recorded the highest level of economic crimes among 78 countries surveyed, with an incidence level of 66 per cent, which is almost twice the global average of 34 per cent. The report included broad categories of economic crimes which are asset misappropriation, accounting fraud, bribery and corruption, cybercrime, money laundering and anti-competitive behaviors. Kenya is among four countries with the highest incidences of fraud in Africa, says a new index by the global consultancy firm KPMG and has the highest number of reported fraud cases compared to her East Africa neighbors and it is believed that a lot of cases are never reported," says William Oelofse, KPMG's East Africa Director responsible for Forensic Services.

Universities play a significant role in the economy of all countries – both developed and developing. In Kenya, Universities are governed through the Universities Act. All Kenyan universities should be governed in accordance with the provisions of its Charter granted under this Act and statutes made by its respective Council. In addition to the provisions of this Charter, the universities are supposed to establish the following organs of governance or their equivalent, a Council, which employs the staff, approve the statutes of the University and publish them in the Kenya Gazette, approve the policies of the University, approve the budget and appoint the management. This is applied across the board for both the public and private universities.

2. Statement of the Problem

Corporate governance has been an important part of Company Law for many decades even before its various codes were drawn. This owes to separation of ownership and management of companies whereby fiduciary relationship exist between the shareholders as the principals or owners and directors as the agents or management (Muriithi, 2009). This therefore requires directors as agents to exercise due diligence and to avoid instances of conflict of interest in the discharge of their duties. According to Muriithi (2009), despite the existence of provisions in the company laws, companies have been characterized by scandals where directors have acted illegally or in bad faith towards their shareholders which led to the establishment of corporate governance codes.

In Kenya, a number of problems relating to corporate governance have been identified. The problems range from errors, mistakes to outright fraud. The origins of the problem range from concentrated ownership, weak incentives, poor protection of minority shareholders, to weak information standards (Mwaura, 2007). Empirical literature however reveals that the board of directors does not always protect the interests of shareholders, and some of them, in fact get entrenched. They thus become a threat to shareholders rather than a panacea to managerial failings. To mitigate the collective failings of both agents and board, shareholders are forced to incur agency costs by hiring independent auditors to help monitor managerial decisions that are ratified by board of directors. Managerial discretion has been a subject of academic investigation for some time, especially after initial researches showed mixed results on its relationship with firm performance. The growing reliance by management and the audit committee as a critical part of good corporate governance and more specifically as an effective tool to 'fight fraud' (Deloitte, 2010; Frank, 2004; Hillison et al., 1999; KPMG, 2008; Norman et al., 2010; PricewaterhouseCoopers, 2009) makes the understanding of the role of the management in the context of fraud management an important area of research and practice.

In the year 2004 alone many universities in Kenya were said to have lost a lot of income mainly due to fraudulent activities where students were said to have come up with a way of presenting fake bank slips as a method of fees payments. In this case the university involved was reported to have lost more than 7 million Kenya shillings. Another university was reported to have lost several millions when one administrator opened an account in the name of a university therefore defrauding both the students and the institution a total of up to 35.3 million Kenya shillings (Wairimu 2012). In connection to all these cases and findings, a research on the influence of corporate governance in the detection of fraud in Kenyan universities is of utmost importance.

3. Research Objectives

The general objective of this study was to establish the effectiveness of corporate governance on the detection of accounting fraud within Kenyan universities. The specific objectives of this study were:

i. To determine the effectiveness of internal controls adopted by Kenya Universities to detect accounting fraud.
ii. To examine the effectiveness of the monitoring activities adopted by the Kenyan Universities to detect accounting fraud.
iii. To examine the effectiveness of the policies and procedure adopted by Kenyan universities to detect accounting fraud.
iv. To identify other risk assessment measures that can be adopted by Kenyan Universities to enhance the detection accounting fraud.

4. Research Questions

The study sought to answer the following research questions:

i. How effective are the internal controls measures adopted by Kenyan Universities to detect accounting fraud?
ii. How effective are the monitoring activities implemented by Kenyan Universities to detect accounting fraud?
iii. How effective are policies and procedures adopted by Kenyan universities to detect accounting fraud?
iv. Which are the other risk assessment measures that can be adopted by Kenyan Universities to detect accounting fraud?

Literature Review

5. Theoretical Framework

The application of a theory enables one to explain observable facts and to provide a conceptual basis to predict future events of corporate leadership (Salkind, 2006).To build upon prior research and establish a conceptual framework, the researcher used two corporate leadership theories that relate to expected behavior and criminal behavior involving perpetrators of corporate financial fraud: agency theory, and differential association theory of crime.

Convergences of these two corporate leadership theories were to assist in the modeling of patterns of behavior exhibited by perpetrators of corporate financial fraud. Unlike prior research that links agency theory with corporate governance (Caldwell & Karri, 2005; Corley, 2005; Roberts, McNutty, & Stiles, 2005), or linked stakeholder theory with business ethical theory (Rodin, 2005a; Rodin, 2005b), a different approach was be taken in this study i.e. through the exploration of social deviance using the differential association theory. The researcher also used the agency theory in conjunction with the differential association theory of crime to explain observable facts and further provide a conceptual basis that might predict future events for corporate leadership (Salkind, 2006). This new approach supplemented prior research in the field of corporate fraud by exploring exogenous and endogenous factors for corporate leaders to consider in mitigating corporate financial fraud.

6. Agency theory.

From a legal context, agency is "A fiduciary relationship created by express or implied contract or by law, in which one party (the *agent*) may act on behalf of another party (the *principal*) and bind that other party by words or actions" (Garner et al., 2004). Other foundational research (Eisenhardt, 2009; Jensen & Meckling, 2006) describes the agency theory as a conceptual framework depicting a principal as the shareholder and an agent as corporate leadership. While Jensen and Meckling (2006) provided a definitional frame of reference for agency theory, Eisenhardt (2009) suggested how control was an added consideration. In the principal-agent relationship, these researchers agree that work performance by the agent requires validation. The problem with the agency relationship is how best to optimize job performance so that the agent acts in the best interest of the principal (Eisenhardt, 2009; Jensen &Meckling, 2006).

Criticism of agency theory linked to questionable corporate governance and its emphasis on short-term profits at the expense of long-term viability has been a debated topic (Caldwell, & Karri, 2005; Krafft, &Ravix, 2005). Other implications by prior and current research (Donaldson & Davis, 1993; Golden-Biddle & Rao, 2007; Jones, Felps, &Bigley, 2007; Wasserman, 2006) included how corporate boards functioned based on its organizational structure, politics, cognitive awareness, and understanding of stewardship theory. In two related studies on corporate governance and agency theory, there was a controversial suggestion presented to use a non-executive director from a non-agency theory perspective (Corley, 2005; Roberts, McNulty, & Stiles, 2005).

This problem of agency was eminent in both the private and public universities whereby the ownership of these institutions is different from the management. In most cases the management are employed on contractual basis which is mostly less than five years thereby increasing the possibility of the agency problem. This is because these managers will in most cases put their interests first at the expense of the other stakeholders and concentrate more on the short term goals and will eventually fail on the long term goals. For instance, Kenya Methodist University (KeMU) in 2009 had to change the top management due to conflict between the owners and the management of the university. This study analyzed the corporate measures and structures that have been instituted by Kenyan universities to avert the agency problem. This implies that the study used the agency theory to examine the corporate structures set up to detect institutional fraud.

7. Differential association theory

The etiology of the term *white-collar crime* appeared for the first time in 1939 by social criminologist E. H. Sutherland (Calavita, Tillman, &Pontell, 1997; Wells, 2007). Contrary to the earlier understanding of crime, one would commonly link crime to individuals in lower socioeconomic classes. Introduction of this new term in 1939 is now common in the lexicon of corporate crime (Calavita, et al., 1997). Sutherland's 1924 germinal work on the theory of crime changed over time in what evolved into the theory of differential association. Criminologists considered this theory as Sutherland's most important contribution to criminal literature (Wells, 2007). As a theory of cultural deviance, critics claimed differential association lacked specificity in definitional concepts linked with individual behaviors and the emergence of criminal behavioral patterns (Akers, 1996; Gongaware, & Dotter, 2005; Hirschi, 1996; Merton, 1997).

Prior to Sutherland's work in the 1930s, the prominent view held by criminologists and sociologists was that "crime was genetically based" and "that criminals beget criminal offspring" (Wells, 2007). Contrary to this conceptual framework, Sutherland (1947) explained the theory of differential association as delinquent behavior that occurs because definitions that favor violations of the law prevail over unfavorable ones. Subsequent empirical studies found correlation support for Sutherland's theory of differential association (Bruinsma, 1992; Tittle, Burke & Jackson, 1986). The significance of using Sutherland's theory of differential association in this study was the primacy and conceptual framework that shaped criminology theory.

In the context of cultural deviance involving a crime, and despite the earlier controversy, Sutherland is arguably the most influential in establishing a theory explaining criminal behavior that has withstood the test of time (Dull, 1983; Gongaware, & Dotter, 2005; Tittle, Burke & Jackson, 1986; Wells, 2007). As previously stated, prior research linked agency theory with corporate governance (Caldwell & Karri, 2005; Corley, 2005; Roberts, McNutty, & Stiles, 2005), and other research linked stakeholder theory with business ethical theory (Rodin, 2005a; Rodin; 2005b). This study applied a different approach. To expand upon the previous theoretical combinations, the investigator relied on the agency theory and differential association theory as a conceptual framework for corporate governance leadership. The focus of this qualitative phenomenological study utilizing a modified van Kaam method by Moustakas (1994) with semi-structured, recorded, transcribed interviews was to explore a purposive sample of professional accountants, forensic accountants, and criminal investigators to obtain their perceptions on how to mitigate corporate financial fraud.

The convergence of agency theory and differential association might be viewed from an institutional or systems theory approach by corporate leadership. The institutional domain may provide a basis for viewing the behavior of the agents acting on behalf of the principals (Hodgson, 2005). With respect to the paradigmatic practices of corporate governance leadership and financial reporting, the ontology of a systems theory approach might help explain the typology of corporate fraud (Helou & Caddy, 2006). The study examined the corporate measures that Kenyan universities have used in order to prevent differential behavior that resulted in accounting fraud. The differential association theory was therefore critical in assisting this study understand how corporate structures play a significant role in the detection of fraud within Kenyan universities.

8. Empirical Literature

In Black's Dictionary of Law, Garner et al. (2004) defines fraud as "A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment" (p. 685). While the epistemology of the first occurrence of fraud is arguable, the historiography of the original law that formed the basis of fraud legislation in the United States was the Statute of Frauds law enacted in England in 1677 (Charles II, 1819). This law sought to prevent fraud and perjuries (Garner et al., 2004). The founder of the Association of Certified Fraud Examiners and former FBI investigator argued that fraud is a social phenomenon (Wells, 2004). In the larger context of criminology, crime and delinquency were understood as social phenomena (Sutherland, Cressey & Luckenbill, 1992)

The changes made by the federal government included (a) anti-trust laws; (b) creation of the Federal Reserve; (c) guidance issued to banks on financial reporting, and for the first time, (d) rules for accountants to follow with respect to financial accounting (Cheney, 2006). In response to problems with fraudulent financial reporting at the end of the 19th century, the New York Stock Exchange called for an audit of corporate financial records. This was a new requirement for public firms listed on the New York Stock Exchange (Cheney, 2006). The problem with auditing corporate records during this time was that the scope of the audit was limited to a review of the numbers presented in the financial statements. Auditors, for example, were not required by law to audit the existence of inventory, which might comprise a large portion of the firm's current corporate assets. Detailed accounting rules and standards were nonexistent prior to the passage of U.S. security laws in 1933 and 1934.

Empirical literature further relates the cause of fraud to the relationship between some mechanisms of corporate governance and the fraud occurrence (Caplan, 1999; Beasley et al., 2000), considering the role of corporate governance mechanisms to solve governance problems and exercise a control function over the different actors of the firm (Dey, 2008). Beasley (1996) analyzes the relationship between financial frauds and the board composition, finding higher percentages of outside directors for no-fraud firms, compared to fraud ones. Similarly, Uzun et al. (2004) suggest that the board composition and the structure of a board's oversight committee are correlated with the fraud occurrence. Beasley et al. (2000) find a positive correlation between corporate governance mechanisms' differences and frauds in different industries.

Many other studies analyze fraud occurrence in relation with some mechanisms of corporate governance; for example, Faber (2005) links it with the board and the audit committee characteristics; Dechowet al. (1996) connect frauds with board features; Peng and Roell (2007), associate the fraud occurrence with the executive compensation system. Unlike street crimes involving randomness, violent acts, or very little to no advance planning, corporate financial fraud requires planning, organization, trickery, and false representation (Albanese, 1995; Wells, 2004).

Following the definition provided by Albrecht et al. (2004), frauds and corruptions "are cancers that eat away at society's productivity", given that they reduce the effectiveness and efficiency of economies. Among all the frauds, financial statement frauds are the most costly, regarding both the amount deceived compared to other frauds and their consequences. In fact, the detection of a financial statement fraud implies the decline of the firm value on the market and the loss of revenues for the company itself. Moreover, the whole market will suffer the reaction of the investors who will start being less trustful towards the market and, as a consequence, the companies will have more difficulties in obtaining the financial resources needed to develop or can access to these financial resources only at a higher cost.

Companies that accomplish these corporate governances systems rely more on the application of codes of good corporate governance and relationships with main stakeholders rather than external control mechanisms to solve their agency problems. Empirical evidence suggests that the lack of proper corporate governance systems and structures can result in institutional fraud (Chen, Firth, Gao & Rui, 2006). In addition, the ownership structure of a firm can adversely impact on the level of fraud within that institution. This is attributed to the fact that the ownership structure of a firm significantly impacts on the corporate governance within an organization. Farber (2004) conducted a research study which sought to examine the measures that institutions and corporations should take in order to restore trust after a fraud incidence. The findings of the study revealed that one of the measures that institutions should implement is the setting of an effective board of directors. This implies that corporate governance plays a significant role in management of fraud within institutional and organizational set ups.

Another research study that reveals that corporate governance has an effect on the level of institutional fraud was conducted by Uzun, Szewczyk and Varma (2004). The study revealed that board composition and the heads of the institutional committees charged with internal controls and monitoring can have a direct impact on the level of fraud within institutional set ups. In addition, board composition and institutional structures can also adversely affect fraud. Corporate governance structures within institutional set ups should set up internal control systems and structures that will aid in the detection of fraud (Archambeault, 2002). By so doing, management can detect fraud more effectively and efficiently should it occur.

Examples of internal controls set up by corporate governance structures include: the setting up of audit committees, and the development of an internal audit position. Both of which are set up to minimize the risks of financial fraud within institutional frameworks. Lin and Liu (2009) posit that corporations with better corporate structures advocate for highly qualified auditors for their audits. Consequently, it becomes easier to detect fraud in the firm's financial system. Internal control is the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Safeguarding assets against theft and unauthorized use, acquisition, or disposal is also part of internal control.

Risk Assessment is a forward looking survey of the business environment to identify anything that could prevent the accomplishment of organizational objectives. As it relates to fraud deterrence, risk assessment involves the identification of internal and external means that could potentially defeat the organization's internal control structure, compromise an asset, and conceal the actions from management (Law, 2011). In addition, risk assessment is described as a creative process that involves the identification of many potential threats and evaluating them in a way to determine which require action, and the priority for that action. Law (2011) argues that one of corporate measures that institutions use to detect and manage fraud is through the use of risk assessment.

9. Conceptual Framework

Bradley (2008), defines conceptual framework as a visual or written product that explain either graphically or in a narrative, the main things to be studied, the key factors, concepts or variables and the presumed relationship among them. It is therefore a model used in research to outline possible courses of action or to present a preferred approach to an idea or thought. A conceptual framework is very important in any research study being undertaken. It shows the relationship between the dependent variables and the independent variable. The figure 1 shows the study's conceptual framework which illustrates the relationship between the variables of the study.

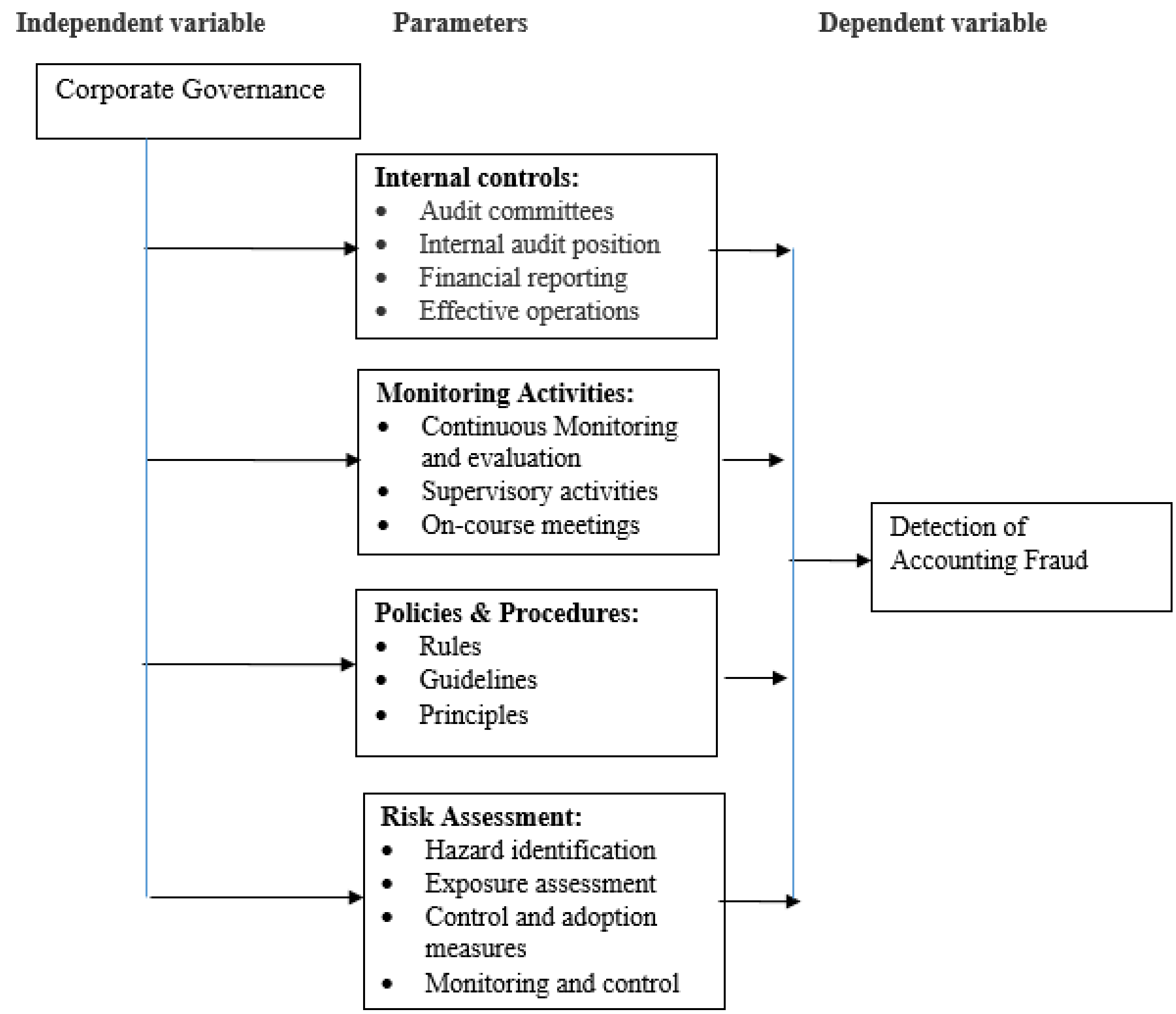

Figure 1 Conceptual Framework

10. RESEARCH METHODOLOGY

This study employed a descriptive study design. Descriptive research design is applied in studies which are concerned with describing the characteristics of a particular individual, element or group (Kothari, 2008). The target populations for the study were the individuals who held the following managerial and operational positions: the financial controller, the chief accountant, and the internal auditor. The researcher targeted 16 universities located in Nairobi and Kiambu Counties, the population was not large and the researcher therefore conducted a census on the target population of the study. The researcher engaged the financial controllers, chief accountants, and internal auditors of the 16 universities (captured in the appendix) located within Nairobi and Kiambu Counties. The study had a total 48 respondents. The researcher used only primary data collection technique. Primary data was collected by means of administered questionnaires to the selected respondents. The questionnaires were self-administered to the staff in their place of work. The questions were both open ended and close ended as they were to ease the analysis and ease filling in to get adequate information in conducting the research. This method eliminated the interaction between the interviewer and the respondents which reduces biases. It was a useful method particularly because the questions were straight forward enough to comprehend without verbal explanation. There was a pretest of the questionnaire on a different sample but with similar characteristics of the main sample. This helped to identify shortcomings likely to be experienced in the actual study (Kothari, 2008). The responses from the respondents were analyzed quantitatively and qualitatively. Quantitatively, the researcher coded the responses of the respondents and fed them to statistical software packages to draw inference. Data was thereby organized and presented in tables, percentages and pie charts. Qualitatively, the responses of the respondents were related with the research objectives of the study. By so doing, the researcher was in a position to comprehensively answer the research questions of the study.

DATA ANALYSIS AND PRESENTATION

11. Internal controls.

Table 1 below presents the responses of the respondents with reference to the internal control measures adopted by universities located within Nairobi

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Table 1: Internal Controls

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Internal controls are set up to detect accounting fraud	0	0	0	33.3%	66.7%
Reliable financial reporting mechanisms are set up as internal controls	0	0	3.0%	36.4%	60.6%
Operational efficiency is achieved due to effective internal controls	0	3.0%	3.0%	39.4%	54.6%
Internal controls enhance the ability to detect accounting fraud	0	0	6.1%	45.5%	48.4%

According to Table 1, the responses of the respondents with reference to whether Kenyan Universities have set up internal controls with the aim of detecting accounting fraud revealed that all the respondents agreed with the view that the universities had set up internal controls aimed at detecting accounting fraud. This suggests that university corporate structures view internal controls as one of the measures aimed at detecting accounting fraud. The use of internal controls in accounting fraud prevention is cited by empirical literature. For instance, Alleyne and Howard (2005) conducted a study that sought to examine the measures that institutions can implement to detect and prevent financial and accounting fraud. The findings of the research study revealed that audit committees and internal controls are effective in the detection and prevention of financial fraud. With reference to whether reliable financial reporting mechanisms have been set up as one of the internal control mechanisms, the findings revealed that 97% of the respondents were of this view. This suggests that reliable financial reporting mechanisms are set up by the corporate governance structures in universities with the aim of detecting accounting fraud. Similar sentiments are propagated by Caplan (1999). According to Caplan (1999), financial reporting systems –financial accounting standards and Generally Accepted Auditing Standards – are suitable internal controls that can be used in the detection of accounting fraud.

On the other hand, 93% of the respondents agreed with the view that operational efficiency had been achieved due to the internal controls set up to detect accounting fraud. On the contrary, 7% of the respondents disagreed with this view. This suggests that internal controls set up to detect accounting fraud do result in operation efficiency within universities located in Nairobi. West and Zech (2013) conducted a research study which sought to determine the internal controls that the Catholic Church in the United States had set up. According to West and Zech (2013), the Catholic Church had adopted internal controls for the following reasons: (1) enhancing the safeguarding of its assets; (2) promotion of operational efficiency; (3) ensuring policies and procedures are adhered to; (4) provide reliable accounting records and financial statements. This study signifies that internal controls enhance the operational efficiency of institutions. Internal controls can be used to avert institutional and organizational fraud.

Finally, 94% of the respondents were of the view that internal controls enhance the ability to detect accounting fraud within universities. However, 6% of the respondents were neutral on this view. This suggests that internal controls can be used as an efficient mode of detecting accounting fraud within an institution. Managerial employees and institutional corporate governance structures have to develop internal controls are aimed at enhancing fraud detection and prevention (Alleyne & Howard, 2005; Schnatterly, 2003). These studies propagate the notion that internal controls can be effective instruments in the detection of fraud. Heier, Dugan and Sayers (2005) argue that the Sarbanes-Oxley Act in USA was passed by the Congress to ensure that institutions are mandated to set up internal controls that will ensure fraud in detected and subsequently prevented.

Table 2: Correlation between internal controls and effectiveness of internal controls in fraud detection

		Value
Interval by Interval	Pearson's R	0.709
N of Valid Cases		33

Table 3: Chi-Square test between internal controls and effectiveness of internal controls in fraud detection

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.800[a]	2	.000
Likelihood Ratio	21.820	2	.000
Linear-by-Linear Association	16.080	1	.000
N of Valid Cases	33		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is .67.

Table 2 presents a correlation internal controls and effectiveness of internal controls in fraud detection. The findings reveal that there is a strong positive relationship of 0.709 between the two variables examined. On the other hand, Table 3 also shows the chi-square tests on the correlation of the two variables and confirms the validity of the study. This suggests that the use of internal controls within the universities is effective in the detection of accounting fraud. Similar findings are echoed through various research studies. Gallagher and Radcliffe (2002) conducted a research study which sought to examine the reasons that resulted in fraud of the Ohio Division of the American Cancer Society in the late 1990s. The findings of the study recommend that institutions should implement internal controls as one of the measures of detecting fraud. This suggests that internal controls are an effective institutional measure of detecting accounting fraud.

12. Monitoring activities.

Monitoring activities entailed continuous monitoring and evaluation, supervisory activities and on-course meetings. The researcher posed statements to the respondents to understand the extent to which they agreed or disagreed regarding monitoring activities and the response was summarized in table 4.

Table 4: Monitoring activities

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Monitoring activities set up to detect accounting fraud	0	0	6.1%	42.3%	51.6%
On-course meetings affect monitoring activities and detect accounting fraud	0	0	9.2%	45.4%	45.4%
On- scheduling meetings affect monitoring activities and have an effect in detecting fraud	0	0	21.2%	27.3%	51.5%
Supervisory activities have enhanced detection of accounting fraud	0	0	15.2%	24.2%	60.6%
Monitoring activities have enhanced detection of accounting fraud	0	3.0%	0	48.5%	48.5%

Results from Table 4 indicate that 94% of the respondents were of the view that universities had set up monitoring activities with the aim of detecting accounting fraud. However, 6% of the respondents were neutral of this view. This suggests that universities use monitoring activities as one of the measures of detecting accounting fraud within their institutional set ups. Similar findings are echoed by Zack (2009) who argues that the detection and prevention of fraud can be enhanced through the setting up of monitoring activities and mechanisms. Regarding the fact that on-course meetings had an effect on monitoring activities and had enhanced the detection of accounting fraud within the institution they worked for, 91% of the respondent agreed, 9% of the respondents were neutral. Similar sentiments are posited by Cascarino (2012) who argues that on-course meetings and on-scheduling meetings positively affect the fraud detection and monitoring activities within institutional set ups. The view that on-scheduling meetings had an effect on monitoring activities and had enhanced the detection of accounting fraud within the institution they work for., 79% of the respondents agreed while 21% were neutral. As regards to the fact that Supervisory activities have enhanced detection of accounting fraud 85% of the respondents agreed with this view while 15% were neutral. This suggests that monitoring activities are one of the measures that are used in the detection of accounting fraud by universities. Rezaee (2004) conducted a research study which developed 12 measures that were aimed at enhancing fraud detection and prevention. The findings of the study revealed monitoring activities as one of these measures. This implies that monitoring activities are effective in fraud detection and prevention. The researcher conducted a correlation test using chi-square tests between monitoring activities and their effectiveness in accounting fraud detection and the results were summarized in table 5.

Table 5: Chi-Square tests between monitoring activities and their effectiveness in accounting fraud detection

Chi-Square Tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.247[a]	2	.000
Likelihood Ratio	38.236	2	.000
Linear-by-Linear Association	21.324	1	.000
N of Valid Cases	33		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is .48.

According to the findings, the two variables had a strong positive correlation of 0.816. This suggests that monitoring activities employed in universities in Nairobi are effective in the detection of accounting fraud. This finding is similar to empirical literature which reveals that continuous monitoring and evaluation activities make a significant contribution to the deterrence, detection and prevention of accounting fraud within institutional set ups (Rezaee 2004; West Virginia University, 2007; Cascarino, 2012; Zack, 2009).The chi square test table above validates the study done.

13. Policies and Procedures

Policies and procedures included the rules stipulated, the guidelines and the principles set to govern the universities regarding the accounting of universities. The respondent posed statements regarding the rules and procedures to ascertain the extent to which the respondents agreed or disagreed to them and the results were summarized in table 6.

Table 6: Policies and Procedures

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Institutional rules formulated to detect accounting fraud	0	0	6.1%	15.2%	78.7%
Formulation of policies aimed at detecting accounting fraud	0	0	6.1%	36.4%	57.5%
Institutional guidelines formulated to enhance accounting fraud detection	0	0	6.1%	36.4%	57.5%
Policies and procedures have significantly aided in the detection of fraud	0	0	3.0%	42.4%	54.6%

Results from table 6 indicated that, 94% of the respondents agreed with the view that the universities they work for have instituted rules aimed at detecting accounting fraud. Jones (2011) posits that institutions can develop rules that are aimed at preventing creative accounting. These findings suggest that universities and institutions can set up rules aimed at enhancing the detection of accounting fraud. Cascarino (2012) argue that institutions can employ policies and procedure to identify red flags indicating the possibility of wrong doing. This suggests that universities located within Nairobi and other institutions in general can formulate and employ policies and procedures as a way of enhancing the detection of fraud. The results also indicated that 94% of the respondents agreed with the view that university administrations had formulated institutional guidelines aimed at enhancing the detection of fraud. However, 6% of the respondents were neutral on this view. According to Rezaee (2004), developing guidelines at that guarantee auditor independence can enhance accounting fraud detection and prevention. This suggests that institutions can through the development of guidelines enhance the detection of accounting fraud. Considering that policies and procedures have significantly aided in the detection of fraud 97% of the respondents agreed with the view. Jones (2011), Cascarino (2012) and Rezaee (2004) argue that policies and procedures are an effective method of enhancing fraud detection. These findings suggest that policies and procedures can be used as a mechanism of enhancing the detection of fraud within institutional and organizational set ups. The researcher conducted a correlation analysis using chi-square tests between Rules formation and effectiveness of policies and procedures in the detection of accounting fraud and the results were summarized in table 7.

Table 7: Chi-Square test between Rules formation and effectiveness of policies and procedures in the detection of accounting fraud

Chi-Square tests	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.113[a]	4	.000
Likelihood Ratio	17.953	4	.001
Linear-by-Linear Association	15.310	1	.000
N of Valid Cases	33		

a. 7 cells (77.8%) have expected count less than 5. The minimum expected count is .06.

The chi square test done are echoed by Rezaee (2005). According to Rezaee (2005), financial statement frauds have huge implication costs on market stakeholders. In addition, the study states that stable corporate governance structures can significantly assist in the detection and prevention of financial statement fraud. The study further highlights that organizational policies and procedures can be effective instruments that can be employed in the detection of financial statement fraud.

14. Risk assessment

Table 8 presents the responses of the respondents with reference to the risk assessment measures that have been implemented by the universities they work for with the aim of enhancing the detection of accounting fraud.

Table 8: Risk assessment

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Fraud identification and detection measures implemented	0	0	6.1%	33.3%	57.6%
Exposure assessment measures are in place	0	0	6.1%	60.6%	33.3%
Risk assessment measures have enhanced detection of accounting fraud	0	0	9.1%	42.4%	48.5%

The findings presented in table 8 reveal that 94% of the respondents agreed that the universities they work for have implemented fraud identification and detection measures. This suggests that universities in Nairobi had put in place risk assessment measures with the aim of enhancing accounting fraud detection. The results also indicate that 94% of the respondents agreed with the view that exposure assessment measures had been set up by the universities they work for with the aim of enhancing the detection of accounting fraud. Similar sentiments are echoed by Knapp and Knapp (2001) who argue that exposure assessments are effective in the detection of fraud incidences within institutions. On the other hand, 91% of the respondents were of the view that the risk assessment measures instituted were effective in the detection of accounting fraud. This suggests that risk assessment measures are an effective tool for detecting accounting fraud within institutional and organizational set ups.

Table 9: Correlation between risk identification and effectiveness of risk assessment measures in the detection of accounting fraud

		Value
Interval by Interval	Pearson's R	0.746
N of Valid Cases		33

Table 10: Chi-Square test between risk identification and effectiveness of risk assessment measures in the detection of accounting fraud

Chi-Square Tests	**Value**	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	42.591[a]	4	.000
Likelihood Ratio	38.103	4	.000
Linear-by-Linear Association	24.061	1	.000
N of Valid Cases	33		

The finding of the study reveals a strong correlation of 0.746 between the two variables being examined. The table 10 above reveals the chi square test done and confirms its validity. The findings of this study reveal that risk identification measure enhance the detection of accounting fraud within institutional and organizational set ups. Similar findings are echoed by the following scholars: Asare and Wright (2004); Bloomfield (1997).

15. Summary of the Findings

The findings revealed that 55% of the respondents agreed with the view that there was prevalence of accounting fraud within the universities that were surveyed in the study. The respondents identified the following as some of accounting fraud cases that occur within the universities that were surveyed by the study: funds being swindled, collusion of staff with students to fraud the institution, alteration of accounts, breach of systems, theft of physical cash, fictitious supplies and payments. The findings also revealed that 91% of the respondents were of the view that the universities that they work for have instituted measures of detecting accounting fraud. The Kenyan Universities that were surveyed in the study employed the following corporate structural measures in order to detect fraud: internal controls, monitoring activities, policies and procedures, and risk management measures. The findings of the study revealed that 100% of the respondents were of the view that the universities they work for use internal controls to control accounting fraud. The findings also revealed that 94% of the respondents were of the view that universities located in Nairobi employ monitoring activities to detect accounting fraud. In addition, 94% of the respondents were of the view that the universities they work for employ both policies and risk assessments measures to detect accounting fraud. The findings of the study revealed that 94% of the respondents were of the view that internal controls were effective in the detection of accounting fraud within universities located in Nairobi. According to the findings, 97% of the respondents were of the view that that monitoring activities and policies and procedures were effective in the detection of accounting fraud in the universities that were surveyed. The responses further revealed that 91% of the respondents were of the view that risk assessment measures were effective in the detection of accounting fraud. The findings of the study revealed that 88% of the respondents were of the view that universities employ other control measures in the detection of accounting fraud. On the contrary, 12% of the respondents were not of this view. The findings revealed the following as other control measures that universities used in the detection of accounting fraud: continuous reporting; strong internal and external controls, abrupt checks, systems integration, and proper staff remuneration.

16. Conclusions

Albrecht and Albrecht (2004) characterized fraud as embezzlement, management fraud, vendor fraud, investment fraud, and customer fraud. Fraud has become a social phenomenon that has plagued all societies and economies – both developed and developing (Well, 2004; Sutherland, Cressey & Luckenbill, 1992; Lilly, Cullen & Ball, 2002).this study sought to particularly examine the prevalence of accounting fraud within institutions. Corporate governance is the system by which organizations are directed and controlled. According to Chen, Firth, Gao and Rui (2006), corporate governance has a direct and indirect effect on fraudulent activities within institution. It is for this reason that this study sought to establish the effects of corporate governance on the detection of accounting fraud within Kenyan universities. The specific objectives of this study were: To determine the effectiveness of internal controls adopted by Kenya Universities to detect accounting fraud: To examine the effectiveness of the monitoring activities adopted by the Kenyan Universities to detect accounting fraud: To examine the effectiveness of the policies and procedure adopted by Kenyan universities to detect accounting fraud and To identify other risk assessment measures that can be adopted by Kenyan Universities to enhance the detection accounting fraud. The findings from the study would be of significance to the existing body of knowledge in corporate governance and fraud since not much research has been done in relation the two variables. The research study was descriptive in design and employed two research approaches: quantitative and qualitative. The target population for the study was 48 individuals. The 48 individuals were financial controllers, chief accountants, and internal auditors within the 16 universities located within Nairobi. The study conducted a census on the target population of the study. The instrument that was used for data collection purposes was a questionnaire and thus questionnaires were distributed with the help of two research assistants. The responses of the respondents were analyzed quantitatively and qualitatively. The Statistical Package for Social Science (SPSS) was used for statistical analysis. The study had a response rate of 69% and thus the responses of the study were deemed substantial for analysis. The findings of the study revealed that accounting fraud is still prevalent in Kenyan Universities. This was attributed to the fact that 55% of the respondents were of the view that accounting fraud exists in the universities they work for. It was also evident from the findings that 91% of the respondents were of the view that the universities they work for had implemented measures aimed at detecting accounting fraud. According to Uzun, Szewczyk and Varma (2004), corporate governance has an effect on the level of institutional fraud. For this reason, institutional governance structures set up the following measures to enhance the detection of fraud: (1) internal controls; (2) monitoring activities; (3) policies and procedures; (4) risk assessment. From the findings of this study, it was evident that the universities that were surveyed in the study employed the measures mentions.

i. Internal controls

The responses revealed that 100% of the respondents were of the view that the universities they work for use internal controls to control accounting fraud. The effectiveness of the measures employed by universities to detect accounting fraud was measured using correlation coefficients. There was a strong positive correlation of 0.709 between the use of internal controls by universities in the detection of accounting fraud and the effectiveness of internal controls in the detection of accounting fraud. Similar findings are reported by Lin and Liu (2009) and Law (2011).

ii. Monitoring activities

In addition, 94% of the respondents were of the view that universities employed monitoring activities, policies and procedures, risk assessment measures to detect accounting fraud. In addition, there was also a strong positive correlation of 0.816 between the use of monitoring activities to detect accounting fraud and the effectiveness of monitoring activities in the detection of accounting. This suggests that monitoring activities can be effective control measures in the detection of accounting fraud. Similar sentiments are echoed by **Archambeault (2002).**

iii. Policies and procedures

The findings revealed that universities located in Nairobi employ both policies and procedures in the detection of accounting fraud. There was also a strong positive correlation of 0.639 between the use of policies and procedures in accounting fraud detection and its effectiveness in detecting accounting fraud within the universities that were surveyed. This implies that policies and procedures are effective in the detection of accounting fraud. This finding is similar to that of a study was conducted by Cascarino (2012).

iv. Risk assessment

The findings revealed that institutions particularly universities use risk assessment measures as a way of detecting accounting fraud. In addition, the findings revealed a strong positive correlation of 0.746 between the use of risk identification measures to detect accounting fraud and the effectiveness of accounting fraud detection within institutional set ups. This suggests that risk assessment is an effective way of enhancing fraud detection within institutional set ups. Similar findings are echoed by Rezaee and Riley (2009). This suggests that the corporate structural measures set up to detecting accounting fraud – internal controls, monitoring activities, policies and procedures, and risk assessment – are effective in the detection of accounting fraud. The findings of the study further revealed that the following are other measures that can be used by universities to detect accounting fraud: continuous reporting; strong internal and external controls, abrupt checks, systems integration, and proper staff remuneration. The respondents were of the view that should these measures be implemented the prevalence of accounting fraud in universities would decrease significantly. Similar sentiments are echoed through various research studies. According to Erickson, Hanlon and Maydew (2006), incentives can be used to reduce employee participation in fraud within institutional and organizational set ups. Brazel, Jones and Zimbelman (2009) argue that there are nonfinancial measures that can be used to assess and detect fraud within institutional set ups. This suggests there are other measures that institutions of higher learning can use to detect accounting fraud.

17. Recommendations of the Study

From the findings, it is evident that the following measures can be effective in the detection of fraud within universities: internal controls, monitoring activities, policies and procedures, and risk assessment measures. Other institutions of higher learning should adopt these corporate structural measures in order to effectively detect accounting fraud. However, the findings of the study revealed that the prevalence of accounting fraud was still high. As a result, corporate governance structures with universities should to invest more of their institutional resources into research aimed at enhancing their ability to detect accounting fraud. This is attributed to the fact that the findings recommended other measures that can be implemented in order to enhance the detection of accounting fraud.

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APPENDIX 1: UNIVERSITIES IN NAIROBI AND KIAMBU COUNTIES

Nairobi County
Public Universities and University Colleges
1. University of Nairobi
2. Multimedia University College
3. The Technical University of Kenya

Private Universities
1. Catholic University of Eastern Africa
2. United States International University
3. Pan-African Christian University
4. East Africa School of Theology
5. Aga Khan University
6. Kiriri Women's University of Science and Technology
7. Pan-African University

Kiambu County
Public Universities
1. Jomo Kenyatta University of Agriculture and Technology
2. Kenyatta University

Private Universities
1. Mt. Kenya University
2. Gretsa University
3. Presbyterian University of East Africa
4. St. Paul's Theological University College