

**INTERNAL CONTROL ON THE PERFORMANCE OF HOTEL BUSINESSES
A CASE OF PRIMROSE HOTEL IN BUGOLOBI - KAMPALA**

A JOINT RESEARCH REPORT SUBMITTED

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Declaration

We Khatukhira Bernard Wopata and Kaijuka Sam hereby declare that this dissertation is our original work and has never been presented for any academic award in any institution of higher learning or University known to us. In cases where different author's work has been included, such authors have been acknowledged.

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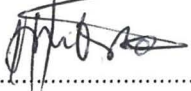
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Dedication

We dedicate this research report to our dear parents Mr. Wopata Titus and Mrs Jane Nabulobi; Mr. Kaijuka Chris and Mrs Kaijuka Joyce, our beloved sisters and brothers. Thank you for the support and love you have always shown us.

Acknowledgment

Our very special thanks go to the almighty God who has seen us through, amidst challenges of all kinds.

Special gratitude goes to our dear parents, Mr. Wopata Titus and Mrs. Jane Nabulobi, Mr. Kaijuka Chris and Mrs Kaijuka Joyce. We are short of words to express our thanks, for you have sacrificed a lot for our education and well being. Thank you very much for all the support you rendered us financially, spiritually and morally. May God Almighty bless you abundantly and to our sisters and brothers thank you for the encouragement and comfort you gave us.

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ACRONYMES

KIU	Kampala International University
ICS	Internal Control System
ACCA	Association of Certified Chartered Accountants
CPA	Certified Public Accountant
DOF	Director of finance
F&B	Food and Beverages
CHOGM	Commonwealth Heads of state General Meeting
PERT	Programme Evaluation and Review Techniques

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CHAPTER ONE

Introduction

Presently business globally are operating and being run in a continuously changing environment. With this, comes the need for operating procedures and controls that are designed to comply and respond to changes and at the same time pay special attention to risks inherent in the business processes. The main purpose of internal controls is embedded in the separation of the three functions; these functions are authorization, custody and recording. The business management in this case the hotel business must make sure that the three are adhered to in all business transactions.

1.1 Rationale of the study

A well designed effective and efficient internal control system is very important for the hotel management and it is a basis for a safe and vibrant operation of hospitality organizations like hotels. Strong internal control system helps management to make sure that the goal and objectives of a hotel business are achieved, in this sense it guarantees the achievement of long term profitability targets and maintain reliable financial and managerial reports. It also helps to ensure that the hotel will always comply with laws and regulations and any legal requirement as well as policies, plans, internal rules, procedures, and decrease the risk of unexpected losses or damage to the hotel's reputation. The hospitality industry along with hotel supervisors throughout the world has focused increasingly on the importance of sound internal controls. This increased interest in internal control systems is as a result of significant losses incurred by many hotel organizations. An evaluation and analysis of the problems related to these losses indicate that they could have been avoided had the hotels managed and maintained effective and efficient internal control systems. Instituting such internal controls would have prevented or enabled earlier detection of problems that led to the losses that the hotels has suffered, thereby limiting damage of the assets of the hotel.

In developing the principles, most of the lessons have been learned from problems most hotels have been facing. These principles are intended to be of general application and so supervisory authorities should use them in assessing and analyzing methods and procedures of monitoring how hotels they work in structure their internal control system. In this case the approach chosen by individual supervisor will depend upon many factors some of them include but not limited to; their on-site and off-site supervisory techniques and the degree to which external auditor are also used in the supervisory function.

Studies on Effective supervision of internal control systems emphases that, strong internal controls are very important for the prudent operation of hotels and promotion of financial stability in financial systems in general

1.2 Statement of the problem

Construction and creation of new hotels in Uganda has been on an increase, more so between the period of 2007 and 2008. This was mostly stirred up by the impending hosting of the commonwealth heads of state general meeting which was held in Kampala Uganda in 2007 between November 22nd -25th. Hotels being service oriented entities, they must observe and adhere to high standards of management and administration and this should be consistently reflected in the services rendered to their clients. Many scholars have argued that internal control systems have a big impact on performance of hotels, this is hypothetical as it could only apply in theory given the fact that many other factors can contribute to the performance of a hotel.

This study therefore, seeks to find out the impact of internal controls in the performance of hotel businesses. Recently, there has been a general complaint on several hotel standards due to weakened or defective internal controls used by the hotel industry in Uganda which has a close bearing on the performance of these hotels especially those that were short listed for CHOGM among which lays primrose hotel and those that have been created within this period.

1.3 General objective

The study analyses the impact of internally control systems on the performance of primrose hotel found in Bugolobi a suburb of Kampala

1.3.1 Specific objectives

- To examine the general understanding of the internal control systems in primrose hotel
- To examine how the internal controls enhance performance in Primrose hotel
- To analyze the implications of the internal controls on the performance of the Primrose hotel
- To examine the impact of internal controls on the performance of hotel businesses with emphasis on Primrose hotel and suggest strategies to address these challenges.

1.4 Research questions

1. What internal controls are implemented at primrose hotel?
2. What are the impacts of the internal control system on performance of Primrose hotel?
3. What are the challenges associated with internal control systems in Primrose hotel
4. What strategies are put in place to counter the challenges associated with internal control systems?

1.5 Hypothesis

Internal control systems are of less importance to the performance of primrose hotel.

1.6 Scope of the study

1.6.1 Subject scope

The study had variables, these variables were based on internal control system with regard to the performance of hotel businesses and Primrose Hotel in particular.

1.6.2 Time and geographical scope

The study was a reference to different hotel businesses especially those started during the CHOGM period to determine performance vis-à-vis effective internal controls carried out between August of 2007 and June of 2008.

1.7 Significance of the study

This study will give an insight into internal controls affecting effectiveness and efficiency of service delivery in the hotel business and therefore equip future investors with knowledge on the dynamics and complexities of service delivery in the hotel business.

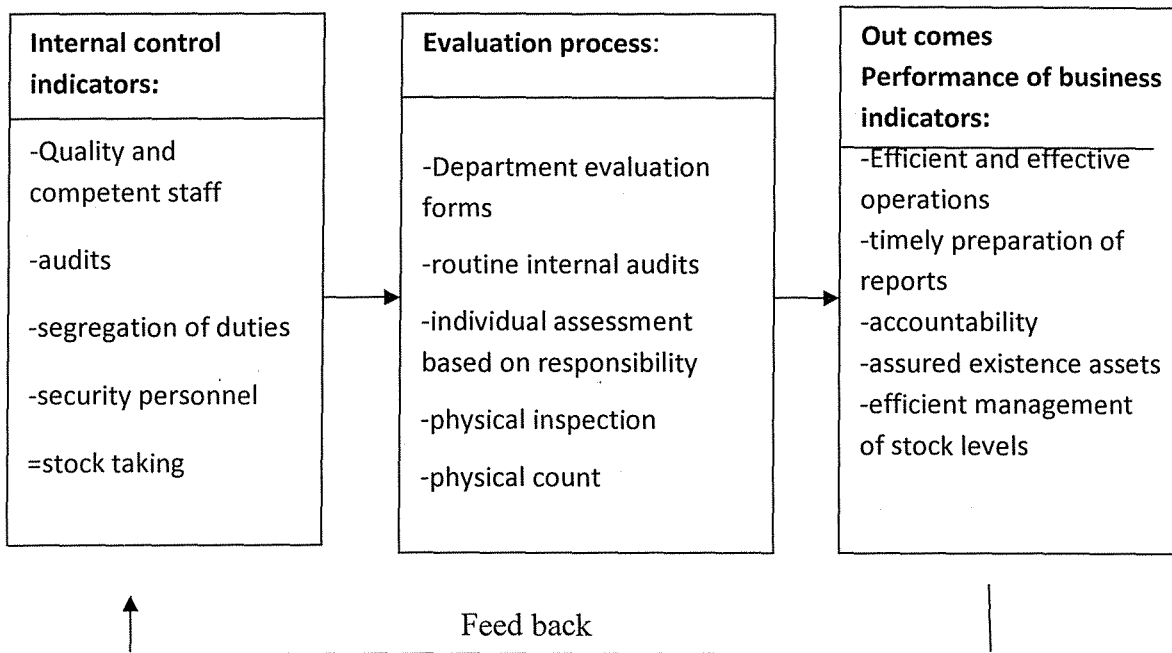
Findings and any deductions from this study will help scholars in the future in case they are interested in carrying out related studies, as they will use this as a reference while doing their research.

Hotel businesses will be enlightened on how to put in place and strengthen their internal controls in view of their benefits. This will help management in planning and effectively making decisions that are consistent with the requirements of a good internal control system.

1.8 The conceptual frame work of an internal control system

Conceptually, administrative, accounting controls and the flow of transactions can be distinguished. Practically however, the difference is unclear, since most of the controls have the same characteristics of all the types of the types of controls. The difference is not so important in the auditor's report and evaluation of internal control; however since nearly all controls have accounting control characteristics, this may potentially affect reported external financial information and control therefore may be of audit interest.

Figure 1: The conceptual frame work of an internal control system



Source: Adopted from Randolph and Wester field (2001)

The relationship between in the independent and dependent variables

To address the question of quality and competence of staff, the hotel management issues department evaluation forms and because this, staff is compelled to perform much better so as to hit the target, routine audits help to ensure timely preparation and presentation of accurate data or reports that also conform to standards, individual based assessment through segregation of duties ensures accountability, physical inspection with the help of security personnel helps to satisfy existence and also protect assets and stock taking that is done through physical counting provides efficient management of stock levels.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter gives an insight and a detailed review that can best explain the aspects and phenomenon of Internal Control Systems (ICS). The researchers shall bring out the various views given by different authors on the subject by showing how an operational ICS can enhance performance of a given organization in this case the hotel business.

2.1 Concept of internal controls

Many people interpret internal controls as the steps taken by a business entity to prevent employee fraud. This measure is rather a small part of internal controls. William et al (2002), affirm to this statement when they say that “internal control is a management’s systematic effort to adhere to objectives, activities are continually monitored to see that results stay within desired boundaries.” In this case actual results of each activity are compared with plans and if significant differences are noted, remedial actions may be taken.

Woolf (1998) contends that the basic purpose of internal control is to promote the efficient and effective operation of an organization. The system of internal control consists of all measures employed by an organization to: Safe guard assets, Promote accuracy and reliability in the accounting records, Encourage and measure compliance with the organization’s policies, rule and regulation and Evaluate efficiency of operations. In general, an internal control entails all measures that are taken to provide management with assurance that everything is functioning as required

Internal controls goes beyond the boundaries of accounting and financial functions, hence, it covers the organization as a whole and incorporates in all organization’s activities. It includes the methods by which top management delegates authority and assigns responsibility to such functions like selling, purchasing, accounting and production. This is affirmed by Pyle et al (1978) when they observed that in a small business that owner-manager commonly control the entire operation through personal supervision and his direct participation in the affairs and activities of the business. As the business grows it becomes increasingly difficult to maintain this personal contact and at some point it becomes necessary for the owner to delegate responsibilities and rely on internal control procedures rather than personal contact. In this case ICS enhance stewardship and also involve the programs for preparing, verifying and distributing to various levels of supervision of current reports and analysis which enable executives to maintain control over a variety of activities and functions which constitute a large corporate enterprise.

The use of budgetary techniques, product standards, inspection laboratories, time and motion studies and employee training programs involve engineers and many other technicians far

distinguished from accounting and financial activities. Yet all of these activities are part of the mechanism now known as a system of internal control.

The wholesome concept of internal control is most significant when looked at against the backdrop of a large nationwide industrial organization for internal control which has developed into complex enterprises to function efficiently. Since internal controls have attained greatest significance in large scale business organization, the greater part of the discussion in this chapter is presented in terms of the large corporation. A separate section is presented at the end of this chapter; however, it deals with the problem of achieving internal control in a small business.

Internal control is made up of measures introduced in an organization to control and regulate the accounting of the transactions, increase the efficiency and effectiveness of operations, adhere to the policies of the business and maintain accuracy and reliability of the business records.

A satisfactory system of internal control depends on the following: a clear plan of the organization establishing the line of authority and responsibility and proper division of work, well organized and adequate accounting structure with well laid down rules, procedures and policies, People with ability and experience to execute the work well, and Proper system of reporting and communication from lower level management to top management.

2.2 Effects of the internal control frame work

Internal control is a process affected and administered by the board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed but a safety precaution carried out by an organization. The main objectives of the internal control process can be categorized as follows: Efficiency and effectiveness of activities (performance objectives), Reliable, completeness and timeliness of financial and management information (information objectives), Compliance with applicable laws and regulations (compliance objectives), Performance objectives for internal controls pertain to the effectiveness and efficiency of the bank in using its assets and other resources and protecting the bank from loss. The internal control process seeks to ensure that personnel throughout the organization are working to achieve its goals with efficiency and integrity, without unintended or excessive cost or placing other interests (such as an employee's vendor's or customer's interest) before those of the bank.

The information objectives address the preparation of timely, reliable, relevant reports needed for decision-making within the banking organization. They also address the need for reliable annual accounts, other financial statements and other financial-related disclosure and reports to shareholders, supervisors, and other external parties. The information received by management, the board of directors, shareholders and supervisors should be of sufficient quality and integrity that recipients can rely on the information in making decisions. The term reliable as relates to financial statements, refers to the preparation of statements that are represented fairly and based on comprehensive and well-defined accounting principles and rules.

Compliance objectives ensure that all banking business complies with applicable laws and regulations, supervisory requirements and the organization's policies and procedures. This objective must be met in order to protect the bank's franchise and reputation.

2.3 Different types of internal control

Internal controls take the shape of financial and non-financial controls writes Gupta (2004) he goes on and adds internal check and internal audit system as some of internal controls. On the other hand Byaruhanga (1994) identifies financial controls as one that regulate the income and expenditure of the business. Financial controls check on the financial operations of the company. They take the shape of budgetary controls and other techniques such as Program Evaluation and Review Techniques (PERT), periodical reconciliation of cash book and bank pass book of business etc. Non financial controls are employed to prevent errors and frauds. Some of the non financial controls are as follows: Installation of time recording clocks to record the arrival and departure time of workers in the organization, Use of franking machines for affixing postage stamps, Introduction of mechanical devices for the preparation of wage sheets and totaling of the accounts and analyzing the transactions, Adoption of perpetual inventory system in stock and other inventories, Physical verification of stock at regular intervals, Obtaining confirmation of balances from customers at periodical intervals, and Physical verification of assets at periods

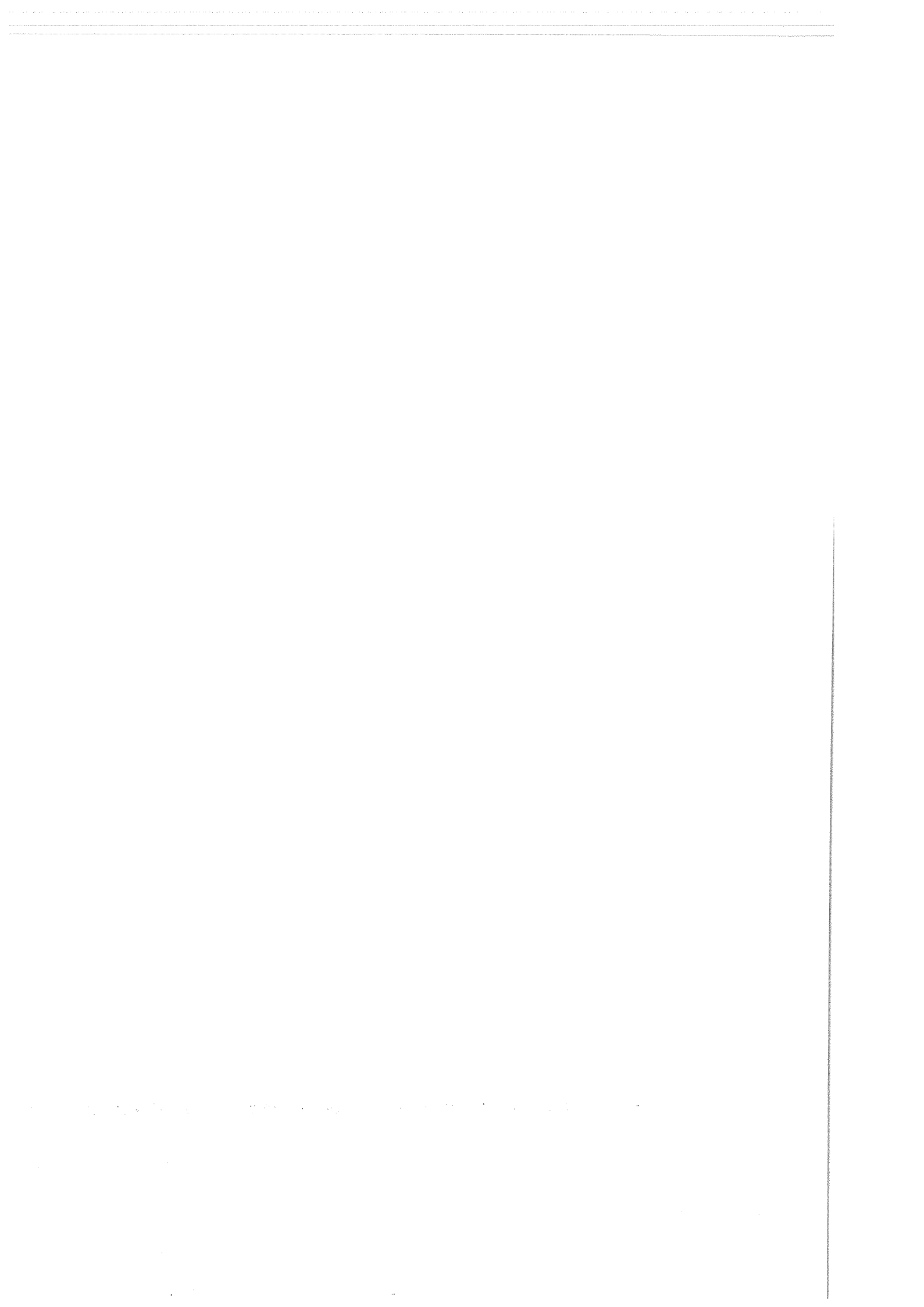
The above financial and non-financial controls should be so designed to suit the enterprises to achieve their objectives and to succeed in their plans. Internal audit in its broadest sense is "the regular and independent appraisal by a staff of internal auditor of the accounting, financial and other operations of a business." of recent; this is called the operational or management audit.

Aside of the above controls Hodnar et al (2001) presented three classifications of transaction process controls quite different from the above and these are: preventive, detective and corrective controls. They went ahead and defined each as follows: preventive controls act to prevent errors and fraud before they happen, detective control uncover errors and fraud after they have occurred and corrective controls correct errors. From the above controls the organization tries hard to prevent and eliminate fraud, mismanagement and safeguarding company asset.

Lesile (1998) suggests that internal auditors have to satisfy themselves that the accountings properly reflect the correct position of the organization. They also appraise the management whether the policies, accounting methods and so on are being followed and of the areas requiring appraisal.

Internal check is a system where the work of one is automatically verified by the other in the course of recording of the business transactions. All the above internal controls are the tools and techniques used by the managers of the business to regulate the flow of finance, ensure arithmetical accuracy in accounts, avoid irregularities in the operations of accounts and make sure that all transactions are correctly and completely recorded in the books of accounts.

In general, auditors do not check or test book of accounts in case of the business entity has a sound and reliable internal control system. However, auditors' responsibility cannot be mitigated on the plea that he largely depends on the internal control system existing in the business entity.



Subject to this limitation, the auditor must satisfy himself that the internal control procedures applied in the business unit are effective for the needed purpose.

2.4 Achieving internal accounting control

Systems of internal control vary significantly from one organization to the other. The specific control features in any system depend on such factors as the organizational structure, size and nature of operations and objectives of the organization for which the system was designed. In all these situations, some factors are essential to satisfy internal control in almost any large-scale organization. These scales include a logical plan of organization; a well- designed accounting structure, an internal audit function and the quality and training of personnel.

Larsen et al (1977) observed that to achieve internal activity control there are factors in the organization that one must look at for example organization structure, size and nature of operations and objective of the organization. The implementers and planners should look at the logical plan of the organization, well designed accounting structure, an internal audit function and the quality and training of employees. When all these are looked at and implemented, then the resulting internal control system could enhance organizational operations and performance as there will be efficiency and effective way of doing work.

Slater (1996) contends with Larsen et al (1977) when he write and says that internal control policies of a company depend on things such as number of employees, company size and source of cash. Slater's argument slightly defers from Larsen et al (1977) when it comes to employees, he talks of number of employees while Larsen et al (1977) talks of the quality and training of employees. Observing both arguments, Larsen et at (1977) argument greatly improves performance and quality of output of the company unlike when there are many employees but are not qualified or skilled in a given field of operation. Hence with quality and trained employees then the ICS employed will be effective unlike when employees are not trained

2.4.1 Plan of organization

An organization plan refers to the division of authority, responsibilities and duties among members of an organization. A well designed organization plan should provide assurance that transactions are executed in conformity with company policies, enhance the efficiency of operations, safeguard assets and promote the reliability of accounting data. These objectives may be achieved largely through adequate separation of responsibilities for; initiation or approval of transactions, custody of assets and record keeping.

2.4.2 Internal control over transactions

Pyle et al (1978), point out the fundamental concept of accounting control when they asserted that no one person or department should handle all aspects of a transaction from beginning to the end. If management is to direct the activities of a business according to plan, every transaction should involve four steps. These steps are; the transactions should be authorized, approved, executed and recorded. Accounting control is enhanced when each of these steps are performed

by relatively independent employees or departments. This will ensure that no single person or department will then be in position to complete a transaction which has not been reviewed, approved and recorded by other departments.

A credit sales transaction may be used to illustrate an appropriate division of responsibilities. Top management of a company may authorize the sale of merchandise at specified credit terms to customers who meet certain criteria. Orders from customers are received in the sales department and sent to the credit department for approval. The credit department reviews the transaction to ascertain that the extension of credit and terms of sale are in compliance with company policies. Once the sale is made, merchandise from the inventory stores department is shipped to the customer. The accounting department uses copies of the documentation created by the sales, credit and shipping department as a basis for recording the transaction and billing the customer.

When responsibilities for authorizing, approving, executing and recording transaction are separated in this manner, no one person or department can initiate and complete an unauthorized, transaction. The possibility of unrecorded transactions is greatly reduced because of the documentation which must be prepared as information concerning the transaction moves from one department to another; sequential numbering of this documentation will assist the accounting department in determining that all transactions have been accounted for.

2.4.3 The accounting structure

To achieve internal control through separation of duties, the accounting system must be able to measure the performance and efficiency of the individual organization units. An accounting system with this capability should include: Adequate internal documentation to focus responsibility, A chart of accounts classified in accordance with the responsibilities of individual supervisors and key employees, A manual of accounting policies and procedures and flow charts showing the established methods of processing transactions, A financial forecast consisting of a detailed forecast of operations with provision for prompt reporting and analysis of variations between actual performance and budgetary standards, A manufacturing cost accounting system, if this is applicable to a given business entity.

Adequate documentation: a system of well-designed forms and documentation is necessary to create a record of the activities of all departments. Meig (1977) suggested that adequate documentation enhances operations. This enhances organizational performance as workers are update with time and relevant information to carry out their work efficiently and effectively. Hodnar et al (2001) elaborates on this further when they suggest that a clear way of recording and keeping data should be set out in a way that avail data that is accurate, adequate, timely and relevant to an organization. All this is geared at proper execution of duties by workers and efficiency and effectiveness of the workers as they carry out their duties. The reliability of internally created documents is increased if two parties with opposing interests participate in preparation of the document. An example of this is when the stores department release materials

to production, a production order is initiated by employees of each department. The stores department has an incentive to ascertain that quantities shown on the production order are not understated, otherwise, the stores department was held responsible for goods no longer on hand. The production department, on the other hand, has an incentive to see that materials charged to its operations are not overstated.

Serial numbering of documents: an internal control mechanism of wide application is the use of serial numbers on document; serial numbers provide control over the number of documents issued. Checks, tickets, sales invoices, purchase orders, stock certificates and many other business papers can be controlled in this way. For some documents such as checks it may be important to account for every number of the series by a monthly or weekly inspection of the documents issued. For some institutions, matters of serial numbers, admission tickets, controls may be achieved by noting the last serial number issued each day and thereby computing the total value of tickets issued during the day. Adequate safekeeping and numerical control should be maintained at all times for unissued pre-numbered document.

Chart of accounts: a chart of accounts is a classified listing of all accounts to be used, accompanied by a detailed description of the purpose and content of each. Some companies use both a chart of accounts and a text of accounts, the former being limited to a classification of ledger accounts and the latter consisting of explanatory material describing the transactions properly to be charged and credited to each account. According to Slater (1996), the chart of accounts aids in locating and identifying accounts quickly. This means that an accountant or auditor can easily trace a given account using this chart. This reduces the bureaucratic tendencies entailed in a large organization and enhances performance as timely, accurate and relevant information is got to perform a given operation efficiently and effectively. Hodnar et al (2001) elaborated more on this chart saying that it is used by organizations to achieve organizational objectives for financial reporting and control and that it can both be used internal and externally. This means that the chart is used as a control tool as well as a directional tool in carrying out organizational operations. From its diverse use, the chart enhances fast dissemination of information and thereby increasing organizations performance when used well.

2.4.4 Continuing

According to council of the institute of certified accountants of England and Wales, “internal control is the whole system of financial and other wise, established by the management in order to carry on the business of the business entity in an orderly way, safeguard its assets and secure as far as possible the accuracy and reliability of its records”

According to Walter (1977), “A system of internal controls is made up of measures employed by a business for the purpose of: Safeguarding, accuracy and reliability in accounting and operating data, Promoting accuracy and reliability in accounting and operating data, Encouraging and measuring compliance with company’s policy and Judging the efficiency and effectiveness of operations in all divisions of the business.” commenting on the same was Stettler (1996) when he asserts that “internal control involves actions taken by an organization to assist in regulating and

directing the activities of the organization.” From the definitions and explanation above, and all the related discussions on the internal controls one should note that internal controls extend beyond accounting. They include among other things the following; all operational controls, quality control, budgetary control, work standards, periodic reporting, internal checks and internal audit. Besides internal checks and internal audit, the two important areas of the internal control are as follows: Administrative control which refers to the system which is related to decision making processes leading to management’s authorization of transactions and accounting control which is made up of the plans of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records.

2.5 Evaluation of internal control

An auditor has to examine and find out as to how far the internal control system is adequate, effective and reliable. Such an evaluation of the internal control will help the auditor to plan and draw his program of audit work.

The auditor through evaluation of internal control can be able to also identify the weaknesses in the system and the areas of weaknesses. Further, he can plan the areas where detailed examination of the books and accounts of the business is necessary and also curtail detailed examination of other areas where internal control system is satisfactory.

An auditor can also inform management of the improvements needed in the system and give an objective view of the strength and weaknesses of the internal control in the business. The evaluation of internal control is recognized as a part of the standard audit procedure.

Section 227 (4-A) of the Indian company act requires that statutory auditor comments specifically on internal control in his report on the business. Hence, the auditor has to evaluate the internal control system of a business entity incorporated under the act so that he could comment on the system in existence.

Auditors can review and evaluate the effectiveness and reliability of the internal control system of business through various ways, some of these ways are : Enquire from the management personnel at various organizational levels about the controls in existence and discuss their effectiveness, Refer the procedural manual (accounting manual, office and hand books, job charts and flow charts) and find out the function responsibilities, pathways of work and controls, Select few transactions and trace them through the accounting system and internal control, Inquire as to the existence and continuance of internal control system throughout the accounting period of the year under audit, Collect and record information on internal control system through questionnaires, flow charts and analysis of records and narrative description and Apply compliance procedures to identify the effective functioning of controls through the period of intended reliance.

According to Senyonga (1994) An auditor can test the actual operations of internal control system by appraisal of duties application of procedural tests and examination in depth. The internal control system in a small business can be evaluated through discussion with management, observation of the accounting procedures, tracing the checks and counter-checks in

the accounting of transactions and by application of audit tests on procedures followed by the business house.

The auditor should follow more formal methods of evaluation of internal control system for big business entities. The methods the auditors may follow are; questionnaire method, flow chart analysis and appraisal of duties.

These approaches enable the auditor to have sufficient information on the adequacy and effectiveness of the internal control and the areas of weakness in the system. The auditor has to make enquiries of the deviation from prescribed controls. He should also find out the reliability of a particular control and examine the possibility of an alternative control system which would serve more effectively than the present system.

2.5.2 Effective internal controls

(Bradford, 1995), in his report submitted by Dran reform programs to internal controls is a primary concern of most organizations in seeking to improve their operations. The following are the key components of an effective internal control system.

All personnel in hotels need to understand their roles in the internal controls and be fully engaged in the process like, risk assessment process, the process of identifying and responding to business risk which can rise to rapid growth, new personnel, new technology, new product and financial risk.

An effective internal control requires that the material risk that could adversely affect the achievement of the hotel goals should be recognized and continuously for example, credit risk, transfer risk, market risk, liquidity risk and reputation risk, Arren and Loebboche, (1992)

An effective control system requires adequate and comprehensive internal financial, operation and compliance data as well as reliable information system in place so as to cover all significant activities of the hotel. Also channels of communication which are effective and adhere to policies and procedures like performance, reviews, processing, segregation of duties and physical controls, (cooper and Lybrand 1999).

Control activities should be an integral part of the daily activities of the hotel. ACCA (1997), states that an effective internal control structure setup with control activities defined at every business level. It also requires that there is appropriate segregation of duties such that personnel are not assigned conflicting responsibilities.

Areas of potential conflict should be identified, minimized and subjected to careful monitoring. According to (Woolf 1994) internal audit plays an important role in the monitoring and adherence to the internal control systems to ensure that they operate as they are intended and appropriately.

Monitoring activities and correcting deficiencies; hotels should be monitored on an ongoing basis and also a comprehensive internal audit of the internal controls system by operating independently, appropriate, trained and competent staff.

Personnel control: these provide procedures that match personnel capabilities and their responsibilities. Personnel in the business must be capable of maintaining the system and

competent enough to carry out tasks assigned to them since the proper functioning of any system depending on the competence, personnel character and integrity of those operating it, (ACCA, 1999).

Supervisory controls: the responsibility of supervision should be clearly laid and communicated to the person being supervised.

Creating an organization that promotes an environment of control: management attitudes have significant influence on the effectiveness of an organization's internal controls. A management team with a caliber attitude regarding its fiduciary responsibilities is likely to have a difficulty in establishing a working system of internal controls. In the same way, managers who fail to give written policies to employees whom he holds responsible for control by offering less than optimal environment. In an optimal environment, management should for example encourage and support the effort among the employees to control the management of finance and cash, (Leslie, 1998).

Establishing activities and procedures intended to maintain internal controls for example management should institute appropriate measures to document user cash transactions and establish methods that can identify the status of actual versus expected performance as useful for identifying risk areas that are not yet under control.

Promote information and communication among managers within the organization for example, management should encourage people at all levels of organization to support and promote internal control mechanism. Furthermore those responsible for certain aspects of the control process should and need be thoroughly trained in the control task and have a clear understanding of their responsibilities, written job descriptions are useful in promoting the understanding of internal control system, (Larson Et al 1999).

2.7 The major elements of an internal control process

The internal control process which according to Chard (1994) is historically a mechanism of reducing instances of fraud, misappropriation and error has become more extensive in addressing all the various risks faced by hotel businesses. It is now recognized that a sound internal control process is critical to a hotel's ability to meet its established goals and to maintain its financial viability. The internal control elements include internal controls over safeguarding of assets and other resources against unauthorized acquisition, use, disposition or loss. Internal controls are made up of the following elements: Management oversight and the control culture, Risk recognition and assessment, Control activities and segregation of duties, Information and communication and Monitoring activities and correcting deficiencies

1.8 Significance of an internal control system

The significance of internal controls is identified in ISA 400 and SAS 300 that require the auditor should obtain information from a given business. The auditor has to first evaluate the authenticity and effectiveness of the ICS of the business in order to carry out an audit by either basing on them if they are sound or not if they are weak. It is later a good thing for the auditor to

advice on how to strengthen on the internal controls. It should be noted that a business entity with a sound ICS all kinds of risks and also reduces the tedious work of the external auditor and so the auditor charges relatively a lower fee compared to when the ICS are weak.

2.9 Limitations of the internal controls

Internal controls can offer only reasonable assurance that management objectives are reached. This is due to the inherent limitations as pointed out below by Malingn (1996): A control should be cost effective; Most of the controls are geared towards the anticipated usual type of transactions and not the unusual type. This therefore means that the transaction of unusual nature may not fall within the purview of internal control, carelessness, destruction and misunderstanding of instruction, the employee in collusion, Effectiveness and efficiency of the ICS greatly depends on the persons who implement them and The ever changing circumstances in business environment may cause inadequacy in procedural conduct of business and thereby compliance with procedures may become difficult or deteriorate.

2.10 Perspective of internal control of the hotel

The perspective considered selected departments as follows:

Cash office

The cash office primarily handles all cash transactions of the hotel. This office is run by the chief cashier and holds a certain amount of cash called float of 10 million every. The office also deals with petty cash payments'; banking is on routine basis, payment of wages and cash salaries.

Control measures in the cash office include the following:

There is specification of duties which limits only the cashier to the office, there is verification of amounts received and paid out, Banking of money and cheques is done on daily basis, and Petty cash is governed by the policy of the hotel issued on signing a verified voucher by the director of finance (DOF) or the general manager. Without the signature of the DOF's, there cannot be issuance of petty cash. Yet the maximum amount issued should not exceed 3000000 Ugandan shillings and a good reason must be given to obtain a larger amount, the office has got a safe box which is looked by code and the codes are only known by the chief cashier and DOF, On banking the money security is provided to and from the bank, for bigger amounts, cheques are written and cashed at the office and recoiled later, re-imburements are made every week for petty cash issued, and access to the cash office is restricted by a computerized tracking system that makes an alarm at any tampering to induce response from the security office.

The receiving department

This department is basically in charge of receiving all items delivered to the hotel. The control measures in this department are as follows:

There is liaison with the purchase office, stores and accounts payables office (which handles invoices, Market purchase orders are forwarded to the office for all items to be received on a

particular day, Receiving office verify the items delivered against the purchases order for example item, amount, price, color and so on, Store keeper stores the perishables not for immediate use. Food department operates on zero inventory in this case they apply the just in time technique in acquiring their implements, A delivery note and invoice have to be issued on any deliveries, A report is written at the close of the day stating the amounts spent and verified by the food and beverages (F&B) cost controller for fraud. It must be sent to account payable for processing payment.

Cost control department

This is the core and heart of the hotel and the center for the control system of the hotel. This department does the following:

Controls F&B, Sets prices, Cost the menus at the profitable price, Originate recipes (yield testing) to determine profitability of services, Make sport checks in all departments to ensure adherence to the control measures put in place, Control bills for the guests, issuing them according to serial numbers and monitor them to avoid fraud and Do daily inventory in the bar.

Stores department

Control measures in the store department include the following:

To issue purchase requests for various items for the purchases department to make orders, Store all items delivered and issued according to requisitions by various departments verified by all departmental heads, do periodic inventory applying maximum and minimum control weighted average, The store is secured by burglar proofing, The stores department is divided according to items stored to ease the issuance and receiving of items, There are two personnel in this department each with defined duties, and Communication with other department is by intranet and desk telephones that have codes and passwords to access the services.

However the general controls in primrose hotel include:

Policy upon all employees to safeguard the hotel assets, there is a security department stationed at the hotel facility, there is defined segregation of duties at the hotel, and there are rules and regulations and procedures in place.

2.11 How internal controls influence performance

ICS have greatly influenced the performance of hotel businesses by having an insight into the significant part of the hotel's internal controls

Nisar (1989) said that adaptation of sound internal control will ensure success in business organizations. The information got from sound ICS as reflected on the financial statements will provide a report on entity's financial performance and financial position that is a reflection of proper stewardship.

Manasseh (1990), affirms that strong ICS produce reliable financial records, minimizes misuse of organizations assets, eliminates errors and fraud and as result, the organization achieves greater performance.

Bamuhigire (2002) adds on Manasseh's statement by clearly affirming that having a strong ICS improves performance and any deviation even the slightest can cause allot of losses in the organization. Hinting on the same statement is Pandey (1998) when he talks about the overall objective of cash management control procedure, stock control and management being to minimize or maximize losses and risk thus affecting the overall performance of the organization. ACCA (1997) highlights on the relationship between ICS and performance of the organization by stating that cash controls, are established by management of an organization to ensure that current assets are safeguarded against misuse and fraud by employees.

Haylas and Aston (1992) commented that a weak ICS will lead to poor performance, misuse of organization assets and even management's decision making becomes difficult and time consuming. The records that are prepared from a poor or weak ICS are unreliable and misleading to the final users.

CHAPTER THREE

RESEARCH METHODOLOGY

Chapter three presents and describes the methods and techniques that were used by the researchers to gather (collect) and analyze data. It includes the study area, sample selection and size, data collection instruments, procedures and analyzing data as well as the limitations that were faced in collecting the data.

3.1 Study design

Researchers employed a descriptive survey to explain the relationship between ICS and organization performance with particular focus on primrose hotel. Both quantitative and qualitative data collection techniques were used. The above were used by the fact that the data collected included both the numerical and the qualitative nature.

3.2 Study area

This study was carried out in Kampala district, in Nakawa division located Bugolobi on Lutheran lane, five kilometers off Kampala-Luzira road. The area was selected because primrose hotel relies mostly on internal controls to enhance the performance of the hotel. The study also employed the staff of primrose hotel which is made up of five departments namely: cash office, accounts department, cost control department, receiving department and senior management. The information got was used to establish the relationship between ICS and hotel business performance.

3.3 Research instruments and techniques used in data collection

The following were used to collect data required for the study:

3.3.1 Structured questionnaires

This was conducted with the employees in all departments of interest. Because the departments were different, the questionnaires were administered to these parties but with different content. Interviews were used as they are flexible in nature, which provides opportunities for probing and clarification of issues arising from the study.

3.4.1 Questionnaire method

The auditor issues questionnaire to the responsible officials on the internal control in operation in business in respect of cash sales, purchases, revenue expenses, capital expenditure and so on and elicits information on the internal control system in existence. The internal control "questionnaire" is a convenient and efficient method of evaluation. It forms evidence of the review conducted by the auditor on the system.

The questionnaire helps the auditor to find out the character of the system in use. In addition to this, the exposure draft relating to the statement of the manufacturing and other companies (auditor's report) order, 1975, issued by the institute of chartered accountants of India has given a specimen internal control questionnaire, to enable the auditor to discharge his duties effectively.

3.3.2 Structured interview schedules

This tool was designed for the technical respondents; middle managers and operational managers. The use of this method was deemed appropriate because it is flexible, allows aiming at specific answers and paraphrasing questions for clarity. The method also provides control over the interview environment, ensures completeness of questions as well as providing opportunity for observing non verbal communication and behavior.

3.4 Research population

The total study population was 61 respondents.

3.4 Research population

The total study population was 61 respondents.

3.4.1 Sample design

The sampling design employed for this study was a probability sampling in particular stratified sampling. The above was due to the reason that the sample to be survived was of heterogeneous in nature hence the difference resulted in the researcher placing the sample in homogenous group in order to bring out the characteristics.

3.4.2 The sampling method

The study being organizational based, the researchers maintained a non biased method and used a census sampling technique to drive at all respondents/ employees of the hotel. This census technique was deemed appropriate considering responses from all the employees which make it possible for one to get a holistic response. The steps below indicate how the technique was used to get the data required.

Procedure of the census technique

The census was done throughout the hotel. It involved getting all the 61 workers who work at Primrose Hotel to answer the questionnaires. This meant that the researchers designed and distributed 61 questionnaires to the employees of the hotel. These questionnaires were equivalent to the number of the employees at Primrose Hotel. Later the questionnaires were collected after the respondents filled in the answers and then basing on this data and observations at the hotel

the researchers made analysis, interpreted and presentation as shall be seen in chapter four and five.

3.3.3 Documents review

The documents and records were reviewed and scanned for additional information to supplement the data that had been collected from other methods discussed in this study. This method was very important in providing further insight into the study. This chapter of the study was entirely centered on this method of information gathering.

3.3.4 Observation checklist

These were a set of key aspects to be observed in the area of study, these include; the documented internal control documents, manuals and printed protocols.

3.5 Data collection method

The data was collected by the use of primary and secondary data

3.5.1 Primary data

In order to collect the primary data the researcher used questionnaires and interview which were both structured as this enabled the efficient collection of the data from the field.

3.5.2 Secondary data

In collection of the secondary data, the researchers employed documentary survey and observation checklist as described in data collection instrument above (3.3) for the purpose of researchers

3.5.3 Processing and analysis

The collected data underwent the process of editing, coding, analysis and finally interpretation. Editing was done by crosschecking for any omission and making corrections and additions to ensure completeness, consistency and comprehensibility. Coding was done by grouping the responses into broad themes that were mutually exclusive in order to be analyzed in related to the purpose of the study.

The analysis was done using pragmatic content analysis techniques, which put emphasis on certain statements that were made by the respondents. It involved deriving meaning and understanding of the responses of the respondents. The frequency with some issues, responses and ideas were presented by the respondents measured the intensity and importance of some responses to them.

3.6 Statistical treatment of the data

For the treatment of data in order to bring about the relationship between the variables under the study, the researchers used chi-square. A chi-square was used to test how well the distribution of the related study subjects matched a theoretical probability distribution.

3.7 Ethical considerations

The following considerations were taken into account. Ethically the purpose of the study was clearly explained to the respondent. All information gathered was confidentially handled. Respondents' consent was sought before starting the study. In all the study, respondents were not paid in exchange of information sought by the researchers.

3.8 Limitation of the study

Most of the respondents that were anticipated were too busy with their daily activities and would rarely get time for the interview schedules, but the researchers used fixed appointments to meet them. Most of them postponed the interviews to the time that was convenient for them. Hence this forced the researcher to preserve more time and of course it caused wastage of time.

Some of respondents were reluctant to disclose information because they suspected it to be an evaluation exercise by the hotel management. To overcome this, we had to introduce ourselves and showed them our student's identity cards to convince them

Some respondents expected a reward in return for the information they provided. Most of them asked for money; we explained to them that this was purely an academic exercise and we further convinced them that we were not going to receive any monetary reward out of it and they obliged.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This part of the dissertation presents and discusses how the collected data from the previous chapter was analyzed and interpreted. It includes the strategies of internal control systems, effects of internal control systems on the performance of the hotel business, the relationship between performance of the hotel and internal control systems, and challenges associated with the introduction of the internal controls in the hotel. It should be noted that all findings that relate to the objectives of the study and consequently the findings are not meant to be exhaustive and conclusive. It's also to be acknowledged that internal controls are important for the successful performance of hotels.

4.1 Procedures

A computer program called Statistical Package for the Social Sciences (SPSS) version 16 was used together with Excel program in analyzing of the data collected from the field by the use of the questionnaire. This was done by tabling data in frequency tables in order to identifying how often certain responses occurred and later evaluation was done. Further to this, data was recorded in percentages and standard deviation. This helped in getting the relationship among data values, which values were to be based on to make interpretation. After making all entries, getting values and editing the content, interpretation started. The editing ensured uniformity, legibility and consistence.

4.2 Profile of Respondents

Table 4.1 the response of Respondents

Questionnaires distributed	Questionnaires received	Percentage received	Questionnaires not received	Percentage not received
61	55	90%	6	10%

Source: Primary Data from Primrose Hotel

The table 4.1 shows that 61 questionnaires were distributed and 55 were received, meaning 90% of questionnaires were received. From the data presented in the table above 6 questionnaires were not received, in percentage 10% were not received. This meant that the views of 55 respondents were analyzed and presented.

Table 4.2 Years respondents have worked in the hotel

years worked in hotel	Frequency	Percent		Valid Percent	Cumulative Percent
less than 1 year	4	7.27		7	7
1-2	6	10.91		11	18
2-3	26	47.27		47	65
3-4	17	30.90		31	96
above 5	2	3.64		4	100
total	55	69.09		100	

Source: Primary data from Primrose Hotel

Table 4.2 show the findings of the study, which implied that the majority of workers have worked in Primrose Hotel had 26 employees that had worked there for 2-3 years with a frequency of 26 and percentage of 47%, 17 were found to have worked for 3-4 years with a percentage of 31%, 1-2 years were 6 employees with a percentage of 11%, less than 1 year were 4 with a percentage of 7%, and 2 employees had worked there above 5 years with a percentage of 4%.

Table 4.3 the gender of the respondents

Gender	Frequency	Percent	Valid Percent	Gender
Male	29	52.73	53	Male
Female	26	47.27	47	Female
Total	55	100	100	Total

Source: Primary data from Primrose Hotel

Table 4.3, indicates that 29 of the respondents were males and 26 were females who took their time and answered the questionnaire. This means that 53% of the respondents were males and the female were 47%. It should therefore be noted that it is the views and opinions of these respondents that were analyzed and presented.

From the table (table 4.3) above it should be known that both the male and female genders were fairly represented as 29 males and 26 females took their time and filled in the questionnaires. The source data on table 4.3 showed that the biggest percentages of respondents were men who formed 53% of the total respondents, and women formed 47%.

Table 4.4 Educational status of the respondents**Table 4.5 the occupation of the respondents**

Occupation	Frequency	Percent	Valid Percent	Cumulative Percent
Accountant	3	5.45	5	5
cashier	7	12.73	13	18
stores manager	4	7.27	7	25
human resource manager	1	1.82	2	27
caterers/ cateress	6	10.91	11	38
waiter/ waitress	23	41.82	42	80
receptionist	5	9.09	9	89
security personnel	6	10.91	11	100
total	55	100	100	

Source: primary data

Table 4.4 above presents the occupation of the employees of Primrose Hotel who filled the questionnaires and answered the interview questions. These were compiled and analyzed by

tallying their frequencies and converting them into percentages. This revealed that only 3 accountants of the hotel took part in answering the questionnaires, 1 was a human resource manager, 4 were stores manager, 7 were cashiers, 6 were caterers/cateress, 5 were receptionists, 23 were waiters and waitress and 6 were security personnel. From Table 4.6, it was revealed that the biggest percentage of respondents were the waitresses/waiters as shown by 42% while 13% were cashiers, 11% were cateresses/caters, 11% were security personnel, 9% were receptionists, 7% were stores managers, 5% were accountants and 2% were human resource managers of the total respondent population. These respondents were workers of primrose hotel for the two shifts (day and night)

The presentation and analysis that followed was the findings concerning the variables of the study in relation to the specific objectives of the research project in question. The findings included the internal control systems being used in Primrose Hotel, the impact of internal control systems hotel business, the relationship between internal control systems and performance of hotel business and challenges associated with ICS in aiding performance and the strategies put in place to counter the challenges associated with internal control systems. The main aim of the data presented was to test the hypothesis of the study and answer the research questions.

Below is table 4.5 presenting results of the responses that were presented by figures 1, 2, 3, 4 and 5 which indicated strongly disagree, disagree, neither agree nor disagree, agree and strongly agree. Therefore the table quantitatively explains whether Primrose Hotel has a committee set to plan and organize training in as far as internal control systems is concerned, computerized accounting system and computerized system set to ensure flow of quick information, check in checkout of both customers and employees regular performance evaluation, rotational off days for employees, strict reporting to duty and seeking permission for absenteeism.

What are the internal control systems adopted by Primrose Hotel

Table 4.5 Internal Control System adopted by Primrose Hotel

Alternative view	mean	Std. Deviation
There is segregation of duties and each department performs independently.	4.09	0.455
Management has adopted roll calling and strict supervision to check on absenteeism.	4.50	0.25
Minimum cash level policy has been put in place to avoid fraud and theft.	4.00	0.5
There is effective communication of tasks by management to employees	1.90	1.55
Computerized stock control and management measures have been put in place to ensure timely replenishment	2.65	1.175
Security cameras have been installed to ensure security of visitors and property.	4.35	0.325
Total	21.49	4.255
Average	3.58	

Source: primary data

The table 4.5 above shows that the respondents agreed that Primrose Hotel has got some internal controls which had influenced her performance. This fact was presented by the mean of that lies within 4 and the average mean = (total mean/ number of variables) 3.58. However, the respondents disagreed that there was effective communication of tasks by management to employees as the mean of 1.90 and the standard deviation 0.470. In the entire average mean were 3.58 with minimal standard deviation below 1. Therefore the result of the field study conducted shows that the Primrose Hotel has got some internal controls which had influenced her performance. Primrose Hotel has got the following internal control systems; segregation of duties and independency of departments, roll call and strict supervision, minimum cash level policy, computerized stock control system and security cameras to ensure security of visitors and property all these are presented by the mean 4.90, 4.50, 4.00, 2.65, and 4.35 respectively

The table 4.5 showed the mean of the responses obtained from the field for each of the different internal controls Primrose Hotel employees as per the questionnaire which sought views of the

respondents. It was realized that the highest mean was 4.50 for roll call and strict supervision and effective communication of tasks by management was least with a mean of 1.90. The mean of 1.90 reveals that respondents do not agree that communication was properly done by management and other top officials while they acknowledged the roll call and strict supervision was well maintained in the hotel with a mean of 4.50.

What are the impacts of internal control system in Primrose Hotel

Table 4.6: the impact of internal control systems on primrose hotel

Alternative views	Mean	Std Deviation
I am convinced that roll calling and supervision has greatly increased staff productivity	4.27	0.365
I believe that orders are now days responded to in time which is convenient to the clients	2.35	1.325
Segregation of duties has increased efficiency and effectiveness in service delivery	4.05	0.475
The cashier does not still handle large amounts of cash	3.75	0.625
Total	14.42	2.79
Average mean	3.61	

Source: primary data

Table 4.6 reveals that internal control systems had positive effects on the performance of Primrose Hotel. This was shown by the total mean which was 14.42 and the average mean of 3.61 this meant that respondents agreed that the internal control systems had a positive effects on performance of Primrose Hotel. The highest mean was 4.27 on roll calling and supervision of staff with a standard deviation of 0.365 while timely delivery of orders, segregation of duties and limited cash to the cashier where; 2.25, 4.05 and 3.75 respectively and their standard deviation where as 1.325, 0.475 and 0.265 respectively. The average of 3.61 conformed that to a large extent Primrose Hotel had internal controls in place and that they had a positive impact on the performance of the hotel as a whole.

However the study, revealed that at the mean of 2.35 for timely order and delivery employees were not so efficient and prompt in order responses and delivery to clients.

What is the relationship between the internal control systems of Primrose Hotel and performance of the hotel?

In the table 4.7 below, the researchers present their findings about the relationship between internal control systems and the performance of the hotel. These were worked out by tallying and later analyzed using the quantitative and qualitative methods. The respondents' views were presented by figures 1, 2, 3, 4 and 5 to show that they strongly disagreed, disagreed, neither agree nor disagree, agreed and strongly agreed respectively. This is shown in the table below.

Table 4.7: Relationship between internal control systems and performance of the Primrose Hotel

Internal control systems and hotel performance	mean	Std deviation
Service and goods are delivered on time because of the good response and order time being used	4.10	0.45
Customers are satisfied with our services now days with a good system of service delivery.	3.90	0.55
Effective and efficient way of doing work has been devised due to the segregation of work	3.81	0.595
There has been training being done due to the introduction of the ICS	4.71	0.145
There is sufficient security with the hotel on the property and customers	3.21	0.895
Quality products are being produced	3.95	0.525
Service and goods are delivered on time because of the good response and order time being used	3.09	0.955
Customers are satisfied with our services now days with a good system of service delivery.	3.55	0.725

From table 4.7 the respondents' results showed that they do agree that there is a relationship between internal control system and the performance of the hotel. This is revealed the following:

Service and goods were delivered on time because of the good response and order time being used with the mean of 4.10, there was training being done due to the introduction of the ICS with a mean of 4.71. In all these alternatives the respondents did strongly agree that they were being used due to the introduction of the ICS at the hotel. Other alternatives such as; Customers were satisfied with the good system of service delivery due to the ICS, Effective and efficient way of doing work was devised due to the segregation of work, There is sufficient security with the hotel on the property and customers, Quality products are being produced, Service and goods are delivered on time because of the good response and order time being used, Customers are satisfied with good system of service delivery due to the ICS. All these alternatives had a mean of 3.00 and above which suggested that respondents did agree that these have been implemented or done due to the introduction of the internal control systems in the hotel.

Table 4.8: Relationship between internal control systems and performance of the Primrose Hotel

Correlations	Analysis	Internal Control Systems	performance
Internal Control Systems	Pearson Correlation	1	0.505**
	Sig. (2-tailed)		0.03
	Number of respondents	55	55
performance	Pearson Correlation	0.505**	1
	Sig. (2-tailed)	0.03	
	Number of respondents	55	55
**. Correlation is significant at the 0.03 level (2-tailed).			

Source: Primary data from Primrose Hotel

Table 4.8: shows a significant 0.03, relationship 0.505 between internal control system and the performance of Primrose Hotel. This meant that the two variables have a strong positive relationship with a significant relationship 0.03 and Pearson correlation 0.505. The significant relationship which was 0.03 and correlation of 0.505 showed that internal control systems and performance of Primrose Hotel are closely related. This relationship is also supported by Larsen

et al (1977) who observed that internal controls and performance of any firm are closely linked. This positive relationship between variables meant that internal control systems could influence the success of the Primrose Hotel's in terms of effective and efficiency in her operations.

What challenges are associated with internal control systems in aiding performance at Primrose Hotel?

The table 4.9 below reveals the challenges Primrose Hotel faces when applying the internal controls in their management of the hotel. Here the respondents views and opinions are expressed whether they strongly disagree, disagree, neither agree nor disagree, agree and strongly agree that the company faced problems like management overrides the ICS, slow management response, costly to implement, and so on. These responses were presented by figures 1, 2, 3, 4 and 5

Table 4.9 challenges associated with internal control systems in aiding performance in Primrose Hotel.

Challenges with internal control systems	Mean	Standard
Implementation of internal control systems is costly as it requires big capital investments.	4.10	0.45
Maintaining the internal control system is costly	3.10	0.95
Management's response to complaints by staff is slow	2.55	1.225
There have been instances where management overrides the internal control systems put in place for example they ignored segregation of duties.	3.75	0.625
Training of employees in following and using internal control systems is costly	1.55	1.725
There are some employees who resist change towards implementation of ICS	2.45	1.275
Extreme cases of financial difficulty (crisis) has made it impossible to keep up with the internal control system setting	4.73	0.135
Total	22.23	6.385
Average mean	3.17	

Source: Primary Data.

Table 4.9 revealed that the greatest challenge was Extreme cases of financial difficulty (crisis) makes it impossible to keep up with the internal control system settings with a mean of 4.72

followed by costly implementation of the ICS with a mean of 4.10, management overriding ICS at a mean of 3.75, maintenance of ICS at the mean of 3.10, slow management response to staff complaints had the mean of 2.55, employees resisting change due to the ICS had a mean of 2.45 and training was the least change with a mean of 1.55. The data analysis showed that out of all the challenges faced in the daily management of the hotel that were outlined, there were only three that were within the mean of 2.55, 2.45 and 1.55 meaning that the respondents disagreed that these were very extreme challenges, they acknowledged that they are there but they are insignificant compared to those with the mean of 3.10 to 4.72.

What strategies are put in place to counter the challenges associated with internal control systems in Primrose Hotel?

The table 4.10 below reveals the strategies put in place by Primrose Hotel management to counter the challenges associated with the internal control system. Here the respondents' views and opinions are expressed whether they strongly disagree, disagree, neither agree nor disagree, agree and strongly agree that the company faced problems like management overrides the ICS, slow management response, costly to implement, and so on. These responses were presented by figures 1, 2, 3, 4 and 5

Table 4.10 strategies put in place to counter the challenges associated with internal control systems

strategies	mean	Std deviation
Training programs have been put in place to equip staff with skills and knowledge to effectively carry out hotel activities.	4.82	0.09
A computerized system has been put in place to ensure flow of information and quick response to orders and bookings.	4.71	0.145
A surveillance system has been put in place to monitor employee activities	1.00	2
A check in checkout of customers has been adopted	4.91	0.045

A check in checkout of employees has been adopted	4.64	0.18
Strict reporting to work and seeking permission for absenteeism from place of work	3.91	0.545
Scheduling to ensure that employees rotationally have off days	4.73	0.135
Regular performance evaluations intended to reward hard working, longest serving employees and loyal staff.	2.18	1.41
Total	30.9	4.55
Average	3.86	

Source: Primary Data from Primrose Hotel.

Table 4.10 revealed that check in check out of customer, training programs of employees has been adopted, scheduling to ensure that employees rotationally have off days has been adopted, computerized system has been put in place to ensure flow of information and quick response to orders and bookings and check in check out of employees has been adopted. Respondents strongly agreed that the said alternative strategies are put in place to counter the challenges associated with ICS as suggested by the means 4.91, 4.82, 4.73, 4.71, and 4.64 respectively. Respondents also agreed that strict reporting to work and seeking permission to be absent at work with a mean of 3.91. Regular performance evaluations intended to reward hard working, longest serving employees and loyal staff was adopted but respondent did not whole agree in some ways they disagree that this is a counter strategy to the challenges associated with ICS and this is shown by the mean of 2.18. Respondents did disagree on the strategy of surveillance system in a way to counter the challenges associated with ICS. This is revealed by the mean of 1.00

CHAPTER FIVE

SUMMARY OF KEY FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter mainly deals with summary, conclusion, and recommendations related to the impact of internal control systems on the performance of the hotel and it's drawn from the findings and analysis made after the researchers conducted the study. The internal control system was characterized by the segregation of duties, roll calling and strict supervision, order response time, computerized security system, and minimum cash policy. The summary of the findings were presented in accordance with the research objectives of the study as were stated in chapter one, below were the summaries of the study.

5.1: Summary of the findings and discussions

5.1.1: The internal control systems adopted by Primrose hotel.

The findings of the study showed that Primrose Hotel has got relevant and efficient internal controls put in place to manage her operations and enhance performance of the hotel as a whole. This is evident by the average mean of 3.58 which meant that employees at Primrose acknowledged that Primrose Hotel has got ICS that they follow. The findings revealed that Primrose Hotel has got ICS such as segregation of duties, roll calling and strict supervision, order response time, computerized security system, and minimum cash policy.

From the research findings more was revealed about the internal control system. The research found out that Primrose Hotel has good computerized security system with a mean of 2.65 and that the hotel has got a very tight roll call schedule and supervision that eliminates band wagon and redundant employees this is shown by the mean of 4.50. As all firms and companies do, Primrose Hotel also keeps a minimum cash policy at a much reduced level as suggested by the mean of 4.00 which suggested that respondents do strongly acknowledge that this cash policy is in use, Primrose Hotel also employees latest technologies as she uses security cameras to monitor employee activities and property, this is evident when the respondents acknowledged through the mean of 4.35 which means that respondent strongly believe that these cameras are in use and are important. More to this, Primrose Hotel has got a well laid down hotel structure such

that segregation of duty which is highly distinct and strongly enforced; this is evident with the mean of 4.09 which suggested that respondents strongly agree that segregation of duties is being done. Respondents disagreed that effective communication was being done in the hotel. This is evident by the low mean of only 1.90 which greatly suggested that the hotel has poor communication systems in that communication from top to bottom was poor and from bottom to top as well.

In general, with the average mean 3.58 the study revealed that Primrose Hotel had adopted ICS in her operation and that the ICS were functional.

5.1.2: The impacts of internal control systems in Primrose Hotel.

In response to this research question, it was revealed that the impacts of internal control systems can be experienced and felt in the performance of Primrose Hotel. This information was in line with the views of Slater (1996) who said that effective internal control systems yield such results that directly influenced the performance of a firm and her activities.

It was revealed that the case of roll calling and strict supervision not only reduced absenteeism but also increase employee productivity. This was revealed by the mean of 4.25 and a standard deviation of 0.365 which meant that respondents do strongly agree that roll calling and strict supervision had a positive impact in the performance of Primrose Hotel. This means that management of Primrose Hotel should maintain this and even make it better than this.

Order response and timely delivery of services was still poor as shown by the mean of 2.35 and a standard deviation of 1.325. This meant that respondents agree that order response and timely delivery is still bad and there for needs management to design a way (ICS) of improving this area.

This research revealed that segregation of duties as employed by the management of Primrose Hotel had greatly increase effectiveness and efficiency of her service delivery to her customers. This is revealed by the mean of 4.05 and standard deviation of 0.475 which suggested that respondents do strongly agree that this internal control had done a lot in improving the performance of Primrose Hotel. This therefore means that management should maintain this

internal control and even make it better in a way to promote the hotels operations and service to her customers.

According to the respondents' responses, it was found out that a minimum cash policy was adopted at Primrose Hotel. This was revealed by the mean of 3.75 which meant that respondents did agree that the minimum cash policy was being practiced in the hotel. The mean of 3.75 suggests that respondents did agree but did not strongly agree that this policy worked properly. This means that management of Primrose Hotel should go ahead and revise and put in place other internal control to try and reduce a lot of cash in the hands of the accountants. As Hodnar (2001) asserted, that cash is the blood of the firm. This meant that without cash then the firm cannot function and so it should be taken seriously that the hotel cash is closely monitored and traced to the last detail by management using all possible ways in order to have the hotel functioning well.

5.1.3 The relationship between internal control systems and the performance of Primrose Hotel.

To find out about the relation between internal controls and the performance of the hotel, a statistical formula and procedure called correlation was used. Using the respondents' responses to analyze the data, it was found out that there existed a positive and a very significant relationship between the two variables (internal controls and the performance of the hotel). The relationship had a significance of 0.03 and Pearson relationship of 0.505. With this statistic results it can be concluded that internal controls enhance performance in hotels, this view was also held by Wild (2003) when he asserted that the two variables are related. It should be therefore held by management that they should uphold and initiate stronger internal control systems in order to be effective and efficient in their operations and performance.

5.1.4: The challenges associated with internal control systems in aiding performance at Primrose Hotel.

The information gathered from the respondents suggested that Primrose Hotel has got challenges associated with internal controls as revealed by the average mean of 3.17. This average means suggested that most respondents agreed that there were challenges that are associated with ICS in Primrose Hotel.

Data from the field about the challenges associated with ICS where got and in them were: costly implementation of the ICS with a mean of 4.25 which suggested that most respondents strongly agreed that it was costly to implement the ICS. Porter (2002) on the matter of costly implementation observed that very good internal controls are abandoned because they are expensive to acquire and maintain. However, he went a head and suggested that firms adopted ICS that suits their purpose and plan and strategies on how to implement the ICS in their firm.

Extreme cases of financial difficulty was another of the challenges with a mean of 4.73 which showed that respondents strongly agreed that extreme financial difficulty posed as a serious challenge to the well functioning of ICS, Costly maintenance of the ICS had a mean of 3.10 which suggested that respondents do agree that it a challenge that is faced while using the ICS.

Respondents in their responses revealed that management overriding the ICS was also a challenge given the mean of 3.75 which showed that they agreed that management override the ICS put in place. Pyle et al (1978) asserted that if management overriding the ICS, it means that the functioning and performance of a given firm will not be well coordinated. There for by the mean of 3.75 which directly suggests that management at Primrose Hotel are overriding the ICS then the hotel may not function properly unless management stop this and respect the ICS put in place.

Management response being slow is another of the challenges with the mean of 2.55 which suggested that respondents do not wholly agree that managements' slow response if a challenge. The data also revealed that some employees resisted the change that came in with the introduction of ICS as suggested by the mean of 2.45. This mean showed that some respondents do agree that employees resist change with the introduction of ICS, this means that management should work hard to encourage them and educate them about the good use of the ICS to them and the hotel at large. Costly training was also among the challenges with the mean of 1.55 which suggested that most respondents did not agree that training of employees in using ICS was so costly compared to the benefit of it to the hotel.

5.1.5 The strategies put in place to counter the challenges associated with internal control systems in Primrose Hotel

Due to the challenges that the hotel faced, Primrose Hotel designed some strategies to counter these challenges. These strategies are; training programs to help employees use the ICS to the hotels advantage, computerized system for information flow and bookings, performance evaluation intended to reward longest serving employees and loyal staff has been adopted, check in and checkout of employees had been adopted, and strict reporting to work were strongly agreed upon as the best counter strategies properly working to overcome the challenges associated with the ICS with the mean above 4.00. The mean meant that the respondents did strongly agree that these strategies did counter most of challenges of associated with the ICS. This means that management should uphold these strategies and even make them better than they are now.

There are counter strategies such as employees rotationally having off days that were agree on as good strategy with the mean of 3.91. While customer check in and checkout had the mean of 1.00, which suggested that respondents did agree that this strategy exists but they strongly disagreed about it being effective in reducing or even eliminating the challenges associated with ICS in the hotel. This in effect means that management should come up with new and better strategies that can overcome the challenges associated with ICS, however, they should go ahead and make better the already existing.

5.2 Conclusion:

The following conclusions were held by the researchers after the analysis and interpretation of the research findings.

The internal control systems adopted in Primrose Hotel:

Primrose Hotel in her daily operations adopted the following internal control systems: segregation of duties, roll calling and strict supervision, adopted a minimum cash policy, and installed security cameras to safe guard customers and property. In all the mentioned internal control systems respondents did strongly agree that they were in use and they were functioning well as all of them had a mean above 4.00. these functional internal controls should be upheld

and management should design more functional internal controls that would help them in the operation of the hotel and increase on the their efficiency

Computerized stock control and effective communication of tasks were in place but respondents did not agree that they were functioning well as their mean was below 3.00. This means that management should work hard and make these work well more especially communication of tasks as without this communication the hotels operations may fail as the employees are not well in formed in time to take action on a given situation. This means that most decisions shall be made late and this can negatively affect the hotels effectiveness and efficiency.

The effects of internal control system to performance of Primrose Hotel:

Internal control systems brought with them some effects as revealed by the data collected from the field. These effects were; In accordance with the second objective of the study, it was found out that the effects of internal control systems on the management of cash were high returns, reduced risk of theft and loss, reduced error and fraud, limited access to cash. The researcher concluded that indeed internal control systems had a positive impact when it comes to the company's management of cash. The positive effects of internal controls such as authorization, recording, documentation, physical custody, computerized system, and time keeping are increased cash reserves, improved returns on cash reserves, reduced risk of loss and risk of theft thus improvement of management of cash.

Relationship between internal control systems and management of cash:

The research revealed that internal control systems and performance of hotel businesses have positive relationship. This relationship was shown by the correlation calculation from the data got from the field that should r 0.505. This meant that the objectives of primrose hotel were achieved as a result of putting in place good and functional internal control systems. This relationship clearly shows that if management continues to implement and respect the use of internal control systems the hotel is bound to gain more profits and cliental. It is important therefore that management designs good functional internal controls that help reduce risks in the hotel and directly help guide employees and operations for the hotel to achieve her objectives such as profit maximization, good service delivery and so on.

Challenges of associated with ICS:

Respondents in their answering of the questionnaires revealed that there were challenges during the implementation and operation of ICS such as; costly implementation of ICS, extreme cases of financial difficulties (crisis) can fail the ICS. These two were suggested to be great challenges with a mean of above 4.00 which meant that respondents did strongly agree that they were real great challenges in the functioning of the ICS. Costly maintenance of ICS and management overriding the ICS also proved as challenges to the ICS with a mean above 3.00 which suggested that respondents did agree that they hindered the good functioning of the ICS.

Slow management response, employee resisting to adapt to ICS and the costly training of employees all proved to be challenges but were not so significant compared to the earlier mentioned as their means were; 2.55, 2.45 and 1.55 respectively. These means were below 3.00 which suggested that the respondents did not strongly disagree that they were no challenges but all the same they recognized them as being there.

With these challenges into play, the management of Primrose Hotel should take action and find better ways of making the ICS work. As seen earlier, it should be noted that the findings suggested that ICS and the performance of the hotel are related and so if these challenges come in to hinder the good flow and working of the internal controls systems, then the hotel as a whole is bound to fail in her operations and service delivery. So it up to management to come forward and address these challenges and find concrete solutions that shall reduce their effects in the functioning of the ICS.

5.3 Recommendations:

In accordance with the conclusion of the study and the research findings, it was vital to make the following recommendations that could help in bringing about changes in regard to enhancing hotel performance.

In relation to research objectives, research questions and more so the data collected from the field, Primrose Hotel should work hard towards enhancing her performance by considering the various forms of internal controls such as segregation of duty, roll calling and strict supervision, minimum cash policy, effective communication computerized bookings and information flow, security cameras throughout her operations in the entire hotel. With all these internal control

strategies and more adopted there will be a positive impact to the performance of the hotel. It should be however, that management should be ready to carry out and respect these internal controls if they are to work properly.

Just like any new thing in the organization, the internal control systems bring with them their impacts such as; good order response, segregation of duty, minimum cash policy, roll calling and so many other. These internal controls were being employed in the hotel and to some extent the respondents suggested that some are working well while others are not. With these internal controls in place primrose hotel is better off in her service to her client and operation. The internal controls in this sense reduce high risk associated with operating the hotel and they reduce employee redundancies and breaks down work to much easier units to be put into tasks that can be done and finished in time. With good internal controls the hotel the employees are motivated and highly productive as they do particular work that is due to them and not just do any work that there is, this good productivity increases the hotels performance and operations become better.

Respondents did agree that some internal control systems are too costly to implement and maintain. However, it should be noted that however much the costs of internal controls are, the internal controls can be of positive results once management respects and stream lines them in a way that they are beneficial to the hotel operations.

The research findings revealed that the two variables of the study were directly related with higher correlation which is significant at level 0.03 and Pearson correlation 0.505 implying that Primrose Hotel is not in position to come up with successful and effective results of good performance without the appropriate and effective systems of internal controls.

The research also revealed that there existed problems such as; management slow response to order, this is a very big problem in that with this poor response the customers who are the life line of the business will be discouraged from dealing and having business with the hotel and with this going on the hotel is bound to collapse. This therefore means that management should endure to make this better such that communication can flow easily throughout the hotel and things be done in time.

APPENDIX 1

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Appendix II
Research instruments
Questionnaire

Dear sir/madam, we are Kaijuka Sam and Khatukhira Bernard Wopata students of Kampala International University perusing a Bachelors Degree in Business Administration and we are conducting a research project on the “**EFFECTIVENESS OF INTERNAL CONTROLS ON THE PERFORMANCE OF PRIMROSE HOTEL IN BUGOLOBI.**” The purpose of this study is to fulfill our academic requirements in the attainment of Bachelor’s Degree of Business Administration and Management, we therefore kindly request you to please answer the following questions. Please remember that the questionnaire is designed in such a way that the respondents do not write their names on it or put any information that can identify them.

BACK GROUND INFORMATION

Please tick in the appropriate box or fill in the blank spaces provided

Please tick the appropriate Gender.

Male

female

Age (please tick where applicable)

Between 18-24

Between 25-31

Between 32-37

Between 38-43

Above 45

Please tick the highest Education level you attained

Certificate Diploma Degree

Postgraduate Professional course: ACCA CPA

Please tick your occupation.

Accountant Cashier Sales manager

Human resource manager Caterers Waiter/ waitress

Receptionist Security personnel

How long have you worked with primrose?

Less than 1 year

Between 1-2 years

Between 2-3 years

Between 3-4 years

Above 5 years

Any other

The statements below are designed to help you tick on the opinion about the effect of internal control systems on the performance of hotel businesses. They focus on the effects of internal controls on the performance of hotel business, relationship between internal controls and the performance of primrose hotel, challenges associated with internal control and the strategies put in place to counter the challenges. Your opinions are presented by figures as follows; 1, 2, 3, 4 and 5 these figures will be insert in the table below.

1. strongly disagree
2. disagree
3. neither agree nor disagree
4. agree
5. strongly agree

Tick in the space provided under the figures that represent your opinion or view.

Please indicate your rating on the views and the perspectives given by ticking the appropriate figure in the table.

Primrose hotel has adopted the following internal control systems	1	2	3	4	5
There is segregation of duties and each department performs independently.					
Management has adopted roll calling and strict supervision to check on absenteeism.					
Minimum cash level policy has been put in place to avoid fraud and theft.					
There is effective communication of tasks by management to employees					

Computerized stock control and management measures have been put in place to ensure timely replenishment					
Security cameras have been installed to ensure security of visitors and property.					
Internal control systems have the following impacts on hotel business					
I am convinced that roll calling and supervision has greatly increased staff productivity					
I believe that orders are not responded to in time and this has inconvenienced clients					
Segregation of duties has increased efficiency and effectiveness in service delivery					
The cashier still handles large amounts of cash					
Relationship between the internal control systems of Primrose Hotel and performance of the hotel are:	1	2	3	4	5
Service and goods are delivered on time because of the good response and order time being used					
Customers are satisfied with our services now days with a good system of service delivery.					
Effective and efficient way of ding work has been devised due to the segregation of work					
There has been training being done due to the introduction of the ICS					
There is sufficient security with the hotel on the property and customers					
Quality products are being produced					

Challenges associated with internal control systems in aiding performance	1	2	3	4	5
Implementation of internal control systems is costly as it requires big capital investments.					
Maintaining the internal control system is costly					
Management's response to complaints by staff is slow					
There have been instances where management overrides the internal control					

systems put in place for example they ignored segregation of duties.					
Training of employees in following and using internal control systems is costly					
There are some employees who resist change towards implementation of ICS					
Extreme cases of financial difficulty (crisis) has made it impossible to keep up with the internal control system setting					
The hotel has put in place the following strategies to counter the challenges associated with internal control systems	1	2	3	4	5
Training programmes have been put in place to equip staff with skills and knowledge to effectively carry out hotel activities.					
A computerized system has been put in place to ensure flow of information and quick response to orders and bookings.					
A surveillance system has been put in place to monitor employee activities					
A check in checkout of customers has been adopted					
A check in checkout of employees has been adopted					
Strict reporting to work and seeking permission for absenteeism from place of work					
Scheduling to ensure that employees rotationally have off days					
Regular performance evaluations intended to reward hard working, longest serving employees and loyal staff.					

Thank you for your time and cooperation