St. Mary's University
School of Graduate Studies
MBA Program

THE ROLE OF INTERNAL CONTROL IN ENHANCING THE PERFORMANCE CAPITAL HOTEL AND SPA

By

Abebaw Bahiru

June, 2016

Addis Ababa, Ethiopia

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THE ROLE OF INTERNAL CONTROL IN ENHANCING THE FINANCIAL PERFORMANCE HOTELS
THE CASE OF CAPITAL HOTEL AND SPA

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Abebaw Bahiru

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of St. Mary's University, School of Graduate Studies. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name   Abebaw Bahiru   Signature
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Acronyms and Abbreviations

SPSS	Statistical Package for Social Scientists
FICA	French Institute of Chartered Accountants
COSO	Committee of Sponsoring Organizations
IC	Internal Control
ICS	Internal Control System
CE	Control Environment

Abstract

The hospitality industry covers a range of services and activities. The industry has shown massive expansion owning to the growth of the tourism industry in Ethiopia. Five star hotels take the lion share in enhancing the conference tourism held in Addis Ababa. This study aimed at assessing the importance of internal controls in enhancing the financial performance of the five star hotel, Capital Hotel and Spa. The population for the study was employees of Capital Hotel and Spa, 318 employees, and by scientific sampling method one hundred seventy seven (177) were sampled and purposive sampling technique has been followed to select sampled employees based on the position of the respondent in the hotel. The number of respondents from each department of the hotel was in the ratio of the number of employees they have. The tool for the data collection was a self-constructed questionnaire. The research was focused on the five components of Internal Control occurring throughout the organization, at all levels, and in all functions. The data was analyzed using statistical package for social scientists (SPSS) computer software to generate cumulative frequencies and percentages. The study found a positive significant effect of internal control system on the financial performance (R = 0.938), and $R^2 = 0.88$, thus internal control components accounts for 88% variance in performance. Hence there is need for Capital Hotel and Spa to improve on its internal control system. The response of the employees of Capital Hotel and Spa shows the feedback given by the managerial line staffs and the risk assessment process in the company is not satisfactory. Therefore, that needs the attention of the hotel top management. The findings are expected to be of value to the Capital Hotel and Spa stakeholders and form a basis for improving financial performance of the hotel.

Key Words: Financial performance, Control activity, Control environment, Information Communication, Internal Control, Monitoring, Risk Assessment,

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 million 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 (Slattery , 2002).

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 (Slattery, 2002).

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 .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 (COSO, 1992).

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, 2002) 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:

- An organization comprising a clear definition of responsibilities, with suitable resources and competencies and supported by appropriate procedures, information systems, tools and practices;

- The in-house dissemination of relevant and reliable information, the awareness of which enables everyone to exercise their responsibilities;

- A system for identifying and analyzing the main identifiable risks in relation to the company's objectives and for ensuring that procedures exist for managing those risks;

- 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;

- 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, 2002)

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 enhancing the performance the hospitality industry.

1.2.   Background of the Organization.

Capital Hotel and SPA is located at the heart of Addis Ababa city around 22 Mazoria besides Ministry of Water and Energy. The five star hotel has joined the hospitality industry of Addis Ababa by May 20, 2013. The hotel has been built with 720 million birr Capital. It has 114 spacious rooms,

to accommodate customers from all part of the world. There four types of rooms including standard, superior, studio and suits, all with balconies as well as Wi-Fi and in room safes. It is also fitted with outdoor swimming pool, spa and gym on separate floors for ladies and gents. It also has ample underground parking space for up to 150 cars.

The hotel which currently employed 318 people, aspires to attract professionals in the hotel industry. In addition to knowledge and skills, the hotel is also careful about employees' attitude while recruiting.

1.3.   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 for 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 vanish. 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.

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 enhancing business performance.

Notwithstanding, internal controls only provide reasonable assurance, not absolute assurance. This is because it is people who operate the internal controls, breakdowns can occur, human error, deliberate circumvention, management override, and improper collusion among people who are supposed to act independently can cause failures of the internal control to achieve objectives.

Financial reports of Capital Hotel and Spa shows that the hotel was performing below the projected budget (2014/15 G.C) and it was not profitable for two consecutive fiscal years (2012/13 and 2013/14 G.C). This research was to assess the role of internal controls in enhancing the performance of the hotel by strengthening the internal control system of the hotel and minimizing any failures resulting from intentional and unintentional overriding of the implemented internal control systems.

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 mechanisms are put in place to ensure effective internal control systems?
3. Does the current internal control system help in meeting the objectives of the hotel?
4. What causes ineffective internal control systems in local brand five star hotel, Capital Hotel and Spa?
5. What is the role of internal control for enhancing the performance of indigenous five star hotel, Capital Hotel and Spa?

1.5. General objective of the study

The general objective of this research was to evaluate the contribution of internal control system in enhancing the financial performance of Capital Hotel and Spa.

1.6. Specific objectives of the Study

This research was aimed at achieving the following specific objectives:

- To identify the components of Internal Control System

- To evaluate the effect of Internal control practice on financial performance

- To asses weather the risk assessment process is in line with the literature

1.7. Research Hypothesis

The study was guided by the following hypothesis; H01Components of internal control systems have no significant effect on the financial performance of Capital Hotel and Spa.

1.8. Scope of the Study

This scope of the current study was limited to the hospitality industry with special emphasis on examining the internal control systems of indigenous five star hotel located in Addis Ababa i.e. Capital Hotel and Spa.

1.9. Significance of the Study

The first significance of the study is that it would afford management of five star hotels 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.

1.10. Limitations of the Study

Due to various concerns the study was not able to cover other major star hotels. It was only dwell on the hospitality industry with the focus only on Capital Hotel and Spa due to;

- Because the study was conducted using only one hotel in the industry it was difficult to generalize the findings to the entire industry.
- The genuineness and honesty of the response to the questionnaires by respondents could be difficult to ascertain.
- The extent to which the people expected to be interviewed was objective
- Problems such as secrecy and indifference on the part of interviewees and respondents affect the results of study.

CHAPTER TWO

LITRATURE REVIEW

2.1. Theoretical Review

According to the definition of BusinessDictionary.com 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, IC, 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 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.

According to FICA (2002) most internal controls can be classified as preventive or detective.

Preventive controls are designed to avoid errors or irregularities from occurring initially. A few examples are:

- Utilizing separation of duties for cash handling, which can be achieved by assigning different individuals to duties such as collecting cash, maintaining documentation, preparing deposits, and reconciling records.

- Reading and understanding company Policies and Procedures, such as timekeeping requirements for hourly employees helps prevent violations of the Federal Fair Labor Standards Act.

- Manager's reviewing monthly credit card statements for the validity and appropriateness of purchases prior to approval prevents inappropriate expenditures.

Detective controls are designed to identify an error or irregularity after it has occurred. These controls are performed on a routine basis to identify any issues that pose potential risks to the University on a timely basis.

- An exception report detects and lists incorrect or invalid entries or transactions.

- A comparison of validated Cash Receipt Vouchers to monthly account detail will detect deposits posted to erroneous accounts.

- Taking an annual physical inventory of computer equipment stored in a particular place will determine if any items have been misplaced or stolen.

Establishing effective internal controls can help a department operate more efficiently and effectively and provide a reasonable level of assurance that the processes and products for which it is responsible are adequately protected.

2.2. Components of Internal Control System

2.2.1. Control Environment

According to Aldridge and Colbert (1994) control environment sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

2.2.2. Risk Assessment

According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its

mission. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives have been set, the agency needs to identify the risks that could impede the Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Risk Identification

Management should perform a comprehensive analysis of identifiable risk, including all risks associated with department-wide and activity level objective (derived from the organization's mission). The activities analyzed should include those that support both financial and non-financial objectives. Management must consider the significant interactions with external organizations as well as those internal to their organization at both the department-wide and activity levels. Several means of risk identification can be used, including; management planning conferences, strategic planning, periodic reviews of factors effecting department's activities, changing needs or expectations of agency officials or the public and natural catastrophes (Lannoye, 1999).

Risk Analysis

After identifying department-wide and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following:

- Estimating risk significance
- Assessing likelihood/frequency of occurrence

- Considering how to manage risk

Risk with little significance and low probability of occurrence may require special attention. After assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among agencies, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness (Lannoye, 1996).

Managing Risk during Change

When change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization's most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks (Walker, 1999).

2.2.3. Information and Communication

According to Aldridge and Colbert (1994) this internal control standard, for an agency to run and control its operations, it must have relevant, reliable information, both financial and non-financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities (Steihoff, 2001). Information and communication are essential to effective control. Information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful.

Accounting, information, and communication systems capture and impart pertinent and timely information in a form that enables the board, management, and employees to carry out their responsibilities. Accounting systems are the methods and records that identify, assemble, analyze, classify, record, and report on transaction. Information and communication systems enable all personnel to understand their roles in the control system, how their roles relate to others, and their accountability. The entity must be able to prepare accurate and timely financial report including interim reports. The board of directors and management must ensure that they receive accurate and timely information to allow them to fulfill their responsibilities. Management must also provide written job descriptions and reference manuals that describe the duties of personnel.

2.2.4. Control Activities

According to COSO (1992) Control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. These activities help ensure that the board and management act to control risks that could prevent an organization from attaining its objectives. The New York State comptroller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient. According to Walker (1999) control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. The following are provided the as example of control activities (ISA, 215).

- Top level reviews of actual performance,
- Reviews by management at the functional or activity level,
- Management of human capital,
- Controls over information processing,

- Physical control over vulnerable assets,

- Establishment and review of performance measures and indicators,

- Segregation of duties,

- Proper execution of transaction and events,

- Accurate and timely recording of transactions and events,

- Access restrictions to and accountability for resources and records, and

- Appropriate documentation of transactions

2.2.5. Monitoring of Controls

According to Springer (2004) Monitoring is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all five internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) are present and functioning as designed (Springer, 2004). Periodic evaluations of internal control are made and personnel, in carrying out their regular duties, obtain evidence as to whether the system of internal control continues to function. Management should implements internal control recommendations made by internal and independent auditors, corrects known deficiencies on a timely basis, and responds appropriately to reports and recommendations regulators. There must also an internal audit function that management uses to assist in their monitoring activities.

2.3. Employees' Role in Internal Controls

Everyone within the company has some role in internal controls. An individual's responsibility depends mainly on the level of involvement at the company. The senior administrators establish the presence of integrity, ethics, competence and a positive control environment. The department directors and managers are responsible for establishing and maintaining internal controls within their

departments. Other department personnel are responsible for executing control policies and procedures established by department heads (COSO, 1992).

The Internal Auditor's function at the company is to examine the adequacy and effectiveness of the internal controls and make recommendations where control improvements are needed. In order to objectively evaluate controls, Internal Auditors strive to maintain independence from daily operations; therefore, we usually do not create and maintain internal controls used by the departments. However, controls may be enhanced through the reviews performed and recommendations made by Internal Auditing.

2.4.   What can endanger internal controls?

Bert Markgraf (2012) describes many circumstances may compromise the effectiveness of your internal control structure, a few of the most common and serious of these warrant special mention:

Inadequate Segregation of Duties - Separating responsibility for physical custody of an asset from the related record keeping is a critical control.

- Persons who can authorize purchase orders (Purchasing) should not be capable of processing payments (Accounts Payable).

- The person who prepares the deposit should not post the receipts to the customer accounts.

- The person who prepares the payroll voucher should not distribute or have custody of the payroll checks.

Inappropriate Access to Assets - Internal controls should provide safeguards for physical objects, restricted information, critical forms, and update applications.

- An employee who only needs to view computer information should be restricted to Read and File Scan access and should not be granted Write and Create access.

- Only authorized individuals should be issued keys for restricted areas.

Inadequate Knowledge of company Policies - When the company doesn't disseminate and create awareness on its new policies and procedure, internal controls will not be respected. Therefore, managers must stay abreast of these changes and understand their responsibilities.

Form Over Substance - Controls can appear to be well designed but still lack substance, as is often the case with required approvals.

- The account manager's signature attests to the accuracy of the payroll voucher information, but if the account manager does not have assurance that the supporting time records are accurate, the approval process lacks substance.

Control Override - Exceptions to established policies are sometimes necessary to accomplish a specific task, but can pose a significant risk if not effectively monitored and limited.

- Thorough documentation and approval of all exceptions will help management ensure the availability of a clear explanation for unusual transactions or events. A periodic review of these exceptions also helps to identify the need for policy or procedural changes.

Inherent Limitations - There is no such thing as a perfect control system. Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. A limitation inherent in any system is the element of human error (misunderstandings, fatigue, and stress).

- A manager who encourages employees to take earned vacation time can improve operations through cross training while enabling employees to overcome or avoid stress and fatigue.

2.5. How much do internal controls cost?

Bert Markgraf (2012), the cost of implementing a specific control should not exceed the expected benefit of the control.

- The potential loss of a computer printer may justify the cost of a door lock but not an alarm system.
- Be sure to lock the screen or logout of your computer to protect sensitive data.

Sometimes there is no out-of-pocket cost to establish an adequate control. A realignment of duty assignments may be all that is necessary to accomplish the objective.

- Checks received in the mail are immediately separated from supporting documentation for restrictive endorsement and deposit. The supporting documentation is given to a different employee (with a copy of the check, if needed) for crediting the payment or filling an order.
- Voided receipts are approved by someone (preferably a manager) other than the person preparing receipts.

A well-designed internal control structure can enhance operations by improving department's overall efficiency and effectiveness, as well as, reducing the risk of loss or theft.

- A bank lock box establishes accountability and restricts access to cash, in addition to streamlining operations by providing immediate deposits and (possibly) electronic application updates.

In analyzing the pertinent costs and benefits, managers should also consider the possible ramifications for Marquette University at large and attempt to identify and weigh the intangible as well as the tangible consequences.

- It may be difficult to determine the cost of poor public relations and lost goodwill if an ex-employee steals cash because the manager did not change the safe combination or retrieve university keys upon the employee's termination.

2.6. Importance of an Internal Control System

A system of internal control is an important mechanism of correct and responsible management in all kinds of organization. In a small organization, it can lend itself to manual executive control alone but the more complex the organization and the more employees and processes it has, the more the system needs to contain functionality that can help the management ensure internal controls are in place and working as intended (FICA,1992).

The result of such functionality will be increased chances that processes and procedures are operating as intended and risk is being kept at tolerable levels. Accountability and compliance with regulations follow this state of affairs, as do increased sustainability potential of the organization and a healthier working environment.

Key benefits of the internal control system include:

- Treatment of risk
- Achieving higher standards
- Compliance with laws and regulations
- Improved communication and procedures

2.7. Internal Control Objectives

According to OFAG regulatory audit manual (2012) internal control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of

internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable.

Internal Audit evaluates system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

Authorization

The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

Completeness

The objective is to ensure that no valid transactions have been omitted from the accounting records.

Accuracy

The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

Validity

The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

Physical Safeguards & Security

The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

Error handling

The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

Segregation of Duties

The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction.

2.8. Empirical Literature Review

- Muraleetharan (2010) in his study of internal control and its impact on financial performance of organization, University of Jaffnan, chi square test was used and the value of 161.1 ($p = 0$) at 0.05 significant level indicated that there was a relationship between internal control and financial performance $R^2 = 0.818$ which revealed that it explains 81.8 % of variance in performance.

- Chukwu P. (2012) in the study the impact of internal control system on the financial Management of an organization (a case study of the Nigeria bottling company plc, enugu) internal control measure does ensure proper use of organization fund and assets. The Z value at 3 degree of freedom and 5% significant for two tailed test was 0.9989 which is less than table value 2.6. The study also found that fraud perpetration and losses of revenue in an organization are not a result of internal control system.

- Mwakimasinde Mary, Odhiambo Albert and Prof John Byaruhanga (2014) on their study of Effects of Internal Control Systems on Financial Performance of Sugarcane out grower companies in Kenya, Masinde Muliro University of Science and Technology Kenya, the

study found a positive significant effect of internal control system on the financial performance (R = 0.682), and R square 0.428 thus internal control components accounts for 42.8% variance in performance. The findings are expected to be of value to the sugarcane out grower stakeholders and form a basis for improving financial performance of sugarcane out grower companies.

- Sabina Dineshkumar, Priya Kogulacumar, Faculty of management studies & commerce, University of Jaffna, Sri Lanka (2004) of their study of Internal Control System and its impact on the Performance of the Sri Lanka Telecom limited in Jaffna District showed that there is a strong relationship between internal control system and organizational performance of the Sri Lanka Tele com limited. And also internal control of the Sri Lanka Tele com limited will lead to high organizational performance in the future. Correlation coefficient between internal control system and organizational performance of the Sri Lanka Telecom limited is r = +0.74, this shows that there is a strong positive relationship between internal control system and organizational performance.

- Nmndamenenu Koranteng Douglas, Kwame Nkrumah University of Science and Technology of Kenya, 2011, on his study of Internal Control and its contributions to Organizational Efficiency and effectiveness, a case study of EcoBank Ghana Limited, showed that there were measures put in place by the Ecobank Ghana to enhance compliance. The measurement put in place was management oversight responsibility for internal control whereby control policies and procedures are being adhered to. The research revealed that there are internal control systems in Ecobank Ghana Limited in particular and the banking sector in general. However, the effectiveness of the internal controls could not be described very effective since monitoring is less effective. In that the internal audit unit whose responsibility is to ensure compliance only visits the branches once a month.

- Oyoo Otieno Collins, 2014, Maseno University, Kenya , his study on Effect of internal control on financial performance of micro-finance institutions in Kisumu central constituency revealed that there is a positive relationship between internal control and financial performance of Micro-finance Institutions at Pearson correlation coefficient r=0.447, p=0.007. This implies that internal control affects financial performance of Micro-finance Institutions by 44.7% and 55.3% by other factors. The study recommends that the institutions should tighten controls to tend towards a 100% debt collection. The study further points out that keen attention should be paid to adopt more efficient management information systems

- John K. KINYUA, Roselyn GAKURE, Mouni GEKARA and George ORWA, 2015, Jomo Kenyatta University of Agriculture and Technology, Kenya, their study on Effect of Internal Control Environment on the Financial Performance of Companies Quoted in the Nairobi Securities Exchange , indicated that there is a positive significant relationship between internal control environment and financial performance. The positive relationship was represented by 0.42, and the number of respondents was 115. The results corroborates with the findings of Mawanda (2008), states that institution which have enforcement of proper internal control systems will always lead to improved financial performance. Regression analysis was done where the results indicated that internal control environment had a goodness of fit of 16.9% indicating that internal control environment explained 16.9% of the variation in the financial performance of companies quoted in Nairobi securities Exchange in Kenya. The results and findings therefore conclude that there was significant association between internal control environment and financial performance.

- Linval Frazer, 2012, College at Old Westbury, State University of New York, USA , his study on the Effect Of Internal Control On The Operating Activities Of Small Restaurants

and the correlation coefficient (R) was 0.992 , which indicates that there is a very strong correlation between the independent variables and the dependent variable, internal control. In addition, the coefficient of determination (R^2) was 0.984, which indicates that 98.4% of the variability in the internal control in small restaurants operating in Nassau County in New York State was accounted for by the independent variables, verification of transaction, protection of assets, and segregation of duties. It can be concluded that there is a positive relationship between the independent variables protection of assets and verification of transactions and the dependent variable internal control, and there is a negative relationship between the independent variable segregation of duties and the dependent variable internal control. A one-sample t-test was used to test hypothesis by comparing the mean score for internal control to the value of 4.0 to determine if it was significantly greater. The mean score was 2.97 (s.d. = 1.17) and the t-test had a p-value that was less than alpha of 0.05 " $p <$ .05", therefore, the mean score for internal control was not significantly greater than four. In addition, as described above, the proportion of restaurants categorized with inadequate internal controls was significantly greater than 50 %. Therefore, the results of this study indicate that the mangers of small restaurants operated in Nassau County of New York State perceive the restaurants' internal control systems to be inadequate.

2.9.   Summary of Literature Review

From the literature reviews done it has been found out that realization of positive financial performance depends on whether firms have strong Internal Controls. Non-compliance to the internal controls is one of the major hindrances to the attainment of positive financial performance in small restaurants, manufacturing firms and micro finance. A lot has to be done on control environment, control activities and risk assessment process. Weak, non-compliance, non-existent or absent financial management functions (Internal Control Systems) are likely to negate any advantages that might be inherent in achieving positive

Financial Performance of a firm. Therefore, there is need to establish the relationship between the internal control systems and financial performance of manufacturing firms, Micro finances and restaurants. It can be concluded from the literature that Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring are significant predictors of financial performance

2.10. Conceptual Framework

A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

Independent Variable   Dependent Variable

| INTERNAL CONTROL SYSTEM
• **Control environment**
• **Risk assessment process**
• **Information system**
• **Control activities**
• **Monitoring** | → | FINANCIAL PERFORMANCE
• **Cost per unit**
• **Goal attainment**
• **Profitability/Surplus** |
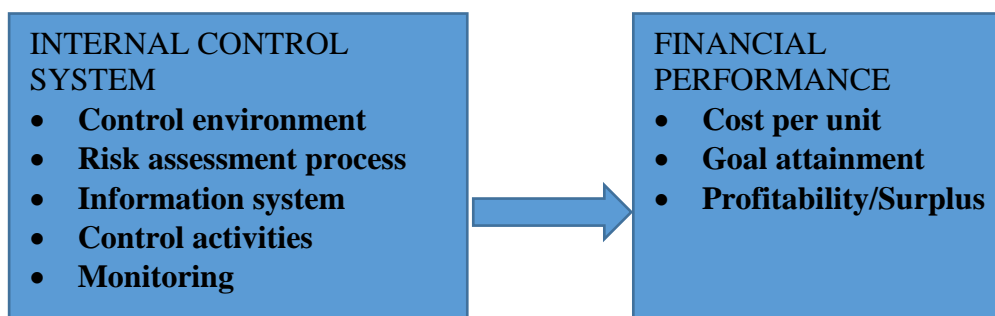
Source: COSO Framework, 2004

2.10.1. Control Environment

Sets the "tone at the top". Board and Senior Management drives and influences control consciousness of its people. CE is Core to sound integrity and ethical values. It emphasis on competencies and authorities. In general it is the foundation for all other components of internal controls.

2.10.2. Risk Assessment

Precondition to controls is identifying risks. It impossible to determine needed controls without knowing risks. Every entity faces risks. Risks constantly evolve. Therefore, organizations need a

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systematic process for risk management which expected to focus on both likelihood and consequence.

2.10.3. Control Activities

Control activities represent responses to identified risks. We don't need a control if no corresponding risks. In other words control activities are actions taken to address risks of achieving objectives. Control activities occur at all levels of an organization.

2.10.4. Information and Communication

Information is needed to carryout responsibilities. These information flows from management and to the management in both directions. To meet the basic objective of the organization, effective Communication is needed and Information & Communication needs to be controlled.

2.10.5. Monitoring

Internal control systems need to be monitored, "Monitoring of controls". It mainly focus on assessing quality of system performance. When monitoring system performance, it is more than just information flow. Understanding the messages is critical.

2.10.6. Financial Performance

Financial performance of hospitality Institutions can be gauged via the degree of attainment of their organizational objectives like meeting both short-term and long-term objectives as and whenever they fall due. Optimal resource utilization should ensure maximum output in the projects named in the organizational objectives. Organizations cannot afford to waste their limited financial and skilled man power resources on unproductive ventures. Investment projects must be chosen not only on the basis of partial productivity of overall development program which takes account of external

economics indirect repercussion and long term objectives. Skilled manpower must be utilized where its contribution will be widely felt. Economic planning is assumed to help modify the restraining influence of limited resources by recognizing the existence of a particular constraint and by choosing and coordinating investment projects so as to channel the scarce resources into their most productive outlets (Gupta, 1999). However, financial performance in this study was gauged by profitability/surplus, cost per unit and degree of goal attainment.

2.10.7. Profit/Surplus

This is a control dimension that ensures that users of financial information, who include all the stake holders, get an accurate and reliable summary which communicates the firm's financial affairs (Pandey, 2002). Ajowi (2005) notes that the financial reports should secure as far as possible the accuracy and completeness of the company's records, to detect and prevent errors and frauds and to ensure the safety and adequacy of the accounting system for availability of true and fair view financial statements In the long term there is still a question mark in terms of sustainability of benefits of Out growers institutions due to their over dependency on support services, extension services, seeds provision, credits and centralized market for hospitality industries.

2.10.8. Goal attainment

Among all companies' stake-holders goals, shareholders major goal is to maximize their wealth (Pandey, 2002). Efficiency is optimal usage of organizational resources and minimization of wastage. Ajowi (2005) lists the principal objectives of Internal Control system as; to enable management of the entity to carry on the business in an orderly and efficient manner, to ensure adherence to the management policies and procedures, to ensure for the safeguarding of the Company's assets against misuse theft and misappropriation. Millichamp (2002) stresses that the objectives of the internal control system run through all areas of activity usually found in a business.

These include areas like cash and Cheques received by post, cash and sales collection, payment into a bank, cash and bank balances, stock and work in progress, wages and salaries, purchases and creditors and sales and debtors.

2.10.9. Cost per unit

A firm that seeks to build a competitive advantage has to use one of the three generic strategies namely; low cost production, unique product or premium pricing and low cost advantage (Porter et al., 1993). Companies should strive for low cost in the industry and gain the advantage of high profits. This enables a company to be able to defend its price wars and have an edge against its competitors to gain a larger market share and maximize revenue (Pearce, 2010). A company may also gain a competitive edge by creating a market unique product for various customer groups through differentiation (Porter et al., 1993). Products are designed to appeal to customers with special sensitivity for a particular product attribute to build customer loyalty, which translates into a company's ability to charge premium prices. The study proposes that low cost strategy if adopted may be useful and may positively affect the company's financial performance.

Internal Control System Summary

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 burdensome 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.

This research work will provide a basis or a conceptual framework and standard against which hotels could assess their internal control system and judge their effectiveness. In other words, the

study is to provide common language, understanding and a practical way for hotels to assess and improve their internal control systems.

To the researcher studying on the same subject, it will provide way of investigating into what this research could not cover considering its limitations. The results of this study will help the hospitality industry to sit up in following the control measures in their day to day management of their financial performance.

Though this research is to partially fulfill an academic requirement for the award of a master's degree, it is expected that recommendations will be provided to complement the policies by the regulatory bodies and the efforts on the hospitality industries in addressing problems of weak internal controls in hindering the financial performance of the industry.

CHAPTER THREE

METHODOLOGY

3.1. Introduction

The methodology for this research has taken into considerations all the procedures and processes to give the research both internal and external validity. There was 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 was 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 which will be applied in the research work.

3.2. Research Design/Strategy

A research design is the arrangement of conditions for collection, measurement and analysis of data in that aims to combine relevance to the research purpose (Kothari, 2010). This study used survey has been designed as it sought to describe and establish the relationships among the study variables. The research strategy was influenced greatly by the research question and the purpose of the research as well as the existing literature. This research was non-experimental in nature but a descriptive survey to examine how internal control systems enhance the performance of Capital Hotel and Spa. 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 focus on indigenous five star h

otel, capital hotel and Spa, have been selected based on their experience and position to the control activities as the case study.

3.3.   Population

The population for the study was employees of Capital Hotel and Spa and they were three hundred eighteen (318) by the time of this research. The population has been sampled with simplified formula and purposive sampling technique has been used to select sampled employees based on the position of the respondent in the hotel. The number of respondents from each departments of the hotel was in the ratio of the number of employees they have, this to a large extent ensures that, reliable data has been 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.

Taro Yamane (1967) simplified formula to calculate sample size was used to determine the sample size. The question was expressed as follows:

$$n = \frac{N}{1+N(e)^2}$$

Where n=sample size, N is population size and e is the error margin of 0.05

Therefore when this formula is applied where N=318 (the total number of employees of capital Hotel and Spa

$$n = \frac{318}{1+318(0.05)^2}$$
$$= \underline{\textbf{177}}$$

3.5. Data Collection Instrument

Primary was used in this study. Primary data was collected through the use of self- administered questionnaire. Hence, all the Finance , Operational Managers Heads of Internal Audit and employees who directly and indirectly work in cash collection and management were selected to take part in the study as they are perceived to be knowledgeable on the issues under study and for which they are either responsible for their execution or they personally execute same.

3.6. Sources of Data

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

Delport (2002) suggests that questionnaires or survey designs are one of the data collection methods used when working from a qualitative perspective. In the same source mentioned above, Creswell (1994) also maintains that the main aim of a qualitative study is to make an enquiry into a human or social problem. The study therefore, was employ worked with a survey questionnaire approach. A detailed questionnaire was designed using a cross-sectional approach in which primary data was to be sought from the samples determined above. The questionnaire was close-ended question types.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1.   Reliability of Research Instruments

Reliability refers to the measure of the degree to which a research instrument yields consistent results on across time and across the various items of the instrument (Sekaran, 2003). It is the extent to which an instrument is predictable, stable, accurate and dependable to yield the same results every time it is administered.

The measures of independent variable had Cronbach's alpha coefficient of 0. 0.8362 (Table 1) while those of the dependent variable had Cronbach's alpha coefficient of 0.8157 (Table 2). The study measures were found to be highly reliable in that they all had alpha coefficient greater than the minimum accepted Cronbach's alpha coefficient of 0.70 (Santos, 1999).

Table 1 Reliability Statistics for Internal Control System

No of statistics	Mean	Std Deviation	Variance	No of cases
177	22.376	18.4836	4.283	**5**

(Independent variables) Components of Internal Control	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Control Environment	20.16	11.79	0.67	0.58	0.84
Control Activity	18.31	10.16	0.42	0.29	0.64
Risk Assessment	16.67	14.40	0.61	0.57	0.78
Information and Communication	19.35	16.26	0.80	0.70	0.92
Monitoring of controls	18.74	13.53	0.70	0.58	0.87
Reliability Coefficients 5 items Alpha= 0.8362 Standard item alpha = 0.8412					

Source: Author Research Data (2016)

Table 2 Reliability Statistics for Performance of Capital Hotel and Spa

	No of statistics	Mean	Std Deviation	Variance	No of cases
	177	11.08	6.004	2.438	3

Dependent Variables	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Cost per Unit	7.08667	3.40533	0.83767	0.70967	0.88167
Goal Attainment	7.33000	3.06800	0.60367	0.46467	0.67767
Profit/Surplus	7.74667	2.22567	0.60633	0.44467	0.68133

Reliability Coefficients 3 items Alpha= 0.8157 Standard item alpha = 0.822

Source: Author Research Data (2016)

4.2.   Data Analysis and Presentation

The data collection instruments were administered to all the departments of Capital Hotel and Spa. After the data had been collected, the researcher edited them to ensure their completeness and consistency, Coding and classification then followed to ensure sufficient analysis. The data was analyzed by simple descriptive analysis using statistical package for social scientists (SPSS) computer software. Both descriptive and inferential statistics were used in the analysis then presented using frequency and contingency tables.

Descriptive statistics was used to deduce any patterns, averages and dispersions in the variables. They include measure of locations (mean) and measure of dispersions (standard error mean). Inferential statistics was used to determine the relationship between the study variables and these inferential statistics includes correlation and regression analyses.

The researcher used Karl Pearson's first order partial coefficient ($r_{xy.z}$). The relationship between internal control system and financial performance was expected to follow a regression model of the nature

$P=\alpha+\beta 1ics+\varepsilon$ where;

P= Financial Performance of Capital Hotel and Spa

α =intercept term

β1 = Beta coefficient

ICS= Internal Control system

ε = Error term

4.3.   Ethics and Gaining Access

It is unethical to conduct research without abiding by the ethical foundations of research. Following this guiding principle, the whole of this research was governed by ethical considerations. As a matter of fact, the research was conducted with integrity and was not undertaken for personal gain. The research had no negative effect on the respondents. The researcher did not abuse the trust of the subjects by using the data collected to get somebody into trouble or to stigmatize them. Confidentiality and privacy was guaranteed and the consent of the respondents was sought before revealing any information.

4.4.   Results and Discussion

The study intended to get response from the selected employees of Capital Hotel and Spa. The collected data was then coded and cleaned through extensive checks for consistency. The secondary data especially the published literature was used for validating the respondent's responses on the questionnaire. Data was analyzed using a set of descriptive and inferential statistics in statistical package for social sciences (SPSS).The independent variable of this study was internal control system and was characterized by control environment, control activities, risk assessment process, information system and monitoring of controls.

Statistics and Frequency Table

Table 3 General Statistics

	Respondents sex	Age of the respondents	Respondents Marital Status	Respondents Current Educational Level	Respondents Job Position	Respondents Work Experience
Valid	177	177	177	177	177	177
Missing	0	0	0	0	0	0

Source: Author Research Data (2016)

Frequency Table

a) **Table 4 Respondents sex**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	95	53.7	53.7	53.7
	Female	82	46.3	46.3	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

b) **Table 5 Age of the respondents**

Age group		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24	18	10.2	10.2	10.2
	25-35	104	58.8	58.8	68.9
	36-50	52	29.4	29.4	98.3
	51-60	3	1.7	1.7	100.0

b)   **Table 5 Age of the respondents**

Age group		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-24	18	10.2	10.2	10.2
	25-35	104	58.8	58.8	68.9
	36-50	52	29.4	29.4	98.3
	51-60	3	1.7	1.7	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

c)   **Table 6   Respondents Marital Status**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	85	48.0	48.0	48.0
	Married	89	50.3	50.3	98.3
	Divorced	3	1.7	1.7	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

d)   **Table 7   Respondents Current Educational Level**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary School	18	10.2	10.2	10.2
	High School	17	9.6	9.6	19.8
	TVET	96	54.2	54.2	74.0
	BA/BSC	41	23.2	23.2	97.2
	MA/MSC	5	2.8	2.8	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

80 % of the respondents are literate. This makes the response of the respondent's more reliable. In addition to that, the hotel is rich of workers who have got the potential to understand what internal control is about and its advantage for the enhancing the financial performance of the hotel.

e) **Table 8   Respondents Job Position**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Line Staff	126	71.2	71.2	71.2
	Supervisor Level	31	17.5	17.5	88.7
	Top Managerial Level	20	11.3	11.3	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

f) **Table 9 Respondents Work Experience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 Years	49	27.7	27.7	27.7
	6-10 Years	66	37.3	37.3	65.0
	11-15 Years	52	29.4	29.4	94.4
	16-20 Years	10	5.6	5.6	100.0
	Total	177	100.0	100.0	

Source: Author Research Data (2016)

4.4.1. Control Environment

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of control environment in Capital Hotel and Spa such as the management commitment to the operation of the system, management closely monitors implementation of internal control systems in the hotel, management provides feedback to the junior officers about the operation of the system and appropriate measures are taken to correct misfeasance in operation of our accounting & finance management system and their responses were added and the average result recorded in the Table 10.

Table 10 Respondents Reflection on Control Environment

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	1.13	1.13	1.13
Disagree	8	4.52	4.52	5.65
Neutral	35	19.77	19.77	25.42
Agree	69	38.98	38.98	64.41
Strongly Agree	63	35.59	35.59	100.00
Total	177	100.00	100.00	

Source: Author Research Data (2016)

The study results in table 10 reveal that, 1.13 percent of the respondents strongly disagreed, 4.52 percent disagreed, 19.77 percent neutral, 38.98 percent agreed and 35.9 percent strongly agreed with the various aspects of control environment.

4.4.2. Control Activities

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of control activities such as, the hotel has clear separation of roles, every employee's work checks on the others and there is appropriate supervision by senior staff on the work of their juniors at capital Hotel and Spa and their responses were added and the average result of their response presented in the Table 11.

Table 11 Respondents Reflection on Control Activities

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	5	2.54	2.54	2.54
Disagree	17	9.32	9.32	11.86
Neutral	55	30.79	30.79	42.66
Agree	60	34.09	34.09	76.74
Strongly Agree	41	23.26	23.26	100.00
Total	177	100.00	100.00	

Source: Author Research Data (2016)

The study results in table 11 reveal that, 2.54 percent of the respondents strongly disagreed, 9.32 percent disagreed, 30.79 percent neutral, 34.09 percent agreed and 23.26 percent strongly agreed with the various aspects of control activities.

4.4.3. Risk Assessment Process

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of risk assessment process at Capital Hotel and Spa. The five-point Likert scale with Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5) was used and their responses were added and the average of results recorded in Table 12.

Table 12 Respondents Reflection on Risk Assessment Process

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	7	3.67	3.67	3.67
Disagree	36	20.34	20.34	24.01
Neutral	56	31.54	31.54	55.56
Agree	49	27.78	27.78	83.33
Strongly Agree	30	16.67	16.67	100
Total	177	100	100.00	

Source: Author Research Data (2016)

The study results in table 12 reveal that, 3.67 percent of the respondents strongly disagreed, 20.34 percent disagreed, 31.54 percent neutral, 27.78 percent agreed and 16.67 percent strongly agreed with the various aspects of Risk assessment process.

4.4.4. Information and communications

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of information systems Capital Hotel and Spa such as, the institution has an accounting and financial management system in place, there are enough measures to ensure the safety of the information system and internal auditor's appropriate recommendations are implemented and the results were added and the average result presented in the Table 13

Table 13 Respondents Reflection on Information Communication

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	0.56	0.56	0.56
Disagree	12	6.97	6.97	7.53
Neutral	46	26.18	26.18	33.71
Agree	66	37.48	37.48	71.19
Strongly Agree	51	28.81	28.81	100.00
Total	177	100	100.00	

Source: Author Research Data (2016)

From the study results on Table 13, majority of the study respondents generally agreed with most aspects of styles of information systems. 28.81 percent of the respondents strongly agreed, 37.48 percent agreed, 26.18 neutral, 6.97 percent disagreed while only 0.56 percent strongly disagreed.

4.4.5. Monitoring of Controls

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of monitoring activities regarding controls of Capital Hotel and Spa such as, existence of periodical reconciliation activity, i.e., Bank, physical and theoretical asset etc..., regularly evaluation of internal control systems, management has identified non-compliances and there was corresponding correction in the operation of internal control practices, access to financial recordings are given to only authorized employees and monitored regularly, management interpreted relevant financial regulations or instructions and developed its own written policies and procedures to guide key processes and controls and written policies and procedures clearly describes of roles and responsibilities for staff involved in the control activities and the results were added and the average results are presented in the Table 14.

Table 14 Respondents Reflection on Monitoring of controls

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	0.85	0.85	0.85
Disagree	13	7.53	7.53	8.38
Neutral	54	30.70	30.70	39.08
Agree	67	37.76	37.76	76.84
Strongly Agree	41	23.16	23.16	100.00
Total	177	100	100	

Source: Author Research Data (2016)

From the study results on Table 14, 23.16 percent of the respondents strongly agreed, 37.76 percent agreed, 30.70 neutral, 7.53 percent disagreed while only 0.85 percent strongly disagreed.

4.4.6. Financial Performance

Financial performance on the other hand was the dependent variable of this study and was characterized by cost per unit, goal attainment and profitability.

4.4.7. Cost per Unit

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of cost per unit at Capital Hotel and Spa. The five-point Likert scale with Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4) and Strongly Agree (5) was used and their responses were added and the average result are recorded in Table 15.

Table 15 Respondents Reflection on Control performance of Cost per Unit

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	1.69	1.69	1.69
Disagree	24	13.56	13.56	15.25
Neutral	53	30.13	30.13	45.39
Agree	67	38.04	38.04	83.43
Strongly Agree	29	16.57	16.57	100.00
Total	177	100	100	

Source: Author Research Data (2016)

From the study results, 16.57 percent strongly agreed, 38.04 percent agreed, 30.13 percent neutral, 13.56 disagreed and 1.69 percent strongly disagreed with the various aspects of cost per unit.

4.4.8. Goal Attainment

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of goal attainment at Capital Hotel and Spa such as, Capital Hotel has enough cash to meet its obligations effectively (as and when they fall due), the hotel has a well-developed Chart of Account and all company fees are dully corrected and the results were added and the average result are tabulated in the table 16.

Table 16 Respondents Reflection on Goal Attainment

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Agree	4	2.26	2.26	2.26
Disagree	20	11.30	11.30	13.56
Neutral	47	26.74	26.74	40.30
Agree	66	37.10	37.10	77.40
Strongly Agree	40	22.60	22.60	100.00
Total	177	100	100	

Source: Author Research Data (2016)

The study findings revealed that 22.6 percent of the study respondents strongly agreed with various aspects of goal attainments, 37.1 percent agreed, 26.74 neutral, 11.3 percent disagreed while 2.26 percent strongly disagreed with the various aspects of goal attainments of Capital Hotel and Spa.

4.4.9. Profitability

The respondents were asked to indicate the extent to which they disagree or agree with various aspects of profitability of Capital Hotel and Spa and the results were added and the average result is presented in Table 17.

Table 17 Respondents Reflection on Profitability

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	0.94	0.94	0.94
Disagree	8	4.33	4.33	5.27
Neutral	44	24.86	24.86	30.13
Agree	82	46.14	46.14	76.27
Strongly Agree	42	23.73	23.73	100.00
Total	177	100	100	

Source: Author Research Data (2016)

Study findings (table 17) show that 0.95 percent of the respondents strongly disagreed with the aspects of profitability, 4.33 percent disagree, 24.86 neutral, 46.14 percent agreed while 23.73 percent strongly agreed with the aspects of profitability at Capital Hotel and Spa.

Hypothesis test on the effect of internal Control System on Performance.

The study was based on the premise that internal control system influence financial performance of Capita Hotel and Spa. In order to assess the influence of internal control system on financial performance, the study had set the following null hypothesis; H01: Internal control system does not have significant effect on financial performance of Capital Hotel and Spa.

In order to test the above hypothesis, the researcher used regression coefficient (beta β) with the test criteria set that the study should reject the null hypothesis H01 if β≠0 and p-value < α, otherwise fail to reject H0 and F tests were conducted to determine the indication and overall significance of the relationships respectively. All the questions in the questionnaire answered by the respondents had scores and scored marks depending on the response of the respondents. The marks were then added up and finally divided by number of respondents answering the questionnaire to enable the researcher attain the mean score of every question measuring the independent and dependent variables. In order to test the hypothesis, the aggregate mean score of financial Performance measures were regressed against the mean score of measures of internal control system and results presented in table 18, and 19.

Table 18 Goodness of fit analysis of internal control system on performance

Sample size	R	R Square	Adjusted R Square	Std. Error of the Estimate
177	0.938	0.880	0.783	0.306

Source: Author Research Data (2016)

From the study results, the regression results reveal that internal control system had overall positive significance impact on financial performance (p-value = 0.0072) Table 19.

The regression results also shows that at individual level, there was a statistically significant positive linear relationship between internal control system and performance (β= 0.0069) Table 19 is that the

p-value is less than 0.05 (0.0072 < 0.05). The hypothesis criteria was that the null hypothesis H0 should be rejected if $\beta \neq 0$ and p-value $< \alpha$ otherwise fail to reject H0. From the above regression results $\beta = 0.682 \neq 0$ and $0.0072 < 0.05$, the study therefore rejects the null hypothesis and conclude that internal control system had significant effect on financial performance of Capital Hotel and Spa.

Table 19 Regression results for internal control system and performance

	Sum of squares	Degree of Freedom	Mean Square	F	Significance (P-Value)
Regression	25.407	30	0.847	9.056	.000a
Residual	3.46	37	.094		
Total	28.868	67			
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta (β)	T	Significance (p-value)
(Constant)	1.539	0.550		2.800	0.008
Means of internal control system	0.0056	0.0045	0.0069	0.0420	0.0072

Source: Author Research Data (2016)

The regression results also shows that 88 percent of the performance of Capital Hotel and Spa can be explained by Strategic leadership (R squared = 0.880) and the relationship followed a simple regression model of the nature;

FP= 1.539+0.938ICS   Where:

ICS is the Internal Control System.

1.539 is a constant intercept term ($\alpha = 1.539$).

0.938 is the beta ($\beta = 0.938$) or the slope coefficient.

FP is the financial performance

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary of Findings

- Control Environment is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control. In this regard the respond found from the assessment shows that the feedback given by the management team to the line staffs was not satisfactory i.e. it lacks of supportive attitude.

- Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. However, the study result shows that more than 55% the risk assessment process of the company didn't was not in line with the literature. .

- Information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful. In this regard 33% off the respondents of the questionnaire didn't agree that the information and communication system of the hotel was satisfactory.

- Control activities include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. However, more than 40% of the respondent didn't agree on the effectiveness of control activities in place at capital Hotel and Spa.

- Monitoring of controls is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of internal control such as self-assessments, peer reviews, and internal audits. 39% of the respondents didn't agree that the monitoring of control was satisfactory.

5.2. Conclusion

- The Internal control system of Capital hotel and Spa has been established based on the five components of the internal control. Among all, the control environment i.e. the tone at the top comprises the major contributor for the constituent of control system in the hotel.

- The hotel has implemented control activities which are monitored by the internal audit and the corporate office. The operation and supporting departments present their activities monthly for the management of the hotel.

- An internal control system of the hotel comprises the whole network of systems established to provide reasonable assurance that the hotel objectives will be achieved. The objectives of internal control system of the hotel comprises of:

  - ✓ Ensuring the orderly and efficient conduct of business in respect of systems being in place and fully implemented. Controls mean that business processes and transactions take place without disruption with less risk or disturbance and this, in turn, adds value and creates shareholder value.
  - ✓ Safeguarding the assets of the business. Assets include tangibles and intangibles, and controls are necessary to ensure they are optimally utilized and protected from misuse, fraud, misappropriation or theft.
  - ✓ Preventing and detecting fraud. Controls are necessary to show up any operational or financial disagreements that might be the result of theft or fraud. This might include off-balance sheet financing or the use of unauthorized accounting policies, inventory controls, use of company property and similar.

✓ Ensuring the completeness and accuracy of accounting records. Ensuring that all accounting transactions are fully and accurately recorded, that assets and liabilities are correctly identified and valued, and that all costs and revenues can be fully accounted for.

✓ Ensuring the timely preparation of financial information this applies to statutory reporting (of year end accounts, for example) and also management accounts, if appropriate, for the facilitation of effective management decision-making.

- Having all the above facts, due to the weakness on the risk assessment process of the hotel and the supportive attitude problem of the management team, the internal control system of the hotel is not full.

- In all these respect , Internal control system was characterized by control environment, risk assessment process, information system , control activities and Monitoring of controls while financial performance was characterized by cost per unit, goal attainment and profitability or surplus. The regression results also shows that 88 percent of performance of Capital Hotel and Spa can be explained by internal control system (R squared = 0.880). This means that internal control system helps increase financial performance of Capital Hotel and Spa by 88 percent.

5.3. Recommendation

Based on the findings and conclusions of the study, the following recommendations were made; internal control system has been found to have a statistically positive effect on financial performance of Capital Hotel and Spa. Hence there is need for Capital Hotel and Spa to improve on its internal control system.

The response of the employees of Capital Hotel and Spa shows the feedback given by the managerial line staffs and the risk assessment process in the company is not satisfactory. Therefore, that needs the attention of the hotel top management.

5.4. Suggestions for Further Research

Despite the fact that the study produced meaningful results it was subject to some limitations which provide avenues for further research.

We have organizational factors such as technology, management structure, and age of the hotel can bring more insights into the study hence need for further study which includes these and other factors.

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Research Questionnaire

QUESTIONNAIRE

Dear Respondents,

This questionnaire is designed to gather information about the role of internal control for enhancing the performance of Capital Hotel and Spa. All responses will be used to conduct a study for the partial fulfillment of Master's Thesis in Business Administration. I would like to assure you that you will be guaranteed anonymity as I do not ask your name here and your responses will not be used for any other purposes other than the intended purpose. Besides, this survey should only take about **15 minutes** of your time. I am grateful for your cooperation in advance!

N.B Please put a **"√"** mark to all your responses in the square provided beside each statement.

1. Gender:	Male □	Female □			
2. Age:	18-24 □	25-35 □	36-50 □	51-60 □	Above 60 □
3. Marital status:	Single □	Married □	Divorced □	Widowed □	
4. Current Education level	Illiterate □	Primary □	High school □	TVET □	BA/BSC □
	MA/MSc □	PhD □	Above PhD □		
5. Job position	Line staff □	Supervisor level □	Top Managerial Level □		
6. Work Experience	1-5 □	5-10 □	10-15 □	15-20 □	Above 20 □

This part of questionnaire covers about employees' feelings about the internal control system implemented in the hotel for the day-to-day operation. Please indicate how much you agree or disagree with each of the following statements by circling the number that best represents your opinion **1 indicates strongly disagree, 2 indicates disagree, 3 indicates neutral, 4 indicates agree and 5 indicates strongly agree.**

No	Dimensions	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
	**Reliability of Internal Controls**					
1	Internal controls exist in the hotel	1	2	3	4	5
2	Internal controls are working as intended	1	2	3	4	5
3	Internal controls completely avoids all the possible irregularities	1	2	3	4	5
	**Control Environment**					
1	The Capital Hotel and Spa management is committed to the operation of the Internal Control system implemented in the hotel	1	2	3	4	5
2	The management is closely monitors the implement of internal control system in the hotel	1	2	3	4	5
3	Management provides feedback to the junior officers about the operation of the system	1	2	3	4	5
4	Appropriate measures are taken to correct failure in operation of the hotel accounting and finance management system	1	2	3	4	5
5	Internal Audit department/unit exists	1	2	3	4	5

6	The Internal Audit department is Independent from the operation of the hotel	1	2	3	4	5
Control Activities						
1	There exists clear separation of roles in the hotel	1	2	3	4	5
2	Every employee's work checked by the other employee (Counter check by the other employee)	1	2	3	4	5
3	There are processes in place to ensure that significant changes in legislation are reflected in the updated policies and procedures	1	2	3	4	5
4	Appropriate segregation duties exist in the hotel (e.g. preparation , Authorization and recording financial transaction is done by different employees)	1	2	3	4	5
5	There exist adequate physical security for cash and other assets	1	2	3	4	5
6	Easy tracking of the organization's equipment to their location.	1	2	3	4	5
Risk Assessments						
1	The hotel has a documented and approved risk management policy	1	2	3	4	5
2	Formal risk assessments have been performed on a regular basis	1	2	3	4	5

3	If you agree on question # 2 above, the risk assessment identified and addressed Asset management, Revenue management, completeness of revenue, Expenditure management, Personnel management, Fraud and Service delivery	1	2	3	4	5
4	Specific controls are clearly documented and identified in response to the risks	1	2	3	4	5
5	The hotel activities have significant impact on environmental issues i.e. waste generation, water contamination etc.	1	2	3	4	5
6	The hotel has bought appropriate insurance for severe risk identified	1	2	3	4	5
	Information and Communication					
1	Legislations and regulatory matters relevant to the jobs communicated to staffs	1	2	3	4	5
2	Key information regarding the operation of hotel are identified and regularly reported	1	2	3	4	5
3	Customer complaints are readily complied	1	2	3	4	5
4	All relevant reports submitted to the responsible officials timely	1	2	3	4	5

5	Sound accounting and financial management system is in place	1	2	3	4	5
6	Internal auditor's appropriate recommendations are implemented	1	2	3	4	5

	Monitoring of Controls					
1	There exists periodical reconciliation activity, i.e., Bank, physical and theoretical asset etc...	1	2	3	4	5
2	The hotel's internal control systems are evaluated regularly	1	2	3	4	5
3	Management has identified non-compliances and there was corresponding correction in the operation of internal control practices	1	2	3	4	5
4	Access to financial recordings are given to only authorized employees and monitored regularly	1	2	3	4	5
5	Management interpreted relevant financial regulations or instructions and developed its own written policies and procedures to guide key processes and controls	1	2	3	4	5
6	Written policies and procedures clearly describes of roles and responsibilities for staff involved in the activities	1	2	3	4	5

	Cost Per Unit					
1	Cost is controlled appropriately	1	2	3	4	5

#		1	2	3	4	5
2	Low cost of production system is in place	1	2	3	4	5
3	The maximum standard of Cost per Unit of product is known	1	2	3	4	5
Goal Attainment						
1	The hotel has enough cash to meet its obligation effectively	1	2	3	4	5
2	Efficient in optimal usage of organizational resources and minimization of wastage.	1	2	3	4	5
3	Ensured in the safeguarding of the Company's assets against misuse, theft and misappropriation	1	2	3	4	5
Profit/Surplus						
1	The hotel records are accurate and complete	1	2	3	4	5
2	The internal controls can detect and prevent errors and frauds and ensure the safety and adequacy of the accounting system for availability of true and fair view financial statements	1	2	3	4	5
3	Profitability of the hotel has been mate	1	2	3	4	5