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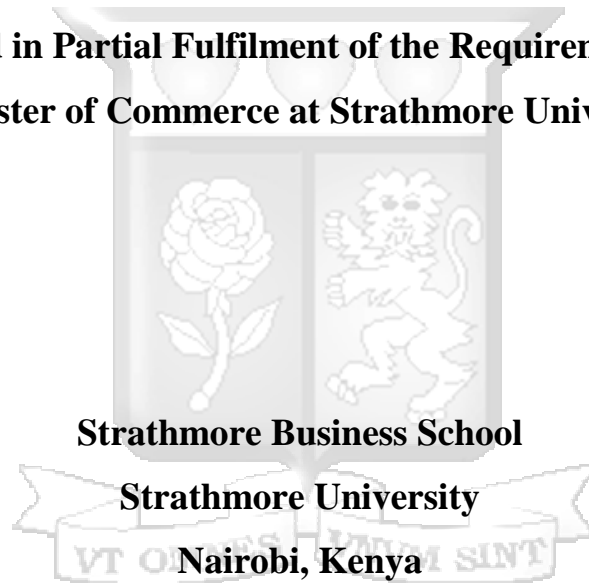
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**The Effects of Forensic Accounting Services on the Integrity of Financial  
Statements of Public Sector Entities in Kenya**

**Marleen C. Mwange Magetto**

**A Thesis Submitted in Partial Fulfilment of the Requirements for the Degree  
of Master of Commerce at Strathmore University.**



**May 2023**

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## ABSTRACT

This study examined the effect of forensic accounting services on the integrity of financial statements of public sector entities in Kenya. Specifically, the study sought to; determine whether forensics accounting techniques are appropriate in uncovering fraudulent financial statements among public sector entities; assess whether computer-assisted reviews are appropriate in uncovering fraudulent financial statements among public sector entities and examine the extent to which fraud deterrence skills contribute to the uncovering of fraudulent financial statements among the public sector entities in Kenya. The study was anchored on the Prospect theory and Fraud diamond theory. The study adopted a positivist research philosophy with descriptive research guiding the examination of the research problem. Seven public sector entities were considered as the target population as well as the study sample size which constituted 120 staff members consisting of top and middle-level management. A stratified random sampling method was used to choose 120 respondents from the target population. The top and middle-level managers were chosen because they have the best knowledge and understanding of the research problem and are best equipped to judge whether using forensic accounting services to reduce financial statement fraud is viable. The study used a quantitative research methodology, and structured questionnaires were taken into consideration when gathering data. A quantitative analysis was performed on the research data that was gathered. Descriptive and inferential statistics were used in the quantitative analysis. Figures and tables were used to illustrate the data after analysis. With the aid of descriptive statistics and the Ordinal (Ordered) Logistic Regression model, the result revealed the application of forensic accounting services significantly enhanced the integrity of the financial statements of public sector entities. The study further revealed the importance of forensics accounting techniques as well as computer-assisted reviews on the integrity of financial statements. Also, the study revealed the importance of fraud deterrence skills on the integrity of financial statements and the lack of capacity and awareness of most staff of the workings of computer-assisted reviews as well as the use of forensics accounting techniques in enhancing the integrity of financial statements. It was recommended that public sector organizations should be mandated to implement forensics accounting techniques, computer-assisted reviews, and fraud deterrence techniques, as well as expanded training on the use of forensic accounting services and their value to the public sector organizations. Additionally, the use of anonymous hotlines should be promoted, along with widespread public awareness initiatives and prompt responses to inquiries from public sector management.

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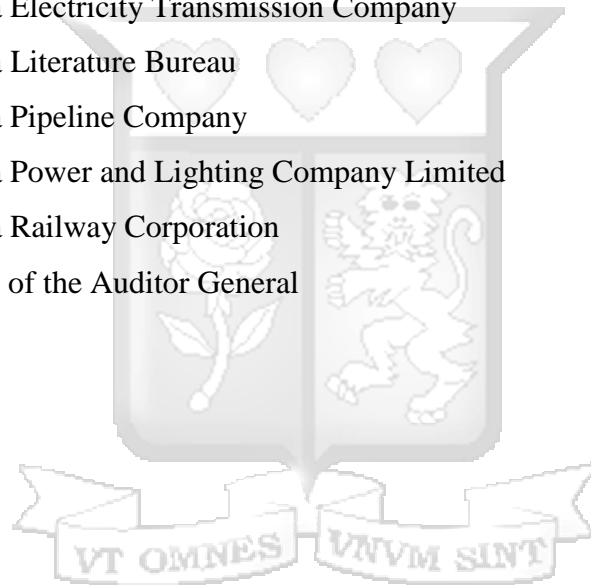


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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>AICPA</b>	: Association of Institute of Certified Public Accountants
<b>CIA</b>	: Central Intelligence Agency
<b>ICS</b>	: Internal Control Systems
<b>IRS</b>	: Internal Revenue Service
<b>KEMSA</b>	: Kenya Medical Supplies Agency
<b>KENAO</b>	: Kenya National Audit Office
<b>KENGEN</b>	: Kenya Electricity Generating Company
<b>KETRACO</b>	: Kenya Electricity Transmission Company
<b>KLB</b>	: Kenya Literature Bureau
<b>KPC</b>	: Kenya Pipeline Company
<b>KPLC</b>	: Kenya Power and Lighting Company Limited
<b>KRC</b>	: Kenya Railway Corporation
<b>OAG</b>	: Office of the Auditor General



## ACKNOWLEDGMENTS

I would like to thank God for His grace has been sufficient and allowed me to reach this far in this journey. To my husband, Theo, thank you for standing with me and allowing me to pursue my dream and better myself. My mother Joanne Luhongo, your prayers have been my pillar of strength. Sharleen Magetto thank you for cheering me on and always believing in me.



## DEDICATION

I dedicate this to my two daughters, Mila and Kaya. May they be encouraged to always pursue their dreams and may they be encouraged to dream big. To my friend the Late Carolyn Osoro, your support in this journey cannot be ignored.



## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Financial statements are regarded as a critical tool for meeting the accounting information needs of stakeholders; they rely on this information to make economic decisions and to investigate the degree of financial stability and growth of companies. Accounting information must be characterized by many qualitative characteristics for it to be useful, such as Faithful Representation (or what is known as Reliability), because of the effect this characteristic has on lowering the level of information risk faced by decision-makers (Arens et al., 2020). As a result of management's ability to abuse their authority by purposefully falsifying financial statements and committing fraud (Mahama, 2015). The dependability of the information provided by financial statements suffers as a result. This has necessitated the creation of an effective mechanism upon which to rely to ensure the safety and integrity of the financial statement preparation process and to increase the reliability of the financial statement information (Goodwin, 2015).

The focus of Forensic Accounting is on both evidence of economic transactions and reporting contained within an accounting system, as well as the legal framework that allows such evidence to be suitable for the purpose(s) of establishing accountability and valuation (Dada et al., 2018). This study intends to survey various forensic accounting services and how these services could be applied to internal control functions of public sector entities to ensure the integrity of financial statements. Numerous incidences of financial statement misrepresentation have been reported, affecting companies such as Enron, WorldCom, Adelphia, Global Crossing, Xerox, Qwest, and many others such as Cendant, Lincoln Savings, ESM, Anicom, Waste Management, and Sunbeam (Albrecht et al., 2019). Some more recent and real-world examples in Kenya include the National Bank of Kenya's failure in 2004, the demise of Euro Bank in 2004, the near collapse of the Unga Group, and boardroom squabbles over the directors of Computer Management Corporation (CMC) Motors' discovery of secret overseas bank accounts, which led to the company's sale to Alfatum (Iraya et al., 2015). Chase Bank and Imperial Bank placement into receivership. Many organizations in Kenya, according to Maina and Sakwa (2012), have been accused of committing

massive financial statement fraud, which has led to the demise of businesses like Bulk Medicated Ltd. and Nyaga Stockbrokers, where some of their financial statements suggested that they were strong despite their internal weaknesses.

Through the planning and implementation of adequate Forensic Audit procedures to detect and report cases of fraud, as well as the implementation of other additional audit procedures to ensure the tracing of all cases of fraud. It is widely accepted that achieving the oversight role of an external audit depends on increasing its quality, and this quality is determined by two factors: the auditor's efficiency and ability to detect material misstatements on the one hand, and auditor independence, which allows him to report on those misstatements discovered on the other hand, in light of his commitment to high practice and the rules and ethics of the profession (Zaki, 2016). On the other hand, it is clear from practical experience that despite auditors' commitment to professional standards and Publications related to their professional responsibility for fraud prevention, cases of fraud in financial statements have increased (Bronson et al., 2016; Abdullahi and Mansor, 2015; Manurung and Hardika, 2015). As a result, auditors are inefficient in evaluating the possibility of fraud in financial statements. As a result, the scope of analytical procedures must be expanded to include the tools required to predict the possible existence of fraud in financial statements while performing the audit process.

Studies on the impact of forensic accounting services on the accuracy of financial statements have recently been carried out. However, because most of these studies are conducted abroad, they cannot be seen as being representative of local circumstances. The few studies that have been done locally and globally include Kyalo et al. (2016) who carried out research to determine how effective financial reporting is in the County Government of Nakuru and how fraud prevention and detection contribute to it. The study found a strong positive association between fraud deterrent skills and effective financial reporting in the County Government of Nakuru, which supports the finding that fraud prevention and detection influence effective financial reporting in the County Government of Nakuru. Wanjohi (2011) carried out a study on the rationale for using forensic accounting services as a tool for the expectation gap with an emphasis on cooperative societies in Central Kenya. The study's findings show that there is a significant discrepancy between

cooperative members' and auditors' responses, indicating that there is an audit expectation gap in Kenyan audit engagements.

Globally, Omar (2018) examined how forensic accounting services have improved financial statements' effectiveness in the public sector by focusing on selected government agencies such as the Malaysian Klang Valley. The results show that most government administrators are aware of the need for forensic accounting and think that the availability of forensic accounting services aids in the detection and investigation of financial statement fraud in the Malaysian economy. Aduwo (2016) investigated how forensic accounting services can be used to combat the threat of corporate failure. The study concluded that forensic accountants needed to have a broad range of skills to handle fraud and deal with the global risk of business failure. The study added to prior research on the efficiency of forensic examination in lowering risk and company failure, which furthered understanding.

The gap is that forensic accounting services are not used in the day-to-day operations of Kenyan public sector entities in terms of internal control functions; however, when the chips are down, these services are requested from forensic accounting firms to investigate the "what, who, and when" of fraudulent activities (Oyedokun, 2013; Albrecht et al., 2019). Following on from the preceding, the fundamental problem that this study sought to address is the irregularity that has become the norm in the preparation and presentation of financial statements to appease one of the stakeholders at the expense of the majority of other stakeholders, presenting a financial statement that does not present a true and fair view of the position of the public sector entities for the period under review.

### **1.1.1 Forensic Accounting Services**

Forensic accounting is "belonging to, used in, or suitable for a court of judicature, or to public debate and ultimately dispute resolutions" (ACFE, 2021). It is also defined as a court-appropriate accounting analysis that will serve as the foundation for discussion, debate, and, ultimately, dispute resolution. According to Okoye (2013), the American Accounting Association (AAA) defines accounting as "the process of identifying, measuring, and communicating economic information

to enable informed judgment and decisions by the user of the information." According to Izedonmi and Ibadin (2012), auditing is an independent examination of an enterprise's financial statements prepared by the management of that enterprise by an appointed person called an auditor, to express a professional opinion-whether those financial statements show a true and fair view position of the enterprise as at the end of the financial period, by the financial period, by the audit's term of engagement; and other factors. Olaniyan et al. (2021) define investigation as an examination of an organization's records and accounts for a specific purpose. As a result of combining accounting, auditing, and investigation skills, the specialty known as Forensic Accounting is born.

Forensic accounting provides a court-appropriate accounting analysis that will serve as the foundation for discussion, debate, and ultimate dispute resolution. According to Howard and Sheetz (2006), forensic accounting is the process of interpreting, summarizing, and presenting complex financial issues, succinctly, and factually as an expert witness in a court of law. It is concerned with the application of accounting discipline to assist in the determination of factual issues in business, government, regulatory authorities, and the court. Evidence suggests that a high level of expertise is required to analyze today's complex financial transactions and events (Razae et. al., 2016). As a result, forensic accounting has been thrust to the forefront of the anti-fraud crusade (Utomwen & Danjuma, 2015).

Forensic accounting is divided into two parts: litigation support services and investigative services. The role of an accountant as an expert consultant is recognized by litigation support services. Forensic accountants are used in investigative services, and courtroom testimony may be required. According to the Forensic and litigation services committee of the American Institute of Certified Public Accountants (AICPA), forensic accounting may involve the application of special skills in accounting, auditing, finance, quantitative methods, the law, and research. It is also necessary to have investigative skills to collect, analyze, and evaluate financial evidence, as well as the ability to interpret and communicate findings. Forensic accounting includes litigation support, investigation, and dispute resolution, and thus sits at the crossroads of accounting, investigation, and the law.

Fraud examination is a method for resolving fraud allegations from inception to conclusion, which includes gathering evidence, conducting interviews, writing reports, and testifying (popularly referred to as expert witnessing). According to the Association for Certified Fraud Examiners ACFE (2022), fraud examiners also assist in fraud prevention, deterrence, detection, investigation, and remediation. Fraud and forensic accounting, like most forensic sciences, may involve the use of financial information to piece together or reconstruct past events in cases where that reconstruction is likely to be used in some judicial proceeding (e.g. criminal or civil court, deposition, mediation, arbitration, or settlement negotiation). Fraud and forensic accounting encompass a wide range of issues, including occupational fraud, corruption and abuse, financial statement fraud, and civil litigation. For this study, the researcher intends to examine the effect of forensic accounting services on financial statement fraud.

The adoption of forensic accounting services has not yet achieved the general level in many developing nations, according to recent empirical findings (Said et al., 2015; Keerasuntonpong et al., 2019). A typical scenario is that many African countries are seeking to promote accountability as part of public sector reform. However, given that the majority of emerging nations in Africa continue to experience political and economic shortcomings, their condition is still precarious in comparison to affluent nations (Kim, 2009). Kenya shares many current issues with other developing nations, including weak institutional capacity, a lack of public transparency, and high levels of corruption (Nguyen et al., 2015; Pham et al., 2015; Tran, 2014).

### **1.1.2 Integrity of Financial Statements**

Killinger (2010) defines integrity as "a personal choice, an uncompromising and predictably consistent commitment to honor, moral, ethical, spiritual, and artistic values and principles." Udofia (2014) defines integrity as "a personal choice, an uncompromising and predictably consistent commitment to honor, moral, ethical, spiritual, and artistic values and principles." The values, beliefs, and principles that a person possesses or holds can be used to assess an individual's integrity. It also means 'wholeness' (wholesome and healthy) and is derived from qualities such as honesty and character constancy. Cruz (2013) defines integrity as "the character elements relating

to trustworthiness, honesty, reliability, and loyalty, but all character elements are related to one's integrity."

The accuracy and dependability of financial reporting can be impacted by several factors (Cruz, 2013). These consist of regulatory oversight, internal controls, independent auditors, and managerial incentives (Cruz, 2013). Studies have shown that businesses with lax internal controls or highly opportunistic management are more likely to engage in earnings management and financial fraud. Financial statements might not accurately reflect the company's true financial situation without independent and thorough audit procedures (Musschenga, 2002). Regulators are crucial in upholding financial reporting standards and ensuring that businesses abide by the laws and norms governing accounting. Overall, the literature emphasizes how crucial it is to preserve the accuracy of financial statements in order to support accountability, openness, and trust in the financial markets (Musschenga, 2002).

In an attempt to find the measures of the integrity of financial statements, Udofia (2014) implemented the most comprehensive studies of how the integrity of financial statements affects financial reporting. He identified six metrics for measuring the integrity of financial statements: External audit: External auditors are independent experts who review and assess the financial statements to ensure that they are accurate, complete, and comply with the relevant accounting standards and regulations; Internal control system: A strong internal control system can help prevent errors, fraud, or misstatements in financial statements. It involves policies, procedures, and monitoring activities designed to safeguard assets, maintain reliable financial records, and ensure compliance with laws and regulations. Disclosure and transparency: Financial statements should provide sufficient and relevant information to enable users to make informed decisions. They should disclose all material facts and transactions, including risks, uncertainties, and management's judgments and estimates; Professional judgment, and ethics.

Preparing financial statements requires professional judgment and adherence to ethical standards and principles, such as honesty, objectivity, confidentiality, and professional competence; Consistency and comparability: Financial statements should be prepared using consistent accounting policies and methods to enable comparisons between different periods and entities.

Any significant changes or adjustments should be clearly explained and justified; Feedback and review: Financial statements should be subject to ongoing feedback and review from management, auditors, regulators, investors, and other stakeholders to identify and address any issues or discrepancies. In this study, therefore, Udofia's (2014) model was adopted to measure the integrity of financial statements with an emphasis on an effective internal control function and Competent management and staff.

### **1.1.3 Public Sector Entities in Kenya**

Fraud is a cancerous menace that affects every nation's growth and development, and it shouldn't be understated on a worldwide scale. It is one of the factors that makes forensic accounting essential in the fight against fraud in Kenya's public sector. Fraud is defined as an illegal conduct that betrays a breach of trust or the concealment of it. While forensic accounting aims to identify and stop a person or corporate entity from performing an act of dubious character or integrity. Now, if forensic accounting is supposed to be viewed as a component of accounting that is appropriate for legal review and providing the highest level of assurance, why is fraud still occurring at an alarming rate in Kenya even though some law enforcement agencies, like the Ethics and Anticorruption Commission (EACC) and Directorate of Criminal Investigations (DCI), work day and night to find hidden assets, funds, and other things?

There have been reports from earlier research locally, regionally, and globally, such as Effiong (2018), suggesting fraud is occurring at an alarmingly high rate in the Kenyan public sector. Additionally, Kasum (2009) has demonstrated unequivocally how corruption has had a severe impact on people's lives in third-world countries, which is engraved in the systems; it is worrisome and gravely harmful. Therefore, forensic accounting is essential to preventing fraud, corruption, and other illegal acts that can damage a country's reputation and hinder economic growth. In Kenya, especially in the public sector, fraud has grown considerably more pervasive.

Additionally, the rise in financial crime and financial fraud has necessitated the use of forensic accounting to assist in the investigation and prosecution of financial crime syndicates, much like in the case of some well-known political parties. Ex-governors in Kenya are currently being tried

for crimes such as money laundering, embezzlement, misappropriation of funds, security fraud, breach of contract, and many others. These crimes include some public employees who used public treasury funds as personal assets to line their own pockets.

## **1.2 Statement of the Problem**

The ideal situation in Kenya is that there has been an increase in cases of fraud in the public sector. In various institutions, the Auditor General's report for 2019/2020 cited missing critical transaction records, unexplained expenditures, procurement regulations violations, un-surrendered imprest, and abandoned projects. This necessitates the application of forensic accounting services to safeguard the integrity of financial statements prepared by public sector entities (Dada et al., 2018). The financial reports of the public sector entities are prepared on the assumption that the entities will continue to receive financial support from the government, bankers, creditors, and donors. The government, through the National Treasury, has long demonstrated a strong commitment to funding public-sector entities by allocating resources to them continuously. Despite sustained resource allocations and notable success factors, major challenges such as missing critical transaction records and unexplained expenditures continue to plague the sector. The absence of transaction records and unexplained expenditures has an impact on the reporting of financial items in the prepared financial reports. Financial fraud is becoming more prevalent in Kenya's public sector organizations (Mahinda, 2012). However, these financial crimes are difficult to detect, investigate, and even mitigate because senior organization personnel is reluctant to divulge the information due to the consequences, that the institutions would suffer as a result of such exposure (Omondi, 2013). The subject of financial scandal is a common cause in the Kenyan context; Madiavale's (2019) study on financial scandals revealed that organizations such as the National Bank of Kenya, Unga group, CMC Motors, and Euro bank, among others, have experienced a financial crisis. Dubai Bank, Imperial Bank, and the previously dominant supermarket chain in Kenya, Nakumatt Holdings, are the most recent organizations to face financial difficulties as a result of financial statement fraud. This demonstrates that financial statement fraud is still a significant issue in the Kenyan economy, as the majority of these businesses experience a financial downturn shortly after recording a better financial performance. Because of its pervasiveness,

financial statement fraud affects all industries, including both private and public sector entities (Bashir, 2017).

Locally, Onsando and Omido (2017) conducted a study on the Impact of fraud on the performance of state-owned enterprises in Kenya. The results showed that while the senior employees and top management are aware of forensic accounting, very few members of the lower cadre are. The study recommended that government and private sector organizations establish an interest in forensic accounting and accountants for monitoring and investigating any suspected and verified management fraud in light of current fraud-related actions in the public sector. Ngige and Musyimi (2019) conducted a study on the determinants of fraud in state-owned enterprises: Evidence from Kenya. Their investigated hypotheses showed that fraud investigation and detection by forensic accounting are significantly and favorably connected to fraud decrease.

Regionally, Ojeka and Akpomi (2018) conducted a study on the impact of ownership structure on fraud in state-owned enterprises: Evidence from Nigeria. Their investigated hypotheses showed that fraud investigation and detection by forensic accounting are significantly and favorably connected to fraud decrease. Dada et. al., (2013), examined the application of forensic accounting techniques for the effective investigation of cases of bribery to ensure proper prosecution of those accused of such practices. According to the study's findings, the anti-corruption agency has not yet used forensic accounting as a tool for investigating and detecting incidents of bribery, even though it has a favorable link with bribery prevention.

Globally, Zhiyu and Shouhong (2017) studied corporate governance and fraud prevention in state-owned enterprises: Evidence from China. The study used some data mining techniques for fraud detection and prevention using fuzzy set theory to support the study and concluded that applying data mining, one of the forensic accounting services, may not be enough to detect fraud when using only financial statement data. Rafael and Aristeu (2019) conducted a study on fraud risk management in state-owned enterprises: A case study of Petrobras in Brazil. According to the study's findings, state and federal prosecutors and criminal investigators do not believe they have the accounting expertise necessary to efficiently look at records during corporate fraud investigations that entail accounting and financial reporting.

The gap relevant to the existing studies is that forensic accounting services are not used in the routine operation of a business about the internal control functions, but when things become tough, these services are needed to look into the "what, who, and when" and the fraudulent actions (Oyedokun, 2013; Albrecht et al., 2019). The current study sought to demystify this situation. Considering the aforementioned, the fundamental issue that this study aimed to address is the irregularity that has become the norm in the preparation and presentation of financial statements to appease one stakeholder at the expense of the majority of other stakeholders, presenting a financial statement that does not present a true and fair view of the position of the organization for the period under review. The study adds to the body of knowledge by advancing knowledge of how forensic accounting services affect the accuracy of financial statements of public sector organizations, an area that is currently understudied in the accounting literature.

### **1.3 Objective of the study**

#### **1.3.1 General Objective**

The overall goal of this study was to examine the effect of forensic accounting services on the integrity of financial statements of public sector entities in Kenya.

#### **1.3.2 Specific Objective of the Study**

The specific objective of this is set as follows:

- i. To determine whether forensic accounting techniques are appropriate in preventing fraudulent financial statements among public sector entities in Kenya.
- ii. To assess whether computer-assisted reviews are appropriate in uncovering fraudulent financial statements among public sector entities in Kenya.
- iii. To examine the extent to which fraud deterrence skills contribute to the uncovering of fraudulent financial statements among the public sector entities in Kenya.

## **1.4 The Research Questions**

The study was intended to answer the following questions:

- i. What is the effect of forensic accounting techniques in preventing fraudulent financial statements among the public sector entities in Kenya?
- ii. What is the effect of computer-assisted reviews in uncovering fraudulent financial statements among the public sector entities in Kenya?
- iii. What is the effect of fraud deterrence skills in uncovering fraudulent financial statements among the public sector entities in Kenya?

## **1.5 The Scope of the Study**

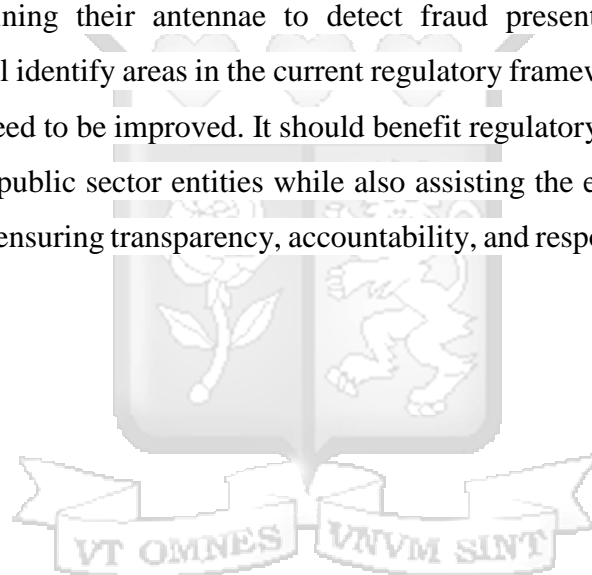
This research was carried out in public sector entities in Kenya. Because the study was based on previous researchers' suggestions and comments on the same topic, only public sector entities that have been purposefully selected based on criteria of financial activity and administration of a large annual budget were qualified to participate in the study. Kenya Electricity Generating Company (KenGen), Kenya Power and Lighting Company Limited (KPLC), Kenya Electricity Transmission Company (Ketraco), Kenya Medical Supplies Agency (KEMSA), Kenya Literature Bureau (KLB), Kenya Pipeline Company (KPC), and Kenya Railway Corporation (KRC) are the major public sector entities in Kenya that will participate in the study. The public sector entities were chosen in part because the study's time and funding limitations prevent it from being able to examine every company in the public sector. The study will focus on 120 top and middle-level managers from these entities. The top and middle-level managers were chosen because they have the best knowledge and understanding of the research problem and are best equipped to judge whether using forensic accounting services to reduce financial statement fraud is viable.

## **1.6 The Study's Significance.**

The study's goal was to increase knowledge to improve the quality of financial statements prepared by public sector entities. For the stakeholders involved, it will aid in the development of a robust internal control system capable of detecting and deterring unfair or illegal practices before they

destroy the trust foundation upon which public sector entities are built. The study also adds to the existing literature on fraud in financial reporting by localizing known fraud detection methods.

The study's findings could be useful to policymakers and academics as a source of literature as they seek to develop watertight methods of preventing financial statement fraud. Furthermore, policymakers and accounting regulators, such as the Institute of Certified Public Accountants (ICPAK), can benefit from the study's findings by determining how the use of forensic accounting services can improve the quality of financial information reported by companies. Other intended beneficiaries include institutional investors, who should consider both financial and non-financial performance, as well as cash position when analyzing the financial performance of public sector entities, specifically training their antennae to detect fraud presented as truth in financial statements. The study will identify areas in the current regulatory framework used by the country's oversight agencies that need to be improved. It should benefit regulatory bodies by providing new insights into monitoring public sector entities while also assisting the entities in upholding good corporate governance by ensuring transparency, accountability, and responsibility in their financial reporting.



## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter focuses on the critical systematic review of the literature. The hypotheses that inspired the study and a critical examination of several empirical findings are discussed in this chapter. The study's gaps, the conceptual framework, and the operationalization of study variables are all discussed in this chapter.

### 2.2 Theoretical Framework

The study was anchored on two theories namely the Prospect theory and the Fraud diamond theory.

#### 2.2.1 Prospect Theory

Kahneman and Tversky (1979) first advocated for this idea. According to the argument, businesses are risk-averse because they detest losing more than they enjoy winning. However, when faced with adverse results, such as losses, the firm's management increases the risk to obtain a better result. Furthermore, it states that management bases decisions on benchmarks, such as targets or earnings from a previous time. Prospect theory suggests that people are more likely to take steps to increase their earnings if they are likely to miss the target or reference point. Furthermore, prospect theory makes no assumptions about the manager's rationality or that they will select the option with the greatest utility; rather, it predicts that, in relation to the reference point, they will select the option that is the least unpleasant or results in the least loss.

Since all manipulation is done to show progress relative to a prior period reference point, this theory is a classic explanation for financial statement manipulation and fraudulent presentation. Despite the risk involved in using fraudulent figures, they readily absorb that risk to show a better outcome, demonstrating their irrationality. Another defense of the hypothesis is that managers advocate for the manipulation of financial statements to reap certain benefits and maintain those

benefits even when doing so places them in the fraud-prone zone. This theory informs the study by providing a theoretical explanation for the existence of an expectation gap.

### **2.2.2 Fraud Diamond Theory**

Wolfe and Hermanson (2004) added a second nexus to the Fraud triangle theory (FTT) to create the Fraud diamond theory (FDT). It featured the first three FTT fraud factors, opportunity, motivation, and rationalization, as well as a fourth element called capability. They added that capability has to be present in addition to the FTT components. To perpetrate fraud, the potential fraudster must be skilled. "Opportunity opens the door to deception, and motivation (i.e. pressure) and reasoning can lead a person toward it," the authors write. However, the person must be able to see an opportunity in an open doorway and be able to take advantage of it by walking through it more than once. Therefore, skill is a vital component to getting beyond the numerous safeguards put in place by policy or accounting legislation to prevent the fraudulent reporting of financial accounts.

This theory applies to the study because directors, capable management, or officials may look for opportunities to present a positive image under the impression that the fraud can be covered up and corrected in subsequent reporting periods, but instead they are always cornered, under pressure from declining revenues or earnings. Capability is crucial because, without it, they wouldn't be able to decide where and how to change the revenues and prevent getting cornered. Further, the tenets of this theory was used to determine how forensic accounting services affects the integrity of financial statements in the public sector entities in Kenya.

Because fraud diamond theory (FDT) is comprehensive in its exploration of the concealing feature of fraudsters, it serves as the theoretical framework for this study. Additionally, the Fraud Diamond theory was based on Fraud Triangle Theory (FTT) with one additional variable (i.e. Capability) that FTT did not address, allowing the theory of Fraud Diamond to have four angles rather than three.

## **2.3 Empirical Literature Review**

This section focused on the different studies that have been undertaken about the study's objectives. The review of studies aided in identifying the numerous gaps that this study aimed to fill.

### **2.3.1 Effect of forensic accounting techniques in preventing fraudulent financial statements**

A recent development, particularly in developing economies, is forensic accounting. As a result, few professional accountants are skilled and knowledgeable about forensic issues (Kaur et al., 2022). Forensic audits and investigations are essential components of the accounting profession, whose main goal is to uncover fraudulent activities both inside and outside of a business inasmuch as those actions are in any way indicative of such activities (Modugu & Anyaduba, 2018). Investigative accounting, sometimes known as forensic accounting, combines accounting with forensic science. Using these definitions as a guide, forensic accounting focuses on locating and analyzing fraudulent transactions in order to determine the true motivation of the culprit. Interviews, document reviews, an assessment of electronic materials, and other methods of evaluation are all possible.

Bourke and Peurseem (2017) conducted a study on “Detecting fraudulent financial reporting: Teaching the watchdog” New tricks”. Specifically, the study sought to identify the role of forensic accounting techniques in abetting financial statement fraud. Structured questionnaires were used to gather the study data. Due to the ordinal nature of the data collected, an Ordered logistic regression analysis was carried out on the data. According to the findings, the use of multiple forensic accounting techniques was beneficial to auditors. Further, they recommended that audit procedures be modified to specifically test for fraud. This study presents a geographical gap since it was conducted outside Kenya thus the context might not be the same as the local context.

Dunn (2018) examined the effect of insider influence on false financial reporting. Both descriptive and inferential statistics were used to analyze the data. According to their findings, fraud is more likely to occur in an autocratic setting where a select few managers (insiders) make the decisions and others are expected to bear the consequences. Further, it was shown that inaccurate financial

information declaration and non-use of forensic accounting services were positively correlated. They discovered that insiders held important leadership positions as managers and directors in the 103 firms studied over 4 years to 1996 as a result of successful fraud cases. Since the factors in the current study were not affected by forensic accounting services, this study has a contextual and geographical gap.

Onuorah and Ebimobowei (2012) used a sample of (24) banks in their study of the fraudulent practices and forensic accounting services provided by banks in Port Harcourt, Nigeria. They used least-squares analysis and Granger Causality to analyze the data. According to the findings, forensic accounting services have a substantial impact on the amount of fraud in banks since they provide banks with effective tools for spotting these fraudulent actions. This study presents geographical and contextual gaps which the current study sought to bridge.

Modugu and Anyaduba (2013) examined stakeholder agreement on the effectiveness of forensic accounting services in the control of financial fraud, the quality of financial reports, and internal control. Their findings revealed significant agreement among the stakeholders on the effectiveness of forensic accounting in controlling fraudulent practices, improvement in the quality of financial reports, as well as improving the quality of internal control. This study presents geographical and contextual gaps which the current study sought to bridge.

### **2.3.2 Effect of Computer-assisted Reviews in uncovering fraudulent financial statements**

Adekoya et al. (2020) investigated the use of computer-assisted reviews to combat tax fraud and tax evasion. The study, which employed an exploratory research design, concluded that computer-assisted reviews would reveal, control, and discourage fraudulent practices on tax revenue and enhance the integrity of financial statements while traditional auditing has failed to reduce tax fraud and tax evasion. This study presents a geographical gap since it was conducted outside Kenya. The current study sought to identify the effectiveness of forensic accounting services in curbing fraudulent financial statements.

Kassem (2020) researched financial fraud and earnings management. For the study, a survey research design was used. Analysis of the data using ordinary least squares showed that to fortify fake financial statements, regulators and external auditors alike need to become more knowledgeable in areas like computer-assisted reviews. The findings revealed that the organization's leadership's objectives led to fraud. Therefore, the only option left to auditors is to assess the management's motivations for choices. Additionally, he added, authorities must provide the auditors with a framework so they may fulfill their responsibilities of examining management's motivations for pursuing fraud. This study presents a geographical gap since it was done in a first-world country whose control environment is different from Kenya's.

Perols and Lougee (2018) researched the influence of earnings management on the probability of financial statement fraud. The study's obtained data were examined using Pearson Product Moment Correlation. According to their findings, "fraud firms are more likely to meet or beat analyst forecasts and inflate revenue than non-fraud firms are even when there is no evidence of prior earnings management." Further, their findings revealed that "fraud firms are more likely to have managed earnings in prior years and that earnings management in prior years is associated with a higher likelihood that firms that meet or beat analyst forecasts or that inflate revenue are committing fraud." This study presents both contextual and geographical gaps since it was conducted outside Kenya and the focus was not fully on the use of computer-assisted reviews to identify financial statement fraud.

### **2.3.3 Effect of fraud deterrence skills in the uncovering of fraudulent financial statements.**

The most effective ways to combat financial statements fraud, according to studies already conducted, are to decrease employee motivation, improve internal controls to decrease opportunities, and ensure that there is no justification for fraud by properly supervising and implementing rules and regulations as well as taking punitive action against fraud (BSL, 2009). Most public sector entities have internal control systems integrated into the operational framework, according to Kingsley (2012), to decrease instances of financial statement fraud and improve fraud

detection and prevention measures. If all systemic safeguards are activated, improved, and adhered to, fraudulent financial statements in the public sector can be decreased (Gates & Jacob, 2009).

Beest et al (2019) conducted a study on the qualitative aspects that should characterize financial reports to be qualified as quality. The study used a structured questionnaire to collect data. The collected data was analyzed using descriptive statistics and inferential statistics. According to their findings, Relevance, Faithful representation, Understandability, Comparability, and timeliness of financial statements should be considered while checking the integrity of financial statements. The study presents a contextual gap since it did not address the role of forensic accounting services on the integrity of financial statements.

A study was conducted by Wanyama (2020) on the efficiency of the fraud response used by the Co-operative Bank in Kenya, a case study on the Co-operative Bank of Kenya. The qualitative data was gathered, evaluated systematically, and coded before being transformed into quantitative data for analysis. The study demonstrated that the bank's information technology systems and fraud deterrent abilities are crucial in the identification and reaction to fraud-related cases. It also highlighted that bad human resources practices are partially to blame for the escalation of fraud cases by employees. The study also found that "the quicker the discovery and response, the more effective the fraud deterrent skills are." The study presents a geographical gap since it focused on the private sector entity, the commercial bank as opposed to this study which focuses on the public sector entities.

Oriko (2016) used the population of all companies listed on the NSE for his study to determine the efficacy of ratios in identifying financial statement fraud. The study used questionnaires for data collection and ANOVA for data analysis. According to the results, financial ratios, fraud deterrence skills, and organizations' ability to identify fraud are positively correlated. That is, there is a reasonably significant association between the identification of fraud, the following increase in working capital, and the net profitability of businesses. While the firm's level of disclosure can be used to explain a rise in return on equity as a percentage. However, a drawback of ratio analysis is that it presumes the accuracy of the numbers employed.

Kamau (2016) aimed to assess how management practices in firms listed on the NSE affected creative accounting. The study used a mixed research approach with a cross-sectional, descriptive, and informal design. The study’s target population consisted of 64 companies that were listed in NSE as of Dec 2015. According to the study’s findings, innovative accounting and contractual requirements had a favorable impact on the performance of enterprises listed on the NSE. This study presents a geographical gap since it only focused on the 64 firms that were listed in the NSE as of December 2015.

## 2.4 Summary of Literature and Research Gaps

Even though the empirical studies focused on the public sector, they all examined various aspects of forensic accounting services and the shortcomings of conventional accountants and auditors in terms of improving the reliability of financial statements. But this is the argument that this study attempted to convey regarding the public sector. Table 2.1 provides a summary of the numerous contextual and empirical gaps and how this study will fill them.

**Table 2. 1: Key Studies and Research Gaps**

<b>Author</b>	<b>Title</b>	<b>Findings</b>	<b>Research Gap and How the study filled them</b>
Bourke and Van Peurseem (2017)	Detecting financial reporting: Teaching watchdog“	fraudulent reporting: the New tricks	According to the findings, the use of multiple forensic accounting techniques was beneficial to auditors. Further, they recommended that audit procedures be modified to specifically test for fraud.
			This study presents a geographical gap since it was conducted outside Kenya thus the context might not be the same as the local context. The current study thus filled the gap.

Dunn (2018)	The Effect of insider influence on false financial reporting	According to their findings, fraud is more likely to occur in an autocratic setting where a select few managers (insiders) make the decisions and others are expected to bear the consequences. Further, it was shown that inaccurate financial information declaration and non-use of forensic accounting services were positively correlated. They discovered that insiders held important leadership positions as managers and directors in the 103 firms studied over 4 years to 1996 because of successful fraud cases	Since the factors in the current study were not affected by forensic accounting services, this study has a contextual and geographic gap.
Adekoya et al. (2020)	The use of computer-assisted reviews to combat tax fraud and tax evasion	The study, which employed an exploratory research design, concluded that computer-assisted reviews would reveal, control, and discourage fraudulent practices on tax revenue and enhance the integrity of financial statements while traditional auditing has failed to reduce tax fraud and tax evasion.	This study presents a geographical gap since it was conducted outside Kenya. The current study sought to identify the effectiveness of forensic accounting services in curbing fraudulent financial statements.

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Kassem (2020)	Financial fraud and earnings management	The findings revealed that the organization's leadership's objectives led to fraud. Therefore, the only option left to auditors is to assess the management's motivations for choices. Additionally, he added, authorities must provide the auditors with a framework so they may fulfill their responsibilities of examining management's motivations for pursuing fraud	This study presents a geographical gap since it was done in a first-world country whose control environment is different from Kenya's.
Perols and Lougee (2018)	The influence of earnings management on the probability of financial statement fraud.	According to their findings, "fraud firms are more likely to meet or beat analyst forecasts and inflate revenue than non-fraud firms are even when there is no evidence of prior earnings management." Further, their findings revealed that "fraud firms are more likely to have managed earnings in prior years and that earnings management in prior years is associated with a higher likelihood that firms that meet or beat analyst forecasts or that inflate revenue are committing fraud."	This study presents both contextual and geographical gaps since it was conducted outside Kenya and the focus was not fully on the use of computer-assisted reviews to identify financial statement fraud

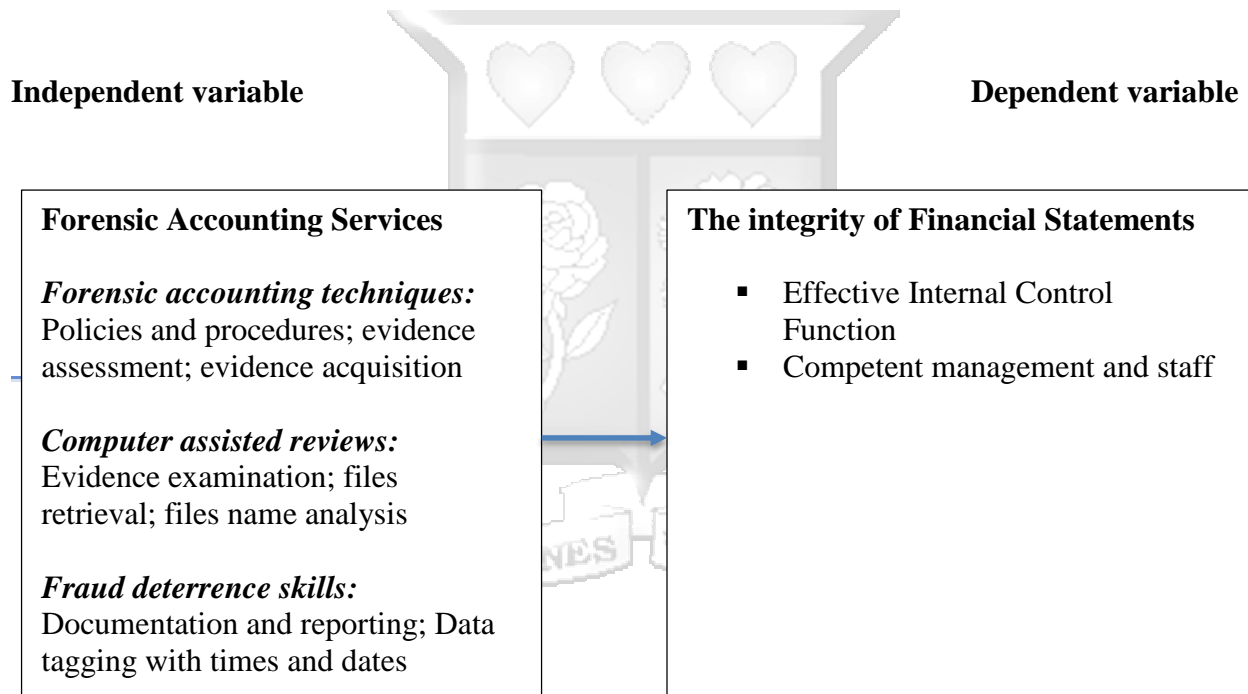
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Beest et al (2009)	The qualitative aspects that should characterize financial reports to be qualified as quality	According to their findings, Relevance, Faithful representation, Understandability, Comparability, and timeliness of financial statements should be considered while checking the integrity of financial statements	The study presents a contextual gap since it did not address the role of forensic accounting services on the integrity of financial statements.
Wanyama (2020)	The efficiency of the fraud response used by the Co-operative Bank in Kenya, a case study on the Co-operative Bank of Kenya	The study demonstrated that the bank's information technology systems and fraud deterrent abilities are crucial in the identification and reaction to fraud-related cases. It also highlighted that bad human resources practices are partially to blame for the escalation of fraud cases by employees. The study also found that "the quicker the discovery and response, the more effective the fraud deterrent skills are	The study presents a geographical gap since it focused on the private sector entity, the commercial bank as opposed to this study which focused on the public sector entities.
Kamau (2016)	To assess how management practices in firms listed on the NSE affected creative accounting	According to the study's findings, innovative accounting and contractual requirements had a favorable impact on the performance of enterprises listed on the NSE	This study presents a geographical gap since it only focused on the 64 firms that were listed in the NSE as of December 2015.

Source: Researcher (2023)

## 2.5 Conceptual Framework

A study's conceptual framework is a diagrammatic intermediate theory that aimed to connect and show the relationship between the variables under investigation. It's a map that makes empirical research more consistent (Gibson, 2017). The relationship between the study variables was depicted in the conceptual framework below.



**Figure 2. 1: Conceptual Framework**

The framework above shows the hypothesized interaction between the effect of forensic accounting services and the integrity of financial statements in Kenya's public sector. The Forensic Accounting services were conceptualized into forensics accounting techniques; computer-assisted reviews and fraud deterrence skills while the Integrity of financial statements was conceptualized into effective internal control function and competent management and staff. The rationale for

choosing the two elements of the dependent variables was a recommendation from empirical studies.

## 2.6 Operationalization of Variables

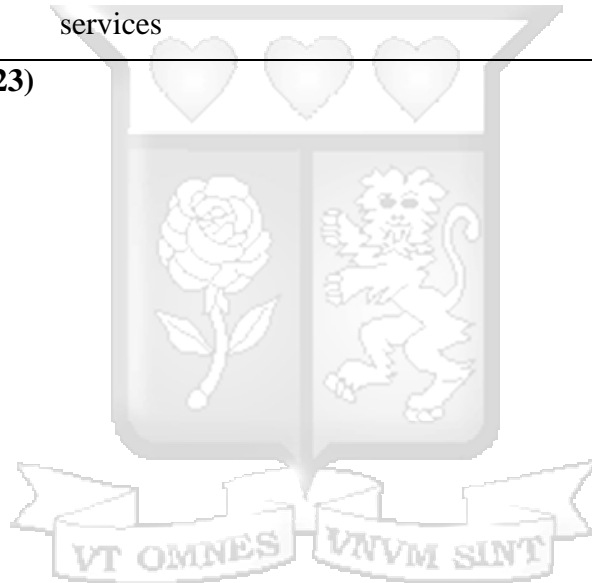
Forensic accounting services were operationalized as forensic audit, investigations, and interviewing skills; computer-assisted reviews and accounting documents reviews; and fraud prevention, detection, and deterrence skills while the Integrity of financial statements was operationalized as an effective internal control function and competent management and staff. Table 2.2 shows the values for each of the independent and dependent variables in the study.

**Table 2. 2: Operationalization of Variables**

<b>Variable</b>	<b>Constructs</b>	<b>Indicators</b>	<b>Measures for rating</b>	<b>Data Analysis</b>	<b>Supporting literature</b>
<b>Independent variable:</b> Forensic Accounting services	Forensics accounting techniques	Policies and procedures; evidence assessment; evidence acquisition	Interval scale 5-point Likert Scale	Descriptive analysis and Inferential statistics	Bourke and Van Peurse (2017)
	Computer-assisted reviews	Evidence examination; files retrieval; files name analysis	Interval scale 5-point Likert Scale	Descriptive analysis and Inferential statistics	Adekoya et al. (2020)

	Fraud deterrence skills	Documentation and reporting; Data tagging with times and dates	Interval scale 5-point Likert Scale	Descriptive analysis and Inferential statistics	Kamau (2016)
<b>Dependent Variable:</b>	An effective internal control function and integrity of financial statements	Financial statement fraud decreases with the application of forensic accounting and staff services	Interval scale 5-point Likert Scale	Descriptive analysis and Inferential statistics	Huber (2012)

Source: Researcher (2023)



## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Introduction

The methodology for the study was presented in this chapter. It includes research methodology and design, as well as population and sampling, data collection, data analysis, research quality, and ethical considerations.

### 3.2 Research Philosophy

According to Gibson (2017), the term "philosophy" relates to the development of knowledge and the character of research knowledge. The philosophical schools of positivism and interpretivism are both well-known in the field of research. Interviews and other naturalistic means of data collecting, such as observations, are used in the interpretive approach (Cooper & Schindler, 2011). A positivist paradigm, on the other hand, is focused on things that can be measured, observed, and verified, according to Mungai (2012). Additionally, positivists are interested in identifying the variables that affect results and think that good research should be grounded in theory, hypothesis, and quantitative data (Cooper & Schindler, 2011). The link between forensic accounting services and the integrity of financial statements among public sector firms was determined using the positivist research philosophy.

### 3.3 Research Design

A research design is a framework for the investigation that was conducted to address the given research questions (Cooper & Schindler, 2011). A descriptive research design was used for the investigation. This design was suitable for this study because study participants were asked to describe the many motivators for forensic accounting services and how they affect the accuracy of financial accounts (Creswell, 2013). The descriptive research approach was suited for this study since it focuses on gathering data about respondents' perceptions, understandings, and opinions (Yin, 2014). It provides an explanation for a phenomenon or event's where, what, how, and where. The state of affairs, as they stand at the moment, is described by the descriptive design

### 3.4 Target population

The term "population" refers to the full set of subjects that the researcher wants to investigate. The population, according to Yin (2013), is made up of all the observable elements that the researcher is interested in. The study will focus on all parastatals in Kenya. Since the study was based on previous researchers' suggestions and comments on the same topic, only public sector entities that have been purposefully selected based on criteria of financial activity and administration of a large annual budget were qualified to participate in the study. Kenya Electricity Generating Company (KenGen), Kenya Power and Lighting Company Limited (KPLC), Kenya Electricity Transmission Company (Ketraco), Kenya Medical Supplies Agency (KEMSA), Kenya Literature Bureau (KLB), Kenya Pipeline Company (KPC), and Kenya Railway Corporation (KRC) are the major public sector entities in Kenya that participated in the study. The study's population consisted of individuals who are most aware of and comprehend the study's problem, as well as those who are best able to judge the feasibility of using forensic accounting services to improve the integrity of financial statements in public sector firms. The study's respondents were made up of 10 directors of various departments from each of the 7 public sector entities selected, 5 auditors who practice the auditing profession from each of the 7 public sector entities selected, and 15 forensic accountants from the office of the auditor general who are experienced in financial cases in the Kenyan courts. A total of 120 respondents participated in the study.

**Table 3. 1: Target Population**

<b>Company</b>	<b>Frequency</b>	<b>Percent</b>
KENGEN	15	12.5
KPLC	15	12.5
KETRACO	15	12.5
KEMSA	15	12.5
KLB	15	12.5
KPC	15	12.5
KRC	15	12.5
OAG	15	12.5

<b>Total</b>	<b>120</b>	<b>100</b>
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**Source: Researcher (2023)**

### 3.5 Sampling Techniques

The practice of selecting a group of people from a target population to represent a wider demographic group is known as sampling. Purposive sampling was used to choose just the executive directors, auditors, and forensic accountants for the study. Due to the small size of the target group, a census was used, and all 120 respondents were included in the study. According to Lewis (2015), a census provides accurate data because the entire population is studied, and there is no generalization of findings. When the population elements are less than 200, a census is ideal (Yin, 2014).

**Table 3. 2: Sample Size**

<b>COMPANY</b>	<b>FREQUENCY</b>	<b>% SAMPLE</b>	<b>SAMPLE SIZE</b>
KENGEN	15	12.5	15
KPLC	15	12.5	15
KETRACO	15	12.5	15
KEMSA	15	12.5	15
KLB	15	12.5	15
KPC	15	12.5	15
KRC	15	12.5	15
OAG	15	12.5	15
<b>TOTAL</b>	<b>120</b>	<b>12.5</b>	<b>120</b>

**Source: (Researcher, 2023)**

### 3.6 Data Collection Instrument

This study collected primary data from the field with the help of questionnaires that contained close-ended questions. Questionnaires were used since they are relatively quick and easy to

develop, code, and interpret. The questionnaire covered demographic information and each of the three study variables (forensics accounting techniques, computer-assisted reviews, fraud deterrence skills, and the integrity of financial statements). The questionnaire used the five-point Likert scale to explain the extent of agreement in each of the study variables. The study applied the self-administration method while issuing respondents with the questionnaires. This is meant to raise the response rate of the study. The questionnaires were issued to the respondents at their place of work. Before the researcher gathers the responses for analysis, the respondents were given one week to complete the questionnaire. The researcher's contact information was provided at the time of the questionnaire's distribution to answer any questions that may emerge throughout the completion of the questionnaire.

### **3.7 Data Analysis and Presentation**

Before they are reviewed, the researcher made sure that all the quantitative data have been updated, coded, and cleaned. This ensured consistency and accuracy. Additionally, the researcher assessed quantitative data using inferential and descriptive statistics. This was done with SPSS version 22. The demographic profile data were summarized using descriptive statistics. Tables and figures were used to present the study's findings. Spearman correlation analysis was carried out to assess the relationship between the categorical variables.

The method of variable reduction was the principal component factor analysis. This analysis was justified since it assisted in reducing the number of variables and focused on just those with the greatest impact. Additionally, ordinal logistic regression was done. Ordinal logistic regression analysis was used to make predictions about an ordinal variable, also referred to as a variable whose value exists on an arbitrary scale and whose significance lies in the ordering between different values. A Likert scale with five possible values was used in this study to evaluate the dependent variable. Numerous diagnostic tests were carried out, including Cronbach alpha testing, sampling adequacy checks, measurements of data sphericity, multicollinearity, and the behavior

of covariates when combined with the variables using scree plots. Before the analytical modeling, the dependent variable's normality was also examined.

Based on the factor analysis, one factor for the dependent variable was extracted (the integrity of financial statements). This, therefore, led to the development of one ordered logistic regression model for the study. Regarding the independent variables, the factor analysis results led to the extraction of six factors namely: Factor 1: Documentation and reporting, Factor 2: Files name analysis, Factor 3: Evidence examination, Factor 4: Evidence acquisition, Factor 5: Evidence assessment, and Factor 6: Policies and procedures. These served as the study's independent (test) variables.

The independent variables of forensic accounting services were regressed against the independent variable of the integrity of financial statements. The regression equation is as shown below:

$$IFS Y = Y = \beta_0 + \beta_1 FAT + \beta_2 CAR + \beta_3 FDS + \epsilon$$

Where:

The dependent variable (Y- Integrity of Financial Statements) was tested as per the equation.

FAT - Forensic Accounting Techniques

CAR – Computer-Assisted Reviews

FDS - Fraud Deterrence Skills

$\beta_1, \beta_2, \beta_3$  = coefficients for which we predicted the value of Y.

$\beta_0$  = constant.

$\epsilon$  – Error term

### 3.8 Research Quality

Before beginning data collection, the researcher assessed the components of a good study in terms of validity, reliability, and objectivity (Cooper & Schindler, 2011). This was done to guarantee that the data collected was accurate and devoid of bias. Pilot testing was done on the research instruments to guarantee that they are of high quality. For pilot testing, the study recruited 10

respondents from ten public sector entities in Nairobi that are not part of the targeted public sector institutions. The public sector entities that participated in the pilot research were purposively chosen.

### 3.8.1 Validity

The term "validity" relates to how well a research instrument measures what it was designed to measure. Validity ensures that the information is accurate, timely, and reliable (Pickard, 2012). The researcher's supervisor analyzed the questionnaires to ensure that the items measure the underlying construct in theories and the conceptual framework, to determine validity. Invalid questions were removed entirely from the questionnaires after this assessment.

### 3.8.2 Reliability

The test-retest reliability approach is commonly used to ensure consistency in the results produced (Bernard, 2013). To improve reliability, Yin (2014) suggested that the number of identical things for testing is increased, or that different sorts of persons, events, or units be tested using a uniform testing technique. All the piloted questionnaires were coded into SPSS and the Cronbach Alpha coefficient values were generated to measure reliability. A Cronbach alpha coefficient of 0.70 or above, according to Yin (2014), indicates that the study instruments are credible. The study conducted pilot tests among the seven major public sector entities and the office of the auditor general, which allowed for reliability statistics to be conducted. Table 3.3 shows the reliability test results.

**Table 3. 3: Reliability test results**

S.No.	Construct	N	Cronbach's Alpha	Items	Verdict
1	The integrity of financial statements	10	.823	4	Accepted
2	Forensics accounting techniques	10	.767	6	Accepted

3	Computer-assisted reviews	10	.714	6	Accepted
4	Fraud deterrence skills	10	.710	6	Accepted

**Source: Research data, (2022)**

The tests produced Cronbach alpha results over 0.7, which allowed the study questionnaire to be approved.

### **3.8.3 Objectivity**

During the data gathering and analysis process, the researcher guaranteed that there is no bias. This was accomplished by ensuring that the data collection instruments are operational before beginning the investigation. Personal perceptions, assumptions, impressions, feelings, and beliefs were excluded from the discussions and conclusions, which were based on the study data.

### **3.9 Ethical considerations**

While conducting this study, the researcher strived to maintain research ethics. Before beginning data collection, the researcher requested permission from the administration of each public sector entity (Flick, 2015). The researcher applied for permission to collect data from the Strathmore University Institutional Regulatory Board (SU- IRB). Individual comments were aggregated to get an overall opinion that was generalized to the study conclusions, and confidentiality was preserved by guaranteeing that the names of the respondents are not revealed anywhere. The researcher made every effort to keep the respondents' identities hidden. The researcher also sought a Research License from the National Commission for Science, Technology, and Innovation (NACOSTI) before commencing the data collection.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

Data analysis, interpretation, and presentation of field data are covered in this chapter. The chapter contains general information about the respondents as well as conclusions based on the study's objectives. The study computed descriptive and inferential statistics to aid in the presentation of the research findings.

### 4.2 Response rate

The study targeted a sample of 120 respondents which was made up of 10 directors from each of the 7 public sector entities selected, 5 auditors who practice the auditing profession from each of the 7 public sector entities selected, and 15 forensic accountants from the office of the auditor general who are experienced in financial cases in the Kenyan courts. Only 101 of the 120 questionnaires that were sent out into the field were returned. The percentage of completed surveys received was 84.17%. Mugenda and Mugenda (2003) claim that a response rate of more than 50% is good for analysis and reporting and more than 70% is outstanding. Our response rate was outstanding in this instance, making it appropriate for analysis and conclusion.

**Table 4. 1: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Returned	101	84.17
Unreturned	19	15.83
Total	120	100

**Source: (Researcher, 2023)**

### 4.3 Demographic Information

The study's goal in this section was to gather general information about the study's participants. The study specifically aimed to determine the participant's gender, age bracket, the highest level of education, and their feeling on whether the integrity of financial statements is a key concern in the public sector. The study's findings were as displayed in Table 4.2.

**Table 4. 2: Demographic Information Results**

<b>Information</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>		
Male	55	54.5
Female	46	45.5
<b>Total</b>	<b>101</b>	<b>100.0</b>
<b>Highest level of education</b>		
Postgraduate degree	26	25.7
Undergraduate degree	32	31.7
Diploma	23	22.8
Certificate	20	19.8
<b>Total</b>	<b>101</b>	<b>100.0</b>
<b>Age bracket</b>		
20 – 30 years	31	30.7
31 – 40 years	38	37.6
41 – 50 years	14	13.9
Above 51 years	18	17.8
<b>Total</b>	<b>101</b>	<b>100.0</b>
<b>Is the integrity of FSs a key concern?</b>		
Yes	59	58.4
No	42	41.6
<b>Total</b>	<b>101</b>	<b>100.0</b>

Source: (Researcher, 2023)

### **4.3.1 Gender of the Respondents**

The study sought to establish the gender of the respondents used in the study. The results were as shown in Table 4.2. The findings show that the majority (54.5%) of the respondents were male while the remaining 45.5% were female. Respondents of both genders were fairly represented.

### **4.3.2 Respondents' Level of Education**

Respondents were asked to indicate their highest level of education. The results were as presented in Table 4.2. The findings show that 25.7% of the respondents had attained post-graduate degrees as their highest level of education, 31.7% had an undergraduate degree, 22.8% had a diploma, and 19.8% had a certificate. This is a sign that the respondents who participated in the study had a range of educational backgrounds, which led to their being assigned to different roles within their organizations. This demonstrates that the respondents had developed a variety of talents that made them suitable for the jobs they occupied in their organizations.

### **4.3.3 Respondents' age bracket**

The study sought to establish the age bracket of the respondents used in the study. The results were as shown in Table 4.2. The findings show that 30.7% of the respondents are in the age bracket of between 20 and 30 years, 37.6% were between 31 and 40 years, 13.9% were between 41 and 50 years and 17.8% were within the age bracket above 51 years. This implies that respondents of various age brackets were fairly represented.

### **4.3.4 Respondents' opinion about whether the integrity of financial statements is a key concern**

The study sought to establish the respondents' opinions about the integrity of financial statements. The results were as shown in Table 4.2. The findings show that 58.4% of the respondents believed that the integrity of the financial statements of public sector entities is a key concern, and 41.6% of the respondents believed that the integrity of the financial statements of public sector entities is

not a key concern. This implies that most of the respondents believed that the integrity of the financial statements of public sector entities is a key concern among those entities.

#### 4.4 Descriptive Statistics

In this section, the study presents the findings of the respondents on various statements that relate to the effect of forensic accounting services on the integrity of financial statements of public sector entities in Kenya. The respondents were asked to give their opinion based on a 5-point Likert scale where 1-strongly disagree, 2- disagree, 3-neutral, 4-agree, and 5-strongly agree. Mean, median, and standard deviations were applied in explaining the findings of the study.

##### 4.4.1 Forensics accounting techniques and the Integrity of financial statements of public sector entities

Respondents were asked to indicate the level to which they agree or disagree with the statements about the effect of forensic accounting techniques on the integrity of financial statements of public sector entities. The results were as presented in Table 4.3.

**Table 4. 3: Descriptive results for forensic accounting techniques**

	N	Mean	Median	Standard Deviation
Our company can aim at financial contradictions that do not fit into the normal patterns of an assignment	101	3.77	4.00	1.232
Our Company has a team with the required interviewing skills and can discern fact from fiction	101	3.87	4.00	1.128
Our Company consists of critical thinkers that can discern fact from opinion.	101	3.89	4.00	1.085
In our firm, we exercise professional skepticism of questioning management’s responses to financial information	101	3.64	4.00	1.145

In our company, we can approach each situation with an unstructured approach	101	3.64	4.00	1.045
In our company, we have the flexibility to move away from standardized audit procedures and thoroughly examine situations for typical warning signs.	101	3.36	3.00	1.197

**Source: (Researcher, 2023)**

The findings show that the respondents agreed that public sector entities consist of critical thinkers that can discern fact from opinion as shown by a mean of 3.89, public sector entities have a team with the required interviewing skills and can discern fact from fiction as shown by a mean of 3.87, public sector entities can aim at financial contradictions that do not fit in the normal patterns of an assignment as shown by a mean of 3.77, public sector entities exercise professional skepticism of questioning management’s responses on financial information as shown by a mean of 3.64, public sector entities have the ability to approach each situation with an unstructured approach as shown by a mean of 3.64, and that public sector entities have the flexibility to move away from standardized audit procedures and thoroughly examine situations for typical warning signs. This implies that the application of forensic investigation is appropriate for enhancing the integrity of financial statements among the public sector entities in Kenya. The findings are in agreement with Bourke and Peurseem (2017) who conducted a study on “Detecting fraudulent financial reporting: Teaching the watchdog“ New tricks”. According to the findings, the use of multiple forensic investigation techniques was beneficial to auditors. Further, they recommended that audit procedures be modified to specifically test for fraud.

#### **4.4.2 Computer-assisted Reviews and the integrity of financial statements of public sector entities**

Respondents were asked to indicate the level to which they agree or disagree with the statements about the effect of computer–assisted reviews on the integrity of financial statements of public sector entities. The results were as presented in Table 4.4.

**Table 4. 4: Descriptive results for computer-assisted reviews**

	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Standard Deviation</b>
In our company, through the computer-assisted reviews, we can examine what should be provided rather than what is provided	101	3.97	4.00	1.024
In our company, we carefully examine unusual relationships identified through computer-assisted reviews	101	3.73	4.00	1.182
In our company, we conduct accounting reviews and have investigative flexibility on any unusual items.	101	4.03	4.00	1.024
Our company maintains an analytical proficiency in all accounting reviews.	101	4.13	4.00	.856
Using computer-assisted reviews, we identify key issues in the financial statements and make changes.	101	4.26	4.00	.744
Through computer assisted reviews, we can tell the story of all the financial information	101	3.18	3.00	1.260

**Source: (Researcher, 2023)**

The findings show that the respondents agreed that by using computer-assisted reviews, public sector entities can identify key issues in the financial statements and make changes as shown by a mean of 4.26, public sector entities maintain an analytical proficiency in all the accounting reviews as shown by a mean of 4.13, public sector entities conduct accounting reviews and have investigative flexibility on any unusual items as shown by a mean of 4.03, through the computer-assisted reviews, public sector entities are able to examine what should be provided rather than what is provided as shown by a mean of 3.97, public sector entities carefully examine unusual relationships identified through computer-assisted reviews as shown by a mean of 3.73, and that through the computer-assisted reviews, public sector entities are able to tell the story of all the financial information as shown by a mean of 3.18

This implies that the application of computer-assisted reviews can enhance the integrity of financial statements among the public sector entities in Kenya.

The findings agree with Adekoya et al. (2020) who investigated the use of computer-assisted reviews to combat tax fraud and tax evasion. The study, which employed an exploratory research design, concluded that computer-assisted reviews would reveal, control, and discourage fraudulent practices on tax revenue and enhance the integrity of financial statements while traditional auditing has failed to reduce tax fraud and tax evasion.

#### 4.4.3 Fraud deterrence skills and the integrity of financial statements of public sector entities

Respondents were asked to indicate the level to which they agree or disagree with the statements about the effect of fraud deterrence skills on the integrity of financial statements of public sector entities. The results were as presented in Table 4.5.

**Table 4. 5: Descriptive results for fraud deterrence skills**

	N	Mean	Median	Standard Deviation
There's no policy in our company to report all fraudulent financial statement cases to the public	101	4.03	4.00	.995
There is no deliberate policy in our company to prosecute all fraud perpetrators in court without fear of backlash	101	3.35	4.00	1.117
The risk assessment process under forensic accounting does especially cover the risk of fraud.	101	3.69	4.00	1.093
Our company's response hotline does not act swiftly to anonymous tips.	101	3.79	4.00	1.169

Our company's deterrence skills are enabled to detect all possible collusion between employees and others in the business transaction.	101	3.19	4.00	1.286
Our company's deterrence skills is enabled to detect loose internal controls in the company operations.	101	3.24	3.00	1.011

**Source: (Researcher, 2023)**

The findings show that the respondents agreed that there's no policy in the public sector entities to report all fraudulent financial statement cases to the public as shown by a mean of 4.03, public sector entities' response hotline does not act swiftly to anonymous tips as shown by a mean of 3.79, that the risk assessment process in public sector entities under forensic accounting does especially cover the risk of fraud as shown by a mean of 3.69, that there is no deliberate policy in public sector entities to prosecute all fraud perpetrators in court without fear of backlash as shown by a mean of 3.35, public sector entities deterrence skills are enabled to detect loose internal controls in the entities' operations as shown by a mean of 3.24, and that public sector entities' deterrence skills are enabled to detect all possible collusion between employees and others in the business transaction as shown by a mean of 3.19. This implies that the application of fraud deterrence skills can enhance the integrity of financial statements among the public sector entities in Kenya.

The findings are in agreement with Beest et al (2019) who conducted a study on the qualitative aspects that should characterize financial reports to be qualified as quality. According to their findings, Relevance, Faithful representation, Understandability, Comparability of financial statements, and fraud deterrence skills should be considered while checking the integrity of financial statements.

#### **4.4.4 Integrity of financial statements of public sector entities**

Respondents were asked to indicate the level to which they agree or disagree with the statements about the integrity of financial statements of public sector entities. The results were as presented in Table 4.6.

**Table 4. 6: Descriptive results for the integrity of financial statements of public sector entities.**

	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>Standard Deviation</b>
Our internal controls function enables effective monitoring of employees via telephones and associates	101	3.72	4.00	1.282
There's no policy regulating the frequency of staff going on vacation	101	4.13	4.00	.744
There's no policy regulating gratification to staff from customers	101	3.69	4.00	.980
There's no policy to show how long a staff spends in a given department.	101	3.75	4.00	1.170

**Source: (Researcher, 2023)**

The findings show that the respondents were in agreement that there's no policy in the public sector entities regulating the frequency of staff going on vacation as shown by a mean of 4.13, that there's no policy to show how long a staff spends in a given department in the public sector entities as shown by a mean of 3.75, that public sector entities' internal controls function enables effective monitoring of employees via telephones and associates as shown by a mean of 3.72, and that there's no policy regulating gratification to staff from customers of the public sector entities as shown by a mean of 3.69. This implies that the application of forensic accounting services can enhance the integrity of financial statements among the public sector entities in Kenya.

## **4.5 Diagnostic Tests**

### **4.5.1 Multicollinearity tests**

Using the variance inflation factors (VIFs), a multicollinearity test for the independent variables was also carried out. According to the findings as presented in Table 4.7, the greatest VIF was

1.163, which is less than 10, indicating that multicollinearity wasn't a significant issue in the independent variables. If the VIF value is less than or equal to 10, the model is free of severe multicollinearity.

**Table 4. 7: Variance inflation factors and tolerance**

Variable	Collinearity Statistics	
	Tolerance 1/VIF	VIF
IV6_Policies and procedures	.957	1.045
IV5_Evidence assessment	.927	1.079
IV4_Evidence acquisition	.860	1.163
IV3_Evidence examination	.910	1.099
IV2_Files name analysis	.927	1.079
IV1_Documentation and reporting	.878	1.139

#### 4.5.2 Kruskal–Wallis equality-of-populations rank test

Given the non-parametric nature of the data and the responses from either the public sector entities or the office of the auditor general, a test was run to see if there were any statistically significant variations in the means of the dependent variables. The chi-square coefficients are not significant at the 5% level as shown below according to the Kruskal Wallis equality of populations rank test. This forces us to rule out the alternative theory and draw the conclusion that responses from both groups of respondents—the public sector entities and the office of the auditor general—come from a common distribution. As a result, there is no statistically significant difference between the responses. This makes a case for analyzing all 101 responses collectively rather than dividing them into two categories.

$H$  (degrees of freedom) = chi-square test statistic,  $p = .01$

$H(1) = 0.005$ ,  $p = .943$

$.943 > .005$  therefore the study fails to reject the hypothesis

**Table 4. 8: Kruskal–Wallis equality-of-populations rank test**

Variables	Chi-Square	df	Asymp. Sig.
IV6_Policies and procedures	1.851	1	.174
IV5_Evidence assessment	2.882	1	.090
IV4_Evidence acquisition	7.464	1	.006
IV3_Evidence examination	4.936	1	.026
IV2_Files name analysis	.125	1	.724
IV1_Documentation and reporting	.005	1	.943

a Kruskal Wallis Test

b Grouping Variable: Integrity of Financial Statements

#### 4.6 Principal Component-Factor Analysis (PCFA)

##### 4.6.1 PCFA analysis for the independent variables

Without surrendering too much information, the principal component-factor analysis (PCFA) was utilized to produce a suitable summary of the study's conclusions regarding the correlations between the variables (Hayton et al., 2004). The study made use of the KMO and Bartlett's Tests, principal component analysis, scree plot, and rotated component matrix to present its findings. The outcomes are displayed in Table 4.9.

**Table 4. 9: Eigen Values and Sampling Adequacy Tests**

Factors	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Factor1	3.066	17.031	17.031	3.066	17.031	17.031
Factor2	2.842	15.790	32.822	2.842	15.790	32.822
Factor3	1.641	9.118	41.940	1.641	9.118	41.940
Factor4	1.340	7.442	49.382	1.340	7.442	49.382
Factor5	1.187	6.593	55.975	1.187	6.593	55.975
Factor6	1.006	5.588	61.562	1.006	5.588	61.562
Factor7	.959	5.327	66.889			
Factor8	.838	4.657	71.546			
Factor9	.768	4.266	75.812			
Factor10	.743	4.126	79.937			
Factor11	.694	3.858	83.795			
Factor12	.643	3.572	87.367			
Factor13	.609	3.381	90.747			
Factor14	.463	2.572	93.320			
Factor15	.384	2.131	95.451			
Factor16	.352	1.956	97.407			
Factor17	.253	1.405	98.812			
Factor18	.214	1.188	100.000			

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.621
Bartlett's Test of Sphericity	Approx. Chi-Square	432.583
	df	153
	Sig.	.000

**Table 4. 10: Principal Component Analysis-Factor Analysis**

Variable	Description	Communalities					Uniqueness
		Factor 1: Documentation and reporting	Factor 2: Files name analysis	Factor 3: Evidence examination	Factor 4: Evidence acquisition	Factor 5: Evidence assessment	
Comp_Ass Rev1	In our company, we carefully examine unusual relationships identified through computer assisted reviews.	.742					0.203
Comp_Ass Rev2	In our company, we conduct accounting reviews and have investigative flexibility on any unusual items.	.614					0.314
Comp_Ass Rev3	Using computer assisted reviews, we identify key issues in the financial statements and make changes.	.608					0.317

Foren_Inv1	In our company, we have the flexibility to move away from standardized audit procedures and thoroughly examine situations for a typical warning signs.		0.688	0.259
Foren_Inv2	In our company, we have the ability to approach each situation with unstructured approach.	.797		0.170
Comp_Ass Rev4	Through the computer assisted reviews, we are able to tell the story of all the financial information.	.813		0.544
Fraud_Dett Sk1	Our company's deterrence skills is enabled to detect all possible collusion between employees and others in the business transaction.	.623		0.257

Fraud_Dett Sk2	The risk assessment process under forensic accounting does specially cover risk of fraud.	.690		0.290
Comp_Ass Rev5	Our company maintains an analytical proficiency in all the accounting reviews.		.760	0.423
Fraud_Dett Sk3	Our company's response hotline does not act swiftly to anonymous tips.		.796	0.262
Fraud_Dett Sk4	There is no deliberate policy in our company to prosecute all fraud perpetrators in court without fear of backlash.		.757	0.209
Fraud_Dett Sk5	There's no policy in our company to report all fraudulent financial statement cases to the public	.634		0.444

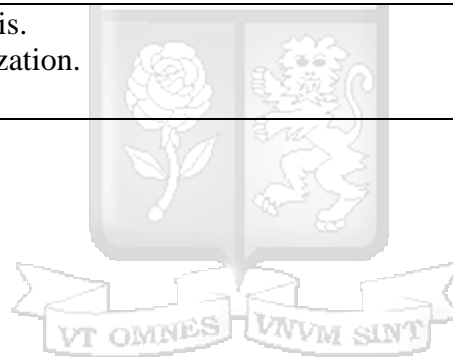
Fraud_Dett Sk6	Our company's deterrence skills is enabled to detect loose internal controls in the company operations.	.079	.073		0.223
Foren_Inv3	In our firm we exercise professional skepticism of questioning management's responses on financial information.			.604	0.215
Comp_Ass Rev6	In our company, through the computer assisted reviews, we are able to examine what should be provided rather than what is provided.			.874	0.515
Foren_Inv4	Our Company has a team with the required interviewing skills and can discern fact from fiction.			.755	0.308

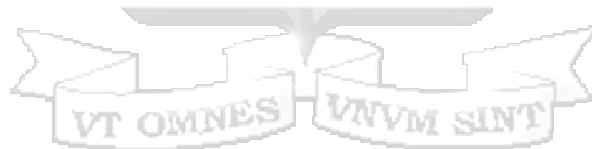
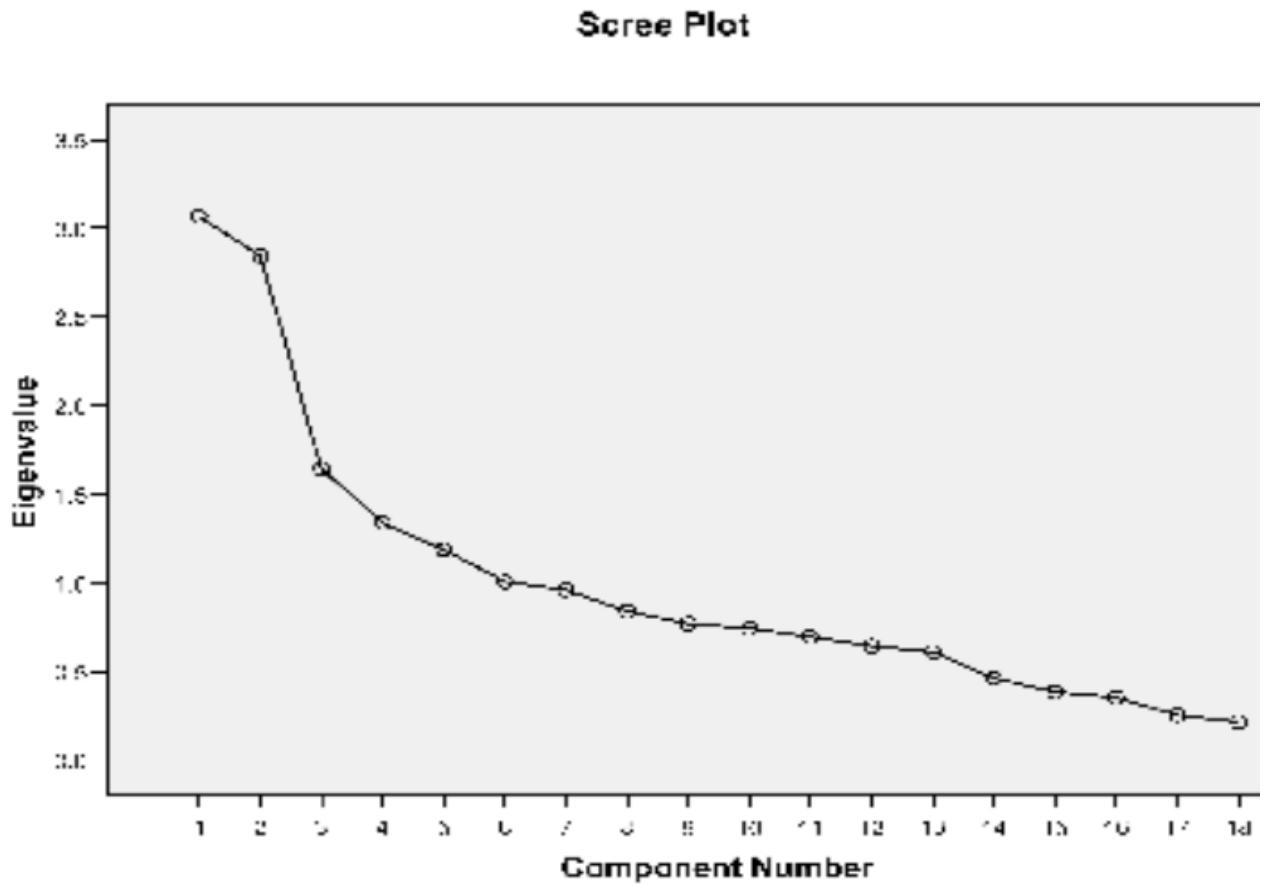
Foren_Inv5	Our Company consists of critical thinkers that can discern fact from opinion.		.652	0.453
Foren_Inv6	Our company has the ability to aim at financial contradictions that do not fit in the normal patterns of an assignment.	.721	.858	0.404

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Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.  
 a. Rotation converged in 17 iterations.

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**Figure 4. 1: Scree Plot of Eigenvalues**

The study evaluated the sample's eligibility for factor analysis using the Kaiser Meyer-Olkin Measure of Sampling Adequacy (KMO). According to KMO, a variable should have a minimum value of 0.5; good values are between 0.7 and 0.8, and excellent values are above 0.8. Bartlett's Test of Sphericity must be significant ( $p.05$ ) to be acceptable. Table 4.9's findings reveal a KMO score of 0.621, which is sufficient for the Bartlett Test of Sphericity ( $Sig = .05$ ). This shows that factor analysis may be done with independent variables.

According to the findings, six components for the independent variable were extracted. Eigenvalues above 1.0 are necessary to meet the cut-off for the variable selection. The research's findings are presented in Table 4.9, which demonstrates that the factors had eigenvalues greater than 1. Values above one were taken into account and understood as factors. In the data matrix, the six factors accounted for 61.562% of the variants. About 17.031% of the variance may be attributed to component one, whereas 15.790% is attributed to component 2, 9.118% is attributed to component 3, 7.442% is attributed to component 4, 6.593% is attributed to component 5, and 5.588% is attributed to component 6.

After factor extraction, the variables were rotated using the varimax method. The rotated factor loadings in the rotated component matrix represent the correlations between the variables and the factors. One considers a factor loading of 0.3 or above to be adequate (Cohen et al., 2013). For the study, the minimum required criterion of 0.3 was met by the factor loading for the sub-variables of independent variable ranges that fit in components 1, 2, 3, 4, 5, and 6. The matrix in table 4.10 provides the correlation between the variables and each of the retrieved factors. In order to select the variables that make up each factor, the variable with the highest value in each row is picked to be a member of that factor. Twelve sub-variables make up Factor 1, fourteen sub-variables make up Factor 2, nine sub-variables make up Factor 3, eight sub-variables make up Factor 4, seven sub-variables make up Factor 5 and, six sub-variables make up Factor 6. According to the scree plot shown in Figure 4.1, a 6-factor model ought to be adequate. This is because, after the third factor, the curve stabilizes.

#### **4.6.2 PCFA analysis for the dependent variable**

With minimal information loss, factor analysis is utilized to produce a meaningful summary of the study's conclusions regarding the correlations between the variables (Hayton et al., 2004). Tables 4.11 and 4.12 display the factor loadings and corresponding eigenvalues for the dependent variables in order to present research findings for the dependent variable. Figure 4.2 also displays the scree plot for the dependent variable's eigenvalues.

**Table 4. 11: Factor loadings for the dependent variable**

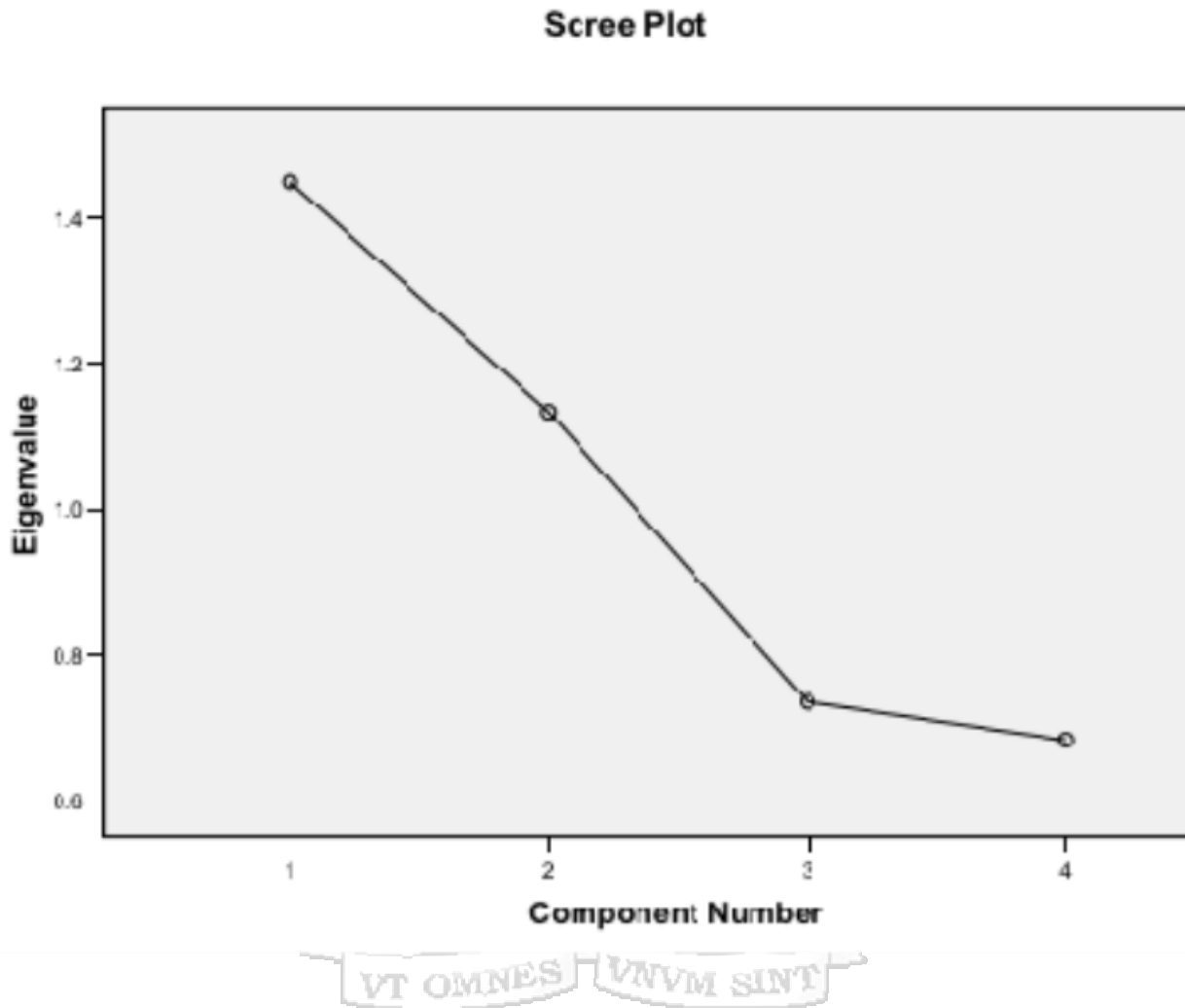
Variable	Description	Component	
		1	2
Inte_Fin State1	There's no policy regulating the frequency of staff going on vacation.	<b>.791</b>	-.157
Inte_Fin State2	There's no policy to show how long a staff spends in each department.	<b>.742</b>	.163
Inte_Fin State3	Our internal control's function enables effective monitoring of employees via telephones and associates.	-.188	<b>.854</b>
Inte_Fin State4	There's no policy regulating gratification to staff from customers.	.437	<b>.633</b>

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization.  
 a. Rotation converged in 3 iterations.

**Table 4. 12: Eigen values– dependent variable**

Factors	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.450	36.253	36.253	1.450	36.253	36.253
2	1.133	28.337	64.590	1.133	28.337	64.590
3	.734	18.356	82.946			
4	.682	17.054	100.000			

Extraction Method: Principal Component Analysis.



**Figure 4. 2: Scree plot for the eigenvalues – dependent variable**

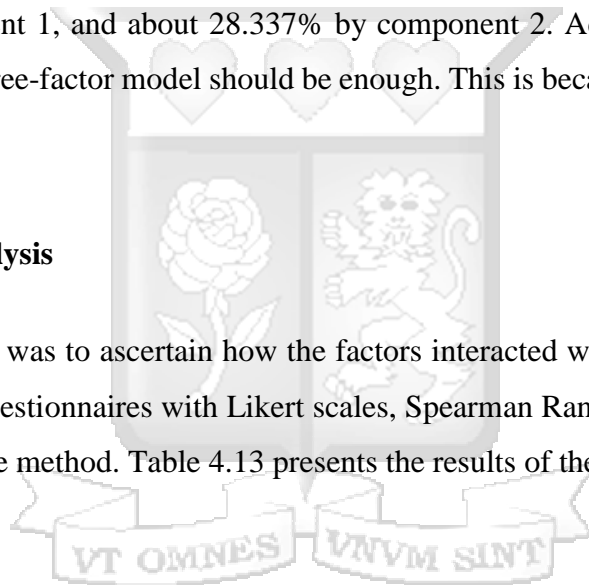
After factor extraction, the dependent variable was subjected to varimax rotation. The rotated factor loadings in the rotated component matrix represent the correlations between the variable and the factors. One considers a factor loading of 0.3 or above to be adequate (Cohen et al., 2013). For the study, the minimum required requirement of 0.3 was met by factor loading for the dependent variable sub-variables that fit in components 1 and 2. The matrix in table 4.11 provides

the correlation between the variable and each of the retrieved parameters. In order to select the variables that make up each factor, the variable with the highest value in each row is picked to be a member of that factor. There are two sub-variables in factor 1, and there are two sub-variables in factor 2.

According to the study's findings, two components for the dependent variable were taken into account. Eigenvalues above 1.0 are necessary to meet the cut-off for the variable selection. The research's findings are presented in table 4.12, which demonstrates that the factors had eigenvalues greater than 1. Values above one were taken into account and understood as factors. In the data matrix, the two factors accounted for 64.590% of the variants. Roughly 36.253% of the variance is explained by component 1, and about 28.337% by component 2. According to the scree plot shown in Figure 4.2, a three-factor model should be enough. This is because, after the third factor, the curve levels out.

#### **4.7 Correlation Analysis**

The purpose of the study was to ascertain how the factors interacted with one another. Since the research was based on questionnaires with Likert scales, Spearman Rank correlation was deemed to be the most appropriate method. Table 4.13 presents the results of the correlation test.



**Table 4. 13: Spearman’s Rank Correlation results**

			IV1_Forensic _Investigatio ns	IV2_Forensic _Investigatio ns	IV3_Forensic _Investigatio ns	IV4_Co mputer Assisted _Revie ws	IV5_Co mputer Assisted _Revie ws	IV6_Fra ud Deterre nce_Ski lls	DV1_Inte grity of Financial _Stateme nts	DV2_Inte grity of Financial _Stateme nts
Spearman's rho	IV1_Forensic _Investigatio ns	Corr elati on Coef ficie nt Sig. (2- taile d) N	1.000	.151	-.088	-.107	-.077	.017	.102	.057
			.	.131	.382	.285	.446	.867	.311	.570
			101	101	101	101	101	101	101	101
	IV2_Forensic _Investigatio ns	Corr elati on Coef ficie nt Sig. (2- taile d) N	.151	1.000	.136	.271(**)	.032	-.178	.592(**)	-.231(*)
			.131	.	.176	.006	.753	.076	.000	.020

	tailed)								
	N	101	101	101	101	101	101	101	101
IV3_Forensic_Investigations	Correlation Coefficient	-.088	.136	1.000	-.030	.071	.108	.148	-.069
	Sig. (2-tailed)	.382	.176	.	.769	.483	.281	.139	.494
	N	101	101	101	101	101	101	101	101
IV4_Computer Assisted_Reviews	Correlation Coefficient	-.107	.271(**)	-.030	1.000	.023	-.186	.306(**)	.163
	Sig. (2-tailed)	.285	.006	.769	.	.821	.063	.002	.104
	N	101	101	101	101	101	101	101	101
IV5_Computer	Correlation	-.077	.032	.071	.023	1.000	.224(*)	.150	.219(*)

Assisted_Reviews	on Coefficient Sig. (2- tailed)	.446	.753	.483	.821	.	.024	.135	.028
	N	101	101	101	101	101	101	101	101
IV6_Fraud Deterrence_S kills	Corr elati on Coef ficie nt Sig. (2- tailed)	.017	-.178	.108	-.186	.224(*)	1.000	-.098	.076
	N	101	101	101	101	101	101	101	101
DV1_Integrit y of Financial_Sta tements	Corr elati on Coef ficie nt Sig. (2- tailed)	.102	.592(**)	.148	.306(**)	.150	-.098	1.000	-.102
	N	101	101	101	101	101	101	101	101
DV2_Integrit y of	Corr elati	.057	-.231(*)	-.069	.163	.219(*)	.076	-.102	1.000

Financial_Statements	on	Coef	ficie	nt	Sig.	(2-	taile	d)	N
		.570	.020	.494	.104	.028	.449	.308	.
		101	101	101	101	101	101	101	101
VIFs		1.139	1.079	1.099	1.163	1.079	1.045	N/A	N/A
Tolerance		.878	.927	.910	.860	.927	.957	N/A	N/A

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).



The study sought to establish the effect of forensics accounting techniques, computer-assisted reviews, and fraud deterrence skills on the integrity of financial statements of public sector entities in Kenya. It was concluded that computer-assisted reviews had a low positive correlation ( $R_h = .271$ ,  $Sig = .000 < .05$ ). This implies that the computer-assisted reviews explain 27.1% of the variability in the integrity of financial statements. Fraud deterrence skills had a low positive correlation ( $R_h = .224$ ,  $Sig = .000 < .05$ ). This was evidenced by the p-value of 0.000 which is less than the critical value of 0.05. This suggests that fraud deterrence skills explain 22.4% of the variability in the integrity of financial statements.

VIF measures how estimation accuracy is impacted by multicollinearity among the Xs in a regression model. It explains how much multicollinearity among the predictors affects the precision of an estimate. To evaluate any potential multicollinearity among the explanatory or predictive components, the VIF statistic is used. VIF is determined as  $(1/(1-R^2))$  for each of the equations with  $k - 1$  independent variables. The VIF of 1.139, 1.079, 1.099, 1.163, 1.079, and 1.045 were reported for IV1\_Forensic\_Investigations, IV2\_Forensic\_Investigations, IV3\_Forensic\_Investigations, IV4\_Computer Assisted\_Reviews, IV5\_Computer Assisted\_Reviews, and IV6\_Fraud Deterrence\_Skills. Since the VIFs were less than 5, then multicollinearity was not a problem among the independent variables in the study.

## **4.8 Ordinal (Ordered) Logistic Regression**

### *4.8.1 Forensic accounting services and their effect on the integrity of financial statements*

The relationship between the independent variables and the dependent variable was demonstrated using ordinal regression analysis. The outcomes of the ordered logistic regression for the integrity of the financial statements model are shown in Table 4.14. 101 observations were made in all, and no values were missed. To test the reliability and significance of the coefficients on the independent variables, both disaggregated (models 1-6) and aggregated (model 7) analyses were carried out. Results from the aggregated model 7 form the basis for much of the reporting and interpretation of the findings.

**Table 4. 14: Ordered Logistic Regression results - Integrity of Financial Statements**

<i>Dependent variable</i>	<i>Effect of forensic accounting services (the integrity of financial statements)</i>						
	<i>[1]</i>	<i>[2]</i>	<i>[3]</i>	<i>[4]</i>	<i>[5]</i>	<i>[6]</i>	<i>[7]</i>
<b><i>Independent variables</i></b>							
IV1_Forensic_Investigations	1.073*** (2.61)						-0.105 (-0.53)
IV2_Forensic_Investigations		0.356 (1.65)					0.883** *
IV3_Forensic_Investigations			-0.350 (-1.14)				0.620** *
IV4_Computer Assisted_Reviews				-2.266*** (-4.68)			0.382** *
IV5_Computer Assisted_Reviews,					0.425** (1.10)		0.425** (1.10)
IV6_Fraud Deterrence_Skills						1.075 *** (3.81)	0.242** (-0.41)
<b><i>Model specification</i></b>							
LR chi <sup>2</sup>	24.10	24.01	22.35	45.10	67.31	77.41	77.41
Prob > chi <sup>2</sup>	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pseudo R <sup>2</sup>	0.02	0.02	0.02	0.02	0.04	0.06	0.08
Log likelihood	-608.45	-603.50	-604.27	-588.01	-671.34	743.0	-811.85
Number of observations	101	101	101	101	101	1	101

Note: \*, \*\* and \*\*\* denote significance at the 10, 5 and 1 percent, respectively. z-values are in parentheses.

The results in Table 4.14, model 7 show that the coefficient on IV2\_Forensic\_Investigations is positive and highly significant at the 1 percent level (coefficient=0.883, z-value=-2.46). This means that performing forensics accounting techniques is useful in enhancing the integrity of financial statements. This implies that the implementation of robust forensics accounting techniques in the public sector is useful in abetting financial statements fraud from occurring. The genuine promotion of forensics accounting techniques both in appearance and in practice is also a useful mechanism towards abetting financial statements fraud in the public sector. Further, the

results in Table 4.14 model 7 show that the coefficient on the IV3\_Forensic\_Investigations is positive and highly significant at the 1 percent level (coefficient = 0.620, z-value = -4.44). This implies that conducting forensics accounting techniques in public sector entities is useful in mitigating financial statement fraud from occurring. The results also indicate that the coefficient on IV4\_Computer Assisted\_Reviews is positive at the 1 percent level (coefficient =0.382, z-value = -6.01). This shows that undertaking computer-assisted reviews in public sector entities is useful in curbing fraudulent activities from occurring. The results show that the coefficient on IV5\_Computer Assisted\_Reviews is positive at the 5 percent level (coefficient = 0.425, z – value = -1.10). This implies that conducting computer-assisted reviews in public sector entities is useful in curbing fraudulent activities from occurring. Finally, the results indicate that the coefficient on IV6\_Fraud Deterrence\_Skills is positive at the 1 percent level (coefficient =0.242, z-value = -0.41). This shows that application of fraud deterrence skills in public sector entities is useful in curbing fraudulent activities from occurring.

These observations are consistent with the quantitative findings that performing forensics accounting techniques, computer-assisted reviews, and applying fraud deterrence skills are useful in enhancing the integrity of financial statements.

The Prob, LR, and Pseudo R2 of Table 4.14's model definition demonstrated the reliability of the regression results. The statistical significance of the final model determines if there is a link between the independent variable and the dependent variable. The results are presented in Table 4.14, where the -2 Log Likelihood for the model with only the intercept is calculated as 77.41, and the -2 Log Likelihood for the model with the intercept and the independent variables is calculated as 0.000. Since the p-value is 0.000 and the difference (Chi-square statistics) is  $77.41 - 0.000 = 77.41$ , it is significant at  $\alpha = 0.05$ . This suggests that the complementary Log-log link function has a meaningful relationship between the dependent and independent variables. Because the model specification's pseudo-R-squared has a maximum value that is not 1, as shown by the probability value of 0.08, the entire model virtually accurately predicts the result. R-squared = 0.08 represents the likelihood that the model correctly predicted the outcome.

## 4.9 Chapter Summary

This chapter presented the research findings from the data collection. Correlation, ordered (ordinal) logistic regression, and descriptive statistics results are all presented in this chapter. Every variable's result, including means and standard deviations, are also presented. The outcomes and findings of the study are presented in tables throughout the chapter along with a detailed explanation for each table.



# **CHAPTER FIVE: DISCUSSION OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS**

## **5.1 Introduction**

This chapter presents the summary of the findings, conclusions, recommendations, and limitations of the study. The chapter presents the summary of the findings based on the objectives of the study. These were to determine whether forensics accounting techniques are appropriate in uncovering fraudulent financial statements among public sector entities in Kenya; to assess whether computer-assisted reviews are appropriate in uncovering fraudulent financial statements among public sector entities in Kenya; and to examine the extent to which fraud deterrence skills contribute to the uncovering of fraudulent financial statements among the public sector entities in Kenya. The chapter also presents the conclusions based on the findings, recommendations and finally, limitations of the study are listed.

## **5.2 Discussion of findings**

The findings are discussed in this section in light of the study's specific objectives. The study revealed that a significant relationship exists between forensic accounting services applications and the integrity of financial statements as the three forensic accounting services investigated have a positive relationship with the integrity of financial statements in public sector entities in Kenya. The study specifically showed that forensic investigation is veritable in enhancing the integrity of the financial statements of public sector entities. Also, the study highlighted the importance of computer-assisted review as it is also a veritable tool to enhance the integrity of financial statements of public sector entities. Thirdly, the study showed the importance of fraud deterrence skills in enhancing the integrity of the financial statements of public sector entities.

### **5.2.1 The appropriateness of forensics accounting techniques in uncovering fraudulent financial statements.**

The study established that the respondents were in agreement that public sector entities consist of critical thinkers that can discern fact from opinion and that public sector entities have a team with the required interviewing skills and can discern fact from fiction. The findings are in agreement with Bourke and Peurseem (2017) who conducted a study on “Detecting fraudulent financial reporting: Teaching the watchdog“ New tricks”. Specifically, the study sought to identify the role of forensics accounting techniques in abetting financial statement fraud. According to the findings, the use of multiple forensic investigation techniques was beneficial to auditors. Further, they recommended the use of interviewing skills to discern fact from fiction.

The study revealed that public sector entities have the ability to aim at financial contradictions that do not fit in the normal patterns of an assignment, and that public sector entities exercise professional skepticism of questioning management’s responses to financial information. The findings are in agreement with Dunn (2018) that examined the effect of insider influence on false financial reporting. Both descriptive and inferential statistics were used to analyze the data. According to their findings, fraud is more likely to occur in an autocratic setting where a select few managers (insiders) make the decisions and others are expected to bear the consequences. Further, it was shown that inaccurate financial information declaration can be averted by exercising professional skepticism of questioning management’s responses to financial information.

The study found that public sector entities can approach each situation with an unstructured approach and that public sector entities have the flexibility to move away from standardized audit procedures and thoroughly examine situations for typical warning signs. The findings agree with fraud diamond theory which provides that since directors, capable management, or officials may look for opportunities to present a positive image under the impression that the fraud can be covered up and corrected in subsequent reporting periods, they are always cornered, under pressure from declining revenues or earnings. Public sector entities have the flexibility to move away from

standardized audit procedures and thoroughly examine situations for typical warning signs which then helps in uncovering financial statements fraud.

### **5.2.2 The appropriateness of computer-assisted reviews in uncovering fraudulent financial statements.**

The study established that the respondents were in agreement that by using computer-assisted reviews, public sector entities can identify key issues in the financial statements and make changes and that public sector entities maintain analytical proficiency in all the accounting reviews. The findings agree with Adekoya et al. (2020) who investigated the use of computer-assisted reviews to combat tax fraud and tax evasion. The study, which employed an exploratory research design, concluded that computer-assisted reviews would reveal, control, and discourage fraudulent practices on tax revenue and enhance the integrity of financial statements while traditional auditing has failed to reduce tax fraud and tax evasion.

The study revealed that public sector entities conduct accounting reviews and have investigative flexibility on any unusual items, and that through computer-assisted reviews, public sector entities are able to examine what should be provided rather than what is provided. The findings agree with Kassem (2020) who conducted research on financial fraud and earnings management. For the study, a survey research design was used. The findings revealed that the organization's leadership's objectives led to fraud. Therefore, the only option left to auditors is to use computer-assisted reviews in order to examine the transactions that should be provided rather than what is provided. Additionally, he added, authorities must provide the auditors with a framework so they may fulfill their responsibilities of examining management's motivations for pursuing fraud.

The study found that public sector entities carefully examine unusual relationships identified through computer-assisted reviews and that public sector entities can tell the story of all the financial information. The findings are in agreement with Perols and Lougee (2018) who conducted research on the influence of earnings management on the probability of financial statement fraud. The study's obtained data were examined using Pearson Product Moment Correlation. According to their findings, "unusual relationships in the financial statements was

identified through computer-assisted reviews." Further, their findings revealed that "fraud firms are more likely to have managed earnings in prior years and that earnings management in prior years is associated with a higher likelihood that firms that meet or beat analyst forecasts or that inflate revenue are committing fraud."

### **5.2.3 The contribution of fraud deterrence skills in uncovering fraudulent financial statements.**

The study established that there's no policy in the public sector entities to report all fraudulent financial statement cases to the public and that public sector entities' response hotline does not act swiftly to anonymous tips. The findings disagree with Beest et al (2019) who conducted a study on the qualitative aspects that should characterize financial reports to be qualified as quality. According to their findings, there are proper policies in the public sector entities to report all fraudulent financial statements cases. Further, the study found that Relevance, Faithful representation, Understandability, Comparability of financial statements, and fraud deterrence skills should be considered while checking the integrity of financial statements.

The study revealed that the risk assessment process in public sector entities under forensic accounting does especially cover the risk of fraud and that there is a deliberate policy in public sector entities to prosecute all fraud perpetrators in court without fear of backlash. The findings are in agreement with Oriko (2016) who used the population of all companies listed on the NSE for his study to determine the efficacy of ratios in identifying financial statement fraud. The study used questionnaires for data collection and ANOVA for data analysis. According to the results, financial ratios, fraud deterrence skills, and organizations' ability to identify fraud are positively correlated.

The study found that public sector entities' deterrence skills are enabled to detect loose internal controls in the entities' operations and that public sector entities' deterrence skills are enabled to detect all possible collusion between employees and others in the business transaction. The findings are in agreement with Kamau (2016) who aimed to assess how management practices in firms listed on the NSE affected creative accounting. The study used a mixed research approach

with a cross-sectional, descriptive, and informal design. According to the study's findings, innovative accounting is uncovered when fraud deterrence skills are enabled to detect all possible collusion in business transactions.

#### **5.2.4 The effect of forensic accounting services on the integrity of financial statements.**

The study established that the respondents were in agreement that there's no policy in the public sector entities regulating the frequency of staff going on vacation and that there's no policy to show how long a staff spends in a given department in the public sector entities. Further, the study found that public sector entities' internal controls function enables effective monitoring of employees via telephones and associates and finally that there's no policy regulating gratification to staff from customers of the public sector entities. This implies that the application of forensic accounting services can enhance the integrity of financial statements among the public sector entities in Kenya.

The Ordinal (Ordered) Logistic Regression results presented in Table 4.14 revealed a positive and significant relationship between forensics accounting techniques, computer-assisted reviews, and fraud deterrence skills, and the integrity of financial statements of public sector entities. This is evidenced by their correlation coefficients of 0.883, 0.382, and 0.242 and their probability values of 0.000, 0.000, and 0.000. The result implies the application of forensic accounting services in the operations of public sector entities has a strong association with the integrity of financial statements in those entities. This confirms the various studies on the impact of forensic accounting services on the integrity of financial statements.

### **5.3 Conclusions**

The study sought to determine whether forensics accounting techniques are appropriate in uncovering fraudulent financial statements among public sector entities in Kenya. The study found that forensic investigation is statistically significant to the integrity of financial statements in public sector entities. The study further found that forensics accounting techniques had a positive relationship with the integrity of financial statements in public sector entities. Therefore, based on

the findings of the study, the study concluded that enhancing forensics accounting techniques by a single unit would lead to an increase in the enhancement of the integrity of financial statements in public sector entities.

The study examined whether computer-assisted reviews are appropriate for uncovering fraudulent financial statements among public sector entities in Kenya. According to the findings, computer-assisted reviews are statistically significant to the integrity of financial statements in public sector entities. The study further found that computer-assisted reviews had a positive relationship with the integrity of financial statements in public sector entities. Therefore, based on the findings of the study, the study concluded that enhancing computer-assisted reviews by a single unit would lead to an increase in the enhancement of the integrity of financial statements in public sector entities.

The study sought to determine the extent to which fraud deterrence skills contribute to the uncovering of fraudulent financial statements among the public sector entities in Kenya. According to the findings, fraud deterrence skills are statistically significant to the integrity of financial statements in public sector entities. The study further found that fraud deterrence skills had a positive relationship with the integrity of financial statements in public sector entities. Therefore, based on the findings of the study, the study concluded that enhancing fraud deterrence skills by a single unit would lead to an increase in the enhancement of the integrity of financial statements in the public sector entities.

The study sought to determine the effect of forensic accounting services on the integrity of financial statements of public sector entities in Kenya. The study found that forensic accounting services are statistically significant to the integrity of financial statements of public sector entities in Kenya. It was further established that forensic accounting services had a positive relationship with the integrity of the financial statements of public sector entities. Therefore, based on the findings, the study concludes that increasing forensic accounting services by a single unit would lead to an increase in the integrity of financial statements in the public sector entities in Kenya.

Finally, the three forensic accounting services studied; forensics accounting techniques, computer-assisted reviews, and Fraud deterrence skills are significant and positively related to the integrity of financial statements of public sector entities with a probability value ( $p = 0.000$ ) at a 0.05 percent significance level. The result reveals that every one percent increase in forensics accounting techniques, computer-assisted reviews, and fraud deterrence skills will lead to 88.30 percent, 38.20 percent and 24.20 percent respectively in the integrity of financial statements of public sector entities.

## **5.4 Recommendations**

The study makes the following recommendations considering the observations and results that the use of forensic accounting services has the ability to strengthen the integrity of financial statements of public sector entities and the apparent flaws highlighted.

### **5.4.1 Policy recommendations**

As a matter of regulatory policy, all public sector organizations ought to be required to equip their internal audit departments with reliable computer-assisted review software and to train all their employees on fraud deterrent techniques. There should be human capacity building through staff training in information technology systems when public sector organizations use technology.

An integral aspect of policy reforms is a re-evaluation of how technologies of government such as accounting and auditing can be strengthened or made effective to function in ways that would lead to the achievement of integrity of financial statements.

The reforms will result in the enlistment of forensic accounting services as the preferred means of combating government sector fraud which is identified as an impediment to economic progress in Kenya. While perceived as apparently neutral and objective, forensic accounting services, like other accounting regimes of practice, has a potential to render partial visibility. Without a careful appreciation of how it functions in various contexts, its enlistment may simply serve the interests of particular actors in the policy-making sphere.

#### **5.4.2 Managerial recommendations**

It is appreciated globally and even nationally that most fraud cases are discovered through tips by employees. In this spirit, all public sector organizations should establish an anonymous effective response hotline, and should incorporate at least two or three reporting mechanisms. Widespread public awareness campaigns should also be conducted on them. Additionally, there are features that will record reports of anomalous or dubious supervisory overrides, fraudulent transactions, transactions with no apparent reason, and situations where transactions are executed in an account.

#### **5.4.3 Recommendations for further research**

The scope of the study might be broadened to include more Kenyan public sector organizations especially those that are non – commercial, as well as comparison studies to ascertain the impact of forensic accounting services on the accuracy of those organizations' financial statements. Although the study concentrated on forensic accounting services, future research may examine other pertinent fraud control components in order to gain a wider and deeper understanding of other characteristics that may be crucial for improving the integrity of financial statements.

#### **5.5 Limitations of the study**

Arising from the analysis of participants' responses, many public sector entities' staff are ignorant of what computer-assisted reviews are all about and so they were on the fence in their responses to the belief questions put across to them. The study focused on seven entities of the public sector entities only due to limited time and resources. Also, from the analysis of participants' responses, there is limited awareness of forensics accounting techniques as a tool that can be employed to enhance the integrity of the financial statements of public sector entities.

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## APPENDICES

### APPENDIX 1: LETTER OF INTRODUCTION

**Marleen Mwange Magetto**  
Strathmore University,  
Strathmore Business School  
P.O. Box 59857 – 00200,  
**Nairobi.**

Dear Sir or Madam,

#### **RE: REQUEST FOR RESEARCH DATA COLLECTION**

I am a final-year Master of Commerce student at Strathmore University. I am currently researching The Effect of Forensic Accounting Services on the Integrity of Financial Statements within the Public Sector Entities in Nairobi. My master's degree will be completed with the help of this study.

I humbly ask for your cooperation in this research. I pledge to keep all information supplied in this study totally secret and to use it exclusively to further this study's objectives.

To ensure perfect confidentiality, I humbly ask that you do not write your name on the form. We would be very grateful for your involvement and assistance in this study.

Thank you very much,

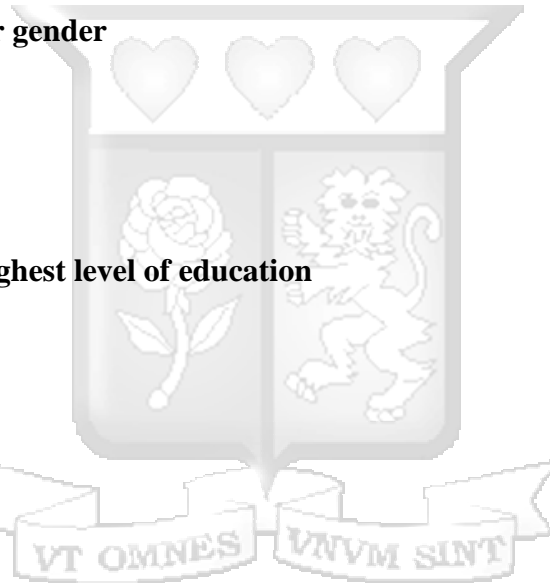
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**Marleen Mwange Magetto**

**PART A: RESPONDENTS' BACKGROUND**

This research questionnaire sought to establish the effect of forensic accounting services on the integrity of financial statements among the public sector entities in Nairobi County. The study is strictly for academic purposes.

*Please Tick and fill where appropriate*

**SECTION A: BACKGROUND****1. Please indicate your gender**Male Female **2. Please state your highest level of education**Post graduate degree Undergraduate degree Diploma Certificate **3. Please select the age bracket you belong to**20 - 30 31 - 40 41 - 50 Above 51 Years **4. Do you feel the integrity of financial statements is a key concern?**Yes No 

**SECTION B:**

**FORENSICS ACCOUNTING TECHNIQUES**

5. This section assesses the extent to which your company is involved in the application of forensic audit, investigations, and interviewing skills. Please indicate your level of agreement with the statements below where (1) – Strongly Disagree, (2) – Disagree, (3) – Neutral, (4) – Agree, (5) – Strongly Agree

	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
Our company has the ability to aim at financial contradictions that do not fit in the normal patterns of an assignment.					
Our Company has a team with the required interviewing skills and can discern fact from fiction.					
Our Company consists of critical thinkers that can discern fact from opinion.					
In our firm we exercise professional skepticism of questioning management’s responses on financial information.					
In our company, we have the ability to approach each situation with unstructured approach.					
In our company, we have the flexibility to move away from					

standardized audit procedures and thoroughly examine situations for a typical warning signs.					
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## COMPUTER-ASSISTED REVIEWS

6. This section assesses the extent to which your company is involved in computer assisted reviews and accounting reviews. Please indicate your level of agreement with the statements below where (1) – **Strongly Disagree**, (2) – **Disagree**, (3) – **Neutral**, (4) – **Agree**, (5) – **Strongly Agree**

	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
In our company, through the computer assisted reviews, we can examine what should be provided rather than what is provided.					
In our company, we carefully examine unusual relationships identified through computer assisted reviews.					
In our company, we conduct accounting reviews and have investigative flexibility on any unusual items.					
Our company maintains an analytical proficiency in all the accounting reviews.					

Using computer assisted reviews, we identify key issues in the financial statements and make changes.					
Through the computer assisted reviews, we can tell the story of all the financial information.					

### FRAUD DETERRENCE SKILLS

7. This section assesses the extent to which your company is involved in fraud prevention, detection, and deterrence skills. Please indicate your level of agreement with the statements below where (1) – **Strongly Disagree**, (2) – **Disagree**, (3) – **Neutral**, (4) – **Agree**, (5) – **Strongly Agree**

	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
There's no policy in our company to report all fraudulent financial statement cases to the public					
There is no deliberate policy in our company to prosecute all fraud perpetrators in court without fear of backlash.					
The risk assessment process under forensic accounting does specially cover risk of fraud.					
Our company's response hotline does not act swiftly to anonymous tips					
Our company's deterrence skills is enabled to detect all possible					

collusion between employees and others in the business transaction.					
Our company's deterrence skills is enabled to detect loose internal controls in the company operations.					

**PART C: INTEGRITY OF FINANCIAL STATEMENTS.**

8. This section assesses the integrity of your company's financial statements as measured by an effective internal control function and competent management and staff. Please indicate your level of agreement with the statements below where (1) – **Strongly Disagree**, (2) – **Disagree**, (3) – **Neutral**, (4) – **Agree**, (5) – **Strongly Agree**

	<b>Strongly Disagree (1)</b>	<b>Disagree (2)</b>	<b>Neutral (3)</b>	<b>Agree (4)</b>	<b>Strongly Agree (5)</b>
Our internal controls function enables effective monitoring of employees via telephones and associates.					
There's no policy regulating the frequency of staff going on vacation					
There's no policy regulating gratification to staff from customers.					
There's no policy to show how long a staff spends in a given department.					

**Thank you for taking the time to complete this survey**

**APPENDIX 3:**

**LIST OF ENTITIES IN THE SAMPLE**

**NO. ENTITY**

- 
- |   |         |
|---|---------|
| 1 | KENGEN  |
| 2 | KPLC    |
| 3 | KETRACO |
| 4 | KEMSA   |
| 5 | KLB     |
| 6 | KPC     |
| 7 | KRC     |
| 8 | OAG     |
- 

**Source:** Public Sector Entities Portal





2<sup>nd</sup> February 2023

Ms Magetto Marleen,  
marleen.magetto@strathmore.edu

Dear Ms Magetto,

**RE: Effect of Forensic Accounting Services on the Integrity of Financial Statements of Public Sector Entities in Kenya**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU master's** research proposal. Your application reference number is **SU-ISERC1532/22**. The approval period is from **2<sup>nd</sup> February 2023 to 1<sup>st</sup> February 2024**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, and MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise, that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.


Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.


Yours sincerely,

for: **Dr Ben Ngoye,**  
**Secretary; SU-ISERC**

**Cc: Prof Fred Were,**  
**Chairperson; SU-ISERC**




  
**REPUBLIC OF KENYA**

  
**NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **863145** Date of Issue: **21/February/2023**


**RESEARCH LICENSE**




**This is to Certify that Ms.. Marleen Magetto of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Effect of Forensic Accounting Services on the Integrity of Financial Statements of Public Sector Entities in Kenya for the period ending : 21/February/2024.**

License No: **NACOSTI/P/23/23600**

**863145**  
Applicant Identification Number

  
Director General  
**NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY &  
INNOVATION**

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