

obtain monetary gains or property, to avoid payment of services rendered or loss of services and to secure personal or business advantage (Kiragu et al., 2013). The frauds are preventable in an organization through effective utilization of internal control mechanisms. Abiola and Oyewole (2013) define internal controls as the whole system of control, financial and otherwise established by management in order to carry on the business of the enterprises in an orderly and efficient manner.

According to Adeyemo (2012), the control environment sets the overall tone of the organization in relation to integrity, ethical values and competence of its people. Among the factors that affect the control environment of an organization include management's philosophy and operating style, adequate training of bank staff, appropriate delegation of authority, and effective bank compensation guidelines (Charles, 2011). Commercial banks in Nakuru have developed a set of guidelines for their staff to follow in relation to the control environment and ethical concerns. For example, Barclays' values include respect, integrity, service, excellence and stewardship. In order for the bank to set the control environment, it must undertake the risk assessment. The internal control environment denotes the identification, analysis, and management of uncertainties facing an organization from external and internal sources (Adeyemo, 2012). The risk assessment results into a range of control activities to mitigate the risks identified. The control activities include the policies and procedures that ensure that the compliance of an organization or department to the management's directives and include "approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties (Kanu & Okorafor, 2013).

2.4 Measures Employed by Banks against Fraud Occurrence

There are several measures that can be employed by the banks against fraud occurrence (Tunji, 2013). These measures can generally be categorized into segregation of duties, physical control of bank assets, supervisory control, personnel control, and organization control (Wanyama, 2012). Others include audit review, management review, whistle blowing, process controls and proactive fraud detection procedures (Mutesi, 2011). In the context of the segregation of duties, Charles (2011) argues that the four functional responsibilities that is authorization, recording, custody and reconciliation should be performed independently. Further to Charles (2011) observations, Abiola & Oyewole (2013) document that the principle of internal check holds that no single official control two or more of the four functional responsibilities and that each officer should serve to check the other. Ngalyuka (2013) argue that the purpose of segregation of duties is to ensure accurate compilation of data and limitation of chances of frauds and intentional errors. One of the key aspects of segregation of duties is the separation of duties within the accounting department (Mahinda, 2012). The separation of duties within the accounting department ensures that no single bank official is in charge of an entry from recording a transaction to its ultimate posting (Tunji, 2013).

In setting up the segregation of duties matrix, it is important to ensure that the approval levels of authority for employees match with their levels of responsibilities (Wanyama, 2012). The physical control of access to sensitive bank records, sensitive bank documents and computer systems is a critical component prevention of fraud occurrence (Obeng, 2011). The other measures for fraud detection and deterrence include the whistle blowing and the role of human resource in the bank employee recruitment (Njanike et al., 2009). The whistle blowing facility as a means of combating fraud within the banking sector works optimally in banks where there are safeguards for the whistle blowers and well defined whistle blowing policy (Wanyama, 2012).

2.5 Determinants of Internal Control Measures and Fraud Occurrence

There are several reasons why the internal control measures are conceptualized by banks. Among the reasons include circumvention of the segregation of duties through collusion of staff, management override of controls, human ingenuity and potential human errors caused by work load stress, alcohol, carelessness and distraction (Tunji, 2013). Working conditions can reduce the effectiveness of internal control measures (Njanike et al., 2009). Staff constraints lead to the compromise of the dual control measures and the segregation of duties placed in order to prevent fraud occurrence (Mutesi, 2011). Staff constraints may lead to inadequate management supervision of their juniors hence creating opportunities for the compromise of procedures and collusion among staff (Chiezey & Onu, 2013). Charles (2011) further argues that staff constraints may lead to inadequate checks and poorly done checks hence compromising on the fraud detection measures.

3. Methodology

The descriptive research design was used in this study. The descriptive research design was used in this study as the research was interested in presenting the state of the affairs in commercial banks in relation to internal controls as a means of fraud deterrence. The population of this study was the commercial banks staff in selected commercial banks in Nakuru town. The study focused on the major banks according to the market share as determined by the Central Bank of Kenya statistics. These banks were Barclays Bank of Kenya, Kenya Commercial Bank, Equity Bank, Cooperative Bank, Standard Chartered Bank, CFC Stanbic, Commercial Bank of Africa, NIC Bank, Diamond Trust Bank and National Bank. A sample size of 89 respondents was used for the study. The random sampling method was used to select the sample size. Data was collected through the use of structured questionnaires. The use of structured questionnaires ensured that the data collected was easy to analyze through the Statistical Packages for Social Sciences (SPSS). The study used the content validity because it measured the degree to which the sample of items represents the content the test is designed to measure. The questionnaire was pilot tested to ensure the validity and reliability of the questionnaire. Both inferential and descriptive statistics were used in data analysis.

4. Results And Discussion

4.1 Measures in Place against Frauds

Results on measures put in place are discussed in this section.

4.2 Use of Daily Checks in Fraud Detection

The use of daily checks is an important check in high risk area such as physical cash at the cashiers tills (Etuk, 2011). The cashiers must be checked on a daily basis that all the cash they have paid out and received is fully accounted for and the instructions have been validly issued (Kapotwe, 2000). In this context, 24.4% of the respondents indicated that the daily tests were used to a great extent in their departments as shown in Table .

Table 1: Extent of Use of Daily Checks in Fraud Detection

	Frequency	Percent
To a very great extent	19	24.4
To a great extent	6	7.7
Dont Know	9	11.5
Not used at all	30	38.5
Not Applicable	14	17.9
Total	78	100.0

4.3 Fraud Mitigating Tests

The weekly and monthly tests are performed to areas that are less sensitive or have lower risks associated with them. On the other hand, the periodic tests often cover all operational areas and are conducted by independent personnel to check that the processes are adhered (James, 2014). The branch management checks are undertaken by the branch management to ensure that they are in control of all the processes including the fraud mitigating measures. This may be conducted on a predetermined interval and all checks that are over and above the day-to-day checks (Tunji, 2013). The various tests are conducted to a great extent in the following manner; weekly tests (24.4%), monthly checks (29.5%), periodic checks (33.3%), and branch management supervision (14.1%) as indicated in Table .

Table 2: Various Fraud Mitigating Checks

		Frequency	Percent
Extent of use of weekly checks for fraud prevention	To a very great extent	19	24.4
	To a great extent	10	12.8
	Don't Know	19	24.4
	Not used at all	24	30.8
	Not Applicable	6	7.7
	Total	78	100.0
Extent of monthly checks for fraud prevention	To a very great extent	23	29.5
	To a great extent	25	32.1
	Don't Know	27	34.6
	Not used at all	3	3.8
	Total	78	100.0
Extent of periodic audits for fraud	To a very great extent	26	33.3
	To a great extent	35	44.9

prevention	Don't Know	17	21.8
	Total	78	100.0
Use of branch management checks for fraud prevention	To a very great extent	11	14.1
	To a great extent	10	12.8
	Don't Know	5	6.4
	Not used at all	31	39.7
	Not Applicable	21	26.9
	Total	78	100.0

4.4 Measures to Mitigate Frauds

There are several measures that banks undertake to mitigate against the possibility of internal frauds. These measures include the dual control of work processing, restriction of physical access to some areas and limitation of access to bank information systems. These measures were undertaken by staff to a great extent in various ways; dual control (19.2%), use of physical restriction of bank assets (46.2%), and limitation of information system access (33.3%) as shown in Table .

Table 3: Measures To Mitigate Frauds

		Frequency	Percent
Use of the dual control of work processing (Maker/Checker)	To a very great extent	15	19.2
	To a great extent	10	12.8
	Don't Know	13	16.7
	Not used at all	26	33.3
	Not Applicable	14	17.9
	Total	78	100.0
Extent of use of physical restriction of bank assets	To a very great extent	36	46.2
	To a great extent	19	24.4
	Don't Know	16	20.5
	Not used at all	3	3.8
	Not Applicable	4	5.1
	Total	78	100.0
Extent of limitation of information systems access	To a very great extent	26	33.3
	To a great extent	26	33.3
	Don't Know	15	19.2
	Not used at all	11	14.1
	Total	78	100.0

4.5 Customers' Instructions Handing to Detect Frauds

The study found out that the use of call back on the instructions issued through third parties such as known agents being used to a great extent by 19.2% of the respondents as shown in Table . This ensures that the signatories of the accounts confirm the transactions before they are processed. Instructions of relatively large sums of money require independent verifications of the instructions that were being undertaken to a large extent by 23.1% of the respondents.

Table 5: Customers’ Instructions Handling To Prevent Fraud

		Frequency	Percent
Extent of call back on instructions in your department	To a very great extent	15	19.2
	To a great extent	10	12.8
	Don’t Know	13	16.7
	Not used at all	26	33.3
	Not Applicable	14	17.9
	Total	78	100.0
Extent of independent verifications on instructions	To a very great extent	18	23.1
	To a great extent	11	14.1
	Don’t Know	38	48.7
	Not used at all	6	7.7
	Not Applicable	5	6.4
	Total	78	100.0

4.6 People Management for Fraud Prevention

To mitigate against fraud, banks undertook screening at the point of employment to ensure that people with past criminal records don’t get themselves into the banking system. A cumulative of 66.6% indicated that the same was being undertaken in their departments as shown in Table. On the other hand, the banks have also provided whistle blowing facilities to ensure that staff can anonymously report their colleagues who may be perpetrating frauds. Up to 50% of the respondents indicated that the system is readily used in their departments.

Table 6: People Management for Fraud Prevention

		Frequency	Percent
Extent of free screening of new staff joining the department	To a very great extent	26	33.3
	To a great extent	26	33.3
	Don’t Know	15	19.2
	Not used at all	11	14.1
	Total	78	100.0
Extent of whistle blowing facilities	To a very great extent	39	50.0
	To a great extent	19	24.4
	Don’t Know	20	25.6
	Total	78	100.0

4.7 Effectiveness of Internal Control Measures

Several aspects undermine the effectiveness of the measures put in place to mitigate against frauds. These included adherence to dual control measures, existence of sufficient time to undertake periodic checks, existence of sufficient cooperation from colleagues while undertaking checks, and adequacy of trained personnel as illustrated in

Table. The study revealed that the general control environment is relatively poor and not adequate to prevent frauds. In this context, only 21.8% of the respondents indicated adequate adherence to the dual control aspects. The lack of sufficient time to undertake periodic checks is cited by up to 7.7% of the respondents.

Table 4: General Operational Environment Effect on Control Aspects

		Frequency	Percent
Adherence of dual control measures	To a very great extent	17	21.8
	To a great extent	10	12.8
	Don’t Know	15	19.2
	Not used at all	27	34.6
	Not Applicable	9	11.5
	Total	78	100.0
Existence of sufficient time to undertake periodic checks	To a very great extent	6	7.7
	To a great extent	17	21.8
	Don’t Know	27	34.6
	Not used at all	14	17.9
	Not Applicable	14	17.9
	Total	78	100.0
Existence of sufficient cooperation from colleagues while undertaking checks	To a very great extent	13	16.7
	To a great extent	21	26.9
	Don’t Know	31	39.7
	Not used at all	9	11.5
	Not Applicable	4	5.1
	Total	78	100.0

5. Conclusions and Recommendations

The banks have put in place traditional fraud prevention methods that involve counter checking of the work at periodic intervals as well as restriction to both the physical and information systems. The determinants of the internal control methods have been compromised by the poor working conditions, operational inefficiency and staff constraints that negate the effectiveness of the measures put in place to mitigate frauds. The study recommends a need to put more fraud mitigating measures against external frauds and especially at the cashiers departments. The banks have placed adequate measures to safe guard against fraud occurrence. However, the study found out that these measures were not being adhered to in most cases. The study therefore recommends more enforcement towards compliance of the set rules and regulations. The determinants of internal control measures against frauds are being undermined by staff constraints and operational inefficiencies. Bank management should ensure that there is adequate staff to ensure that the dual control is maintained at all times.

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