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FRAUD REPORTING AND FINANCIAL PERFORMANCE OF COUNTY GOVERNMENTS IN KENYA: THE MODERATING ROLE OF GOVERNANCE ACCOUNTABILITY

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ABSTRACT

Fraud mitigation forms major part of any institution's financial and business policies and procedures so as to safeguard the institution's financial performance. However, fraud occurrence has increased over the recent years globally and all the sectors of the Economies have been affected. Kenya has continued to experience the effects of fraud which have contributed to the decreased growth in its development. The public Sector in Kenya especially the County Governments have not been spared by fraud effects and thus have over the years experienced massive Fraud that have threatened to cripple their functions and have negatively impacted on their financial performance objectives. The objectives of this study were to examine the effect of fraud reporting on the financial performance as well as to assess the moderating effect of governance accountability on the relationship between fraud reporting and financial performance of County Governments in Kenya. Descriptive research design was used. The investigation targeted 47 county staff who were internal auditors from each County Government, Purposive sampling method was employed for the investigation, with forty-seven County Governments serving as units of analysis and the study's units of Observations being forty-seven members from Internal Audit Function of each of the forty-seven County Governments. The investigation was anchored on Fraud Triangle and Institutional theories. Primary data was gathered using a structured question sheet that was issued to the sampled respondents. Data was evaluated quantitatively using descriptive statistics, correlation and regression analyses. Study results illustrated that fraud reporting was statistically significant on determining the financial performance of County Governments in Kenya as was depicted by an R square of 0.522, P<0.05. The final R square of the moderating variable was found to be 0.725, P<0.05 which implies that the model explained 72.5% variance in financial performance in County Governments in Kenya. The investigation concluded that if fraud reporting was strengthened by governance accountability, then the financial performance of the county governments would be enhanced. Therefore, county Governments should strengthen governance accountability structures by enforcing ethical standards, implementing transparent decision-making processes, and ensuring public participation in budgetary and financial matters.

Keywords: *Forensic Accounting, Fraud Reporting, Governance Accountability, Financial Performance, County Governments*

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INTRODUCTION

Fraud reporting is a critical aspect of financial management in public institutions, particularly in county governments of Kenya, where the decentralized system of governance has increased the complexity of managing public resources. Fraud, as evidenced by financial misappropriation, bribery, false invoicing, and embezzlement, has continuously undermined the financial performance of county governments (Fwambaa, 2023). The existence of these fraudulent activities diverts resources away from planned projects, thereby affecting service delivery and economic development. In Kenya, the devolution system introduced through the 2010 Constitution gave county governments significant autonomy over resource allocation and expenditure. While this decentralization aimed to enhance service provision and local governance, it also created opportunities for fraudulent activities due to weak oversight, inadequate internal control systems, and gaps in accountability mechanisms (Nzioki, 2022).

Fraud reporting entails the systematic identification, documentation, and communication of fraudulent activities within an organization (Umoru, Farouk & Abubakar, 2025). Effective fraud reporting mechanisms in county governments are essential for tracking misappropriation of funds, monitoring expenditure patterns, and ensuring compliance with established financial and legal frameworks. According to Opiyo (2017), counties that have institutionalized forensic accounting and robust fraud reporting frameworks are better positioned to detect, deter, and prevent fraudulent activities. Such reporting facilitates timely intervention and corrective measures, enabling public institutions to recover lost resources, deter future misconduct, and maintain operational efficiency. In essence, fraud reporting serves as an early warning mechanism that strengthens the internal control systems of county governments and contributes to financial prudence (Okeke, Okoye & Nwoye, 2025).

The link between fraud reporting and financial performance is significant. Financial performance in county governments is measured by efficiency in resource utilization, adherence to budgetary allocations, minimization of deficits, and overall fiscal prudence (Kombe, 2025). Unreported or poorly reported fraud leads to wastage of public resources, budget overruns, and deficits in county financial statements. For instance, the 2019–2020 Annual Report by the Controller of Budget indicated that 36 county governments exceeded the authorized limit of 35% of total revenue on personal emoluments, raising concerns over potential fraudulent practices and mismanagement. Failure to report and address such financial irregularities affects not only the operational efficiency of counties but also erodes public trust, discourages foreign investments, and compromises service delivery (Rahayu, Yudi, Sofyan, Rahayu, & Jumaili, 2025).

Governance accountability plays a critical moderating role in the relationship between fraud reporting and financial performance. Governance accountability entails the mechanisms, policies, and practices through which public officials and institutions are held answerable for the management and utilization of public resources (Romzek & Dubnick, 2018; Abhayawansa, Adams & Neesham, 2021). Accountability in county governments manifests through legal, political, professional, and cultural dimensions, encompassing compliance with the Constitution of Kenya, adherence to Public Finance Management regulations, and responsiveness to citizen expectations. When governance accountability is robust, it ensures that fraud reporting mechanisms are effectively utilized, corrective actions are taken, and transparency is maintained in financial management. This, in turn, enhances the financial performance of county governments by reducing misappropriation, promoting efficient resource use, and facilitating timely reporting and resolution of irregularities (Rizvi et al., 2020).

Empirical evidence suggests that governance accountability strengthens the efficacy of fraud reporting (Sofyani, Riyadh & Fahlevi, 2020). Counties with well-defined accountability structures, including oversight by audit committees, internal audit units, and the Auditor-General’s periodic review, demonstrate higher compliance with financial regulations and better detection of fraudulent activities (Kaunda, 2021). Governance accountability ensures that public officers are held liable for any financial mismanagement, thereby creating an environment where fraudulent behavior is discouraged. Accountability mechanisms also empower citizens and other stakeholders to demand transparency, submit complaints, and monitor the use of public funds, which complements internal fraud reporting systems. Consequently, accountability functions as a catalyst that reinforces the link between fraud reporting and improved financial performance (Solomon, 2020).

The failure to establish strong governance accountability often undermines fraud reporting and financial performance (Karsono, 2023). County governments that lack strict enforcement of accountability policies, such as legal prosecution of offenders, financial audits, and whistleblower protection frameworks, experience recurrent fraud incidents and poor financial outcomes. Onyango (2022) notes that in Kenya, public servants in certain counties continue to engage in fraudulent activities, exploiting weak internal controls and insufficient oversight. Such gaps contribute to inefficient revenue utilization, budget deviations, and losses that could have been mitigated through effective fraud reporting and accountability. The persistence of these challenges highlights the necessity of integrating governance accountability into the fraud management framework to ensure financial sustainability and institutional credibility.

Forensic accounting has emerged as a pivotal tool in enhancing fraud reporting and financial performance within counties. By combining auditing, accounting, and investigative skills, forensic accountants provide objective analysis, uncover hidden fraudulent transactions, and support legal proceedings against perpetrators (Anyona, 2024). The adoption of forensic accounting policies in county governments enables systematic fraud detection, verification of financial statements, and evaluation of internal control effectiveness. Ahmed, Senturk and Ali (2025) emphasize that forensic accounting not only identifies existing fraud but also contributes to designing preventive measures that strengthen governance structures. When forensic accounting is embedded within a culture of governance accountability, counties are better equipped to ensure that reported fraud translates into corrective action, policy reform, and improved financial performance.

Fraud reporting mechanisms include various channels, such as internal whistleblower platforms, audit reports, management reviews, and citizen feedback systems. The integration of technology in reporting, including financial management information systems, enhances the speed, accuracy, and accessibility of fraud reports. However, reporting alone is insufficient unless accompanied by governance accountability measures. Legal frameworks, such as Chapter Six of the Constitution of Kenya and the Public Finance Management Act, establish obligations for ethical conduct, fiduciary responsibility, and transparency. Counties that rigorously enforce these legal and institutional standards demonstrate higher financial performance, as fraudulent activities are curtailed, revenue leakages minimized, and budgetary compliance improved (Rizvi et al., 2020).

The moderating effect of governance accountability is particularly relevant in the context of Kenya’s devolved governance system. County governments, empowered with significant fiscal autonomy, face heightened risks of fraud due to increased discretion in financial decision-making. Strong governance accountability ensures that the autonomy granted does not translate into misuse of public funds but instead encourages prudent fiscal management (Hastuti & Mardijuwono, 2020). Counties with transparent reporting procedures, effective oversight committees, and regular audits exhibit higher levels of financial efficiency and public trust. In contrast, weak accountability allows fraudulent practices to persist despite reporting mechanisms, diminishing the positive impact of fraud reporting on financial performance (Mason, 2020).

Research evidence demonstrates that enhancing governance accountability improves both the quality and effectiveness of fraud reporting. For example, Karuti (2020) found that counties that implemented forensic accounting policies alongside stringent governance accountability measures experienced substantial improvements in fraud detection, deterrence, and prevention. Similarly, Mwaringa (2020) highlighted that the collapse of institutions such as c and the placement of Imperial Bank under receivership were linked to weak governance accountability that failed to respond effectively to fraud reports. Therefore, fostering a culture of accountability not only complements fraud reporting but also ensures that financial performance is safeguarded against the adverse effects of misappropriation and embezzlement.

Fraud reporting is a vital mechanism for enhancing financial performance in county governments of Kenya. However, its effectiveness is contingent upon the presence of strong governance accountability structures. Accountability ensures that fraudulent activities are not only reported but also investigated, prosecuted, and prevented in the future (Warui, 2025). County governments that integrate robust fraud reporting mechanisms with governance accountability demonstrate higher efficiency in resource utilization, improved adherence to budgetary allocations, and better overall financial performance. Consequently, policy interventions aimed at strengthening governance accountability, promoting forensic accounting, and institutionalizing fraud reporting are essential for achieving sustainable financial management and economic growth in Kenya’s devolved governance system (Araka, 2023).

Statement of the Problem

County Governments in Kenya continue to face significant challenges in managing public resources effectively, with persistent cases of fraud and financial mismanagement undermining development outcomes. Despite the existence of regulations governing public expenditure, irregularities such as cash larceny, cash skimming, misappropriation of tangible assets, and payroll fraud remain widespread, adversely affecting financial performance. Reports from the Ethics and Anti-Corruption Commission (EACC, 2018–2019) indicate that bribery constitutes 34% of the reported cases, embezzlement 23%, public procurement irregularities 11%, and abuse of office 9%, highlighting the scale of fraudulent activities within public institutions. Furthermore, proactive investigations disrupted Ksh. 10 billion worth of corruption, yet recovery remains partial, illustrating the persistent gap between detection and full restitution of public funds.

The Controller of Budget (CoB) Annual Report (2019–2020) reveals that 36 counties spent more than the legally allowed 35% of total revenue on personal emoluments, with some counties allocating up to 44.8% of expenditure to salaries, allowances, and pensions. Such overexpenditure not only raises concerns about potential payroll fraud but also diverts resources from critical development projects, further compromising financial performance. Previous studies have established that forensic accounting is instrumental in fraud detection, reporting, and prevention (Ahmed et al., 2025), yet local applications remain fragmented. Research by Karuti (2020) and Opiyo (2017) demonstrated that while forensic accounting policies and fraud audits are effective, their implementation across county governments is uneven and limited in scope.

Additionally, existing studies have focused on selected counties or parastatals, leaving a contextual gap regarding comprehensive county-level assessment, particularly in relation to fraud reporting and financial performance. The role of governance accountability as a moderating factor in this relationship has also received limited empirical attention, despite its potential to enhance compliance, transparency, and effective oversight. This study seeks to address these gaps by examining the effect of fraud reporting on the financial performance of County Governments in Kenya, while considering governance accountability as a moderating factor. Understanding this dynamic is critical for developing robust mechanisms for fraud mitigation, improving resource utilization, and ultimately enhancing the financial performance of devolved governments in Kenya. The study tested the following null hypotheses.

- **H_{01}:** Fraud reporting has no statistically significant effect on financial performance of County Governments in Kenya.
- **H_{02}:** Governance accountability has no statistically significant moderating effect on the relationship between fraud reporting and financial performance of County Governments in Kenya.

LITERATURE REVIEW

Theoretical Review

Fraud Triangle Theory, developed by Cressey (1953), identifies three key factors Opportunity, Motivation (Pressure), and Rationalization that contribute to occupational fraud. Opportunity arises when weak internal controls, such as poor segregation of duties or ineffective monitoring, allow employees to commit fraud with low risk of detection (Cheliatsidou et al., 2023). Motivation stems from personal financial pressures, debts, or desire for illicit gain, pushing employees toward fraudulent behaviour (Albrecht et al., 2018). Rationalization involves the internal justification employees create to legitimize their fraudulent actions (Kagias et al., 2022). By understanding these elements, organizations can design targeted interventions, such as strengthening internal controls, addressing employee financial pressures, and promoting ethical culture, to disrupt the triangle and mitigate fraud. In the context of County Governments in Kenya, fraud reporting serves as a critical mechanism to detect and prevent fraud by exposing irregularities arising from these three factors. Effective reporting reduces Opportunity by enabling oversight, diminishes Motivation by signalling accountability, and limits Rationalization through public and managerial scrutiny. Therefore, applying the fraud triangle theory, robust fraud reporting is expected to enhance financial performance by curbing losses and ensuring proper utilization of public resources, directly addressing H_{01}, which posits that fraud reporting has no significant effect on financial performance.

Institutional Theory, developed by Meyer and Rowan (1977) and extended by DiMaggio and Powell (1983), examines how formal and informal institutions shape organizational behaviour, structures, and practices. It posits that organizations conform to societal expectations and regulatory frameworks through normative, mimetic, and coercive isomorphism. Normative isomorphism involves adopting practices considered appropriate by professional groups or stakeholders, mimetic isomorphism entails imitating successful peers to gain legitimacy, and coercive isomorphism arises from legal requirements or threats of sanctions (Rahman & Jie, 2024). Kauppi (2022) further emphasized that laws, regulations, and institutional pressures guide organizational actions and are gradually institutionalized within formal procedures. In the context of County Governments in Kenya, Institutional Theory explains how governance accountability structures such as adherence to anti-corruption laws, the Public Procurement and Disposal Act, and constitutional provisions shape staff behavior in fraud detection and reporting. Governance accountability acts as a moderating factor by enforcing compliance, legitimizing fraud reporting mechanisms, and ensuring that detected fraud is addressed appropriately. Effective institutional enforcement reduces the likelihood of embezzlement and mismanagement of public funds (Sahin & Mert, 2023). Therefore, applying Institutional Theory, governance accountability is expected to strengthen the relationship between fraud reporting and financial performance, directly addressing H_{02}, which posits that governance accountability has no significant moderating effect on this relationship.

Conceptual Framework

The conceptual frame work for this study shows the relationship between fraud reporting, governance accountability and financial performance as shown in Figure 1.0.

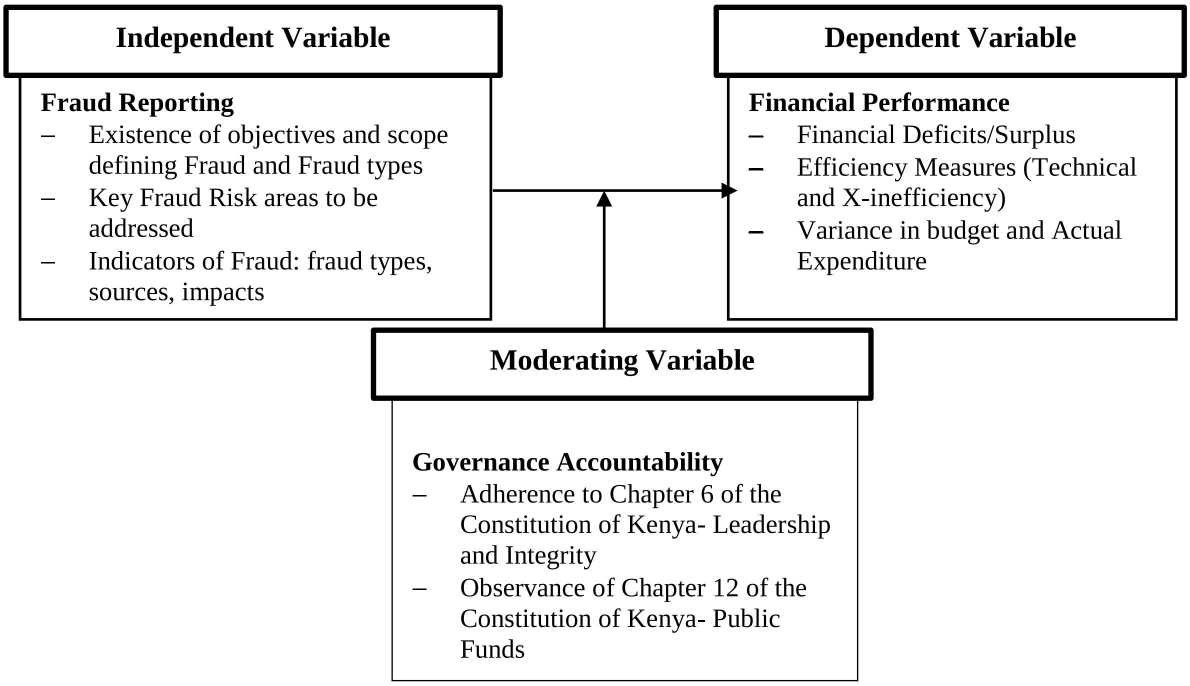

Figure 1.0: Conceptual Framework

Empirical Studies

Fraud reporting is a critical component in organizational financial management as it helps mitigate the occurrence of fraud and safeguards financial resources. Fathmaningrum and Anggarani (2021) examined 149 Indonesian banks from 2009–2014 and found that external pressures, including debt obligations and audits as part of fraud reporting systems, negatively impacted fraudulent financial reporting. The study concluded that timely reporting allows organizations to recover misappropriated funds, which can then be effectively invested, enhancing financial performance. Similarly, Chukwuma et al. (2022) analyzed MTN Nigeria and reported that forensic accounting tools, including fraud reporting, were responsible for 73% of the firm's financial growth. Timely reporting and swift regulatory response ensured sustainable financial performance, demonstrating the importance of reporting mechanisms in mitigating losses. In Kenya, Kiprono and Ng'ang'a (2018) found that fraud reporting systems and internal controls positively and significantly influenced the financial performance of Kenya Ports Authority, recommending reward systems for reporting fraud to enhance detection and mitigation. Wamboi (2024) highlighted that fraudulent activities such as identity theft and cheque fraud reduced Equity Bank's profitability, emphasizing the need for robust reporting systems and clear fraud policies. Karuti (2020) investigated seven Mount Kenya counties and discovered that effective forensic accounting policies, including efficient fraud reporting mechanisms, significantly contributed to fraud control and mitigated financial losses. These studies collectively illustrate that fraud reporting plays a vital role in controlling financial misconduct, safeguarding resources, and enhancing financial performance. The current study seeks to extend this evidence to all 47 County Governments in Kenya, assessing how structured fraud reporting mechanisms impact their overall financial performance (Fathmaningrum & Anggarani, 2021; Chukwuma et al., 2022; Kiprono & Ng'ang'a, 2018; Wamboi, 2024; Karuti, 2020).

Governance accountability plays a crucial moderating role in the relationship between forensic accounting and financial performance, particularly in public sector organizations. Ofei et al. (2020) examined how government policies influenced the link between internal control systems and bank performance in Ghana, using data from 154 respondents across five banks. The study found a significant relationship between internal controls and governmental policy. However, its application to the public sector in Kenya is limited due to differences in regulatory frameworks and the use of internal control rather than forensic accounting as the independent variable. The present study addresses this gap by focusing on county governments in Kenya and examining forensic accounting as a key determinant of financial performance. Chacha and Nyangau (2021) investigated revenue collection and financial accountability in Rorya District Council, Tanzania, using government policy as a moderating variable. Their findings indicated a significant adverse relationship between revenue collection and accountability, yet the study did not explicitly explore how government policy moderated the relationship between independent and dependent variables. This gap underscores the need to evaluate governance accountability in moderating the effect of forensic accounting on financial performance in the Kenyan context. Similarly, Wamboi (2024) analyzed 38 companies listed on the Nairobi Securities Exchange and found that government policies positively influenced the relationship between internal controls and financial performance. Building on these insights, the present study applies Chapter 6 and Chapter 12 of the Constitution of Kenya, which outline leadership, integrity, and public fund management, to examine governance accountability. This ensures that county governments' adherence to laws and ethical standards strengthens the impact of forensic accounting on financial performance (Ofei et al., 2020; Chacha & Nyangau, 2021; Fathmaningrum & Anggarani, 2021; Wamboi, 2024).

METHODOLOGY

This study adopted a descriptive research design to assess the impact of fraud reporting on the financial performance of County Governments in Kenya moderated by governance accountability. The target population consisted of the 47 County Governments of Kenya, selected because each county faces unique fraud risks and varying levels of financial performance. The study employed purposive sampling to select 47 internal auditors as respondents, appropriate due to their knowledge of forensic accounting practices and the feasibility of reaching participants across multiple counties (Vutumu, Oshota, & Akinteye, 2025). Primary data were collected using a structured questionnaire focusing independent variables (fraud reporting), the moderating variable (governance accountability), and financial performance. Responses were recorded on a five-point Likert scale. The instrument yielded a response rate of 87.2% was achieved with a total of 47 questionnaires sent in the field for data collection, and 41 of those questionnaires were fully completed and returned.

Validity and reliability were ensured through a pilot study with two internal auditors from the Ministry of Lands and Physical Planning. Content validity was established using expert review, while reliability was measured using Cronbach's alpha, yielding coefficients between 0.739 and 0.849, indicating high reliability (Aila & Ombok, 2015). The factor analysis for financial performance, governance accountability, and fraud reporting showed strong validity and sampling adequacy. Financial performance had a Kaiser-Meyer-Olkin (KMO) of 0.589 with 69.33% variance explained and an overall factor loading of 0.735. Governance accountability recorded a KMO of 0.730, 78.36% variance explained, and factor loading of 0.829. Fraud reporting showed a KMO of 0.650, 61.99% variance explained, and factor loading of 0.776, indicating acceptable convergent validity.

Data were analyzed using SPSS version 26. Descriptive statistics, including mean, median, mode, standard deviation, and variance, were used to summarize patterns and trends. Inferential statistics included hierarchical multiple regression was used to examine the moderating effect of governance accountability. Diagnostic tests ensured model assumptions were met. Q-Q plots confirmed near-normality for all variables. Variance Inflation Factor (VIF) and tolerance values indicated no multicollinearity since VIF values were less than 10. Scatter plots showed linear relationships between forensic accounting variables and financial performance. The Breusch-Pagan test confirmed homoscedasticity ($p = 0.961$). Hypotheses testing employed regression coefficients and p-values at a 0.05 significance level to determine statistical significance for the two study hypotheses.

RESULTS AND DISCUSSION

Descriptive Analysis

Table 1 provides descriptive statistics on the degree to which fraud reporting affects the financial success of County Governments in Kenya where 1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-agree and 5-Strongly agree.

Table 1.0: Fraud Reporting

Fraud Reporting	5	4	3	2	1	Mean	Stdev
There is a Fraud Policy adopted by the County Government	0 (0)	61 (25)	17.1 (7)	14.6 (6)	7.3 (3)	3.32	0.99
There are Risk Registers in the County Government.	0 (0)	29.3 (12)	53.7 (22)	9.8 (4)	7.3 (3)	3.05	0.84
There is existence of outlined Fraud sources, types and Indicators.	0 (0)	26.8 (11)	51.2 (21)	19.5 (8)	2.4 (1)	3.02	0.76
Established channels of communication for staff to report suspected improprieties	4.9 (2)	56.1 (23)	19.5 (8)	17.1 (7)	2.4 (1)	3.44	0.92
The County Government gives reports on Frauds perpetrated within its boundaries.	2.4 (1)	39 (16)	36.6 (15)	19.5 (8)	2.4 (1)	3.20	0.87

The study findings indicate mixed perceptions regarding fraud management in County Governments. Regarding the adoption of a formal fraud policy, 61% of respondents agreed, though 21.9% disagreed or strongly disagreed, with a mean of 3.32, reflecting general neutrality. For the presence of risk registers, most respondents were neutral (53.7%) with a mean of 3.05, suggesting limited awareness or implementation. Concerning outlined fraud sources, types, and indicators, 51.2% of respondents were neutral while 21.9% disagreed, indicating partial recognition of fraud identification measures, with a mean of 3.02. Similarly, established channels for staff to report suspected improprieties elicited neutral responses from 19.5%, with a significant standard deviation (0.92), indicating uncertainty about communication effectiveness. Lastly, regarding reporting of frauds perpetrated within counties, responses were largely neutral (36.6%) and disagreeing (39%), with a mean of 3.20, highlighting limited transparency or inconsistent reporting practices. Overall, while there is some acknowledgment of fraud policies and reporting mechanisms, the predominance of neutral responses and moderate means suggests that fraud management structures and practices in County Governments are either insufficiently implemented or inadequately communicated to staff, indicating potential gaps in fraud prevention and monitoring.

Table 2.0: Governance Accountability Descriptive Statistics

Governance Accountability	5	4	3	2	1	Mean	Stdev
County Staff discharge of duties promotes public confidence in the integrity of the offices they hold.	17.1 (7)	73.2 (30)	2.4 (1)	7.3 (3)	0 (0)	4.00	0.71
County Staff show respect to people in discharge of their duties and their conduct in handling County Government's resources.	14.6 (6)	58.5 (24)	19.5 (8)	4.9 (2)	2.4 (1)	3.85	0.74
There is Objectivity and impartiality in decision making by the County Staff in regards to County Government's resources.	4.9 (2)	53.7 (22)	29.3 (12)	9.8 (4)	2.4 (1)	3.49	0.84
There is openness and Accountability including public participation in regards to the Financial Matters of the County Government.	9.8 (4)	46.3 (19)	31.7 (13)	9.8 (4)	2.4 (1)	3.51	0.90
The Expenditures incurred by the County Governments promote Equitable Development of the citizens within the County Government.	7.3 (3)	61 (25)	19.5 (8)	7.3 (3)	4.9 (2)	3.59	0.92
Public Money is used in a prudent and Responsible Manner by the County Staff.	4.9 (2)	39 (16)	24.4 (10)	29.3 (12)	2.4 (1)	3.15	0.99
There is a clear Fiscal Reporting	58.5 (24)	29.3 (12)	4.9 (2)	7.3 (3)	0 (0)	4.39	0.89
There is periodic Financial Reporting	73.2 (30)	19.5 (8)	0 (0)	7.3 (3)	0 (0)	4.59	0.836

The study findings reveal that the majority of respondents perceive County Staff as promoting public confidence in the integrity of their offices, with 73.2% agreeing and 17.1% strongly agreeing, yielding a mean of 4.00, indicating overall positive sentiment. Similarly, 58.5% agreed that staff demonstrate respect in handling public resources, with a mean of 3.85, reflecting general approval. Regarding objectivity and impartiality in decision-making, 53.7% agreed while 29.3% were neutral, giving a mean of 3.49, indicating moderate perceptions. On openness, accountability, and public participation in financial matters, 46.3% agreed and 9.8% strongly agreed, with a mean of 3.51, suggesting moderate confidence in transparency. For equitable development, 61% agreed expenditures promote citizen development, with a mean of 3.59. Concerning prudent use of public funds, 39% agreed, 21.4% were neutral, and 31.7% disagreed, producing a mean of 3.15, reflecting uncertainty in fiscal responsibility. Clear fiscal reporting received strong approval from 58.5% with a mean of 4.39, while periodic financial reporting was strongly supported by 73.2%, with a mean of 4.59. Overall, findings indicate that County Staff performance, respect, and fiscal reporting are generally positively perceived, though objectivity, transparency, and prudent resource use show moderate levels of confidence, highlighting areas for potential improvement in governance accountability.

Inferential Analysis

The research used hierarchical regression analysis to investigate if governance accountability moderates the influence Fraud Reporting on the financial performance at county governments in Kenya

Table 3: Hierarchical Regression Model Summary

					Change Statistics				
Model	**R**	**R^2**	**Adj. R^2**	**Std. Error of the Estimate**	**R^2 Change**	**F Change**	**df1**	**df2**	**Sig. F Change**
1	.722[a]	.522	.510	.33054	.522	42.560	1	39	.000
2	.767[b]	.588	.566	.31077	.066	6.118	1	38	.018
3	.851[c]	.725	.702	.25754	.136	18.334	1	37	.000

a. Predictors: (Constant), Fraud Reporting
b. Predictors: (Constant), Fraud Reporting, Governance accountability
c. Predictors: (Constant), Fraud Reporting, Governance accountability, Fraud Reporting*Governance accountability

The hierarchical regression results indicate the moderating effect of governance accountability on the relationship between fraud reporting and financial performance of County Governments in Kenya. In Model 1, fraud reporting alone explained 52.2% of the variance in financial performance ($R^2 = 0.522$, $F = 42.560$, $p < 0.05$), indicating a significant positive influence. In Model 2, adding governance accountability increased the explained variance to 58.8% ($\Delta R^2 = 0.066$, F change = 6.118, $p = 0.018$), suggesting that governance accountability contributes significantly to explaining variations in financial performance. Model 3 included the interaction term between fraud reporting and governance accountability, further increasing the variance explained to 72.5% ($\Delta R^2 = 0.136$, F change = 18.334, $p < 0.05$). This significant change demonstrates that governance accountability significantly moderates the relationship between fraud reporting and financial performance, enhancing the effect of fraud reporting on financial outcomes. Overall, the results suggest that county governments with higher governance accountability strengthen the positive impact of fraud reporting on financial performance. This highlights the critical role of governance structures in ensuring that fraud reporting mechanisms translate into improved fiscal outcomes. Effective governance accountability not only directly influences financial performance but also enhances the efficacy of fraud reporting systems in mitigating financial risks.

Table 4: Regression Coefficient of Moderating influence

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.857	.250		7.412	.000
	Fraud Reporting	.499	.076	.722	6.524	.000
2	(Constant)	1.148	.371		3.095	.004
	Fraud Reporting	.477	.072	.690	6.579	.000
	governance accountability	.204	.083	.260	2.473	.018
3	(Constant)	1.940	.359		5.408	.000
	Fraud Reporting	.241	.081	.349	2.960	.005
	governance accountability	-.016	.086	-.020	-.185	.855
	Fraud Reporting* governance accountability	.064	.015	.596	4.282	.000

a. Dependent Variable: Financial performance

In Model 1, fraud reporting has a significant positive effect on financial performance ($\beta = 0.722$, $t = 6.524$, $p < 0.05$), indicating that enhanced fraud reporting directly improves financial performance. Based on the regression results, a unit increase in fraud reporting is associated with a 0.722 increase in financial performance in Model 1. As per the hypothesis H_{01}

$Y=1.857+0.499X_1$

Where:

Y=The financial performance

X_1=Fraud Reporting

Model 2 shows that when governance accountability is added, both fraud reporting ($\beta = 0.690$, $t = 6.579$, $p < 0.05$) and governance accountability ($\beta = 0.260$, $t = 2.473$, $p = 0.018$) significantly contribute to financial performance, confirming that governance accountability has an independent positive effect. When governance accountability is considered (Model 2), a unit increase in fraud reporting results in a 0.690 increase in financial performance, while a unit increase in governance accountability independently contributes a 0.260 increase. In Model 3, the interaction term between fraud reporting and governance accountability is significant ($\beta = 0.596$, $t = 4.282$, $p < 0.05$), while governance accountability alone becomes non-significant ($\beta = -0.020$, $t = -0.185$, $p = 0.855$). This demonstrates that governance accountability significantly moderates the effect of fraud reporting on financial performance rather than directly influencing it. The positive interaction coefficient indicates that higher levels of governance accountability strengthen the positive impact of fraud reporting on financial outcomes. On the basis of the regression coefficient in model 3, the regression model for the hypothesis H_{02} is presented as follows.

$Y=1.940+0.241X_1-0.016Z+0.064X_1Z$

Where:

Y=The financial performance

X_1=Fraud Reporting

Z= Governance accountability

Discussion

The findings indicate that fraud reporting significantly influences the financial performance of County Governments in Kenya suggesting that increased reporting of fraudulent activities contributes positively to fiscal outcomes. This aligns with Fathmaningrum and Anggarani (2021), who observed that effective fraud reporting systems, including audits and monitoring mechanisms, reduce financial misappropriations in Indonesian banks, thereby improving performance. Similarly, Chukwuma et al. (2022) found in Nigeria that timely reporting of fraud enhanced organizational financial performance, as forensic accounting indicators, including reporting, accounted for substantial growth. In the Kenyan context, fraud reporting allows County Governments to identify financial irregularities promptly, recover misappropriated funds, and strengthen internal controls, reflecting findings from Warui (2025) in Kenya Ports Authority, where internal controls and reporting disrupted fraudulent schemes, improving financial outcomes. Additionally, Wamboi (2024) emphasized that inadequate fraud reporting in Kenyan banks undermined profitability, underscoring the necessity of robust reporting frameworks. Karuti (2020) further demonstrated that structured fraud reporting mechanisms in County Governments mitigated fraud occurrence and protected financial resources. The current study confirms that fraud reporting directly improves financial performance by detecting, documenting, and mitigating financial risks, supporting previous evidence that transparency and effective monitoring systems enhance fiscal accountability in public sector entities. Therefore, H01 is rejected as fraud reporting has a significant positive effect on financial performance.

The study reveals that governance accountability significantly moderates the relationship between fraud reporting and financial performance indicating that higher levels of accountability enhance the effectiveness of fraud reporting in improving fiscal outcomes. This corroborates Ofei et al. (2020), who found that government policies strengthened the link between internal controls and organizational performance in Ghanaian banks. Al Natour, Al-Mawali, Zaidan and Said (2025) similarly demonstrated that policy and governance mechanisms influenced financial accountability in Tanzanian local governments, implying that effective governance structures facilitate proper utilization of reported fraud information. In the Kenyan context, governance accountability encompassing transparency, ethical leadership, and compliance with public finance management laws ensures that fraud reports are acted upon effectively, translating into improved financial performance. Wamboi (2024) also observed that government policies significantly moderated the impact of internal controls on financial outcomes, highlighting the importance of governance oversight. By integrating accountability frameworks, County Governments enhance the practical impact of fraud reporting, ensuring corrective actions, recovery of misappropriated funds, and adherence to fiscal regulations. Consequently, the interaction between fraud reporting and governance accountability strengthens financial performance, confirming that governance structures are essential for maximizing the benefits of fraud management practices. Therefore, H02 is rejected, as governance accountability significantly moderates the effect of fraud reporting on financial performance.

CONCLUSION AND RECOMMENDATIONS

The study established that fraud reporting significantly influence the financial performance of County Governments in Kenya, confirming that robust forensic accounting practices enhance financial outcomes. Specifically, fraud reporting was found to have a strong positive impact on financial performance, indicating that timely identification and reporting of irregularities ensure better utilization of public resources. Additionally, governance accountability was shown to significantly moderate the relationship between fraud reporting and financial performance, as the interaction effect revealed that counties with higher governance accountability experienced amplified financial benefits from fraud reporting. These findings underscore the importance of institutionalizing clear fraud policies, fostering transparency, and enhancing accountability mechanisms to strengthen public sector financial management, mitigate risks, and improve service delivery to citizens.

Based on the findings, County Governments should strengthen their fraud reporting systems to ensure timely detection, documentation, and resolution of fraudulent activities. This includes establishing clear policies, designated reporting channels, and regular training for staff on fraud indicators and compliance requirements.

Regular audits and integration of forensic accounting tools should be institutionalized to monitor financial transactions continuously. County Governments should strengthen governance accountability structures by enforcing ethical standards, implementing transparent decision-making processes, and ensuring public participation in budgetary and financial matters. Regular monitoring and evaluation mechanisms should be established to assess staff performance and adherence to fraud policies. By enhancing governance accountability, counties can amplify the effectiveness of fraud reporting, ensure prudent management of public funds, and foster a culture of transparency, ultimately improving financial performance and service delivery to citizens.

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