EFFECT OF FRAUD RISK MANAGEMENT ON ORGANIZATION PERFORMANCE: A CASE OF DEPOSIT-TAKING MICROFINANCE INSTITUTIONS IN KENYA

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ABSTRACT

Organizations have come to recognize the importance of managing all risks and their interactions, not just the familiar risks or the ones that are easy to quantify. However, the problem of today's managers in the financial institutions is competition and dynamism of environment and unknowns outside and inside of the organization each affecting the planning especially strategic ones. In the process of making the operation and realization of the goals to be effective, organization are prone to risk leading to stagnant achievement of the targeted objective. This enhanced attention of the manager on the ways of controlling fraud risk within their organization in all level of the organization by formulating and implementing fraud risk management strategies. This study sought to investigate effect of fraud risk management on organization performance with focus to deposit-taking micro finance institutions in Kenya. The study was guided by the following specific objectives, that is, anti-fraud policies, corporate governance practices, fraud detection mechanisms and systems of internal controls and their effect on performance of deposit-taking microfinance institutions in Kenya. The target population of this study was all deposit-taking microfinance institutions in Kenya. The study adopted stratified sampling with the sample been drawn from the senior management, middle management and lower management staff of the head office branches of the 8 deposit-taking microfinance institutions. The study used both primary data and secondary data. Secondary data accessed from the CBK (2012) report while a semi-structured questionnaire was used for collecting primary data from the respondents. Both qualitative and quantitative analysis was carried out.

Key Words: *corporate governance, fraud detection, internal control and anti fraud policies*

Introduction

Over the last few decades, fraud risk management has become an area of development in improving organization performance. The area of financial services has been a business sector related to conditions of uncertainty. The financial sector is the most volatile in the current financial crisis. Activities within the financial sector are exposed to a large number of risks particularly fraud by defaulters. For this reason, fraud risk management is more important in the financial sector than in any other sectors (Carey, 2001). Carey regards financial institutions as the main point of risk-taking in an uncertain environment. During the last few years researchers have developed measurement techniques and mathematical models to predict the process risk safety of a plant or a processing unit (Markowski & Mannan, 2008).

Statement of the Problem

Desire to grow, expand outreach and improve the quality of financial services to its target client is a legitimate and fundamental goal for any financial institution. However, financial institutions in Kenya for the last one decade have experience risks. Between the year 2011 and the year 2012, financial institutions in east Africa have lost USD 48.3 million in fraud related cases (Nyamu, 2012). Kenya recorded the highest percentage of 39% with Uganda following closely with 31% of the total amount lost through fraud practices. According to CBK (2012) records at the banking fraud investigation department indicate that 25% (150) of reported cases of fraud related crimes during the year 2010 to 2012 affected deposit taking microfinance institutions negatively in their operation. Specifically, of the total fraud reported cases between 2009-2012 includes, electronic fraud 28.07%, computer fraud 8.77%, loan fraud 36.84%, embezzlement 15.79% and cheque fraud 10.53% (CBK, 2012). However, adoption of the fraud strategies by DTMs results to a significant achievement. This recommendable achievement was noted by increment of gross loans worth Ksh. 21.2 billion as at March 2013 compared to Ksh. 20.6 billion registered in December 2012 translating to a growth of 3.7%. Similarly, the deposits base stood at Ksh. 16.4 billion representing a growth of 6.4% from Ksh. 15.4 billion in December 2012. The long-term borrowings by DTMs increased by 6% from Ksh. 8.3 billion in December 2012 to Ksh. 8.8 billion in March 2013. The number of DTMs deposit accounts and loan accounts stood at 1.79 million and 0.47 million respectively in March 2013 compared to 1.76 million deposit accounts and 0.46 million loans accounts registered at end of December 2012 representing an increase of 1.7% and 2.2% respectively.

Local studies have been carried out on fraud but most have concentrated on commercial banks and not deposit taking microfinance institutions; Njagi (2009) did a study on the effectiveness of know your customer policies adopted by commercial banks in Kenya in reducing money laundering and fraud incidences. Kiprop (2010) carried out a study but it mainly dealt with responses to fraud related challenges by Barclays bank of Kenya and not fraud risk management. Wanemba (2010) did a survey of techniques applied by commercial banks to combat fraud. Mutua (2011) also carried out a study on fraud control mechanisms in commercial banks in Kenya While substantial number of studies has been undertaken on fraud and its subsequent effect on organization performance, none of these studies have focused on DTMs. This leaves a wide knowledge gap that this study sought to bridge. The study thus aimed to establish the effect of fraud management mechanisms on financial performance of deposit-taking microfinance institution in Kenya.

General Objective

The main aim of this study was to investigate effect of fraud risk management on performance of deposit taking micro financial institutions in Kenya.

Specific Objectives

1. To establish effect of anti-fraud policies on financial performance of deposit-taking microfinance institution.
2. To determine if corporate governance put in place affects financial performance of deposit-taking microfinance institution.
3. To access effect of fraud detection systems on financial performance of deposit-taking microfinance institution.
4. To establish whether internal controls affect financial performance of deposit-taking microfinance institution.

Theoretical Review

This is a collection of interrelated ideas based on theories. It is a reasoned set of ideas which are derived from and supported by data or evidence (Macharia, 2012). This study will be guided by the following theories:

Self Control Theory

The Gottfredson and Hirschi (1990) as cited in (Holtfreter, Beaver, Reisig, & Pratt, 2010) self-control theory states that individuals with low levels of self- control are more likely to commit a wide variety of crime and crime- related behaviors. Individuals who lack self-control tend to be impulsive, insensitive, physical as opposed to mental, risk-taking, shortsighted and nonverbal (McMullen, 1999). The theory states that low self-control is learned from childhood through parental nurture, it argues that inconsistent parenting practices result in children who are unable to delay gratification, avoid risky behavior, control their impulses and consider the feelings of others (Holtfreter et al., 2010). Individuals who have higher levels of self-control eventually realize the low probability of long-term benefit and high probability of apprehension associated with criminal enterprise (McMullen, 1999).

The Fraud Triangle Theory

(Albrecht et al., 2009) States that fraud is composed of three elements, namely a perceived pressure, a perceived opportunity and rationalization of the act of fraud; these three elements are called the fraud triangle.

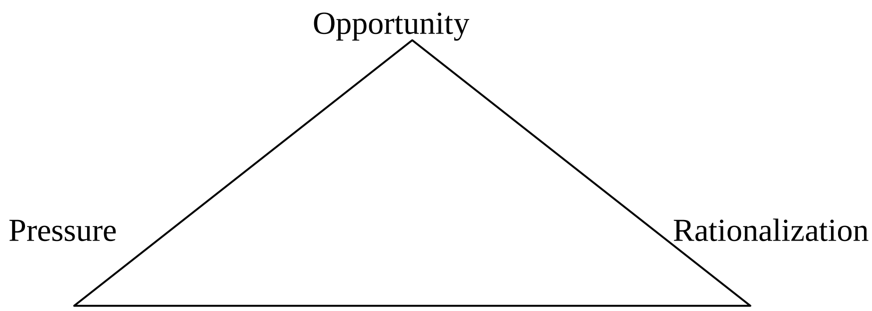

Figure 1: The Fraud Triangle (Albrecht, Albrecht, Albrecht, & Zimbelman, 2009)

Every act of fraud, irrespective of whether it is done against an entity or on behalf of an entity, is always composed of the three elements (Albrecht et al., 2009). The three elements in the fraud triangle are interactive, for instance the greater the perceived opportunity or the more intense the pressure, the less rationalization it takes for someone to commit fraud (Albrecht, Turnbull, Zhang, & Skousen, 2010). However, fraud is a complex matter and is a function of a combination of factors (Rae & Subramaniam, 2008). For instance in some cases, although internal controls were poor, there were no incidence of fraud, while in other cases even though good internal controls existed employees still managed to circumvent the internal controls to commit fraud (Rae & Subramaniam, 2008). An understanding of how opportunities, pressures and rationalizations contribute to fraud in organizations can assist management to easily recognize the areas of susceptibility to fraud and strengthen these areas (Albrecht et al., 2010).

Fraud perpetrators must have some way to rationalize their actions as acceptable (Albrecht et al., 2009). Justification of fraudulent behavior is usually as a result of a fraudster’s lack of personal integrity or other moral reasoning (Rae & Subramaniam, 2008). Individuals do not commit fraud unless they can justify it as being consistent with their own personal code of ethics, as personal integrity may be the key limiting factor in keeping a person from misappropriating assets (Hillison et al., 1999). Rationalization by fraudsters emanates from their feeling that the victims owe them and that they deserve more than they are getting (Mutua, 2011). Some individuals possess an attitude, character or set of ethical values that allow them to knowingly and intentionally commit a dishonest act (Cohen et al., 2011). A strong moral code can prevent individuals from using rationalizations to justify illicit behavior; internal auditors however should assume that anyone is capable of justifying the commission of fraud (Hillison et al., 1999).

The Fraud Management Lifecycle

Effective management of the fraud management lifecycle starts with a common understanding of the stages in the lifecycle (Wilhelm, 2004). The fraud management lifecycle is a network lifecycle where each stage in the life cycle is an aggregated entity that is made up of interrelated, interdependent and independent actions, functions and operations (Albrecht et al., 2009). The fraud management lifecycle is made up of eight stages; Deterrence stage involves stopping fraud before it happens by increasing the difficulty of committing the fraud as fraudsters tend to migrate tend to migrate toward the path of most anonymity and least resistance (Wilhelm, 2004). Deterrence is achieved through creating fear of consequences or difficulty of perpetration, to turn aside, discourage or prevent fraudulent activity from being attempted (Kimani, 2011).

Policy must seek to balance detrrent value,loss reduction,sales volume,operational scalability and cost effectiveness (Wright, 2007). Policy development involves constantly reassembling the situations disassembled in the analysis stage,by taking advantage of the knowledge gained by analysis, combining it with internal,external and interactive environmental factors in order to craft policies that address the whole,while leveraging the knowledge of the parts (Wilhelm, 2004). Policy development staff are most frequently the leaders within the fraud management organization as they must consider all disciplines within the fruad management department as well as the needs of the rest of the business enterprise (Hassink et al, 2010). The investigation stage involves obtaining enough evidence and information to stop fraudulent activity,to obtain recovery of assets or restitution and to provide information and support for the successful prosecution and conviction of the fraudsters (Albrecht, et al., 2009). Fraud investigations are focused upon three primary areas of activity;internal investigations,external investigations and law enforcement coordination. Internal investigations includes investigations of employees,contractors,consultants or vendors while external investigations are conducted on customers,fraudsters and organized groups (Wilhelm, 2004). Law enforcement coordination as further argued by Gottschalk (2010) is the provision of information and resources to,and the maintenance of,a partnership with federal,state,regional and local law enforcement authorities.

Rigorous and routine investigations provide for both an incremental lift in deterrence and the maintenance of an effective relationship with law enforcement.Finally the prosecution stage is focused upon prosecutorial and judicial authorities as well as with law enforcement (Wilhelm, 2004). The three aims of prosecution in the fraud arena is to punish the fraudster in an attempt to prevent further theft,to establish,maintain and enhance the business enterprise's reputation of deterring fraud so that the fraud community becomes aware of it and to obtain recovery or restitution wherever possible (Albrecht et al., 2009)

Conceptual Framework

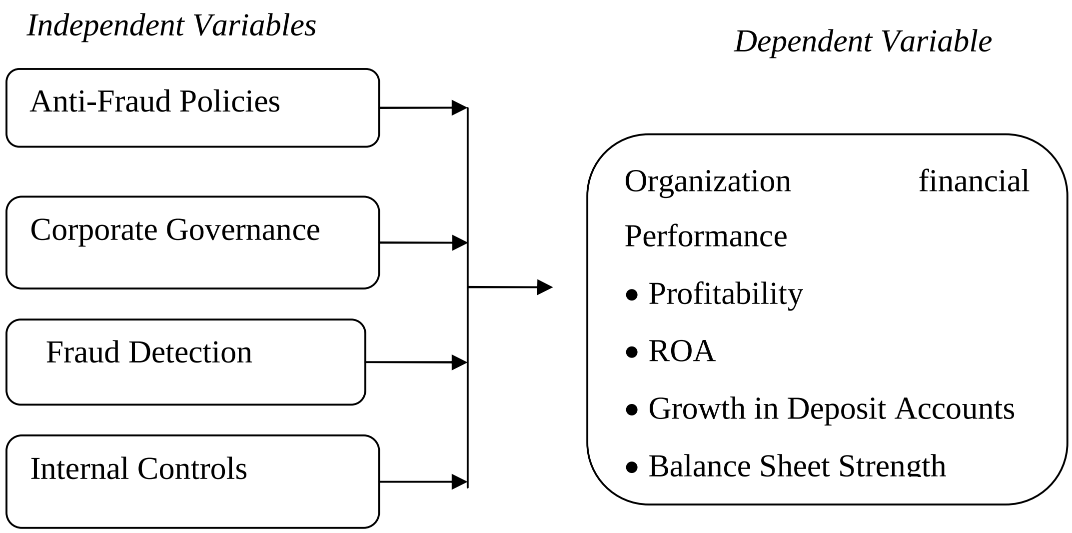

Figure 2: Perceived Effect of Fraud Risk Management on Financial Performance Micro Finance Institutions

Anti-fraud Policies

Operational governance in the form of clear policies and procedures reduces incidences of white collar crime within corporations (Hansen, 2009). Every institution should create and maintain a fraud policy for guiding employees (Bierstaker, Brody, & Pacini, 2006). The board of directors is responsible for the development of an anti-fraud policy that takes into account cultural differences that influence how employees respond to situations of fraud (Bierstaker, 2009).

An anti-fraud policy should be separate and distinct from a corporate code of conduct or ethics policy, it should be clearly communicated and all employees should give a written acknowledgement that they have read and understood the policy (Bierstaker et al., 2006). DTMs need to formalize their policies and procedures in order to comply with licensing requirements as well as demonstrate greater accountability to the DTM's new stakeholders, including shareholders, regulators and depositors. Policies and procedures inform all employees of what is expected of them, how they should perform their duties and the consequences of not performing as required, these should be clearly documented, regularly updated and communicated to employees (Ledgerwood & White, 2006). A fraud policy should apply to everybody in the organization including senior management; it should demonstrate the organization's commitment to combating fraud and also communicate the institution's attitude and approach to the threat of fraud (Wright, 2007).

The scale and sophistication of today's fraud suggests that a dedicated anti-fraud policy supported by effective procedure for prevention and detection are key weapons for the financial sector firms in the fight against fraud. Collaboration between related sectors at the policy and procedure stage must be encouraged as it would greatly assist the financial sector as a whole in tackling fraud (Burger & Hatt, 2006).

Corporate governance

Corporate governance is the system by which companies are directed and controlled and is concerned with establishing structures and allocating responsibilities within companies (Schachler, Juleff, & Paton, 2007). A sound internal governance framework forms the foundation for effective operational risk management (Basel Committee, 2011). The tone at the top provides the cornerstone of ethical behavior throughout the organization (Law, 2011). When senior management adopts core values and a strong ethical culture, an ethical environment that helps to reinforce employees' ethical perceptions and behavior at work is created (Law, 2011). Ethical values may be communicated by example through leadership and management's strict adherence to admonishing those who violate the ethical standards or code (Rae & Subramaniam, 2008).

It's further argued that corporate culture may be more important than an individual's cultural heritage in guiding ethical behavior and shaping attitudes about fraud (Albrecht et al., 2010). Changing the corporate culture by improving the contents of the ethical climate could be a basic means for preventing corporate crime. There should be an ethical fit between an organization's ethical strategy and its existing systems, structures, policies and procedures and culture (Dion, 2008). The board of directors should take the lead in establishing a strong risk management culture that supports and provides appropriate standards and incentives for professional and responsible behavior (Basel Committee, 2011).

Fraud Detection and Deterrence Mechanisms

Fraud deterrence are measures to stop fraud occurring in the first place, whereas fraud detection involves identifying fraud as quickly as possible once it has been perpetrated (Naicker, 2006). Zhang (2012) in his studies states that fraud detection and deterrence must operate together. Naicker (2006) further states that fraud detection is a continuous process as criminals always adapt to new ways of committing fraud once they know of the existence of a detection method. Fraud deterrence involves good division of responsibilities, supervision of staff, monitoring work performance and also putting measures in place to ensure that even when systems are accessed that there is proper control (Kimani, 2011).

Institutions should adopt know your customer practices to identify all the features of their clients, management should not only strive to know new customers but must update existing files and monitor their operations in order to detect fraud (Hardouin, 2009). Daily monitoring of transactions should also be carried out in order to spot unusual transactions (Prabowo, 2012). Fraud awareness can also be enhanced through seminars and training events held in collaborations with institutions like the central bank, the central reference bureau and other financial institutions, covering areas like fraud prevention measures and investigation techniques (Prabowo, 2012). Staff training is a key element in risk management as employees who are actively trained in risk management are better able to identify threats to the organization due to weak or non-existent internal controls (Rae & Subramaniam, 2008). Know your customer is a key compliance issue, whereby an institution is required to identify all the features of its clients by updating existing files and monitoring the operations and checking at least that originators and beneficiaries are not blacklisted (Hardouin, 2009).

Internal Control

Internal controls are processes designed to provide reasonable assurance that management achieves effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Grant, Miller, & Alali, 2008). A system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations (Rae and Subramanian, 2008). Reasonable assurance is provided when cost-effective actions are taken to restrict deviations, such as improper or illegal acts to a tolerable level. The internal audit reviews the effectiveness of the internal control system to ascertain whether the system is functioning as intended (Fadzil, Haron & Jantan, 2005).

The system of internal controls should emphasize on, proper identification measurement and monitoring of risks, control activities for each level of operation, creation of reliable information systems that promptly reports anomalies and detailed reporting of all operations and monitoring of all the activities (Opromolla & Maccarini, 2010). Internal controls are affected by a company's board of directors, management and other personnel and are designed to ensure effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Spira & Page, 2003). The management should assess and report the effectiveness of an institution's internal controls to its stakeholders (Rezaee, 1995). Internal controls should have the following as its components, control environment, risk assessment, control activities, information and communication and monitoring activities (Basel Committee, 2011).These interrelated components of internal control must be present and functioning properly in order to have an adequate and functioning internal control system (Rezaee, 1995).

Research Methodology

Research Design

The research design is a plan of the methods and techniques to be adopted for collection and analysis of the data required in obtaining answers to research questions, (Kothari, 2004). This study adopted a descriptive survey design. Kothari (2004) states that descriptive studies are fact-finding enquiries and their purpose is to decsribe the state of affairs as it exists at present. Descriptive research describes the existing conditions and attitudes through observation and interpretation techniques (Mugenda & Mugenda, 1999). The study intends to describe the variables associated with the problem.

Target Population

The target population of this study was all deposit-taking microfinance institutions in Kenya. According to CBK (2012), there are 8 licensed deposit-taking microfinance institutions in Kenya with a total staff population of 3,030 people. All deposit-taking microfinance institutions have headquartered in Nairobi (CBK, 2012). The study was particularly interested in staff working in human resource department,risk management,business growth and development,internal audit,corporate strategy and planning and the finance deaprtment.

Sample Size & Sampling Technique

The study adopted stratified sampling with the sample been drawn from the senior management,middle management and lower management staff of the the head office branches of the 8 deposit-taking microfinance institutions. Stratified sampling is whereby the population is divided into two or more subgroups using a give criterion and then a given number of cases are randomly selected from each population subgroup (Mugenda & Mugenda, 1999). The sample will be drawn from senior management, loan officers, risk and internal audit and loan recovery officers as they are likely to have knowledge in the subject of this study. Assumming that 10% of the total population working in deposit-taking microfinance institutions is comprised of support staff,then our target population for sampling purposes will comprise of a total of 249 staff in senior,middle and lower level management, working in headquarter branches of deposit-taking microfinance institutions. Mugenda & Mugenda (2004) suggests that the following formula can be used to determine the sample size in social studies;

Data Collection Methods and Instrument

The study used both primary data and secondary data. Secondary data accessed from the CBK (2012) report while a semi-structured questionnare was used for collecting primary data from the respondents.

Data analysis

The study generated both quantitative and qualitative data as the questionnaire have both open-ended and closed-ended questions. According to Macharia(2012) content analysis is the process of analyzing verbal or written communications in a systematic way in order to measure variables qualitatively. Descriptive statistics such as frequencies, percentages, means and standard deviation was used to report and present the data. Quantitative data will be derived from the closed-ended questions in the questionnaire. Financial ratio analysis was to measure the organization performance. Correlation was used to investigate how the independent variables inter-relate while Model Summary was used to contribution of independent variables and the dependent variable (Kothari, 2004). This was done using Statistical Package for Social Sciences (SPSS) as it is comprehensive and offers extensive data handling capacity.

The following regression equation was used;

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

Where Y= Performance

X_1= Anti-fraud policies

X_2 = corporate governance

X_3 = Fraud detection

X_4 = A system of internal controls

e= Error

Data Analysis and Interpretation of Findings

Inferential Analysis

To compute the correlation between dependent variable and the independent variables the study conducted and model summary.

Financial Ratios Analysis

This section involves analysis of the financial performance of the deposit taking microfinance institutions in Kenya. The focus of the study was on ROA, Cash flow, ROCE, Balance sheet strength. The results indicate that fraud risk management was significant in affecting the various indicators of profitability where Growth in Deposit Accounts had the highest t-values at 2.212, followed by profitability at 1.557, then balance sheet strength at 1.263, while ROA had the least t-value at 0.971. Based on the results, all the explanatory variables are statistically significant (p= 0.0411, p=0.0364, p= 0.0409 and p=.0270). In statistics, a significant level of $p < 0.05$ is significant. This means that the four predictor variables are useful for predicting the effect of fraud risk management on financial performance of deposit taking micro financial institutions in Kenya.

Table 1: T-Statistics

Model		T stats	Mean	Std. Dev	Sig.
1	(Constant)	0.965	-3.83	9.22	
	Profitability (%)	1.557	-4.06	6.50	0.0411
	ROA (%)	0.971	234112.83	362193.47	0.0364
	Growth in Deposit Accounts	2.212	-3.83	9.22	0.0409
	Balance Sheet Strength	1.263	617.17	885.18	0.027

Model Summary

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (organization performance) that is explained by all the four independent variables (anti-fraud policies, corporate governance, fraud detection systems and internal controls).

The four independent variables that were studied, explain only 66.4% of the organization financial performance as represented by the adjusted R^2. This therefore means that there are other factors not studied in this research contribute 33.6% of the organization financial performance. Therefore, further research should be conducted to investigate the other fraud risk management adopted (33.6%) that assists in organization financial performance.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.815	0.664	0.314	0.4211

Anti-Fraud Policies

From the study findings, most of the organizations had anti-fraud policies and are effective. On the same, the study established that institution has a separate and distinct anti-fraud policy from a code of conduct policy, institution's employees are trained on anti-fraud mechanisms and that management reports on the occurrence and the cost of fraud to staff of the institution and that that the institution has documented policies and procedures which are clearly communicated to all employees and that employees understand what fraud constitutes in all products of the deposit-taking microfinance. Finally, the study found that anti-fraud policies influence organization performance to a great extent.

Corporate Governance

To the objective of Corporate Governance, the study found that most of the organizations respondents indicated that the management team is extremely committed on mitigating risk and other fraud that occurs in area of operation and that management are committed. Fraud prevention is considered when setting performance standards against which managers are evaluated, likewise respondent agreed that the institution's board of directors' benchmarks fraud risk management policies against best practice in the sector. Also respondents agreed that the board of directors of the institution utilizes the internal audit as an important aspect of the fraud risk management structure, respondents also agreed the institution's board of directors plays an important role in the oversight and implementation of controls to mitigate the risk of fraud and misconduct and that the institution's board of directors actively promote a strong risk management culture and provides minimum performance standards and incentives for ethical behavior.

Fraud Detection

The study found that organization have fraud detection tool, the institutions have mechanisms for monitoring transactions on a daily basis to detect occupational fraud. Additionally the study established that the institution has provided anonymous telephone hotlines to employees and third parties for reporting fraud. also respondents agreed that the institution monitors employees interactions with suppliers and customers to help in detecting the possibility of fraud by the staff. Further respondents agreed that the institution has adopted know your customer practices to assist in detection of fraud risk, employee behaviors is a very good indicator of possibility of fraud, Tip from staff/customers are the most used method in occupational fraud detection within the institution and complaint from customers detect more frauds than other methods.

Internal Controls

On application of Internal Controls, the study established that control measures are applied by the DTMs in combating fraud. Additionally, the study established that Internal Control Strategies Assist in the achievement of performance objectives to a great extent. From the correlation analysis, it was clear that there was a positive correlation between fraud strategies adopted and Internal Control with a correlation value of 0.746.

Conclusions

The study aimed at finding out influence of fraud management mechanisms on financial performance of deposit-taking micro finance institutions in Kenya specific focus to selected DTM. Based on the findings the study made the following conclusion.

The study concluded that, most of the organizations had anti-fraud policies and is effective. On the same, the study established that the institutions have separate and distinct anti-fraud policy from a code of conduct policy, institution's employees are trained on anti-fraud mechanisms and that management reports on the occurrence and the cost of fraud to staff of the institution and that that the institutions have documented policies and procedures which are clearly communicated to all employees and that employees understand what fraud constitutes in all products of the deposit-taking microfinance while Anti-Fraud Policies affect organization performance to a great extent.

On the objective of Corporate Governance, the study concluded that that most of the organizations respondents indicated that the management team is extremely committed on mitigating risk and other fraud that occurs in area of operation and that management are committed. Likewise the study concluded that the board of directors of the institution utilizes the internal audit as an important aspect of the fraud risk management structure. Likewise, the study concluded that Corporate Governance assist in achievement of organizational performance to a great extent.

On Fraud Detection, the study concluded that institutions have fraud detection tool for monitoring transactions on a daily basis to detect occupational fraud. Additionally the study conclude that the institution have provided anonymous telephone hotlines to employees and third parties for reporting fraud. also respondent agreed that the institution monitors employees interactions with suppliers and customers to help in detecting the possibility of fraud by the staff. Consequently the study conclude that institutions have adopted know your customer practices to assist in detection of fraud risk, employee behaviors is avery good indicator of possibility of fraud, Likewise, the study concluded that Fraud Detection assist in the achievement of financial performance to a great extent.

To the objective of Internal Controls, the study concluded that institution have set procedures in controlling fraud, findings are shared with the departments concerned. The internal control system detects and highlights diversion of processes from the norm most of the time, the institution has a programme for regular training of staff on processes and procedures and trends of fraud risk, the internal audit performs a review of internal controls annually to test their robustness, Risk management is embedded into the processes and procedures of the institution in controlling fraud and money laundering fully by giving guidelines and procedures that enables organization to control fraud to a great extent.

Recommendations

Based on the objectives of the study, the following recommendations were reached. On the anti-fraud policies, the study recommended that employees in all departments to be conversant on set procedures, rules and guidelines in fraud mitigation in order to ensure cases of fraud are zero. On the same the study recommended that all banks to have a fraud risk officer who will be responsible of interpreting fraud and anti-money laundering policies to the employee so as to ease their understanding on the policies.

To the objective of corporate governance, the study recommended that rules and guideline lines set by the central banking in financial institution such as personal information and other legal requirement should be adhered to ensure fraud cases are mitigated to zero. On the same the study recommended that personal information of the staffs such history and profile of the staffs should be known by the executives. The institutions should have a framework that can facilitate information sharing between as it may assist in improving the recruitment of staff and also identify and lock-out blacklisted employees form employment opportunities in the sector. A joint framework may also help institutions to monitor fraud trends occurring in the market for better deterrence strategies to be formulated.

To the objective of fraud detection, the study recommended that institutions adopt technology that would help in the deterrence and detection of fraud. On the same the study recommended that all staffs should be trained in applying IT in fraud mitigation.

On the objective of Internal Controls, the study recommended that organization should not place placing too much trust on key employees and that they should conduct adequate auditing on the system so as to mitigate risk. Employees should not also spend a very long time in a particular position; management should regularly rotate staff to different departments. On the same the study concluded that guidelines and procedures provided by the central bank of Kenya in controlling fraud and money transaction are fully adhered in the operation of the bank in all departments to ensure no fraud cases are reported hence precise performance. Staff appraisals should consider fraud in measuring staff performance and rewards where staffs are made to understand the importance of controlling fraud to the overall performance of the organization.

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