

**INTERNAL CONTROL SYSTEM IN OPERATIONS AT ERATA HOTEL IN ACCRA,  
GHANA**

**BY**

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**ABSTRACT**

*The study evaluated the internal control system in operations at Erata Hotel in Accra, Ghana. The population of this study consisted of all staff in Erata hotel in Ghana they are both males and female. The study adopted a survey research design while simple random sampling technique was used in selecting the respondents. The instrument for data collection which was tagged "Effectiveness of Internal Control Systems (EICS)" was administered to the respondents and used for the study. The instrument was vetted by the researcher's supervisor who is an expert in the field before the reliability test was conducted which produced the reliability coefficient of 0.84 proving the instrument to be reliable for the study. Data collected were analyzed using independent t-test analysis and Pearson Product Moment Correlation Analysis. From the results of the data analysis, it was observed that there is a significant relationship between techniques of internal control system for revenue and its operation in Erata hotel in Accra. There is a significant relationship between the impact of internal control system on revenue generation in Erata hotel in Accra. It was therefore recommended that internal control system of Erata hotel should be remodeled and strengthened to position them to discharge their duties effectively and efficiently.*

**KEY WORDS: Internal control system, revenue generation, Accra**

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**Introduction**

Every organization has a purpose, which includes making some product and rendering some services at a price for normal operations of the business organization. It is the product or services of the firm that cause cash receipts (revenue) to flow into the firm. Revenue is associated with products or service of a firm as source of expected cash receipts. According to Establishments Customer Service Chartered (2004), revenue is an event; an increase that applies definitely to value that is monetary. This increase occurs because the firm undertakes certain activities or there is any performance by the firm. Revenue therefore refers to the monetary event of asset values increasing in the firm due to the physical event of production or sales of the firms' products or services.

Financial Accounting Standard Board (FASB) defines revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity's ongoing major or central operations (Kam, 1987). In addition, Hongreen

et al (2002) describe revenue as inflows of asset (almost always cash or accounts receivables) received for products or services provided to customers.

On the basis of the above, Erata Hotel in Ghana generate much income from its over 50 well furnished air-conditioned deluxe rooms and well equipped conference. Thus, internal control is defined as the whole system of control, financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner to ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. In addition, the American institute of certified public accountants in 1949 defined internal control as comprising the plan of organisation and all the coordinate methods and measures adopted within a business (or non-profit making body) to safeguard its assets, check the accuracy and reliability of its accounting data promote operational efficiency and encourage adherence to prescribed managerial policies. a 'system' of internal control extends beyond those matters which relate directly to the functions of the accounting and financial department.

However, it is an established fact that all the Erata Hotel in Accra is often plagued by accounting and administrative control problems as it affect revenue generation and other assets. As a result, the establishment revenue base has assumed an upward trend. It has also been shown that despite considerable investment, public service delivery by the establishment is widely perceived to be fairly satisfactory. The incidence of internal control strength has the desired effect of not only strengthening the establishment's ability to provide effective service but also help to boost the national economy.

### **Statement of the Problem**

In many organisations, the incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company's ability to provide effective services but also encourages collusion, fraud, embezzlements, loss of cash (revenue), assets conversion genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, public service delivery is unsatisfactory and degenerating the company is not able to break even and sustain itself from the revenue obtained there from. these impacts so negatively on the company's existence.

For the enhancement of the attainment of the mission and goals of the company, it is therefore necessary that these hindrances be removed. The management of the company should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation. Unfortunately, this has a dearth of adequate information in this regard. No determined effort has been made to investigate the problem of weak internal control over service delivery and revenue generation. Therefore, the main motivating factor underlying this study is the desire to break new grounds with the intent of shedding more light on this problem and seeking avenues for solving it. Thus, the purpose of this study is to examine and evaluate the internal control system in operation at Erata Hotel in Accra with a view of knowing its impact on revenue generation in the state.

### **Objectives of the Study**

The main objective of this study is to evaluate the internal control system in operations at Erata Hotel in Accra. Specific objectives of the study are:

1. To examine the types and techniques of internal control system for revenue generation adopted by Erata Hotel in Accra
2. To determine the impact of internal control system on revenue generation

### **Concept of Internal Control System**

The concept of internal control is still being viewed by many people from a narrow perspective as being the steps taken by a business to prevent employee's fraud. Actually such measures are rather a small part of internal control. It is a fundamental aspect of management's responsibility to provide interested parties with reasonable assurance that their organization is effectively controlled and that the accounting data it receives on a timely basis are accurate and dependable. This assurance is provided by developing a strong system of internal control.

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 resource both physical and intangible e.g trademark.

Millichamp (1992) says that internal control system refers to the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner. The individual components of an internal control system are known as controls or internal controls. In addition, Meig's et.al (1982) further refers to internal control system as consisting of all measures employed by an organization to:

- i. safeguard assets from waste fraud and inefficient use.
- ii. promote accuracy and reliability in accounting records.
- iii. encourage and measure compliance with company policies and
- iv. evaluate the efficiency of operation.

Internal control extends beyond the accounting and financial functions. Its scope is company wide and touches all activities of the organization. It includes the methods by which top management delegates authority and responsibilities. It should be concerned with the efficient use of resources to achieve a previously determined objective or set of objectives. The need to perform audit engagement in accordance with companies and allied matters decree (CAMD) of 1990 and strict adherence to generally accepted auditing standard (GAAS) has prompted the need for internal control in organizations.

### **Operation of Internal Control System at Erata Hotel**

In designing a system of internal control, the personnel should be segregated by functions into those who initiate or authorize transactions and those who execute transactions. From the standpoint of internal control, the establishment's transactions cycle may be divided into:

- a. **revenue cycle:** events related to the distribution of goods and services to the customers, other entities and the collection of related payments.
- b. **expenditure cycle:** events related to the acquisition of goods and services from other entities and the settlement of related obligations.
- c. **production cycle:** events related to the transaction of researches into goods and services.
- d. **finance cycle:** events related to the acquisition and management of capital funds including cash.

Each of the transaction cycle will have exposure (risk i.e sometimes financial consequences). Management should develop detailed control objective for each transactions cycle objectives and provide a basis for analysis. Once the control objectives have been slated, management may collect information to determine the extent to which control objectives are being achieved in each of the organizations transaction cycles. The specific control objectives for each transaction cycles drawn from the concept of an internal control structure are as follows:

- a. **revenue cycle:**
  - i. the customers should be authorized in accordance with management's criteria.
  - ii. the prices and terms of good and services provided should be authorized in accordance with management's criteria.
  - iii. all shipments or movements of goods and services provided should result in billing to the customers.
  - iv. billings to customers should be accurately and promptly classified, summarized and reported.
- b. **expenditure cycle:**
  - i. vendor should be authorized in accordance with management's criteria.
  - ii. employees should be hired in accordance with management's criteria.
  - iii. access to personnel payroll and disbursement record should be permitted only in accordance with management criteria.
  - iv. compensation rates and payroll deductions should be authorized in accordance with management's criteria.
  - v. amounts due to vendors should be accurately and promptly classified, summarized and reported.
- c. **production cycle:**
  - i. the production plan should be authorized in accordance with management's criteria
  - ii. costs of goods and service manufactured or produced should be accurately and promptly classified summarized and reported.
- d. **finance cycle:**

- i. the amounts and timing of debts transactions should be authorized in accordance with management's criteria.
- ii. access to cash and securities should be permitted only in accordance with management's criteria.

**Basic Controls**

Basic controls are those controls necessary for the completeness and accuracy of accounting records. These include such techniques as: -

- i. pre-numbering original documents for examples vouchers and purchase invoices.
- ii. maintaining total accounts to provide an independent overall control over the ledger to which they are related.
- iii. detail checking of document or according record against another examples, the comparison of cheque invoice and goods received notes.
- iv. authorization of documents after examination and checking by the head of other charges sections and head of payroll (salaries) section before any processing monthly reconciliation of cash book with bank statements.
- vi. all service centers and customer care centers of the establishment render monthly returns and use/unused receipt book.
- vii. taking out periodic trial balances to check the arithmetical accuracy of the book –keeping for the final account.

## **Operational Controls**

These are designed to ensure the continued and proper operation of safeguarding assets at Erata Hotel. Operational control entails the following:

- i. it measures and corrects performance. Daniel (1996) maintains that “control is essentially a management function that deals with the measurement and correction of the performance of subordinates with a view to achieving organizations objectives with maximum efficiency and at minimum cost”.
- ii. it brings about efficiency. internal control consists of the measures designs to promote operational efficiency and to encourage adherence to managements policies.
- iii. It provides control of activities. According to louis (1989) if management is to direct the activities of a business according to plan every transaction should go through four steps. it should be authorized, approve, executed and recorded,”

## **Limitations of Internal Control System**

Although internal control system is highly effective in increasing the reliability of accounting data and in protecting against frauds, no system of internal control is error free. However, for a coin there must be two sides. Two or more dishonest employees working in collusion can detect the system temporarily. Carelessness by employees and misunderstanding of instructions/procedures can cause a breakdown in controls. The inherent limitations includes the following:

- i. a good system of internal control can become ineffective as a result of employees fatigue and indifference.
- ii in the performance of the procedures of internal control errors occur due to carelessness, misunderstanding of procedures and other inherent mistakes.
- iii. personal and professional associations within the management structure makes it difficult to detect fraud.
- iv. a well-formulated system of internal control can be destroyed by employees’ lack of confidence and co-operation.
- v. management is frequently in the position to override control which it has itself set-up. control can be abused by the person on whom the authority is vested upon for his personal gain.
- vi. overly rigid control hamper the actions and decisions of individuals, artificial limiting an employees response to the variety of his or her tasks. accountability and pressures for performance may boomerang. rigid control system may create the types of actions that the control were designed to prevent.
- vii. adequate accounting and management staff may be lacking and thus making a way for inadequate managerial supervision, ineffectiveness and a breakdown of the control system.
- viii. cost will prevent management from ever installing an ideal system.

## **Methods**

## **Research Design**

The research design for this study was a survey design. This study was descriptive in nature and it gives a systematic description of the effectiveness of internal control systems.

## **Area of the Study**

The area of this study was Erata hotel, Ghana.

## **Population of the Study**

The population of this study consisted of all staff in Erata hotel in Ghana they are both males and female.

## **Sample and Sampling Technique**

The sample of this study consisted of two hundred (300) social studies students selected for the study. The simple randomly sampling technique was adopted in selecting the staff Erata hotel, Ghana. The balloting system was used in selecting the sample.

## **Research Instrument**

The instrument used by the researcher for this study was a research questionnaire. The questionnaire tagged “Effectiveness of Internal Control Systems” (EICS) was used to obtain data on the independent and dependent variables presented in both sections A and B of the questionnaire. section A measured the demographic data of the respondents such as name, gender, age, educational qualification and marital status as well as other independent variable such as, techniques, impact and strengths and weaknesses of the system of internal control, while section B measured effectiveness of internal control systems in Erata hotel Ghana.

## **Validation of the Research Instrument**

The first validation of the research instrument was made by the researcher’s supervisor who is an expert in the field. The items in the questionnaire were properly worded to meet the respondent’s level of understanding.

## **Reliability of the Instrument**

In order to establish the reliability of the instrument, experts in the faculty of educational, university of Uyo were given the instrument for rating in respect of the consistency with the research objectives. items in which at least two experts agreed upon were regarded as suitable, the reliability coefficients was 0.85 and was considered substantially high enough to justify the use of the instrument.

## **Data Analysis and Results**

### **Hypothesis One**

The null hypothesis states that there is no statistically significant relationship between culture and the practice of female genital mutilation (see table 1).

**Table 1**

**Chi-square analysis of relationship between types and techniques of internal control system for revenue generation adopted by Erata Hotel in Accra.**

<b>Techniques of internal control system</b>	<b>O</b>	<b>E</b>	<b>X<sup>2</sup></b>
AGREED	231	125	<b>179.78*</b>
DISAGREED	19	125	
<b>TOTAL</b>	<b>250</b>	<b>250</b>	

**\*Significant at 0.05 level; df = 1; Critical = 3.48**

Table 1 shows the calculated X<sup>2</sup>-value as (179.78). This value was tested for significance by comparing it with the critical X<sup>2</sup>-value (3.48) at 0.05 levels with 1 degree of freedom. The calculated X<sup>2</sup>-value (179.78) was greater than the critical X<sup>2</sup>-value (3.48). Hence, the result was significant. The result therefore means that there is statistically significant relationship between the types and techniques of internal control system for revenue generation adopted by Erata Hotel in Accra.

**Hypothesis Two**

The null hypothesis states that there is no statistically significant relationship between impacts of internal control system on revenue generation. (See table 2)

**Table 2**

**Chi-square analysis of the relationship between the impact of internal control system on revenue generation.**

<b>impact of internal control system on revenue generation.</b>	<b>O</b>	<b>E</b>	<b>X<sup>2</sup></b>
AGREED	217	125	<b>135.42*</b>
DISAGREED	33	125	
<b>TOTAL</b>	<b>250</b>	<b>250</b>	

**\*Significant at 0.05 level; df = 1; Critical = 3.48**



Table 2 shows the calculated  $X^2$ -value as (135.42). This value was tested for significance by comparing it with the critical  $X^2$ -value (3.48) at 0.05 levels with 1 degree of freedom. The calculated  $X^2$ -value (135.42) was greater than the critical  $X^2$ -value (3.48). Hence, the result was significant. The result therefore means that there is relationship between the impact of internal control system on revenue generation.

### **Discussion of the Findings**

The result of the data analysis in table 1 was significant due to the fact that the obtained  $X^2$ -value (179.78) was greater than the critical  $X^2$  -value (3.48) at 0.05 level with 1degree of freedom. The result therefore means that there is statistically significant relationship between the types and techniques of internal control system for revenue generation adopted by Erata Hotel in Accra. This is in agreement with the opinion of The Internal Control Reference Guide (2002) who pointed out that, risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives. The significance of the result caused the null hypothesis to be rejected while the alternative one was accepted.

The result of the data analysis in table 2 was significant due to the fact that the obtained  $X^2$ -value (135.42) was greater than the critical  $X^2$ -value (3.48) at 0.05 level with 1 degree of freedom. The result therefore means that there is relationship between the impact of internal control system on revenue generation. The significance of the result caused the null hypothesis to be rejected while the alternative one was accepted.

### **Conclusions**

Based on the findings of the study, the followings conclusions were drawn: There is a significant relationship between techniques of internal control system for revenue and it operation in Erata hotel in Accra. There is a significant relationship between the impact of internal control system on revenue generation in Erata hotel in Accra.

### **RECOMMENDATIONS**

Having examined and evaluated the internal control system in operation at Erata hotel in Accra, the study makes the following recommendations.

1. Internal control system of Erata hotel should be remodeled and strengthened to position them to discharge their duties effectively and efficiently.
2. Secure a culture change within the various cadres of staff that focuses on customer satisfaction, quality service rendition and transparency in service delivery and procurement process.
3. Pay before service should also be seen as an alternative to further discourage of debts and factors that can lead to financial recession in Erata hotel

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