

## **Fraud and Corruption in the Public Sector of Kenya: The Role of Forensic Accounting in Fraud Detection**

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### **Abstract.**

The main factors heavily affecting economic development and governance in Kenya are fraud and corruption. These vices have a significant negative impact. They reduce the public sector's overall effectiveness. This study evaluates the nature of corruption and the impact of forensic accounting on fraud detection. The Fraud Triangle and Fraud Diamond theories explain the behavioral and structural causes of fraud in public institutions. The qualitative research approach applied in this study adopts a systematic literature review of academic journals, institutional reports, and organizational publications. Primarily, Transparency International and the Ethics and Anti-Corruption Commission (EACC) handle fraud and corruption. A thematic approach is applied to identify fraud patterns and investigate the effectiveness of forensic accounting practices in the public sector. Here, findings reveal that embezzlement, bribery, and procurement and payroll fraud are the major types of corruption in Kenya. Researchers found that forensic accounting and improved systems strengthen fraud detection. However, weak governance frameworks and inadequate technology infrastructure negatively impact implementation. To become fully effective, forensic accounting depends on internal controls, strong governance systems, and institutional reforms. Ergo, technical solutions require other elements, like robust institutional reforms.

**Keywords:** Forensic accounting, fraud detection, corruption, public sector, Kenya

### **I. Introduction**

The main problems that hinder economic growth and associated development in Kenya are fraud and corruption. Weak institutional governance, low civil servant remuneration, political instability, and lack of transparency in devolution are causes of fraud and corruption in Kenya (Transparency International, 2023). Most of the government officials use their power for personal gain. This is achieved by engaging in bribery, nepotism, and misappropriation of public funds in various government institutions (PwC, 2022). Consequently, diversion and misappropriation of resources slow down economic development in the country.

Despite the ongoing reforms and anti-corruption policies, corruption remains constant (Transparency International, 2024). Corrupt activities are evident in key government institutions like public procurement and financial management. Additionally, it is during the mega infrastructural projects that funds disappear leaving unfinished projects behind. Notable instances are the Kenya Medical Supplies Authority (KEMSA) and irregular financial claims within the Social Health Authority. These illustrations demonstrate how financial resources are lost, pointing to existing weaknesses in public oversight. This challenge still undermines public confidence in government institutions. It reduces the quality of service delivery across the country. Further, annual revenues across various governmental institutions are negatively affected due to fraud and other related activities (Association of Certified Fraud Examiners, 2023).

Government institutions and other organizations have increasingly adopted forensic accounting techniques to detect fraud. This tool aids in financial crime prevention and investigation (Singleton & Singleton, 2020; Özcan, 2019). Forensic accounting adds auditing, investigative, and legal expertise

capabilities. These elements are used to analyze financial data and expose fraud cases. Forensic accounting helps in understanding particular behavioral and structural factors harboring fraud. Forensic accounting is instrumental in identifying financial irregularities and supporting legal proceedings. Further, it strengthens internal control systems in the public sector (Abdulrahman, 2019). Governance structures and regulatory policies and frameworks are elements that can contribute to effective forensic accounting.

This research explores the types and trends of fraud and corruption in the public sector. It evaluates the role of forensic accounting in improving fraud detection and accountability. Handling fraud and corruption will have a positive impact in service delivery and economic growth.

## **II. Literature Review**

### **Theoretical Framework**

This section explains the theoretical framework for the investigation. The theoretical framework's objective is to give a conceptual lens through which to understand the causes of public-sector fraud and corruption. By basing the research on proven theory, it is feasible to understand the fundamental causes that drive fraudulent conduct and connect them to the role of forensic accounting in fraud detection and prevention.

#### **Fraud Triangle Theory**

The fraud triangle theory provides a fundamental framework for understanding the causes of fraudulent behavior. The theory explains that fraudulent behavior is likely to occur when individuals experience pressure, have the opportunity to commit fraud and can justify their action. Pressure often arises from financial, personal lifestyle demands, bad habits such as gambling, or unrealistic performance targets that encourage individuals to commit fraud. Opportunity is the chance for someone to commit fraud without being detected. It arises when internal control systems are weak or ineffective, management cannot properly evaluate employee performance, and when there is poor supervision.

Rationalization is evident when people justify their fraudulent activities. They do this by convincing themselves that their actions are acceptable (Kuar et al., 2023). Instances of rationalization involve perpetrators believing that fraud is natural and believe they deserve compensation for their efforts. Understanding the above elements enables organizations to create effective fraud prevention policies and frameworks. Institutions can safeguard stakeholder trust and organizational reputation. Additionally, they assure regulatory compliance through fraud mitigation and enhance internal control mechanisms. Effective fraud management strengthens corporate governance, transparency and accountability.

The Fraud triangle theory is relevant to the public institutions, where weak Internal controls and limited financial monitoring systems create opportunities for fraudulent practices. This theory helps in explaining why corruption continues to happen in government institutions and demonstrates the importance of strengthening governance structure to reduce fraud risks.

#### **Fraud Diamond Theory**

The Fraud Diamond Theory expands on the Fraud Triangle Theory by adding capability as the fourth factor influencing fraudulent behavior, in addition to pressure, opportunity, and justification (Wolfe & Hermanson, 2024). Capability relates to an individual's talents, authority, and ability to seize chances while concealing fraudulent activity. This includes technical knowledge of systems, ability to manipulate

financial data, and persuasive ability to involve others. For instance, large scale fraud requires a person with the right capability to turn an opportunity into action. Such traits include authority, confidence, and intelligence.

The inclusion of capability highlights that not all individuals with pressure, opportunity and rationalization will commit fraud but only those with the necessary competencies and position are likely to commit fraud. Therefore, effective fraud prevention strategies must also consider employee roles, access level and behavioral characteristics.

### **Concept of Fraud and Corruption**

Fraud refers to a deliberate action intended to mislead others in order to unlawfully obtain personal or financial benefits, while corruption involves the abuse of entrusted power for private gains (Albrecht et al., 2021). In the public sector, corruption manifests in various forms. Including bribery, procurement manipulation, embezzlement of public funds and abuse of authority. These practices have significant social and economic impact that contribute to poverty, inequality, reduced public services quality and slower economic development.

Public procurement plays a critical role in the economic, political, and social environment in any country as it contributes a significant percentage to its Gross Domestic Production. In Kenya, procurement is the most corrupt government function. Procurement fraud in public institutions, occurs when officials manipulate tender procedure, such as inflating tender prices and paying for non-existent goods or services to benefit specific individuals or firms which leads to losses of public funds. Weak monitoring systems and limited transparency in procurement procedures create opportunities for corrupt practices in government institutions (World Bank, 2022). These practices prevent the right people from getting the tender.

### **Forensic Accounting and Fraud Detection**

Forensic accounting is a branch of accounting that deploys financial skill, investigative tactics, and legal knowledge. These elements aim to discover, interpret, and point out financial anomalies and economic losses. Further, they contribute to proper litigation support and dispute resolution (Singleton & Singleton, 2020). This combination improves fraud detection and mitigation. In this regard, forensic accounting is crucial for governments to detect corruption and investigate financial anomalies. Further, it promotes accountability in the public sector.

### **The role of Forensic Accounting**

Forensic accounting is a tool used in investigating financial misconduct and tracing illegal transactions. It documents the evidence required for legal proceedings and facilitates accountability for every government official. Additionally, forensic accounting provides litigation support services and assists in asset recovery. It helps public institutions to identify weaknesses in internal control systems.

### **III. Research Method**

This study uses a qualitative research approach using a systematic literature review technique to analyze fraud and corruption in Kenya's public sector and evaluate the effectiveness of forensic accounting in increasing fraud detection. The qualitative technique is suitable for this study. It provides for detailed examination and synthesis of current theoretical and empirical literature relevant to the research.

The academic and research materials were retrieved from academic databases, institutional records, and publications from international organizations. Some of these institutions are Transparency International and EACC. These sources were screened and selected based on their relevance to key themes relative to fraud, corruption, and forensic accounting in the public sector. Priority was given to recent studies published between 2019 and 2026 to ensure the information obtained was up-to-date information.

The thematic approach was used to analyze data. The method involved identifying recurring patterns and grouping them into key themes like types of fraud, causes of corruption, and the role of forensic accounting. The findings were synthesized and interpreted to make conclusions and highlight the contribution of the study to existing literature.

#### **IV. Results and Discussion**

The analysis of the literature indicates that fraud and corruption remain significant challenges in Kenya's public sector. Several forms of financial misconduct have been identified, including procurement fraud, embezzlement of public funds, bribery, and payroll fraud (Transparency International, 2023; Ethics and Anti-Corruption Commission, 2023). These findings show a clear pattern of recurring financial irregularities within public institutions.

##### **Common Forms of Fraud and Corruption**

Procurement related fraud frequently reported in the literature as one of the most form of misconduct. It often occurs when procurement processes are intentionally manipulated in order to award contracts to preferred companies, leading to inflated project costs and misallocation of public resources (Transparency International, 2023). Embezzlement of public funds is another major issue confronting government institutions, where individuals responsible for managing public finances divert them for personal gain. Accordance to the Ethics and Anti-Corruption Commission (2023), many corruption cases in Kenya involve the misappropriation of funds intended for development projects and service delivery.

Payroll fraud is also a commonly highlighted, involving the addition of non-existing employees in government payroll systems. Such practices lead to increased government expenditure while undermining financial responsibility and accountability in public administration.

##### **Causes of Fraud: Weak Internal Control and Governance**

A comprehensive analysis of the literature show that weak internal control systems and ineffective governance structures are key drivers of financial misconduct in the public sector. studies consistently indicate that organizations with strong financial monitoring and transparent reporting systems are better positioned to detect irregularities at an early stage and reduce financial losses. In contrast, weak governance frameworks increase the likelihood of corruption and financial mismanagement (World Bank, 2022; Özcan, 2019).

##### **Role of Forensic Accounting in Fraud Detection**

The findings further demonstrate that forensic accounting plays a critical role in addressing these challenges. It supports legal processes by providing financial proof for court proceedings and assists law enforcement agencies in building compelling cases against corrupt individuals involved in financial misconduct. This is achieved through detailed financial analysis and investigative techniques. The effective

implementation of forensic accounting procedures significantly enhances fraud detection and accountability (Singleton & Singleton, 2020; Tuharea et al., 2024).

### **Challenges of Implementing Forensic Accounting**

Despite the importance of forensic accounting in any organization, its implementation in developing countries faces several challenges. These including weak regulatory frameworks, high implementation costs, political instability, lack of specialized training, inadequate technological infrastructure, and shortage of certified forensic experts (World Bank, 2022; International Organization of Supreme Audit Institution, 2022). These challenges reduce the effectiveness of forensic accounting practices and limit the successful prosecution of fraud cases in the public sector.

### **Research Novelty**

While many studies emphasize the role of forensic accounting in detecting fraud, there is limited attention given to how its effectiveness is influenced by governance structures and internal control systems. This study is significant since it underscores the need for strong internal control systems and institutional frameworks. As a result, it leads to effectiveness of forensic accounting hence minimizing corruption and fraud cases. Integrating forensic accounting with governance reforms provides a more sustainable approach to enhancing accountability in Kenya's public sector.

## V. Conclusion

This study examined the prevalence of fraud and corruption in Kenya's public sector. It also explains the role of forensic accounting in improving fraud detection and accountability. The findings first reveal that financial misconduct is widespread, particularly in procurement and financial management, where it continues to undermine service delivery and public sector performance.

The study further identifies weak internal control systems and ineffective governance structures as the main drivers of these challenges. These weaknesses create opportunities for fraudulent activities and reduce the effectiveness of financial oversight.

In response to these challenges, the findings demonstrate that forensic accounting is an effective tool for detecting financial irregularities. This tool supports investigative processes, and enhances transparency within public institutions. However, its effectiveness depends on the strength of financial supervision mechanisms set up. It also banks on the professional competencies of accounting personnel.

Overall, the study concludes that the successful adoption of forensic accounting practices, supported by strong regulatory frameworks and improved internal controls, is essential for strengthening accountability, safeguarding public resources, and enhancing confidence in government institutions in Kenya (Ahmed et al., 2025; World Bank, 2022).

### Recommendation

Based on the findings of this study, the following recommendations are proposed to improve fraud detection and accountability in the public sector:

- a) Anti-corruption agencies such as the EACC in Kenya should operate independently to ensure transparency and accountability
- b) Continuous training programs should be provided to accountants and auditors to enhance forensic accounting skills
- c) Public sector institutions should adopt forensic accounting techniques for financial investigation
- d) Governments should invest in modern technologies such as data analytics and digital forensic tools for fraud detection
- e) Government institutions should strengthen internal control systems to reduce opportunities for fraud.

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