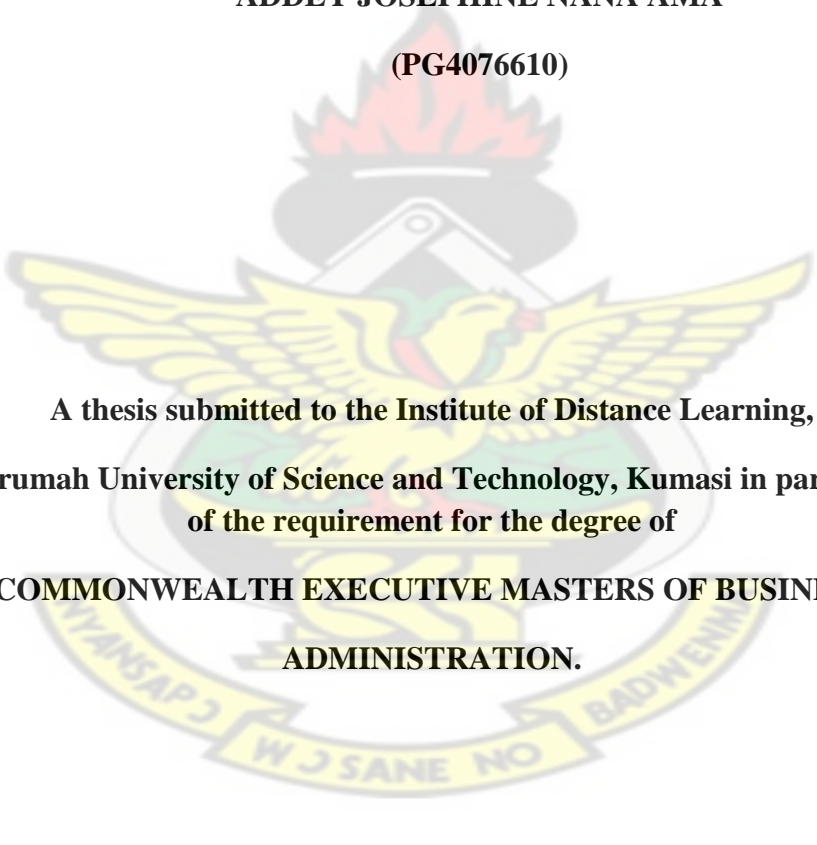


**AN ASSESSMENT OF INTERNAL CONTROL SYSTEM ON THE IMAGE OF
THE HOSPITALITY INDUSTRIES IN ROYAL MAC-DIC HOTEL AND CAPITAL
VIEW HOTELS**

by

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**A thesis submitted to the Institute of Distance Learning,
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of the requirement for the degree of
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ABSTRACT

This research is an investigation of how internal control systems help in the projection of the image of the hospitality industry. The study used MacDic Royal Plaza Hotel and Capital view Hotel all in Koforidua the capital of Eastern Region as a case study. The hospitality industry covers a whole range of services and activities. The industry has seen massive expansion owing to the growth of the tourism industry and other factors. The study aimed at assessing the internal control systems in the hospitality industry.

The population for the study was made of two hundred (200) of which 100 was sampled using a purposive sampling technique base on the position of the respondent in their respective organisations. Out of the sample size, forty (40) where chosen from Mac Dic Royal Hotel (15males,25 females) and 60 respondents from Capital View Hotel (25males, 35 females). The tool for the data collection was a self-constructed questionnaire. The findings of the data analysis revealed that, majority of respondents were not certain whether the organizations had an up to date accounting policies and procedures manual.

The analysis also showed that majority of the respondents (47.8%) were sure that the organizations have an organizational chart that clearly defines lines of authority and responsibility. The research further showed that Control activities occur throughout the organization, at all levels, and in all functions. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

DECLARATION

I hereby declare that this submission is my own work towards the CEMBA and that, to the best of my Knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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DEDICATION

This piece is dedicated to the following people: my parents Mr. and Mrs. Addey for their support and encouragement, My Husband Godfred Sowatey Boye for his love and understanding and finally to my son Jophiel Adjei Sowatey

KNUST



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- To God be the glory great things he has done, it has not been easy combining work and other social activities with this programme but God Through his grace has seen me through.
- My thanks go to the staff of Royal Mac- Dic and Capital View Hotels who took time to answer the questionnaire.
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- To all my Lecturers I say kudos I will not have achieved this without you.
- Thanks to Regina, Esther, Jacob, working colleagues, group discussion members and all my mates.

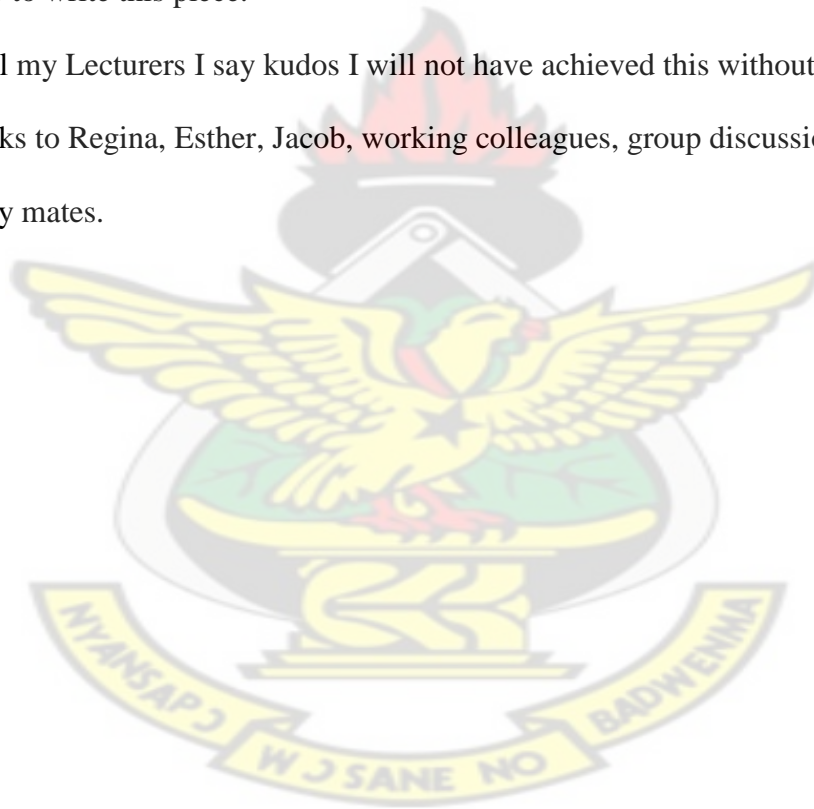


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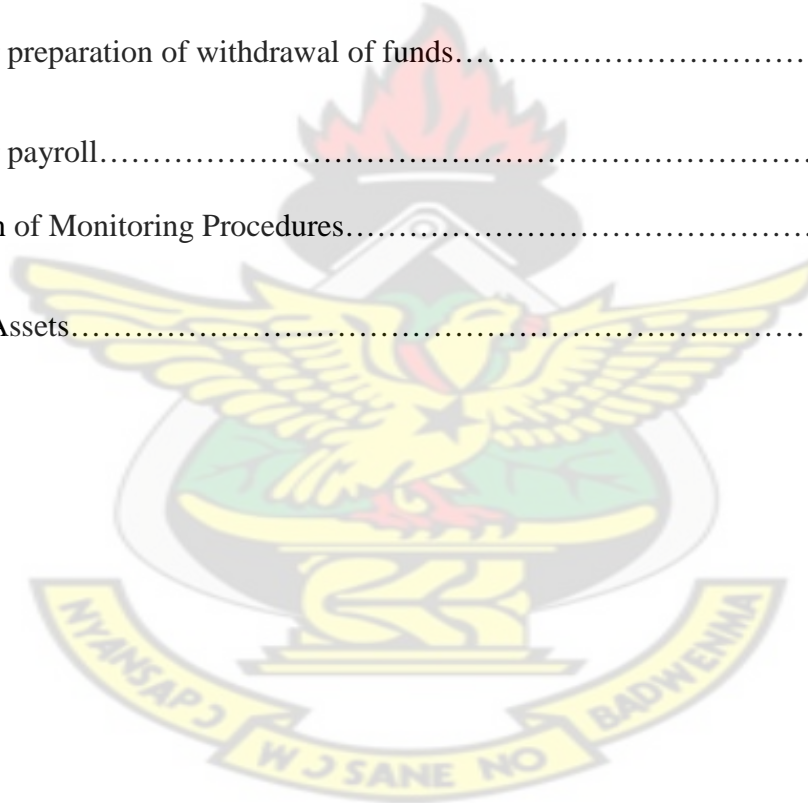
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The hospitality industry consists of broad category of fields within the service industry that includes lodging, restaurants, event planning, theme parks, transportation, cruise line, and additional fields within the tourism industry. The hospitality industry is a several billion dollar industry that mostly depends on the availability of leisure time and disposable income. A hospitality unit such as a restaurant, hotel, or even an amusement park consists of multiple groups such as facility maintenance, direct operations (servers, housekeepers, porters, kitchen workers, bartenders, etc.), management, accounting, marketing, and human resources. (Ghana Tourist board report 2005)

The hospitality industry covers a wide range of organizations offering food service and accommodation. The hospitality industry is divided into sectors according to the skill-sets required for the work involved. Sectors include accommodation, food and beverage, meeting and events, gaming, entertainment and recreation, tourism services, and visitor information. Usage rate is an important variable for the hospitality industry. Just as a factory owner would wish to have his or her productive asset in use as much as possible (as opposed to having to pay fixed costs while the factory isn't producing), so do restaurants, hotels, and theme parks seek to maximize the number of customers they process. (Ghana Tourist board report 2005)

In viewing various industries, barriers to entry by newcomers and competitive advantages between current players are very important. Among other things, hospitality industry players find advantage in old classics (location), initial and ongoing investment support (reflected in

the material upkeep of facilities and the luxuries located therein), and particular themes adopted by the marketing arm of the organization in question (such as a restaurant called the 51st fighter group that has a WW2 theme in music and other environmental aspects). Very important is also the characteristics of the personnel working in direct contact with the customers. The authenticity, professionalism, and actual concern for the happiness and well-being of the customers that is communicated by successful organizations are a clear competitive advantage.

Effective internal control systems in the hospitality industry is a requisite for attaining competitive advantage since the industry provide similar services and as result, the companies turn to have the same threshold capabilities but the company or organization which is able to achieve both threshold capability and distinctive have competitive advantage in the industry and its accompanied economics of scale.

Many professional and organizations have given their definition of internal control however for the purposes of this research the definition given by the French Institute of Chartered Accountants (FICA, 1977) which states that, *“Internal control is the set of security measures which contribute to the control of a company. Its aim is to ensure, on the one hand, the security and safeguard of assets and the quality of information, on the other hand, the application of instructions given by Senior Management, and to encourage improvements in performance. It is evidenced through the organization, methods and procedures for each of the company’s activities, so as to ensure the continuity of that company”*. Internal control is a survival mechanism and very necessary in every organization. It spells out the procedures and processes as well as the dos and don’ts and according to the FICA internal control

systems needs to be appropriately communicated throughout the organization so as to ensure implementation by staff. It is the responsibility of the Executive Management or Management Board to inform the Board and Staff of the main features of the internal control systems. The Executive Management can exercise its powers if the need be to institute controls and verification mechanism to enhance organization performance.

The internal control system, which is adapted to the characteristics of each company, provides for the following:

1. an organisation comprising a clear definition of responsibilities, with suitable resources and competencies and supported by appropriate procedures, information systems, tools and practices;
2. the in-house dissemination of relevant and reliable information, the awareness of which enables everyone to exercise their responsibilities;
3. a system for identifying and analysing the main identifiable risks in relation to the company's objectives and for ensuring that procedures exist for managing those risks;
4. control activities proportionate to the implications of each individual process and designed to reduce the risks that could affect the company's ability to achieve its objectives;
5. on-going monitoring of the internal control system together with a regular review of the way its operating. This monitoring, which can usefully be reliant on the

Company's internal audit functions when there is one, can lead to the internal control system being adapted. Executive Management or the Management Board should assess the parameters for notifying the Board of the main results of the monitoring and reviews thus performed. ((FICA, 1977)

Internal control systems in every organization will be much more relevant if it is based on rules of conduct and integrity upheld by the governance bodies and communicated to all staff. Though internal control is very essential for organizational performance it should not be impairment to innovation. In no way can it be reduced to a purely formal system with serious breaches in business ethics taking place on the sidelines. An internal control system is a key in projecting the image of the hospitality industry.

Below is a background of the two hospitality industries under review.

- Mac Dic Royal Hotel

Mac – Dic Royal Plaza Hotel is a 3- star deluxe and one stop facility located in Koforidua, 80km drive from Accra. This facility is sited on 4.28 acre land beneath the Obuo Tabiri Mountain and surrounded by the Akuapim Mountain range at the Medical Village behind the Doctor's Bungalow. It offers a warm and friendly atmosphere due to the location with modern comfort and hospitality you would expect from an international standard hotel.

It is also a peaceful place for holiday makers seeking real rest and relaxation close to nature and an ideal place for walkers, tourist and botanist. Akwaaba Restaurant and Bar are also open all day where continental and Far East Cuisine with assorted drinks are served. The hotel also has a fitness centre available to maintain and improve the good health of customers. The Hotel has undergone expansion over the years to offer customers with the best services they have.

- Capital View Hotel

Capital View Hotel (CVH) is one of the leading and a luxurious 3-star rated hospitality establishment in the Eastern Region, Koforidua with 112 fully furnished air-conditioned guest's room. CVH offers a comfortable and peaceful second home to both business and pleasure travellers. The hotel is equipped and decorated to an international standard and it is the ideal place for meetings, seminars and conferences. Capital View Hotel is conveniently located in Koforidua, in the serene neighbourhood of Abotanso, near the Koforidua Polytechnic in the Eastern Region. It is easily accessible within a few minutes' drive from the Central Business District, Koforidua.

The hotel has accommodation for executive suites, junior suites and family room. These room types are located in the new wing of the hotel. These are spacious rooms made up of a bed room separated from the living room and are luxuriously furnished with high class facilities meant for clients comfortability. These rooms are well equipped with cosy facilities that make it ideal for business executives. The living rooms have the same facilities as the bed room with the exception of the bed. It offers a meeting space for private discussions and has a bar area that can be used for a smaller cocktail party of about five business executives. It has a private Jacuzzi which relaxes guest after a stressful day. .

1.2 Statement of the Problem

Most businesses have many shared problems relating to internal controls. The hospitality business has some unique problems that often complicate and make more difficult the implementation of total control. Even though, an increasingly large percentage of hospitality

industry customers today use credit cards to pay for their transactions, many others still pay cash, particularly in restaurants and beverage outlets. This means that there are fair amount of cash accumulating in sales departments each day making it easy for some of this cash to “disappear”. To further complicate cash handling and its control, many hospitality operations have some departments operating around the clock. Again, due to the improper handling of internal control system, the handling is characterized by a much higher employee turnover rate than most other businesses. This means that employees often do not receive the training they need because they are not often skilled, nor do they have the same loyalty to the operations that long-time employees often develop.

Business areas have ineffective security and integrity of assets, unsecured ways of purchases, ineffective issuing methods and ineffective establishment of proper business links. These relevant series of control methods, measures and procedures which tends to minimize the occurrences of frauds and corruptions in the hotel industry are normally not issues to address in an organization. Most of these hospitality industries do not have proper internal control systems so these raised the following questions:

- What are the causes of ineffective internal control system in MacDic Plaza and Capital View Hotel?
- What measures are implemented as control activities to ensure effective internal control?
- To what extent are the available mechanisms helping to achieve the firm’s objectives as far as internal control is concerned?

It is against this background that the study tends to address the problem of improper accounting and auditing principles that usually hinder the progress of the organization in terms of keeping business records.

1.3 Objectives of the Study

This research is aimed at achieving the following objectives:

- i. To explore the control activities being used to ensure internal control in the hospitality industry.
- ii. To determine the extent to which the available mechanisms are helping in achieving the firm's objectives in the hospitality industry.
- iii. To access the sources and disbursement of funds in the hospitality industry.
- iv. To determine how internal control system project the image of the organization in the hospitality industry.

1.4 Research Questions:

This study seeks to ask/address the following question:

1. What constitute internal control system in the hospitality industry?
2. What mechanism are put in place to ensure effective internal control systems
3. Does the current internal control system help in meeting the objectives of Royal Mac-Dic and Capital View hotel?
4. What causes ineffective internal control systems in Royal Mac-Dic hotel and Capital View hotel

5. How does internal control system project the image of organization in the hospitality industry

1.5 Significance of the Study

The first significance of the study is that it would afford management of Capital View Hotel and Royal Mac-Dic hotel and the hospitality industry with an alternative source of material in terms of evaluating or assessing the effectiveness of internal control system in their organization. In this case certain principles underlying the control system being practiced at their organization would properly evaluate in order to win the desired goals and then improve their system of operations.

Secondly, the study would be important to other organizations as it would offer them insight into how the internal control system works in an organization and how to evaluate the effectiveness of the system. With this other institutions would find the study as an additional source of material when dealing with issues concerning internal control system.

Also, the study would add to the stock of knowledge in the academia or serve as a source of reference material to future researchers and students in business or accounting. This would equip them with additional knowledge so that future researchers can explore other areas of internal control that have not been touched.

Finally, management and financial analysts in any organization would find this study resourceful when handling issues concerning the effectiveness of internal control system within an organization. It would equip them with the needed skills so they can improve on their control systems.

1.6 Scope of the Study

This current study takes a holistic view of the hospitality industry with special emphasis on examining the internal control systems of Mac Dic Royal hotel and Capital View Hotel all in Koforidua the Capital town of Eastern Region. The reason for the choice of these two hotels is the competitive advantage they are enjoying in the industry.

1.7 Limitations of the Study

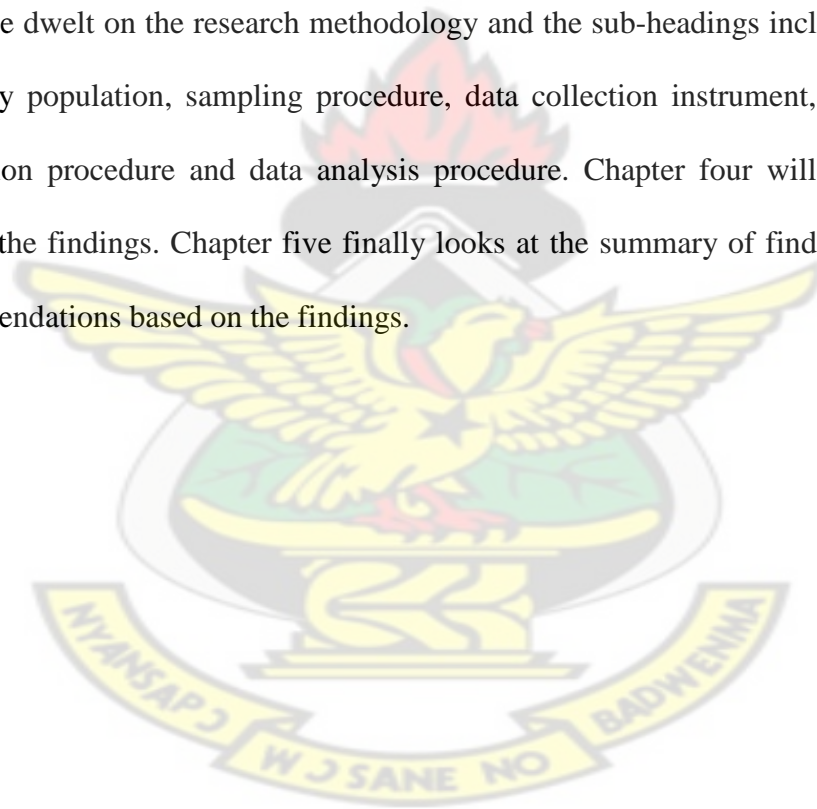
Due to various concerns the study will not be able to cover other major areas. It will only dwell on the hospitality industry with the focus only on Capital View Hotel due to;

- ✓ Time and financial constraints. For this reason the study was restricted to the hospitality industry, with Capital View Hotel and Mac Dic Royal hotel as case study.
- ✓ Because the study was conducted using two organisations in the industry it will be difficult to generalise the findings to the entire industry.
- ✓ The genuineness and honesty if a response to the questionnaires by respondents was difficult to ascertain.
- ✓ The extent to which the people interviewed will be objective and also by the level of accessibility to the personnel and organizations chosen.
- ✓ The difficult nature of collecting primary data in Ghana. Problems such as secrecy and indifference on the part of interviewees and respondents affect the results of study.

1.8 Organization of the Study

This research is categorised into five chapters with sub-divisions. Chapter one captures the introduction which includes the background of the study, statement of the problem, objectives of the study, Research question, significance of the study, scope and limitation. Chapter two reviews literature under the following headings: concept of internal control system, definitions of internal control system, types of internal control system, determining the goals and objectives of internal control and methods and procedure of internal control.

Chapter three dwelt on the research methodology and the sub-headings includes the research design, study population, sampling procedure, data collection instrument, sources of data, data collection procedure and data analysis procedure. Chapter four will be a conclusive outcome of the findings. Chapter five finally looks at the summary of findings, conclusions and recommendations based on the findings.



CHAPTER TWO

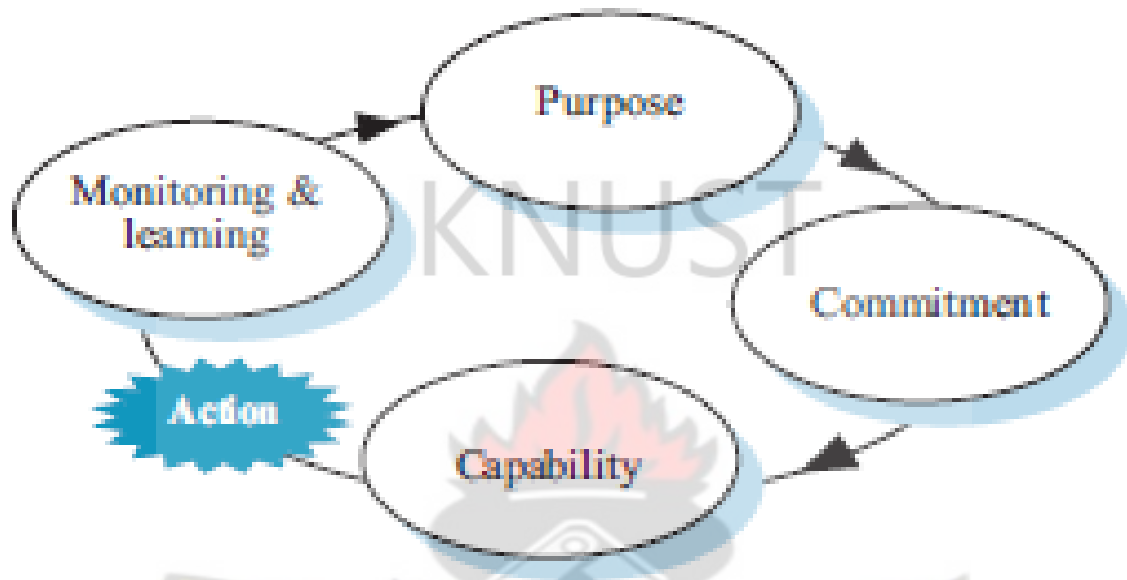
LITERATURE REVIEW

2.0 Introduction

This chapter deals with the contributions, discussions and review of literature in the study area. This entails the types of practices that exist in Mac Dic Plaza and Capital View Hotel, definitions of internal control system, types of internal control system, determining the goals and objectives of internal control and methods and procedure of internal control.

Many financial institution and academic institutions have proposed different models and theories of internal control in organisations as a critical component of an organisation's management and a foundation for its safe and sound operations to ensure productivity. The theory/model of internal control provided by the Canadian Institute of Chartered Accountants (CoCo, 1995) put internal control into context with how a task is performed. The theory states that “ A person performs a task, guided by an understanding of its purpose (the objectives to be achieved) and supported by capability(information, resources, supplies and skills). It further argued that a person will need a sense of commitment to perform the task well over time, the person will monitor his or her performance and the external environment to learn about how to do the task better and about changes to be made. It coined this model to illustrate its preposition:

The Criteria of Control



Source: Canada Institute of Chartered Accountants (CoCo, 1995)

The theory further states that internal Control can never constitute everything involved in managing an organisation. Control supports but does not tell what objectives to set for the organisation. Control cannot prevent incorrect strategic and operational decisions

Purpose groups criteria that provide a sense of the organisation's direction:

- Objectives (including mission, vision and strategy)
- risks (and opportunities)
- policies
- planning
- performance targets and indicators

Commitment groups criteria that provide a sense of the organisation's identity and values:

- ethical values, including integrity
- human resource policies
- authority, responsibility and accounting
- mutual trust

Capability groups criteria that provide a sense of the organisation's competence:

- knowledge, skills and tools
- communications processes
- information
- coordination
- control activities

Monitoring and Learning groups criteria that provide a sense of the organisation's evolution:

- monitoring internal and external environment
- monitoring performance
- challenging assumptions
- reassessing information needs and information systems
- following-up procedures
- assessing the effectiveness of control

To summarise, internal control consists of five interrelated elements:

- management oversight and control culture
- risk assessment
- control activities
- information and communication
- monitoring activities

2.1 Types of practices that exist in the hospitality Industry

The hospitality industry is a broad and varied industry which range from single person organisations to worldwide corporations. People do a total of more than 80 different jobs in the industry. According to a report by the UK hospitality, the industry is not just hotels and restaurants but there are twelve other different sectors in the industry which can be seen in the diagram below:



Source: UK hospitality Industry

Aside the mentioned sector activities the industry also engages in commercial or services sector, this is because hospitality is the main purpose of the industry. It is a commercial operation where a lot of people stay study or work there such as a hospital but in this case it is a service operation.

The industry is also a profit making or working within a budget: Most hospitality operations need to make a profit but some don't, they just need to keep to a specific budget. For example, a lot of school canteens in Ghana have a budget of GHC 1 or GHP 50 depending on the location of the canteen per meal per day. In some workplaces, the canteen works to a

budget but the prices are then reduced. A cheap lunch is an incentive to work there – a perk of the job

Also the industry can offer its services to restricted customers or open to the general public. Most hospitality operations can sell to anyone but some are restricted to selling to a small part of the public: customers who are, for example, on a flight, in a particular programmed, on the cross-channel ferry or on a train.

The hospitality industry makes a major contribution to the economy of Ghana and employs a large percentage of the people. In some part of the country, the industry is the main source of income and employment. The industry is labour intensive, currently accounting for 5.9% of total employment in Ghana and could therefore help alleviate the unemployment problem in the country. (Mensah, Ishmael: Restructuring Ghana's Tourism industry for socio-economic development. 2011)

2.1.1 Sources of income

Companies differ with respect to their products and services and their internal control systems and their sources of funds varies however, according to Investopedia (2008) there are only a few sources of funds which includes the following:

They make profit by selling a product for more than it costs to produce. This is the most basic source of funds for any company and hopefully the method that brings in the most money.

Like individuals, companies can borrow money. This can be done privately through bank loans, or it can be done publicly through a debt issue. The drawback of borrowing money is the interest that must be paid to the lender

A company can generate money by selling part of itself in the form of shares to investors, which is known as equity funding. The benefit of this is that investors do not require interest payments like bondholders do. The drawback is that further profits are divided among all shareholders.

In an ideal world, a company would bring in all of its cash simply by selling goods and services for a profit. But, as the old saying goes, "you have to spend money to make money," and just about every company has to raise funds at some point to develop products and expand into new markets.

2.1.2 Application of funds

Accounting principles demand that large public companies include Sources and Uses of Funds statement in their annual reports. Some of the uses of funds include start up funds, working capital and using it as collateral when the company wants to go in for loan Facilities, Equipment and Vehicles, Supplies and Advertising, and Other Start-up Costs. In summary the uses of funds in the hospitality industry can be catalogue as:

1. The Uses of Funds include an estimate of working capital needs - that is, the amount of money the company needs to have on hand to pay bills while it's establishing its business operations.
2. The total of start-up funds and working capital needs is the total Uses of Funds.
3. The company funds can be provide, as collateral for loan from financial institutions.

This might include equity in your home, an savings account

4. The difference between the total Uses of Funds from section one and the total collateral you are providing equals the amount of financing needed.

2.2 Definitions of Internal Control System

According to business dictionary internal control is defined as the systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to

- Conduct its business in an orderly and efficient manner,
- Safeguard its assets and resources,
- Deter and detect errors, fraud, and theft,
- Ensure accuracy and completeness of its accounting data,
- Produce reliable and timely financial and management information, and
- Ensure adherence to its policies and plans.

Anderson, (2008) asserts that in accounting and auditing, internal control is defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt

Practices Act (FCPA) of 1977 and the Sarbanes–Oxley Act of 2002, which required improvements in internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls (Committee of Sponsoring Organizations (COSO), 1992).

Internal Control Reference Guide (2002) defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The Internal Control Reference Guide (2002) added that several key points should be made about this definition and this includes the following points:

- People at every level of an organization affect internal control. Internal control is, to some degree, everyone's responsibility. Within the organization, administrative employees at the department-level are primarily responsible for internal control in their departments.
- Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance

with laws and regulations. Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).

- Internal control can provide only reasonable assurance - not absolute assurance - regarding the achievement of an organization's objectives. Effective internal control helps an organization achieve its objectives; it does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond an organization's control.

2.3 Types of Internal Control System

Galloway (1994), posits that controls can be either preventative or detective. Preventative controls attempt to deter or prevent undesirable events from occurring. Separation of duties, proper authorization, adequate documentation, passwords and physical control over assets and even traffic signs are all examples of preventative controls.

According to Galloway (1994), detective controls attempt to detect errors or irregularities which have already occurred. Reviews, analyses, reconciliations, periodic physical inventories, audits and surveillance cameras are all examples of detective controls. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventative controls are essential because they are proactive. However, detective controls play a critical role providing evidence that preventative controls are functioning effectively.

Zabihollah (2002), also explains that controls can be either preventive or detective. The intent of these controls is different. Preventive controls attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets. Detective controls, on the other hand, attempt to detect undesirable acts. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliations, physical inventories, and audits. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality.

Zabihollah (2002) further explains that management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

- ✓ Reconciliations (Detective): An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
- ✓ Reviews of Performance (Detective): Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to

measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

- ✓ Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.
- ✓ Segregation of Duties (Preventive): Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.

Specific examples of segregation of duties are as follows:

- The person who requisitions the purchase of goods or services should not be the person who approves the purchase.
- The person who approves the purchase of goods or services should not be the person who reconciles the monthly financial reports.
- The person who approves the purchase of goods or services should not be able to obtain custody of checks.
- The person who maintains and reconciles the accounting records should not be able to obtain custody of checks.
- The person who opens the mail and prepares a listing of checks received should not be the person who makes the deposit.
- The person who opens the mail and prepares a listing of checks received should not be the person who maintains the accounts receivable records.

2.4 Determining the Goals and Objectives of Internal Control

The Internal Control Reference Guide (2002) indicated that, the central theme of internal control is (1) to identify risks to the achievement of an organization's objectives and (2) to do what is necessary to manage those risks. Thus, setting goals and objectives is a precondition to internal controls. At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives. At the department level, goals and objectives should support the organization's strategic plan. Goals and objectives are classified in the following categories:

- ✓ Operations Objectives: These objectives pertain to the achievement of the basic mission(s) of a department and the effectiveness and efficiency of its operations, including performance standards and safeguarding resources against loss.
- ✓ Financial Reporting Objectives: These objectives pertain to the preparation of reliable financial reports, including the prevention of fraudulent public financial reporting.
- ✓ Compliance Objectives: These objectives pertain to adherence to applicable laws and regulations.

According to the Internal Control Reference Guide (2002), a clear set of goals and objectives is fundamental to the success of a department. Specifically, a department or work unit should have (1) a mission statement, (2) written goals and objectives for the department as a whole, and (3) written goals and objectives for each significant activity in the department. Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurements. There are certain activities which are significant to all

departments: budgeting, purchasing goods and services, hiring employees, evaluating employees, accounting for vacation/sick leave, and safeguarding property and equipment. Thus, all departments should have appropriate goals and objectives, policies and procedures, and internal controls for these activities.

2.5 Methods and Procedures of Internal Control

According to Amudo & Inanga (2009), internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

2.5.1 Control Environment

The control environment, as established by the organization's administration, sets the tone of an institution and influences the control consciousness of its people. Leaders of each department, area or activity establish a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include:

- Integrity and ethical values;
- The commitment to competence;
- Leadership philosophy and operating style;

- The way management assigns authority and responsibility, and organizes and develops its people;
- Policies and procedures. (Amudo & Inanga, 2009)

2.5.2 Risk Assessment

According to Amudo and Inanga (2009), every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Objectives must be established before administrators can identify and take necessary steps to manage risks. Operations objectives relate to effectiveness and efficiency of the operations, including performance and financial goals and safeguarding resources against loss.

Amudo and Inanga (2009) indicated that financial reporting objectives pertain to the preparation of reliable published financial statements, including prevention of fraudulent financial reporting. Compliance objectives pertain to laws and regulations which establish minimum standards of behaviour. The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be

evaluated. Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

The Internal Control Reference Guide (2002) pointed out that, risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives. This, in turn, forms a basis for determining how those risks should be managed. To properly manage their operations, managers need to determine the level of operations, financial and compliance risk they are willing to assume. Risk assessment is one of management's responsibilities and enables management to act proactively in reducing unwanted surprises. Failure to consciously manage these risks can result in a lack of confidence that operation, financial and compliance goals will be achieved. A risk is anything that could jeopardize the achievement of an objective. For each of the department's objectives, risks should be identified. Asking the following questions helps to identify risks:

- ✓ What could go wrong?
- ✓ How could we fail?
- ✓ What must go right for us to succeed?
- ✓ Where are we vulnerable?
- ✓ What assets do we need to protect?
- ✓ Do we have liquid assets or assets with alternative uses?
- ✓ How could someone steal from the department?
- ✓ How could someone disrupt our operations?
- ✓ How do we know whether we are achieving our objectives?

- ✓ On what information do we most rely?
- ✓ On what do we spend the most money?
- ✓ How do we bill and collect our revenue?
- ✓ What decisions require the most judgment?
- ✓ What activities are most complex?
- ✓ What activities are regulated?
- ✓ What is our greatest legal exposure?

(The Internal Control Reference Guide, 2002)

After risks have been identified, a risk analysis should be performed to prioritize those risks:

- ✓ Assess the likelihood (or frequency) of the risk occurring.
- ✓ Estimate the potential impact if the risk were to occur; consider both quantitative and qualitative costs.
- ✓ Determine how the risk should be managed; decide what actions are necessary.

Prioritizing helps departments focus their attention on managing significant risks (*i.e.*, risks with reasonable likelihood of occurrence and large potential impacts) (Internal Control Reference Guide, 2002).

2.5.3 Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations,

verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act. Control activities usually involve two elements: a policy establishing what should be done and procedures to effect the policy. All policies must be implemented thoughtfully, conscientiously and consistently (Amudo and Inanga, 2009).

Again Amudo and Inanga (2009) suggest that liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Typically, access controls are the best way to safeguard these assets. Examples of access controls are as follows: locked door, key pad systems, card key system, badge system, locked filing cabinet, guard, terminal lock, computer password, menu protection, automatic callback for remote access, smart card, and data encryption.

2.5.4 Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream Amudo and Inanga.

2.5.5 Monitoring

Internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. Ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other actions personnel take in performing their duties that assess the quality of internal control system performance. The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied may evolve. Once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures. Furthermore, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks (Amudo and Inanga, 2009).

2.6 Conclusion

From the above discussions and contributions on the study area, it is evident that internal control system plays a major role in the internal auditing and accounting principles of an organization and the hospitality industry is no exception. Management therefore has the onerous duty to effect appropriate internal control system in their organization which is a major step in achieving organizational success. Hence the need for managers in the hospitality industry to establish the right internal control system would help inure to the benefits of the organization as far as growth, profit maximization and overall success are concerned.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology for this research will take into considerations all the procedures and processes to give the research both internal and external validity. There is numerous research strategies fashioned for various types of research, depending on the philosophical and theoretical orientation, objectives and rational of that particular research and most importantly the type of research questions the research is intended to answer.

The chapter looks at the research methodology of the study and shows how the study was conducted. It has sub-headings which includes the research design, the study population, sample and sampling procedure, data collection instrument, sources of data, data collection procedure and data analysis procedure. The chapter also gives an in-depth analysis or methods applied in the research work.

3.2 Research Design/Strategy

It must be stated that, no research strategy is inherently superior or inferior to any other Saunders, Lewis and Thornhill (2009. p 141). The research strategy is influenced greatly by the research question and the purpose of the research as well as the existing literature. This research is non-experimental in nature but a descriptive survey to examine how internal control systems project the image of the hospitality industry in Ghana. Saunders, Lewis and Thornhill (2009) contend that survey method is a popular and common strategy in business and management research and it tends to be used for exploratory and descriptive research. The strategy relied on selective description where certain aspects of the population or

phenomena of interest are considered critical to the study. With this, employees of Royal Mac Dic Plaza and Capital View Hotel were chosen based on their experience and a thorough investigation conducted in order to evaluate the effectiveness of internal control in the hospitality industry with the focus on Royal Mac Dic plaza and Capital View Hotel as the case study.

3.3 Population

Populations for the study were mainly employees of Royal MacDic Plaza and Capital View Hotel and in order to be gender sensitive male and female employees in the organizations were covered. The total population for the study was 200. 50 employees from Mac Dic Plaza made up of 22 male and 28 female, and 150 from Capital View Hotel also comprising of 65 male and 85 female. These two hotels that is Mac Dic Plaza and Capital View Hotel were chosen because of their size, popularity and influence in Eastern Region. This to a large extent ensured that, reliable data was obtained or collected for the study.

3.4 Sample and Sampling Technique

The use of an appropriate sample and sampling procedure is very important in any research and in this regard, the purposive sampling which is one of the non-probability sampling methods was used. Respondents for the study were selected primarily on the basis of their positions and roles in the company whether as top management staff, senior staff and junior staff. The sample size chosen for the study was 100 of which 40 respondents from MacDic Royal plaza Hotel (15males, 25females) and 60 respondents from Capital View Hotel (25males, 35 females).

3.5 Data Collection Instrument

The data collection instrument was mainly questionnaire which was carefully designed to cover relevant headings or themes of the study. In order to establish the reliability of the questionnaire the researcher conducted pretesting in Shangri-La Hotel in the Greater Accra Region. The employees interviewed were senior staff 2 junior staff 4 and management staff 1. The results from the test helped the researcher to make the necessary corrections before sending the questionnaire to collect the final data for the research. The questionnaires were primarily based on open and close ended type of questions. The questionnaires were divided into four sections, section A dealt on the demography characteristics of the respondents, section B dealt on the causes of ineffective internal control systems, section C dealt on control activities being used to ensure internal control and section D dealt with the available mechanism ensuring the achievement of the firms objectives. The instrument helped the researcher to evaluate the effectiveness of internal control in the hospitality industry with the focus on MacDic Plaza and Capital View Hotel. The questionnaires were distributed randomly to the employees and it took two weeks to retrieve questionnaire from respondents.

3.6 Sources of Data

The sources of data for the research were primary and secondary sources. The primary sources of data were data gathered on the field using the questionnaire and that of secondary sources were obtained from books, journals and articles and the internet.

3.7 Ethics and Gaining Access

In as much as it is unethical to conduct research without abiding by the ethical foundations of research, the whole of this research was governed by ethical considerations. The nature of the research depicts that very vital information was needed from the participant to be able to arrive at accurate data. Over the last decade, concerns about the ethics of research practice have grown dramatically (Saunders, Lewis, Thornhill, 2009, p 168). Gaining access to the Hotels in the hospitality industry is key to the success of the research. Though research have showed that participants are more likely to conceal certain information when the purpose of the research is made known to them, This research at the end of the exercise organize debriefing to explain why they were not informed of certain variables in the research. The confidentiality and anonymity of their participation in the research was assured.

Saunders, Lewis and Thornhill (2009) have enumerated various strategies and procedures of gaining access to organizations and companies which includes: ensuring familiarity with and understanding the organization or group before making the contacts, allowing sufficient time, using exiting and developing new contacts, providing a clear account of purpose and type of access required, overcoming organizational concerns, highlighting possible benefits to the organization etc. was adhered to as well as any other feasible mode of entry was explored.

3.8 Data Collection Procedure

As regards the data collection procedure, the researcher had a meeting with the Human Resource Managers of both Hotels and sought permission to conduct a research in the study area. When permission was granted and questionnaire examined by the HR Manager, the

researcher then administered questionnaire personally to respondents in the organization. The rationale behind the questionnaire was explained to them and two weeks was given to them to complete it. This was meant to give enough time to respondent so they can comprehend each item in the questionnaire and respond appropriately.

3.9 Method of Data Analysis

Data was analyzed based on the open and closed ended questionnaire administered to respondents/employees that were retrieved and each response recorded with simple frequency tabulation using excel. Since the study wanted 100 respondents for the research, the researcher gave out 100 questionnaires. This was done to ensure 100 % response rate. 92 out of the 100 questionnaires were retrieved made up of 92%. This was supported by percentage distribution and then tables chart and diagrams were used to illustrate each statement or theme. The generality of views or responses captured were mainly centered on evaluating the effectiveness of internal control systems in the hospitality industry with the focus on Mac-Dic Plaza and Capital View Hotel.

CHAPTER FOUR

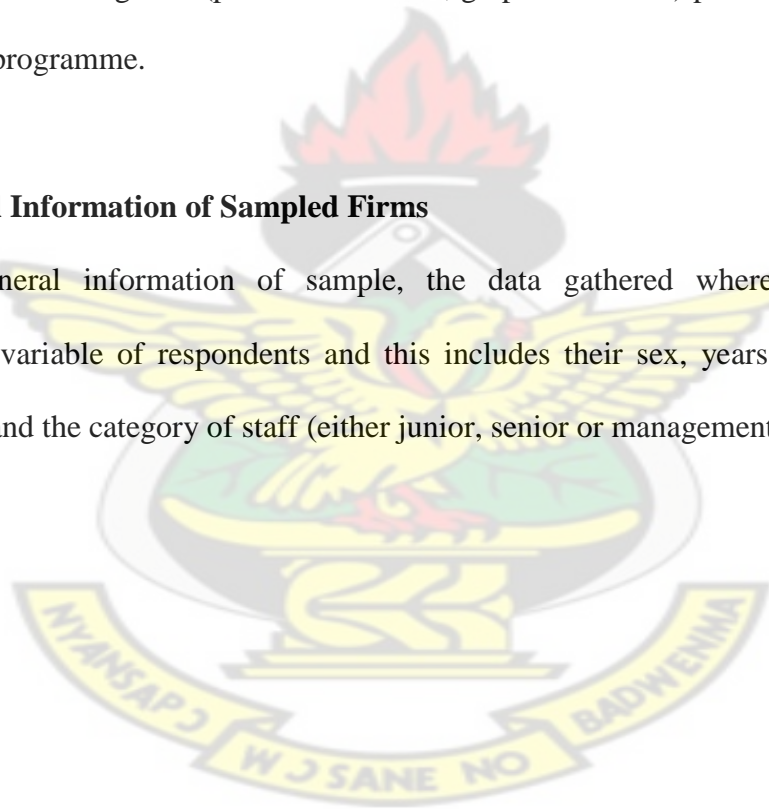
RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter contains the presentation, analysis and discussion of data gathered on the field. Out of hundred (100) questionnaires distributed to respondents eighty five (92) of them were retrieved. The researcher then presented and analyzed data using a simple tallying of results with the support of diagrams (pie and bar charts, graph and tables) produced from Microsoft Excel Office programme.

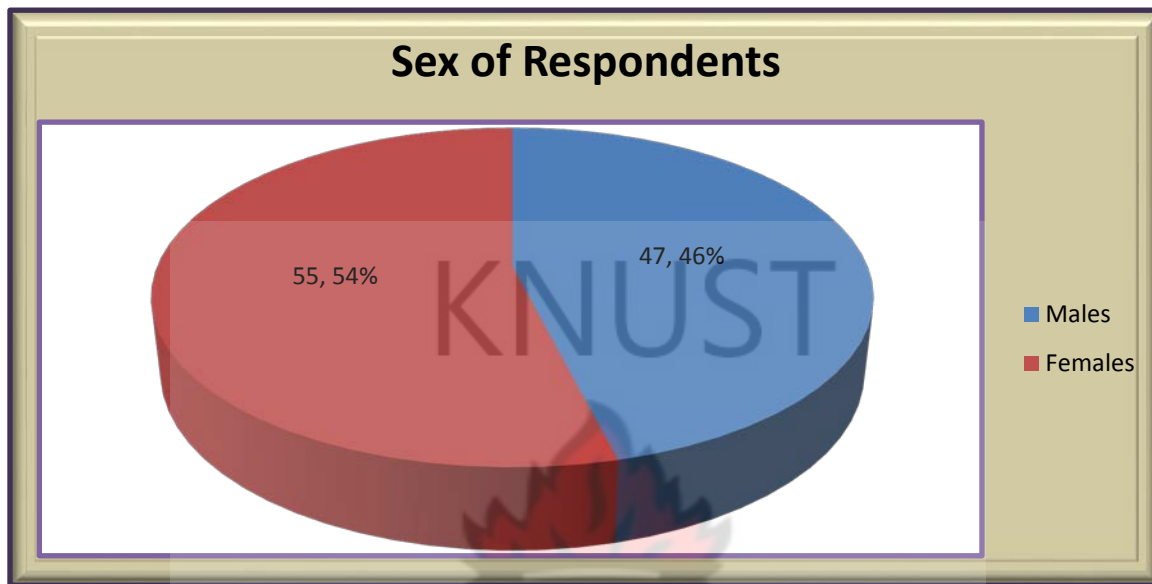
4.2 General Information of Sampled Firms

With the general information of sample, the data gathered where centered on the demographic variable of respondents and this includes their sex, years of working in the organization and the category of staff (either junior, senior or management staff).



4.3.1 Sex of Respondent

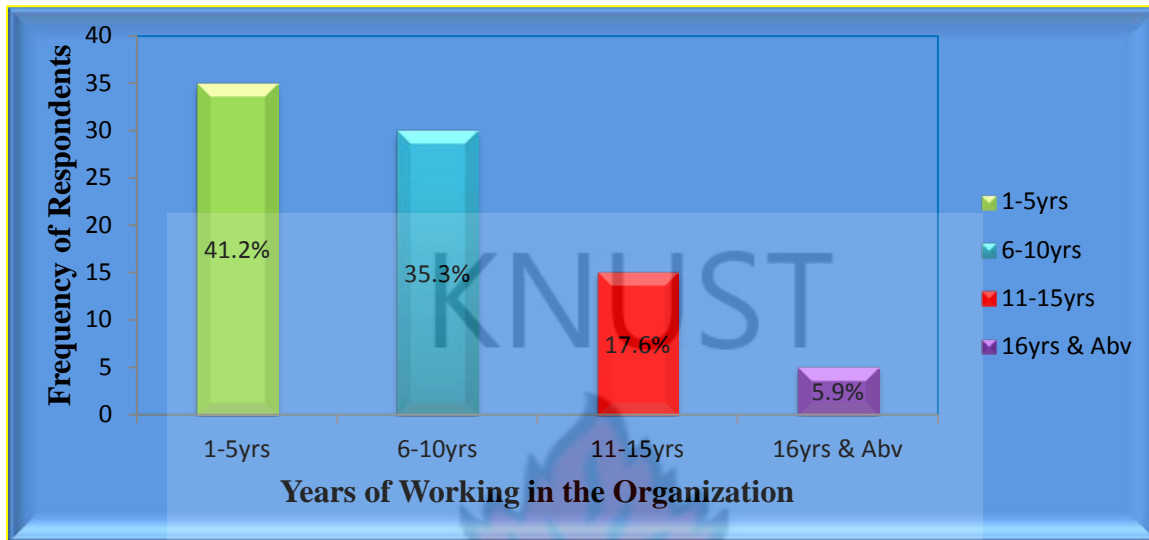
Figure 1: Sex of Respondent



The data gathered under sex was meant for respondents to indicate whether male or female and data shows that 46% of the respondents were males whereas 54% of the respondents were female. The reason why a lot of females are in the hospitality industry in Ghana for that Koforidua can be attributed to how the Ghanaian society reify gender sensitivity where some occupations are labelled as for females and some too for males. For example in some occupations such as nurses, hotel/ restaurant attendance etc. where tagged to be for only females. However in this era of globalization and technological advancement the trend is changing.

4.3.2 Years of Working

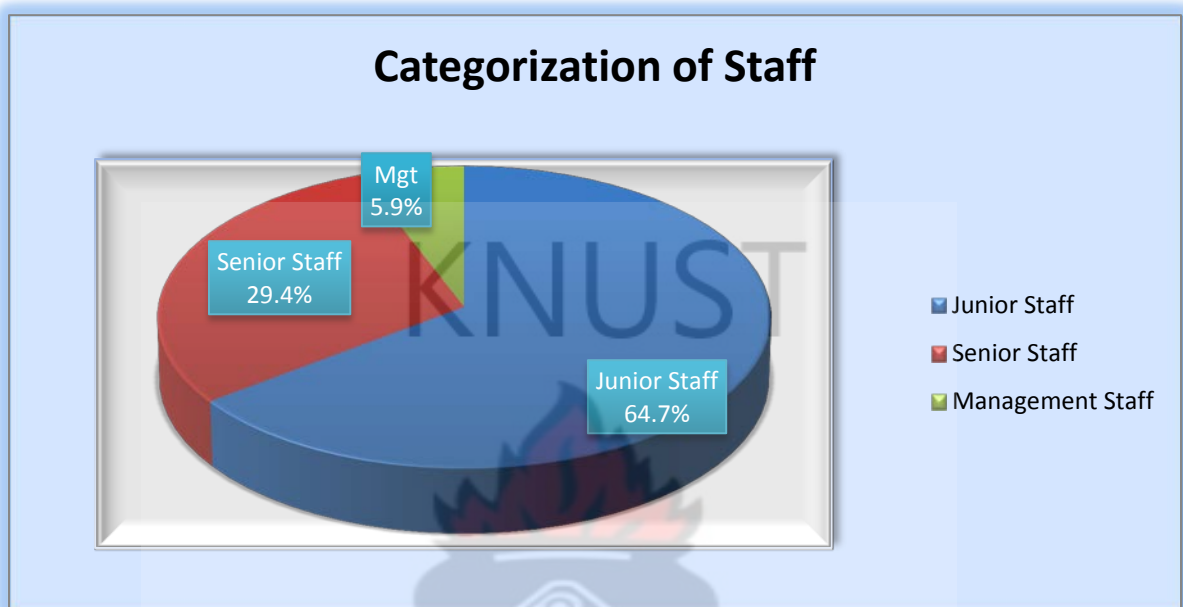
Figure 2: Years of Working in the Organization



Data gathered under this reveals that 41.2% of the respondents have worked in the organization for a period of 1 – 5 years, 35.3% of the respondents indicated 6 – 10 years, 17.6% respondents have worked for a period of 11 – 15 years, and 5.9% of the respondents have also worked for a period of 16 years and above. Data reveals that majority of respondents have worked with the organization for a period of 1 – 5 years. The reason why the majority of the respondents have worked in the organisation between 1-5 years can be due to the fact there is a high positive correlation (on the face value) between tourism and the hospitality industry. Over the past few years there have being a growth in the tourism industry which has propelled the expansion of the hospitality industry and the need to staff the industry to cater for the guest or tourist in the industry.

4.3.3 Category of Staff

Figure 3: Categorization of Staff



The information gathered under the category of staff shows that 64.7% of the respondents were junior staff and they constitute the majority, 29.4% of the respondents were senior staff and 5.9% of the respondents were in the management staff category. This clearly shows that majority of respondents were basically junior staff members.

4.3.4 Causes of Ineffective Internal Control

Table 1: Causes of Ineffective Internal Control

STATEMENT	Not Sure		Sure		Not Certain		Certain		Very Certain		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1. The organization have an up to date accounting policies and procedures manual	16	17.3	22	23.9	37	40.2	11	12.0	6	6.5	92	100
2. The organization have an organizational chart that clearly defines lines of authority and responsibility	16	17.4	44	47.8	11	12.0	17	18.5	4	4.3	92	100
3. Personnel policies are maintained and distributed to all personnel	16	17.4	40	43.5	14	15.2	22	23.9	0	0	92	100

The first statement from Table 1, sought to find out whether the organization have an up to date accounting policies and procedure manual and it was indicated that 6.5% of the respondents indicated very certain, 12.0% of the respondents indicated certain, 17.3% of the respondents pointed to not certain, 23.9% of the respondents indicated they were sure and 40.2% of the respondents indicated not certain. This simply means majority of respondents were not certain whether the organizations have an update accounting policies and procedures manual.

Again, the second statement from Table 1, was to find out whether the organization have a chart that clearly defines lines of authority and responsibility and data gathered reveals that 4.3% of the respondents indicated very certain, 12.0% of the respondents indicated not certain, 17.4% of the respondents indicated not sure, 18.5% of the respondents pointed certain and 47.8% of the respondents indicated sure. Data gathered simply shows that majority of respondents are sure that the organizational have an organizational chart that clearly defines lines of authority and responsibility.

Data gathered from the third statement on Table 1, simply shows that 15.2% of the respondents indicated not certain, 17.4% of the respondents indicated not sure, 23.9% of the respondents pointed to certain and 43.5% of the respondents indicated sure. However there was no respondent for the portion on very certain. This means majority of the respondents are sure personnel policies are maintained and distributed to all personnel.

4.3.5: Proper Business links with other organizations

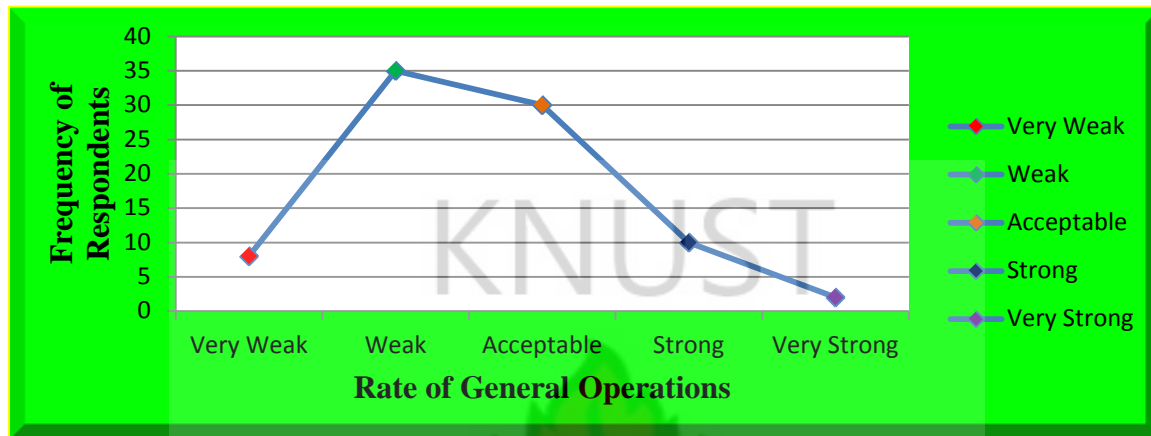
Table 2: Proper Business links with other organizations

STATEMENT	Disagree Strongly		Disagree		Uncertain		Agree		Agree Strongly		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1. There is proper business links with other organizations	6	6.5	17	18.5	42	45.7	27	29.4	0	0	92	100

With the information gathered from Table 2 respondents where to indicate whether there is proper business links with other organization and data revealed that, 6.5% of the respondents indicated that they disagreed strongly, 18.5% of the respondents disagreed, 29.4% of the respondents agreed and 47.1% of the respondents were uncertain. However there were no records for those who agree strongly representing 0%. Data gathered shows that majority of respondents are uncertain whether that there is proper business links with others

4.3.6: Rating the General Operations on Internal Control

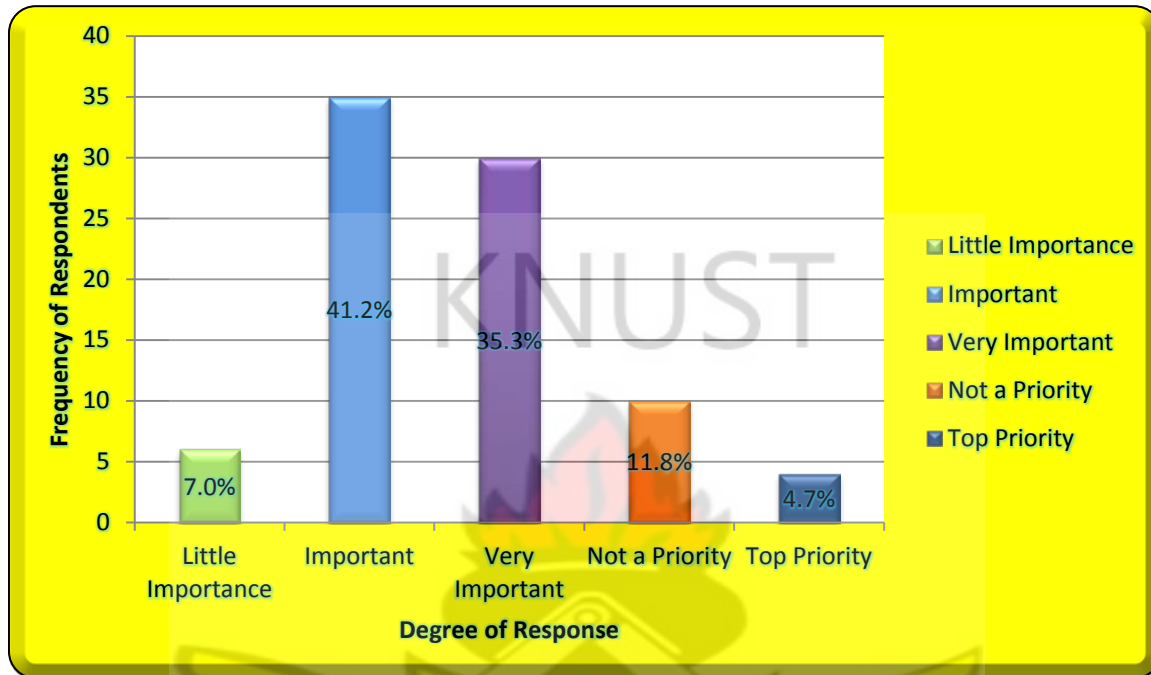
Figure 4: Rating the General Operations on Internal Control



The information gathered here was meant for respondents to rate the general operations on internal control and it was gathered that 2.3% of the respondents indicated very strong, 9.4% of the respondents indicated very weak, 11.8% of the respondents indicated strong, 35.3% of the respondents indicated acceptable rating and 41.2% of the respondents pointed to weak rating. This therefore means that majority of respondents rate the general operations on internal control in as the organization weak.

4.3.5 Control over preparation of withdrawal of funds

Figure 5: Control over preparation of withdrawal of funds



From Figure 5, data gathered reveals that 4.7% of the respondents indicated top priority, 7.0% of the respondents indicated little importance, and 11.8% of the respondents indicated not a priority, 35% of the respondents pointed to very important and 41% of the respondents pointed to important. It shows majority of respondents are of the view that the control over preparation of withdrawal applications of funds are simply important.

4.3.6: Control Activities used to Ensure Internal Control

Table 3: Control Activities used to Ensure Internal Control

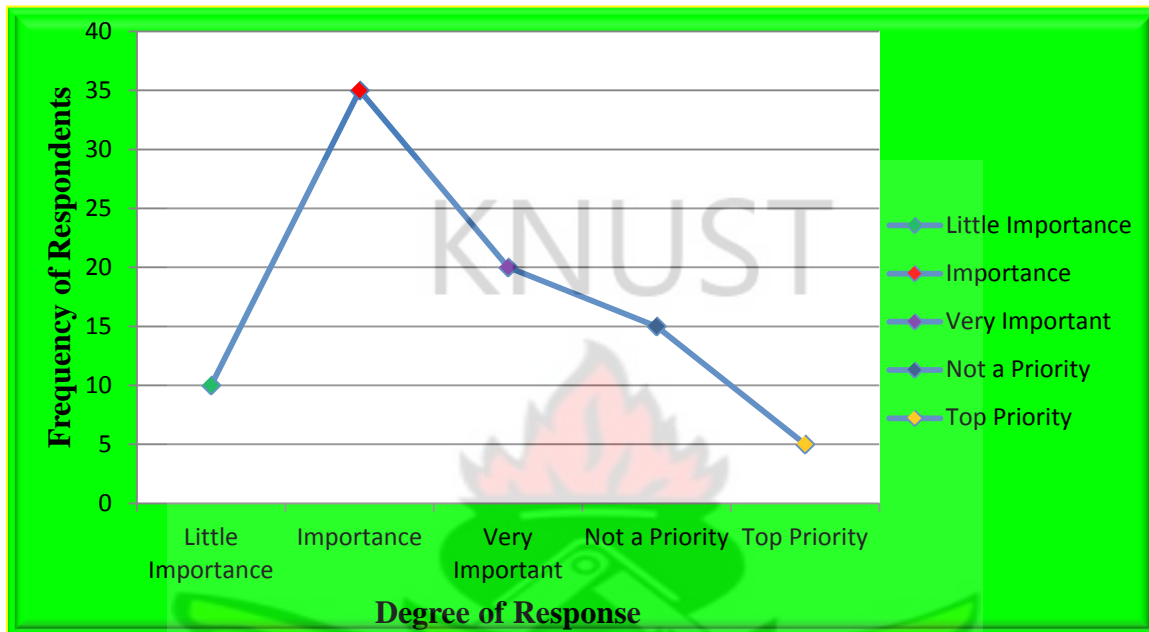
STATEMENT	Not at all		Rarely		Not Really		Most at Times		At all Times		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1. Control over bank and cash balances	6	6.5	37	40.2	22	23.9	16	17.6	11	11.9	92	100
2. Control over purchases and payments	6	6.5	27	29.4	42	45.6	17	18.5	0	0	92	100

The information gathered on the first statement from Table 3 was meant for respondents to indicate whether there is control over bank and cash balances and data clearly shows that 6.5% of the respondents indicated not at all, 11.9% of the respondents indicated at all times, 17.6% of the respondents indicated most at times, 23.9% of the respondents indicated not really and 40.2% of the respondents indicated rarely. Data gathered shows majority of respondents believe the organization rarely has control over bank and cash balances.

With the second statement from Table 3, respondents were expected to show whether the organization has control over purchases and payments and it was revealed that 6.5% of the respondents indicated not at all, 18.5% of the respondents pointed to most at times, 29.4% of the respondents indicated rarely and 45.6% of the respondents indicated not really. It shows majority thinks or believes the organization does not really have control over purchases and payments.

4.3.7: Control over payroll

Figure 6: Control over Payroll



Data obtained from Figure 6, revealed that 5.9% of the respondents indicated top priority, 11.8% of the respondents indicated little importance, 17.6% of the respondents not a priority, 23.5% of the respondents thinks it's very important and 41.2% of the respondents indicated important. Data gathered here means majority of respondents found the control over payroll as simply important as compared to the other responses.

4.3.8 Available Mechanism Ensuring the Achievement of the firm's objectives

Table 4: Available Mechanisms to Ensuring t Achievement of the Firm's Objectives

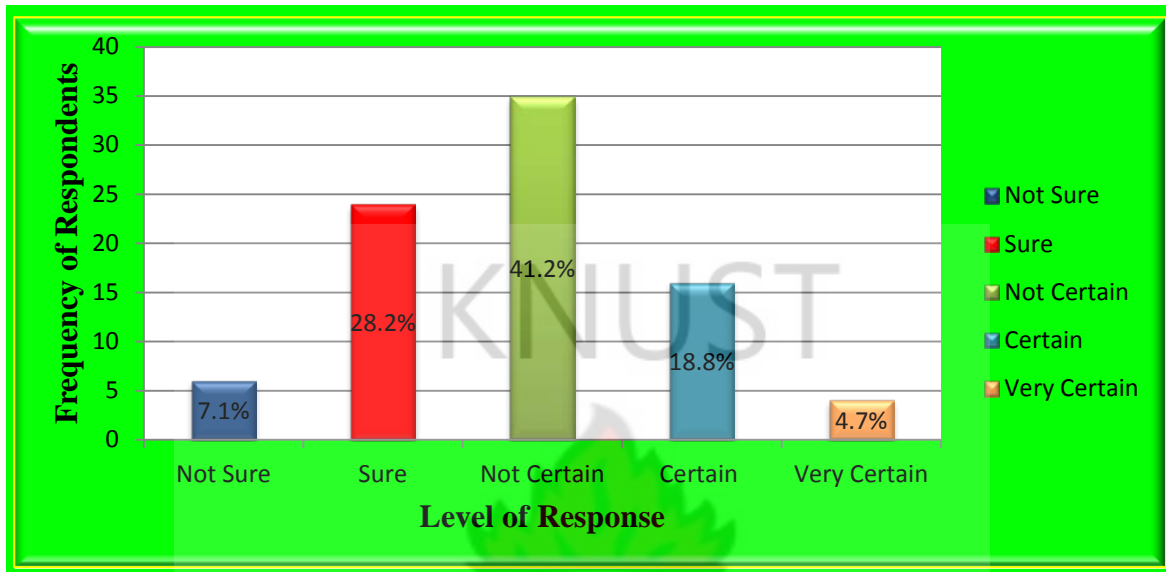
STATEMENT	Disagree Strongly		Disagree		Uncertain		Agree		Agree Strongly		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1. Compliance with applicable laws and regulations is high	0	0	32	34.8	38	41.3	22	23.9	0	0	92	100
2. Effectiveness and efficiency of operations is keen	11	12.0	27	29.3	32	34.8	22	23.9	0	0	92	100

From the data gathered in the first statement from Table 4, it was revealed that 23.9% of the respondents simply agreed, 34.8% of the respondents disagreed and 41.3% of the respondents were uncertain. There were no records for those who disagree strongly and those who agree strongly, all representing 0% respectively. This clearly means majority of respondents believe they are uncertain whether the compliance with applicable laws and regulations is high. It is also means they are not sure whether it is high on the organization's policy framework.

Again from the second statement on Table 4, data gathered indicated that 12.0% of the respondents indicated that they disagreed strongly, 23.9% of the respondents agreed, 29.3% of the respondents disagreed and 34.8% of the respondents were uncertain but there were no records for agreed strongly representing 0%. Data shows majority of respondents were uncertain whether the effectiveness and efficiency of operations is keen to the organization.

4.3.9: Optimization of Monitoring Procedures

Figure 7: Optimization of Monitoring Procedures



With the information gathered from Figure 7, respondents were to indicate whether there is optimization of monitoring procedures and it was indicated that 4.7% of the respondent were very certain, 7.1% of the respondents were not sure, 18.8% of the respondents indicated certain, 28.2% of the respondents were simply sure and 41.2% of the respondents were not certain. This simply shows majority were not certain whether there is optimization of monitoring procedures in the organization.

5.0 Available Mechanisms to Some Achievements of the Firm's Objectives

Table 5: Available Mechanisms to Some Achievements of the Firm's Objectives

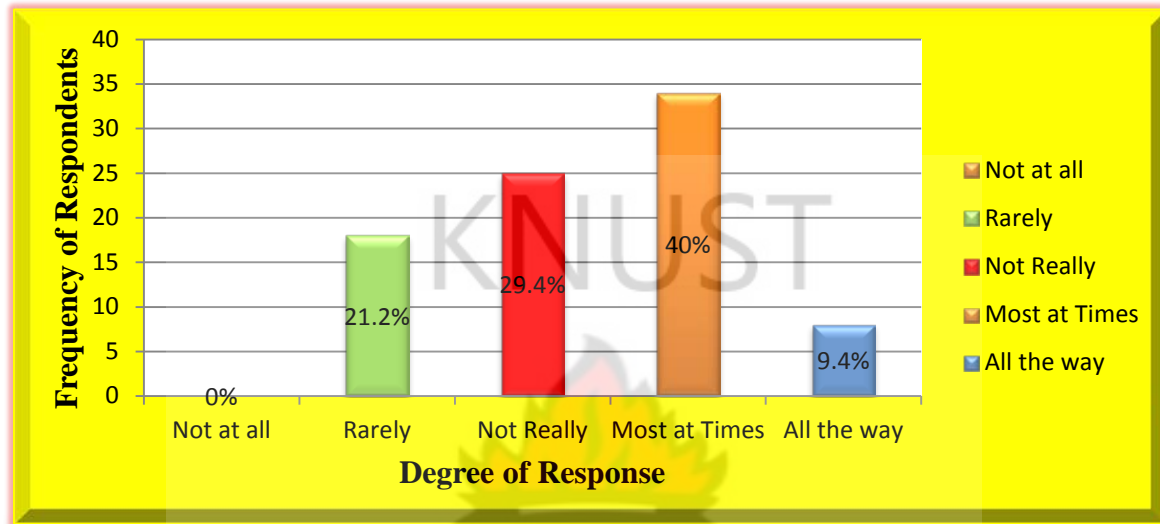
STATEMENT	Doesn't Apply		Never		Sometimes		Usually		Always		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
1. Reviews of Performance (management comparing information on current performance to budget)	9	9.8	19	20.7	32	34.8	28	30.4	4	4.3	92	100
2. There is approvals, authorizations and verifications of activities	10	10.9	8	8.7	42	45.6	32	34.8	0	0	92	100

The first statement from table 5 was meant for respondents to indicate the reviews of performance (i.e. management comparing information on current performance budget) and data gathered shows, 4.3% of the respondents indicated always , 9.8% of the respondents indicated doesn't apply, 20.7% of the respondents pointed to never, 30.4% of the respondents indicated usually and 34.8% of the respondent indicated sometimes. It is clear data gathered shows majority of respondents believes reviews of performance (i.e. management comparing information on current performance to budget) are done sometimes as compared to other responses.

With the data gathered on the second statement from Table 5, it was revealed that 8.7% of the respondents indicated never, 10.9% respondents indicated doesn't apply, 34.8% of the respondents indicated usually and 45.6% of the respondents pointed to sometimes. However there was no response for always. The data here revealed majority of respondent's thinks approvals, authorizations and verifications of activities is done sometimes.

5.1 Security of Assets

Figure 8: Security of Assets



With the data gathered on figure 8, respondents were expected to indicate whether there is security of assets (i.e. access to inventories, cash and other assets is restricted) and the information obtained shows that 9.4% of the respondents indicated all the time, 21.2% of the respondents pointed to rarely, 29.4% of the respondents indicated not really and 40% of the respondents also indicated most at times. But there were no response for not at all. Data obtained shows that majority of respondents believes security of assets (ie. access to inventories, cash and other assets is restricted) is done most at times. It also means the organization have appropriate mechanisms for the security of their assets. The last statement was to invite respondents to give suggestions as to the improvement of internal control system in the organization and the data collected shows 12.9% of the respondents indicating that there should be regular update of internal controls by using new technology systems, 35.3% of the respondents pointed to payment of adequate remuneration to auditors in order

to avoid corrupt acts and to constantly supervise, monitor reviews and also eradicate bureauracies and 51.8% of the respondents indicated the introduction of appropriate and well defined organizational structure such as a computerized system and a strict accounting procedures and policies.

4.4 Discussion of Findings

From the presentation and analysis of data gathered on the field, the findings revealed on the main research study that majority of respondents were not certain whether the organization have an up to date accounting policies and procedures manual. This simply shows that they could not pinpoint the exact idea as to organization having an up to date accounting. Again, majority of respondents were sure that their organizations had an organizational chart which clearly defines lines of authority and responsibility. In this case respondents believe the organization had a chart that clearly defined all the lines of authority in the organization.

The findings above as discussed by Amugo & Inanga (2009) shows that control activities are the policies and procedures that help ensure management if directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels, and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. Segregation of duties was a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act. Control activities usually involve two elements: a policy establishing what should be done and

procedures to effect the policy. All policies must be implemented thoughtfully, conscientiously and consistently.

Data obtained from the field revealed that majority of respondents were sure personnel policies in the organization are maintained and distributed to all personnel. With this respondents are aware that the policies binding the organization are maintained and distributed to all personnel. With the information gathered from the proper business links with other organization data gathered shows that majority of respondents are uncertain whether that there is proper business links with other organizations. In this case respondents are not conversant with the business links the organization engages in.

From the findings gathered above, Zabihollah (2002) explains that management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

- ✓ Reconciliations (Detective): An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
- ✓ Reviews of Performance (Detective): Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

- ✓ Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.
- ✓ Segregation of Duties (Preventive): Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.

Also, the information gathered on the rate of general operations on internal control shows that majority of respondents found the general operations on internal control in the organization weak. This simply means that respondents found the general operations of the system as weak probably because of how it's being handled in the organization. It was further indicated by respondents that the control over preparation of withdrawal of applications of funds are simply important. That it, is important because it helps in the internal control system of the organization. Additionally, data gathered shows majority of respondents believed the organization rarely has control over bank and cash balances. It could also mean that the organization hardly has control over bank and cash balances. Again, it was indicated by majority of respondents that they believe the organization does not really have control over purchases and payments. Furthermore, majority of respondents found the control over payroll as important as compared to the other responses. This shows how the control over payroll which is part of the internal control system is important.

From the above findings, the Committee of Sponsoring Organizations (COSO), (1992) explains that in accounting and auditing, internal control is usually effected by an

organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes–Oxley Act of 2002, which required improvements in internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls.

With regard to, the research objective on available mechanisms in ensuring the achievement of the firm's objectives, majority of respondents believed they are uncertain whether the compliance with applicable laws and regulations is high on the company's agenda. Also it means they are not sure whether it is high on the organization's policy framework. Again majority of respondents were uncertain whether the effectiveness and efficiency of operations is keen to the organization. Indeed majority of respondents were not certain whether there is optimization of monitoring procedures in the organization. As regards the reviews of performance it was clear data gathered shows majority of respondents believed

the reviews of performance (i.e. management comparing information on current performance to budget) are done sometimes. Again, it was recorded that majority of respondent's thinks approvals, authorizations and verifications of activities is done sometimes. Another information solicited from respondents revealed that majority believed security of assets (i.e. access to inventories, cash and other assets is restricted) is done most at times. It also means the organization have appropriate mechanisms for the security of their assets.

The findings discussed were corroborated by the Internal Control Reference Guide (2002), which indicated that a clear set of goals and objectives are fundamental to the success of a department. Specifically, a department or work unit should have (1) a mission statement, (2) written goals and objectives for the department as a whole, and (3) written goals and objectives for each significant activity in the department. Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurements. There are certain activities which are significant to all departments: budgeting, purchasing goods and services, hiring employees, evaluating employees, accounting for vacation/sick leave, and safeguarding property and equipment. Thus, all departments should have appropriate goals and objectives, policies and procedures, and internal controls for these activities.

The last information was meant to solicit the views of respondents on suggestions that would improvement the internal control system in the organization and data obtained indicated there should be regular update of internal controls by using new technology systems, payment of adequate remuneration to auditors in order to avoid corrupt acts and to constantly supervise , monitor reviews and also eradicate bureauracies and the introduction of appropriate and well defined organizational structure such as a computerized system and a strict accounting procedures and policies.

From the last findings identified Amudo & Inanga (2009) assert that, internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter five which is the last chapter deals with the summary of findings, the conclusion and recommendations based on the findings.

5.2 Summary of Research Work

The study was meant to evaluate the effectiveness of internal control in the hospitality industry, with the focus on Mac Dic Plaza and Capital View Hotel. The hospitality industry covers a wide range of organizations offering food service and accommodation. The hospitality industry is divided into sectors according to the skill-sets required for the work involved and the sectors include accommodation, food and beverage, meeting and events, gaming, entertainment and recreation, tourism services and visitor information. However, the hospitality business has some unique problems that often complicate and make more difficult the implementation of total control. Though, an increasingly good percentage of hospitality industry customers today use credit cards to pay for their transactions, many others still pay cash, particularly in restaurants and beverage outlets. This means that there are fair amount of cash accumulating in sales departments each day making it easy for some of this cash to “disappear”. Again, cash handling and its control in many hospitality operations have some departments operating around the clock. This was due to the improper handling of internal control system in the industry and the handling is usually characterized by a much higher employee turnover rate than most other businesses.

The research reviews literature on the various definitions of control systems, the types of internal control system, determining the goals and objectives of internal control and methods and procedure of internal control such as control environment, risk assessment, control activities, information and communication and monitoring. The contributions were raised from different scholars on internal control systems with regard to how and why the system should be put in place to address losses in an organization.

With the research method employed, the study dwelt on the descriptive research as the type of research used in the study. The population was mainly employees of Mac Dic Plaza and Capital View Hotel and the researcher employed the use of a simple random sampling technique to select 100 respondents for the study. The respondents were provided with questionnaires in order to gather data on the respective themes for the study. The findings gathered were analysed by the use of a simple frequency tabulation system with the support of diagrams produced from Microsoft Excel programme.

The methods used to gather data on the field revealed the following findings, that majority representing 55.54% were females other than their male counterparts. On the years of work, majority of respondents constituting 41.2% have worked with the organization for a period of 1 – 5 years and majority representing 64.7% were in the junior staff category.

The data obtained from the research objective on the causes of ineffective internal control system shows that majority representing 40.2% were not certain whether the organization have an up to date accounting policies and procedures manual and 47.8% indicated sure to

the statement that the organization have an organizational chart that clearly defines lines of authority and responsibility. Also, it was gathered that majority being 43.5% were sure personnel policies are maintained and distributed to all personnel. Again, data obtained showed that majority representing 45.7% were uncertain whether that there is proper business links with other organizations. The information gathered on rating the general operations of internal control revealed rate the general operations on internal control in the organization is weak.

Another area of the research objective was determining the causes of high employee turnover by ensuring control activities are being used to ensure internal control and the data gathered revealed that majority constituting 41.2% hold the view that the control over preparation of withdrawal applications of funds are simply important. Also, the next information obtained shows that majority of respondents (40.2%) indicated think the organization rarely has control over bank and cash balances. In addition 45.60% believed the organization does not really have control over purchases and payments and data obtained shows majority representing 41.2% found the control over payroll as simply important.

To determine appropriate methods and procedures of payments for services rendered to minimize cash disappearances as one of the research objectives revealed that majority representing 41.3% are uncertain whether the compliance with applicable laws and regulations is high. Again, majority constituting 34.8% were uncertain whether the effectiveness and efficiency of operations is keen to the organization. Then 41.2% being majority of respondents were not certain whether there is optimization of monitoring procedures in the organization. Also, majority of respondents constituting 34.8% believes reviews of performance (i.e. management comparing information on current performance to

budget) are done sometimes as well as majority representing 45.6% thinks approvals, authorizations and verifications of activities is done sometimes. Another data with majority being 40% believed security of assets (i.e. access to inventories, cash and other assets is restricted) is done most at times.

Finally to make recommendations to the hospitality industry and for further studies as one of the research objectives data gathered revealed the following suggestions from respondents: That there should be a regular update of internal controls by using new technology systems; payment of adequate remuneration to auditors in order to avoid corrupt acts and to constantly supervise, monitor reviews and also eradicate bureauracies and the introduction of appropriate and well defined organizational structure such as a computerized system and a strict accounting procedures and policies.

5.3 Conclusions

Concluding from the summary of findings, it is clear majority of respondents were not certain that the organization have an up to date accounting policies and procedures manual; they were sure the organization have an organizational chart that clearly defines lines of authority and responsibility and that personnel policies are maintained and distributed to all personnel. The respondents added that they were uncertain whether there is proper business links with other organizations but rather gave a weak rating level to the general operations of internal control in the organization. It was revealed that the control over preparation of withdrawal applications of funds is important and that organization rarely has control over bank and cash balances. In addition the organization does not really have control over purchases and payments and but they found control over payroll as simply important. Again

respondents were uncertain whether the compliance with applicable laws and regulations was high as well as the effectiveness and efficiency of operations being keen to the organization. Respondents were not certain whether there is optimization of monitoring procedures in the organization and it was indicated that reviews of performance (i.e. management comparing information on current performance to budget) and that of approvals, authorizations and verifications of activities are done sometimes. They believed security of assets (i.e. access to inventories, cash and other assets is restricted) is done most at times. Then respondents finally gave suggestions such as regular update of internal controls by using new technology systems; payment of adequate remuneration to auditors in order to avoid corrupt acts and to constantly supervise, monitor reviews and also eradicate bureauracies and the introduction of appropriate and well defined organizational structure such as a computerized system and a strict accounting procedures and policies would all help improve the internal control system in the organization.

Therefore, it behoves management of Mac Dic Plaza and Capital View Hotel are to institute plans and establish a well structured internal controls systems that would stand the test of time and also improve on the accounting procedures as well as the overall management of their hotels.

5.4 Recommendation

The following are the recommendations of the study: Firstly, the findings gathered on the causes of ineffective internal control system shows that because majority of respondent were not certain whether the organization have an up to date accounting policies and procedures manual. It is recommended that management of the hotels should come out with an up to date document with details about the policies and procedures of the organization. This to a large extent would help solve some of the internal control systems in their organizations.

As regards the findings concerning the organization having an organizational chart that clearly defines lines of authority and responsibility, it is recommended that management should establish open or organize a forum in order to solicit the views of other employees on how to fashion the procedures in the organizational chart with new and innovative ideas to suit the internal control system in the organization.

Again on the personnel policies being maintained and distributed to all personnel, it is recommended that management of the hotel should do it regularly with well explained procedures about the internal control programmes in order to avoid the situation where employees would be tempted to flout the laid down procedures.

One recommendation on the uncertainty concerning the proper business links with other organizations shows that the organizations should create or establish a business development desk where employees can go out and solicit for business or link up with other business organization. This to some extent would open up various business opportunities among other clients or business organization.

It is recommended that the management of the hotel should identify ways and means of establishing appropriate internal control procedures with the aim of improving on the system

as the findings here revealed that majority of respondents rated the general operations of internal control in the organization as weak.

Another recommendation on determining the causes of high employee turnover by ensuring control activities are being used to ensure internal control where respondents hold the view that the control over preparation of withdrawal applications of funds were simply important means management should design new ways of dealing with the preparation of withdrawal applications of funds and also create an innovative ways handling control over bank and cash balances as the findings revealed a negative procedure.

In addition, it is recommended that the organizations should establish a firm control over purchases and payments as majority of respondents do not find it so. When management establishes control over the purchases and payments it would eventually insure to the benefit of the organization in terms identifying the losses that are usually incurred by employees, hence appropriate internal control system being put in place. Notwithstanding, control over payroll of staff members should be seen as very important to the success of the organization.

Furthermore, it is recommended that to determine appropriate methods and procedures of payments for services rendered to minimize cash disappearances as respondents were uncertain whether the compliance with applicable laws and regulations was high shows that the organization should establish strict measures on the right and innovative methods and procedures of payments to the organization. This would help prevent cash from disappearing.

Again on whether the effectiveness and efficiency of operations is keen to the organization shows majority of respondents were not certain whether there is optimization of monitoring procedures in the organization. Therefore, it is recommended that management of the hotel should institute or establish a monitoring procedure that would appreciated by employees and

that should be done regularly in order to bring about the effectiveness and efficiency of operations in the organization.

Also, it is recommended that as majority of respondents believed reviews of performance (i.e. management comparing information on current performance to budget) as well as approvals, authorizations and verifications of activities were done sometimes, management should as a matter of grave concern make a regular routine when dealing with such things. As majority believed security of assets (i.e. access to inventories, cash and other assets is restricted) are done most at times it is incumbent onto management to fine this procedure with reviews of performance in order to bring a balanced approach to such procedures.

Finally, based on the recommendations of respondents it is revealed that there should be a regular update of internal controls by using new technology systems; payment of adequate remuneration to auditors in order to avoid corrupt acts and to constantly supervise, monitor reviews and also eradicate bureaucracies and the introduction of appropriate and well defined organizational structure such as a computerized system and a strict accounting procedures and policies would help solve a lot of problems in the hotels and therefore bring sanity in the internal control system of the organization.

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Appendices

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING (IDL)

COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION

QUESTIONNAIRE FOR EMPLOYEES

Dear Respondent,

This research questionnaire is aimed at gathering data for a study on “Evaluating the Effectiveness of Internal Control System in the Hospitality Industry”. This study is purely for academic purposes and respondents are assured of uttermost confidentiality of information provided. Please answer the questions as honestly and objectively as possible. Thank you.

SECTION A - Demographic Data (Tick as Appropriate)

1. Sex a) Male [] b) Female []
2. Years of Working
a) 1-5yrs [] b) 6-10yrs [] c) 11-15 yrs [] d) 16yrs and above []
3. Category of Staff
a) Junior Staff [] b) Senior Staff [] c) Management Staff []

SECTION B - Causes of Ineffective Internal Control System (Circle as Appropriate)

4. Does the organization have an up to date accounting policies and procedures manual?
Not Sure 1 2 3 4 5 Very Certain
5. Does the organization have an organizational chart that clearly defines lines of authority and responsibility?
Not Sure 1 2 3 4 5 Very Certain
6. Are personnel policies maintained and distributed to all personnel?
Not Sure 1 2 3 4 5 Very Certain
7. There is proper business links with other organizations

1 Disagree Strongly 2 Disagree 3 Uncertain 4 Agree 5 Agree Strongly

8. How would you rate the general operations on internal control?

1 Very Weak 2 Weak 3 Acceptable 4 Strong 5 Very Strong

SECTION C – Control Activities Being Used To Ensure Internal Control (Tick or

Circle as Appropriate)

9. Control over preparation of withdrawal applications of funds

Little Importance 1 2 3 4 5 Top Priority

10. Control over bank and cash balances

Not at all 1 2 3 4 5 At all times

11. Control over purchases and payments

Not at all 1 2 3 4 5 At all times

12. Control over payroll

Little Importance 1 2 3 4 5 Top Priority

SECTION D - Available Mechanisms Ensuring the Achievement of the Firm's Objectives (Tick or Circle as Appropriate)

13. Compliance with applicable laws and regulations is high

1 Disagree Strongly 2 Disagree 3 Uncertain 4 Agree 5 Agree Strongly

14. Effectiveness and efficiency of operations is keen

1 Disagree Strongly 2 Disagree 3 Uncertain 4 Agree 5 Agree Strongly

15. Optimization of monitoring procedures

Not Sure 1 2 3 4 5 Very Certain

16. Reviews of Performance (management comparing information on current performance to budget)

1 Doesn't Apply 2 Never 3 Sometimes 4 Usually 5 Always

17. Approvals, Authorizations, and Verifications of activities

1 Doesn't Apply 2 Never 3 Sometimes 4 Usually 5 Always

18. Security of Assets (Access to inventories, cash and other assets is restricted)

Not at all 1 2 3 4 5 All the Way

19. What are some of the suggestions in the improvement of internal control system in the organization?

Please
indicate.....
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