

Determinants of Effective Fraud Management: A Survey of Domestic Tier One Commercial Banks in Trans Nzoia County, Kenya.

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Abstract- The purpose of the study was to analyze the determinants of effective fraud management in domestic tier one commercial banks in Trans Nzoia County. The analysis was focused on the domestic tier one commercial banks in the County as the population of the study. The study was guided by the following objectives; to analyze the effect of the independence of the internal audit personnel, the competence of the internal audit personnel, the presence of the internal audit charter and the management support as determinants of effective fraud management in the domestic tier one commercial banks. The study was guided by the agency theory, the fraud management lifecycle/theory and the communication theory. A correlation research design was adopted in which an in-depth study of the determinants of effective fraud management was carried out from the target population of the senior management staff and the internal audit personnel in the domestic tier one commercial banks in the County. The survey targeted departmental heads in the banks by employing census method. The source of the required data was through the questionnaires, covering both qualitative and quantitative data, administered to the target population by the researcher. The questionnaire was designed for data collection and eventual analysis by both the regression tools and ANOVA using the Statistical Package for Social Sciences (SPSS) version 22. A multiple correlation coefficient and regression analysis together with the ANOVA test were carried out to establish the relationship between the independent variables and dependent variable. The findings revealed that the regression effect is statistically significant and indicated an accomplished prediction of the dependent variable, better than if done through chance through the F calculated ($F = 12.2896$) which was greater than 5% level of significance that showed the overall model was significant where the Internal Audit Independence explained 11% of EFM, Competence of Internal Auditor Personnel 46% of EFM, Presence of Internal Audit Charter 12% of EFM, and Management Support explained 16% of EFM within the domestic tier one commercial banks. However, Competence of Internal Audit Personnel was the most significant predictor (determinant) of EFM at 46% with ($\beta = 0.086$). The results are expected to contribute to the existing body of knowledge for the crucial role of internal audit function in the banking industry as well as forming a basis for scholars who may want to study issues related to effective fraud management in the banking sector. They are further expected to help in revealing key issues that help improve the success of internal audit

section within commercial banks, and also help unearth the fundamental issues related to Internal Audit management in the banking sector.

Index Terms- Fraud, Occupational fraud, domestic tier one commercial banks,, bank fraud, financial statements

1.1 Background of the study

In the recent past, the banking sector in Kenya and in the region has been going through tough times due to varied reasons from one bank to another. Of common interest have been questionable unqualified audit reports for the affected banks. In Kenya, about three banks have been affected within a period of twelve (12) months. The underlying denominator in these three banks was the element of fraudulent dealings within the banks that seem not to have been detected or simply compromised by the internal audit team.

Ernst and Young (2009) defines fraud as an act of deliberate action made by an entity, knowing that such action can result in a possession of unlawful benefits. Fraud is any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage, specifically, a misrepresentation or concealment with reference to some fact material to a transaction that is made with knowledge of its falsity, and or in reckless disregard of its truth or falsity and worth the intent to deceive another and that is reasonably relied on by the other who is injured thereby (Merriam Webster's Dictionary of Law (1996) *as quoted in* Manurung and Hadian (2013). Fraud is an intentional act of individuals among management, employees or third parties who produce errors in financial reporting in favor of their personal desires. It can also be considered as any deliberate misrepresentation, concealing and negligence of a truth to manipulating the financial statement at the expense of the firm (Adeneji 2004; ICAN 2006; as quoted by Oluwagbemiga, 2010). ACFE (2010) sub divide fraud into occupational and financial fraud. Occupational fraud is the process of using one's occupation or responsibility to satisfy his personal interest by enriching himself through the deliberate abuse of power, which includes deliberate mismanagement, and misrepresentation of organizational resources (fixed and current assets) (ACFE, 2010). Financial fraud covers various categories of financial crime and other types of occupational frauds such as embezzlement across all sectors in different economies in the world (Duffield and Grabosky, 2001; Levi, 2008; ACFE,

2010; Kanali *et al*, 2013). On the other hand, bank fraud is a criminal act that occurs when a person uses illegal means to receive money or assets from a bank or other financial institution. According to Agwu (2014), based on the relation of the perpetrator to the bank, fraud is classified as external (perpetrated by a customer or other third party) or internal (perpetrated by staff or management). Fraud is classified as internal in the case of collaboration of internal and external parties. Banking fraud therefore is divided into this two main categories i.e. External and internal fraud. Examples of external fraud are credit and debit cards transactions, or theft done using automated teller machines to obtain cash in advance. Internal fraud, or otherwise called occupational fraud and abuse, relates to employees who can steal cash or inventory from the company or from other employees, or allowing other staff to steal (Moh'd *et al*, 2013).

The banking sector in Kenya has recently witnessed adverse development incidents which caused short periods of panic in the sector. Of particular mention is the placement under statutory management of Imperial bank in October 2015. Imperial Bank is a mid-tier bank (ranked 17th) with a market share of 1.8% and an asset base of KS 70.33 Billion (CBK, June 2015). These problems are most likely caused by weak internal control systems in the sector. Coincidentally, this development affects the entire banking sector, including the tier one banks, because the customers are not even aware of the rankings in the sector. They therefore tend to think that the sector is on a downward trend, thereby causing the panic.

For internal auditors to perform their roles effectively, it requires an IA independence from management to enable unrestricted evolution of management activities and personnel. Although internal auditors are part of the company management and are remunerated by the company, the primary customer of the internal audit activity is the entity charged with the oversight of management activities. This is the audit committee, a sub-committee of the Board of Directors (Kimani, 2007). Internal audit activity is primarily directed at improving internal controls. Internal Controls may be defined as processes effected by an entity's Board of Directors, management and other personnel designed to provide a reasonable assurance regarding the achievement of objectives (Masters, 2002). According to Kigen (2006), Internal Auditing is an independent objective assurance and a consulting activity designed to add value and improve an organization's operations. It enables an organization to achieve its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. Internal auditing plays an important role in fraud management. Under the Sarbanes Oxley Act, companies are required to perform a fraud risk assessment and assess related controls. This typically involves identifying scenarios in which theft or loss could occur and determine if existing control procedures effectively manage the risk to an acceptable level (Barros, 2004).

1.2 Statement of the problem

The symptoms of poor internal controls increase the likelihood of frauds in bank branches. Internal control symptoms include a poor control environment, lack of segregation of duties, lack of physical safeguards, lack of independent checks and balances, lack of proper authorizations, lack of proper documents and records, the overriding of existing controls, and an inadequate accounting systems ((Agwu, 2013).

As with any other nation, Kenya and the East African region has not been spared with own cases of corporate unethical practices, financial frauds and scandals. Financial institutions, in the region, for the recent past have been going through difficult fraud revelation times. PricewaterhouseCoopers in a study conducted in 2011 reported that the surge in banking fraud in Tanzania was due to "disgruntled or disillusioned employees who are usually young and more tech-savvy than their superiors

The Kenyan media has been awash with news of how banks are losing billions of shillings every year to fraudsters. Figures from the Banking Fraud and Investigations Department (BFID) of the Central Bank of Kenya indicate that significant amounts are actually lost by banks each year in Kenya. This analysis has been supported by the report that between 2011 and 2012, financial institutions in east Africa lost USD 48.3 million in fraud related cases (Nyamu, 2012). From this report, Kenya recorded the highest percentage of 39% with Uganda following closely with 31% of the total amount lost through fraud practices. Of the total fraud reported cases from 2009 to 2012, 28.07% was electronic fraud, computer fraud 8.77%, loan fraud 36.84%, embezzlement 15.79% and cheque fraud 10.53% (CBK, 2012).

It was imperative to point out clearly that most commercial bank frauds are reported at branches making them the main sources of bank frauds. The study therefore sought to analyze the determinants of effective fraud management in domestic tier one commercial banks in Trans Nzoia County, Kenya.

1.3 Objectives

1.3.1 Overall Objective

The overall objective of the study was to analyze the determinants of effective fraud management in domestic tier one commercial banks in Trans Nzoia County.

1.3.2 Specific objectives

- i) To analyze the effect of the internal auditors' independence on effective fraud management in domestic tier one commercial banks in Trans Nzoia County.

- ii) To analyze the effect of competent internal audit personnel on effective fraud management in domestic tier one commercial banks in Trans Nzoia County..
- iii) To analyze the effect of the availability of the internal audit charter on effective fraud management in domestic tier one commercial banks in Trans Nzoia County..
- iv) To analyze the effect of management support to internal auditors on effective fraud management in domestic tier one commercial banks.

1.5 Research Hypotheses

The study carried out the following directional hypotheses.

- H₀₁:** The internal auditors' independence does not have a significant effect on effective fraud management in domestic tier one commercial banks.
- H₀₂:** The competence of the internal audit personnel does not have a significant effect on effective fraud management in domestic tier one commercial banks.
- H₀₃:** The availability of the internal audit charter does not have a significant effect on effective fraud management in domestic tier one commercial banks.
- H₀₄:** The management support does not have a significant effect on effective fraud management in domestic tier one commercial banks.

a. LITERATURE REVIEW

2.1 Introduction

This chapter described the conceptual framework, review of the empirical and theoretical literature based on early research work. Internal control systems have an essential role to play in a firm's effective fraud management. All commercial banks should strive to improve their internal control systems, internal audit function and organization commitment for effective fraud management.

2.2 Theoretical Framework

Bridgman (2010) defines a theory, in Encyclopedia Britannica, as a systematic ideational structure of broad scope, conceived by the human imagination that encompasses a family of empirical (experiential) laws regarding regularities existing in objects and events, both observed and posited. It further states that a scientific theory is a structure suggested by these laws

and is devised to explain them in a scientifically rational manner.

2.2.1 Agency Theory

Agency relationship is as a contract among the owners of the organization and its top management. Management in this case is agents performing delegated authority from the owners. The management may decide to misuse this delegated authority for personal interests. Audit committees and the external and internal auditors exist to ensure that the organizational performance is enhanced and that the management carries out its plans according to procedures (Hanefah and Endaya, 2013). Internal auditors are agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management (Peurseem and Pumphrey, 2005; *as quoted by* Hanefah and Endaya, 2013). Agency problems could occur due to the existence of inefficiency in the board or its audit committee. This will lead to senior management being a powerful influence over the internal audit which eventually creates an inherent dilemma for the internal audit department leading to the failure of the internal audit systems. Internal auditors, as much as they are employs of senior management, are also agents of the board and audit committee. However, their varying motives may lead to their actions being against the board of directors' interests and its audit committee. These motives include financial rewards from managers, personal relationships with them, and the power of senior management in shaping the future position of internal auditors and their salaries. This kind of environment, to internal auditors as agents, may have an incentive to the bias of information flows. This situation leads to new concerns of the board and audit committee about their trust on the internal auditors' objectivity.

It is paramount in this case to ensure that the Internal auditors as agents perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Internal audit personnel with such requirements and the existence of training programs would increase the confidence level in their advice on the installation and eventual use of internal control systems in among other roles, effective fraud management (Hanefah and Endaya, 2013).

The bank stakeholders evaluate the internal control system (SOX, Section 404, 2002), by depending on the internal audit department. Internal auditors should collect sufficient and reliable evidences to support their assessment of the internal control system. The presence of an effective audit committee in domestic tier one commercial banks enhances internal audit independence which reduces senior management interferences either in internal audit scope or its performance. For example, an audit committee as the absolute authority for appointment and removal of the chief audit executive can help solve senior management's influence over the future employment and salaries of internal auditors (Stewart and Subramanian, 2010).

2.3 Conceptual Framework

The study will be based on the determinants of effective fraud management in domestic tier one commercial banks in Trans Nzoia County. The Conceptual Framework shows the relationship between the dependent and independent variables. This explains the relationship between the determinants (independent variables) of effective fraud management (dependent variable) in the domestic tier one commercial banks. The Conceptual Framework for the study is as shown below:

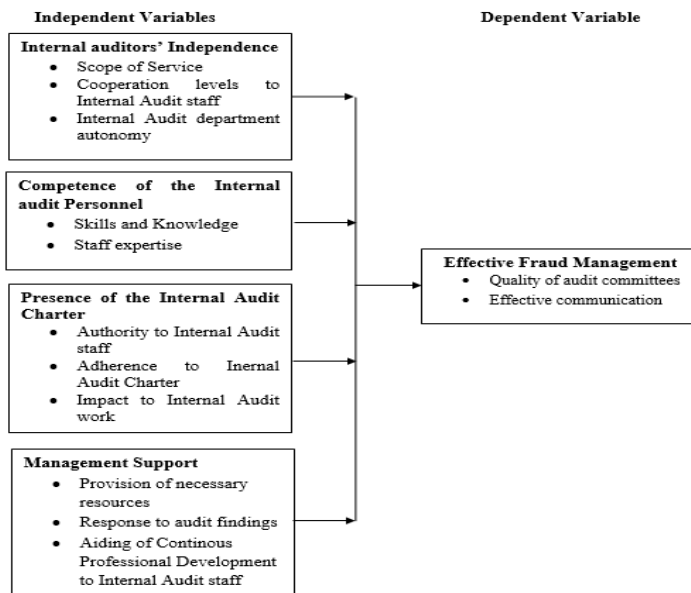


Figure 2.1: The conceptual frame work

2.4.2 Effect of competent internal audit personnel on effective fraud management in domestic tier one commercial banks

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (Hailemariam, 2014). Hailemariam (2014) further states that the competency of internal audit is a critical determinant of ICS and the absence of this auditors' competency contributes to lack of quality by internal auditors.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajjry et al, 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The IIA standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies needed to perform their

responsibilities (IIA, 2001). Additionally, the critical dimension of IAF is the quality of its internal auditing staff measured in terms of internal auditors' skill (Seol et al, 2011). The Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor.

The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. An internal auditor must possess highly developed communication skills to become a successful professional. The development of these skills not only enhances the auditor's potential, but also improves the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development (CPD) and compliance with audit standards. According to Fraser & Lindsay (2004), "they should pass the CPA examination; they should stay abreast of current developments in finance, accounting, auditing, and tax matters. In fact, an increasing number of jurisdictions now require CPAs to engage in continuing education to maintain their right to practice". Groveman, (2006) states that, the success of any profession may depend on three main points as follows; advanced information, continuous professional education, and minimum levels of professional qualification.

Dunk (2002) points out the qualities of a prudent auditor, stating that "a prudent practitioner is assumed to have knowledge of the philosophy and practice of auditing, to have the degree of training, experience and skill common to the average independent auditor". Auditors should also have the ability to recognize indications of irregularities, and to keep abreast of developments in the preparation and detection of the irregularities.

The IIA's code of ethics requires, and leading practices dictate, that internal auditors engage in those services for which they have the necessary knowledge, skills, and experience; perform duties in accordance with the set standards; and continually improve their proficiency and effectiveness. The standards require that internal auditors and the internal audit activity collectively possess or develop the knowledge, skills and other competencies necessary to perform their responsibilities. Competent and professional internal audit staff, in particular those that adhere to the standards, can help ensure the internal audit activity's success (Chan, Ezzamel and Gwilliam, 2009).

Human resource policies and practices include hiring and staffing, orientation, training (formal and on-the job) and education, evaluating and counseling, promoting and compensating, and remedial actions. An important aspect of

internal control is personnel. Competent, trustworthy personnel are necessary to provide effective control. Therefore, the methods by which persons are hired, trained, evaluated, compensated and promoted are an important part of the control environment in an organization. Hiring and staffing decisions should therefore include assurance that individuals have integrity and the proper education and experience to carry out their jobs and that the necessary formal, on-the-job, and ethical training is provided (Dechow, Sloan and Sweeney, 1996).

Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Belay 2007; Leung and Cooper, 2009; Cohen & Sayag, 2010). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the Internal Audit department to do its duties.

Research Methodology.

3.2 Research design

The study adopted a correlation research design. A correlation research design is where variables are measured, without being manipulated, and then data is analyzed to determine whether the variables are related. The information provided was used to generalize the findings of the study.

3.3 Target Population

The data collection was conducted based on a survey from the selected domestic tier one commercial banks in the county. It is imperative to mention that all the domestic tier one commercial banks in Trans Nzoia County are branches headquartered in Nairobi (CBK, 2012). These bank branches on average operate nine (9) departments namely, though branch naming is not uniform; Customer experience, Micro banking, Business banking, Personal banking, Cash, Operations banking, Credit Administration, Bancassurance and Agent banking, with Cooperative bank having different type of services from the other two banks that average eight (8) departments. All the departmental heads and the overall Managers in the three (3) domestic tier one commercial banks was the target for data collection. Ten (10) internal auditors and their overall manager of the domestic tier one commercial banks were also supplied with the questionnaires for the research.

3.4 Sampling Frame

Sampling frame is an objective list of population from which the researcher can make a selection (Kothari, 2004). The sampling frame comprised of senior departmental managers in the branch departments together with the internal audit staff in the three (3) domestic tier one commercial banks in Trans Nzoia County. The number of auditors was larger than that of departmental managers in each of the commercial banks

because the study was majoring on effective fraud management which is one of the key roles performed by the internal audit department.

Table 3.1: The sampling frame

	BANK NAME	Senior Management	IA Personnel	TOTAL
1	Kenya Commercial bank	19	11	30
2	National Bank of Kenya	17	11	28
3	Equity Bank	19	11	30
	TOTAL	55	33	88

3.5 Sampling Techniques and Procedures

Namusonge(2009) says that the sample ought to be carefully selected to represent the population adequately with the researcher ensuring that the subdivisions entailed in the analysis are accurately catered for.

A census method was adopted because the study targeted a population of eighty eight (88) respondents which is less than a hundred respondents, which is the minimum number above which sampling technique is to be used. Questionnaires were delivered to all the targeted respondents in the domestic tier one commercial banks in Trans Nzoia County for data collection.

3.9 Data Analysis and Reporting

The study generated both quantitative and qualitative data using the questionnaire that had both open-ended and closed-ended questions. According to Macharia (2012) content/data analysis is the process of analyzing verbal or written communications in a systematic way in order to measure variables qualitatively. Descriptive statistics such as frequencies, percentages, and regression and correlation analysis were used in data analysis. Correlation was used to analyze how the independent variables inter-relate while the regression model summary used to analyze the effects of independent variables to the dependent variable (Kothari, 2004). The Statistical Package for Social Sciences (SPSS) version 22 was used due to its comprehensive and extensive data handling capacity.

The following regression equation was used;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i$$

Where:-

- Y - Effective Fraud management
- X₁ - The internal auditors' independence,
- X₂ - The competent internal audit personnel,

- X_3 - The existence of internal audit charter.
- X_4 - The Management Support.
- β_0 - Is a constant, representing the fraud management when every independent variable is zero.
- β_1, \dots, β_4 - Are the coefficients, in which every marginal change in variables/determinants affects fraud management correspondingly.
- ϵ_i - The error term or Noise

number & skills match the scope of the banks' internal operations, 86.67% respondents strongly agreed while 13.33% of the respondents agreed to the same. The final question was on whether the work of internal audit is performed with modern technology that uses computerized data tools and specific internal audit software, all the respondents strongly agreed to this question by saying that indeed the banks had fully computerized the internal audit operations and new and up to date data tools had been acquired.

4.9 Relationship between variables

A regression equation was used in stats to find out what relationship, if any, exists between sets of data (independent variables and the dependent variable). Regression is useful as it allows you to make predictions about data.

RESEARCH FINDINGS AND DISCUSSION

4.2.1 Response Rate

The questionnaires were distributed to eighty eight (88) respondents, the senior managers and the internal auditors from the three domestic tier one commercial banks in Trans Nzoia County, from which eighty four (84) respondents responded while Four (4) were incompletely filled thus deemed not fit for study analysis. This represented a 95.45% response rate which is a good response rate and within acceptance levels.

4.2.2 Respondents Profile

The findings regarding the respondents' age, sex, field of study and level of education for both the senior managers and the internal auditors were then tabulated as shown in table 4.1 below. The respondents; senior managers 64.81% were male and 35.19% were female, the internal auditors, 77% were male and 23% were female. The findings indicate that there were more males in both categories. It is also clear that females are more in senior management compared to their numbers in the internal audit department.

4.4.2 Effect of competent internal audit personnel on effective fraud management

The study sought to establish the effect of competent internal audit personnel on effective fraud management in domestic tier one commercial banks in Trans Nzoia County.

The results indicated that 96.67% of the respondents strongly agreed, while 3.33% were neutral on whether the banks have sufficient skilled internal auditors with most of them having certification in auditing. On whether it is possible to audit and review each activity on time while covering the planned scope of auditing activities, 83.33% strongly agreed, 10.00% agreed, while 6.67% remained neutral in their response. The respondents' results on whether their banks encourage the internal audit department to implement recommendations, promote value-added activities and strength internal audit function, all the respondents strongly agreed that indeed this usually is the position in their respective domestic tier one commercial banks. On whether the internal audit staff

Inferential statistics was carried out using regression model to establish the effect of the internal auditors' independence, competent internal audit personnel, existence of internal audit charter and Management Support on effective fraud management. The regression model established how and to what extend the independent variables explained the dependent variable. The study regressed Effective Fraud Management (Y) and the predictor (independent variables) variables and the results are as shown in table 4.13 below.

Table 4.13 ANOVA

Model	Sum of Squares	DF	Mean Square	F	Sig.
Regression	403.11	4	100.78	12.29	.0000 ^b
1 Residual	366.67	80	4.585		
Total	769.78	84			

- a. Dependent Variable: Effective Fraud Management
- b. Predictors: (Constant), Internal Audit Independence, Competence of Internal Audit Personnel, Presence of Internal Audit Charter and Management Support

From the table 4.13 above, the significance value is 0.0000 which is less than 0.05, hence the model was considered statistically significant in predicting how the independent variables predict the dependent variable. The regression effect is statistically significant indicating that the prediction of the dependent variable is accomplished better than if done through chance. The F calculated (F =12.2896) which is greater than 5% level of significance showing that the overall model was significant.

The results further indicated that Internal Audit Independence explained 11% of EFM, Competence of Internal Auditor

Personnel 46% of EFM, Presence of Internal Audit Charter 12% of EFM, and Management Support explained 16% of EFM within the domestic tier one commercial banks. Therefore the regression equation was formulated as

$$Y = 1.148 X_1 + 0.465X_2 + 1.203X_3 + 1.621X_4 + \varepsilon_i$$

This meant that a unit increase in the value of the internal auditors' independence would lead to 1.148 increase in EFM level, a unit increase in the value of competence of internal audit personnel would lead to 0.465 increase in EFM level, a unit increase in the existence of internal audit charter would lead to 1.203 increase in EFM level and a unit increase in the Management Support would lead to 1.621 increase in EFM levels within the domestic tier one commercial banks.

4.10 Hypothesis testing

Hypothesis testing is the process by which a testable belief or opinion is tested by statistical means (Namusonge, 2009). It is the use of statistics to determine the probability that a given hypothesis is true. The regression analysis whose results are presented in table 4.7 above provides a comprehensive analysis of the hypothesis testing in the study. The regression results obtained from the model were utilized to test these hypotheses. The hypotheses sought to test for a significant influence of internal auditors' independence (IAI), competence of the internal audit personnel (CIAP), presence of the internal audit charter (PIAC) and the management support (MS) on effective fraud management in domestic tier one commercial banks. From table 4.7 above the p value for (PIAC) is statistically significant at ($p < 0.01$) which suggests a strong support for hypothesis H_{03} ; whereas, hypothesis H_{01} , H_{02} and H_{04} for (IAI), (CIAP) and (MS) are not supported by the developed hypothesis, it was statistically insignificant at ($p < 0.05$). The following hypotheses tests were conducted based on the regression results of effective fraud management obtained from the regression output.

H_{02} : The competence of the internal audit personnel does not have a significant effect on effective fraud management in domestic tier one commercial banks.

The second hypothesis of this research revealed that there was a direct relationship between the competence of the internal audit personnel and effective fraud management in domestic tier one commercial banks. As shown in table 4.7 above, the coefficient of CIAP ($\beta = 0.465$) was positively related. Statistically ($t=0.762$, $p>0.05$) means that the null hypothesis H_{02} was rejected hence; there is a significant relationship between the competence of the internal audit personnel with effective fraud management by identifying competence issues and by adding more value to the EFM works of the domestic tier one commercial banks.

Therefore, the competence of the internal audit personnel, results in statistically significant contribution in effective fraud management, with the ability in identifying the noncompliance activities and their added contribution to the end objective of effective fraud management activities in domestic tier one

commercial banks. Although this variable has a coefficient positively related to the EFM, as a result of its p value being ($p>0.001$), regression analysis output result leads not to support the proposed hypothesis (H_{02}). However, the significance of the competence of the internal audit personnel on effective fraud management does not necessarily mean that it does completely contribute to effective fraud management.

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RECOMMENDATIONS

5.2.2 Effect of Competence of Internal Audit Personnel on Effective Fraud Management

The specific objective of the study on analyzing the effect of the competence of Internal Audit Personnel on effective fraud management indicated. 100% of the respondents strongly agreed that the competence of Internal Audit Personnel was essential for effective fraud management. The correlation statistics data output where F-statistic ($P = .000$) and $F = 12.292$ which implied that there was a strong relationship between the competence of Internal Audit Personnel and EFM as per the outcomes of the regression variables. Additionally, the critical dimension of internal audit function (IAF) is the quality of its internal auditing staff measured in terms of internal auditors' skill (Seol et al, 2011). Hence it was paramount to conclude that competence of Internal Audit Personnel is a major determinant of Effective fraud management within domestic tier on commercial banks in Trans Nzoia County.

Competence levels are critical for institutions' internal audit personnel for EFM. Internal auditing is a major factor for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Internal audit personnel must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Recommendations for further study

There is need for further research on the other variables that affected the independent variable, EFM, that are contained in the 49.91% as depicted by the results of this research above (the difference to 100% from the $R^2=55.09\%$). These variables may include management perception towards the internal audit department, adequacy of the internal audit personnel among other likely variables in this category.

Further research will also be paramount on whether there is need for each commercial bank to have internal audit departments at the bank branches for timely effective fraud management.

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