of respectability and high social status in the course of his/her occupation (Sutherland, 1949). Sutherland originally presented his theory in an address to the American Sociological Society in an attempt to study two field, crime and high society which had no previous empirical correlation. White collar criminals attributed different characteristics and motives than typical street criminals. He used the concept to challenge conventional stereotypes and theories. An assumption of this theory is that prosecutors are more lenient on white-collar as opposed to street criminals. Fraud prevention may be able to lessen the impact of white collar crime thus influencing effective financial reporting.

b)The Fraud Triangle Theory

According to Albrecht et al., (2009) 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 as shown below.

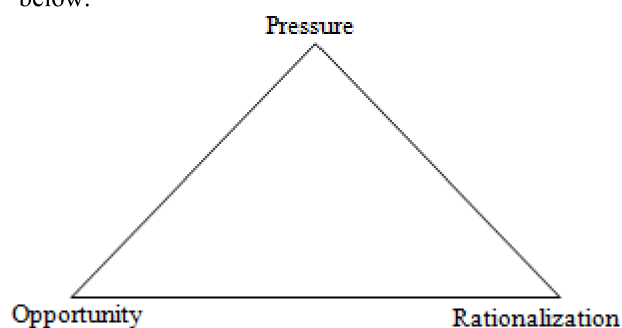

Figure 2.1: The Fraud Triangle

According to this theory fraud is 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, the less rationalization it takes for someone to commit fraud (Albrecht et al., 2010). However, fraud is a complex matter and is a function of a combination of factors (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 (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). Strong moral codes can prevent individuals from using rationalizations to justify illicit behavior. Financial reporters, however, should assume that anyone is capable of justifying the commission of fraud (Hillison et al., 1999).

c) Fraud Policy

According to Hansen (2009) operational governance in the form of clear policies and procedures reduce incidences of fraudulent activities. Therefore, every institution should create and maintain a fraud policy for guiding employees (Bierstaker, Brody & Pacini, 2006). In such a system, the board of directors is responsible for the development of a fraud policy that takes into account cultural differences that influence how employees respond to situations of fraud (Bierstaker, 2009). A 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). County governments need to formalize their policies and procedures in order to comply with financial reporting requirements as well as demonstrate greater accountability to the county's stakeholders, including members of the public. Fraud policy should inform all employees what constitutes a fraud, what is expected of them, how they should perform their duties and the consequences of engaging in fraudulent practices or not performing as required.

According to Ledgerwood and White (2006) the fraud policy should be clearly documented, regularly updated and communicated to employees. 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).

d)Fraud Prevention and Financial Reporting

Broadly speaking, fraud may be defined as an intentional act to gain an advantage by an unfair or unlawful gain. According to Rubin (2007), it may include fraudulent financial reporting, misappropriation of assets, revenue or assets acquired from illegal or unethical activities, costs for illicit purposes, income received fraudulently or intentionally avoided costs and fraud against the company. Several studies have been done to establish the role of fraud prevention on financial reporting in different institutions. Okoye (2011) in his examination of fraud prevention on financial reporting found that fraud prevention significantly reduced the occurrence of fraud cases in the County Government. However, in a study of ten companies from five sectors quoted in Nigerian Stock exchange, Okunbor and Obaretin (2010) established that fraud prevention had not been effective as revealed by the frequency scores of those who disagreed. Islam, Rahman and Hossan (2011), in their study on issues relevant to the current status of the application of fraud prevention strategies in Bangladesh and how efficiently they worked as a fraud prevention tool, established that fraud prevention was relevant in combating fraud and corruption in Bangladesh but showed no evidence of effective financial reporting.

Gottschalk (2010) used a structured questionnaire on 517 potential respondents and through descriptive statistics, revealed that internal control is the most important means by which fraud is prevented and controlled. However, some respondents believe that the influence is more important in

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terms of ethical guidelines and other measures. Muthusamy (2010) utilized Partial Least Square (PLS) technique in a study of a list comprising 9642 large Malaysian companies and the result was that the present conceptual model confirmed both perceived benefits and perceived risks as significant direct antecedents of attitude. Singleton et al., (2006) surveyed a sample of thirty auditors from thirteen commercial banks in Zimbabwe and found that corporate governance had a better chance to influence fraud prevention.

8. Research Methodology

The study was based on a descriptive survey design. This method was appropriate for obtaining factual and attitudinal information for research questions about self-report, beliefs, opinions and characteristics of the respondents' present and past behaviours. The descriptive design was also appropriate because it accommodated simultaneous description of views, perceptions and beliefs of the respondents at any single point in time. The research approach was quantitative in nature and focused on primary methods of data collection. The main method was the questionnaire which was used to obtain quantitative data. The target population for this study was 45 accountants, 11 finance officers, 25 auditors and 25 procurement officers in the county government of Nakuru. Census technique was used since the target population was the same as the sample size. This technique was also applied because the information being sought could only be obtained from a unique target population and the sample size was also small. The data was collected through the use of questionnaires. Descriptive statistics such as percentages was used to summarize the data. All quantitative data was measured in real values. Tables were also used to present the data collected for ease of understanding and analysis. Quantitative reports were generated through tabulations, percentages, and measure of central tendency. Inferential statistics which included Pearson's correlation analysis was used. The hypothesis was tested at 0.05 level of significance.

9. Results and Discussion

9.1 Effects of Fraud Policy on Financial Reporting

The study examined the effects of fraud policy on effective financial reporting in the County Government of Nakuru. The findings are reported based on the responses obtained from the respondents on various statements about fraud policy and the results presented using descriptive as presented in the subsequent sub section.

9.2 Descriptive Statistics on Fraud Policy

The first objective of the study sought to examine the effect of fraud policy on the effective financial reporting in Nakuru County. Descriptive statistics were used to compute the mean and standard deviations of the results as presented in Table 1.

Table 1: Mean and Standard Deviation of Fraud Policy

Fraud policy	N	Min.	Max.	Mean	SD
Fraud policy reduces incidences of fraudulent activities.	**90**	1	5	3.42	1.244
Fraud policy guides all employees	**90**	1	5	3.08	0.906
All employees respond to situations of fraud based on the policy	**90**	1	5	3.47	0.893
Fraud policy is separate from corporate code of conduct	**90**	1	5	3.21	1.119
Fraud policy influences effective financial reporting	**90**	1	5	3.34	0.938
Fraud policy assists the county government to fight fraud	**90**	1	5	3.35	1.060
At the county level there is effective financial reporting	**90**	1	5	3.05	0.998

The results presented in the table above were obtained from the study regarding the role of fraud policy as a component of fraud prevention strategy in enhancing effective financial reporting. The results were analyzed using mean and standard deviations of the responses. The results are further discussed under the various headings of the statement about fraud policy tested. These are discussed in the sections that follow.

i. Fraud policy Reduce Incidences of Fraudulent Activities

The results as reflected in Table 1 suggest that the respondents agreed that Fraud policy reduced incidences of fraudulent activities. This is shown by a mean of 3.42. However, a significant standard deviation of 1.244 is a clear manifestation of varied responses as far as the role of Fraud policy in reducing incidences of fraudulent activities in the county government of Nakuru is concerned. This is in line with Hansen (2009)'s suggestion that operational governance in the form of clear policies and procedures can reduce incidences of fraudulent activities. According to Ledgerwood and White (2006), the Fraud policy should be clearly documented, regularly updated and communicated to employees in order to reduce incidences of fraudulent activities.

ii. Fraud Policy Guides all Employees

Results regarding whether fraud policy guides all employees as reflected in Table 1 suggest that respondents were indifferent as revealed by a mean value of 3.08. However, a standard deviation of 0.906 shows that the respondents gave varied responses concerning whether fraud policy guided all employees. This finding concurs with the study findings by Hansen (2009) who observed that clear policies and procedures reduce incidences of fraudulent activities. This is also in tandem with the recommendation by Bierstaker (2009) that every institution should create and maintain a fraud policy for guiding employees.

iii. All Employees Respond to Situations of Fraud Based on the Policy

The results presented in Table 1 further reveals that not all the respondents agreed that all employees respond to situations of fraud based on the policy. This is revealed by a mean value of 3.47, since it is not significantly far from the neutral position. The standard deviation of 0.893 reveals that there were varied responses from the respondents interviewed. The fact that not all employees respond to

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situations of fraud based on the policy is an indication of deficiencies in fraud prevention strategy in the county government of Nakuru. A previous study by Bierstaker (2009) had observed that employees can respond to situations of fraud if the Fraud policy is separate and distinct from a corporate code of conduct or ethics policy.

iv. Fraud policy is Separate from Corporate Code of Conduct

Concerning whether fraud policy is separate from corporate code of conduct, the results reveal that Fraud policy is not completely separate from corporate code of conduct as shown by a mean value of 3.21. However, this value is close to the neutral position, implying that respondents were indifferent as to whether fraud policy is separate from corporate code of conduct within Nakuru County Government. However, a significant standard deviation of 1.119 shows that there were varied responses as far as responses to this anti-fraud indicator was concerned. Similar findings have been reported by researchers such as Ledgerwood and White (2006) who found out that Fraud policy can be effective if it is clearly documented, regularly updated and communicated to employees.

v. Fraud Policy Influences Effective Financial Reporting

The findings on this indicator of fraud policy reveal that the respondents agreed that fraud policy influences effective financial reporting as shown by a mean value of 3.34. However, this seems close to the neutral position implying that the respondents seemed to appreciate that Fraud policy influences effective financial reporting. Nevertheless, a standard deviation of 0.938, suggests varied responses as far as fraud policy influencing effective financial reporting in the county government of Nakuru is concerned. Adoption of fraud policy as a way of enhancing effective financial reporting is an indication of the commitment of the management to fraud prevention. This is in agreement with Ledgerwood and White (2006) that fraud policy demonstrates the organization's commitment to combating fraud and also communicate the institution's attitude and approach to the threat of fraud (Wright, 2007).

vi. Fraud Policy Assists the County Government to Fight Fraud

In regard to whether fraud policy assists the county government to fight fraud, the results suggest that the respondents agreed to a small extent with this indicator of fraud policy in Nakuru County. This is revealed by a mean of 3.35. However, a significant standard deviation of 1.06 suggests that there were varied responses as far as this test was concerned. Fraud policy assists the county government to fight fraud is both a strategic control and a financial control tool recommended by Schelker (2008). It has been established that the 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).

vii. At the County Level there is Effective Financial Reporting

Concerning whether there is effective financial reporting at the county level, the results showed a mean value of 2.51implying that there was no effective financial reporting at the county level. However, a significant standard deviation of 1.09 suggests that respondents varied greatly in their responses to the test statement. Lack of effective financial reporting at the county level does not concur with the findings of Wright (2007) who noted that the scale and sophistication of today's fraud requires a dedicated Fraud policy supported by effective procedure for fraud prevention at the county government level.

9.3 Descriptive Statistics on Effective Financial Reporting

Table 2: Mean and Standard Deviation of Effective Financial Reporting

Type of Fraudulent Activities	*N*	*Min.*	*Max*	*Mean*	*SD*
Theft of cash, physical assets or confidential information	**90**	1	5	1.97	1.21
There is aiding and abetting fraud by outside parties	**90**	1	4	2.99	0.95
Understatement of reported revenues	**90**	1	5	4.14	1.04
Overstatement of expenditures	**90**	1	5	3.04	1.10
Fraudulent expense/expenditure claims	**90**	1	5	3.64	0.74
Concealed misappropriation of Assets	**90**	1	5	2.98	1.14
Receipt of kickbacks, bribery or gratuities	**90**	1	5	2.64	1.04

i. Theft of Cash, Physical Assets or Confidential Information

From the findings presented in Table 2, the respondents indicated that there was no theft of cash, physical assets or confidential information as revealed by a mean value of 1.97. However, a significant standard deviation value of 1.21 under the same test revealed varied responses from the respondents interviewed. The absence of theft of cash, physical assets or confidential information does not rhyme with Koitaba's (2013) assertion of lack of financial soundness as an indicator of effective financial reporting in most government and non-government institutions.

ii. Aiding and Abetting Fraud by Outside Parties

From Table 2, the study revealed a neutral response regarding whether there is aiding and abetting of fraud by outside parties in the county government of Nakuru as shown by a mean value of 2.99 although the standard deviation of 0.95 under the same test revealed varied responses from the respondents. This has implications on effective service delivery and it shows public confidence in the government departments in Nakuru County as previously found out by studies by Wanjau et al., (2012).

iii. Understatement of Reported Revenues

From the results presented in Table 2 in regard to the understatement of reported revenues, the respondents agreed that there was understatement of reported revenues as revealed by a mean value of 4.14. However, a standard deviation of 1.04 reveals varied responses from the respondents. This could be an explanation as to the inadequacy of the cash position in the county governments in Kenya. This means that the financial soundness alluded to by Verschoor (1999) may not be achieved possibly due to understatement of reported revenues. Similar findings have been established by Humpery (2006) who observed that

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reported revenues and the use of levies collected as well as grants received should be prudent.

iv. Overstatement of Expenditures

From the results presented in Table 2 in regard to overstatement of expenditures, the respondents were neutral in regard to whether expenditures were well managed. This is revealed by a mean value of 3.04. However, a standard deviation of 1.10 reveals varied responses from the respondents interviewed over the same test. This means that the financial soundness alluded to by Verschoor (1999) may not be achieved possibly due to overstatement of expenditures.

v. Receipt of Kickbacks, Bribery or Gratuities

From Table 2, it is clearly evident that, respondent were indifferent as to whether there were receipt of kickbacks, bribery or gratuities. This is revealed by a mean value of 3.00 which is the neutral position according to the Likert scale. However, the standard deviation of 1.05 reveals that, respondents varied in their responses to the indicator of financial reporting.

vi. Concealed Misappropriation of Assets

It is also evident that the respondents were indifferent as to whether there was concealed misappropriation of assets. This is revealed by a mean value of 3.00 which is the neutral position according to the Likert scale. However, the standard deviation of 1.13 reveals that the respondents varied in their responses to this indicator of effective financial reporting. These findings appears to support the observation by Law (2011) that sometimes resources are mismanaged and misappropriated by those put in charge to ensure proper and efficient management of the resources to the detriment of the activity for which the resources have been made available.

vii. Fraudulent Expense/Expenditure Claims

From the information collected from respondents in regard to fraudulent expense/expenditure claims, it is clear that there were some instances of fraudulent expense/expenditure claims. This is revealed by a mean value of 3.64. However, a standard deviation of 0.74 reveals no much variation from the respondents interviewed over the same test. Similar findings have been established by Humpery (2006) who observed that information on the use of levies collected as well as grants received should be prudent.

9.4 Relationship between Fraud Prevention and Effective Financial Reporting

This section presents results on the relationship between fraud prevention and effective financial reporting (**FR**) in the County Government of Nakuru. The dimension of fraud prevention was fraud policy (**FP**). The relationship was established through Pearson correlation analysis.

Table 3: Pearson's Correlation Analysis

	FP Total Score	*FR. Total Score*
FP. Total Score Pearson Correlation Sig. (2 tailed) Total Score N	1 90	
FR. Total Score Pearson Correlation Sig. (2 tailed) N	0.494* .000 90	1 90

** σ = 0.05 (Correlation is significant at 0.05 level (2-tailed)

The correlation table presents the relationship between fraud policy and effective financial reporting.

$H0_1$: There is no significant relationship between fraud policy and effective financial reporting in the County Government of Nakuru

Table 3 above shows that fraud policy relate positively with financial reporting ($r = 0.494$, $p < 0.05$). The hypothesis stated that there is no relationship between fraud policy and effective financial reporting in the County Government of Nakuru. The researcher therefore rejected the null hypothesis and concluded that there is sufficient evidence at 5% level of significance that fraud policy influence financial reporting in the county government of Nakuru. The results seem to agree with Willis and Lightle (2002)'s assertion that a direct relationship exists between fraud policy and financial reporting if fraud policy are considered as important in setting the tone of the concerned organization.

10. Conclusion and Recommendation

Based on the findings of the study it is concluded that fraud prevention influences effective financial reporting in the county government of Nakuru. This effect is supported by the significant positive relationship observed between fraud policy and effective financial reporting in the county government of Nakuru. Pearson's correlation coefficients revealed a moderate positive relationship between fraud policy and financial reporting. Thus there is a significant positive relationship between fraud prevention and effective financial reporting in the county government of Nakuru. Based on the conclusions drawn from the study, the study recommends that the county government of Nakuru should strengthen its fraud policy to improve effective financial reporting. The research was carried out to establish the role of fraud prevention in enhancing effective financial reporting in Nakuru County. From the findings, there is still a gap as to the extent to which fraud policy enhances effective financial reporting in general. Consequently further studies are suggested in order to find out the factors influencing effective implementation of fraud policy in the county government of Nakuru.

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