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Influence of fraud on operational performance in non-governmental organizations within Nairobi County

Chesimo, C. Cheptegen
School of Management and Commerce
Strathmore University

INFLUENCE OF FRAUD ON OPERATIONAL PERFORMANCE IN NON-GOVERNMENTAL ORGANIZATIONS WITHIN NAIROBI COUNTY

CLARE CHESIMO CHEPTEGEN

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DECLARATION

I certify that this research thesis presented to Strathmore University is my own original work and all materials which are not my work have been cited. I further certify that this work has not been previously submitted by anyone in any other university.

Name	**CHEPTEGEN CLARE CHESIMO**
Signature	
Date	13th May 2020

Approval

The thesis of Cheptegen Clare Chesimo was reviewed and approved by the following

Dr. David Mathuva,

Senior Lecturer, Strathmore University Business School,

Strathmore University

ABSTRACT

Fraud is a global trend that has existed for long and it increases every day. This study sought to investigate the factors that influence of fraudulent transaction and effect on operational performance in NGOs within Nairobi County. Different findings have been found by various researchers on the same area of study but with conflicting findings. Some concluded that only three factors lead to fraud (Pressure, Rationalization and Opportunity) while others found that there are more other factors that influence the fraud occurrence. The aim of the study was to identify factors that influence fraudulent transactions within NGOs and to examine their impact on operational performance of NGOs. The study was anchored on the Agency theory, Fraud Triangle Theory, Fraud Diamond Theory and Fraud Pentagon Theory. It adapted a descriptive research design and a positivism philosophy with a target population of 702 for the registered NGOs operating within Nairobi County and recognized by the NGOs Board. Slovin's formula was adapted for a sample size which was 87. The study used primary data gathered through structured questionnaires. Sampling was done using Slovin's formula. The factor analysis results show that although several fraud variables impact the operational performance of NGOs, only regulations and rationalizations are significant. The major effect identified were loss of future donors, bankruptcy, inability to meet the project objectives and job loss among employees as a result of any fraudulent transaction discovered within NGOs. The limitation encountered was by use of questionnaire which promotes anonymity that may result in totally dishonest respondents. The findings of the research are beneficial to policy makers within the context of the NGOs and on the growing debate concerning accountability and responsibility of employees within NGO sectors and guide the management on the need to emphasize the reinforcement of internal controls implementation and monitoring. Future studies may be done on the same with focus on quantifying the impact caused by fraudulent transactions.

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ABBREVIATIONS AND ACRONYMS

NGOs	Non-Governmental Organizations
NCCK	Nairobi City County, Kenya
SPSS	Statistical Package for Social Sciences
COSO	Committee of Sponsoring Organizations
FTT	Fraud Triangle Theory
FDT	Fraud Diamond Theory
FPT	Fraud Pentagon Theory

DEDICATION

I dedicate this research thesis to God Almighty for being my source of strength, encouragement, knowledge and understanding throughout this program and on His wings, I soared. Special dedication to my adorable daughter, Johari Cheptoo Okoth, who has been affected in every way possible by this quest. Lastly, I dedicate it to my late Dad, Benard Cheptegen Kirui and my mother Catherine Chebet Tendet who inspire me to be better each day. Thank you and may God bless you.

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I wish to also recognize my family in a special way for encouragement from the beginning to the end and classmates for their support, love and encouragement to complete this paper successfully.

CHAPTER ONE: INTRODUCTION

This chapter outlines the background of the study by describing financial fraud, causes of fraud, and their impact on operational performance in NGOs. Furthermore, it outlines the problem statement and the research objectives, significance of the study, scope and limitation of the study.

1.1 Background of the Study

In the current years, fraud and other forms of unethical behavior in organizations have received significant attention in the business literature (Uddin & Gillett, 2002). Fraud in the society is like an opportunistic infection that bursts forth when greed meets the possibility of deception , (Sorunke, 2016). It is a global phenomenon that has existed for long which increases day in day out. Fraud is an intentional act that causes a business or economy to suffer damages, typically in the form of monetary losses and is rampant in both developed and developing countries (Nwankwo, 2013), and it is a serious issue that need proper measures for prevention and detection (Viviers & Venter, 2008). Fraud appeared in the ancient times and since then, it has not disappeared as it is viewed to be one of the most negative factors that disturb the societies (Saifullahi & Hassan, 2016). White collar crime has been in existence since immemorial and is considered as a social issue worldwide. It has occurred in the history and is most likely committed by the business community (Johnstone, 1998; Holtfreter, 2005). Fraud is metaphorically referred to as a contagious disease affecting an organization but its effects are felt throughout the economy (Gitau & Samson, 2016).

It is evident that fraud is a major concern everywhere in the world within organizations and therefore, needs to be addressed. Shelton, (2014) added that fraud starts immediately a business plan is documented. Fraud is a deliberate action by the perpetrators who intent to alter the fact, usually, for personal gain and is a major threat to any organization (Abiola, 2009). In the recent times, the number of fraud by employees has increased and hence, encourages many others to perpetrate the same (Turner et al., 2003). Initially, corporate crime was for the benefits of the organization but this has changed since employees want to benefit from the crimes in form of corruption, asset misappropriation and financial misstatement (Voon et al., 2008). Universally, there is need for antifraud controls to be put in place by all the stakeholders including Non-governmental organizations in order to reduce losses caused. This includes strong and working internal audit department, surprise audits and antifraud trainings, (Albrecht et al., 2015).

Small fraudulent transactions are easily detected unlike the large fraudulent transactions. We can only look long and deep enough to detect such as concluded by, (Singleton et al., 2006b). There are three main types of fraud against the organization committed by its employees and they include; corruption, fraudulent statements and asset misappropriation (Albrecht et al., 2015; Shelton, 2014). There are numerous effects of fraud on both the organizations' and individuals' performance as a result of white collar crimes such as the financial damage, emotional and physical harm as studied by (Perri, 2011). It is further believed that any form of fraud is an intentional strategy to achieve personal or organization's goal and can also be perpetrated in order to satisfy one's needs. Albrecht & Zimbelman, (2011); Singleton, Singleton, Bologna, & Lindquist, (2006); Perri, (2011); Viviers & Venter, (2008) highlighted that fraud is costly within the organization and economy as a whole resulting to a loss of 6.6% GDP in South Africa annually and it affects firm's reputation, morale and management time, as well as trust within the business. According to studies by Beasley, Carcello, & Hermanson, (2000); Albrecht et al., (2008) revealed that fraud perpetrators are influenced by the pressure from the industry to perform and meet expectations set by passing adjustments especially at end of the financial period to make their companies look better. A study conducted by KPMG, (2011), revealed that the direct or indirect desire for personal financial gain is the biggest driver for fraud gain.

According to Association of Certified Fraud Examiners, (2006), fraud by employees can be in form of intentionally misusing one's employment for personal enrichment through the misapplication of the organization's resources or assets. This is also backed up in the studies conducted by Peltier-Rivest, (2009); Wells, (2008);Zhou & Cong, (2001) who added that it includes scheme against the organization where assets are misappropriated or the use of one's position for personal gain and the fraud by the organization against its stakeholders by misstating financial statements. A white-collar fraud is a widespread issue within the business world affecting so many organizations and it takes place in different economic forms as observed by (Derrig, 2002).

Greedy human beings leading trusted organizations are mostly unable to resist the temptation of committing fraud by taking advantage of their positions. They end up rationalizing their actions to defend themselves (Greenlee et al., 2007b). This is however contradicted by Cressey, (1953) who concluded that fraud is not only affected by the greediness due to self-interest but only takes place when the three elements are present, pressure, opportunity and rationalization. It is also alleged that financial statements are usually transparent but they are sometimes affected by the pressure and opportunities to make the organizations look better than they really are (W. S. Albrecht et al., 2008). Therefore, employees should hold the position entrusted to them ethically with honesty to prevent themselves from such issues caused by self-interests in order to enrich themselves and enhance their financial status. There have been extreme efforts to beat out fraud which comes in the form of corruption, misappropriation of assets, and fraudulent financial reporting, but it appears to be increasing every day (Wolfe & Hermanson, 2004a). An organization should reduce opportunity for fraud in order to reduce the likelihood of its occurrence (McNeal & Michelman, 2006).

1.1.1 Fraud within NGOs

NGOs are highly susceptible to fraud as they tend to overlook crucial areas such as accounting, internal controls, and financial oversight functions that are of vital importance within organization as they focus more on funding. Furthermore, NGOs usually engage volunteers, who are untrained and unfamiliar of internal control processes and occasionally, the board of directors is comprised of personnel with little or no financial oversight expertise, (Bakertilly, 2016). There are many nonprofits organizations within our society as they add tremendous value in the less disadvantaged by improving the lives of individuals, hence a sense of meaning and improved quality of lives. However, the public has started to perceive that these intuitions are corruptly managed (Mead, 2015; Yallapragada, Roe, & Toma, 2010). Not for profit organizations depends on trust in the public and therefore, if fraud is committed, they are highly affected (Wilhelm, 2006); (Zack, 2003); (Greenlee et al., 2007b). This trust is usually betrayed by the occupational fraud commission despite the strong ethical norms within organizations. NGO sector has greatly grown from 1990s and it plays a big role in the society due to its contributions as studied by (Kamat, 2003; Salamon, 1999; Hudson, 2002; Keck & Sikkink, 2004). A study by Peltier-Rivest (2009), analyzed the victims of occupational fraud from a Canadian perspective and concluded that 9% of annual revenue is wasted on the fraud. He further highlighted that NGOs are highly vulnerable to the occupational fraud. Machen & Richards (2004), also highlighted that 6% of the annual revenue is lost to fraud issues every year. NGOs transact in non-reciprocal transactions such as charitable contributions, that can easily be stolen than other sources of revenue where consideration is exchanged. They are further highly susceptible to the effects of negative publicity as they are reluctant to report fraud when it occurs (Bakertilly, 2016). High-profile nonprofit organizations attract attention from the public much more than the notorious scandals in the public sector such as Enron, WorldCom and Tyco (Yallapragada et al., 2010).

According to Kassem & Higson, (2012) fraud is a topic that receives significant and increasing attention from all the interested parties and is not easily detected. One needs to have wider knowledge of the fraud, how it is committed and concealed in order to reduce the occurrences. There is lack of transparency in NGOs due to lack of well qualified staffs, unclear objectives in the organizations which cause NGOs not to operate in a transparency way as studied by (Othman & Ameer, 2014). Employees working for NGOs are motivated by values and ethical behavior which strengthen the trust with outsiders and those within (Rothschild & Milofsky, 2006). Losses as result of fraud reduces the donor funded activities and project implementation becomes impossible. The resultant poor publicity also decreases the donor funds and grants (Greenlee et al., 2007a). It is believed that trusted persons become trust violators especially when they find themselves in financial crisis, (Cressey, 1953). Losses caused by fraudulent activities in NGOs reduce the resources that donors have committed to the project activities.

1.2 Statement of the Problem

It is evident that fraud is an enemy of organization's growth and if not dealt with, it might lead to threats on the stability and the survival of individual NGOs and their performance. Fraud is a subject that has spread so rapidly within organizations (Shelton, 2014) and it is considered an important area of inquiry to be clearly understood by every stakeholder (Hirschi & Gottfredson, 1987). Financial statement fraud is largely a top-down form of fraud that negatively impacts individuals, organizations, and society. As a result, it is important to understand why individuals are engaged in financial statement fraud (Albrecht, et al, 2015). None of the organizations is considered immune from the serious harm caused by the fraudulent activities despite of their sizes

(ACFE,2014). The impact is always damaging regardless of the amount stolen as the direct costs are massively affected. The NGOs sector contributes over so much to the economy each year as well as offers employment opportunities to many citizens Desjardins, (2016). Donor agencies are highly vigilant for any sign of corruption or other abuses in the funded projects, (Trivunovic, 2011). Studies have highlighted different effects as a result of fraud within NGOs and they include bad reputation, job loss by employees, future donors, among others (Greenlee et al., 2007; Apriliana & Agustina, 2017; Peltier-Rivest & Lanoue, 2011; Hirschi & Gottfredson, 1987; Holtfreter, 2005). Despite the different operational effects mentioned, there exists conflicting fraud risk factors. Some scholars found out that the main factors for fraud are pressure, rationalization and opportunities (Wells, 2001; Center for Audit Quality, 2010; Howe & Malgwi, 2006 ; Hunton, 2003) while others claimed that there are more factors other than the three that influence fraudulent activities (Tugas, 2012; Quraini & Rimawati, 2018; Vousinas, 2019; Ruankaew, 2016; Wolfe & Hermanson, 2004b) such as capacity and externa regulations.

From the different studies, it is evident that fraud is a big scandal within organizations yet there exist conflicting conclusions on factors that trigger its occurrences and therefore, the need to study the subject. Results from this study will help in justifying the main reasons for fraudulent transactions and shed more light on the exact impact as a result of fraud within NGOs, hence solve the inconsistencies.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to investigate the influence of fraud on operational performance in NGOs within Nairobi County**.**

1.3.2 Specific Objectives

The following were the specific research objectives of the study;

i. To evaluate pressure, rationalization, opportunity, capability and regulatory influence to commit fraud on the operational performance of NGOs in Nairobi county.
ii. To assess the effect of pressure, rationalization, opportunity, capability and regulatory influence to commit fraud on the operational performance of NGOs in Nairobi county.

1.4 Research Questions

i. How does pressure, rationalization, opportunity, capability and regulatory influence to commit fraud affect the operational performance of NGOs in Nairobi county?
ii. What is the effect of pressure, rationalization, opportunity, capability and regulatory influence on the operational performance of NGOs in Nairobi county?

1.5 Scope of the Study

The research focused on cause and effect of fraudulent transactions on operational performance of NGOs within Nairobi County. The population was only the listed and registered NGOs by the Board of Kenya and operating within Nairobi City County. The registered NGOs within Nairobi County were 702 (Directory of Development Organizations, 2010) and they are either operating locally only or Internationally.

1.6 Significance of the Study

The study is beneficial to policy makers within the context of the NGOs and for future implementation of the policies. Its contribution will be on the growing debate concerning accountability and responsibility of employees within NGO sectors. This will further identify where to emphasize the reinforcement of internal controls implementation and monitoring.
There will be a better understanding on the factors that can lead to the possibilities of fraud by forensic accountants, auditors, fraud examiners and other anti-fraud bodies in terms of cause and effects within an NGO context.
The conclusion will also be of importance towards the governance. It will emphasize on the need of the Pentagon's fraud elements that the Corporate Boards should implement and apply for proper oversight.

The study may further be of importance to future researchers as it will provide the basis for further studies. It will add knowledge and form foundation of training for those who will focus further on white-collar crime researches.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the relevant literature available on the influence of fraudulent transaction and impact on operational performance in NGOs within Nairobi County. The chapter presents ideas from other researchers, analysts, scholars and authors who carried out their studies on relevant topics. It focuses on theoretical review which identifies te variables use in the study and the relationshipts between them. It further explains the empirical review of literature relavant to the cause and effect of fraudulent transactions within NGOs and identifies the research gap in the reviewed literature and presents the conceptual framework. The chapter is entirely guided by the research objectives as drawn in Chapter one.

2.2 Theoretical Review of Literature

The study has its underpinnings rooted on the internationally recognized frameworks on fraud which are Fraud triangle theory (FTT), fraud diamond theory, Fraud Pentagon , agency theory and deterrence theory as discussed below;

2.2.1 Agency Theory

The theory assumes that firm has contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources, (Adams, 2013). The theory adopts a principle-agent relationship between shareholders and management where the top executives act as 'agents'whose personal interest do not naturally align with the shareholders' interests (Albrecht et al., 2015). It was founded by Stephen Ross and Barry Mitnick who explored the ownership and management relationship that is tied towards self interest and assymetrical information (Bendickson et al., (2016a);Mitnick, (2006);Linder & Foss, 2015). In this theory, one party acts on behalf of the other by being delegated with some duties on behalf of the principal as concluded by (Shapiro, 2005); Ross, 1973; (Adams, 2013) and was formulated in early 1970s. The management is typically motivated by self-interest and self-preservation (Albrecht et al, 2006) and that the executives will commit fraud as it is in their best and personal interest (Davis et al., 1997). If the agent has opportunistic tendencies, he/she will pursue the interest inconsistent with the principal's (Ajekwe & Ibiamke, 2016) . The potential conflicts are referred to as agency problems.

The theory has been used widely in differnet fields of economics, finance, political sociology, law, organizational behavior, marketing, health care, family business as well as accounting as ween in the studies by (Eisenhardt, 1989; Bendickson, Muldoon, Liguori, & Davis, 2016) yet there are different controversies in the theory. It focuses on short term goals (profits) rather than the long-term viability of the Organization (Ajekwe & Ibiamke, 2016). Ross, (1973) highlighted that the agency issues are universal, while Perrow, (1972) explained that it does not address any clear problem as it is one sided but Hirsch, Michaels, & Friedman, (1987), referred to the theory as extremely narrow since it converged all the attention to the price of shares.

Agency theory is mainly concerned with solving two major problems. The first problem is when it is difficult or costly for the principal to verify what the agent is actually doing. When the agent has the shares in the firm, they will likely embrace the desires of the principal as their own. When the actions are measured by the outcome, the agent will meet the principal expectations. However, when they diverge, self-interest and information asymmetry comes in and the principal will not properly monitor the actions of the agent as discussed by (Fama & Jensen, 1983; Berle & Means, 1991). The second issue the theory is concerned with is the risk sharing aspect. The two may have different perspectives towards the risks and hence, the approach will be different unlike when they perceive the risk from the same point of view. The agent will prefer the different actions based on his own perception on the risk and not consider the principle. When the agent has self-interest, he will not act as per the principle's expectations. If the two have converging interests, the outcome will be as per the principle's expectations (Eisenhardt, 1989; Jensen & Meckling, 1979). The theory assumes existence of self-interest, rationality of the actors and the risk aversion aspects as empirically reviewed in the studies by (Eisenhardt, 1989; Chandler , 1962 ; Galbraith, 1973).

The agency principal relationship elaborates fraud risk factor within an organization whenever there is too much pressure for the management to maximize the owner's returns. The managers of an organization intentionally misstate their financial information to favorably represent the entity's financial performance. Managers of nonprofits organizations may have incentives to manipulate their reported program-spending ratios because it will determine the contribution decisions by the donors (Stolowy & Breton, 2000; Diana & Madalina, 2007). Therefore, shareholders should only set achievable targets to their managers in order to prevent any form of financial misrepresentation through manipulation of financial information. Self-interest and high targets set by the owners of the resources is considered the reason for justifying overstatement of financial results in order to increase Earnings per share by the management.

2.2.2 The Fraud Triangle Theory

The theory was originated by a fraud researcher, Donald R. Cressey as evidenced in the study by (Cendrowski et al., 2007). According to Singleton et al., (2006a); Vona, (2012); Kent Jr, (2005), a fraud triangle has to be incorporated by the organization in assessing the fraud risks.Trusted persons become trust violators when they have finacial problems not shareable, believe that the problem can be secretly resolved due to their financial position in an organisation and are able to justify their actions to themselves and others (Ajekwe & Ibiamke, 2016). For every trust violator, there must be opportunity by the embezzler, pressure and ability to rationalize the action. According to Cohen & Felson, (1979); Kapardis, (1999) fraud like other crime, can best be explained by three factors: a supply of motivated offenders, the availability of suitable targets and the absence of capable guardians, control systems or someone "to mind the store". The AICPA has referred to them as conditions for fraud or fraud risk factors while Center for Audit Quality, (2010) referred to the FTT as the seductive traingle.

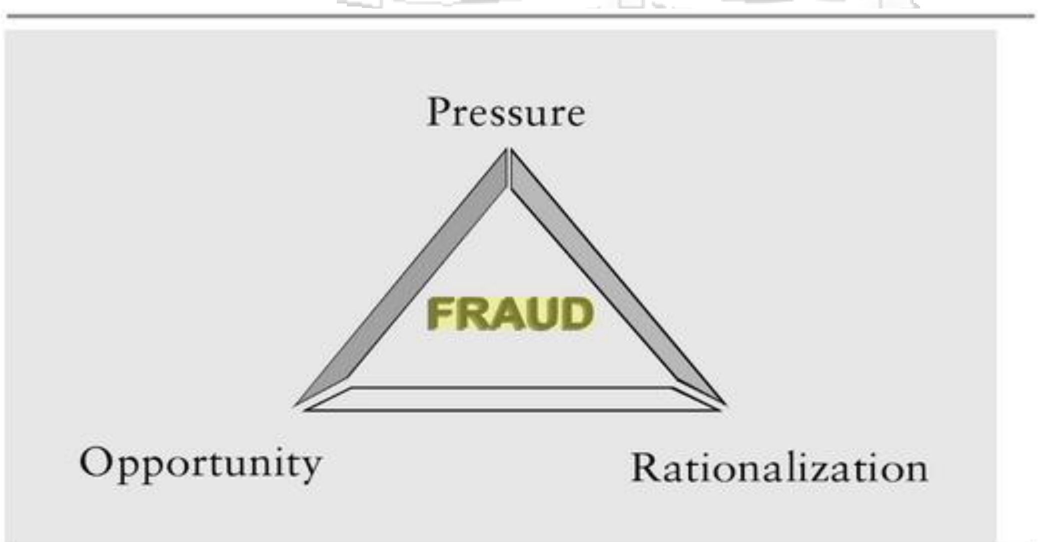

Figure 1 FTT

Pressure

Pressure are the happenings within an individual's life or from the organization. This makes the needs of the individual to be more important than the personal ethics and the organization's needs, (Albrecht et al., 2015; Vona, 2012). Temptations for misconduct arise when goas appear to be unattainable through the normal means. Pressure is a top motivator for fraud especially when one intends to achieve personal gain, short term financial goals, hide bad news and avoid losses especially to the investors (Ajekwe & Ibiamke, 2016; Center for Audit Quality, 2010; COSO, 2010; Johnson, Ryan, & Tian, 2009).

Pressure can occur both at an individual level and corporate level. At a personal level, it is significantly connected to compensation within the organization. while at a corporate level, it happens during the negative economic environment resulting to difficulties in achieving the set target by the senior management (Center for Audit Quality, 2010; Quraini & Rimawati, 2018).

Rationalization

It involves one giving justifications for the fraud commission. It is a consious justification by the perpetrator to place their needs above the organization's (Vona, 2012). Rationalization enables people to maintain their code of ethics and avoid guilt or self-condemnation. It is the wild card, the one factor that relies on the mysterious mindset of the individual, (Morantz, 2011). This fraud factor is perceived to be the most difficult condition to observe since it takes place in the mind of the perpetrators who view themselves as honest, ordinary people and not as criminals which make them to come up with reasoning to make the act of committing fraud more acceptable to them (Anders, 2015).

Opportunity

Organizations need to understand that as much pressure, financial reporting fraud cannot occur unless an opportunity is present (Center for Audit Quality, 2010). Opportunity is highly influenced by the responsibility and authority given to the person which they use intentionally to override the controls (Vona, 2012). Opportunities for fraud are mostly when the tone at the top is lax or existence of ineffective controls, however the best controls do not eliminate entirely the risk of fraud (Center for Audit Quality, 2010). A weakness in internal controls provides an opportunity for fraudsters to commit a crime. According to Committee of Sponsoring Organizations (COSO), strong internal controls prevent room for fraud. Availability of pressure and opportunities lead to more chances of fraud. Existence of weak corporate monitoring provides an opportunity for agents or managers to behave deviant by committing fraud (Fadhilah, 2014).

Cressey interviewed 200 embezzlers, who were in prison and concluded that every fraud has pressure which is the motivation, rationalization of personal ethics and opportunity to commit fraud. The three factors are the corner ends of the fraud triangle, (Singleton et al., 2006b); Albrecht et al., 2015).

The theory is important as it helps organizations to set up a strategy to prevent and investigate fraud occurrences. The three sides of the fraud triangle are interrelated. Pressure can cause someone to actively seek opportunity, and pressure and opportunity can encourage rationalization (Center for Audit Quality, 2010).

2.2.3 Fraud Diamond Theory

The theory is an extension of the Fraud Theory which added capability as the fourth element for fraud to occur. It was developed by the researcher with the motivation of trying to explore the different elements of fraud (Tugas, 2012; Wolfe & Hermanson, 2004). They assumed that the fraud triangle could be improved on fraud prevention and detection by considering a fourth element. Other than pressure, opportunity, and rationalization, an individual's capability can lead to fraud. Bressler & Bressler, (2007) suggested the idea of the fraud square by appealing that the triangle alone was not adequately detailed as it lacks a crucial element, capabilities. Not every person who has the three elements may decide to commit fraud due to the lack of the capability to carry it out or to conceal it, the perpetrator must have the skills and ability to actually commit fraud (Ruankaew, 2016). The capacity may include the knowledge, skills and ability to handle stress (Center for Audit Quality, 2010). According to Albrecht, Wernz, & Williams, (1995); Sihombing & Rahardjo, (2014) , capability as an element is mainly significant when it concerns a large-scale or long-term fraud and that only the person who has an extremely high capacity will be smart enough to understand the existing internal control, to identify its weaknesses and to use them in planning the implementation of fraud.

However, the fraud square has some drawbacks as identified by (Mackevičius & Giriūnas, 2013a). The theory does not reveal when there is the greatest risk of fraud; it does not take into account the role of the internal control system in assessing and detecting fraud. Therefore, we should have an improved version of the fraud square.

Hall, (2015), defined fraud as anything intentional leading to material misrepresentation by one party to another party with the aim of deceiving. Auditors may experience either employee or management fraud. The factors identified serve as signals or warnings to the auditors, business organizations, investors, and legal and regulatory bodies in the future of the possibility of occurrence of the financial fraud.

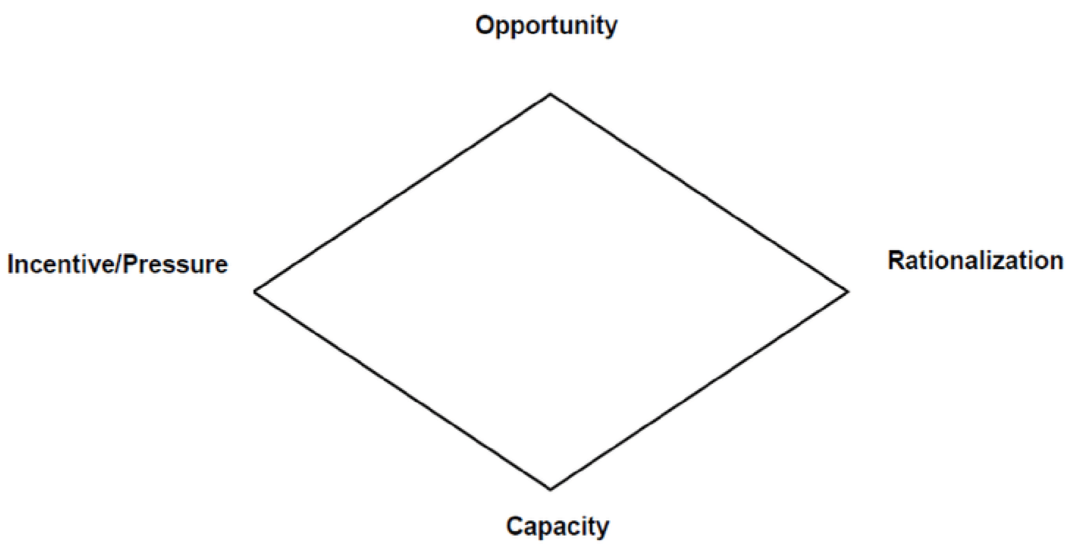

Figure 2 FDT

Source:(Wolfe & Hermanson, 2004b)

2.2.4 Fraud Pentagon Theory

Crowe's pentagon fraud theory describes the elements of the origin of the fraud through pressure, opportunity, rationalization, capability or competence, and arrogance/external regulations. The five elements includes both financial and non-financial factors which are indicators of the cause of fraud within an institution (Sihombing & Rahardjo, 2014).

Tugas, (2012) explored further on the elements of fraud and included external regulatory influence as fraud factor. The theory is more comprehensive than that of fraud triangle and fraud diamond theories as explained by (Quraini & Rimawati, 2018). The theory introduces the fifth element as a foundation of fraud which is arrogance as opposed to the factors identified in FTT and FDT. Trust violators have become independent- minded and equipped with more information and ability to access corporate assets than was the perpetrator of Cressey's era (Marks, 2018). Yusof et al., (2015, also commented that fraudsters are associated with pressure and arrogance. Arrogance is mainly demonstrated by the top management such the Chief Executive Officer inform of ego considering him/herself as the celebrity with capacity to do anything, ability to circumvent internal controls and not get caught, practice autocratic management style.

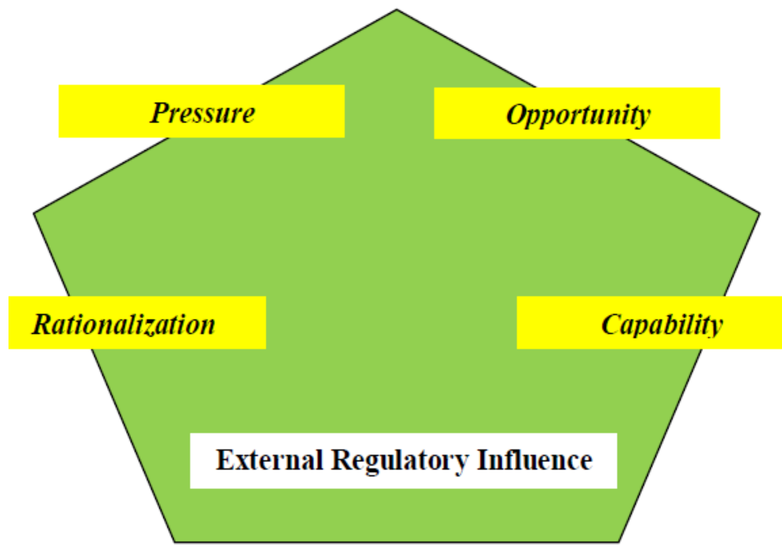

Figure 3 FPT

2.3 Empirical Review of Extant Literature

2.3.1 Factors that influence fraud on operational performance of NGOs in Nairobi County

Fraud is not a new a concept as it affects all industries and organizations and keeps on increasing every day and is considered an unavoidable cost of doing business (KPMG, 2013). Fraud is a global phenomenon which occurs in many countries, various sectors and industries and is being carried out by actors at various different levels (Nindito, 2018). According to Othman & Ameer, (2014); (Holtfreter, 2005a), non-compliances are frequent cases among NGOs and the authorities are reluctant to chase the perpetrators for recovery of the lost resources. This further creates opportunities for employees to neglect intentionally accountability responsibilities. It is no longer an unexpected issue for fraud to occur within organizations. It is deemed to be a day to day activity (Mansor, 2015). NGOS are equally vulnerable to the same risks exposed to organizations in other fields of operations and therefore risk assessment should be done to reduce the level of fraud exposure (Young, 2009. Peltier-Rivest (2009 concluded that NGOs are highly exposed to occupational fraud compared to other organizations.

Fraud is believed to have increased in the recent times hence encouraging others to commit it, (Turner et al., 2003). This is because of the many factors or determinants available that encourage fraud in any system within organizations. Organizations should first understand factors leading to fraud occurrences before making any effort to reduce them. They need to comprehend who are the fraudsters, when and why do fraud occur as concluded by, (Ruankaew, 2016). It is believed that there are three main factors that lead to fraud as suggested by Cressey in his study; pressure, opportunity and rationalization are the drivers. According to Bakertilly, (2016), NGOs are highly exposed to fraud yet reluctant to report the fraudulent activities due to the negative publicity and that the enormous financial scandals and fraud are not an exclusive property of public sector corporations alone. Most of the donors offer millions of grants which are then diverted to other operations while others make questionable payments (Yallapragada et al., 2010). In some organizations, the management decide to benefit on insider information at the expense of the target beneficiary as seen in one of the world's largest environmental organization involving land deals (Mead, 2015). Other Organizations suffer from lax governance activities with excessive executive compensations, inadequate charity care, and deceptive pricing of services which are against NGOs' objectives (Alexander et al., 2008).

Fraud perpetrators usually respond to economic pressures, which are mainly financial need such as greed, living beyond one's means, large expenses or personal debt, poor credit, personal financial losses, and an inability to meet a financial forecast Albrecht et al., 2006; Skousen, Zhang, Turnbull, & Albrecht, 2010; Howe & Malgwi, 2006). Specifically, about 95% of all fraud cases were influenced by financial pressure, according to Albrecht, Hill, et al. (2006). Fraud occurs as a result of the interaction between opportunity, incentive or pressure, and attitude or rationalization, (James, Stephanie, & Nancy, 2004; Cressey, 1953;Putra, 2018). The strength of each factor will determine the severity of the fraud (Yusof et al., 2015).

Hunton, (2003), fraud occurs as a result of the interplay between three factors; opportunity, incentive or pressure, and attitude or rationalization. Suyanto, (2009) stated the likelihood of financial statement fraud is easier to be observed publicly using risk factors of pressure and opportunity rather than rationalization.

Most fraud occurs within organizations for personal financial gain or by persons on behalf of the organization as concluded by (Friedrichs, 2002). External pressure influences fraudulent reporting within organizations as concluded by (Rizki Saputra Dan, 2017). This was backed up by (Tessa & Harto, 2016) (Suhaya, Rizani, & Respati, 2017; Vivianita & Indudewi, 2019; Levy CPA, 2017) that indeed pressure leads to misrepresentations. Therefore, we pressure can be hypothesized to influence fraudulent activities. Greed and financial strain push one towards the wall hence commit the corporate crime (Blaszczynski, 1994). This was confirmed by KPMG, (2013) which concluded that greed/lifestyle and financial pressure that main motivators for fraud. Lenz & Graycar, (2016); Johnstone, (1998) observed that availability of loopholes within the internal control system creates more opportunities for the growing fraudulent activities in the economy. This is further contributed by the weak standards of financial regulations and lack of implementing the laws and regulations put in place. A discussion by Center for Audit Quality, (2010) found out that most frauds involve senior management in unique positions within an organization with ability to override controls and collude with other employees. Others argued that lower level staffs may not initially realize that they are committing fraud as they are simply doing what is expected in order to "make their numbers.

Nonprofit making organizations need to be informed of the risks associated with the fraud so that they can minimize on the losses and the occurrences as studied by (Greenlee et al., 2007a). This will involve having antifraud techniques in place and ensuring they are fully implemented and monitored by the stakeholder especially the donors. They are highly susceptible to fraud as they are run by volunteers and part time staffs who have other full-time jobs. Some of the volunteers and employees including the board members are not well skilled and conversant with financial management. This makes it difficult to properly oversee the organizations entrusted to them and unable to fully commit themselves to the duties assigned (McNeal & Michelman, 2006).

Opportunity exists when there are insufficient controls or possibility of collusion that can make perpetrators to can circumvent the existence controls. What causes a person to commit fraud is the pressure or incentive. Employees will weigh the costs and benefits before committing fraud. If internal control reviews are done regularly departmentally and actions taken against staffs, the risks outweigh the perceived benefit and therefore, fraud will be avoided, (Holtfreter, 2005b). Weak internal control and ineffective supervision can be an opportunity to commit fraudulent (Puspitha & Yasa, 2018). According to Tugas, (2012), when individuals in important positions collude, they create opportunities to control or gain access to assets that otherwise would not exist as evidenced in several organizations such as PTL Club, Parmalat, and Enron.

Weak corporate governance and structure within an organization leads to loopholes for fraud to be committed (Jaswadi, 2013; Smaili & Labelle, 2009). Tugas, (2012), whenever persons in critical positions conspire, opportunities are created hence weakening the set internal controls. This was evidenced in PTL Club, Parmalat, and Enron where auditors contributed in the execution of the fraudulent activities. Ruankaew, (2016), individual factors such as financial need and personal issues are variables that businesses cannot control but can only decide how to react through effective internal controls. KPMG, (2013) found that poor internal controls, lack of skills by the internal audit staffs to detect fraud, lack of fraud awareness trainings and poor communication of code of ethics within organizations triggered fraud, bribery and corruption. They further noted that false invoicing, financial mismanagement and conflict of interests are the form of fraud mainly committed by staffs. Rationalization happens after the commission of fraud where the employee justifies the actions. Not for profit organizations need to have well-built accounting practices such as showing the sources of revenues and how they intent to spend the funds (Nagy, 2004). Management commits fraud when they have a justification that the impact is immaterial (Putra, 2018).

Mackevičius & Giriūnas, (2013) stated that despite having the pressure, opportunity, and rationalization, an individual may not commit fraud unless they also have the capability to do so. Sorunke, (2016) and Tugas, (2012) stated that the previous model of fraud triangle and fraud diamond theory is not dependable to detect financial statement fraud. Crowe (2011) explained that there are different five elements of arrogance from the CEO perspective that results to fraud. Yusof et al., (2015), weak corporate governance is strongly connected to the fraud within an institution while a study by Greenlee, Fischer, Gordon, & Keating, (2007b); Saifullahi & Hassan,2016) found out that unaudited companies are vulnerable to fraud as compared to audited ones.

Capability allows a person to have the ability to override internal controls and to control the situation to his or her advantage. This can be through coercing or bullying the juniors to do commit fraud which is against the organization (Marks, 2018). Fraud Diamond Theory explained that fraud can occur because of the ability of individuals who are able to ignore all mechanisms put in place against fraud and commit fraudulent transaction. The ability of employees to ignore internal controls, develop concealment strategies, and control social situations for their personal interests leads loopholes and opportunities for fraud, (Puspitha & Yasa, 2018). It is believed that most professionals are able to commit major frauds within the organizations by virtue of their legitimate employments as discussed by (Cressey, 1953). Collusion by the regulatory bodies can contribute to fraudulent activity. Effective regulations and rules should prevent irregularities, illegal, and corrupt dealings in organizations, (Tugas, 2012).

Marks, (2018) stated that arrogance is an attitude of superiority and entitlement on the part of those in the top position within an organization. Such staffs believe that they are above the corporate policies and procedures. He further added that competence and arrogance play a major role in an employee to perpetrate a fraud. If the effect of external regulation is weak then it is possible to cheat (Muhsin et al., 2018). Wolfe and Hermanson (2004) stated that a person's position or function in an organization can provide the ability to take advantage of fraudulent opportunities and changes of directors or any top management can indicate fraud occurrence. Top positions within an organization such as a Chief Executive Officer can be a fraud risk factor since the individuals in such roles can easily influence others to commit fraud (Nindito, 2018).

Due diligence should always be done by donors and any other relevant stakeholder before investing. The process should involve those in governance and other employees because they commit the fraud believing that they are getting what belongs to them and to sort their poverty issues, (Brody & Luo, 2009; Bhasin, 2007). However, (Albrecht et al., 2015) insisted that background checks are not necessarily important, hence contradiction that this study will bring out a clear picture after the findings.

Every management should ensure the donors receive a well-documented project report with regards to the amounts disbursed for project activities within a certain period of time. It is important to look beyond the numbers in financial records and include the non-financial aspects in analyzing the performance, (Samuel, Enyi, & Ajao, 2013).

Improved internal controls are vital to reduce opportunities for fraudulent activities by the top management. This includes staff rotations, improved internal communication and segregation of duties, (Hollow, 2014; Beasley, Carcello, & Hermanson, 2000). A study by Unerman & O'Dwyer, (2006) found out that the NGOSs are only responsible and accountable depending on the impacts which their actions cause to other stakeholders. This means that they are only accountable due to the consequences and not guided by the professional ethics, code of conduct and compliance of the internal controls. All forms of fraud violate the employees' fiduciary duties to the organization they work for as concluded by (Holtfreter, 2005a). Everyone has a duty of being compliant to the organization's resources and spend as per the budget without any embezzlement. As study by Tugas, (2012) advised organizations to conduct audit at least annually in order to enhance the confidence of the stakeholders in regards to fraud. This will help in early detection of any misrepresentation of financial statements, corruption or misstatements.

2.3.2 The effect of the fraud risk factors on operational performance of NGOs in Nairobi County

A study by Abdullahi, (2011); AbdulRasheed, Babaita, & Yinusa, (2012); Saifullahi & Hassan, (2016) found out that the scope and means by which fraud is being perpetrated is beyond pilfering and cash suppression since there are other emerging frauds like cybercrimes and the amount of fraud cannot be easily known since very few incidences are detected but remain unpublished. Every 6% of income in a year is lost through fraud and organizations should reduce such by having fraud examiners to monitor and prevent or detect fraud within an organization, (Machen & Richards, 2004; Archambeault & Webber, 2018). Fraud activities leads to huge losses for investors in which their investment will not get a return on the capital invested (Apriliana & Agustina, 2017). The possibility that managers may commit fraud is a major a concern of corporate investors (Smith et al., 2000). Fraud will always affect the future of the organization as the going concern remains questionable (Blay et al., 2007).

Fraudulent transactions are particularly troublesome due to the losses caused in the nonprofit sector as directly reduce resources available to implement projects and contribute on bad publicity which can easily reduce contributions and grants from the donors for the subsequent periods (Greenlee et al., 2007a). Organizations losses approximately 6% of its income through fraud (Holtfreter, 2005a) and thorough assessment of internal controls are needed in order to prevent and detect fraud within organizations. Several factors are significant predictors of financial loss within organizations which eventually leads to aid reductions (Maipose, 2000a;Holtfreter, 2008).

Yusof et al., (2015), weak corporate governance is strongly connected to the fraud within an institution. Greenlee, Fischer, Gordon, & Keating, (2007b); Saifullahi & Hassan, 2016) concluded that the cost of fraud is not possible to be detected as they are unreported. Peltier-Rivest & Lanoue, (2011); Hirschi & Gottfredson, (1987); Holtfreter, (2005b) stated that the effects of fraud are immeasurable. It affects employees, suppliers, investors and society as a whole. It leads to loss of employment, reduces output for projects and sales for companies, poor publicity, bankruptcy and liquidation as well as competency within the industry. Machen & Richards, (2004) also emphasized that fraud is costly to the organization. Mansor, (2015) further concluded that fraud contributes to the unnecessary suffering and increased unemployment for the low and middle class. Fraud will always negatively affect the company’s reputation, value, operation and its asset which will consequently lead to poor performance. Corrupt organizations will always report huge balances for the expenses incurred. These include the overstated expenses as compared to the actual incurred (Yetman & Yetman, 2011).

Donor funds misuse can lead to decline in future aids to organizations due to poor management by its sub recipients and main implementers (Maipose, 2000b). A study by Swedlund, (2017) also concurred that fraud within organizations lead to an aid suspension. However, it is alleged that as much as donors advocate against corruption, they support such acts as they send the funds to the corrupt governments as donations, (Hanlon, 2004). Public and private sectors of the economy are equally affected by fraud which is perceived as of the major factors of the deteriorating economy and resulting to a high mortality rate of business organizations and the consequent losses of revenue (Saifullahi & Hassan, 2016). A study conducted by Lenz & Graycar, (2016); Button et al., (2015) revealed that fraud can take place in different forms and they are highly contributed by the weak board of governance. It takes a long period of time before detecting fraud committed (Tugas, 2012).

2.4 Summary of the Literature

The chapter discussed the theoretical postulates on fraud risk factors which are; pressure, opportunity, rationalization, capability and external regulatory drawn from the Agency Theory, Fraud Triangle Theory, Fraud Diamond Theory and Fraud Pentagon Theory and the various empirical reviews. The theories provided a framework in which the variables could be associated and examined. Some researchers concluded not all factors lead to fraud. The conflicting conclusions will be aligned by this study within the NGO context. The chapter concluded with the conceptual framework which diagrammatically represents the key concept and variables of the study. While studies on fraud risk factors and their effect present some similarities, conflicting findings are also evidenced. Mackevičius & Giriūnas, (2013), Sorunke, (2016), Tugas, (2012), Crowe (2011), Marks, 2018) argued that not only pressure, rationalization and opportunity lead to fraudulent transaction but there are other factors that contribute on the same. This study aimed at aligning the conflicting factors but within the NGO context by examining all the five pentagon's fraud risk factors which have been identified above.

2.5 Conceptual framework

Conceptual framework is a demonstration through a diagram of the key factors, concepts or variables of the study as explained in the (*Principles and Methods of Research' 2006 Ed.*, 2006). Ravitch & Riggan, (2012) defined it as a purely visible representation of the study's organization; a way of linking all the elements of the research process, literature review and theory. This study assumes that the independent variables influence dependent variable which is operational performance of NGOs. The relationship between the variables is illustrated in the conceptual framework below. The independent variables is the one that influences the dependent variable either positively or negatively (Sekaran & Bougie, 2016) and in this study, they include various fraudulent risk factors of NGOs' operational performance (pressure, opportunity and rationalization). The dependent variable which is the operational performance of NGOs is affected directly or indirectly by the independent variables as shown in the figure. It is the variable of primary interest to the researcher (Sekaran & Bougie, 2016).

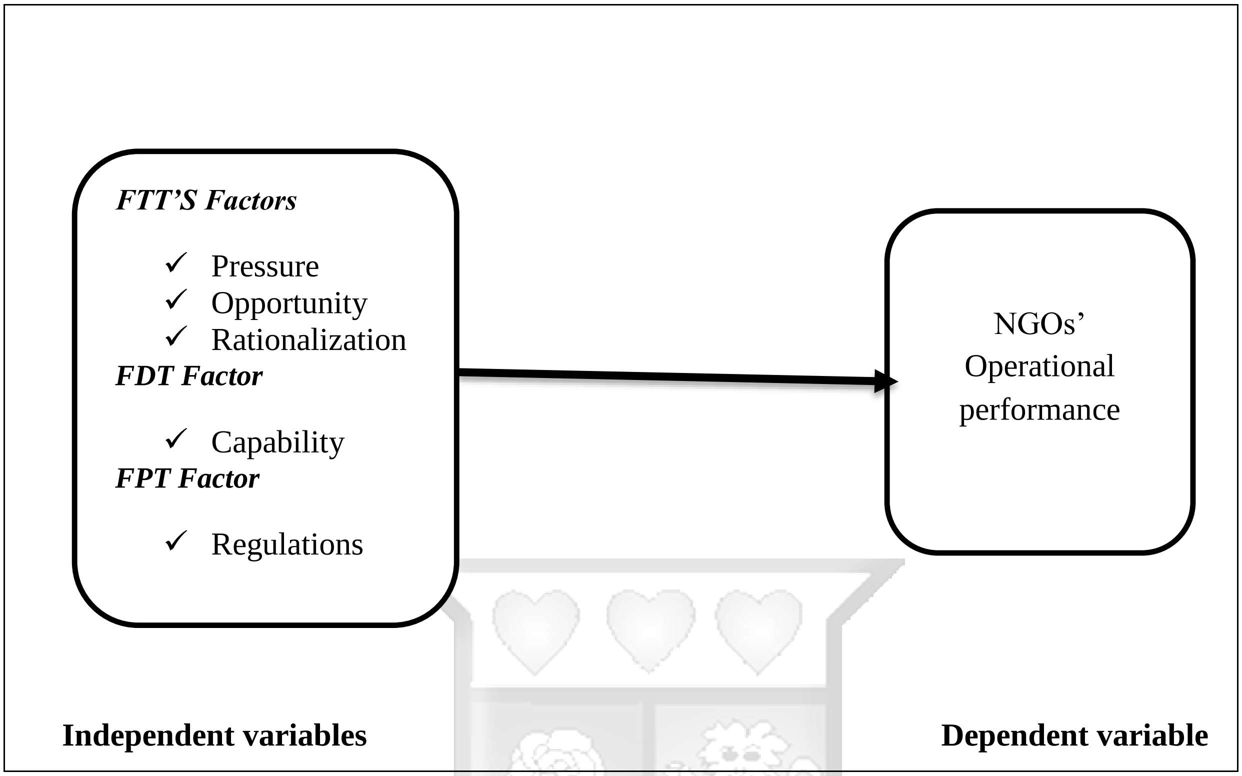

Figure 4 Conceptual Framework

2.6 Operationalization of Variables

Variable	Operational Construct	Supporting Theory	Scale of measure	Supporting Literature
Capability	Whether skills and ability of senior staffs can influence fraud through the junior staffs Whether staffs can override internal controls for his or her advantage	Fraud Diamond Theory (FDT)	A 5-point Likert Scale of Agreement was used	Wolfe & Hermanson, (2004b), Bressler & Bressler, (2007), Albrecht, Wernz, & Williams, (1995)
Regulations	If policies and procedures can affect operational performance of NGOs If top management such as the Chief	Fraud Pentagon Theory (FPT)	A 5-point Likert Scale of Agreement was used	Sihombing & Rahardjo, (2014); Quraini & Rimawati, (2018); Marks, (2018); Yusof et al., (2015)

	Executive Officer can influence the commission of fraud or not			
Pressure **Opportunity** **Rationalization**	If financial goals, lifestyles and personal pressure, Organization's goals/performance can affect operational performance of NGOs Whether internal controls, corporate governance and structure and skills of staffs can affect operational performance of NGOs Whether justification of fraudulent actions can affect operational performance of NGOs	Fraud Triangle Theory (FTT)	A 5-point Likert Scale of Agreement was used	Vona, (2012), Center for Audit Quality, (2010), Fadhilah, (2014), Ajekwe & Ibiamke, 2016; COSO, 2010; Johnson, Ryan, & Tian, 2009.
Operational performance	Whether the identified risk factors can affect donations by the Future donors, employees' Job loss, Organization's Bankruptcy, Goodwill and implementation of the funded projects'objectives		A 5-point Likert Scale of Agreement	Peltier-Rivest & Lanoue, (2011); Hirschi & Gottfredson, (1987); Holtfreter, (2005b)

Table 1 Variables Operationalization

2.7 Summary of the Chapter

The chapter reviewed literature based on the previous studies on characteristics of fraud perpetrators and their impact on operational performance of NGOs. It also presents theoretical and conceptual frameworks of the study. Based on the literature reviewed, a conceptual study is formed to enable the study on occupational fraud in chapter three.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This study focuses on the fraud risk factors and their effect on operational performance of NGOs. Research methodology is a way of scientifically solving the research problem. This chapter introduces the research design, population and sampling methods, how data was collected and analyzed to get the results to be used for conclusion, (Kothari, 2004).

3.2 Research Philosophy

The study adopted a positivism research philosophy, which argues that reality consists of what is available to the senses i.e. what can be seen, touched, smell and inquiry should be based upon scientific observation and finally that natural and human sciences share common logical and methodological principles dealing with facts and not values (Gray, 2013). The approach believes that causes determine the outcome and therefore, the problem being studied requires the need to identify and assess the causes of the outcomes. It reduces the ideas into discrete set to tests such as variables that comprise hypotheses and research questions, (Creswell, 2014).

3.3 Research design

A research design is a general plan of how the research will go about answering the research questions by establishing the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The research is a descriptive study and quantitative in nature. The study sought to establish whether NGOs' operational performance (dependent variable) is influenced by the pentagon's risk factors (pressure, rationalization, opportunity, capability and regulatory influence to commit fraud), the independent variables. Analysis on collected data was done using the statistical tools, SPSS and excel, to determine whether significant differences existed between the mean of specific fraud risk factors of NGOs or not and their association to the operational performance of the sampled NGOs, hence quantitative in nature.

3.4 Population size

Population is the entire universe from which sample is selected, (Bryman & Bell, 2015; Greener, 2008). Sample is a segment of the universe that needs to be investigated (Levy & Lemeshow, 2013;

Bryman & Bell, 2015). The research is limited to NGOs registered and operating in Nairobi City County, Kenya. Directory of Development Organizations, (2010), lists over 70,000 developmental organizations which among others, includes the NGOs. Furthermore, Webi, (2017) found out that there are 702 NGOs that are either national or International within Nairobi County as per The 2011 Directory of Development Organizations as shown in table 3.1. However, this study was limited to 87 NGOs selected using Slovin's method. The respondents included; the internal auditors, finance managers, grants officers and finance officers.

Group	**Population**
National	548
International	154
Total	702

Table 2 Population of NGOs within Nairobi

3.5 Sample Size and Method

The central limit theorem states that if a sample is from normally distributed data, the mean from samples of such distributions are themselves normally distributed. If the sample size is small, the shape of the distribution will largely depend on the shape of the parent population. However, as the population gets large (more than 30), the shape of the sampling distribution resembles a normal distribution regardless of the shape of the parent population. Thus, in this respect, a sample beyond thirty respondents was sufficient.

Other researchers have applied different formulas in determining the ideal sample size. Using Slovin's formula the sample size was estimated as below;

$$n = \frac{\mathrm{N}}{1 + \mathrm{N}\varepsilon^2}$$

Where:

n = Sample size

N = Total population

ε = margin of error (0.1)

$$n = \frac{702}{1 + 702 * 0.1^{2}}$$

n=87

The sample was selected using simple random sampling for the NGOs registered within Nairobi City County in order to ensure that all elements of the population have an equal chance of being selected and as such the sample reflected the population. The results are as shown below;

Group	**Sample**
National	68
International	19
Total	87

Table 3 Sample size

3.6 Data Collection

Secondary data and Primary data were collected in this study from all the sampled NGOs. However, primary data is more reliable compared to secondary data since they are collected by the researcher from the field unlike secondary data which might be obsolete or subject to certain discrepancies (Akrani, 2014). Questionnaires were administered for data collection with closed ended questions as they help in collecting viable quantitative data (Mugenda&Mugenda, 2003).

The first hand data source was collected using structured questionnaire in relation to the fraud risk factors within NGOs, whereby Section A of the questionnaire included the general information of the respondent, Section B had questions leading to risk factors of the fraud within NGOs in order to meet objective one and Section C was on effect on operational performance for NGOs as a result of the fraud risk factors identified in section B (second objective). The researcher used close ended questionnaires through drop off and pick up later method since it was found to have a high response rate and reduces biasness. Likert scale of five (1 = Strongly Disagree; 2 = Disagree; 3 = Neutral;

4 = Agree; 5 = Strongly Agree) was used to collect data from the respondents as it expresses either favorable or the unfavorable attitude toward an object of interest (Cooper & Schindler, 2006).

3.7 Data analysis and presentation

A quantitative approach was utilized in analyzing the data. The data gathered was cross-checked for errors and blank responses after which it was coded and imported in the Statistical Package for Social Sciences (SPSS). Analysis was done using SPSS for correlation analysis and regression analysis and was presented using figures and tables for ease of interpretation and elaboration. For objectives one and two, Pearson correlation analysis was carried out to establish whether there is association between the fraud risk factors and operational performances of NGOs. Correlation measures the extent of interdependence where two variables are linearly related. Correlation coefficient (r) is a measure of correlation between two variables. If variables are positively related, r= 1, if variables are negatively related, then r= -1 but if there is no relationship, r=0. If the value of r is close to one, then it shows there is a strong correlation between variables. And if the value of r is close to zero, then the association is weak.

After conducting a correlation analysis on objectives and finding an association between variables, the next step was conducting multiple regression analysis. In this, a model of relationship is hypothesized in the form Y= a+□1+ □2X+…. □jXk + □ where □1 and □2 …□j are the model parameters and □ is a probabilistic error term that accounts for any variability in Y that cannot be explained by the linear relationship with X.

The relationship between effects and other causes on operational performance is hypothesized using a multiple regression equation that contains predictor variables regressed against operational performance, the dependent variable.

The regression equations is as shown;

$Y = a+ \beta\ 1X1+ \beta\ 2X2+ \beta\ 3X3+ \beta\ 4X4+ \varepsilon$

Where:

Y = is the dependent variable which is a measure of operational performance of NGOs

a = Intercept

X1, X2-----Xj = Risk factors of fraud

β1, β2 and β3, β4, = Beta coefficients for which the researcher is trying to predict the value of Y.

ε = Error term

In order to test the causal relationship between the fraud risk factors and operational performance, the correlation coefficient, the coefficient of determination, the F-statistic and the regression coefficients were extracted and explained. The F statistic and the regression coefficients was assessed for significance using p values. The critical p value is set at 0.05. The multicollinearity test was conducted in order to establish whether there are high inter-correlations among the independent variables which may make it difficult for the researcher to determine the importance of a given predictor.

Descriptive statistics on the study was also be extracted. Analysis of the data collected will be undertaken using frequencies and percentages. Normally, descriptive statistics are conducted to provide simple summaries about a population or sample (Cooper & Schindler, 2014).

3.8 Reliability and validity

3.8.1 Reliability

Cronbach's Alpha which is as an index of reliability was used to ensure consistency and reliability of the responses. It provides a measure of the internal consistency of a test or scale and ranges between 0 and 1, the acceptable values of alpha, range from 0.70 to 0.95 (Santos, 1999; Tavakol & Dennick, 2011). According to Christmann & Van Aelst, (2006),Santos, (1999);Tavakol & Dennick, (2011), an alpha of 0.70 and above is good, 0.80 and above is better, and 0.90 and above is best. This study assessed the reliability using Cronbach’s test and benchmarked on a measure of 0.70. The results were as below;

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha	No. of Items
Capability	0.78	4
Opportunity	0.71	6
Pressure	0.86	6
Regulations	0.80	5
Rationalizations	0.78	5

Table 4 Cronbach's Alpha

Table 4 above shows that the questionnaire was a reliability tool for data collection as alpha scores were 0.78, 071, 086, 0.80 and 0.78.

3.8.2 Validity

In order to improve validity of the model, tests for multi-collinearity, normality, heteroscedasticity and serial correlation were conducted (Lim & Brooks, 2011). The normality test shows whether the error term is normally distributed within the population. Normally distributed error term has constant mean and variance (Gujarati, 2012; Fields, 2001). To test for normality, Jarque–Bera test was used. The normal distribution of data is assumed where the test statistic is not significant. Additionally, histograms and normality probability plots were used to test normality. If you mentally superimpose the bell-shaped normal distribution curve on the histogram, you will get some idea as to whether normality assumption may be appropriate (Gujarati, 2012).

Multi-collinearity is said to exist when two independent variables show perfect correlation. This can be shown by the variable inflation factor (VIF). If it is more than 10, multi-collinearity is said to exist (Gujarati & Porter, 1999). This problem can be countered by dropping one of the collinear variables, transforming the highly correlated variable into a ratio and including the ratio instead of the individual variable (Lim & Brooks, 2011).

Serial autocorrelation refers to a situation where the error terms are correlated with one another (Lim & Brooks, 2011). To test for autocorrelation, the Durbin Watson test is used. A statistic of between 1.5 and 2.5 shows that there is no autocorrelation while a statistic of less than 1.5 or more than 2.5 shows that there is a problem of autocorrelation. This could result in estimation of inaccurate coefficients to be used in the model. Therefore, transformation of variables using logs could be used in order to solve the problem, or Generalized Least Square (Lim & Brooks, 2011).

Heteroscedasticity refers to when the error terms do not have constant variance and this may cause high standard errors. To test for heteroscedasticity, the White test was used. The null hypothesis of homoscedasticity is rejected if the probability of the test statistics is significant, if the p-value is less than 0.05. This problem may be fixed by transformation of data using logs (Lim & Brooks, 2011).

3.9 Ethical Issues in Research

Zikmund, Babin, Carr, & Griffin, (2013) emphasized that business ethics should be practiced by researchers as they interact with the public. It is the morality of the human conduct throughout the research process (Mauthner et al., 2002). During the study, no harm should occur to the research subjects and the subjects participated freely. The participation was based on informed consent and the participants were also informed of their rights before any participation.

3.10 Chapter Summary

This chapter described the methods to be used in collecting, analyzing and presentation of the data to answer the research questions in chapter one. This research methodology provided adequate information and conclusion based on the analysis in relation to fraud risk factors within NGOs in Nairobi City County Council. The next chapter presents the findings, analysis and presentations of the data collected.

CHAPTER FOUR: PRESENTATION OF FINDINGS

4.1 Introduction

This chapter discussed findings from analyzed data collected through questionnaires from respondents working in NGOs within Nairobi City County. The respondents included internal auditors, finance managers, grant officers, accountants and finance officers. The findings are discussed in the following subtitles; descriptive results, response rate, demographic characteristics, diagnostic tests and inferential statistics on findings from analyzed data.

4.2 Response Rate

87 questionnaires were issued, out of which 71 were returned representing 82% as shown in table 5 below on response rate. This response rate is considered to be good according to Mugenda & Mugenda, (1999), since response of 70% and over is excellent.

Distributed questionnaires	Processed questionnaires	Response rate
87	71	82%

Table 5 Response rate

4.3 Demographic characteristics of the respondents

This section presents the research results on the background characteristics of the respondents. They include gender, years of service, position in the organization and the years of service of the Organization. Descriptive statistics were used to present these findings in tabular form below.

According to the findings, majority of the respondents (56%) were male from the sampled organizations while the least were the female employees 44%. It signifies that most organizations have male staffs compared to female. The age group of the respondents majority being between the ages of 40 and 50 years represented by 32%, followed by 18-28 years and 29 to 39 years both at 25% and the least being the group of ages 51 and above at 18%. From the table above, majority had experience of 3-5 years 51%) followed by 0-2 years (23%) and finally those of ages 6 and above at 26%. This implies that the information analyzed was from those who understand the organization's operations.

It can further be concluded that most of the sampled NGOs had been in operation for a period of 0-5 years (44%). 28% have operated for a period of between 6-11 years and 18% for a period of 12-17 years. The least (10%) have been operated for a period of at least 19 years.

Demographic attributes	**%**
Gender	
Male	44%
Female	56%
Age	
18-28 Years	25%
29-39 Years	25%
40-50 Years	32%
51 and above years	18%
Experience	
0-2	23%
3-5	51%
6-8	13%
9 and above	13%

Table 6 Demographic characteristics

4.4 Category of Organizations

The NGOs studied were either operating only in Kenya (national) or in other countries (international). Below is a pictorial representation of the grouping showing that majority were national NGOs (54%) while the others represented by 46% were international.

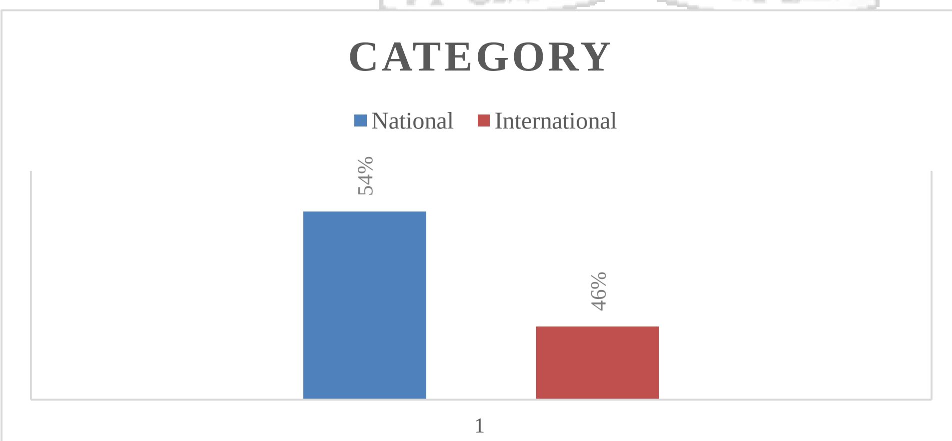

Figure 5 Categorization of NGOs

4.5 Findings on factors that influence fraud on operational performance of NGOs in Nairobi County

The study sought to establish the influence on fraudulent transactions within NGOs in Nairobi County. To achieve this objective, the participants of the study were asked to indicate the extent to which the listed factors affect the fraudulent transactions. The statements were put on a 5 - Likert scale where; 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree. The results are displayed in the table below.

Factors	**Mean**	**Std. Deviation**	**Rank**
Opportunity	4.30	0.809	1
Capability	4.27	0.841	2
Regulations	3.98	0.948	3
Pressure	3.80	0.755	4
Rationalization	2.47	1.171	5
Scores	**3.76**	**0.905**	3

Table 7 Factors affecting fraudulent transactions

Generally, it was agreed on at 3.76 by the respondents that the five factors influence fraudulent transactions and they were ranked in the order of the mean. The results show that the factors rank in the following order: Opportunity, capability, regulations, pressure, and rationalizations. The results indicate that internal controls, corporate governance, staff collusion and unskilled staffs representing opportunity rank the highest as a factor with a mean of 4.30 and standard deviation of 0.809, this was followed by capability (mean of 4.27 and standard deviation of 0.809) especially by the top management in influencing the financial data to meet their present desires. Furthermore, it also established that external regulations and rules from the industry leads to fraudulent transactions justified by a mean of 3.98 and standard deviation of 0.948 while pressure as a result of lifestyle, family pressure or corporate is also represented by a mean score of 3.80 and standard deviation of 0.755. Finally, the least factor that affects fraudulent transactions as observed is rationalization represented by mean of 2.47 and standard deviation of 1.171 In all fraudulent factor's attributes, the sample means were greater than the expected mean of observations; (1+2+3+4+5)/5=3 except rationalization.

4.6 Factor Analysis

4.6.1 Kaiser-Meyer-Olkin (KMO) test

Kaiser-Meyer-Olkin (KMO) test is a measure of how suitable the data is for factor analysis by grouping variables with similar characteristics together (Aman, 2012). KMO must be equal or greater than 0.60 ($K \geq .60$) to indicate factorability that sufficient evidence exist for at least one common factor underlying the observed variables (Coakes & Steed, 2009); (Hill, 2011).

Kaiser-Meyer-Olkin	0.718

Table 8 Kaiser-Meyer-Olkin

Table 8 above shows a KMO value greater than 0.6 and therefore satisfies the need for factor analysis.

4.6.2 Principal component analysis

The results of principal component analysis indicated is also shown in Table 9 that first factor accounts for 40.086% variance while the second factor accounts for 25.648% in all the five variables. The remaining factors are not significant. It is further evidenced in a scree plot graph (shown in appendix IV) of eigenvalues against all the factors which show factors to be retained and the point of interest is where the curve starts to flatten. Eigenvalue for each extracted factor is calculated and cutoff value of 1 is generally used to determine factors (Norušis, 1990); (Lani, 2019). It can be clearly seen in the plot that the curve starts to flatten between factors 3 and 4, with less than 1 eigenvalue. Hence two factors were retained.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.004	40.086	40.086	2.004	40.086	40.086	1.847	36.947	36.947
2	1.282	25.648	65.734	1.282	25.648	65.734	1.439	28.788	65.734
3	.898	17.967	83.701						
4	.533	10.665	94.366						
5	.282	5.634	100.000						

Table 9: Extraction Method

4.7 Diagnostic tests on Model

This section includes the tests performed before the carrying out the regression analysis. Statistical tests rely upon certain assumptions about the variables considered in analysis and when the assumptions are not met the results may not be reliable, resulting in either Type I or Type II error, or over- or under-estimation of significance or effect sizes, (Osborne & Waters, 2002). Assumptions to be tested will include multi-collinearity, Heteroscedasticity, autocorrelation and normality tests. Osborne, Christensen, and Gunter, (2001; Pedhazur, (1997); Williams, Grajales, & Kurkiewicz, (2013) noted that the violations of assumptions lead to serious biases, and when they are of little consequence, are essential to meaningful data analysis.

4.7.1 Normality

Osborne & Waters, (2002) regression assumes that variables have normal distributions. Normality tests were done using histograms and the results were of bell shaped as shown below in figure 6. This implies that the data was normally distributed.

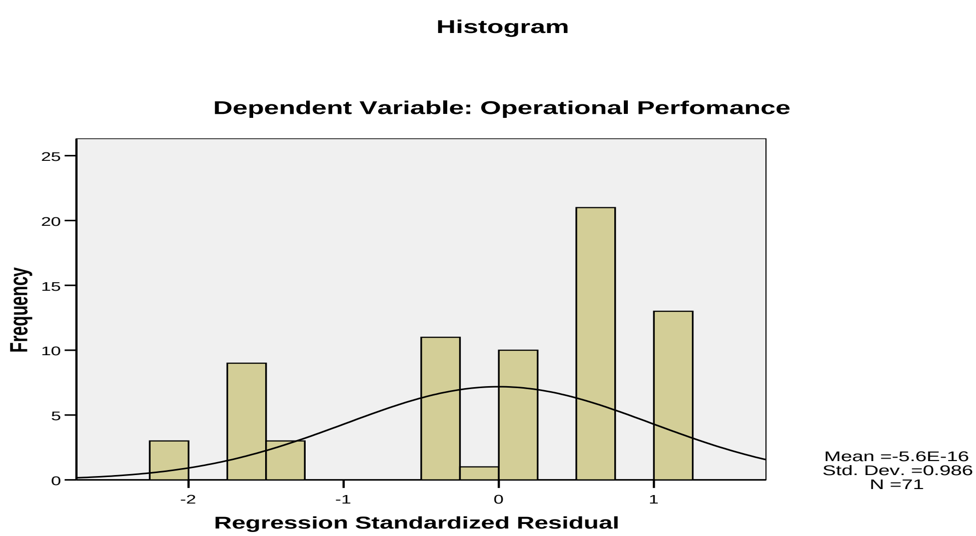

Figure 6 Normal Distribution

4.7.2 Linearity test

Any model which relates the response Y to the predictors Xs is assumed to be linear in the regression parameters (Williams et al., 2013). The relationship between the independent and dependent variables be defined by a straight line. This was represented by Figure 7 below which demonstrates the linear relationship between the variables.

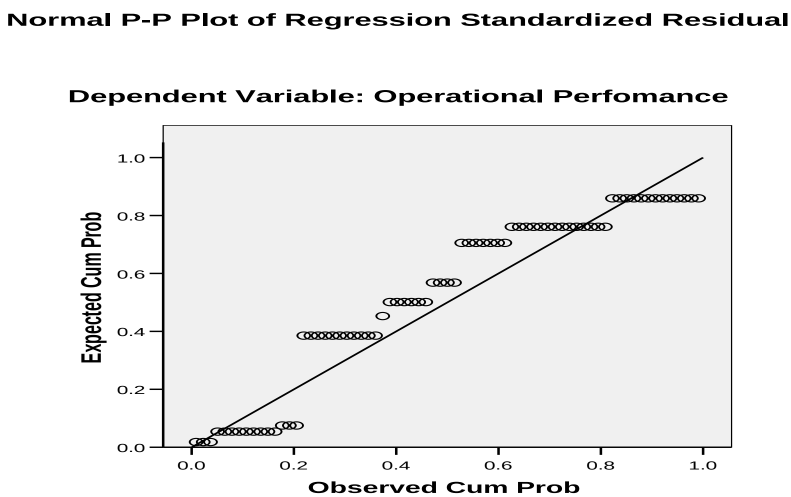

Figure 7 Linearity Test

4.7.3 Autocorrelation test

To test for serial autocorrelation, the Durbin-Watson statistic was used. The data is considered to be free of a serious problem if the statistic is within the range of 1.5 and 2.5 (Gujarati, 2012). As seen in the figure below the statistics were within the acceptable range.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.633(a)	.187	.401	.372	2.317
a Predictors: (Constant), Justify of employee's actions, Regulations b Dependent Variable: Operational Perfomance					

Table 10 Durbin Watson

4.7.4 Multicollinearity

According to Pedhazur, (1997), collinearity refers to two variables falling on the same line while multicollinearity refers to collinear relations among more than two variables. We can test the intercorrelations between independent variables using tolerance and variance inflation factor (Meyers, Gamst, Guarino, 2016) in order to conclude if collinearity existed, diagnostic tests were conducted and the results are as displayed in Table 4.12.

Tolerance ranges between 0 and 1 and multicollinearity is indicated when the value is 0.1 or less. It is computed as ($1-R^2$), (Norušis, 1990). Tolerance of less than 0.1 (Field, 2000) indicates a serious problem. From the table below, all the predictors have tolerance values of between 0.4 and 0.9 implying that there is no multicollinearity.

Variance inflation factor (VIF) for each factor was also assessed and it is the reciprocal of tolerance (1/Tolerance). VIF greater than 10 is an indicative of multicollinearity,(Norušis, 1990;Field, 2000). Table 11 indicates the VIF of between 1.04 and 2.13 and therefore, multicollinearity is not a problem. We can therefore, conclude that there is no multicollinearity within our data since VIF is below 10 and tolerance is above 0.1.

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Regulations	0.813	1.230
Rationalization	0.730	1.369
Pressure	0.468	2.139
Capability	0.958	1.044
Opportunity	0.491	2.035

Table 11 Multicollinearity

4.8 Regression Model

Table 12 below presents the results for association test between the operational performance and fraudulent factors considering 5 % level of significance. The model’s coefficients are as shown in below.

Coefficients[a]								
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	**95.0% Confidence Interval for B**	
		B	**Std. Error**	**Beta**			**Lower Bound**	**Upper Bound**
1	(Constant)	2.870	.415	6.923	8.249	.000	2.043	3.697
	Regulations	.045	.060	.751	2.179	.455	-.075	.165
	Rationalization	.337	.100	3.388	0.746	.001	.139	.536
a. Dependent Variable: Operational Performance								

Table 12 Regression Model

$Y = 2.870 + 0.045X1 + 0.337X2 \pm 0.372$

Where;

Y=Operational Performance

X1=Regulations

X2=Rationalizations of fraudulent actions

The independent variables were two after the factor analysis extraction (Rules and regulations and rationalization) with one dependent variable (Operational performance). Both dependent variables were positively related to operational performance. At any point in time when all the factors are absent, the operational performance will be estimated at 2.87 with an error term of ±41.5%. The model showed that any effort by the organization that can manage to prevent employees from justifying their fraudulent actions by 33.7%, operational performance will improve by a unit. This can also be witnessed when 89% effort is put in ensuring there is effective regulations and rules that are strictly adhered to. This can include industrial regulations, internal policies and procedures, among others.

4.8.1 Model summary

The study findings as presented in below provides the regression model summary showing the extent to which the Regulations Rationalization influenced the dependent variable (organizational performance).

The correlation coefficient, denoted by *r*, is a measure of the strength of the straight-line or linear relationship between two variables and it lies between -1 and +1 (Ratner, 2009). In this model, the

r is 0.633 which implies that the correlation between the observed and predicted values of dependent variable is positively related to a great extent. On the other hand, the value of r^2, called the coefficient of determination, is typically interpreted as ‘ the percent of variation in one variable explained by the other variable(Ratner, 2009). The model’s independent factors explain 40.1% of the operational performance within NGOs in Nairobi County and 59.1% can be explained by other factors not included in this model. Thus, the findings of the study can be relied on to present the relationship between the study variables.

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.633(a)	.187	.401	.372	2.317
a Predictors: (Constant), Rationalizations of fraudulent actions, Regulations b Dependent Variable: Operational Performance					

Table 13 Model Summary

4.9 The effect of pressure, rationalization, opportunity, capability and regulatory influence to commit fraud on the operational performance of NGOs in Nairobi County

On the impact of fraudulent transactions on operational performances of NGOs, most respondents agreed to a great extent that future donors will be lost whenever they associate the Organization with cases of corruption, Asset misappropriation and financial misstatement. This is evidenced by the mean of 4.83 and standard deviation of 0.81. It is followed closed by the loss of jobs by the Organization’s employees (mean 4.79 and standard deviation 0.41) which can be as a result of lack of donor funds. The organization will eventually be bankrupted and seize to operate (mean 4.31, standard deviation 0.85). On the achieving of the various project objectives funded by the donors, it was also agreed that it will be impossible to meet them, implying that objectives will be met hence lack of project implementation (Mean 4.24 and standard deviation of 0.77). Generally, the impact is seen to be strongly agreed at the average mean of 4.5. The results were summarized below in the table 14 and represented in a bar graph below.

	Mean	Std. Deviation
Future donors	4.83	0.81
Goodwill	4.79	0.41
Job loss	4.34	0.47
Bankruptcy	4.31	0.85
Project objectives	4.24	1.31
Total	4.50	0.77

Table 14 Operational Impact on NGOs

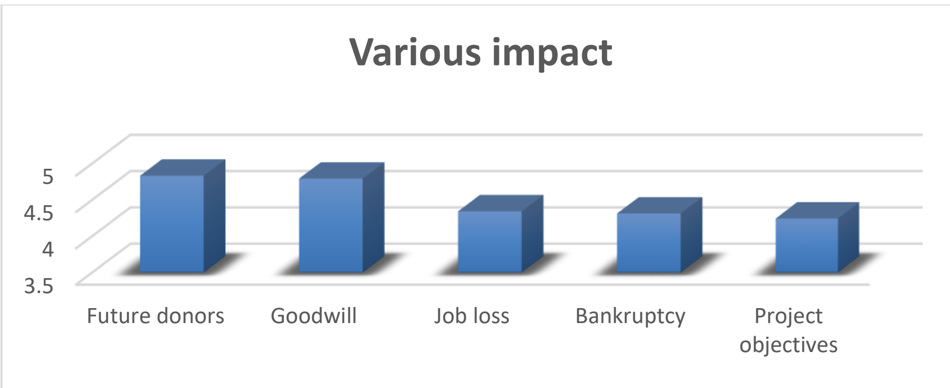

Figure 8 Operational Impact on NGO performance

4.10 Chapter Summary

The study variables (pressure, rationalization, opportunity, justification and capability) affects the operational performances of NGOs. Regression and correlation analysis showed that indeed there was a relationship between the independent variables against the dependent variable, operational performance. The next chapter summarizes and interprets the results outlined in this chapter.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a brief discussion and conclusion based on the study findings. It also highlights recommendations to the NGO stakeholders including researchers for future studies.

5.2 Discussion of findings

The study aimed at identifying the factors that influence fraudulent transactions and their effect in NGOs within Nairobi City County. The study had two objectives to meet which the first one was analyzed using the SPPS tool by ranking the means of the respondents while the second one was also assessed using factor analysis and regression model. The data analyzed were collected using structured questionnaires in order to get the respondents' perception on fraudulent transactions and their impact.

5.2.1 Factors that influence fraudulent transactions within NGOs in Nairobi County

The fraud risk factors were assessed by descriptive statistics that comprised of mean scores and standard deviation. Regression analysis was used to regress the most significant factors against the NGOs' operational performance attributes. It was evidenced that Opportunity to commit fraud is the most significant factor that influence fraud and was closely followed by capability of the top management to commit fraud within NGOs in Nairobi and the least factor was rationalization of the fraudsters' actions. Overall, the five fraudulent factor's attributes scored 3.76 which is a high extent of agreement by the respondents and this simply means that any organization should not ignore a fraud risk factor as they potentially affect its operational performance. Further work was done using factor analysis and only two factors were found to be significant on operational performance (rationalization and regulations). The results coincided with previous studies such as Albrecht et al, (2015); Skousen, Zhang, Turnbull, & Albrecht, (2010; Howe & Malgwi, (2006) Albrecht, et al. (2006). However, the previous work neither ranked nor identified the relationship whether it is positive or negative between the risk factors and the operational performances.

On the other hand, the findings are partly inconsistent with the Fraud Triangle Theory and Fraud Diamond Theory which believe that fraudulent transactions are as a result of the interplay between opportunity, pressure and rationalization or the three aforementioned factors and capability.

Hunton, (2003); Mackevičius & Giriūnas, (2013) Suyanto, (2009); Tugas, (2012) Crowe (2011). None among them mentioned the effect of regulatory influence which can either be internal or external and involves senior management's attitude and arrogance. This study is therefore, more important as it emphasize the need to ass risk factors based on all the five factors as organizations plan on how to combat the great threat called fraud.

5.2.2 The impact of fraudulent transactions on operational performance of NGOs in Nairobi County

The operation performance of NGOs was associated with the future donors, goodwill, employees; job loss, bankruptcy and attaining of project objectives. It was agreed to a great extent that future and current donors will not tolerate any fraudulent action within NGOs. This was also followed by organization's reputation/goodwill, job loss, organization's bankruptcy and finally inability to meet the funded project's objectives. The results imply that once future and current donors find out about the existence of fraud within the Organizations implementing their projects, they will withdraw their grants and invest in a more trustworthy Organizations. This is similar to previous studies by Wilhelm, (2006); Zack, (2003); Greenlee et al., (2007) who also concluded that once the trust is lost by an organization will immensely suffer as they entirely depend on well-wishers. The good reputation built for long by the organization is also destroyed as the NGO gets bankrupt and eventually it will not be able to meet the objectives of the donors. This is simply because of the lack of funds as a result of donor withdrawals to offer their support. The findings are inconsistent with prior researchers who concluded that only the three factors can impact on fraudulent transactions (Wells, 2001; Center for Audit Quality, 2010; Howe & Malgwi, 2006; Hunton, 2003) however, the impacts agree with (Hirschi & Gottfredson, 1987; (Yusof et al., 2015); Swedlund, 2017).

5.3 Conclusion

NGOs should not ignore any fraud risk factor as seen in the first objective. As much as opportunity and capability were agreed on a great extent, there was no factor that scored below the expected mean. It is therefore the duty of all Organization to implement strong controls against the top management and any other stakeholder who can fraudulently affect the operations. Strong policies and procedures that are followed by organizations will close the loopholes creating opportunities for fraudsters and incapacitate the top officials such bad acts.

Furthermore, there is so much to be lost by the NGOs as a result of fraud. Organizations' operations will be ceased due to lack of grants from the donors, corrupted goodwill, bankruptcy, employees' turnover for lack of sources of funds to pay them and inability to meet the project and organization's objectives. Tables 5 on fraud risk factors displays results averagely indicating that all the mentioned impact massively contribute to the operations of such organizations. To avoid such loses, it is prudent to invest in strong controls supported by the top management

5.4 Recommendations

The recommendations were split into two as shown below.

5.4.1 Managerial

The study findings imply that every NGO should have a strong working tool/manual with well-illustrated policies and procedures in order to close the existing loopholes leading to fraudulent transactions. Donors should not work based on trust but instead conduct proper due diligence before offering to implement any project through an organization as they may end up not achieving the project outcomes and result to loss of funds. Future studies should be conducted on the same theme but with focus on other sectors of the industry such as banks and insurance companies in order to conclude whether the same factors affect them or not. It can also be expounded on the effect of asset misappropriation as the study only focused on financial fraud. Further studies can also be conducted on possibility of quantifying the effect of fraudulent transactions since this paper only identified the impacts but did not go ahead to quantify them.

5.4.1 Policy

Policy makers should frequently update themselves on causes of fraud as the environment of operations is purely dynamic. This will enable them to be ahead of the fraudsters and also save organizations at an early stage before any fraud is committed. Fraud keep on increasing and today's factors will not be the same us tomorrow's especially when organizations improves their efficiency and effectiveness through adoption of technology. It is therefore, necessary for everyone to be aware of environment of operations and update themselves.

5.5 Contribution to Knowledge

The study added knowledge on the significance of organizations to have strong working internal controls and the need for donors and any other financier to have a well conducted due diligence on organizations before disbursing funds to them.

5.6 Limitation of the study

The study used questionnaires and according to Murgan, (2015) they are filled and completed at the respondent's convenient time promoting anonymity of respondents in questionnaire which may result in totally dishonest and inaccurate research result. Future studies should use other means of collecting data to avoid this.

The study concluded based on 82% respondents' rate meaning that 18% of responses were not received. Future researchers should use a better method of data collection to prevent this such as one on one interviews.

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APPENDICES

APPENDIX I: Introduction Letter

Clare Chesimo
P.O Box 59857-00200
Nairobi, Kenya.
clare.cheptegen@strathmore.edu or jclare199@gmail.com

Dear Respondent,

I am a student at Strathmore University pursuing a Masters of Commerce Degree in Forensic Accounting. I am conducting an academic research titled “An Investigation of Fraud in Nonprofit Organizations: Influence of fraudulent transaction and effect on operational performance in non-governmental organizations within Nairobi county’’ and would like to kindly request you to participate in the research by filling in the questionnaire. The questionnaire should take about 30 minutes to complete. Your participation is entirely voluntary and you don’t have to indicate your names. I wish to assure you that the information you will provide will be treated with utmost confidentiality.

Your ability to answer all the questions comprehensively and to the best of your knowledge will be highly appreciated.

I look forward to your support.

Thank you in advance.

Yours Sincerely,

<u>Clare Chesimo</u>

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APPENDIX II: Questionnaire

Instructions;

This questionnaire is intended to collect information on the "An Investigation of Fraud in Nonprofit Organizations: Influence of Fraudulent Transaction and Impact on Operational Performance in NGOS Within Nairobi County". The information collected will be used for academic purposes and shall be treated with the privacy it requires. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required. Use the space at the back of this questionnaire if you need more space for your responses.

SECTION A: GENERAL INFORMATION

1. Please indicate your gender*

   Male [ ]   Female [ ]

2. What is your age?

   [ ] 18-28 years
   [ ] 29-39 years
   [ ] 40-50 years
   [ ] 51 and above years

3. For how long have you been in the organization? *

   [ ] 0-2 years
   [ ] 3-5 years
   [ ] 6-8 years
   [ ] 9 and above years

4. For how many years has your organization been operating in Kenya? *

   [ ] 0-5
   [ ] 6-11
   [ ] 12-17
   [ ] 18 and above

5. Which of the answers below best suit your organization?
   - [ ] International
   - [ ] National

SECTION B: Fraud Risk Factors

The purpose of this section is to establish the risk factors for fraud within NGOs. Please indicate the extent to which you agree or disagree with the following statements by ticking (√) in the appropriate box that corresponds to your choice.

	1	**2**	**3**	**4**	**5**
The following questions are measures of Fraud risk factors	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Poor internal controls lead to financial mismanagement within NGOs and encourages fraud					
Weak corporate governance and structure within an organization can create loopholes for fraud					
Collusion between staffs and third parties can lead donor fund misuse					
Ineffective regulations and rules lead to illegal and corrupt dealings in organizations					
It is not right for employees to justify their fraudulent actions					
Unskilled staffs are the reason for poor accountability of donor funds.					
Fraud perpetrators usually respond to personal, economic and financial pressures. This include lifestyle, family pressure, corporate pressure					
The CEO's and other top management are capable to misstate financials to suit their needs					

SECTION C: Impacts of fraudulent transactions on operational performance of NGOs

	1	2	3	4	5
The following demonstrates the impact of fraudulent transactions within NGOs	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Employees' misappropriation of asset can lead to job loss.					
Involvement in corruption can affect the organizations' goodwill.					
Financial statement manipulation can be a result of donor fund misuse, hence inability of meeting the project's objectives.					
NGOs can be faced with bankruptcy due to corruption, asset misuse and misstatement of fund accountability statement.					
Misuse of funds by managers can prevent future donors.					
Cost of fraud can be quantified.					

Thank you for your time

APPENDIX III: List of sampled Non-Governmental Organizations

Abha Light Foundation

Afforestation Agricultural Livestock Improvement and Soil Conservation Programme (FALIASCOP)

Africa Network for Animal Welfare

African Biodiversity Network (ABN)

African Center for Technology Studies (ACTS)

African Conservation Centre

African Council for Communication Education (ACCE)

African Council of Religious Leaders (ACRL-RfP)

African Population and Health Research Center (APHRC)

African Wildlife Foundation

Aga Khan Foundation

Agency for co-operation and Research in Development (ACORD)

All Africa Council of Churches (AACC)

Amici del Mondo World Friends Onlus

Amnesty International

AMREF Health Africa

Arkangelo Ali Associations

Asante Africa Foundation

Awareness Against Human Trafficking (HAART)

Back to Basics (BTB)

CARE International

Carolina for Kibera

Catholic Youth Network for Environmental Sustainability in Africa (CYNESA)

Centre for Environment Justice and Development

Centre for Justice Governance and Environmental Action

Church World Services

Childfund kenya

Climate Network Africa

Cohort for Research on Environment, Urban Management and Human Settlement (CREUMHS)

Diocese of Rumbek

East African Wildlife Society

Eastern Africa Environmental Network (EAEN)

Emonyo Yefwe International

Energy, Environment and Development Network for Africa (AFREPEN/FWD)

Environment Liaison Center International (ELCI)

Environmental Compliance Institute

Family Health International

Fauna and Flora International

FEMNET

FILSAN

Forest Action Network (FAN)

Friedrich Ebert Stiftung (FES)

Friends of Peoples Close to Nature

Heinrich Boll Foundation: East and Horn of Africa Region

Health Poverty Action

HF Foundation

HOYWIK NGO

Indigenous Information Network

Information Africa Organization

International Alliance of Indigenous and Tribal Peoples of the Tropical Forests (IAITPTF)

International Center for Environmental, Social and Policy Studies (ICESPS)

International Center for Research in Agroforestry (ICRAF)

International Federation of Women Lawyers (FIDA)

International Cultural Youth Exchange – KENYA

Interwaste Research and Development East Africa Trust

Jamaa Resources Initiatives

Justice and Ecology Network Africa

Kenya Environment and Waste Management Association

Kenya Land Alliance (KLA)

Kenya Network of Grassroot Women Foundation (KenGROW)

Kibera Hamlets

KTDA Foundation

Light and Power Centre World Outreach

Mazingira Institute

Mercy Corps

Mikindani Center of HOPE

Mother Earth Network

Oxfam

Palladium Kenya

Pan African Climate Justice Alliance (PACJA)

Population Services Internation

Population Services Internation (Kenya)

Save the Children International

Shining Hope for Communities

Sustainable Environmental Development Watch (SUSWATCH Kenya)

TechnoServe Kenya

The Fred Hollows Foundation

The Green Belt Movement

The Action Foundation Hub

The International Committee of the Red Cross (ICRC)

The International Rescue Committee (IRC)

The United Nations

Trocaire

Umande Trust

Undugu Society of Kenya

Wetlands International

World Vision

APPENDIX IV: Scree Plot Graph