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EFFECT OF ASSET MISSAPROPRIATION ON FRAUD RISK AMONG STATE CORPORATIONS IN MOMBASA COUNTY IN KENYA

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Abstract

The aim of this study was to evaluate the drivers of fraud risk among state corporations in Mombasa County Kenya. The study was guided by one specific objectives namely; asset misappropriation. The study was anchored on the Clark Study theory. This research study employed descriptive research design. The target population comprised of 64 internal auditors and accountants of state corporations in Mombasa County. A census survey was carried out on all the internal auditors of state corporations in Mombasa County. Structured questionnaires were used for data collection. The questionnaire was self-administered. SPSS 21 package was used to carry out descriptive and inferential analysis. Inferential analysis involved the use of correlation and regression analysis. Model R^2, F-Statistics and regression coefficients was generated and interpreted. Inferential statistics was carried out at 95% degree of confidence. Results were presented using tables and figures. Correlation results showed that asset misappropriation has a positive and significant association on fraud risk among state corporations in Mombasa County. The study concluded that presence of cases of misappropriation of funds in the organization, presence of ghost employees, presence of unauthorized cash transfer and the presence of misappropriation of funds cases positively and significantly affects fraud risk among state corporations in Mombasa County. The study

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recommends that management of state corporations in Mombasa County put in place punitive measures to curb misappropriation of funds. The study also recommends that the management of corporations in the county, audit their personnel databases to get rid of ghost employees. The study further recommends for the implementation of strict cash transfer policies so as to reduce misappropriation of funds.

Keywords: Asset Misappropriation, Fraud Risk, State Corporations, Kenya

INTRODUCTION

According to Rubin (2015) financial fraud refers to illegal or unethical sales practices and commercial and public bribery. Financial fraud includes any acts of deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment and collusion. For practical purposes, financial fraud may include any use of deception with the intention of obtaining financial advantage. State corporations being state owned enterprises that are managed and run by the government have always been viewed as a public venture by many as they have a wide global customer base, high profitability margins and customer retention. Nevertheless, just like other businesses state corporations are also faced with numerous challenges including financial fraud that have in the long-run affected their performance (Soltani, 2013). Issues ranging from acquiring counterfeit goods, identity fraud, embezzlement, internal theft to payoffs others have affected the performance of these organizations.

According to Ernst and Young (2012), different types of financial frauds have caused RS.6,600 core losses to the Indian economy and state corporations were the most common victims in swindling cases. On the other hand, Soni (2013) argues that embezzlement of funds in these organizations had emerged as the major cause of concern. Similarly, a survey conducted by Delloitte (2012) in India, shows that state corporations experienced a rise in the number of financial fraud incidences and that the number of financial frauds in state corporations had increased by more than 10%. On the other hand, according to Fraud Survey of KPMG (2008), the total value of fraud reported was $301.1 million with an average value of each organization of $1.5 million in Australia and New Zealand of 420 organizations surveyed representing 20% of the total surveys distributed.

A study conducted by Kwame (2014) concluded that financial fraud is a common practice in Ghanaian state corporations. Although it occurs least in only 10% of all the fraud cases, it is easily the most expensive in terms of the value lost. Kwame (2014) notes that,

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financial fraud centers on the manipulation of financial statements in order to create financial opportunities for several individuals. Fraudulent activities in this case include; manipulation of stock price and increased year-end bonuses. In East Africa (KPMG, 2012), Burundi, Uganda, Kenya and Tanzania make up 74% of all the financial fraud cases in the East African region with Kenya standing out with 23% of the reported cases, Burundi at 21%, Uganda at 18% and Tanzania at 12%. Most fraud cases in East Africa target governments and financial sectors with misappropriation of funds, bribery and corruption extremely high in the organizations in these countries.

In Kenya, although there are effective policies, systems of checks and balances and physical security, most financial fraud cases in state corporations are in form of misappropriation or embezzlement of funds, bribery and corruption and financial statement frauds (Wanyama, 2009). It is therefore no surprise that the economic survey of 2010 by PwC found that financial fraud incidents and cases in state corporations had increased with higher margins in the year 2010 than in any other preceding year. To this end, approximately, 90% of the respondents to the study indicated that most state entities had recorded serious cases of fraud. These cases of financial fraud have been on the rise, affecting the performance of state corporations thus leading to low profitability (PwC, 2010).

Statement of the Problem

State corporations in Kenya have been experiencing financial fraudulent activities that have been affecting their performance. This has seen some of these companies register poor productivity thus face a threat of closure with the management of these companies featuring as the poorest and their internal controls extremely vulnerable to prevent financial fraud. Kenya lost 1.4 billion shillings as a result of fraudulent activities in state corporations. This is attributed to the failure of statutory auditing to prevent and reduce financial fraud.

According to the 2010 economic crime survey carried out by PwC, cases of fraud have risen sharply compared to preceding years affecting all sectors of the Kenyan economy. Globally, an average organization is estimated to lose 5% of its revenue each year due to significant frauds which also include financial statement fraud. If this rate of loss is applied to 2011 Gross World Product, this causes an anticipated fraud loss of $3.5 trillion. The impact is that financial statement fraud cases have resulted in financial losses, a loss of shareholder value and bankruptcies. Internal risk management systems are losing ground to highly-networked, sophisticated fraudsters.

Poor performance of most state corporations in Kenya is caused by misappropriation of funds by management or sub-ordinate employees in the organizations. In May 2016, the

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government put on notice several state corporations among which included sugar companies in western Kenya such as Mumias Sugar Company for massive misappropriation of funds. It is worth stating that corruption and misappropriation of funds in the organizations has often been blamed for such woes. An example is in the sugar industry where majority of the sugar companies had to change their top administrations since misappropriation of funds had contributed to their dismal performance and occupational strikes. For instance in April 2017, the government had to change the management of Chemelil Sugar Company (one of Kenya top sugar company) due to poor productivity coupled with misappropriation of funds. It is because of such cases that this study seeks to investigate the drivers of fraud risk among state corporations in Kenya.

There are also knowledge gaps from previous studies that have focused on individual drivers of fraud risks. Examples are Mustafa and Youssef (2010) who investigated the relationship between the financial expertise of the audit committee and the incidence of asset misappropriation in publicly held companies, Majid *et al* (2010) who focused on the opinions of local authority employees on the issue of asset misappropriation in Malaysia and Akindele (2011) looked at the effect of fraud as a negative catalyst in the Nigerian Banking Industry. Also, Maxwell *et al* (2012) assessed the effect of corruption in humanitarian assistance through in humanitarian agencies only focused on only one driver of fraud risk; this gap was filled by focusing on financial misstatement, asset misappropriation and corruption. The above studies reveal differences in the contexts ranging from developed countries such as USA to developing countries such as Nigeria. This contextual knowledge gap can be filled by focusing on the drivers of fraud risk among state corporations in Kenya.

Studies from the local scenario such as Gikiri (2012), sought to determine the influence of fraud risk management practices in commercial banks and their effect on fraud risk exposure while Odhiambo (2013) looked at the effects of financial fraud and liquidity on financial performance of commercial banks in Kenya. These two studies focused on fraud risks in commercial banks in Kenya thereby presenting an additional contextual gap which was filled by evaluating the drivers of fraud risk in state corporations in Mombasa County.

Objectives of the Study

The general objective of the study was to assess the effect of asset misappropriation on fraud risk among state corporations in Mombasa County, Kenya.

Significance of the Study

The findings of the study can be of significance to the state corporations in Kenya since they are capable of adopting the most appropriate financial fraud mitigation strategies to combat the

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losses brought by fraudulent activities in the organizations. The results of the study can also be of help to Finance managers in organizations in coming up with the measures for handling possible effects of financial fraud by ensuring that financial statements and reports are not manipulated. In addition, they can be of benefit by adopting the most appropriate forensic auditing techniques for the purposes of acquiring the services of qualified forensic experts in combating financial fraud in their organizations. The findings of this study can be important to scholars especially in the field of financial fraud by providing with the necessary knowledge. As a result they may be in a position to adopt the most appropriate approach of meeting their targets.

THEORETICAL REVIEW

The Clark Study Theory

The Clark study theory is one of most relevant theories as a far as financial fraud is concerned. This theory was propagated by Richard C. Hollinger and assumed that employees steal primarily as a result of workplace conditions and concluded that the true costs of employee theft are vastly understated (Hollinger, 1976). In this theory Hollinger works with five major hypotheses; external economic pressures motivate employees to commit theft, contemporary employees (particularly young ones) are not as honest and hardworking as those in past generations, every employee could be tempted to steal from his employer (assumes people are greedy and dishonest by nature), job satisfaction is the primary cause of theft and that there are shared and informal structure of organizations that becomes the standard of conduct, (Bebchuck, 2011).

Hollinger argues that there is a statistical relationship between employees' concern over their financial situation and the level of theft. To this end, the higher theft individuals are more likely to be concerned about their finances, particularly those who ranked finances as the first or second most important (personal) issue. He also states that there is a direct correlation between (younger) age and (higher) level of theft. Thus the younger an individual is the more likely he is to commit financial fraud. In his research he also indicated that financial thefts were higher for those with greater access to the things of value in the company. Hollinger (1976) asserts that employees who are dissatisfied with their jobs are more likely to engage in counterproductive or illegal behavior in order to right the perceived inequity that committing fraud.

Furthermore Hollinger argues that financial fraud cases are rampant because formal organizational controls do not provide a strong deterrent effect on employee theft. To this end, he argues that there are two categories of employees' deviant behavior (acts by employees against property misuse and theft of company and acts of employee deviance that affect

productivity). To control these cases of employee fraud, he recommends that there is need to increase the perception of detection provides a significant deterrent to employee theft (Hollinger, 1976).

EMPIRICAL LITERATURE

Asset Misappropriation and Fraud Risk

Majid *et al* (2010) conducted a study in Malaysia to explore the opinions of local authority employees on the issue of asset misappropriation. The findings revealed that the most likely assets to be misused in a local authority are vehicles and internet connection. They also found factors that might lead to asset misappropriation to include; inadequate or lack of internal control, lack of employee's fraud education, lack of independent cheques, override of existing controls, and lack of management reviews, attitude, and lack of awareness of the dishonest acts. Besides, the majority of respondents in their study believed the likelihood of asset misappropriation in the future is increasing.

Gullkvist and Jokipii (2012) research study examined whether internal auditors, external auditors, and economic crime investigators perceive the importance of red flags as significantly different across asset misappropriation and fraudulent financial reporting, as well as across within-subject categories. Findings revealed that significant differences in perceptions exist among the participant groups. Internal auditors report a higher perceived importance of red flags related to detecting asset misappropriation than those related to fraudulent financial reporting, whereas the economic crime investigators perceived red flags for fraudulent financial reporting as more important than that of asset misappropriation. External auditors reported equal perceived importance of red flags across the two fraud types as well as across within-subject categories. They provided a list of red flags for asset misappropriation and fraudulent financial reporting. However, they did not suggest weights to red flags in their list and did not mention how external auditors might respond to these red flags.

Mustafa and Youssef (2010) investigated the relationship between the financial expertise of the audit committee and the incidence of asset misappropriation in publicly held companies using a sample of 28 publicly held companies in the USA who were experiencing asset misappropriation from 1987 to 1998, as well as 28 control companies matched according to size, industry, and time period. Results revealed that the higher the percentage of financial expert members and the higher the percentage of independent members in the audit committee, the lower the likelihood of asset misappropriation. However, both studies did not examine how asset misappropriation can be detected or the role of external audit in detecting asset misappropriation as a corporate governance mechanism.

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Operational Framework

An operational framework is that logically, developed, described and elaborated network of interrelationships among variables which are deemed to be integrated as part of the dynamics to be investigated. According to Seraken (2003), it states the researcher's ideological stand from his or her agreement or disagreement with the issues at hand. The operational framework has to have both independent and dependent variables and the respective parameters. In this case the independent variables were; financial statement fraud, corruption and asset misappropriation. On the other hand, performance of state corporations is the dependent variable.

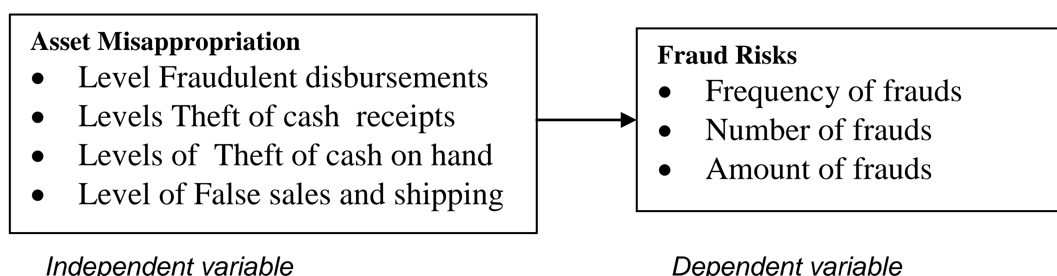

Figure 1: Operational Framework

Asset misappropriation refers to the theft or misuse of funds placed in one's trust or belonging to one's employer. According to the Institute of Financial Crime and Prevention (IFCP, 2011), there are four conditions in a work place that provide the opportunities for misappropriation. These include; poor internal controls, too much control limited to specific employees, lack of supervision by management and failure to pre-screen employees adequately. According to Akinyomi (2012), theft and misappropriation represent another form of fraud which involves the illegal collection of financial items such as cash and travelers cheque.

According to Kerber (2015), misappropriation by employees can take the form of a person using organizations credit cards to buy personal items to complex check forging schemes that culminates to massive losses. The association of Certified Fraud Examiners assert that signs of misappropriation by an employee of an organization include; abrupt shift in work schedules, declining to take vacations, sudden changes in lifestyles such as buying a larger home and driving expensive vehicles and problems associated with drug abuse, alcoholism and gambling.

It is worth stating that misappropriation of funds in an organization can lead to poor performance of organizations. According to Okumbi (2014), poor performance of most state corporations in Kenya is caused by misappropriation of funds by management or sub-ordinate

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employees in the organizations. In May 2016, the government put on notice several state corporations among which included sugar companies in western Kenya for massive misappropriation of funds. Other state corporations included Kenya Ports Authority (KPA), Kenya Revenue Authority (KRA) and Kenya Maritimes Authority (KMA). This is why the researcher intends to investigate the effects of financial fraud in these state organizations in Mombasa County.

RESEARCH METHODOLOGY

The study employed a descriptive research design. The target population for the study consisted of all the 32 internal auditors and 32 accountants of State Corporations operating in Mombasa County, Kenya. The sampling frame for this study was a list of 64 internal auditors and accountants of State Corporations operating in Mombasa County, Kenya. The population of this study was regarded as a small population and there was therefore no need to do sampling and therefore all the 64 officers comprising of internal auditors and accountants of state corporations were subject of this study. Primary data was collected using a semi-structured questionnaire. The study collected data using drop and pick method. The study conducted a pilot test on five state corporations in Nairobi County. Descriptive and inferential statistics were used to analyze the collected primary and secondary data. Descriptive statistics including mean and standard deviation was assessed for each of the variables of this study.

To determine the asset misappropriation on fraud risk in State Corporations in Mombasa County, Kenya, a bivariate linear expression was used.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = Fraud Risks among State Corporations

B_0 = autonomous fraud risk

β_1 = Rate of change in fraud risk associated with a unit chance in asset misappropriations measure

X_1 = Asset Misappropriation

ε = Error term.

ANALYSIS AND RESULTS

Out of Sixty four questionnaires administered, a total of 54 questionnaires were filled and returned. This represented an overall successful response rate of 84.4% as shown in Table 1. Babbie (2004) assert that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Thus, 84.4% response rate is adequate for the study.

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Table 1: Response Rate

Response	Frequency	Percent
Returned	54	84.4
Unreturned	10	15.6
Total	**117**	**100**

Distribution of Demographic Information

The results in Table 1 below showed that 20.4% of the respondents were aged below 30 years, 24.1% were aged between 31 to 40 years, 24.1% were aged between 41 and 50 and 26.9%, were aged above 50 years. The results of the study imply that the majority of the staff working in state corporations was aged above 30 years. The findings on the level of education indicated that 37% of the respondents had diplomas, 31.5% have bachelor's degree, those that have master's degree were 16.7% while those that have PhD degree level education were 14.8%. The findings reveal that majority of the respondents are literate. This indicates that with literacy, interpretation of the questions was easy and it contributed to the high reliability. Regarding the effects of financial fraud on the performance of state corporations, findings of the study revealed that majority 35.2% of the respondents indicated that financial fraud leads to a sharp decrease in the organizational performance, those that indicate that it leads to a decrease were 33.3% while those who indicated moderate were 13% and about 18.5% of the respondents indicated that they did not observe any effect of fraud on the organizational performance.

Table 2: Demographic Analysis Results

Demographic Characteristics	Category	Results
Age Of Respondents	Below 30 Years	20.4%
	Between 31 And 40 Years	24.1%
	Between 41 and 50 years	24.1%
	Over 50 Years	26.9%
Level of Education	Diploma	37%
	Bachelors Degree	31.5%
	Masters Degree	16.7%
	PhD Degree	14.8%
Effects of Financial Fraud on the Performance of State Corporations	Sharp Decrease	35.2%
	Moderate Decrease	13%
	Decrease	33.3%
	No Observed Effect	18.5%

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Analysis Results on Fraud Risk

The study sought to determine the extent to which the respondents agree or disagree with the statements regarding frauds risks in their corporation within Mombasa County.

Table 3: Descriptive Analysis Results for Fraud Risk

Statement	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	SD
Fraud incidences are frequent in our corporation	13	37.8	49.2	4.06	1.04
Number of reported fraud cases in our organization has been increasing	2.3	65.5	32.2	4.11	0.87
The amount of revenue lost in terms of fraud has been on the rise	5.8	17.9	76.3	4.37	0.64
Average				**4.18**	**0.85**

The findings showed that 49.2% of the respondents indicated that they strongly agree that Fraud incidences are frequent in our corporation, those who indicated agree were 37.8% while only 13% of them neither agreed nor disagreed with the statement. The results of the study also revealed that 32.2% of the respondents indicated that they strongly that the number of reported fraud cases in their organization has been increasing while the majority of them indicated agree and only 2.3% of them neither agreed nor disagreed. Finally, the results of the study showed that majority of the respondents strongly agreed with the statement that the amount of revenue lost in terms of fraud has been on the rise, those who indicated agree were 17.9% while only 5.8% of them neither agreed nor disagreed.

Normality Tests Results

The Gaussian test results are presented in table 4. The table shows that normality test statistics computed for fraud risk using both Kolmogorov-Smirnov (K-S) and Shapiro-Wilk tests are significant with p-value of .200 and .881 respectively. The results revealed that p-values are greater than 0.05 and thus null hypothesis (H_0) is accepted implying the data is fit for the study.

Table 4: Test for Normality for Study Variables

	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Fraud Risk	0.259	54	.200*	0.792	54	.881

a Lilliefors Significance Correction *. This a lower bound of the true significance

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Test for Multicollinearity

Normally if the association between the independent variables has a value of more 0.8, then multicollinearity is said to be present. The presence of Multicollinearity produces spurious standard errors and gives a wrong prediction. This study used a variance inflation factor (VIF) method to test for Multicollinearity of the study variables. The results indicated in table 5 showed that there was no Multicollinearity since all the VIF values were below 10. This implies that the use of OLS in estimating the effect of the drivers of fraud risk in state corporations in Mombasa County would not yield wrong results.

Table 5: Test of Multicollinearity Results

Variable	Tolerance	VIF
Asset Misappropriation	0.995	1.005

Test of Independence Results

The study sought to establish whether the error term of the OLS regression model was auto correlated. One of the assumptions of OLS is that the error term should not be auto correlated over time. The study used Durbin-Watson test to establish the presence of Autocorrelation. A value of 2 indicates the absence of autocorrelation, a value less than 2 indicates a positive autocorrelation while a value greater than 2 reveals presence of negative autocorrelation. The findings in Table 6 revealed the presence of a positive autocorrelation. A rule of thumb is that test statistic values in the range of 1.5 to 2.5 are relatively normal. Values outside of this range could be cause for concern. Field (2009) suggests that values under 1 or more than 3 are a definite cause for concern.

Table 6: Results for Tests for Independence

Variable	Test	Statistic
Asset Misappropriation	Durbin Watson	1.966
Fraud Risk	Durbin Watson	1.843

Linearity Analysis Results

The study used a correlation analysis to determine the relationship between the study variables. A Pearson correlation was used since the data was discrete. A negative Pearson correlation value indicates negative correlation while a positive Pearson correlation value indicates a positive correlation. The strength of the association increases as the value approaches either -1 or +1. The correlation findings are presented in Table 7.

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Table 7: Correlation Results for the Study Variables (N = 54)

Correlations		Asset misappropriation	Fraud Risk
Asset misappropriation	Pearson Correlation	1	
	Sig. (2-tailed)		
Fraud Risk	Pearson Correlation	.384**	1
	Sig. (2-tailed)	0.004	

Correlation results showed that there was a positive and significant association between asset misappropriation and fraud risk among state corporations in Mombasa County as indicated by a Pearson coefficient of 0.384 and significance level of 0.004. This implies that a rise in asset misappropriation practices such as presence of cases of misappropriation of funds in the organization, presence of ghost employees' cases, presence of unauthorized cash transfer and the presence of misappropriation of funds cases leads to a positive and significant effect among the state corporations in Mombasa County. The study findings are consistent with the findings of a study by Gullkvist and Jokipii (2012) which revealed that significant differences in perceptions exist among the participant groups. Internal auditors report a higher perceived importance of red flags related to detecting asset misappropriation than those related to fraudulent financial reporting, whereas the economic crime investigators perceived red flags for fraudulent financial reporting as more important than that of asset misappropriation. External auditors reported equal perceived importance of red flags across the two fraud types as well as across within-subject categories.

Table 8: Model Summary for Financial Misstatement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.498	0.248	0.234	0.362

a Predictors: (Constant), Financial Misstatement

Asset Misappropriation and Fraud Risk

The study sought to evaluate the effects of asset misappropriation on fraud risk among state corporations in Mombasa County. The results of the study revealed that majority 37% of the respondents strongly agreed that there are cases of misappropriation of funds in this organization, 25.9% of them agreed, those who neither agreed nor disagreed were 14.8% while those who indicated disagree were 13% and only 9.3% of them indicated strongly disagree. The findings also revealed that majority 51.9% of the respondents strongly agreed that there are cases of ghost employees in the organization, those who neither agreed nor disagreed were

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18.5% while those who disagreed were 22.2% and only 7.4% of them indicated strongly disagree. Moreover, the findings of the study showed that majority 66.7% of the respondents strongly agreed that there are cases of unauthorized cash transfer in the organization, 14.8% of them indicated agree, 5.6% of them neither agreed nor disagreed while 7.4% of them indicated disagree and those who strongly disagreed were 5.6%. In addition, the study revealed that 33.3% of the respondents strongly agreed that Cases of misappropriation of funds have affected the performance of this organization, those who indicated agree were 14.8%, those who neither agreed nor disagreed were 25.9% while those who disagreed were 16.7% and those who strongly disagreed were 9.3%. Lastly, the findings of the study showed that 14.8% of the respondents strongly agreed that there are cases of misappropriation of funds in this organization, 48.1% of them indicated agree, 27.8% of them neither agreed nor disagreed while only 1.9% and 7.4% of them strongly disagreed.

These results imply that most of the respondents agreed with the statements on Asset Misappropriation as a driver of Fraud Risk among state corporations in Kenya as indicated by a mean of 3.74. The responses given by the respondents were less varied as shown by a standard deviation of 1.28. The findings agree with the results of a study by Mustafa and Youssef (2010) which revealed that the higher the percentage of financial expert members and the higher the percentage of independent members in the audit committee, the lower the likelihood of asset misappropriation.

Table 9: Descriptive Results for Asset Misappropriation

Statements	**Strongly disagree** (%)	**Disagree** (%)	**Neutral** (%)	**Agree** (%)	**Strongly agree** (%)	**Mean**	**Std Dev**
There are cases of misappropriation of funds in this organization	9.3	13.0	14.8	25.9	37.0	3.69	1.34
There are cases ghost employees in the organization	7.4	22.2	18.5	0.0	51.9	3.67	1.48
There are cases of unauthorized cash transfer in the organization	5.6	7.4	5.6	14.8	66.7	4.30	1.21
Cases of misappropriation of funds have affected the performance of this organization.	9.3	16.7	25.9	14.8	33.3	3.46	1.36
There are cases of misappropriation of funds in this organization	7.4	1.9	27.8	48.1	14.8	3.61	1.02
Average						**3.74**	**1.28**

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To establish the influence of asset misappropriation on fraud risk in state corporations in Mombasa County, Kenya, a bivariate regression expression was used. The bivariate linear regression model is of the form $FR = \beta_0 + \beta_2 X_2$. The bivariate linear regression model linking Asset Misappropriation and Fraud Risk is presented in table 12 below. The linear regression analysis shows that there is an association, R= 0.384 and R^2 = 0.147 which implies that 14.7% variation in fraud risk is accounted for by a unit change in asset misappropriation in state corporations in Mombasa county.

Table 10: Model Summary for Asset Misappropriation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.384	0.147	0.131	0.3855

a predictors: (constant), Asset Misappropriation

The bivariate linear model significance was evaluated using ANOVA. Regression results indicate that the linear association between Asset Misappropriation and Fraud Risk has an F value of F=8.972 which is significant with p value p=0.004< p=0.05 implying that the overall model is significant in predicting the effect of Asset Misappropriation on the performance of state corporations in Mombasa County.

Table 11: Regression Coefficients for Asset Misappropriation

Model	Coefficients	B	Std. Error	Beta	t	Sig.
1	(Constant)	3.623	0.259		14.014	0.000
	Asset misappropriation	0.203	0.068	0.384	2.995	0.004

a Dependent Variable: Fraud Risk

Table 12: Analysis of Variance for Asset Misappropriation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.333	1	1.333	8.972	.004
	Residual	7.728	52	0.149		
	Total	9.061	53			

a Dependent Variable: Fraud Risk

b Predictors: (Constant), Asset Misappropriation

From Table 11 and Table 12 above, the test results revealed that the beta coefficient of the resulting regression model, the constant β_0= 3.623 is significant with p value p= 0.004 < p=0.05.

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The coefficient β = 0.203, has a p value, p= .004 which is less than p= 0.05. This implies that asset misappropriation as a driver of fraud risk is significant in the regression model.

Thus the bivariate linear expression developed was as follows:

$$Y = 3.623 + 0.203X_1$$

The findings agree with the findings of a study by Majid et al (2010) which revealed that the most likely assets to be misused in a local authority are vehicles and internet connection. In agreement, Gullkvist and Jokipii (2012) study found that significant differences in perceptions exist among the participant groups. Internal auditors report a higher perceived importance of red flags related to detecting asset misappropriation than those related to fraudulent financial reporting, whereas the economic crime investigators perceived red flags for fraudulent financial reporting as more important than that of asset misappropriation. External auditors reported equal perceived importance of red flags across the two fraud types as well as across within-subject categories.

CONCLUSION AND RECOMMENDATIONS

The study established that asset misappropriation had a positive and significant effect on fraud risk among state corporations in Mombasa County. The study concluded that presence of cases of misappropriation of funds in the organization, presence of ghost employees' cases, presence of unauthorized cash transfer and the presence of misappropriation of funds cases positively and significantly affects fraud risk among state corporations in Mombasa County.

The study recommends the management of state corporations in Mombasa County to put in place punitive measures to curb misappropriation of funds. The study also recommends the management of corporations in the county to audit their personnel databases to get rid of ghost employees. The study further recommends for a strict cash transfer policies to be put in place so as to reduce misappropriation of funds.

AREAS FOR FURTHER STUDIES

Since this study only focused on state corporations in Mombasa County, the study recommends other researchers and scholars to investigate more on state corporations in other counties to determine factors that predispose them to fraud risk. Moreover, the study recommends prospective researchers to look into fraud risk factors affecting state corporations in other counties in addition to corruption and financial misstatement.

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