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**Internal Audit and Fraud among Insurance Companies in Kenya**

**<sup>1\*</sup>Mary Kamau and <sup>2</sup>Dr. Tumaini Mwikamba**

<sup>1</sup>Scholar, Master of Business Administration (Accounting Option), Jomo Kenyatta University of Agriculture and Technology

<sup>2</sup>Lecturer, Jomo Kenyatta University of Agriculture and Technology

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**Abstract**

Fraudulent activities continue to pose a major threat to the sustainability of businesses and organizations worldwide, undermining financial performance, operational efficiency and stakeholder confidence. In Kenya, the problem has intensified, particularly in medical and motor insurance, where industry estimates suggest that up to one in every five medical insurance claims may be fraudulent. Despite the presence of internal audit functions within insurance companies, fraud continues to escalate, raising concerns about the effectiveness of existing internal audit practices. This study sought to determine the effect of internal audit on fraud among insurance companies in Kenya. The specific objectives were to assess the effect of competence of internal auditors and scope of work of internal auditors on fraud within insurance companies in Kenya. The study was anchored on the fraud triangle theory, agency theory and the theory of internal control. A descriptive correlational research design was adopted. The unit of analysis comprised the 61 insurance companies in Kenya, while the unit of observation included the 61 internal audit managers. A census approach was employed, and primary data were collected using structured questionnaires. Data analysis was conducted using the Statistical Package for the Social Sciences (SPSS) version 25, applying descriptive and inferential statistics, including correlation analysis, linear regression, and Analysis of Variance at a 95% confidence level. The findings revealed that the scope of work and competence of internal auditors had a significant positive relationship with fraud detection and prevention. The study concluded that strengthening the internal audit function plays a critical role in minimizing fraud in the insurance sector. Insurance companies in Kenya have made notable efforts in enhancing staff competence and defining comprehensive audit scope; however, improvements in audit coverage and timeliness are still required to ensure sustained fraud mitigation. The study recommends that insurance managers strengthen internal audit capacity through continuous professional development and broader risk-based audit planning, while policymakers should enforce standards that promote auditor autonomy and professional competence.

**Keywords:** *Internal Audit, Fraud, Competence of Internal Auditors, Scope of Work of Internal Auditors*

## INTRODUCTION

The insurance sector plays a vital role in a country's financial system, and its contributions are undeniable. Insurance firms are crucial for both businesses and individuals as they provide compensation for losses and restore the insured to their pre-risk state (Hasan, Yajuan & Khan, 2022). Moreover, insurers contribute to both economic and social welfare by mitigating the impact of losses, reducing fear and uncertainty, and creating employment opportunities (Chen, Kumara & Sivakumar, 2021). According to Michira et al. (2021), many insurance firms have failed due to fraud. Insurance firms face the risk of fraud from both internal and external sources. Fraud in the insurance industry has evolved from fraudulent claims to collusion among market players with the intent to deceive and gain undue profits (Singh & Akhilesh, 2020).

Insurance firms have been tasked with implementing various practices to mitigate fraud. Audits, forensic investigations, internal control systems, and legal sanctions are commonly employed by firms to reduce their exposure to fraud (Polo, Vallejo & Copete, 2022). The Association of Certified Fraud Examiners (2023) asserts that an average company incurs a 5% loss of its annual revenue due to fraud perpetrated by employees, which manifests in three ways: asset mismanagement, misstatements of financial records, and outright corruption. Detecting and mitigating fraud involves understanding and monitoring employees, ensuring the implementation of robust internal control measures (Anders, 2020).

In the United States and Canada, internal audit teams in the insurance sector are responsible for ensuring compliance with regulatory requirements, including those related to fraud prevention and detection (Boskou, Kirkos & Spathis, 2019). European countries often follow the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA). These standards provide a framework for internal auditors to address fraud risks (Kzykeyeva, 2022). In Asian countries, such as Japan and South Korea, internal audit has traditionally focused on financial audits. However, there's an increasing shift towards incorporating fraud detection and prevention measures (Hazami-Ammar, 2019).

According to Asongu and Odhiambo (2020), insurance markets in Africa vary widely in terms of maturity and regulatory oversight. In more developed markets, internal audit departments are actively involved in fraud risk assessments and the design of anti-fraud controls. In Ghana, Akomea-Frimpong, Andoh and Ofosu-Hene (2021) revealed that weak internal controls are major causes of insurance fraud in Ghana. To deter insurance fraud, Akomea-Frimpong et al. (2021) stated that effective internal fraud policy, rigorous assessment of insurance policies and claims, adequate training for independent brokers on insurance fraud and modern information technology tools are paramount in fighting this menace. Despite the existence of internal audit functions and stringent control and regulatory mechanisms within Nigeria's insurance sector, the issue of fraudulent financial reporting and mismanagement of assets persists as a significant challenge (Udeh & Ugwu, 2018).

Odhiambo (2019) established that insurance companies use normal internal control systems such as internal and external audit functions, underwriting, claims management, IT and management committees to manage fraud. Mathenge (2019) established that proactive fraud audit, compliance to policies, risk management, control of operation and financial reporting internal audit functions affects fraud detection among insurance companies in Kenya. Obonyo (2017) reveals that internal audit environment; fraud policy, periodic assessment of fraud risk exposure, fraud prevention and fraud detection contributes to success of fraud risk management in state corporations in Kenya.

Fraud in insurance companies in Kenya is a significant challenge that affects the profitability, sustainability and trustworthiness of the insurance sector. Insurance fraud occurs when individuals, policyholders, employees, or third parties engage in deceptive practices to gain financial benefits unlawfully (Oloko, 2024). The most common types of fraud in Kenya's insurance industry include falsified claims, premium fraud, identity theft and insider fraud (Oloko, 2024). Fraudulent claims increase operational costs, leading to higher premiums for honest policyholders. Adoption of fraud detection systems, artificial intelligence (AI) and blockchain for claims verification can help detect and reduce fraud. The measures of fraud include the number of fraudulent cases, the number of whistleblower reports and fraud prevention investment (Chege, 2021).

### **Statement of the Problem**

Fraudulent activities continue to pose a significant challenge to businesses and organizations globally, with fraud-related losses estimated to account for billions of dollars annually, undermining financial stability, operational efficiency, and organizational reputation (Alazzabi, Mustafa & Karage, 2023). The insurance sector is particularly vulnerable, with fraud taking various forms including corruption, asset misappropriation, and fraudulent financial reporting, all of which continue to rise despite enhanced regulatory oversight and fraud awareness initiatives (Nigrini, 2019). In Kenya, insurance fraud has reached alarming levels. According to the Insurance Regulatory Authority (IRA), approximately 20% of all medical insurance claims are fraudulent, while fraudulent motor accident injury claims accounted for 22% of reported fraud cases in 2022 (IRA Report, 2022). In the same year, the IRA recorded 150 confirmed fraud cases and received 1,870 fraud-related complaints from policyholders and beneficiaries, highlighting the scale and persistence of the problem within the industry.

The financial impact of fraud on insurance companies in Kenya has been substantial. In 2022, loss ratios in the long-term insurance business increased from 49.3% in 2021 to 53.2%, representing a 3.9% rise largely attributed to fraudulent activities, contributing to declining profitability and weakened public confidence in the insurance sector (IRA Report, 2022). Despite the growing emphasis on corporate governance and the recognition of internal audit as a critical mechanism for strengthening risk management, internal controls, and fraud mitigation (Suseel & Rastogi, 2022; Abiodun, 2020), fraud levels within Kenyan insurance companies continue to escalate.

Empirical evidence on the role of internal audit in mitigating fraud remains limited and fragmented. While Kamaliah et al. (2018) found that governance and internal control mechanisms reduced fraud in the Malaysian public sector, the study did not specifically focus on internal audit or the insurance industry. Similarly, Michira, Njeru, and Memba (2021) identified fraudulent claims as contributing approximately 10% of insurance company failures in Kenya, yet the study did not examine the role of internal audit across the entire insurance sector. Consequently, a significant contextual and conceptual gap exists regarding the effectiveness of internal audit in addressing fraud within Kenyan insurance companies. This study therefore sought to determine the effect of internal audit on fraud among insurance companies in Kenya, in light of the increasing fraud statistics, rising financial losses and persistent governance concerns in the sector.

### **Research Objectives**

To determine the effect of internal audit on fraud among insurance companies in Kenya.

The specific objectives were;

- To determine the effect of competence of internal auditors on fraud in insurance companies in Kenya.
- To evaluate the effect of scope of work of internal auditors on fraud in insurance companies in Kenya.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **The Fraud Triangle Theory**

According to Albrecht and Adhariani (2019), fraud consists of three essential components: perceived pressure, perceived opportunity, and rationalization of the fraudulent act. These elements collectively form what is known as the "fraud triangle." However, the nature of fraud is intricate and results from a combination of factors (Rae & Subramaniam, 2018). Instances exist where poor internal controls do not lead to fraud, while in other cases, despite the presence of robust internal controls, individuals manage to circumvent them to engage in fraudulent activities (Rae & Subramaniam, 2018). Perpetrators of fraud typically rationalize their actions, and this rationalization often stems from a lack of personal integrity or moral reasoning (Rae & Subramaniam, 2008). Individuals are less likely to commit fraud if they cannot justify it based on their personal code of ethics, as personal integrity serves as a key deterrent against misappropriating assets.

The Fraud Triangle Theory has not gone without criticism. While Cressey (1953) highlights the three key elements pressure, opportunity, and rationalization that lead individuals to commit fraud, critics argue that the theory oversimplifies the complexity of fraudulent behavior by focusing primarily on individual motivations and ignoring organizational and environmental factors (Dorminey et al., 2010). Fraudsters' rationalization often arises from a sense that they are owed something by their victims and that they deserve more than what they are receiving (Mutua, 2017). While a strong moral code can prevent individuals from using rationalizations to justify illicit behavior, internal auditors should adopt a cautious approach, assuming that anyone may be capable of justifying the commission of fraud.

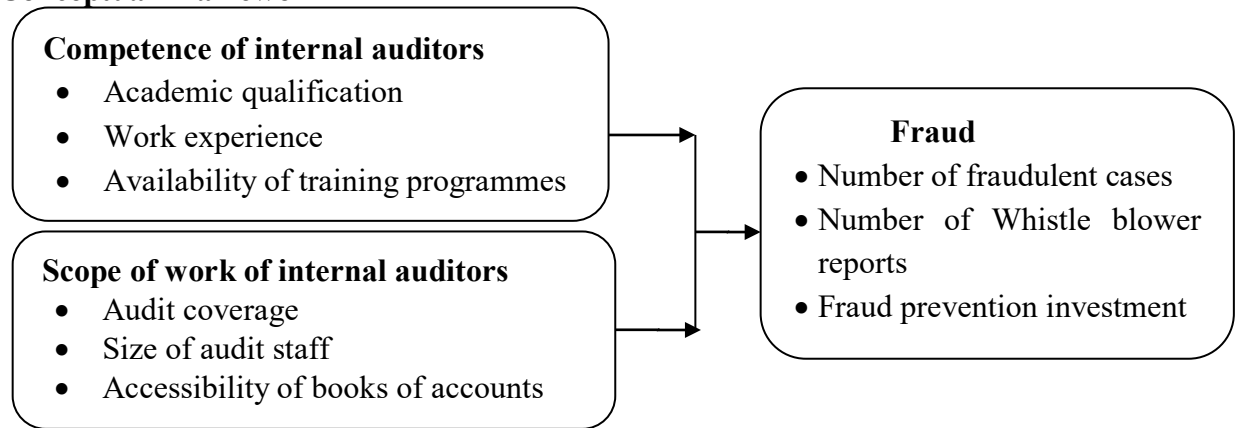
#### **Theory of Internal Control**

A system of effective internal control is a critical component of an organization's management and a foundation for its safe and sound operation (Jokipii, 2020). A system of strong internal control can help to ensure that the goals and objectives of an organization will be met, that it will achieve long-term targets and maintain reliable financial and managerial reporting. The theory of Internal Control has not gone without criticism. Beasley et al. (2010) argue that it overemphasizes formal procedures and compliance, often providing a false sense of security, as documented controls may exist without being effectively implemented. Doyle and McVay (2007) contends that internal controls are frequently symbolic, designed more to demonstrate accountability and satisfy regulatory requirements than to genuinely prevent fraud, neglecting the human and cultural dimensions of organizational risk.

In USA, the Committee of Sponsoring Organizations of the Tread way Commission (COSO) issued Internal Control – Integrated Frameworking 1992, which defined internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of financial reporting; Compliance with applicable laws and regulations. Jones (2018) indicated internal control as the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of effective and efficient operations; internal financial control and compliance with

laws and regulations. The theory was relevant to the study because as it outlines the internal control policies, procedures and rules to be followed in the insurance industry.

### Conceptual Framework



### Independent Variables

### Dependent Variable

**Figure 1: Conceptual Framework**

#### Competence of Internal Auditors

According to Kubasu (2018), competence is a fundamental aspect of internal audit effectiveness and its impact on fraud within companies cannot be overstated. Competence is a fundamental aspect of the internal audit function, ensuring that auditors possess the qualifications and capabilities necessary to fulfill their roles. Gramling et al. (2014) suggest that the technical skills and industry knowledge possessed by internal auditors significantly influence their ability to detect and prevent fraud. In the context of insurance companies, where intricate financial instruments and specialized accounting practices prevail, the competence of internal auditors becomes a critical factor in ensuring the accuracy of financial reporting and identifying potential fraudulent activities. Renschler (2020) underscores the importance of internal audit competence in evaluating control weaknesses and designing robust control mechanisms to mitigate fraud risk.

#### Scope of Work

The scope of work undertaken by internal auditors is a crucial factor influencing the effectiveness of fraud prevention and detection within companies (Tahajuddin & Kertali, 2018). A well-defined and comprehensive scope guides internal auditors in identifying and addressing areas of vulnerability to fraudulent activities. According to the Institute of Internal Auditors (IIA, 2016), the scope of work sets the boundaries for internal audit activities and shapes the focus of their examinations, making it a key determinant in the fight against fraud. By incorporating fraud risk factors into their scope, internal auditors can better target high-risk areas and proactively identify vulnerabilities to fraudulent activities (IIA, 2017). This ensures that the internal audit function is aligned with the organization's specific fraud risks. The scope of work also dictates how internal auditors collaborate with other assurance functions, such as external auditors and compliance teams, to create a comprehensive fraud prevention strategy (Tahajuddin & Kertali, 2018).

#### Fraud

Fraud can tarnish the reputation of insurance companies. News of fraudulent activities can erode public trust and confidence, potentially leading to a loss of customers and investors. Maintaining a positive reputation is crucial in the insurance sector, where trust is a cornerstone of customer relationships (ACFE, 2018). Fraud necessitates a reevaluation of risk management practices

within insurance companies. Understanding the vulnerabilities and implementing robust risk management systems is crucial for preventing and mitigating the impact of fraud (IIA, 2017). Fraud incidents often prompt companies to enhance their internal control mechanisms. This may include implementing more rigorous auditing procedures, strengthening oversight mechanisms to prevent and detect fraudulent activities (IIA, 2017).

### **Empirical Review**

#### **Competence of Internal Auditors and Fraud**

Drogalas (2017) sought to determine the relationship internal auditor's competence and identification of irregularities and potential fraud indicators early in the process. Data was gathered from 236 internal managers of randomly selected firms in Southwestern Nigeria, with the aid of a questionnaire, while descriptive and inferential statistical tools were applied for data analysis. The study established that competent internal auditors bring a set of skills, knowledge and attributes that significantly enhance their ability to detect signs of irregularities and potential fraudulent activities early in the process.

In Uganda, Kabuye et al (2017), sought to determine the relationship between internal audits organizational status, competencies, activities and fraud management. Competent internal auditors are adept at assessing risks within the organization. This study is cross-sectional and correlational, and it uses firm-level data that were collected by means of a questionnaire survey from a sample of 54 financial services firms in Kampala – Uganda. The study concluded that competent internal auditors can identify potential areas of concern and prioritize audit activities accordingly. Competent internal auditor's skill is essential for focusing audit efforts on the most significant risks to the organization.

In Indonesia, Eulerich (2020) examine the effect of competence, audit work and communication on internal audit effectiveness. Being a quantitative research, the study used questionnaires which were distributed to the auditors in Inspectorate General of the Ministry of Transportation as respondents. It showed that competence, communication, and audit work have positive effect on internal audit effectiveness. Audit work from planning, implementation and post-audit should always comply with audit standard. Effective oral and written communication between the auditor and the auditee should also be enhanced in form of audit reports to the follow-up of audit recommendations.

In Kenya Ondieki (2018) assessed the effect of internal audit on financial performance of commercial banks, internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls of internal audit. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis technique. Data presentation was done by use of tables for ease of understanding and interpretation. From the findings, the study concludes that internal audit standards, professional competency and internal control had a positive relationship with financial performance of commercial banks, Competent internal auditors are better equipped to plan and execute high-quality audits.

#### **Scope of Work of Internal Auditors and Fraud**

In Malaysia, Ferry (2017) investigated the internal auditor roles to support public governance in a developing country context, through interviews with chief audit executives across 17 Malaysian Local Government Authorities. The competency with internal auditors was evaluated in terms of departmental efficiency and effectiveness. The study employed descriptive study design. The study established that competence enables internal auditors to perform their tasks

efficiently and effectively. The study concluded that with a strong foundation in auditing practices, they can navigate complex processes, systems, and data, leading to more streamlined audit processes.

Elsewhere in Iran, Salehi (2016) sought to assess the determinants of internal audit effectiveness. The competent internal auditors were evaluated in ability to demonstrate professionalism in making Judgment. The researcher gathered data using a questionnaire, filled out by 455 internal audit manager and 242 other internal audit staff. Multivariate regression model was employed the estimates the relationships between the effectiveness of internal audit department. The study established that internal auditors often need to exercise professional judgment when making decisions during an audit. Competent auditors are better positioned to make sound judgments based on their knowledge and experience, leading to more reliable and credible audit findings.

Kashona (2019) sought to effect of audit work scope on fraud detection and prevention in district treasuries in Namibia. Purposive sampling method was used to select Treasury Staffs while simple random sampling method was used to select Heads of Departments to respond to the data collection instruments. The study used closed ended questionnaires designed for treasury staff and their clients and was administered by the researcher though drop and pick method. Key respondents were Senior Treasury Staffs and Heads of Departments. The study established that, well-structured scope of work allows internal auditors to concentrate their efforts on high-risk areas that are more susceptible to fraud. By prioritizing high-risk zones, internal auditors increase their likelihood of detecting irregularities and uncovering potential fraudulent activities within the company.

Carpenter et al. (2021) explored effect of internal auditors' collaborative work space on fraud detection. The study featured government parastatals in India. The conducted interviews with 22 internal audit managers and 16 internal audit staff members at 9 leading internal audit organizations, the scope of work dictates how internal auditors collaborate with other assurance functions, such as external auditors and compliance teams, to create a comprehensive fraud prevention strategy. The study concluded that a well-defined scope facilitates collaboration and ensures that internal auditors work in tandem with other assurance functions to strengthen the overall control environment.

## **RESEARCH METHODOLOGY**

This study used a descriptive correlational research design with the aim of determining the effect of internal audit on fraud within insurance companies in Kenya. The unit of analysis included the 61 insurance companies in Kenya (Insurance Regulatory Authority Report, 2023). The unit of observation included the 61 internal audit managers in the 61 insurance companies in Kenya. The census method was used where the 61 internal audit managers in the 61 insurance companies in Kenya were used. Primary data was collected through questionnaires technique because it is a quick and economical way of obtaining the needed data from a large population (Kothari, 2014). A questionnaire was used as the instrument for gathering primary data. Iovino and Tsitsianis (2020) stated that a questionnaire is a list of questions or items used to gather primary data from respondents about their attitudes, experiences, or opinions.

The study conducted a pre-test using 7 questionnaires administered to 7 finance managers selected from the 61 insurance companies in Kenya. The data collected during this pre-testing phase was used only to assess the validity and reliability of the research instrument and was not included in the final data analysis. The data collected was both quantitative and qualitative in nature. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. Analysis was done quantitatively and qualitatively by use of descriptive

statistics. These included frequency distributions, tables, percentages, mean mode, median etc. In addition, advance statistical techniques (inferential statistics) was considered in form of correlation, multiple regression and ANOVA.

Data analysis was done with the use of SPSS and presented using percentages, tabulations, means and other central tendencies. This generated quantitative reports through tabulations, percentages and measures of central tendency. Diagnostic tests for normality, multicollinearity, test for heteroscedasticity and linearity test. Tables were used to summarize responses for further analysis and facilitate comparison.

### **FINDINGS AND DISCUSSION**

The study administered 54 instruments to the sampled respondents and of the 54 respondents, 52 responded and returned completed questionnaires representing a response rate of 96.3%. Reliability was calculated with the help of Statistical Package for Social Sciences (SPSS). All the Cronbach's alpha values were higher than the recommended threshold of 0.7. The results presented for factor analysis for validity indicated that all variables surpassed the recommended threshold of 0.5 for construct validity. The measurements of the content validity were determined using expert judgment from specialist in the insurance sector.

#### **Competence of Internal Auditors**

**Table 1: Competence of Internal Auditors**

<b>Statements</b>	<b>Mean</b>	<b>Std Dev</b>
The employee have basic tertiary education qualifications relevant to handle audit activities effectively	3.94	0.64
The employee have professional qualifications and membership in a regulatory body that equip me with the necessary skills for auditing	4.02	0.96
The employee have worked in the audit profession for more than five years and have gained adequate experience to carry out audit activities efficiently and effectively	3.88	0.94
The employee have relevant experience and ability to identify potential risks and weaknesses within an organization and recommend mitigation actions to be taken	3.88	0.78
The organization provides training programs to keep internal auditors updated with industry trends and regulatory changes	3.65	1.12
The organization offers equal opportunities to all internal audit staff with regard to trainings regardless of their ranking	3.92	1.01
<b>Overall Mean and SD</b>	<b>3.88</b>	<b>0.91</b>

The internal audit managers agreed that possessing professional qualifications and being members of regulatory bodies equips them with necessary skills for effective auditing (Mean = 4.02, SD = 0.96). It was further established that having basic tertiary education qualifications is essential for effectively handling audit responsibilities (Mean = 3.94, SD = 0.64). The internal audit managers agreed that having over five years of experience in the audit profession enables them to carry out audit activities efficiently and effectively (Mean = 3.88, SD = 0.94). The findings support a study by Shamki and Alhajri (2022) that investigated factors influence internal audit effectiveness and found a significant positive relationship between auditors' professional experience and the overall effectiveness of audits including planning, execution, and reporting phases.

Majority of the internal audit managers agreed that their ability to identify potential risks and weaknesses, and to recommend mitigation measures, is largely supported by relevant audit

experience (Mean = 3.88, SD = 0.78). Results showed that insurance firms offered equal training opportunities to audit staff regardless of rank, which supports a fair development environment (Mean = 3.92, SD = 1.01). Internal audit managers agreed to a moderate extent that their organizations provided regular training programs to keep them updated with industry trends and regulatory changes (Mean = 3.65, SD = 1.12). The overall mean of 3.88 and standard deviation of 0.91 suggest that internal auditors in Kenya's insurance companies possess a high level of competence to effectively detect and mitigate fraud. These results reinforce the conclusions by Ondieki, (2018) study on the effect of internal audit on financial performance of commercial banks that competent internal auditors are better equipped to plan and execute high-quality audits.

### Scope of Work of Internal Auditors

**Table 2: Scope of Work of Internal Auditors**

<b>Statements</b>	<b>Mean</b>	<b>Std Dev</b>
Internal audit assignments in my organization are carried out comprehensively in accordance with the audit plan	3.92	0.88
The scope of internal audit in my organization effectively prioritize on high-risk areas that have great impact on the organization to mitigate fraud	3.87	0.95
The current size of the audit team in my organization is adequate to handle the organization's diverse and complex audit requirements effectively	3.87	0.93
The existing audit team is well-equipped in resources to cover all critical areas of the organization so as not to compromise on quality	3.81	0.95
I have easy access to all relevant books of accounts and financial records necessary for conducting audits	3.87	0.91
The books of accounts and financial records are provided at the right time when conducting internal audits to facilitate timely audit reporting	3.79	0.94
<b>Overall Mean and SD</b>	<b>3.86</b>	<b>0.93</b>

Respondents agreed that internal audit assignments are conducted comprehensively in accordance with the audit plan (mean = 3.92, SD = 0.88). Additionally, they affirmed that the scope of internal audits prioritizes high-risk areas with significant organizational impact, thus enhancing fraud mitigation efforts (mean = 3.87, SD = 0.95). Furthermore, respondents acknowledged that the current audit team size is sufficient to address the diverse and complex audit requirements within their organizations (mean = 3.87, SD = 0.93) and that internal auditors have timely access to all relevant financial records necessary to conduct audits (mean = 3.87, SD = 0.91). These findings are consistent with Monisola (2013) study on effect internal audit work scope on prevention of frauds, errors and irregularities in corporate organization who revealed that scope of work guides internal auditors in conducting risk assessments to identify potential fraud risks

Respondents also agreed that while audit teams are generally well-resourced to cover critical areas, there is slight room for improvement to avoid compromising audit quality (mean = 3.81, SD = 0.95), and that books of accounts and financial records are usually availed in a timely manner to facilitate prompt audit reporting (mean = 3.79, SD = 0.94). The overall mean score of 3.86 and standard deviation of 0.93 indicate that most insurance companies in Kenya have adequately defined and implemented internal audit scopes that support effective fraud detection and prevention. These findings support Dub (2014) study on how inclusion of fraud-specific procedures within the scope of work enhanced the internal audit function's ability to address



Fraud in Insurance Companies (Y)	Pearson Correlation	1
	Sig. (2-tailed)	
	N	52
Competence of internal auditors	Pearson Correlation	.451**
	Sig. (2-tailed)	.001
	N	52
Scope of work of internal auditors	Pearson Correlation	.436**
	Sig. (2-tailed)	.001
	N	52

Furthermore, the competence of internal auditors showed a stronger positive correlation with fraud detection ( $r = 0.451$ ,  $p = 0.001$ ). This indicates that well-trained and experienced auditors are more capable of identifying red flags, understanding complex financial transactions, and applying professional skepticism during audits. This supports findings by Arena and Azzone (2022, who argue that technical expertise and continuous professional development significantly enhance the effectiveness of internal audit functions in combating fraud.

The scope of work of internal auditors was found to have a significant positive relationship with fraud detection ( $r = 0.436$ ,  $p = 0.001$ ). A broader scope allows auditors to examine a wider range of processes and transactions, increasing the likelihood of uncovering irregularities. This is in line with Gramling et al. (2024), who noted that a comprehensive audit scope ensures critical areas of risk are addressed, thus enhancing fraud prevention mechanisms.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.624 <sup>a</sup>	.390	.351	.46380

The R value of 0.624 indicates a moderately strong positive correlation between the observed values of fraud and the predicted values from the regression model. This means that the model is reasonably good at explaining variations in fraud levels using the internal audit variables. The R Square ( $R^2$ ) value of 0.390 shows that approximately 39% of the variation in fraud in insurance companies can be explained by the combined effect of competence, and scope of work. This level of explanatory power is considered moderate and suggests that while internal audit factors are important predictors, other external or organizational factors also contribute to the incidence of fraud.

**Table 6: Beta Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.143	.543		-2.106	.041
Competence of internal auditors $X_1$	.465	.183	.303	2.542	.014
Scope of work of internal auditors $X_2$	.531	.173	.358	3.076	.003

$$Y = -1.143 + 0.465X_1 + 0.531X_2$$

A unit increase in the competence of internal auditors leads to a 0.465 unit increase in fraud detection/prevention, with a significant p-value of 0.014. It supports literature by Shamki and Alhajri (2022) who investigated factors influence internal audit effectiveness and found a significant positive relationship between auditors' professional experience and the overall

effectiveness of audits effectiveness and fraud detection. A unit increase in the scope of internal auditors' work results in a 0.531 unit increase in fraud reduction, which is the highest among the three predictors and statistically significant ( $p = 0.003$ ). Kashona (2019) study on effect of audit work scope on fraud detection and prevention revealed that a well-structured scope of work allows internal auditors to concentrate their efforts on high-risk areas that are more susceptible to fraud.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

The competence of internal auditors emerged as a key factor in enhancing fraud detection, with results showing a strong positive correlation between auditors' qualifications and experience and their ability to uncover fraud. Auditors who possess professional certifications and tertiary education were found to be better equipped to perform complex audit tasks, identify fraud risks, and recommend practical controls. The findings indicate that relevant experience significantly boosts an auditor's capacity to assess internal controls and detect anomalies. The study also found that insurance firms generally support staff development by offering equal training opportunities across all levels, creating a fair and competent workforce.

The study concluded that a well-defined and inclusive scope of work significantly enhances the auditors' ability to prevent and detect fraud, reflecting a critical component of effective internal audit practice. A wider audit scope increases the opportunity to identify irregularities across various business areas, systems, and transactions. The regression results showed that expanding the scope of internal audits leads to the greatest improvement in fraud mitigation, emphasizing the importance of comprehensive audit coverage in reinforcing organizational controls.

### **Recommendations of the Study**

Managers in insurance companies should prioritize strengthening the internal audit function as a strategic tool for fraud detection and prevention. Management should invest in the continuous professional development of internal auditors by facilitating access to training, certifications, and knowledge-sharing forums. Expanding the scope of internal audits to cover all high-risk and operationally critical areas should also be considered a managerial priority to ensure comprehensive fraud risk assessment.

Policies should clearly define the roles and boundaries of internal auditors, promote mandatory continuous professional education, and encourage job rotation to prevent familiarity threats. Furthermore, industry guidelines should require organizations to establish robust audit plans that cover a wide range of business operations and prioritize high-risk areas. Audit committees should also be empowered to oversee the scope, quality and effectiveness of internal audits to ensure alignment with best practices in fraud prevention.

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