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Type of the Paper: Research Paper.
Type of Review: Peer Reviewed.
Indexed in: worldwide web, Google Scholar
Google Scholar Citation: IJFAE

How to Cite this Paper:


International Journal of Finance, Accounting and Economics (IJFAE)
A Refereed International Journal of OIRC JOURNALS.
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Influence of Internal Control Systems on Money Fraud among Security Firms: A Case of G4S Kenya

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Abstract
Over the years, security firms including G4S involved in cash transportation have been in the news with huge cash losses being reported. In particular G4S Security Services Kenya Limited has been hard hit by these cases of fraud to the extent that their cash business has been adversely affected. Kenya Police reports have indicated that most incidences involved are on cash in transit. Fraud in security firms not only cause the loss of money but also lack of confidence among the clients that rely on this services to ensure they are able to transfer money from one point to the next.

1.0 Introduction
Cash is the life blood of any firm. Most firms have cash flowing in and out and research has shown that about 92% of fraud cases involve cash (Backhuff, 2004). This is because growth in cash use has been driven by factors such as hoarding, international use and its efficiency in use for low value transactions (Lepecq, 2008). This has necessitates the extensive use of cash despite the existence of the plastic cards alternatives. It is on this basis security firms led by the G4S Security Services Kenya Ltd began offering cash transit services to the Kenyan market in 1970s as it does throughout the world.

Saren & Beelde, (2008) shares that if an organization pursues integrity and clear ethical values reflected in a formal code of conduct, the internal control will take a greater significance in their operation. In their study in Nigeria, Ewa & Udoayang, (2012) shared the impact of internal control design on banks’ ability to staff fraud and staff life style and fraud detection. It was revealed that the internal control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes the system to fraud and creates opportunity for staff to commit fraud.

Sarens & De Beelde, (2006) argue that certain control environment characteristics like tone-at-the-top, level of risk and control awareness, clearly defined and communicated are significantly related to the role of the internal control system and fraud detection within firm. For Robbins and Coulter (2007), controlling is the process of monitoring, comparing and correcting work performance. They continue to show that most organizations apply both the bureaucratic control approach and clan control approach.

The bureaucratic control approach emphasizes organization authority and relies on administrative rules, regulations, and policies. On the other hand, the clan control approach relies on the organization culture to regulate the organization behaviour. The entire control process therefore include in addition to measuring and comparing, the taking action but which according to them could either entail doing...
nothing, correcting actual performance (that is either immediate or basic correction action) and lastly revising standards to meet the expectations of either the customers, society, government and the general public.

Olumbe (2012) conducted a study to establish the relationship between internal controls and corporate governance in commercial banks in Kenya. The researcher conducted a survey of all the 45 commercial banks in Kenya. It was concluded that most of the banks had incorporated the various parameters which were used for gauging internal controls and corporate governance. This was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their banks with high financial performance had instituted good corporate governance with a strong system of internal controls and that there was great improvement of their financial performance.

In an organization set up, control environment characteristics include the veracity, moral values and aptitude of the entity’s human resources; management’s philosophy, operating style and organizational culture; the way management allocates authority and responsibility, arranges and grows its people. It also deals with the level of devotion and path offered by the governance body (COSO, 2011). These are the sources of standards of behaviour. Sauer (2008) points out that organizational behaviour reveals how employees are expected to conduct themselves for the benefit of the organization. Organizational behaviour defines the kind of morals required in the organization based on commonly held beliefs about what is wrong or right (Hill and Jones, 2007).

In firms, culture is a set of values, assumptions, understanding and norms that is shared by employees and the employer and taught to new members in the organization. Culture assists in both internal integration and external adaptation. Organizational culture strengthens the degree of agreement among employees about the importance of specific values and ways of doing things within the organizational context. This also enhance the control processes (whether internal or external) prohibit fraud/theft cases. Robbins and Coulter (2007) defines theft as any unauthorized taking of company property by employees for their personal use. This can be prompted by an existing opportunity to steal presenting itself due to lax controls and favourable circumstances to presence of financial or vice based pressures in peoples’ lives.

Additionally, the feed forward control concept will, they contend, ‘consist of careful pre hiring screening policy; establishment of specific policies defining theft and fraud and the discipline procedures to be applied; involving employees in writing the policies; educating and training employees about the policies and having professionals review the internal security controls. Concurrent concept of control on the other hand, will emphasize treating of employees with respect, openly communicating costs of stealing, letting the employees know on a regular basis their successes in preventing theft and fraud, applying the use video surveillance equipment-if conditions warrant, installing “lock out options” on computers, telephones and emails, using corporate hotlines to report incidences and management setting good examples.

The feedback concept entails making sure employees know when theft or fraud has occurred- not naming names but letting people know its unacceptability, using services of professional investigators, re-designing control measures, evaluating organisations’ culture and the relationships between managers, supervisors and employees. Torrington et al. (2008), show that the control process will also be supported by a framework of organisational justice. This framework, they continue, will consist of culture and style, penalties, procedural sequence, managerial discipline, rules and their enforcement. With such a framework in place, they contend, the behaviour of theft is completely unacceptable.

Kibati (2016) conducted a study to establish the influence of internal control systems on the financial performance of Kenyan banks. The study focused on two internal control systems components namely control environment and control activities. This and many other study have focused on banks or microfinance institutions but less on security firms. In this study the focus is on G4S, which was initially initiated in major towns of Nairobi and Mombasa but later branched to other towns in the country. In addition to cash services, G4S offers Guarding services, fast response services, courier services, fire services and Archiving solutions. Other companies came into the market to challenge their dominance namely Wells Fargo Ltd, Security Group Ltd and lately KK Lodgit.

1.1 Statement of the Problem

Over the years, security firms including G4S involved in cash transportation have been in the news with huge cash losses being reported. In particular G4S Security Services Kenya Limited has been hard hit by these cases of fraud to the extent that their cash business has been adversely affected. Kenya Police reports have indicated that most incidences involved are on cash in transit. Fraud in security firms not only cause the loss of
money but also lack of confidence among the clients that rely on this services to ensure they are able to transfer money from one point to the next. In spite of this awareness of the risk involved in cash in transit, the cases have continued to rise and given the importance of these services to various industries like banks, government and manufacturing and the risk involved, there is need to conduct a research to understand whether remuneration, level of internal controls and job security lead to or influence the commission of cash fraud. This study therefore sought to investigate and understand the causes of this scenario and postulate solutions to stem this trend.

2.0 Research Methodology
The research design was descriptive in nature. This method involved the description of the responses from the target population without modifying or compromising the perception of the respondents. This design was appropriate as it did not only assist in data collection but also involved measurement, classification, analysis, comparison and interpretation of data. Kothari (2004) maintains that the main characteristics of this design are that the person carrying out the research has no control over the variables but can only report about what happened. Respondents were contacted in their usual working places and allowed to respond more freely to the questions in order to investigate their views on the increase in cash thefts. The target population for this study was 846 employees of G4S Security Services Kenya limited. For the purpose of this study, the researcher concentrated on Thika and Nairobi branch with three different cadres of Cash service employees. This suggests that the researcher actually considered 37.5% of the total number of employees. The choice of the branches was partly due to their location and the fact that they were convenient to the researcher. Due to the heterogeneity of the population, stratified random sampling technique was used and a sample size of 10% of that population was drawn. Interview and questionnaires with close ended and open ended questions were used while quantitative techniques used aimed at determining not just how the independent variables affect the dependant variable but also if they affect each other and to what extent they do affect each other. Data was analysed in terms of percentages and frequencies to determine the relationships between fraud and factors like remuneration, controls and job security.

3.0 Results and Discussions
3.1 Measures used in Control of Employees in G4S Security Company
The study sought response from respondent on whether there exist internal control systems. The results are presented below.

Table 1.0: Response on Internal controls

<table>
<thead>
<tr>
<th>Response on Internal controls</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there any written procedures to follow while doing your work?</td>
<td>100</td>
</tr>
<tr>
<td>Have there been any changes in the way you perform your duties in the last 5 years?</td>
<td>75</td>
</tr>
<tr>
<td>Have you received any training on Cash in Transit</td>
<td>65</td>
</tr>
</tbody>
</table>

Analysis in table 1.1 above revealed that all the respondents agreed that there are written procedures to follow while doing work. Further, 75% agreed that there has been changes in the way they perform duties in the last 5 years. This was through introduction of new rules and regulations and better guidelines. All the respondents cited that they followed the rules strictly. A majority of the respondents had also received training on cash in transit comprising 65%.

Table 2.0: Who confirms whether you are following the procedures?

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top managers</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>Branch manager</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Supervisor</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>100</td>
</tr>
</tbody>
</table>

Analysis in table 2.0 revealed that a majority of the respondents cited that supervisors were the persons responsible to check whether procedures were being followed comprising 54% while 26% cited that top managers were the persons responsible to check whether procedures were being followed. This was through inspection, records, trip sheets and regular visits. All procedures at G4S were current and updated. This had led to improved services, better practices and increased employee productivity. The respondents gave various ways with regard to procedures and controls to prevent more cash losses as crew rotation, increased.
remuneration, employee motivation and employee training.

3.2 Internal Control Measures and Fraud Cases in the G4S Company
The researcher was interested in understand how internal control measures can influence fraud cases in the G4S Company the results are presented in table below. This section aimed at establishing various views on fraud using the likert scale: where 1- Strongly agree, 2- Agree 3-Neutral, 4- Disagree, 5-Strongly disagree. Data was presented in mean and standard deviation.

<table>
<thead>
<tr>
<th>Table 3.0: How Internal Control Measures can Influence Fraud Cases</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of remuneration contributes to fraud</td>
<td>1.0000</td>
<td>.34000</td>
</tr>
<tr>
<td>The company has enough internal controls to prevent fraud</td>
<td>2.5455</td>
<td>.50252</td>
</tr>
<tr>
<td>There is need to review internal controls in the company</td>
<td>1.6250</td>
<td>.49029</td>
</tr>
<tr>
<td>I am aware of the rules and regulations regarding cash in transit</td>
<td>1.2727</td>
<td>.44947</td>
</tr>
<tr>
<td>Job security plays a role preventing fraud</td>
<td>1.0000</td>
<td>.54000</td>
</tr>
<tr>
<td>There has been an increase in fraud cases in the company</td>
<td>2.909</td>
<td>1.6360</td>
</tr>
</tbody>
</table>

Analysis in Table 3.0 above indicates that most respondents agreed that the level of remuneration contributes to fraud and this is reinforced by the low standard deviation. As observed in the earlier questionnaires, most respondents agree that the company has enough internal controls to prevent fraud which however need to be reviewed continuously. Most respondents also strongly agree Remuneration as earlier noted does not just relate to salaries and other cash rewards but also relate to non-cash awards. As the study reveals, most respondents (90%) have received salary increments over the last three years but only 27% think the management has done enough to enable them meet their financial objectives. Extra benefits or compensation for getting involved in the risky cash in transit business is proposed by the respondents. This according to them can be in terms of receiving further training to improve efficiency and competence in an effort to improve their skills and knowledge hence having a bearing on the prevalence of cash fraud.

This study has also revealed that there are adequate controls within G4S security services Ltd to guide the performance of such duties. However, this has not been enough hence need to apply the concepts of feed forward, concurrent and feedback control to avoid or reduce instances of what Robbins and Coulter (2007) called “employee theft”. Therefore, job security plays a major role preventing fraud and they were aware of the rules and regulations’ regarding cash in transit as was shown by low means of 1.00, 1.27 and 1.62. Suprisingly, most respondents strongly disagree that there has been an increase in fraud cases in the company though there was a lot of variation on the answers given (a standard deviation of 1.636).

There is a direct relation between job security and the results of this study which reveals that most respondents are not secure in their jobs (63%) despite a high number (86%) being on a permanent basis. This is in contrast to a textbook scenario which attributes low job security to a higher prevalence of casual status of employment. It has also been noted by Whittington and Pany (2001) that the control environment sets the tone of the organization by influencing the control consciousness of people, where the control environment is viewed as the foundation for all the other components of internal control. Attributes such as integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees management philosophy and operating style influences the strength of internal control systems.

remuneration as a leading contributor to increase in cash fraud. For those who had not received any cash increments or promotion, the study revealed that this leads to low morale and productivity hence the idea of involvement in cash fraud.

This study recommends that as much as internal controls do not directly cause increase in cash fraud, they should be more dynamic with the inclusion of more indirect controls. G4S has written procedures to follow while doing work.
Introduction of new rules and regulations and better guidelines would lead to decreased cases of fraud. This is because according to the research, the firm has enough internal controls, the staffs are largely aware of this, their compliance is monitored but there’s need for continuous review. In order to deal with the increase in cash fraud in the cash in transit security sub-sector, there is need to focus more on non-financial rewards such as extra benefits and compensation for carrying out this risky work. This will be supported by an output based remuneration package.

Security firms should also move beyond coming up with rules and procedures for operation and focus more on monitoring and evaluating them so as to keep pace with the changing times and maintain its relevance. Due to the importance the employees have put on “good records”, security firms should encourage such virtues/culture and come up with an “integrity reference bureau” so that the message is passed to those wayward employees and in the process cash frauds are managed.

References