Fraud refers to a deliberate act that usually involves the use of deception to obtain some form of financial benefit or advantage from a position of authority or trust that often results in some form of loss to the organization defrauded. Government oversight bodies are mandated by the Constitution and the enabling Acts to oversee the effectiveness and efficiency of public service delivery across all Government Ministries, Departments and Agencies using the Rapid Results Initiative (RRI). It is within this backdrop that the this study sought to establish the factors staff competencies, organization structure, organization staff motivation, adequacy of budget allocation and staff motivation as factors affecting influencing the development of fraud policy. The study adopted a descriptive research design to assess the challenges facing fraud policy formulation in Kenya National Audit office. Kenya National Audit office has a staff level of 928 employees in 5 departments that are broken down to 98 branches spread across the country. The participating branches were selected through simple random sampling to select 30 branches. A semi structured questionnaire was administered through drop and pick method to the respondents. The study concludes that staff at the organization (KENAO) was experienced; that maintaining staff discipline and ethical conduct, preparation of annual work plans and programmes, and knowledge and proficiency in new audit techniques affects the formulation of fraud policy in KENAO. The study concludes that KENAO's organization structure affects fraud policy formulation; that staff at the organization (KENAO) was experienced; that knowledge in use of working tools influences formulation of fraud policy in KENAO; that maintaining staff discipline and ethical conduct, preparation of annual work plans and programmes, and knowledge and proficiency in new audit techniques affects the formulation of fraud policy in KENAO. The audit committee should select and evaluate the organization's external audit firm; Review and evaluate the scope and plan for the external audit; Review and approve the annual financial statements audited by the external audit firm; Monitor the adequacy of the organization's internal controls; Receive and review all communications from the external audit based on generally accepted standards. The study recommends that the organization structure be used to influence the formulation of fraud policy in KENAO.