FRAUD MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF KENYA PORTS AUTHORITY

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ABSTRACT

The Kenyan public-sector entities have been marred with massive corruption and fraud over some years costing the taxpayer great losses. Fraud costs the Kenya public Sector over KES 4 billion annually. Public sector players were victims of more than half the KES 4.1 billion (the US $ 48.3 million) fraud in East Africa in 2013 as technology made the crime easier. This has resulted in the poor performance of the sector due to porous financial systems and poor fraud detection, prevention and mitigation. Fraud losses impact every business. A considerable amount of resources, time and energy, are used up in developing Corporate Governance Policies, implementing internal control systems, risk management strategies and training employees to adhere to these measures. Some dishonest, intelligent people, commonly referred to as fraudsters, still manage to find ways to override systems or dupe honest people into gaining access to organizations’ resources and assets. The costs of fraud are passed on to society in the form of increased customer inconvenience, opportunity costs, unnecessarily high prices for goods and services, and criminal activities funded by the fraudulent gains. This study, therefore, sought to establish how fraud management practices influence the performance of Kenya Ports Authority. The specific objectives of the study were to determine the effect of internal controls, staff management, ICT utilization and fraud reporting systems on the performance of Kenya Ports Authority. The study was anchored on fraud triangle theory, fraud management lifecycle theory, and the fraud diamond theory. The study used descriptive research design. The target population was 242 comprises of management employees at KPA. Stratified random sampling was used to select the sample size of 73 which was 30 per cent of the total study population which formed a significant and representative sample. The study used both primary and secondary data. Primary data was collected using a semi-structured questionnaire administered to respondents while secondary data was obtained from the firm's annual reports, financial statements, and finance records. Data collected was analysed through descriptive and inferential statistics using SPSS. Findings were present using tables, frequencies, percentages, means and standard deviation. From the findings, internal control (β=0.319, p=0.029<0.05) had positive and significant influence on financial performance. ICT Utilization (β=0.162, p=0.001<0.05) had direct and significant influence on financial performance. Staff management (β=0.439, p=0.002<0.05) had significant influence on financial performance. Fraud reporting system (β=0.400, p=0.000<0.05) had positive and significant influence on financial performance. The study concludes that internal control had positive and significant influence on financial performance. ICT utilization had direct and significant influence on financial performance. Staff management had significant influence on financial performance. Fraud reporting system had positive and significant influence on financial performance. The study recommends that the management of Kenya Ports Authority should improve on its internal controls to significantly influence financial performance. Improvement of internal control requires that Kenya Ports Authority puts in place a reward system for those people reporting on fraud. The senior management team of
the Kenya Ports Authority needs to increase investment in ICT as a way of combating fraud. Staff management should be given the priority as a practice of managing fraud. The study also recommends that the management of Kenya Ports Authority should increase investment in fraud reporting systems.

Key Words: fraud management practices, financial performance, Kenya Ports Authority

INTRODUCTION

The Kenyan open segment elements have defaced with monstrous defilement and extortion over a few years costing the citizen extraordinary misfortunes. It has brought about the poor execution of the part because of permeable monetary frameworks and poor extortion recognition, aversion and alleviation. Overseeing and alleviating the hierarchical misrepresentation is a noteworthy test to numerous associations (Adam, 2013). Misrepresentation misfortunes affect each business. A lot of assets, time and vitality, are spent in creating Corporate Governance Policies, executing inner control frameworks, chance administration techniques and preparing workers to hold fast to these measures. Some deceptive, wise individuals, generally alluded to as fraudsters, still figure out how to discover approaches to abrogate frameworks or trick genuine individuals into accessing associations' assets and resources (Wilhelm, 2014). The expenses of misrepresentation are passed on to society as expanded client bother, opportunity costs, superfluously high costs for merchandise and enterprises, and criminal exercises supported by the false picks up.

In Japan the Standard to address the dangers of Fraud in a review was set up in 2013 by Business Accounting Council (BSA, 2014), a warning body found inside the Japanese FSA. In Australia, AS 8001-2011 Fraud and Corruption, gives a proposed way to deal with controlling the danger of extortion and debasement and is expected to apply to all substances. In Hong Kong, the Code on Corporate Governance sets out the standards of good corporate administration, where recorded organizations are urged to either follow the code arrangements or give clarifications to any deviations from the code arrangements (Wesley, 2014).

As indicated by KPMG Barometer (2012), Nigeria, Kenya, Zimbabwe and South Africa make up 74 percent of all misrepresentation cases detailed in Africa. In the East African area, Kenya in emerging with 7.75 percent of detailed misrepresentation cases, well in front of Uganda (2.98 percent) and Tanzania (2.78 percent). Most extortion in Kenya targets government and money related parts as somewhere else on the landmass. "Extortion and misappropriation are high, as is pay off and debasement (KPMG, 2012).

All associations are liable to misrepresentation dangers. Gigantic cheats have prompted the defeat of whole associations, huge venture misfortunes, noteworthy legitimate costs, imprisonment of key people, and disintegration of trust in capital markets. Exposed deceitful conduct by basic officials has adversely affected the notorieties, brands, and pictures of numerous associations around the world. As per PKF Report (2016), the money related cost of extortion, the genuine monetary estimation of misrepresentation and mistake normal
misfortunes were 5.47% of consumption. As indicated by the Association of Certified Fraud Examiners (ACFE, 2017), yearly extortion study report, the commonplace association loses 5% of its income to misrepresentation every year.

Relationship of Certified Fraud Examiners (2017) characterizes misrepresentation as “any illicit demonstrations portrayed by misleading, covering or infringement of trust. These demonstrations are not subject to the use of danger of viciousness or physical power”. Cheats are executed by people and associations to get cash, property or administrations; to maintain a strategic distance from installment or loss of administrations, or to anchor individual or business advantage. Further, misrepresentation can characterize in bookkeeping benchmarks reports, “is a deliberate demonstration that outcomes in a material misquote in budgetary articulations that are the subject of a review” (AICPA, 2013). There are two manners by which a material misquote could happen concerning misrepresentation: misappropriation of advantages and fake money related detailing. Misappropriation of benefits, as the name recommends, alludes to the robbery of organization resources that may result in the organization's monetary proclamations being materiality misquoted COSO (2012).

As indicated by ACFE (2017), misrepresentation is any purposeful or consider act to deny another of property or cash by trickery or other out of line implies. The affiliation additionally characterizes extortion into eight classifications to be specific; distortion of material certainties, disguise of material actualities, debasement, unlawful tip, coercion, irreconcilable circumstance, misappropriation, and burglary. Extortion alludes to any unlawful demonstration described by double dealing, covering, or infringement of trust (Joseph, Albert, and Byaruhanga, 2015). Extortion is a wrongdoing and is additionally a common law infringement. Numerous misrepresentation cases include entangled money related exchanges led by ‘desk offenders’, for example, business experts with specific learning and criminal purpose.

The modern business environment is complex than ever before, and it is characterized by sophisticated information technology applications that enable customers and firms to carry out transactions easily. Some of these technologies allow operations to take place without the physical presence of the customer or actual physical contact between the firm and the client. These developments in information technology and other factors have contributed significantly to an increase in the level of organizational frauds that have made many firms around the globe to lose substantial sums of money. Frauds have hence become a significant concern among small and large business establishments around the world (Uchenna & Agbo, 2013).

Gates and Jacob (2013) in their study on fraud in the USA, also assert that frauds have become a standard feature in most organizations. They further argue that the internet has provided more opportunities for fraudsters to commit frauds more often than before. According to the US Department of Justice (2012), within a six-year period, the Federal Bureau of Investigations (FBI) reported Suspicious Activity Reports (SARs) amounting to 207,051 for criminally pertained issues that related to cheque fraud and kiting fake cheques and imitated negotiable instruments. All these frauds pertained activities amounted to 47 percent of the total 436,655 SARs reported by U.S. financial institutions and amounted to approximately $7 billion in losses expected. Fraud is also evident in many African countries among financial institutions...
such as commercial banks. For example, deception cited as one of the significant factors that have impacted on the overall performance of commercial banks operating in Nigeria (Okpara, 2012).

Kenya has not been spared either as far as frauds are concerned. In the 1970s, the country realized an increase in the number of financial institutions because of the government's deliberate effort to establish local financial institutions. However, this noble effort not accompanied by strict and appropriate regulation from the Central Bank of Kenya. This laxity in regulation attracted a lot of political interference from the political class and resulted in the closure of several financial institutions by the year 1998 (Mwega, 2013). According to Price Waterhouse Coopers- PWC (2014) approximately 45% of banking firms have suffered from economic crimes such as frauds. The Daily Nation (2011) indicates that more than 80% of the scams that take place among Kenyan firms are carried out by employees of the involved firms.

Fraud Management Practices

Duffield and Grabosky (2011) defined fraud as an act involving deceit (such as intentional distortion of the truth or misrepresentation or concealment of a material fact) to gain an unfair advantage over another to secure something of value or deprive another of a right. It occurs when a perpetrator communicates false statements with the intent of defrauding a victim out of property or something of value (Vasiu & Vasiu, 2014). According to KPMG, Malaysia Fraud Survey Report (2015), fraud risk management refers to the systems and processes used to identify an organization's exposure to fraud risk and to implement controls, procedures, and education to prevent, detect and respond to the critical fraud risks. Fraud risk management practices can, therefore, broadly categorized into preventive, detective and responsive fraud management practices.

Preventive fraud risk management practices are those techniques that are meant to reduce fraud and misconduct from occurring in the first place. Such methods include conducting a fraud risk assessment, establishment of strong internal controls, code of conduct and related standards, employee and third party due diligence, communication and training and the introduction of policies and procedures (Gates & Jacob, 2013). Preventive controls aim to decrease motive, restrict the opportunity for potential offenders to rationalize their action. Fraud prevention is the responsibility of every employee, vendor, supplier, contractor, service provider, consultant or any other agency (is) doing business / having the business relationship with the Company to ensure that there is no fraudulent action indulged in, in their area of activity/responsibility. As soon as they learn of any fraud or have a suspicion regarding it, they should immediately report the matter as per the procedure laid down in the memorandum of association (Okpara, 2012).

As fraud prevention practices may not stop all potential perpetrators, organizations should ensure that systems are in place that will highlight occurrences of fraud promptly. Its achieved through fraud detection (Murray, 2015). Fraud detection methods are meant to uncover fraud when it occurs. A fraud detection strategy should involve the use of analytical and other procedures to highlight anomalies and the introduction of reporting mechanisms that provide for communication of suspected fraudulent acts. Critical elements of a comprehensive fraud
detection system would include exception reporting, data mining, trend analysis and on-going risk assessment (Mwega, 2013).

Fraud detection may highlight on-going frauds that are taking place or offenses that have already happened. Such schemes may not be affected by the introduction of prevention techniques and, even if the fraudsters hindered in the future, recovery of historical losses would only be possible through fraud detection (Bishop, 2014). Potential recovery of damages is not the only objective of a detection programme though, and fraudulent behaviour should not ignore just because there may be no recovery of losses. Fraud detection also allows for the improvement of internal systems and controls. Many frauds exploit deficiencies in control systems. Through screening of such scams, controls can be tightened making it more difficult for potential perpetrators to act (Gates & Jacob, 2013).

One of the most common ways to detect computer fraud is to log exceptions and to follow up on unusual activities in the logs. Limitations that should investigate include, for example, Transactions that are out of sequence, out of priority or otherwise out-of-standard; Aborted runs and entries, including repeated unsuccessful attempts to enter the system; Attempts to access applications or functions beyond a person's authorization level (Mbwayo, 2015). If problems uncovered, access logs and web activity logs may provide vital clues for tracking down the person involved. Some organizations implement logging, but only on a limited basis. Data may be refreshed or overwritten too frequently for the logs to use for gathering evidence later. Records should maintain for at least a few months before being erased. Newly developed intrusion detection systems use artificial intelligence capabilities to detect unusual transactions flowing through a network. These are evolving and have the potential of providing an order of magnitude improvement in crime detection technology (Adams, 2013).

Responsive fraud management practices aim at taking corrective action and remedying the harm caused by the fraud. In each instance where fraud is detected, Line Management should reassess the adequacy of the current internal control environment (particularly those controls directly impacting on the fraud incident) to consider the need for improvements. The responsibility for ensuring that the internal control environment is reassessed and for ensuring that the recommendations arising out of this assessment are implemented lie with Line Management of the division concerned (Trevino and Victor, 2011).

According to Kinyua (2011), internal audit provides an independent and objective review and advisory service to: give assurance to the CEO / Board that the financial and operational controls designed to manage the entity's risks and achieve the entity's objectives are operating in an efficient, effective and ethical manner; and assist management in improving the entity's business performance. Internal audit can specifically support a body to manage fraud control by providing advice on the risk of fraud, advising on the design or adequacy of internal controls to minimize the risk of fraud occurring, and by assisting management to develop fraud prevention and monitoring strategies (Njagi, 2015). An effective internal audit plan should include a review of those fraud controls designed to address the significant fraud risks faced by an entity. This study, therefore, seeks to establish the fraud management practices at KPA and how they have influenced performance.
Financial Performance

Sollenberg and Anderson (2015) state that money related execution is estimated by how effective the association is being used of assets in accomplishing its goals. Three essential circumstances can depict the business money related circumstance. It very well may be beneficial, it can earn back the original investment, or it can work at a misfortune. By and large, an authoritative objective is to make a benefit. The amazing target of government associations is to create income for the administration, offer administrations to the general population and furthermore help government to convey on its order to quantify the money related execution of Kenya Port Authority, there are an assortment of proportions utilized of which Return on Asset, Return on Equity and Net Interest Margin are the significant ones (Murthy and Sree, 2013, Alexandru et al., 2011).

ROA speaks to the capacity of a firm to make benefits from its advantages. It indicates how productively the assets of the organization are utilized to create wage. An expanding pattern in ROA means that the money related execution of the organization is moving forward. Then again, a diminishing pattern implies that financial execution is falling apart (Crosson, Jr Needles, Needles & Powers, 2011). ROE estimates the rate of profit for the proprietors' value utilized in the organizations business. A business that has an exceptional yield on value will probably be one that is equipped for creating money inside. In this way the higher the ROE, the better the organization is in regard to money related execution. Khrawish (2011) clarified that ROE is the proportion of Net Income after Taxes separated by Total Equity Capital. ROE reflects in this manner how proficient firm administration is utilizing investors' assets. For KPA, budgetary execution will gauge by the income the firm produces, return on value, Effective and proficient conveyance of administrations at the Port and furthermore straightforwardness being used of assets.

Kenya Ports Authority

The Kenya Ports Authority (KPA) is a state company accused of the obligation of dealing with the Port of Mombasa and every single other port along the Kenyan coastline. KPA is one of the main parastatals in the Country and a huge facilitator of ocean borne exchange inside the East and Central African district. Its key course is guided by her vision of world-class seaports of decision. The mission is to encourage and advance worldwide oceanic exchange through the arrangement of focused port administrations.

The port is prepared to deal with an extensive variety of cargoes including dry masses, for example, grain, composts, concrete and pop fiery remains and fluid volumes, for example, unrefined petroleum and oil items and in addition packed away items like espresso, tea, sugar, among others, break-mass including iron and steel, timber, engine vehicles, apparatus and containerized load. The Authority's command is to keep up, work, enhance and manage every single booked seaport arranged along Kenya's coastline. Different ports incorporate Lamu, Malindi, Kilifi, Mtwapa, Kiunga, Shimoni, Funzi, and Vanga. It is just the port of Mombasa which is completely created with present day hardware consequently making it the central port in the locale. At the port of Mombasa, the Kenya Ports Authority's center business is to give:
safe route, pilotage, berthing, mooring, Pollution control, stevedoring, shore dealing with and capacity administrations.

KPA imagines itself to be World class seaports of decision with a mission of encouraging and advancing worldwide oceanic exchange through the arrangement of aggressive port administrations. To accomplish these vision and mission, KPA is guided by key targets which include: Continually enhance benefit conveyance and consumer loyalty; Enhance operational proficiency and Improve efficiency of inner assets.

According to Muchiri (2017), there have been fraud challenges among state agencies at the port ranging from KPA, KRA, KEBS and even the recent SGR project. The government has been losing revenue to fraudulent activities at the port by unscrupulous individuals who pose as government officials or through corruption involving port staff. This study, therefore, seeks to establish how fraud management activities can turn around the performance of the Kenya Ports Authority.

**STATEMENT OF THE PROBLEM**

The real cost of fraud and average losses according to PKF report on the Financial Cost of Fraud (2015) were 5.74% of expenditure. According to the Association of Certified Fraud Examiners (2017), annual fraud survey report, the typical organization loses 5% of its revenue to fraud each year. The Banking and Financial Services Sector had the highest number of fraud cases analysed at 17.8%. Fraud costs the Kenya public Sector over KES 4 billion annually (Institute of Loss Adjusters, 2012). Mugwe (2012) reports that public sector players were victims of more than half the KES 4.1 billion (the US $ 48.3 million) fraud in East Africa in 2013 as technology made the crime easier. Mugwe further reports that public entities lost KES 2.72 billion (the US $ 32.1 million) through data manipulation. With the first half of 2012, cybercriminals attempted to steal at least KES 6,375 billion (the US $ 75 million) from high-balance business and consumer bank accounts. Fraudsters in Kenya took at least US $ 9.4 million from commercial banks in the first half of 2014 in schemes that exploited gaps in online banking solutions and involved collusion with bank staff (BFID, 2014). International studies on fraud management practices include; Murray (2015) did a study on some aspects of fraud, control, and investigation; Glover and Aono, (2015) did a study on changing the model for prevention and detection of fraud; Bishop, (2014) studied on preventing, deterring, and detecting fraud; What works and what doesn’t; Holtfreter, (2015) studied fraud in US organisations and examined control mechanisms; Bussmann and Werle (2016) did a study on addressing crime in companies; Wright, (2017) did a research on developing practical tools to manage the risk of damage caused by economically motivated crime-fraud; Abiola and Idowu (2015) did a study on an assessment of fraud and its management in Nigeria Commercial Bank and Lanoue (2015) did a research on cutting fraud losses in Canadian organizations. Mbwayo (2015) did a study on strategies applied by commercial banks in anti-money laundering compliance programs, Njagi (2015) looked at the effectiveness of know your customer policies adopted by commercial banks in Kenya in reducing money laundering and fraud incidences. Cheptumo (2011) studied response strategies to fraud related challenges by Barclays Bank of Kenya, Waneaba (2011) conducted a study on procedures applied by commercial banks in
Kenya to combat fraud, Wanjiru (2011) studied strategic responses of Equity Bank to fraud-related risks. Githecha (2013) studied on the effect of fraud risk management practices on financial performance of commercial banks and Kuria and Moronge (2013) reviewed on the impact of fraud control mechanisms on the growth of insurance companies in Kenya. Most of the studies conducted in this area did not focus on the public sector. Therefore, this study aimed to fill the gap by studying the relationship between fraud management practices and financial performance of Kenya Ports Authority.

GENERAL OBJECTIVE

The primary research objective was to establish the effect of fraud management practices on performance of Kenya Ports Authority, Kenya.

SPECIFIC OBJECTIVES

1. To establish the effect of internal controls to tame fraud on the financial performance of Kenya Ports Authority.
2. To examine the effect of staff management on the financial performance of Kenya Ports Authority.
4. To determine the effect of fraud reporting systems on the financial performance of Kenya Ports Authority.

THEORETICAL REVIEW

The study was anchored on three theories that explain fraud management practices and performance in organizations. They included; fraud management lifecycle theory, fraud triangle theory, and the fraud diamond theory.

Fraud Management Lifecycle Theory

Wesley (2014) depicts extortion administration lifecycle as a system lifecycle. Webster's (1997) word reference alludes to a lifecycle as a progression of stages in shape and useful action through which a life form goes between progressive repeats of a predetermined essential stage and furthermore identifies with a system as an interconnected or interrelated chain, gathering or framework. The Fraud Management Lifecycle is comprised of eight phases; to be specific discouragement, counteractive action, discovery, alleviation, examination, strategy, examination, and indictment. This hypothesis proposes that the last advance, continuing, is the perfection all things considered and disappointments in the Fraud Management Lifecycle. There are disappointments because the extortion was effective and victories in light of the fact that the misrepresentation was distinguished, a suspect was recognized, captured, and charges recorded. The indictment organize incorporates resource recuperation, criminal compensation, and conviction with its specialist obstruction esteem (Wesley 2014). The interrelationships among every one of the means or hubs in the Fraud Management Network are the building squares of the extortion life cycle hypothesis.
Githecha (2013) takes note of that the hypothesis is basic since it strikingly demonstrates the phases of extortion hazard administration consecutively. Likewise, the contention additionally demonstrates what institutional procedures should set up for extortion to viably oversee. The hypothesis, in any case, does not clarify the drivers of misrepresentation inside general society division. This hypothesis accepts uniform social, legitimate, and mechanical applications in the administration of misrepresentation. This hypothesis does not endeavour to clarify misrepresentation administration rehearses in a domain when such frameworks and procedures fall flat. This study adopted this theory because it indicates that for an organization to succeed in fraud management; all the fraud lifecycle stages must be actively in place with prosecution and recovery crowning it all. The process must be free and fair to ensure all resources are diligently used and accounted.

**Fraud Triangle Theory**

The Fraud Triangle Theory first developed by Cressey (1950). A criminologist, Donald Cressey started with an argument that there must be a reason behind everything that people do in fraud. He asked himself a question what leads to people committing fraud, and this challenged him to research why people violate trust. Started by interviewing 250 criminals for five months and the behaviour of these criminals met two criteria: Realized that people accept the responsibilities of belief in good faith, and the other thing noted that the circumstances in their life lead them to violate that trust. He then realized that for an offense to take place three factors must be present, and these are; pressure, opportunity, and rationalization.

Cressey further says that those people who decide to violate the trust vested upon them do it when they consider themselves as having a financial problem that they cannot share with anyone not aware and have enough knowledge that they can solve that problem secretly through violating the trust vested on them.

Factors that lead to committing unethical behaviours which are referred to as the perceived pressure forms the first part of the triangle. Every person committing fraud must be facing some perceived coercion to behave unethically (Abdullahi and Mansor 2015a). It could be in nature of finance or otherwise. Albrecht et al. (2016) cited, it is essential to use the word perceived as the pressure to commit fraud is imaginable and not be real. What leads to fraud is the belief that the fraud perpetrators were pressurized. The perceived stress usually exists in different ways, mostly a financial need that cannot share. The most common factor that leads to an entity committing an evil action recognized as financial pressure. Most important to note is that their pressure causes about 95% of all fraud cases committed by perpetrators in finances (Albrecht et al. 2016). Personal pressure, employment pressure, and external pressure determine as three types of constraints. Vona (2011) further examines corporate forces and own forces as motivations’ proxies for committing fraud. Some of the major examples of perceived pressure could include personal debt or large expenses, greed, family financial problem or health, drug addiction and gambling and living beyond one’s means.

People will take advantage of the circumstances available to them as suggested by the concept of perceived opportunity (Kelly and Hartley, 2011). Just like the perceived pressure the nature
of perceived opportunity does not have to be real. However, it is in the perception and belief of the perpetrator that the possibility exists. In most cases, fraud is more likely to take place where the risk of being caught is lower (Cressey, 1953). Negligence of employee's breach of policies and lack of disciplinary action are some of the factors that lead creates an opportunity for fraud to happen organizations. Wilson (2014) describes “opportunity” as the ability to override fraud controls. Hooper et, al. (2011) argue that financial fraud cannot happen even when there is immense pressure unless an opportunity exists.

Rationalization can term as the excuses and justification that the immoral conduct is not the same as criminal activity. It is doubtful for an individual to engage in fraud if he or she cannot justify the dishonest actions. Some of rationalizations examples of fraudulent behaviours could include; "I was entitled to the finances because my employer is cheating me", "If anything I was only borrowing the money" Over and above some fraud victims would justify their actions as "some other people have done it why not me", "I had to steal for my family" (Cressey, 1953). It's utterly impossible to read the mind of a fraud victim making it difficult to notice rationalization. People who commit fraud are believed to have a mindset which allows them to justify their fraud activities (Hooper and Pornelli, 2011). Employee's lack of integrity or moral reasoning leads to rationalization which is a justification of the fraudulent behaviour (Rae and Subramanian 2011). A person's attitude and ethics affect his tendency to perform a fraud (Kenyon and Tilton 2016).

This study adopted the theory because it indicates that fraud occurs due to various financial challenges that employees face and are not able to share with the management or colleagues. Employees' lack of integrity and moral reasoning leads to rationalization which justifies their fraudulent behaviour. Therefore, for a firm to manage fraud, there is a need for employee and management integrity and prudent compensation coupled with proper financial management.

The Fraud Diamond Theory

Wolfe and Hermanson developed fraud Diamond Theory in the CPA Journal in December 2014. This theory is an improved version of the FTT. Though there are three fraud components of the FTT, this theory introduced a fourth element named capability that must exist for fraud to take place. Wolfe & Hermanson (2014) added that although perceived pressure can live together with rationalization and opportunity to commit fraud, it is tough for fraud to happen if capability as the fourth element is present. It means that the person about to commit the fraud must possess the skills and the ability to engage the scam. Wolfe and Hermanson (2014) argued that opportunity is the doorway to fraud and other incentives; pressure and rationalization lead the perpetrator to the open door. However, another element capability makes the person identify the open door as an opportunity and to take advantage of the door by walking through it severally.

The capability is a person with skills to perform fraud. A person recognizes there is an opportunity and make it a reality. The capacity has some supporting elements which are; ego, position, coercion, intelligence, stress, and deceit (Wolfe and Hermanson 2014). Mackevicius and Giriunas (2013), not every person may commit fraud even if the possessed motivation,
opportunities and realization as they may lack the ability and skills to perform it and hide it. Wolfe and Hermanson (2014), states that employee’s position and role in an organization may improve his chances to betray the trust.

This theory also argues that a person committing fraud must be knowledgeable. The person committing fraud must be someone who can understand internal controls very well and even well able to take advantage of their loopholes and use their position in the organization and authority to access as an upper hand (Abdullahi and Mansor 2015b). Today's most massive frauds are committed by people who experience, intelligent and very creative who have a solid grasp of controls and vulnerabilities. The individuals use their comprehension to control the systems as well as assets (Wolfe & Hermanson 2014).

A study conducted showed 51% of the perpetrators of internal fraud were graduates, 49% of the perpetrators were above the age of 40 years 46% of the frauds involved the management of organizations (Association of Certified Fraud Examiners (2018). A person committing a scam possess a lot of self-confidence that he cannot be discovered and also presumes that if caught he will deliver himself from the predicaments efficiently. The cost-benefit analysis of committing fraud is profoundly affected by such arrogance or confidence. The estimated cost of fraud determines by the determination that a person has; the higher the trust, the lower the price and vice versa (Wolfe & Hermanson 2014).

This study has adopted this theory because it indicates that employee commits fraud due to their abilities or capacity and intellect which enables them to discover the weakness in internal controls of firms. For effective fraud management, therefore, there must be stiff penalties, sensitization, costs associated with the offense and above all proper vetting of employees before recruitment into a firm minimizes the chances of admitting culprits.

**EMPIRICAL REVIEW**

**Internal Controls and Performance**

An establishment's inside control structure is basic to the sheltered and sound working of its hazard administration framework. Setting up and keeping up a compelling technique for controls, including the requirement of authority lines of specialist and the proper division of obligations, for example, exchanging, custodial, and back-office is one of administration's more critical duties. Oloidi et al., (2014) in their study on Bank Frauds and Forgeries in Nigeria focused on the causes, types, detection, and prevention of frauds and forgeries in the Nigerian banking sector. Questionnaires were designed to collect data from 81 bank branches in the south-west. Their findings revealed that the significant factor in play was the problem of the effective internal control system and enforcement of strict adherence. They recommended that banks should install effective internal control system and enforce strict adherence.

In fact, suitably isolating obligations is a crucial and fundamental component of sound hazard administration and inward control framework. Inability to execute and keep up satisfactory partition of obligations can constitute a hazardous and unsound practice and potentially prompt serious misfortunes or generally bargain the money related trustworthiness of the organization.
Genuine omissions or insufficiencies in inside controls, including deficient isolation of obligations, may warrant supervisory activity, including formal authorization activity.

Dominic, (2015) in his examination on cutting fakes in Canadian associations broke down the impact of different inside controls (i.e., hotlines, customary morals (avoidance) preparing, astound reviews, inward and outer reviews and record verifications) on diminishing word related extortion misfortunes by casualty associations. He constructs his investigation with respect to information from an expert extortion report co-wrote by the Association of Certified Fraud Examiners (ACFE) and Peltier-Rivest (2017), utilized a multivariate relapse examination to break down the impact of different interior controls on avoiding misrepresentation misfortunes. The discoveries exhibited that hotlines, customary morals (extortion) preparing, astound reviews and inward reviews all diminishing misrepresentation misfortunes when utilized independently. Be that as it may, hotlines and astound reviews were the main factually huge controls while controlling for the potential relationship among every single inward control. Hotlines were related with a decrease of 54 percent in middle extortion misfortunes, while shock reviews cut middle misfortunes by 69 percent.

Kuria and Moronge, (2013) conducted a study on the effects of insurance fraud control mechanism on the growth of the insurance industry with a focus on insurance firms in Kenya. For this study, they adopted a descriptive research design. The data was obtained mainly from claim managers and risk managers of the companies. The target population was the 49 insurance companies in Kenya. A census was used owing to the small size of the target population. Questionnaires use as the tool for collecting data. Use of a spreadsheet program did the analysis and presented in tables and charts. The study found out that regulation did not aid in fraud control and had little impact on the growth of the insurance sector. Technology and governance, on the other hand, had been used to fight fraud in the insurance industry and aided not only fraud mitigation but also promote the growth of the sector.

Githecha, (2013) directed an investigation on the impact of extortion chance administration systems on the money related execution of business banks in Kenya. In his exploration, he received an engaging examination outline, and his objective populace was the general 43 business banks. He utilized essential and auxiliary information. The investigation was finished utilizing Microsoft Excel and SPSS. The consequences of his investigation demonstrated that there is a positive and measurably noteworthy impact of extortion chance administration procedures on the budgetary execution of business banks in Kenya. Administrative, administration and innovation selection emphatically associate with business execution, and 77.6% of variety or change in money related execution as estimated by ROA clarified by misrepresentation chance administration methodologies founded by business banks.

**Staff Management and Performance**

Mbuguah, (2013) in his study on response strategies to fraud by the listed commercial banks in Kenya finds out that the pressures that often motivate fraud are staff frustrations, poor/lack of controls, and lack of product knowledge. The study also found out that all listed commercial banks used preventive, training, detection, prosecution and investigation strategies in managing
the fraud menace. The law enforcement agencies were found to play a critical role in fraud management. The study adopted a descriptive research design. Primary and secondary dates use in the stud. Primary data was collected using a semi-structured questionnaire while secondary data obtained from the review of reports from the Bank Fraud Investigation Department of the Central Bank and review of periodic reports filed by listed companies.

Kinyua (2011) in a study of the strategic response of equity bank to fraud-related risks recommends that the judiciary needs to be empowered through reforms to be able to deal with fraud-related incidents. Review of fraud legislation, security features of security documents (The Kenyan National Identity Card, Driving licenses, passports and Title deeds) and staff management through employee screening, staff account monitoring and motivation of staff. The study used open-ended questions.

Olongo (2011) carried out a study on the effects of financial fraud and the liquidity of the financial performance of commercial banks operating in Kenya. The descriptive research design is used in the study. The study used a population of 43 commercial banks operating in Kenya, and all of them got involved in the study. He collected secondary data for this study. This secondary data included the annual liquidity ratios of the commercial banks in Kenya, the annual fraud loss and the annual Return on Assets as a measure of financial performance. The data on annual fraud loss is obtained from the BFID (annual reports on the statistics and trend of frauds). The data on liquidity ratios and ROA collected from the NSE and the CBK websites. This data was analyzed using regression analysis. Annual fraud loss and annual liquidity ratios were used as the independent variables. The study used multiple regression analysis to determine how each of the dependent variables relates to ROA. The study established that banks' financial performance variable Return on Assets (ROA) has significantly affected by liquidity ratios and fraud loss with positive correlation.

ICT Utilization and Performance

Kariuki (2015) completed an examination that utilized bank turnover and benefits as a proportion of execution. The discoveries demonstrated that there were sure effects of ICT on the saving money execution. He set up that manages an account with high-benefit development will probably be utilizing higher quantities of cutting edge ICTs. He reasoned that e-keeping money prompts higher benefits however in long haul yet not in here and now because of high ICT venture cost.

Ngalyuka, (2013) directed an examination to build up the connection between ICT use and misrepresentation misfortunes in business banks in Kenya. Optional information was gathered from reports at Central Bank, Banking Fraud Investigation Unit and evaluated monetary proclamations of the 43 business banks in Kenya. Information were investigated utilizing SPSS through connection examination and relapse examination. His fundamental decision was that selection of ICT tends to lessen the odds of Identity burglary since exchanges are on the web and continuously.

PWC in there 2014 Global Economic Crime Survey led between August 2013, and February 2014 sorted the technique for extortion recognition into the accompanying classes: corporate
controls; corporate culture; or chance. Their discoveries showed that suspicious exchange revealing remained a powerful method for identifying misrepresentation as indicated by to16% of Kenya respondents taken after by routine inner reviews at 14%, at that point extortion chance administration at 13% and tip-offs both outer and inside at 14%. The report prescribed that more accentuation should put on reinforcing inner review capacities and leading normal misrepresentation hazard appraisals as a method for early identification or counteractive action of monetary violations.

**Fraud Reporting System and Organizational Performance**

Voon, Puah, and Entebang (2011) likewise completed an investigation on corporate wrongdoing declaration consequences for stock execution. The examination included a top to bottom examination of the effect of the declaration of corporate wrongdoing on firm execution concentrating on securities exchange execution among open endeavours in Malaysia. The investigation embraced an occasion examine strategy. The examination utilized an example of 7 extensive set up open firms that were charged for carrying out a corporate wrongdoing by Securities Commission from the period 1999 to 2015 and analyzed them. Month to month normal anomalous returns (AARs) and total normal unusual returns (CAARs) for the example of 8 declarations of partitioned violations extending from a year prior and a half year after the declaration dates were resolved. The exploration discoveries uncovered the stock is educationally wasteful in Malaysia and that financial specialists respond to the declaration of corporate wrongdoing.

Kinyua, (2011) in her study of the strategic response of equity bank to fraud-related risks recommends that the judiciary needs to be empowered through reforms to be able to deal with fraud-related incidents. Review of fraud legislation, security features of security documents (The Kenyan National Identity Card, Driving licenses, passports and Title deeds) and staff management through employee screening, staff account monitoring and motivation of staff. The study used open-ended questions.

Ohando (2015) also carried out a study on the effects of financial fraud and liquidity on the financial performance of commercial banks operating in Kenya. This study, therefore, sought to establish the relationship between fraud risk management practices and financial performance of commercial banks operating in Kenya. The population targeted for this study was the senior management in the risk management department of the 43 commercial banks operating in Kenya. Primary data used in this study and this collection in Nairobi. A census conducted from the 43 commercial banks operating in Kenya. Structured questionnaires that were self-administered through the drop and pick later method were used to collect the primary data. The results obtained from the study indicated that there was a positive relationship between fraud risk management practices and financial performance of commercial banks operating in Kenya. It also found out that preventive and detective risk management practices had a very strong positive (Pearson correlation coefficient of 0.932 and 0.868) influence on the financial performance of the commercial banks as measured by ROA.
RESEARCH METHODOLOGY

Research Design

The study adopted a descriptive research design. Mugenda and Mugenda (2003) indicate that striking research design is a systematic, empirical inquiring into which the researcher does not have direct control of independent variable as their manifestation has already occurred or because they inherently cannot be manipulated. The descriptive research design was used since it is concerned with finding out about the how who, when and where of a phenomenon to build a profile given that the study is qualitative.

Target Population

The target population for the study comprised of management employees at the Kenya Ports Authority head offices in Mombasa County. According to the KPA (2017), 242 management cadre employees are working at the Port head offices ranging from the top, middle and lower level of management. The various cadres of administration formed the strata into which the population was classified.

Sampling Design

Stratified random sampling technique was used to obtain a representative sample since the population of interest is homogeneous. Owing to the significant number of the target population and given the time and resource constraints, at least 30% of the total population is representative (Borg and Gall, 2003). Thus, 30% of the accessible population was enough for the sample size. This study therefore used a sample of 73 respondents drawn from all staff at the three management categories at the Kenya Ports Authority head offices.

Data Collection Instrument

Primary data was collected with the help of a semi-structured questionnaire. Therefore, because a semi-structured questionnaire contained both open-ended and closed-ended questions which enabled the researcher to gather information required to allow for inform study findings. The study used primary data which was collected through self-administered questionnaires from the management staff at the head offices of the port management authority. The questionnaire was preferred since the staff are knowledgeable and educated hence they can read and respond accordingly.

Data Collection Procedure

Before data collection, an introductory letter was obtained from the Kenya University Graduate School and a research permit from NACOSTI. Permission was also sought from the KPA management before data collection. The questionnaires were administered to the respondents through the drop and pick later method. The fully completed survey was ready for collection after every completion and call-backs made as necessary. Confidentiality of the respondents was guaranteed through an assurance letter which was issued with each questionnaire.
Data Analysis and Presentation

After data collection, a thorough check was done on the surveys before coding and uses Statistical Package for Social Sciences (SPSS). Both descriptive and inferential statistics were used to analyse the data. The primary data collected through questionnaires was analyzed using excel to obtain existing correlations. The correlations informed the researcher on existence or non-existence of a relationship between the fraud management practices at KPA and its performance. Quantitative data was presented through tabulation, percentages, mean, standard deviation and frequencies. Secondary data was obtained from the records of KPA head offices regarding amount involved in fraud and the fraud management practices in place, cases and their conclusions.

A multivariate regression model was applied to determine the relative importance of each variable to the study. Mugenda and Mugenda (2003) noted that multiple regression attempts to determine whether a group of variables together, predict a given depending on the variable. The regression model was as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha \]

Where: \( Y \) is the dependent variable (performance of KPA); \( \beta_0 \) is the regression coefficient; \( \beta_1, \beta_2, \beta_3, \) and \( \beta_4 \) are the slopes of the regression equation; \( X_1 \) = Internal controls to detect and mitigate fraud; \( X_2 \) = Staff management; \( X_3 \) = ICT adoption in resource management; \( X_4 \) = Fraud reporting systems ; \( \alpha \) = an error term.

RESEARCH RESULTS

Internal Controls and Financial Performance

From the findings, internal control (\( \beta=0.319, \ p=0.029<0.05 \) had positive and significant influence on financial performance. The firm conducted regular ethics training to promote integrity with a mean of 4.21 and standard deviation of 0.593. Background checks were conducted on employees before hiring with a mean of 4.08 and standard deviation of 0.874. Regular financial audits were conducted in the firm as indicated by a mean of 3.93 and standard deviation of 0.793.

Expenditure was always based on an annual budget with a mean of 3.92 and standard deviation of 0.728. There were hotlines for fraud reporting as shown by a mean of 3.86 and standard deviation of 0.674. Employees embraced high levels of integrity and accountability with a mean of 3.84 and standard deviation of 0.829. The studied organization had a solid internal control system with a mean of 3.62 and standard deviation of 0.972.

ICT Utilization and Financial Performance

The study revealed that ICT Utilization (\( \beta=0.162, \ p=0.001<0.05 \) had direct and significant influence on financial performance. There was a screening system for entry and exit of staff with a mean of 4.47 and standard deviation of 0.591. There were passwords and keys to access the financial management system with a mean of 4.31 and standard deviation of 0.618. The
enterprise had a functional computerized financial system with a mean of 4.27 and standard deviation of 0.782.

The firm had procured enough equipment and software to configure the finance system as shown by a mean of 3.98 and standard deviation of 0.852. The firm conducted regular training programs to improve ICT capacity as shown by a mean of 3.86 and standard deviation of 0.518. A few people were allowed access and approval to the system as indicated by a mean of 3.71 and standard deviation of 0.936.

**Staff Management and Financial Performance**

The findings of the study indicated that Staff management ($\beta=0.439$, $p=0.002<0.05$) had significant influence on financial performance. There was regular employee screening on entry and exit from the premises with a mean of 4.39 and standard deviation of 0.628. The firm promoted employee involvement in financial management with a mean of 3.91 and standard deviation of 0.853. The staffs were always motivated to work with a mean of 3.69 and standard deviation of 1.061. Employees were always appreciated and their financial problems attended to with a mean of 3.51 and standard deviation of 1.082.

**Fraud Reporting Systems and Financial Performance**

From the findings, fraud reporting system ($\beta=0.400$, $p=0.000<0.05$) had positive and significant influence on financial performance. Suggestion boxes were also used to report fraud with a mean of 4.29 and standard deviation of 0.845. Auditors were both internal and external with a mean of 4.05 and standard deviation of 0.635. Fraud reports were always confidential with a mean of 4.01 and standard deviation of 0.859.

Every employee had the responsibility to report any fraudulent activity in the firm as shown by a mean of 3.99 and standard deviation of 0.995. Employees were given an email to report fraud activities in their departments as shown by a mean of 3.95 and standard deviation of 0.791. The firm had a security organ to make follow-ups on fraud with a mean of 3.91 and standard deviation of 0.937. The firm had firm has fraud detection mechanisms with mean of 3.81 and standard deviation of 0.794. Auditors and the management made follow-ups on fraud lifecycle with a mean of 3.68 and standard deviation of 0.896.

**REGRESSION RESULTS**

The researcher used regression analysis to determine how fraud management practices influenced financial performance. The findings are indicated in subsequent sections.

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.867a</td>
<td>.752</td>
<td>.744</td>
<td>2.46484</td>
</tr>
</tbody>
</table>

From Table 1, the coefficient of determination R square is 0.752. This shows that 75.2% change in financial performance is explained by the fraud management practices put in place.
This further suggests that there are other factors apart from fraud management practices that influence financial performance which future studies should focus on. This is supported by a

**Table 2: Analysis of Variance**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2121.918</td>
<td>4</td>
<td>530.479</td>
<td>39.482</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>698.674</td>
<td>52</td>
<td>13.436</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2820.592</td>
<td>56</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Table 2, the value of F calculated is 39.482 while F critical is 2.550. Thus, since F calculated is greater than F critical, it can be concluded that the overall regression model was significant in estimating the influence of fraud management practices on financial performance. This is supported by a study by Gitau and Samson (2016) on effect of financial fraud on the performance of commercial banks, that established that there was a positive relationship between annual fraud loss and financial performance of commercial banks in Kenya.

**Table 3: Regression Coefficient**

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>11.912</td>
<td>2.107</td>
</tr>
<tr>
<td>Internal Control</td>
<td>.319</td>
<td>.144</td>
</tr>
<tr>
<td>ICT Utilization</td>
<td>.162</td>
<td>.052</td>
</tr>
<tr>
<td>Staff Management</td>
<td>.439</td>
<td>.141</td>
</tr>
<tr>
<td>Fraud Reporting System</td>
<td>.400</td>
<td>.093</td>
</tr>
</tbody>
</table>

From the results in Table 3, the resultant regression equation becomes;

\[ Y=11.912+0.319X_1+0.162X_2+0.439X_3+0.400X_4 \]

Thus, all factors kept constant, financial performance would be at 11.912. Internal control (β=0.319, p=0.029<0.05) had positive and significant influence on financial performance. This is supported by Kuria and Moronge, (2013) who found out that regulation did not aid in fraud control and had little impact on the growth of the insurance sector. Technology and governance, on the other hand, had been used to fight fraud in the insurance industry and aided not only fraud mitigation but also promote the growth of the sector.

ICT Utilization (β=0.162, p=0.001<0.05) had direct and significant influence on financial performance. This is supported by Kariuki (2015) who established that e-keeping money prompts higher benefits however in long haul yet not in here and now because of high ICT venture cost.
Staff management ($\beta=0.439$, $p=0.002<0.05$) had significant influence on financial performance. The findings are in line with Ohando (2015) whose study revealed a positive relationship on staff management practices and financial performance of commercial banks operating in Kenya. Mbuguah, (2013) in a study on response strategies to fraud by the listed commercial banks in Kenya finds out that the pressures that often motivate fraud are staff frustrations, poor/lack of controls, and lack of product knowledge.

Fraud reporting system ($\beta=0.400$, $p=0.000<0.05$) had positive and significant influence on financial performance. Thus, in general, fraud management practices had positive and significant influence on financial performance. Ohando found out that preventive and detective risk management practices had a very strong positive (Pearson correlation coefficient of 0.932 and 0.868) influence on the financial performance of the commercial banks as measured by ROA.

CONCLUSIONS

Internal Controls and Financial Performance

The study concludes that internal control had positive and significant influence on financial performance. The firm conducted regular ethics training to promote integrity. Background checks were conducted on employees before hiring. Regular financial audits were conducted in the firm. Expenditure was always based on an annual budget. There were hotlines for fraud reporting. Employees embraced high levels of integrity and accountability. The studied organization had a solid internal control system.

ICT Utilization and Financial Performance

The study concludes that ICT utilization had direct and significant influence on financial performance. There was a screening system for entry and exit of staff. There were passwords and keys to access the financial management system. The enterprise had a functional computerized financial system. The firm had procured enough equipment and software to configure the finance system. The firm conducted regular training programs to improve ICT capacity. A few people were allowed access and approval to the system.

Staff Management and Financial Performance

The study also concludes that staff management had significant influence on financial performance. There was regular employee screening on entry and exit from the premises. The firm promoted employee involvement in financial management. The staffs were always motivated to work. Employees were always appreciated and their financial problems attended to.

Fraud Reporting Systems and Financial Performance

The study concludes that fraud reporting system had positive and significant influence on financial performance. Suggestion boxes were also used to report fraud. Auditors were both internal and external. Fraud reports were always confidential. Every employee had the
responsibility to report any fraudulent activity in the firm. Employees were given an email to report fraud activities in their departments. The firm had a security organ to make follow-ups on fraud. The firm had firm has fraud detection mechanisms. Auditors and the management made follow-ups on fraud lifecycle.

**RECOMMENDATIONS**

The study recommends that the management of Kenya Ports Authority should improve on its internal controls to significantly influence financial performance. Improvement of internal control requires that Kenya Ports Authority puts in place a reward system for those people reporting on fraud. The top management team of Kenya Ports Authority should diligently utilize all the allocated funds in establishing practices to combat fraud.

The study further recommends that the senior management team of the Kenya Ports Authority need to increase investment in ICT as a way of combating fraud. There should be CCTV systems to be used in monitoring operations and movement of employees in an organization so as to significantly influence financial performance.

Staff management should be given the priority as a practice of managing fraud. All other regulatory bodies in Kenya including the Kenya Revenue Authority KRA should regularly monitor the bank accounts of employees. There should be system of rewarding staff in competitive manner. Referrals should be one of the sources of recruiting employees in organizations.

The study also recommends that the management of Kenya Ports Authority should increase investment in fraud reporting systems. Reward systems should be put in place for those people reporting fraud in an organization.

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