ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

Effects of Internal Control on the Financial Performance of Processing Firms in Kenya: A Case of Menengai Company

Janet Cheptoo Bett[1], Dr. Florence Sigara Memba[2]

[1]Jomo Kenyatta University of Agriculture and Technology (MBA Candidate)
[2]Jomo Kenyatta University of Agriculture and Technology (PhD)

***Abstract*: Internal control is a system structured within the corporation whose goal is to raise efficiency and effectiveness of activities. The main objective of the study was to establish effects of internal control systems on the financial performance of Menengai Oil Company, Kenya. The specific objectives of the study were to determine the effect of control environment on the financial performance of Menengai Company, determine the influence of risk assessment on the financial performance of Menengai Company and to establish the influence of information systems on financial performance of Menengai Company. The study adopted a survey research design. A census of 189 respondents was used in the study. The data collected were first be tabulated, then analyzed by use of descriptive statistics and inferential statistics. The results were presented in charts, tables and graphs. ANOVA tests confirmed that control environment, risk assessment and information have a significant influence on the financial performance of Menengai Company. This study will shed light on the various internal control activities which can be put in place by the management of Menengai Company.**

***Keywords:* Internal Control, Control environment, Risk Assessment, Information Systems, Menengai Oil Company.**

1. INTRODUCTION

Internal Control (IC) can be defined as the process designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about achievement of entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Gamage, Lock & Fernando, 2014). Internal control comprises of the control environment, entity's risk assessment process, information system, control activities and monitoring (Committee of sponsoring organizations, 2002). Internal control process has three main objectives: Effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (COSO, 1992 cited in Hayali, Dinç, Sarıl, Dizman and Gündoğdu. 2012). Evaluating internal controls of either kind requires that a benchmark be available against which to compare the effectiveness of any given system (Langevoort, 2006).

Frazer (2012) demonstrated evidence that internal control, grounded in rational choice theories, communication theories, and the COSO integrated theoretical framework, can have positive effects on small restaurants survivability and profitability among the small restaurants in the USA. Hayali et al. (2012) discovered that, internal control activities of the banks are adapted to the international standards in Turkey and that effective control procedures exist in the banking system. The study further stated that, efficient internal control mechanisms have great impact on the strong and stable outlook of Turkish banking sector.

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

Ewa and Udoayang (2012) argued that a strong internal control mechanism is deterrence to staff fraud while a weak internal control mechanism exposes the system to fraud and creates opportunity for staff to commit fraud. In Ghana, Inusah and Abdulai (2015) found out that the internal control systems that exist at Lands Commission are inadequate and there is even lack of supervision for those existing. The Commission has no well-designed, formal control systems to guide its operations. A study by Ayom (2013) on the internal controls and performance in Non-Governmental Organizations in Sudan showed that, although internal auditing has led to compliance with rules and regulations on operations, performance and procurement control, it did not lead to proper financial accountability, budgetary control on the expenditure and proper utilization of donor funding.

In Kenya, Musya (2014) stated that, weak internal controls activities and lack of proper information and communication systems have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue among the county governments. Kamau's (2014) study on the effect of internal controls on the financial performance of manufacturing firms in Kenya discovered that, manufacturing firms that had invested on effective internal control systems had more improved financial performance as compared to those manufacturing firms that had a weak internal control system. Specifically, it was revealed that those manufacturing firms that observed integrity, ethical values, risk assessment, control activities, monitoring and information technology recorded higher financial performance.

Nyakundi, Nyamita and Tinega (2014) study on the effect of internal controls on financial performance of small and medium scale business enterprises in Kisumu City Kenya, observed that majority of SMEs do not have an internal audit department and the few that have, the departments are ill-equipped with inadequately trained personnel as well as inadequate financial resources. According to the study, this led to conducting irregular audit activities without regular audit reports. Kinyua, Gakure, Gekara and Orwa (2015) observed a significant association between internal control environment and financial performance among companies quoted in the Nairobi Securities Exchange and recommended that internal control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi securities exchange. Ndiwa et al. (2014) discovered that most tertiary training institutions in Kenya had an internal audit department which was largely understaffed.

Organizations are experiencing business failures most of which can be avoided. The world has in the recent past witnessed all sorts of frauds despite many rules and regulations put in place by various regulatory agencies and governments of independent nations. Business failures have an economic implication which is disastrous to the economy of nations (Ewa et al., 2012). In Kenya, Menengai Company has been in existence for almost ten years now, however the company hardly meet its financial obligations. It has further been observed that the production targets and sales targets are hardly met in the company. This has been attributed to lack of internal control mechanisms within the company. It is not clear the extent to which these weaknesses can be associated with internal control mechanisms within the company. Past studies have indicated that firms which do not maintain proper accounting records, ensure employee accountability and risk mitigation risk are exposed to poor financial performance (Emasu, 2007). Further studies have indicated that weak internal controls activities and lack of proper information system encourage collusion to fraud, loss of revenue and embezzlement of collected revenue among the county governments (Musya, 2014). It is against this background that this study seeks to establish the effects of internal control on the financial performance of processing firms specifically Menengai Company. The main objective of the study was to establish the effects of internal control on the financial performance of Menengai Company, Kenya. The specific objectives of the study were to determine the effect of control environment on the financial performance of Menengai Company, to determine the influence of risk assessment on the financial performance of Menengai Company and to establish the influence of information system on financial performance of Menengai Company.

2. EMPIRICAL LITERATURE

2.1 Control Environment:

According to Inusah et al. (2015) control environment includes; management's philosophy and operating style, integrity and ethical values, assignment of authority and responsibility (accountability), human resource practices (for example, training, performance appraisal, remuneration, compensation and employee counselling), audit committee, and internal audit. Magara (2013) identified the following as parameters of control environment: strong presence of tight budgetary

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

controls, an effective audit function with the right number of staff and number of members in the organization's audit committee.

Control environment sets the tone for the organization, influencing the consciousness of its people. Besides, it is the foundation for all the other components of internal controls (Anthony, 2004). It is the consciousness of the organization, thus the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives (Ntongo, 2012). Whittington and Pany (2001) assert that, control environment sets the tone of the organization by influencing the control consciousness of its people. The study goes on to state that, control environment is the foundation for all the other components of internal control. It comprises of factors like; integrity and ethical values of personnel tasked with creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy, operating style, and organizational structure.

According to Kamau (2014), some of the control environment activities that an organization can undertake include; having an accounting and financial management system, management being committed to the operation of the system, management closely monitoring implementation of internal control systems in organizations, management providing feedback to the junior officers about the operation of the system and having appropriate measures to correct misfeasance in operation of the organization's accounting and finance management system. Further still, an organization's management should act with a great degree of integrity in execution of their roles, uphold ethical values in all management decisions, establish an objective, independent and active audit committee, and ensuring that the board of governors and its committees are independent of management. The findings of the study revealed that, organizations had an accounting and financial management system, the management was committed to the to the operation of the system, the management provides feedback to the junior officers about the operation of the system, the management acts with a greater of integrity in execution of its actions and that the board of governors and its committees are independent of management (Kamau, 2014).

2.2 Risk Assessment:

Karagiorgos et al. (2008) define risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with general accepted accounting principle. Risk assessment involves the use of systematic procedures to identify and analyse relevant risk and the subsequent management of those risks Inusah et al. (2015). Risk assessment entails risk identification, risk evaluation and risk response (Magara, 2013), and it is mainly measured by the presence or absence of mechanisms within the organization to undertake credit risk assessment, fraud risk assessment, customer risk assessment and operational risk assessment.

Risk is everywhere and surrounds our personal activities or professional lives. Though it is difficult to eliminate completely, one can minimize risk by employing risk assessment techniques in his personal and professional capacity (Chandra, 2002). A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the organization is exposed to. Although there are four types of responses to risk which must be considered; transfer, tolerance, treatment and termination (Ntongo, 2012), the appropriate controls can be either preventive or detective. Some of the risk assessment indicators include; having mechanisms in place to identify and react to changes that can have dramatic effects on the operations; establishing controls for approving decisions regarding financing alternatives and accounting principles, practices and methods, assessing risks according to changes in the operational environment, analyzing the risks that may arise due to changes of new staff and determining the risks that are likely to be brought about by restructuring and establishing whether new services are likely to bring risks to the organization. Other indictors include, having a less risky reporting mechanism, having communication channels in place for changes in service delivery, establishing internal audit which has appropriate controls for service delivery, employing competent and knowledgeable personnel (Ntongo, 2012).

2.3 Information System:

Musya (2014) revealed that internal control requires that all pertinent information be identified, captured, and communicated in a form and time frame that enable people to carry out their financial reporting responsibilities, and that firms should adopt internal control and information systems that produce operational, financial and compliance related information reports to make it possible to run and control the business. Relevant, timely information and effective channels of communication are an integral part of an internal control system Inusah et al. (2015). According to the study, the benefits of internal control include improved communication on expectations, responsibilities, objectives, enhanced decision making, and reduced dependence on individual employees who assist in the prevention and detection of fraud. Internal control also includes the related business processes, relevant to financial reporting and communication. An information system consists of infrastructure (physical and hardware components), software, people, procedures, and data (Mwakimasinde et al., 2014).

Kamau (2014) identified the following as some of the information activities that an organization can undertake: Management identifying individuals who are responsible for coordinating the various activities within the entity, ensuring all employees understand the concept and importance of internal controls including the division of responsibility, evaluating how well guidelines and policies of the organization are working and being implemented, and reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization. According to the study, large extent exhibit that most manufacturing firms identified individuals who are responsible for coordinating the various activities within the entity, the employees understand the concept and importance of internal controls including the division of responsibility and that information helps to evaluate how well guidelines and policies of the organization are working and being implemented, Kamau (2014).

2.4 Financial Performance:

Brennan and Soloman (2008) suggested that financial performance of an organization can be measured using objective criteria which include indicators such as profit growth, revenue growth, return on capital employed; and subjective measures like innovation, ability to attract, develop, retain talented people, quality of management, quality of products or services, community and environmental responsibility. In this regard, several scholars have adopted the objective measures as the main measures of financial performance. Muraleetharan (2010) studied the impact of internal control on financial performance of university of Jaffnan. The study used return on equity and profitability as the measures of financial performance. The study observed that there is a significant relationship between internal control and financial performance.

Mawanda (2008) carried out the study on Uganda's institutions of higher learning and did a case study on Uganda Martyrs University during the year 2008 discovered that there was a significant positive relationship between internal control system comprising control environment, internal audit and control activities on one hand, and financial performance as measured by liquidity, accountability and reporting on the other hand. Munene (2013) in the study on effects of internal controls on financial performance of technical training institutions in Kenya, measured financial performance in terms of the firms' survival, liquidity, accountability and financial reporting. Magara (2013) study on the effect of internal controls on financial performance of deposit taking savings and credit cooperative societies in Kenya, adopted liquidity (measured by current ratios, quick ratios, current liabilities), cash ratios, return on equity and return on assets to measure the financial performance of deposit taking SACCOs in Kenya. The study established a significant relationship between internal controls and financial performance of SACCOs. This study used Return on Equity (ROE) as the measure of financial performance.

3. RESEARCH METHODOLOGY

The study adopted a case study research design of Menengai Oil Company. The target population of this study was all the 11 Finance Officers, 145 Procurement Officers and 33 Accountants as respondents in this study selected from Menengai Oil Company. The sample frame for the study constituted all the employees who are currently working in the finance, procurement and accounting departments of Menengai Oil Company. This study used census sampling. Primary data was collected using questionnaire which was administered to the respondents. The data collected were analyzed using descriptive statistics which involved use of percentages, weighted means and standard deviation. The study also used inferential statistics which involved multiple regression analysis and ANOVA to establish the causal relationship between the independent variable and the dependent variable.

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

4. FINDINGS

4.1 Response Rate:

The study administered questionnaires to 189 respondents who formed the sample. Out of these, 184 questionnaires were received by the researcher for analysis. This represented 97.35% response rate. This was considered enough to analyze and draw conclusions upon.

4.2 Positions Held by Respondents:

The study revealed that 78% of the respondents were procurement officers, 18% of the respondents were accountants while 4% of the respondents were finance officers. These categories were important in the study in the sense that the finance officers carry out the risk assessment and the internal environment within the organization, the procurement officers are charged with spearheading the information systems and the risk assessment while the accountants are involved in the risk assessment and control environment of the organization. The results obtained from the field are presented in figure 1.

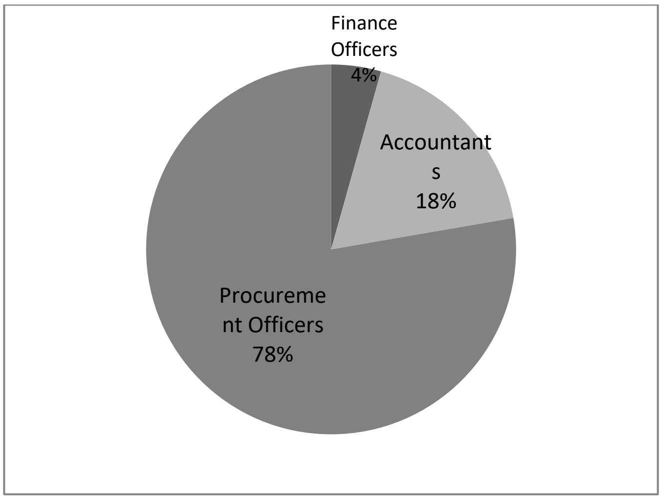

Figure 1: Position held by respondents

4.3 Effect of Control Environment on the Financial Performance:

The first objective of the study was to determine the effect of control environment on the financial performance. To achieve this objective, a list of aspects of control environment were provided on a five point likert scale and respondents were asked to rate them. The findings are displayed on table 1.

Table 1: Analysis of the Control Environment on the Financial Performance

	Strongly agree 5	Agree 4	Not sure 3	Disagree 2	Strongly disagree 1	$\Sigma f_i x_i$	$\frac{\Sigma f_i x_i}{\Sigma f_i}$
Staff have good working relationships between themselves	89	71	12	9	3	786	4.27
Staff of our company are committed to their jobs	92	61	14	10	3	769	4.27
All employees have work schedules hence no job conflicts	60	91	31	2	0	761	4.14
There is a mechanism to monitor regular attendance of staff	41	115	21	6	1	741	4.03
All employees are treated equally	75	57	19	25	8	718	3.90
All jobs are given on competency basis	21	124	26	9	4	701	3.81
All jobs are standardized	18	27	41	71	27	490	2.66
The hiring process for contract staff is transparent	19	26	39	59	41	475	2.58
The work structure is flexible that it allows	3	3	15	151	12	386	2.10

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

staff to go on leave in the month of their choice without pressure							
All the duties are performed according to the approved standards	2	7	29	85	61	356	1.93

The study observed that staff have good working relationships between themselves (weight 4.27) and staff of the company are committed to their jobs (weight 4.27). It was also evident from the study that all employees have work schedules hence no job conflicts (weight 4.14) and that there is a mechanism to monitor regular attendance of staff (weight 4.03). The respondents were not sure whether all employees are treated equally (weight 3.90) and whether all jobs are given on competency basis (weight 3.81). However, the respondents disagreed with claims that all jobs are standardized (weight 2.66), hiring process for contract staff is transparent (weight 2.58) and work structure is flexible that allows staff to go on leave in the month of their choice without pressure (weight 2.10). Further still, respondents strongly disagreed with claims that all the duties are performed according to the approved standards (weight 1.93). These findings were in agreement with that of Inusah et al. (2015) who noted that employees management mostly use their positions to get work done without following the laid down rules and procedures and that this results in management overriding controls while overlooking on the job standards. The study agrees with Kamau (2014) who realized that to a high extent, firms in Kenya have an objective, independent and active audit organization has clear separation of roles.

4.4 Influence of Risk Assessment and Financial Performance:

The study sought to determine the influence of risk assessment on the financial performance. Some selected attributes were provided and respondents were asked to rate them on a five point likert scale. The results are presented on table 2. The study observed that risks are assessed in relation to changes in the operational environment (weight of 4.35), there are mechanisms in place to identify and react to changes that can have dramatic effects on the company (weight 4.34) and that the management has a criteria for ascertaining the fraud-related risks to the organization (weight 4.28). These results concur with Ntongo (2012) who documented the importance of putting in place mechanisms to identify and react to changes that can pose danger to an organization; and Kamau (2014) who observed that management has a criteria for ascertainment of which fraud-related risks to the organization are most critical in organizations. Further analysis observed that, changes of new staff is clearly examined for the risks it may cause (weight 4.14) and that management identifies risks that affect achievement of the company's objectives (weight 4.00). These findings are in harmony with the study by Kamau (2014) which documented that mitigating risks is quite vital in establishing a criterion for ascertainment of fraud-related risks that are most critical to the organization. However, the respondents were not sure whether the management has put in place mechanisms reduce to critical risks that may result from fraud (weight 3.46). This shows that the company carries out risk assessment of its operations. Kamau (2014) and Ntongo (2012) submitted that it is important for organizations to set mechanisms in place for reducing risks associated with fraud.

Table 2: Risk Assessment Systems and Financial Performance

	Strongly agree 5	Agree 4	Not sure 3	Disagree 2	Strongly disagree 1	$\Sigma f_i x_i$	$\frac{\Sigma f_i x_i}{\Sigma f_i}$
Risks are assessed in relation to changes in the operational environment of the organization	102	55	18	7	2	800	4.35
There are mechanisms in place to identify and react to changes that can bring about risk on the Company	99	54	25	6	0	798	4.34
Management has a criteria for ascertaining the fraud-related risks to the organization	71	97	13	2	1	787	4.28
Changes of new staff is clearly examined for the risks it may cause	40	135	5	3	1	762	4.14
Management identifies risks that affect achievement of the Company's objectives	62	67	48	7	0	736	4.00
Management has put in place mechanisms reduce to risks that may result from fraud in the company	35	66	47	20	16	636	3.46

4.5 Influence of Information System on Financial Performance:

The study sought to establish the influence of information on financial performance. A list of aspects of information were provided and respondents were asked to rate them on a five point likert scale. The results are presented on table 3. The study revealed that respondents agreed that company has effective reporting of revenue targets to be achieved in a particular financial year, information flows freely in the company without any interference and that the reporting system on company spells out all the responsibilities of each section/unit in the organization. These results duplicate the findings of Musya (2014) and Inusah et al. (2015) which stressed the importance of information systems by stating that as part of internal control enables people to carry out their financial reporting responsibilities, hence the need to adopt internal control information systems so as to produce operational, financial and compliance-related information reports to make it possible to run and control the business. The respondents also agreed that communication helps us to evaluate how well guidelines and policies of the company are working and being implemented and that all operational information is given to staff in time. This implies that, although companies have succeeded in ensuring there is free flow of information with clear spelt responsibilities of each unit in the organization, it was realized that information flow is slow and ineffective, and that employees do not have information on internal controls and accountability. This means that, although the company has effective reporting of revenue targets to be achieved in a particular financial year, free flow of information without any interference and reporting system which spells out all the responsibilities of each section or unit in the organization, the company does not have information flow that's quick and effective. This contradicted Kamau's (2014) study which found out that information was carried out regularly by manufacturing firms.

Table 3: Influence of Information System and Financial Performance

	Strongly agree 5	Agree 4	Not sure 3	Disagree 2	Strongly disagree 1	Σf_i	$\Sigma f_i x_i$
There is effective reporting of revenue targets to be achieved in a particular financial year	151	25	5	3	0	876	4.76
Information flows freely in the Company without any interference	77	89	15	2	1	791	4.30
The reporting system on Company spells out all the responsibilities of each section/unit in the Organization	39	145	0	0	0	775	4.21
Communication helps us to evaluate how well guidelines and policies of the Company are working and being implemented	41	138	5	0	0	772	4.20
Management receives timely, relevant, and reliable reports for decision-making	51	103	13	10	7	733	3.98
All relevant information is communicated to staff	41	93	45	4	1	721	3.92
All channels of communication are utilized by Company staff	30	47	61	29	17	596	3.24
Information flow is quick and effective	5	28	62	73	16	485	2.64
There is a financial reporting software	2	7	49	61	65	372	2.02

4.6 Company's Return on Equity:

The study established the annual return on equity using the net annual income and total equity over the past ten years. The findings were as presented in table 4.

Table 4: Analysis of the Company's Return on Equity

Year	ROE
2006	0.167
2007	0.143
2008	0.138
2009	0.144
2010	0.111

2011	0.102
2012	0.105
2013	0.123
2014	0.149
2015	0.149

Table 4 shows a continuous improvement on the company's ROE over the previous ten years ranged between 0.16702 and 0.169. This means that the company has been making efficient use of the owners' equity over the last ten years. Similar findings were observed by Magara (2013) who noted that there is a significant positive relationship between the internal controls effected by the Deposit Taking SACCOs in Kenya, and their financial performance as measured by their Return on Equity.

4.7 Profits for the Company:

The study tracked the profits realized by the enterprises over ten years and the results were as indicated on table 5.

Table 5: Profits for the Company

Year	Average Profit
2006	28,000,000
2007	30,000,000
2008	31,500,000
2009	34,000,00
2010	35,200,000
2011	37,000,000
2012	43,800,000
2013	42,500,000
2014	49,325,000
2015	49,500,000

The findings on table 5 established that profits earned by the company over the past ten years and revealed a steady increase in the profits of the company. This could be due to the increase in the sales volume in the corresponding years. Nyakundi et al. (2014) discovered similar findings that Therefore, the dimensions of internal control systems positively affect financial profitability of firms.

4.8 Model Summary of Regression Analysis:

The multiple regression analysis also produced a summary of the multiple regression model. Table 6 depicts the value of the coefficient of determination,R^2 to be .432. This communicates the fact that 43.2% of the factors determining the financial performance are explained by the three independent variables under consideration in this study. The remaining 56.8% of the financial performance are explained by factors outside the model.

Table 6: Model Summary with Moderating Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.672[a]	.432	.086	0.082
a. Predictors: (Constant), control environment, risk assessment, information system				

4.10 Regression Model:

The researcher conducted a multiple regression analysis so as to test relationship among independent variables (Control Environment, Risk Assessment and Information System) on the Internal Control. The results are shown in table 7.

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 4, Issue 1, pp: (105-115), Month: January - March 2017, Available at: www.paperpublications.org

Table 7: Table of Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	2.959	0.900		.410	.709
Control environment	1.002	0.828	.389	.548	.002
Risk assessment	.990	0.327	.141	.298	.000
Information	0.024	0.257	.493	.765	.004

a.. Dependent Variable: Financial Performance

From the above findings, the following regression model was arrived at:

$$IC = 2.959 + 1.002CE + 0.990RA + 0.024IS$$

Table 7 shows that all the independent variables under study were significant since their p-value was less than the critical value of 0.05.

5. SUMMARY

The first objective of the study was to determine the effect of control environment on the financial performance of Menengai Company. The major findings of the study were that there is good working relationship between the staff, they are committed to their jobs, all employees have work schedules hence no job conflicts and that there is a mechanism to monitor regular attendance of staff. The study realized that control environment has a significant influence on the financial performance.

The second objective of the study was to determine the influence of risk assessment system on the financial performance of Menengai Company. The major findings were that risks are assessed in relation to changes in the control environment, there are mechanisms in place to identify and react to changes that can have dramatic effects on the Company, the management has criteria for ascertaining the fraud-related risks to the organization and that communication channels is in place for changes in service delivery. The research noted that risk assessment has a significant influence on the financial performance.

The third objective of the study was to establish the influence of information on financial performance of Menengai Company. The findings from the study revealed that the company has effective system for reporting revenue targets to be achieved in a particular financial year, information flows freely in the company without any interference, the reporting system on company spells out all the responsibilities of each section or unit in the organization, communication helps us to evaluate how well guidelines and policies of the company are working and being implemented and that all operational information is given to staff in time. It was also realized that information systems have a significant influence on the financial performance of Menengai Oil Company.

6. CONCLUSIONS

Based on the analyzed data, there are several conclusions drawn. First, as part of its control measures to improve its financial performance, the study concluded that the company has set forth a good working relationship between the staff, they are committed to their jobs, all employees have work schedules hence no job conflicts and that there is a mechanism to monitor regular attendance of staff. Based on the second objective, the study concluded that, in an effort to manage its risks, the company has ensured risks are assessed in relation to changes in the operational environment, there are mechanisms in place to identify and react to changes that can have dramatic effects on the Company, the management has criteria for ascertaining the fraud-related risks to the organization, communication channels is in place for changes in service delivery, there are well defined objectives for our Company, changes of new staff is clearly examined for the risks it may cause and that management identifies risks that affect achievement of the Company's objectives. As regards to the third objective, the study observed that, to enhance its information systems, the company has effective reporting of revenue targets to be achieved in a particular financial year, information flows freely in the company without any interference, the reporting system on company spells out all the responsibilities of each section/unit in the organization, communication helps us to evaluate how well guidelines and policies of the company are working and being implemented and that all operational information is given to staff in time.

7. RECOMMENDATIONS

Based on the objectives under study, the following recommendations were made: first, there is need for the company to standardize the jobs within the company, hiring process for contract staff is transparent and work structure is flexible to allow staff to go on leave in the month of their choice without pressure. Secondly, the study recommended that the management should always put in place mechanisms to enable it identify risks that affect achievement of the company's objectives and that it should also put in place mechanisms reduce to risks that may result from fraud in the company. Thirdly, the management should ensure it receives timely, relevant, and reliable reports for decision-making and that all relevant information is communicated to staff, all channels of communication are utilized by Company staff, and that there is quick and free flow of information in time. This will enable them communicate decisions made to the junior employees on time.

REFERENCES

[1] Anthony, M. (2004). Internal Control: Governance frame work and business risk assessment at Reed Elsevier in Auditing, Journal of practice and Theory

[2] Ayom, A. A. (2013). Internal Controls And Performance In Non-Governmental. *Doctoral Dissertation, Cavendish University Uganda*.

[3] Brennan, N. M., & Solomon, J. (2008). Corporate governance, accountability and mechanisms of accountability: an overview. *Accounting, Auditing & Accountability Journal*, *21*(7), 885-906.

[4] Emasu, S. (2007). Public Finance Management-Concept and Practices

[5] Ewa, U.K. & Udoayang, J.O. (2012).The Impact of Internal Control Design on Banks' Ability to Investigate Staff Fraud, And Life Style and Fraud Detection In Nigeria. *International Journal of Research in Economics & Social Sciences, 2*(2), 32-43

[6] Frazer, L. (2012). The Effect of Internal Control on the Operating Activities of Small Restaurants. *Journal of Business &Economics Research*, *10*(6), 361-374

[7] Gamage, C.T., Lock, K.L. & Fernando, A.A.J. (2012). A Proposed Research Framework: Effectiveness of Internal Control System in State Commercial Banks In Sri Lanka. *International Journal of Scientific Research and Innovative Technology*, *1*(5), 25-44

[8] Hayali, A.,Dinç, Y., Sarıl, S., Dizman, A.S. & Gündoğdu, A. (2011). Importance of Internal Control System in Banking Sector: Evidence From Turkey.*Working Paper, Marmara University, Sisli Vocational School and Halic University, Turkey*

[9] Inusah, A.M. & Abdulai, S. (2015).Assessing Internal Financial Controls of the Lands Commission of Ghana. *European Journal Of Business, Economics and Accountancy, 3*(3), 51-65

[10] Kamau C.N. (2014). Effect of Internal Controls on the Financial Performance of Manufacturing Firms in Kenya. *Published MSc Report, University of Nairobi, Kenya*

[11] Karagiorgos, T., Drogalas, G., Pazarskis, M., & Christodoulou, P., (2008).Environmental Auditing; Conceptual Framework and Contribution to the Business Environment Conference proceedings.

[12] Kantarelis, D. (2007). Theories of the firm Inderscience Genève Switzerland ISBN 0-907776-34-5. *ISBN: 0-907776-35-3*.

[13] Kinyua, J.K., Gakure, R., Gekara, M. and Orwa, G. (2015). Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange. *International Journal of Innovative Finance and Economics Research* *3*(4), 29-48

[14] Langevoort, D.C. (2006). Internal Controls After Sarbanes-Oxley: Revisiting Corporate Law's "Duty of Care as Responsibility for Systems". Georgetown Law Library. *Available on http://scholarship.law.georgetown.edu/facpub/144*

[15] Magara, C.N. (2013). Effect of Internal Controls on Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Kenya. *Published MBA Report, University of Nairobi, Kenya*

[16] Mawanda, S. P., (2008). Effects of internal control systems on financial performance in an institution of higher learning in Uganda: A case of Uganda Martyrs University. *Unpublished thesis, Uganda Matyrs University, Uganda*

[17] Musya, F.M. (2014). The Effect of Internal Controls on Revenue Collection by County Governments in Kenya. *Published MBA Report, University of Nairobi, Kenya*

[18] Mwakimasinde, M., Odhiambo, A. & Byaruhanga (2014). Effects of Internal Control Systems on Financial Performance of Sugarcane out grower Companies in Kenya. *Journal of Business and Management, 16(12)*, 62-73

[19] Ndiwa, C. & Kwasira .J. (2014). An Assessment of Internal Control System on Financial Performance in Tertiary Training Institutions in Kenya: A Case Study of African Institute of Research and Development Studies. *International Journal of Science and Research, 3*(3), 571-573

[20] Ntongo, V. (2012). Internal Controls, Financial Accountability and Service Delivery In Private Health Providers Of Kampala District. *Published Master of Business Administration Report, Makerere University, Uganda*

[21] [Nyakundi, D. O., Nyakomita, M. O. & Tinega, T. M. (2014). Effect of internal control systems on financial performance of small and medium scale business enterprises in Kisumu City, Kenya. *International Journal of Social Sciences and Entrepreneurship, 1* (11), 719-734.