ASSESSMENT OF THE INTERNAL CONTROLS AT ANYINAM LODGE, OBUASI

A thesis submitted to the School of Business - Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirement for the reward of the Master of Business Administration.

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DECLARATION

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

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ABSTRACT

Changing business environments have made it imperative for businesses to develop inhouse strategies aimed at minimising losses and mitigating potential risks. The problem is that although many businesses have identified the need for establishment of strong and credible internal controls, there is no apparent decrease in the cases of misappropriation of resources, especially in Ghana. With regards to the hospitality industry in Ghana, it is to be recognised that increasing trends of leisure and tourist activity over the years have necessitated the institution of internal controls to mitigate the otherwise inevitable mismanagement of resources in an increasingly diversifying market. Generally the present

study sought to identify the current internal control mechanisms at Anyinam Lodge and assess the effectiveness of the internal control systems at Anyinam Lodge, between February 2015 and March 2015. Firstly, all current controls at the lodge were identified and a risk-based approach to evaluating internal control was employed. In summary a risk assessment matrix based on an accounting perspective was presented to all staff of the lodge and risk priorities were assigned to them. High and medium priority risks were identified after comparing their current controls to an industry checklist. Risks that were identified were categorised under the general headings of Revenue and Sales
Management, and Completeness of sales, management of Debtors and Creditors, and Management of Procurements, Contract and Inventories. The identification of high risks in these key specific and broad areas suggested that management could be lacking the effective and/or efficient monitoring of existing controls, less effective dissemination of information related to enforcing proper and efficient internal control and possible weak or lax control activities and control environment in these areas where they exist, if they do.

DEDICATION

To the Ancient of Days, Jehovah Almighty and our Risen Saviour. You have brought me this far, giving me strength and guidance through the journey. To you be all the glory and adoration now and forever more.

To my beloved wife, you will forever live in my heart. God bless you for your support. You have been my bedrock and encouragement.

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I am grateful to my supervisor. Your counsel was very valuable. I thank all my friends, for your countless contribution, and well-wishers. God be with you all.

CHAPTER ONE

INTRODUCTION

1.1.Background

Changing business environments have made it imperative for businesses to develop in-house strategies aimed at minimising losses and mitigating potential risks. Identification of financial shortfalls and asset loss triggers have necessitated the development of home grown internal monitoring and evaluation systems or 'house-keeping'. They enable management tiers to deal with the rapidly changing economic environments, competitive waves, constantly mutating customer demands and priorities, and restructuring of the business entity for future growth. These strategies seek to promote efficiency, reduce the threat of asset downturns and facilitate strict operation, ensuring reliability of financial statements and compliance with rules and regulation. Currently, many businesses around the globe have gained cognisance of the need for this and there are on-going debates, discussions and studies on how to do better assessments of internal controls in order to make businesses more profitable.

Administrative management has this as their main subject of concern and in line with adequate managerial norm, any instrument that has the effect of reducing marginally occurring losses is considered invaluable and a vital tool to the business' progression.

These strategies have seen growth as a result of naturally spurring factors such as the inadequacy of financial audits as fully effective sole control phenomenon as pertaining to identification of abuse of funds and resources, as well as cracks in financial structure causing loss streams.

1.2.Problem Statement

The problem is that although many businesses have identified the need for establishment of strong and credible internal controls, there is no apparent decrease in the cases of misappropriation of resources, especially in Ghana. The continuous ebbing of precious income and capital resources through leakages in financial structure, manifested in the form of misappropriation of funds, mismanagement of funds, wastage of resources, underhand dealings, to name a few, has detrimental ramifications on a business structure and financial profile. With regards to the hospitality industry in Ghana, it is to be recognised that increasing trends of leisure and tourist activity over the years have necessitated the institution of internal controls to mitigate the otherwise inevitable mismanagement of resources in an increasingly diversifying market. Internal controls have proven necessary in mitigating management fraud, Internal Controls is also a factor that can affect a firm's operations positively, given the use of effective forms of such or negatively, given these controls take of a negative dimension. There have been many calls recently by some authority figure in Ghana, directed at various governmental and nongovernmental organizations, to strengthen their internal control systems. One example of such is the co-founder of ABM Attorneys, Lawyer Kofi Mensah who in an interview with the General

Telegraph Business Desk following the saga of the Ghana National Petroleum Corporation (GNPC) Drill Ship in 2013 recommended categorically that Ghana needs to institute proper internal control mechanisms. In a related development in 2014, a senior research fellow at the Institute of Economic Affairs (IEA) lamented on how the Auditor-General's reports in Ghana are predictably gloomy and attributed this to "Lax internal controls" in public institutions among other reasons.

1.3.Objectives of the Study

Generally the present study sought to assess the current internal control system of Anyinam lodge;

Specifically, the study sought to:

a. Identify the current internal control mechanisms at Anyinam Lodge.

b. To assess the effectiveness of the internal control systems at Anyinam Lodge.

1.4.Research Questions

a. What are the internal control mechanisms functioning at Anyinam Lodge?

b. How effective are the internal control mechanisms at Anyinam Lodge?

1.5.Scope of the study

The scope of study is Anyinam Lodge, Obuasi in the Ashanti Region, Ghana.

1.6.Justification/Significance

Effective internal control systems in the hospitality industry, of which Anyinam Lodge is no exception, must be a requisite for attaining competitive advantage since many businesses in the industry provide similar services. Consequently, these businesses tend to have comparable or similar threshold capabilities. Concurrently there is also an increase in the number of businesses in the said industry. For Anyinam Lodge to have competitive advantage in this booming industry, it is imperative to assess their internal control systems to mitigate risks, improve business processes, have better control over operations, reduce losses and enhance investor confidence.

1.7.Limitations of the study

Time constraints were the only limitation in the execution of this study.

1.8.Organization of Chapters

The study is organized into five chapters. Chapter one provides a brief introduction to the study and includes background of the study, the problem statement, research question, objectives of the research, the scope of the study, the justification and significance of the study and any limitations encountered while conducting the study. Chapter two is the literature review which includes the definitions of internal control, internal controls objectives and types of internal controls, components of internal control, internal control evaluation and parties responsible for internal controls, internal control limitations and what can happen when internal controls are weak. Chapter three consist of the research design, population under study, sampling techniques, sources of data, research instruments and method of data analysis. Chapter four focuses on data presentation and data analysis. Chapter five is the summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter deals with existing literature related internal control. The chapter first presents internal controls in general and its contributions to economic development. Internal Control, an increasingly relevant concept to the rapidly expanding global business environment has garnered recognition to the effect of its invaluable significance to business operations. The internal control literature has grown substantially since the passage of Sarbanes-Oxley (SOX) Act of 2002 which mandates reporting on the effectiveness of Internal Control over Financial Reporting (ICFR) by public company management and auditors. This is primarily due to the availability of data regarding ICFR effectiveness that were not previously available.

2.1. Definition of Internal Control

The Committee of Sponsoring Organizations (COSO), the first legally mandated body to suggest plausible solutions to internal control monitoring defines the concept in the following manner.

"*An internal control is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in (1) effectiveness and efficiency of operations (2) Reliability of financial reporting and (3) compliance with applicable laws and regulations*".

The American Institute of Accountants, now the American Institute of Certified Public Accountants first defined Internal controls in 1949. Further evolution of that original definition has resulted in an internationally accepted definition as follows, "*Internal Control comprises the plan of the organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check accuracy and reliability of its accounting data, promotes operational efficiency and encourage adherence to prescribed managerial policies*".

Internal Control is defined by the ICMA as "The whole system of controls, financial and otherwise, established by the management in order to carry on the business if the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible, the completeness and accuracy of the financial records." The points that elicit examination in this definition are as follows, that:

1. The Internal control system is established by management.
2. The controls are designed to achieve three major objectives.

These are:

a. To enable management carry on business in an orderly and efficient manner.
b. To ensure that managerial policies are adhered to throughout the organization.
c. To ensure that proper custody is maintained over the valuable assets of the enterprise

According to the 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.

The 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:

a) Effectiveness and efficiency of operations

b) Reliability of financial reporting

c) 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:

I. 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.

II. 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).

III. 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.

2.2. Types of Internal Control System

Controls can be either preventive or detective. Preventive 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 or preventive controls.

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, preventive 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 demonstrated the assertion that that controls can be either preventive or detective and that 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.

It is further explained 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. Examples of the types of internal controls are described below:

i. Reconciliations (Detective): An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.

ii. 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.

iii. 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.

iv. 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:

a. The person who requisitions the purchase of goods or services should not be the person who approves the purchase.

b. The person who approves the purchase of goods or services should not be the person who reconciles the monthly financial reports.

c. The person who approves the purchase of goods or services should not be able to obtain custody of checks.

d. The person who maintains and reconciles the accounting records should not be able to obtain custody of checks.

e. The person who opens the mail and prepares a listing of checks received should not be the person who makes the deposit.

f. The person who opens the mail and prepares a listing of checks received should not be the person who maintains the accounts receivable records.

2.3. Determining the Goals and Objectives of Internal Control

The central theme of internal control is to identify risks to the achievement of an organization's objectives and 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.

A clear set of goals and objectives is fundamental to the success of a department. Specifically, a department or work unit should have"

i. A mission statement ii. Written goals and objectives for the department

as a whole, and iii. 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

2.4. Responsibility of Internal Control

The governing body must assume overall responsibility with regards to the organization's internal control strategy, policies, and system, acting accordingly to enable smooth operational status. It must define risk management strategy, set out the limits for risk taking and criteria for internal control, and consequently make sure that management has effectively undertaken its responsibilities relating to management of risks and corresponding internal controls i.e., the oversight function.

The execution of Internal Control must be integrated into the managerial scheme of operations instead of being viewed as an autonomous component sought to be carried out in addition to regular managerial roles.

Internal control should not be viewed as something that must be superimposed on an organization's normal operating structure. To do so only means costs that can inhibit the organization's ability to compete. Internal control should be built into the infrastructure of an enterprise. When controls are integrated with operational activities, and a focus on controls has been instilled in all personnel, the result is better control with minimum incremental cost. Such integration avoids a superstructure of control procedures on top of existing activities. Whenever management considers changes to their company's operations or activities, the concept that it's better to 'build-in' rather than 'build-on' controls, and to do it right the first time, should be fundamental guiding premises.

Management is responsible for internal controls and this position of control is lent credence to by some tenets upon which managerial state-of-being is founded which are also in line with components of Internal Control.

a. Management has the most influence on the control environment for a department.
b. Management sets business objectives; helps employees understand the objectives, and can encourage employees to discuss the risks to achieving them.
c. Management establishes the activities needed to ensure everyone is carrying out its assigned directives

d. Management is responsible for facilitating communications and information flow within a department.
e. Finally, management provides day-to-day supervision.

The Committee for Sponsoring Organisations is the first body legally constituted to suggest plausible ways to monitor internal controls of an organisation. It was formed in the US after a spate of fraudulent activities was detected in many public organisations. The exponential evolution of the formalised concept of internal control began.

Internal Control helps entities achieve important objectives and also sustain and improve performance. COSO's Internal Control – Integrated Framework (Framework) enable organisations to effectively and efficiently develop systems of Internal Control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organisation.

The Framework for which globally accepted Internal Control systems are based on provides for three distinct categories of objectives:

- Operations Objectives: These are concerned with efficiency and effectiveness of the entity's operations.
- Reporting Objectives: These are concerned with internal and external financial and nonfinancial reporting.
- Compliance Objectives: These pertain to adherence to laws and regulations to which the business entity is subject.

Thus, if management of an organisation buys into the definition of the Committee of Sponsoring Organisations, they should also buy into the idea that controls are one of their key responsibilities.

Auditors can facilitate this buy-in by explaining to management what internal controls mean and focusing on COSO's role as a "framework" that embraces many other controls exist to help achieve basic objectives, like serving the customers, selling goods and protecting assets. Finally, internal auditors need to fully comprehend the situation where management and employees working in the area are the "experts" in the business of that area and will consequently have greater information about the internal processes and systems that the internal auditors who periodically visit the business. In the institution of proper Internal Controls a situation is created where all five components of COSO should work even when the auditors are not working.

2.5. Methods and Procedures of Internal Control

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. Using the four elements of control system described by Anthony and Govindarajan (2007), internal control in an enterprise can be analyzed using the thermostat illustration as follows. The first element is called detector/sensor and it is measuring what is actually happening in the enterprise operation and functioning as a detector of the unfavorable activities. The second is called assessor and it assesses the current situation "temperature" in the enterprises, in regards with the acceptable standard for how it actually should be. The effector that is the third element is synonymous for the feedback and trying to regulate everything so the standards will be followed and complied. The last element, the communications network, explains about transmission of information between the detector and the assessor, and then between the assessor and the effector. Referring to this thermostat theory, the role of internal auditors is to both detect and assess. They should ensure that the enterprise correctly follows the existing procedures. Furthermore, the internal auditors can use the data collected by the computer system and also through direct observation. All of the information then should be stored for examination or even for future reference. They then need to compare and see if the information collected by the computer system is truly representing the actual condition. They may have regular activities on checking whether the actual implementation walks along with the procedures. If they find differences, then it is the authority of hotel managers to work as the effector and regulate everything that the auditor pointed out. The manager needs then to inform the changes to the workers and communicate about how the proper implementation of those changes. The management decides what the enterprise should be doing and they can also work as the detector and assessor because of their responsibility to control and coordinate among the units. A big enterprise consists of many separate divisions and management control is a tool to ensure that each part works in harmony with the others.

2.5.1. Control Environment

The Control environment, as established by the organisation's administration is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organisation. From the top level of hierarchy, board of directors and senior management establish a culture from the zenith of the structure regarding internal controls and expected code of conduct. Dedicated management then establish a local control environment as relevant to the subdivisions (if present) of departmental level, area level or concentration on particular activities, creating a foundation for all other components of internal control, providing discipline and structure. Control environment factors include (Amundo&Inanga, 2009):

i. Integrity and ethical values; ii. The commitment to competence; iii. Leadership philosophy and operating style; iv. The way management assigns authority and responsibility, and organises and develops its people;

v. Policies and procedures.

2.5.2. Risk Assessment

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.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. 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?

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

1. Assess the likelihood (or frequency) of the risk occurring.
2. Estimate the potential impact if the risk were to occur; consider both quantitative and qualitative costs.
3. 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).

2.5.3. Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They facilitate the addressing of risks by ensuring necessary actions are executed to spur the achievement of the entity's objectives. Control activities are evident through all levels of operation in the organisation. They may play preventive or detective roles and include a range of activities such as:

i. Approvals and

authorisations ii. Verifications

iii. Reconciliations iv. Reviews of

operating Performance

v. Security of assets vi.

Segregation of Duties

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and inappropriate actions. It serves as a deterrent to fraud because it requires collusion with another person to perpetuate a fraudulent act. Control activities usually involve two elements: a policy establishing what should be done and procedures to affect the policy. All policies must be implemented thoughtfully, conscientiously and consistently.Further reference is made, citing the suggestion that liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorised acquisition, use or disposition. Typically, access controls are the best to safeguard these assets. Examples of access controls are as follows: locked doors, keypad systems, card key systems, badge systems, locked filing cabinets, guards, terminal locks, computer passwords and menu protection, automatic call-back systems for remote access, smart card and data encryption.

2.5.4. Information and Communication

Information is a necessity in the execution of internal control responsibilities by the business entity to support the achievement of its objectives. Managerial tiers must obtain and use appropriately, relevant information sourced both internally and externally to support the smooth operation of other internal control components. 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 in an organisation. All personnel must receive clear channels of communication as facilitated by top management, carrying messages that control responsibilities. They must comprehend fully 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 communication significant information upstream.

2.5.5. Monitoring

Internal Control systems need to be monitored – a process that assesses the quality of the system's performance over time. On-going 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 of on-going monitoring procedures. Internal control deficiencies, as identified should be reported upstream communication channels, with serious matters reported immediately to top administration and governing boards. Internal control systems change over time. The way controls are applied are subject to varying evolutionary patterns as and when once effective procedures become ineffective because of arrival of new personnel, varying effectiveness of training and supervision, time and resource constraints, or additional pressures. Consequently, change may occur in the circumstances for which internal controls were originally needed and due to these changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks.

2.6. Limitations of Internal Control

2.6.1. Human Error

The effectiveness of an internal control system is hampered by the reality of man's imperfection and the consequent errors that are inevitable in any human institution. Errors may occur due to employee carelessness, distraction or fatigue. Decisions are mostly made under time constraints, based on limited and otherwise insufficient information, relying heavily on human judgement (which could likely be flawed). Managerial tiers may also fail to anticipate certain risks and ultimately fail to design and implement adequate controls to mitigate those risks.

2.6.2. Collusion

Multiple employees acting in consonance to perpetuate and hide an action from detection, usually for purpose of personal gain can bypass even the most effective internal control systems. Appropriate and deterrent steps towards this collusion is the creation of a control environment with premium placed on enforcement of codified policies and procedures, strict monitoring of internal controls, creation of a whistle-blower culture among employees, and most importantly, education of employees on the ramifications of fraud.

2.6.3. Inadequate Segregation of Duties

Division of duties among employee base is necessary to reduce risk of inappropriate actions and errors in operating structure. However, the requisite separation of duties with regards to certain functions is hampered by staff size constraints. These functions include

i. Record keeping ii.

Custody

iii. Authorisation

In the event of this phenomenon occurring, usage of some compensating tools may have a mitigating effect on the impact on operations. These tools include independent reviews and oversight delegation.

2.6.4. Incidence of Greater Cost Over Benefit

In the implementation of internal controls, the concept of reasonable assurance highlights the rational that the cost of internal controls must not exceed the benefits to be gleaned from the implementation of those controls. Furthermore, it must be recognised that the evaluation of these factors elicit estimates and review judgements. The incidence of prohibitive costs in this regard may prevent management from implementing the perfect internal control system. Management accepts certain risks consequently, because the cost of mitigating such risks cannot be justified.

2.6.5. Control Override

An internal control system is effective to the degree of the people managing it. Abuse of authority to the effect of overriding the controls poses a risk to the organisational structure. Some exceptions to internal controls are sometimes necessary to the execution of certain tasks, but however, these breaches of procedure may pose a serious risk if not monitored and limited.

2.7. A Case for Weak Internal Control Systems in Ghana

Weaknesses in the internal control system, failure to follow administrative procedures, poor record keeping practices and collusion among civil servants have all contributed to payroll irregularities and fraudulent activities in Ghana. To the credit of the Government of Ghana, information about detected payroll irregularities had been made available publicly for many years. For example, based on the 1998 Auditor General's Report and Serious Fraud Office reports, it was estimated that, for every GHS100,000 paid in personnel emolument in 1998, about

GHS 5,800 (or 5.8%) were unauthorised payments. Payroll fraud in 1998 represented in about

83% of the total personnel emoluments of the Ministry of Mines and Energy for example. In 2003, wrongful payments of unearned salaries were GHS 3.25 billion, an increase of GHS 1.18 billion from 2002. The increase was due to mainly payroll fraud amounting to GHS 2.75 billion detected by the Auditor General's staff.

2.8.The Hospitality Industry

2.8.1. Introduction to Hospitality Industry

The market for the hospitality services has a long history. Hospitality industry is one of the service industries who are promoted in many countries. The hotel sector is a part of hospitality industry and has been affected by its situation. The hospitality industry keeps growing year by year and offer very good return for its investors. According to the 2009 U.S. Lodging Report, even the world was facing the economic crisis; surprisingly the hospitality business remains profitable. Especially in the US, the government seemed to provide big support to the infrastructure and access to the tourist attraction places, which also give a good impact for the investment in hospitality sectors. The intention to promote the tourism from the government brings a bright future for the hospitality industry. On the other side, hospitality is also one of the influential industries to the countries' economic condition and employment opportunities. It is showed that big hotels and lodgings need very large number of employees. This condition opens a big employment opportunity for both skilled and unskilled persons, which could help the government on reducing the unemployment rate in the country. The statistic shows that in 2007, at least over than 9 million people employed in the tourism and hospitality sectors in the European Union. And the other study found that tourism gives support the increment of GDP in many countries in the world (Tourism-Review.com, 2011). Recent study also present the fact that in March 2011, there was an additional 37,000 jobs offered by the hospitality industry in the

US, which was the second largest job opportunity after health care industry (U.S. Bureau of Labor Statistics, 2011). A study made in 2009 found that the hotel chain acquires a new location without investing in a brand new hotel from scratch while the local hotel will gain access to a recognized brand name and to the international reservation system from the hotel chain. The local hotel will also be provided by managerial competence by the hotel chain, while the local hotel has all the information about the local market and knowledge. It is an important task that they provide and secure a good service quality via the interaction between the hotel and the customer. A good control of service quality means that the hotel can reach customers' loyalty and it gives ability for the principals to get valid and accurate information about the agent's act ions. Corporation between the local hotels and the chains gives also a greater ability to apply current and future knowledge. The hotel culture is related to a long time horizon, which means that they have to build long-term customer relationship. In the post war time the market was product oriented, and then it started continuously to move from production to market orientation.

The developed country started then to have overproduction and it became important to adapt the supply to the individual consumer needs. Customer orientation was now in focus. What defines the customer-oriented company is that it selects a special class of customers and coordinates the production resources required to measure the customer's needs (Nilsson, 2002). Hospitality industry is about providing services to the customers. With the growth of population as a result of the government regulation in many developed countries, the world deals with the issue of baby-booming. This situation also affects the hospitality industry, as well as in almost all other industries. Later, this population will become prospective customers. In addition, the competition in hospitality industry is also become higher. Thus, customers have freedom to choose where they want to go and to stay. They are also freely to decide what kind of service that they want to get. Therefore, the quality of service cannot be the only factor to keep the businesses' going concern in the future (Harris and Mongiello, 2006). A study was shown that the company's culture has significant influence to its operation. The culture consists of factors like common beliefs, shared values, norms, and assumptions that are implicitly accepted and explicitly manifested throughout the whole hotel organization. Cultural norms explain why two hotels, with identical formal management control systems, may vary in terms of actual control.

Organizational cultural is also strongly influenced by the policies that are implemented .

2.8.2. Hotel Accounting and Internal Control

In hotel sector, the Uniform System of Accounts is widely used as a basic chart of accounts that are using worldwide by hotels. The first chart of accounts was published in 1926 by The Hotel Association of New York. Since then this chart of accounts become an established standard for hotel companies worldwide. Nowadays, the American Hotel and Motel Association in the US is the responsible party to regulate this chart of accounts. Most of the big hotel chains have made their own adaptations and translated the chart of accounts of the respective laws in the countries with adoption to their law system and external accounting . Likewise any other industries, hotel industry needs an implementation of internal control, which is contained procedures that established by organization. Thus, these procedures are regulated within a hotel that functioning as a protection of the hotels' assets from employee frauds and illegal use. In addition, it is also needed to keep the accounting records remain accurate and reliable. This can be achieved with lowering the risk of mistakes done with either unintentionally or intentionally in reporting (Weygandt*et al*, 2009). The hotel service has a variety of standards and special rules they need to consider and thereby follow. They also have unwritten rules and standards where the guests expect a certain level from them. Similar with the general accounting, in hospitality industry, accounting also can be explained as a system where information is registered, processed and reported to facilitate decision-making in economic matters. The reporting section can be divided into an external and an internal part. In the external the purpose is to inform others about the company's business and for the internal it is to follow the cash flows that arise as a consequence of the business transaction in the company. The external auditing is statutory unlike the internal. Requirements from outside has grown through previous market crashes, corporate bankruptcies, and conscious manipulation of information. The internal reporting is similar to management account and addressed to recipients within the organization. It is free from regulation which means that the company can implement self-designed accounting rules.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0. Introduction

This chapter demonstrates the manner in which data was collected and analysed. It details the variables considered in adequately answering this study's major questions. The chapter is sectioned into various components that are dealt with in considerable detail including the study's design, sampling size, frame and data collection and analysis techniques.

Research in internal control can be distinguished into these following two different perspectives:

1. Auditing perspective

From an auditing perspective it mainly focuses on the traditional accounting controls to observe how accounting controls affect the reliability of financial reporting. Auditors are here focusing on problems that are related to accounting controls for specific cycles and transactions. They are in the other hand not focusing much at concepts of broad control or at control environment.

2. Organizational perspective

The organizational perspective can also be named as the management control perspective. Internal control is here focusing at the effectiveness of departments and divisions, and it can be divided up into three different controls. The first one is named ´action control´ and it is based on the accounting controls that are used for external auditing. The second is ´result control´ and is instead based on satisfying groups and individuals for generating good results. The third is ´personnel and cultural controls´, and this one is based on a system where the employees control their behaviors, or each other's behaviors (Maijoor, 2000). The organization perspective focuses more on the quality of the relationship and its three main mechanisms are people, culture and social control.

3.1.Study Design

The study was a case study conducted over a period of two months (February. It was imperative to choose a study design that was cost-effective in adequately answering the study questions. The choice of Anyinam lodge for this study adequately fulfills the purpose of the study. The study requires at the minimum neither an experimental approach or a prospective approach. The best design suited for the current study was either a cross-sectional observational study or a casestudy in which Anyinam lodge fit the description.

3.2.Sampling Frame

The sample from which this study was conducted was composed of all management and staff at Anyinam Lodge, a comprehensive gathering of information from all involved in the business structure of the organisation.

3.3.Sample Size

A sample size of 50 individuals, including all senior staff of the lodge, junior staff and contract staff were contacted for the study.

3.4.Sources of Data

Data was gathered from primary and secondary sources. Primary sources of data included answers from questions administered, while secondary sources of data included documents on the policies and procedures at Anyinam lodge.

3.5.Data Collection and Analysis

Throughout the post-SOX era, both auditors and their clients have been concerned with the provision of an effective and efficient evaluation of internal controls. However, in the period following the enactment of SOX up to the present, the fulfillment of Section 404 of internal control assessment has imposed heavy burdens on external auditors and management. All of the possible effects of providing assurance under SOX 404 indicate that being able to effectively and efficiently evaluate internal controls, to quickly identify the major weaknesses in control systems, and to quickly take remedial actions to fix these weaknesses is critical. A structured and systematic approach to SOX 404 mandated internal control assessment could help in achieving such a goal.

Many approaches or methods, some qualitative and some quantitative, exist for the evaluation of internal controls (IC). Conventionally, auditors have adopted qualitative methods, such as questionnaires, checklists, flow charts, and test of transactions for evaluation purposes. Previous research (e.g. Yu &Neter 1973; Cushing 1974, 1975; Mock & Turner, 1981) point out that such methods are insufficient and the assessments generated by qualitative methods are of dubious values for developing comprehensive internal control evaluation models. The questionnaires can be incomplete. In particular, they might not check the management of all significant risks. They can lead to a 'box ticking' exercise by staff without gaining an understanding of what they are doing. In this way, major risks, which are not being managed properly, may be missed.

Consequently, they don't encourage management to identify and control their risks properly and adequately.

For the purposes of this study the researcher employed a risk-based approach, or the "top-down" approach to evaluating internal controls which essentially focuses on the primary aim of installing internal controls in the first place. The risk-based approach to evaluating internal control factors the performance of the other essential categories of internal control. This approach is gradually gaining popularity after the SOX resolutions, and the above mentioned reasons for moving away from the conventional administration of and dependence on

questionnaires.

Firstly, the researcher built a "reasonable" list of plausible risks. There are many ways to do this. This may be accomplished by research and observation, company-specific history, experience of senior level staff , industry-specific scenario analysis, risk source analysis, and industry “checklists”. For the purpose of the current study, an industry checklist was employed. This checklist had general risk categories and detailed potential risks which were run through a riskmatrix analysis for prioritisation as either high (H), medium (M), or low risks. The generic risk matrix model used after obtaining a catalog of potential industry risks combined both the possibility of the risk occurring and the degree of the perceived potential impact that risk could have. Figure 1 shows the risk matrix that was used to assess each potentially detailed risk.

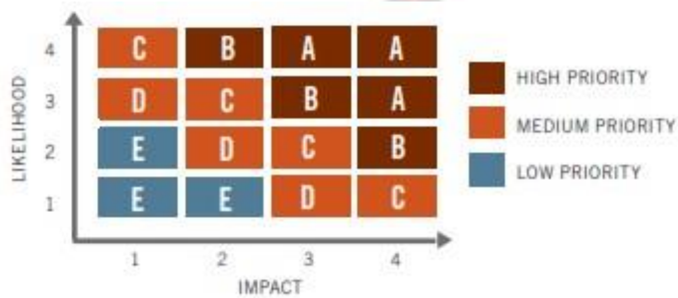

Figure 1. Risk Matrix Based on Likelihood and Impact

In practice, each staff member would have to rank each potential risk by combining the extent of likelihood and impact in the matrix and and reading the severity/priority off it. The identification of high and low potential or actual risks was followed by recommendations for control activities that may be evaluated in the future for compliance.

3.7. Organisational Profile of Anyinam Lodge

The lodge is situated at Obuasi and serves clientele of AngloGold Ashanti. Its staff is categorised into Senior and Junior Staff. The senior staff encompasses the management board and any other staff member who contributes significantly to decision making at the highest level of the organisation. Senior staff include the General Manager, Finance Manager and Administrative Manager. Others include the Senior and Cost Accountants, Chief Security, Senior Housekeeper, Senior Chef, and Customer Service Executive. Within the four tier organisational structure of Anyinam lodge, the junior staff includes housekeepers, security personnel, secretaries, laundry personnel, artisans and technicians, gardeners, stewards, cooks, waiters and bar tenders, front desk personnel, store keeper and purchasing officers, cashiers, and accounts officers. Below is an organogram of the Anyinam lodge.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.0. Introduction

This chapter deals with the presentation of results obtained from the study on the backdrop of the study's objectives. The basic findings of the study were consequently discussed by the researcher. As per the objectives of the study, the first to deal with was to have a broad overview of the current internal controls of Anyinam Lodge and then identify any voids that have to be filled in making internal control better at the lodge.

4.1. Details of Current Internal Controls at Anyinam Lodge

The lodge had already cataloged items that were to be followed to ensure proper internal control. These items were obtained from its current manual of policies and procedures. The manual had been set out to as a guideline of approved policies and procedures relating to the financial and administrative management of the lodge. This manual was obtained from the Senior Accountant of the lodge and was separated from the subsequent risk assessment/evaluation that was conducted. The manualis also intended to serve as reference material to staff of the lodge. The lodge Manager, Board and the Senior Accountant of Anyinam lodge were accountable for ensuring compliance and regular update of these policies and procedures. Below is a summary of controls that were identified at the lodge, as per the current operational policies of the lodge.

4.1.1. Controls for Procurement

Generally controls that were set out in this area were meant to assist in minimizing losses and optimizing value. Requisitions for capital and significant items that had been approved by the Board were to be addressed to the Senior Accounts Officer and subsequently to the lodge Manager before it got to any supplier. All requisition of items apart from capital and significant items were to be made by the Purchasing Officer after approval by the lodge Manager and the Senior Finance Manager.

The accountant and purchasing officer must undertake periodic market survey every year in order to select the most competitive suppliers. The accountant and purchasing officer conduct the selection of suppliers based on at least two quotations, and submit their recommendations to Lodge Manager for his approval to purchase items.

Where invoices were not available, a justification clause was to be stated to that effect indicating why sole sourcing must be done for all such items.

All items or stock purchased were only to be received at the stores or warehouses of the lodge and not to any different place. Stock to be received into the lodge warehouse were critically examined by the Senior Accounts Officer, Purchasing Officer and the Security Officer in order to limit the tendency of receiving unspecified and /or expired goods.

All items purchased and received were to be accompanied by an actual invoice instead of a proforma.

The purchasing officer at the lodge has to acknowledge receipt of goods to the warehouse by stamping and signing on the attached invoice.

All invoices are then submitted to the lodge Finance Manager to initiate the necessary payments processes.

All items received at the premises/store of the lodge are then inputted into the Tally System (purchases ledger and stock summary) and recorded into the stock book by the Purchasing officer.

Defective goods that are to be sent back to the supplier due to wrong specification or goods that are expired or any other situation necessitated by that action must be recorded in the stock book for the necessary stock adjustments to be made on the number of goods received.

The Purchasing officer must administer proper storage conditions in the store room to prevent stock or items from damages and expiring. In addition, periodic stock counts must be conducted by the Purchasing Officer with the barmen to ensure that physical stock levels correspond to book values.

In situations where stock adjustments are to be done due to a necessitated circumstance, approval must be obtained from the lodge Manager and the Finance Manager. All payments other than petty cash payment are be made by cheque. The Lodge Manager and Accountant must authorize any petty cash payments.

An Imprest system is to be used with rules on reimbursement only against authorized vouchers. This means that reimbursement were only to made to restore the cash balance using vouchers. An authorized petty cash voucher is required for all payments.

Approved claim and invoices are to be attached to the cash voucher. All payment vouchers and supporting documentation are to be stamped “paid” immediately after payment.

The Accountant is also mandated to conduct surprise cash counts on regular basis and reconcile results to the petty cash book balance.

All invoices and vouchers used in the process are to be crossed out to avoid re-use. All petty cash is to be kept by an authorized official (preferably the Accounts Officer) independent of the Accountant and Lodge Manager.

A register of receipt books is to be kept at the store and any missing receipt booklets must immediately be reported to the Security Coordinator.

4.1.2. Controls for Petty Cash Payment via IOU (Pre-financing)

Petty cash is kept by the Accounts Officer for emergency cash needs. IOUs (I owe you) are raised only when sufficient amount is available. IOUs are authorized by the Accountant, Lodge Manager and then accountableimprest is released to an employee.

The IOU is supposed to be retired within one week. After the purchases, receipts or memos are rearranged and used to redeem the IOU. If the cash collected is not accounted for, it is treated as salary advanced and deducted from the employee’s salary.

4.1.3. Controls for Other Cash Transactions

All cash and cheques received are to be receipted with company pre-numbered receipt vouchers. Memos for cash payments should be addressed to and approved by the lodge Manager. Receipt vouchers should be secured in the safe, when is not in use.

Daily reconciliation of cash receipts and payment shall be performed by the person in charge of cash receiving and paying outlets. This is to be reviewed and signed off by the Accountant. Petty cash is counted by close of work each week and this must agree to the amount in the cashbook kept by the Senior Accounts Officer.

The reconciliation should be reviewed by the Lodge/Finance Manager.

4.1.4. Control of Bank Transactions

According to the senior accountant of the Lodge board resolution is required in the opening and closing of all bank accounts. All cash and cheques received are banked the next working day. Monthly bank reconciliation are to be performed by the assigned officer and reviewed and approved by Senior Finance Manager.

Cheques signatories must be independent of the purchasing and payment functions and are required to examine supporting documentation before signing.

Unused cheques and all other payment documents should be kept in a safe. Arrangements must be made with bankers of the lodge for the return of paid cheques. Authorised payment vouchers are required for all bank payments. Stale cheques, i.e., cheques over six months, are to be reviewed and reversed. For accrued invoices, selected invoices and debtors showing the amount owed is forwarded to the Finance Manager.

The Senior Accounts Officer is mandated to prepare bank payment vouchers which are then reviewed by Finance Manager after which the senior Accounts Officer is supposed to raise the necessary cheques.

The Lodge Manager must review the details on the cheque payment prior approval. It is then forwarded to the Senior Finance Manager or his nominee for approval.

4.1.5. Control of Revenue from Bar and Restaurant

4.1.5.1. Restaurant

A waiter must present a copy of a guest's order for food/drink to the cashier; the other copy goes to the Kitchen. With the order containing the codes for the food/drink, the cashier must prepare the guest's bill for payment using the computer system (Manager Pro).

According to the senior accountant of the Lodge cash customers must have their bills paidstamped. At the end of each shift, the cashiers must reconcile cash at hand with the total cash sales in the accounting system and put the money in cash envelope and account for sales at the front desk.

The cashier must also send all credit bills to the front desk and ensure they are deposited in a secure safe. The cash in the safe and credits bills are to be picked up by the Accounts Officer each morning.

At the end each evening shift the Officer at the front desk is required to prepare a sales summary and add to it, the cash envelop and the credit bill for the front desk.

The bar attendant/cashier is required to take stock of all the drinks in the restaurant each time they take over duty and at end of shift reconcile stock on hand with the computer system (Tally) balances. All bar invoices, receipts and orders sheets are to be kept properly.

4.1.5.2. Bar

At the beginning of the shift, the barman has to check stock to have opening balances for drinks as against what is in the computer system (Manager Pro) and make the necessary requisitions for those not available.

The barman must also welcome customers who arrive, take their requested drinks ordered and serve them accordingly. After clearing the table, the barman must present a printed bill to the customer. The barman must receive the amount covering the drinks bought from the customer who pays cash. For credit customers the barman must collect the customer's signed printed bill. At the end of their shifts, the barmen must check the remaining stock and cross check all cash sales against the system's cash sales;

Barmen must send the entire envelope containing cash sales to the front desk officer who must then add the cash to the "pool".

4.1.6. Control of Accounts Payable

For services rendered, invoices are to be approved by the lodge Manager and in addition supported by purchase order or contract.

According to the finance manager of the Lodge only value of goods received or services rendered are to be accrued for and paid. As much as possible invoices are to be obtained for services rendered and goods supplied by Ghanaian VAT registered companies and only actual invoice should be paid for. Authorisation to negotiate contract of service and payment with service providers must be given by the Lodge Manager and an approval of project or service by the board.

Once this has been done, the payment can then be made. Major supplier accounts should be reconciled before payments are made to them. Any amount owed by suppliers or contractors are be set off against any payments to be made to them

4.1.7. Controls for Accounts Receivables

Individual debtors must be an employee who has some accrued income with the Anyinam lodge. Emergency loans should not exceed one month basic salary and there should be two employees as guarantors.

Before any creditor payment is made, accounts receivables should check for possible set-offs and remarks column should be added to the creditor's schedule whether Creditor owns the ledger or that of lodge. The staff debtor balance is to be compared with payroll deduction before payroll run is completed.

The Senior Accounts Officer must review debtor balances at the end of every month to ensure completeness, and that necessary deductions were effected and that demand requests are made to third parties

4.1.8. Control of Salaries and Wages

The approval of Anyinam Lodge Board Chairman must be obtained before any new person is employed or engaged by the lodge. Additions to payrolls must only be based on written appointment letters.

Deductions to payroll must be in writing and authorized by lodge Manager. The applicable exchange rates should be that of AGA or the Bank of Ghana rates. All staff are obliged to pay PAYE. No deductions are to be made unless appropriately approved. All staff are also entitled to SSF except those on attachment and casuals.

Payroll deductions together with employer contributions (i.e. PAYE, Social security, etc) must promptly be paid to the respective authorities by 15th of the following month. Yearly payroll calendar must be maintained and followed up. Time sheets are also to be properly checked and approved by the lodge Manager.

4.1.9. Control of Fixed Assets

Acquisitions and disposals should be controlled by a capital budgeting process tied to short term and long term business plans.

The lodge Manager through the Board must provide approval for acquisition of assets. A record of assets is to be maintained should be sufficiently detailed to permit identification of individual assets on the Fixed Assets Register. This is supposed to be maintained in a protected excel worksheet and a printed hard copy. Assets must be individually tagged with identification codes. Periodically, thus, once a year assets are to be physically checked and reconciled to the fixed assets register.

Written approval should be obtained from the lodge Manager for all disposals through the board.

With the exception of computers, capital should have values of US $500.00 or more. Assets fully depreciated are not to be taken out of the register and should be kept on Assets register at zero value before disposing it when the need arises in the future.

4.1.10. Control of Contracts

Request to undertake Projects/contracts for service works is to be made by heads of sections to the Lodge Manager or the Anglogold Ashanti (AGA) management. They decide on major projects that are undertaken at the Lodge.

The Anyinam Lodge Board Approval must be obtained in all such projects. At least 3 comparable quotes must be obtained from potential contractors/suppliers and adjudication must be performed by the Anyinam Lodge tender Board.

In instances where major contracts are to be undertaken, AGA contract processes have to be followed. The AGA contract department and Accra's legal department's assistance must be obtained to put in place a contract.

The Lodge Manager must facilitate and ensure that the contract is awarded. Contracts must be executed by the contractor and the lodge Manager and/or AGA Project department must monitor contract works being performed.

Work certificates must be completed and approved by the AGA Project Manager together with the lodge Manager. Contract Invoices presented by contractor must also be vetted by the Finance Manager, the Lodge Manager and /or the Project Manager before any payments before any payments are issued.

The lodge Finance Manager must ensure that the Contractor's invoice details are checked to the terms of the agreement/contract for compliance before payment vouchers are raised for cheques to be paid.

4.1.11. Controls for Medical Claims

All apportionment must be subject to positive medical report from a company approved medical officer. There is a list of approved clinics or hospitals that employers must seek medical attention at except in emergencies.

All medical costs must be reviewed for reasonableness by the Lodger Administrator and then to the Lodge Manager for approval and then to the Finance Manager for payroll processing. Where drugs prescribed by the doctor are not available at the clinic or hospital, they are to be purchased from approved licensed chemist and to ensure that stamped receipts are obtained. Prescription from approved clinics or hospitals and their corresponding receipts from a licensed chemist should support all claims for drugs.

Medical claims are to be approved by Lodge Manager before submission to the accounts department for reimbursement through payroll. A list of eligible dependants of staff must also be compiled and reviewed by the Lodge Manager on yearly basis. The sick employee or dependant must visit approved clinics or hospitals with a request form.

After treatment, the doctor must complete the form and give a copy to the patient for submission to the lodge Administrator.

4.1.12. Controls for Management Reporting

Management must complete accounts on the 30th /31st of last day of every month. The payroll cut off is usually around the 30th /31st of last of every month. Monthly closing dates have been set around 27th of the month and the year-end has been set at 31st December of each year.

4.2. Effectiveness of Internal Controls at Anyinam Lodge

Based upon the methodology, there were eight broad areas of activity within the lodge that were identified and assessed for associated potential or actual risks. These were Revenue/Sales Management/Completeness of sales; Procurement/ Contract and Inventory Management; Management of cash and bank resources; Debtors and Creditors management; HR and Payroll Management; Fixed assets Management; Management Information System, and General Finance. Figures 1, 2 and 3 for example, are graphical representations of risk assessment in some of the categories that were identified.

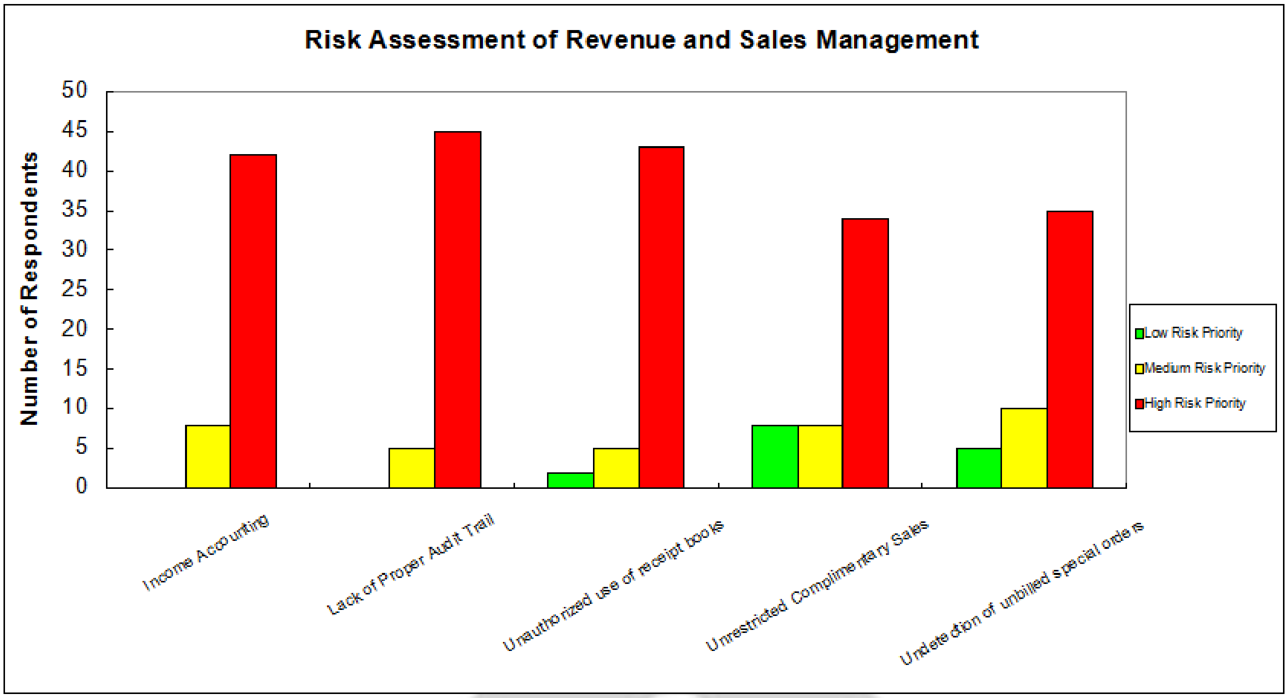

Figure 1. Risk Prioritization of Various Risks Associated with Revenue and Sales Management

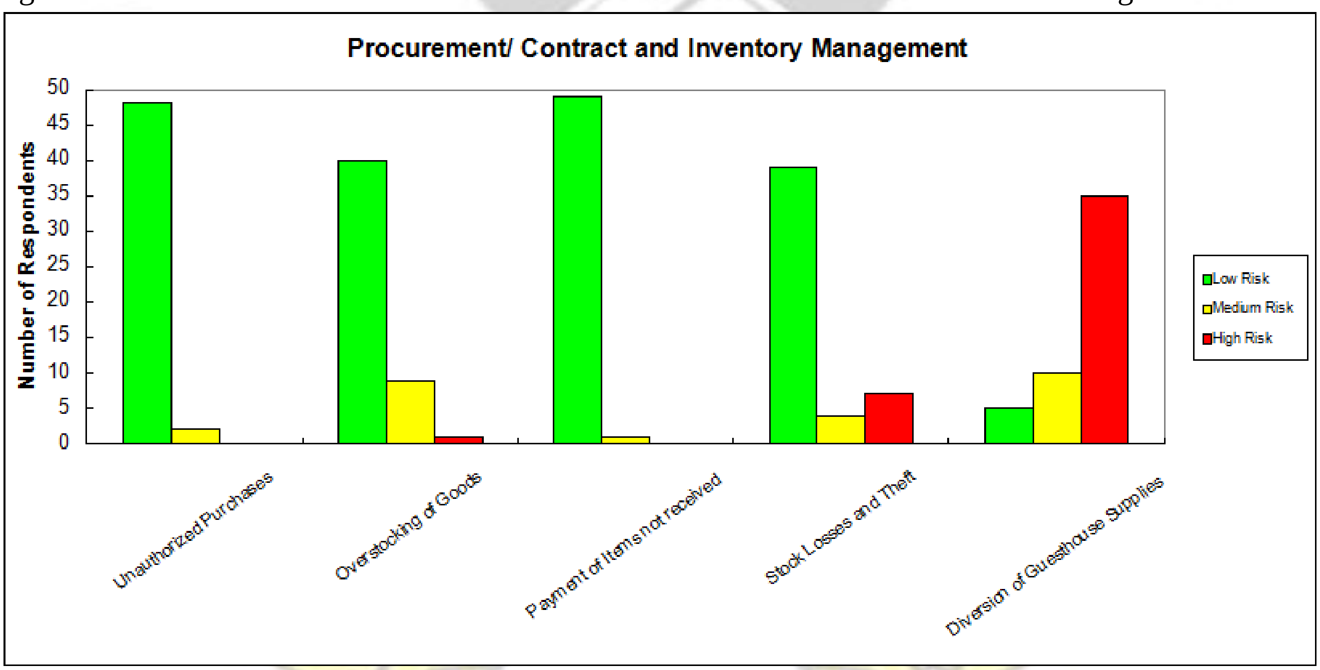

Figure 2. Risk Prioritization of Various Aspects Associated with Procurement and Inventory Management at Anyinam Lodge

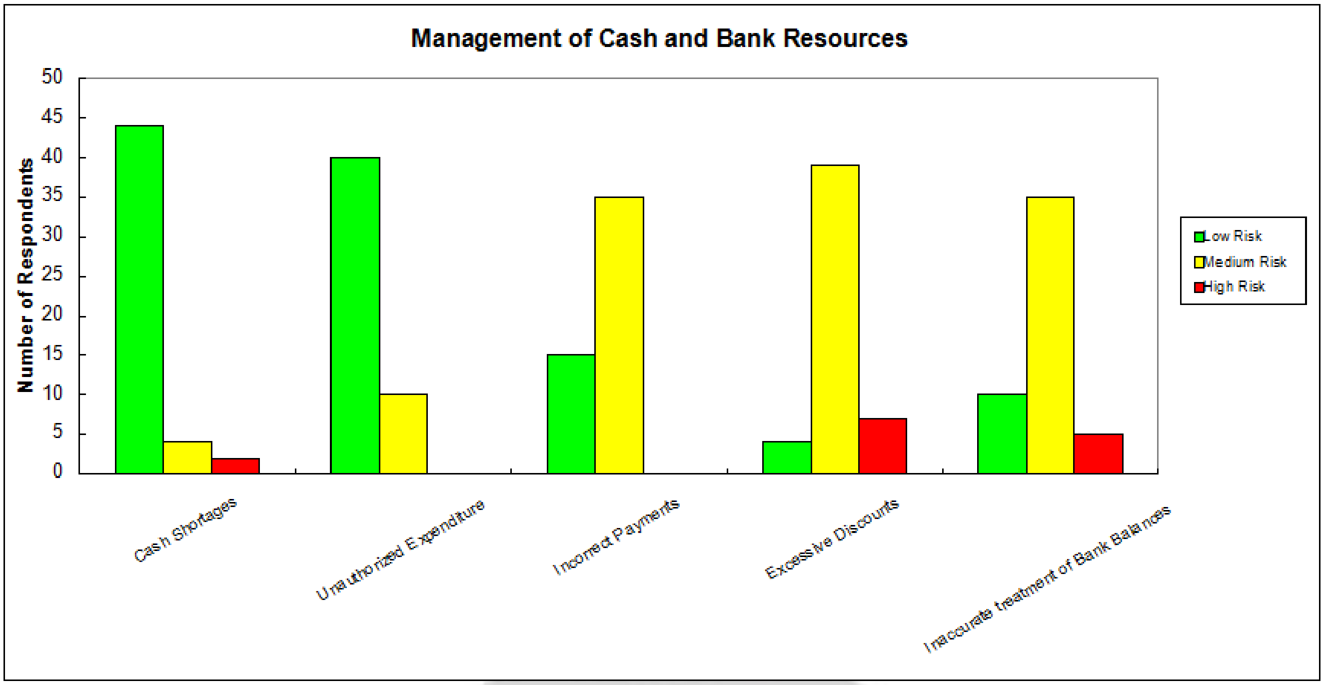

Figure 3. Risk Prioritization of Various Aspects of Management of Cash and Bank Resources that were identified at Anyinam Lodge

Below (Table 1) is the summary representation of all the risk assessment prioritisation that the researcher obtained from presenting each activity to staff and personnel at the lodge and allowing them to run each risk through the matrix earlier described.

Table 1. Risk Priority Assessment of Internal Controls at the Anyinam Lodge

Activity	Potential Risk	Ratings
Revenue/Sales Management/Completeness of sales	Not accounting for all income	H
	Lack of proper audit trail	H
	Unauthorised use of receipt books	H
	Unrestricted complimentary sales	H
	Unbilled special orders may not be detected due to lack of reconciliation of orders to daily sales records.	H

	Unavailability of rooms for sales	M
Procurement/ Contract and Inventory Management	Inadequate tender adjudication process	M
	Unauthorised purchase orders	L
	Overstocking and expiry of stocks	L
	Incorrect stock valuation	L
	Unauthorised stock adjustments	L
	Payment for items not received	L
	Stock losses and theft	L
	Inaccurate stock management	L
	Obsolete stock	L
	Lack of capital requisition	L
	Unauthorised contract requisition and Inadequate monitoring of contract works	L
	Diversion of Guesthouse supplies	H
Management of cash and bank resources	Cash shortages	L
	Unauthorised expenditure	L
	Irregular preparation of bank reconciliation	M
	Double payments or incorrect payments	M
	Inaccurate treatment of bank balances in the books of accounts.	M
	Excessive discounts	M
Debtors and Creditors management	Lack of proper credit control system	H
	Bad debts	H

	Payments by debtors not recorded	H
	Understatement of creditor payments	H
	Lack of debtors and creditors reconciliation	L
HR and Payroll Management	Lack of segregation of duties	L
	Inaccurate processing of payroll	L
	Late payment of statutory payroll deductions	L
Fixed assets Management	Inadequate control over fixed assets	M
	Incorrect depreciation of fixed assets	L
	Inadequate IT security and management	L
	Lack of verification and maintenance of fixed assets register	M
Management Information System	Inadequate high level management control	L
	Inadequate financial reporting	M
General Finance	Inadequate financial reporting	**L**
	Late payment of statutory authorities	**L**

Based on the risk-based matrix evaluation, the researcher identified various processes that posed high risks and which additionally suggested a possible lax in internal controls or an absolute absence of it in the areas where they were identified.

These included:

1. Not accounting for all income
2. Lack of proper audit trail
3. Unauthorised use of receipt books

4. Unrestricted complimentary sales
5. Unbilled special orders which may not be detected due to the lack of proper reconciliation of orders to daily sales records
6. Diversion of guesthouse supplies
7. Lack of proper credit control systems
8. Bad debts
9. Payments by debtors which were not recorded, and
10. Understatement of creditor payments

All of these were categorised under the general headings of Revenue and Sales Management, and Completeness of sales, management of Debtors and Creditors, and Management of Procurements, Contract and Inventories. The identification of high risks in these key specific and broad areas suggests that management may be lacking the effective and/or efficient monitoring of existing controls, less effective dissemination of information related to enforcing proper and efficient internal control and possible weak or lax control activities and control environment in these areas where they exist, if they do.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

This study was aimed at investigating internal control at the Anyinam Lodge. This chapter summarizes the entire study; the findings of the study, recommendations by the researcher, limitations encountered and directions for future research.

5.1. Summary of Findings

At the end of the current study, there were a couple of broad areas of activity within the lodge that were identified and assessed for associated potential or actual risks. These were

Revenue/Sales Management/Completeness of sales; Procurement/ Contract and Inventory Management; Management of cash and bank resources; Debtors and Creditors management; HR and Payroll Management; Fixed assets Management; Management Information System, and General Finance.

However, areas of high risks were identified under the general categories of Revenue and Sales Management, and Completeness of sales, management of Debtors and Creditors, and Management of Procurements, Contract and Inventories. The other broad categories that were assessed returned low or medium risks associated with them.

5.2. Conclusion

Generally, internal control at Anyinam Lodge is effective in many areas. However, a few key areas may be lacking in efficiency of these controls or their existence at all to begin with. The identification of high risks in these key specific and broad areas suggests that management may be lacking the effective and/or efficient monitoring of existing controls, less effective dissemination of information related to enforcing proper and efficient internal control and possible weak or lax control activities and control environment in these areas where they exist.

5.3. Recommendations

Based on the results that were obtained from the analysis the researcher made the following suggestions:

5.3.1. Revenue and Sales Management

The study identified a number of risks for consideration under this category as unbilled special orders that may potentially not be detected due to lack of reconciliation of orders to daily sales records, the unavailability of rooms for sales as a result of poor management practices, incomes not accounted for accurately and lack of proper audit trail on all revenue generating transactions and unrestricted complimentary sales.

For these risks, the researcher made a number of suggestions and recommendations. Daily sales orders from the kitchen be reconciled with the orders served and any variances investigated and cleared by designated supervisors on duty each day.

House keeping reports indicating status of room (vacant, occupied, out of order checked out and arrival) must be compiled with remarks by the house keeper at the end of each day and given to the front desk.

Names of occupants/persons in the rooms must be added by front desk.

The lodge manager must review this report each day by reconciling this to the rooms and signs off. Follow up actions on all comments must also be documented for future review.
The Senior Accounts Officer must perform a daily audit on the front desk operations by checking the check-out report, arrival and check-in report to the receipt books. The outcome of this exercise must be documented and signed off by the Finance Manager. Major findings must be reported to the Lodge Manager.

Monthly reports on all income sources must be compiled from a daily report on all income sources by the Lodge Finance Manager. Complementary sales must also strictly be made according to laid down policy and such policy must be revised annually. The Lodge Manager must report on all complementary sales and meals monthly. Occupancy rates must be reported monthly.

Blocked rooms with analysis and reasons thereof and steps being taken to ensure the rooms must be made available for sales and must be included as part of the lodge Manager's accountability.

5.3.2. Procurement, Contract and Inventory Management

Unauthorized contract requisition and inadequate monitoring of contract works leading to payment for substandard work or works not executed, inadequate tender adjudication process, and diversion of guesthouse supplies were the risks identified under this heading.

The researcher recommended solutions to improving or setting better internal controls to assuage these risks. Standard contracts must be put in place for all large purchases.

The list of all contracts must be compiled and reported monthly to the Senior Manager of Finance and all unauthorised contract requisitions processed accordingly.

The Lodge Manager must ensure that tender processes are followed for all major purchases, especially that of capital assets and the AGA contract and project departments must be involved with their processes monitored. When quotations are being requested, the suppliers must be made to quote for the same item of specification.

Work certificates must be completed and approved by the AGA Project Manager/ lodge Manager. Contract invoices presented by contractors must be vetted by the Finance Manager and Lodge Manager before payment.

On a monthly basis a full wall-to-wall stock count must be performed at all the stores counting all inventory items. All stock variances must be followed and the final write-off of stock must be approved by the Lodge Finance Manager and the final approval must given by the Senior Finance Manager. AGA policies and procedures developed to issue items to the guest houses must be full complied with.

5.3.3. Management of Cash and Bank Resources

Cash shortages, unauthorised expenditure, inadequate and proper authorisation or approval of expenditure, irregular preparation of bank reconciliation, and double payments or incorrect payments were identified by the researcher as lacking proper control under this category.

Cash Reconciliations must be performed by Senior Account Officer daily on all receipts from the bar and the restaurant as deposited at the front desk and any differences reported investigated.

No cash must be taken from sales for use as any such act shall be against the AGA/Anyinam Lodge policy and this must attract the appropriate punishment. The lodge Manager must ensure that any such violation is documented and action taken against the culprits involved. All expenditure must go through an appropriate authorization before the money is issued.
On a monthly basis the Lodge Manager must compile a list of expenditures that have not been authorised appropriately before execution and commitment of the Lodge resources to such items. The petty cashier must also prepare the expenditure voucher which must be authorized by the finance manager and approved by the lodge manager before any payment is effected.

The Finance department must receive all expenditure claims and refer it to the finance manager for approval who must also seek for authorization from the lodge manager when necessary before any payments are made.

Bank reconciliation statements must be prepared by a senior accounts officer and approved by finance manager or lodge manager at the end of every month in order to know the true financial status of the lodge and also to correct errors and irregularities.

The senior Account officer must prepare all payables to creditors at the end of each month which must first be reviewed by another senior account officer before it is forwarded to the Finance Manager for authorization.

The finance manager must also refer it the lodge manager for approval after he/she has reviewed and certified. Payment vouchers must therefore be prepared by senior Account officer and approved by the finance manager before cheques are written.

5.3.4. Debtors and Creditors management

Inherent risks that were identified in this category included lack of proper credit control system, bad debts, payments by debtors which were not recorded, understatement of creditor payments, and lack of debtors and creditors reconciliation.

As a panacea to these issues that were found by the researcher, the following recommendations were made.

The Lodge must operate a "no credit" policy. Exceptions must be approved by the Anyinam Lodge Board. The Lodge Manager in consultation with the Board of Directors must have the right to give credit to any company or individual and this must be communicated to the restaurant supervisor and the Accounts Office for their accounts to be created.

The lodge Manager and the Finance Manager must give a maximum limit to every debtor according to Lodge Policy which must be strictly be adhered to. Account receivable from all debtors must be prepared by the Senior Account Officer and be reviewed by Finance Manager at the end of every month.

No debtor must be allowed to owe the company more than three months. In the case of the inability of any debtor to pay his debt, management must declare his debt "Bad debt" and give reasons why they think the debtor cannot or will not be able to pay for his debt.

A note for the record must be prepared for approval by the Anyinam Lodge Board. Cash and cheque receipts must be issued to acknowledge all cash and cheques received.

The senior accounts officer must create accounts for every debtor and which must be reconciled with the debtor at the end of every month in order to arrive at the true balances at the end of each month.

All payments by debtors must therefore be recorded and entered in the tally against their accounts which must be printed and a copy sent to the debtor at the end of every month. Creditor reconciliation must be performed monthly by the Senior Finance Officer. All creditors must provide monthly statements which must be reconciled. When there is an understatement of creditor's payment, the said creditor must give evidence of his invoices to the finance manager who must authorize the senior account officer to write another chequefor that creditor. Monthly account reports of every debtor and creditor and their outstanding balances must be sent to them for them to crosscheck. The differences, if any, must be reconciled by the accounts department and supported with evidence.

5.3.5. HR and Payroll Management

Lack of segregation of duties, inaccurate processing of payroll and late payments of statutory payroll deductions were the risks that were identified in this category.

As recommendations to safeguard internal controls for this category, the Lodge Manager must keep an organogram which must indicate the position of each person to ensure proper segregation of duties.

The administrator and the lodge Manager must also prepare duty schedules of every worker which must contain the job specification and job description of each individual and which must be subjected to review as and when necessary. The Finance Manager must prepare monthly payroll reconciliations between stall numbers, the combined register and the net pay must be sent to bank. These must be reviewed by the Administrator for accuracy and signed off by the Lodge Manager. All statutory deductions like SSNIT and income tax must be prepared and paid at appropriate times as per statutory deadlines (on or before 15th day of the following month). The Lodge Manager must ensure that this is done and all statutory payments including levies have been paid at the due time in order to avoid penalty payments.

5.3.6. Fixed Assets Management

A few risks were identified in this section and these include inadequate control over fixed assets, incorrect depreciation of fixed assets, and the lack of verification and maintenance of fixed assets register. All additions to newly bought assets must be recorded in the fixed assets register. And no fixed asset must be given out or sold to anybody without the prior approval from the Chairman of the Anyinam lodge board and the "scrap" committee.

All assets that have been disposed off should be recorded in the fixed assets disposal accounts.

All fixed assets must be given asset numbers and the location recorded in the fixed asset register.

The Lodge Finance Manager must review the fixed assets register monthly to ensure compliance. At the end of every quarter the Lodge manager, Finance Manager, Administrator, Purchasing officer and the chief security must perform physical counting and verification of all fixed assets and compare them with what has been recorded in the fixed assets register with any variances noted investigated and written off.

5.3.7. General Finance and Statutory Obligations

Inadequate high level management control was the major risk identified under this category. The researcher recommends that financial reports must be prepared and submitted on or before 15th of the next month. This should include income statement, cash flow, bank reconciliation statement and balances as at the end of the month. This must be prepared by the finance manager and approved by the lodge manager.

5.3.8. Management Information System

For this category the researcher suggests that the management of Anyinam lodge must make sure that all staff are performing their duties efficiently and effectively.

Future internal control evaluation studies are also necessary, even if these recommendations are implemented. This must be a continuous process so as to make the control systems more efficient rather than just being effective.

The researcher additionally articulates that future studies can increase the sample size in terms of the number of lodges or other service providers in the hospitality industry because in the long run better internal controls in that sector will reflect in how their customer bases will grow and translate to national economic development.

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