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The Link between Occupational Fraud and Public Service Delivery in Kenya

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Abstract

This study examines the link between occupational fraud and public service delivery in Kenya, guided by three objectives; to examine the link between corruption and public service delivery in Kenya, to examine the link between asset misappropriation and public service delivery in Kenya and to examine the link between financial statement fraud and public service delivery in Kenya. *The study is anchored on the fraud triangle and fraud diamond theories. We adopt a descriptive research design and employ purposive and systematic sampling to select the study respondents. The study focuses on those who were in the final stages of the service delivery process. Qualitative and quantitative data was collected through interviews and questionnaires. We find a statistically significant negative link between occupational fraud and public service delivery. Thus, the government should formulate and implement policies to curtail occupational fraud. Furthermore, employees should be educated on fraud policies as well as implications for engaging in fraudulent activities as soon as they are hired.*

Key Words: *Asset Misappropriation, Corruption, Fraud triangle, fraud diamond, Occupational Fraud and Public Service Delivery.*

1.0 Introduction

In recent years, there has been a high public attention and policy debate occasioned by stunning high-profile series of frauds and financial scandals. The UNDP (2015) defines fraud as the deliberate fabrication of the truth or concealment of facts to cause harm. Occupational fraud is fraud that originates from within a company and is carried out by people who have been trusted with organization’s assets (ACFE, 2018). According to Cressey (1953) fraud model, every fraudster is confronted with three fundamental precursors to commit fraud such as pressure, rationalization and opportunity. When a fraudster is presented with the opportunity to commit

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crimes, they feel the pressure to commit crime so as to fulfill the presumptions of fraud, the fraudster then rationalizes' that they can commit the fraud without being caught.

There has been a rising trend in the level of occupational fraud in the global arena. According to Gee and Button (2015) the global average loss rate for the period 1997 to 2013 was 5.6%, when accounted for against the global Gross Domestic Product (GDP) for 2013 and was greater than 50% of united kingdom entire GDP. Further, ACFE (2020) observes that fraudulent activities within companies have led to loss of 5% of firms' total revenues. The prevalence of financial fraud appears quite pronounced in Sub-Saharan Africa (SSA). Thus, Kroll (2019) concedes that SSA is a hub- for bribery and corruption as reported by 33 percent of the region's respondents and that politics largely accounts for such economic frauds.

In Kenya cases of occupational fraud exceeds those committed by external parties. Kenyan respondents experienced procurement fraud with a record of 39% against global average of 19%, and ranked the second common and costliest form of economic crime. The levels of economic crimes for the 5 years preceding the Price Waterhouse Coopers' (PWC) study has increased in comparison to the global average (PWC, 2020). Notably, corruption incidences in the period of 2005-2015 increased by 52% and led to Gross Domestic Product (GDP) loss of about 3% (or US $910 million) annually (Bett & Muturi, 2016). Furthermore, ACFE revealed that most people only commit one form of occupation fraud, 26% engage in asset misappropriation and corruption, 3% engage in misappropriation of assets and 5% are involved in all the three categories (ACFE, 2020).

Recent studies suggest that corruption ranks second as the most common form of occupational fraud. For instance, the transparency international report shows that Kenya ranks at 143 globally, effectively ranking it as the 35th most corrupt country globally (International ,2019). According to UNDP corruption is the act of doing something with an intent of obtaining a benefit through the use of one's position (UNDP, 2015). Corruption can also be defined as a plot in which an employee takes advantage of his/her influence in a business transaction to get a direct or indirect benefit by violating their duty to the employer (ACFE, 2020). Corruption is an off book fraud that occur in the form of kickbacks, gifts, or gratuities to employees by vendors/contractors (Stewart, 2015). According to (Mazibuko & Fourie, 2017), lack of control over contract performance and assessment has created loopholes that escalate corruption levels. Corruption has wide implications for service delivery.

While an effective and efficient public service is crucial for growth and development of a nation corruption and financial frauds could impair service delivery. Governments are elected largely on the platform of fighting corruption and mismanagement of public funds. In addition it has to encourage and promote accountability and transparency among the officials, so as to alleviate poverty among the citizens (Jiwan, 2016).

Considering the adverse effects fraud has on the delivery of services, governments should implement coercive policies to prevent compromised services to the citizens (Ngwakwe et al., 2012). Furthermore, it's important to ensure that fraud prevention strategies and policies have been enacted, practiced and updated to avoid disruption of public service delivery (Williams et al., 2017).

2.0 Literature Review

Occupational fraud has attracted immense research interest in the recent past largely due to increased incidences of fraud in both private and public sectors. The dynamic and multifaceted nature of fraud makes it not only difficult to detect but also hard to entirely eradicate. Further, there is dearth of data on occupational fraud for reasons that most of the available data might be biased considering only what its detected is recorded (Kim, 2012). According to Baloyi et al., (2019) the occurrence of financial crimes hinder effective service delivery to the citizens. Government institutions are more vulnerable to occupational fraud and expense manipulation by political actors so as to be re-elected in political offices. This pressure can, and frequently does, influence their behavior and judgments. Further, public institutions are at a higher risk of occurrence of fraud due to lack of sufficient accounting staff for oversight (Carroll, 2015).

The gravity of occupational fraud in Kenya has come into sharp focus in recent years. For instance, the country's president acknowledged that on average Kenya loses Sh. 2billion per day to corruption (Muriuki, 2021). Thus, Kiprono (2018) opines that the prevalence of incidences of fraud in the country is due to the extreme weak financial infrastructure and poor fraud detection, prevention and mitigation. On the other hand Gee et al., (2011) posits that while fraud is an issue, its economic effects are largely unclear yet tax payers pay a price when the public officials defraud the government. The citizens should be allowed to have access to government information so that transparency and accountability can be maintained and citizens are conversant with the markets (Grabosky, 2018).

Corruption has been identified as one of the most damaging forms of occupational fraud to the continent's social and economic growth, particularly among other developing nations. This results in a lack of foreign direct investment, a reduction in employment opportunities, revenue loss, high cost of doing business across the board, and a loss of revenue to both local and international enterprises in various nations across the world. Corruption in the political arena leads to violations of human rights, defiance of laws, and a weakening of all government systems in terms of transparency and accountability on governance concerns, as well as a loss of public faith in government institutions (Kibet & Nairobi, 2019).

The chapter six of the Constitution of Kenya (2010) on Leadership and Integrity requires public officials to act with integrity and honesty when working in a public office. In Kenya's public service, a number of institutions have been established to provide transparency and accountability. These institutions include; Ethics and Anti-Corruption Commission (EACC) and the Directorate of Criminal Investigations (DCI) among others. Dzomira (2015) posits that government officials should practice good governance by ensuring that fraud risks and prevention measures are regularly updated.

Fraud involves unethical procurement processes which include misappropriation of assets, Misstatement of finances and awarding tenders to family and friends (Mazibuko & Fourie, 2017). In addition, due to the adverse effects fraud has on the delivery of services, the government should implement coercive policies to prevent compromised services to the citizens (Ngwakwe et al., 2012). However, the lack of skills and policies increases the likelihood of fraud occurring. Furthermore, it’s important to ensure that fraud prevention strategies and policies have been enacted, practiced and updated to avoid disruption of public service delivery (Williams et al., 2017).

According to Stewart asset misappropriation is the misuse of organization’s cash or assets (Stewart, 2015). Hence, Stewart argues that financial statements can be intentionally distorted so as to deceptively conceal an organization's financial condition. The failure to have accountability with the public finances and low integrity by public officials has led to misappropriation of public assets, additionally incurring unwanted expenditure is a challenge that tampers with efficient service delivery (Dzomira, 2015). Public officials with very low levels of integrity have exploited their positions to personally benefit from resources allocated to the public (Edoun, 2015) effectively impairing service delivery.

Financial statement fraud occurs when an employee or trustee omits or misstates information in an organizations financial statements such as recording fake revenues, overstating expenses, or inflating reported assets (ACFE, 2020). Fake revenues, hidden liabilities, timing mismatches, and inappropriate disclosures are all examples of financial statement fraud (Carroll, 2015).

Service delivery is the relationship between policymakers, service providers, and citizens (Carlson et al., 2005). Providing services and the mechanisms that support them, which are typically considered to be the duty of the government is referred to as delivery of service. Recent studies suggest that at global level, the attainment of sustainable service delivery has been a big challenge (Valdivia, 2018). Accordingly, Baloyi (2019) posits that the occurrence of financial crimes hinders effective service delivery to the citizens. These studies are consistent with Mutuma et al. (2017) work which observes most states lack financial accountability and that the occurrence of financial crimes such as occupational fraud impede effective service delivery. It appears that fraud and corruption is a major detriment to effective service delivery the world over. In effect, Mazibuko & Fourie (2017) concedes that efficiency in the public sector should be improved especially with regard to how public assets and finances are managed.

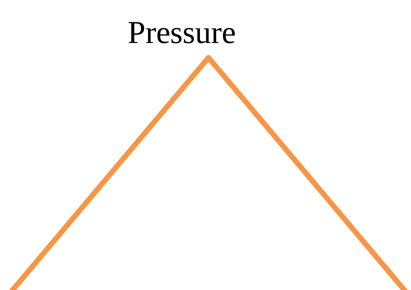
In sum, as Baloyi (2019) suggests, good governance and efficient management of public resources would support good service delivery. Appropriate efforts aimed at promoting accountability and transparency among public officials could help alleviate poverty among the citizens (Jiwan, 2016). However, delivery of public services involves a variety of transactions between service providers, which make it a complex process due to changing wants of the citizens. Perhaps these challenges explain why developing countries have adopted western bureaucratic models to deal with the complexities (UNDP, 2015).

3.0 Problem Statement

The complexity and the magnitude of occupational fraud in the public service have led to citizens' unrest as they seek better services. This is despite the fight against fraud and corruption through directorate of criminal investigations (DCI) and legislation acts by bringing high numbers of graft cases to the courts and having high profile arrests. The general public continue to agitate for better and quality service delivery and thus state officials are under a lot of pressure to perform (Obudo & Wario, 2015). Notably, KIPPRA (2020) finds that key sectors such as health, education, water and energy encounter serious challenges in service delivery. While there are many studies focusing on occupational fraud on one hand and on the other hand focusing on service delivery, studies that focus on both variables appear to be scarce. This is despite the fact that service delivery is an important measure of performance of the state to its citizens and the fact that government performance is measured by its service delivery to its people (Muturi, 2019). Nonetheless, Dzomira (2015) observes that officials from public sector continue to engage in financial malpractice. This poor service delivery has resulted into civil disobedience by citizens in the form of protests, malicious damage to State property and other forms of political unrest. Insider fraud is more damaging than fraud committed by external parties. According to PWC (2020), insider fraud led to the loss of US$100 million in the course of the year which accounts for 43% of the reported cases. Our study builds on the work of Baloyi et al., (2019) which focused on impacts of financial malpractice by public officials and how it impedes delivery of services. We also build on Nyamweya (2017) study which sought to determine what variables contribute to misappropriation of devolved public finances and how it affects service delivery in Nairobi County. From these studies, we observe contextual and conceptual and methodological gaps that our study seeks to fill. Thus, we seek to establish the link between occupational fraud and public service delivery in Kenya.

4.0 Theoretical Framework

This study is grounded on two theoretical underpinnings namely; the Fraud Triangle Theory (Cressey, 1953) and the Fraud Diamond Theory (Wolfe & Hermanson, 2004). The Fraud Triangle Theory argues that pressure, opportunity, and rationalization are necessary for fraud to occur. The relationship between pressure, opportunity and rationalization is depicted in figure 1



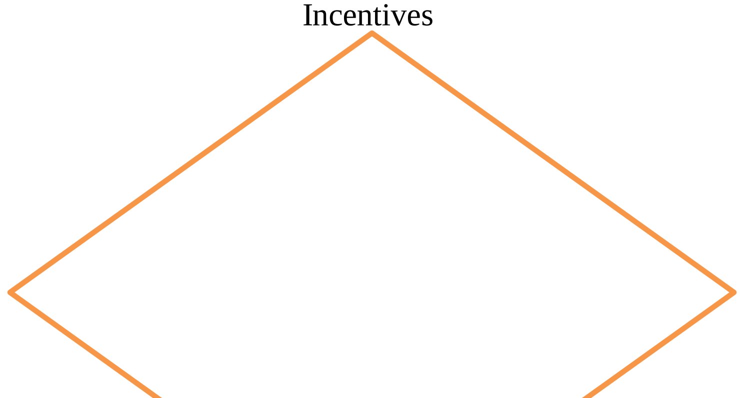
Rationalization Opportunity

Figure 1- Fraud Triangle (Source: Cressey, 1953)

Hence, Cressey observes that most employees commit fraud because of pressure associated with non-disclosed financial problems. Cressey suggests that while there are multiple sources of pressure largely considered ‘non-shareable’ to some, not every one may consider the issues as such. Interestingly, the mere existence of non-sharable pressure points does not necessarily make an employee commit fraud (Wells, 2005). The individual who has the problem must also discover the existence of an opportunity of committing the crime and avoid being caught. Faced by life’s pressures and an opportunity to commit fraud one then rationalizes the need to commit fraud. Thus, rationalization isn’t an after-thought to justify fraud, but actual basis for an individual to commit fraud and is often dropped once the perpetrator has committed the fraud (Wells, 2005).

The Fraud Diamond Theory explains why fraud occur by describing the four elements that should be present in any fraudulent transaction namely; *incentive, opportunity, capability and rationalization.* Incentive is a motive to do something wrong, opportunities are circumstances that contribute various frauds, rationalization is the reasons people give for committing fraud while Capability is the potential to engage in fraudulent activities (Wolfe & Hermanson, 2004).The opportunity to commit fraud is not enough; one must also be capable of taking advantage of the opportunities. The relationship between incentive, opportunity, capability and rationalization is shown in figure 2

Incentives



Capabilities Opportunity

Rationalization

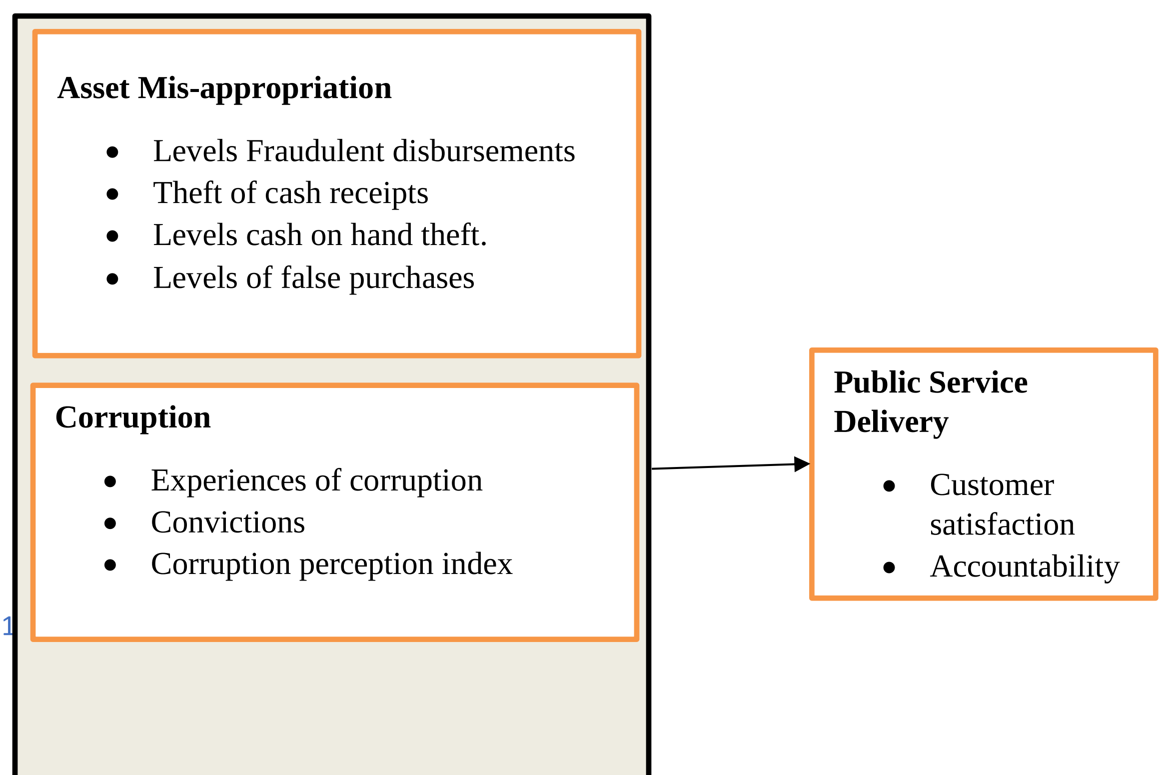
Figure 2: Fraud Diamond (Source: Wolfe & Hermanson, 2004)

The inclusion of intellectual capabilities and biases has helped in managing a number of constraints of the fraud triangle theory. For instance, one group of researchers uses cognitive analytics to understand why some individuals develop a rationalization to engage in fraudulent activities and others don’t based on individual cognitive biases and conditions (Kleinman, 2020).

5.0 Conceptual Framework

Independent Variable **Dependent Variable**

Occupational Fraud **Public Service Delivery**



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Financial Statement Fraud

- Ratio of sales, total debt and development
- Levels of accounting anomalies
- Return on asset

Figure 1: Conceptual Framework

Source (Researcher, 2021)

6.0 Research Methodology

The study adopts an empirical approach to test the relationship between occupational fraud and service delivery using the following analytical multiple regression model;

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + Z + \varepsilon}$$

Where;

Y = is the dependent variable public service delivery measured by Customer satisfaction and accountability

$\mathbf{X_1}$- $\mathbf{X_3}$ are independent variables ($\mathbf{X_1}$ asset misappropriation, $\mathbf{X_2}$ Represents corruption and $\mathbf{X_3}$ financial statement fraud).

β_1, β_2, and β_3 are the coefficients to be estimated

α- the constant that captures changes in the model that are not explained by independent variables.

Z- is the vector for control variables

Ɛ- error term

6.1Data and Data Sources

The study was conducted in Kiambu County in Kenya. Kiambu country was considered appropriate for this study since the country had many cases of occupational fraud and poor service delivery covered by Kenya's print and electronic media. The county is one of few counties where the governor was impeached because of corruption and mismanagement of public funds. This study targeted the 20 State department for public service staff tasked with financial duties. There were at least 10,000 citizens seeking services in week in Kiambu county (Kiambu County, 2020). The study also targeted 15 officials from the office of the Ethics and Anti-corruption Commission (EACC) and the Directorate of Criminal Investigations (DCI). The target population was 10035. To choose respondents for this study, purposive and systematic sampling was used to select a sample of 384 respondents. Primary data was collected using structured and unstructured questionnaires.

7.0 Results and Discussions

From the results presented in table 1 analytical model can be restated as follows; $Y=6.687-0.226\ X_1-0.284\ X_2-0.214X_3-0.095Z$. The main objective of the study was to establish the link between occupational fraud and public service delivery in Kenya. The results suggests that occupational fraud has a negative impact on public service delivery. The first objective of the study was to determine the link between asset misappropriation and public service delivery in Kenya. The study findings suggest that asset misappropriation negatively influence public service delivery in Kenya with a co-efficient of -0.226. The second objective study was to determine the link between corruption and public service delivery in Kenya. The results show a negative relationship between corruption and service delivery with a co-efficient of -0.284. Lastly, the last objective tests the link between financial statement fraud and public service delivery in Kenya. The study sought to find out the fraud incidences in Kenya. Results on shows that fraud incidences are negatively linked to public service delivery with a co-efficient of -0.214.

Table 1: Fraud Incidences and Public Service Delivery

Coefficients[a]				
Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	6.687	0.292		22.883	0.000
	X1	-0.287	0.104	-0.226	-2.753	0.006
	X2	-0.349	0.095	-0.284	-3.685	0.000
	X3	-0.167	0.063	-0.214	-2.653	0.009
	CONTROL	-0.091	0.059	-0.095	-1.544	0.124
a. Dependent Variable: Y						

Source: Authors' analysis of primary data

8.0 Conclusions

Our findings consistently show that occupational fraud is negatively linked to public service delivery. Thus, the government should formulate and implement policies to curtail occupational fraud. Furthermore, employees should be educated on fraud policies as well as implication for engaging in fraudulent activities as soon as they are hired. The government officials should be trained on the importance of integrity and why accountability is crucial in delivery of public services. The government should ensure that citizens have adequate knowledge on the types of fraud and how they can help reduce the levels through civic education.

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