

# Work based project report

Business, Company



## **Executive summary**

In recent years, the issue of corporate governance and ethics has grabbed attention in the light of corporate scandals that have reported since the Enron scandal. Scandals emerge in an environment where corporate governance is weak (Knell, 2006 pg 162). These unethical practices start at the accounting department or elsewhere but are covered up during preparation of the accounting records of the company (Knell, 2006 pg 165). The possibility of fraud in accounts poses the single most corporate risk. This report will explore Classic Hotels Inc, its structure, internal and external environment and finally zero in on accounting systems and controls to determine weaknesses in its corporate governance and finally offer recommendations on ways to prevent and detect fraud.

## **Company description: Nature purpose & structure of the organization**

Classic Hotels Inc serves a wide range of clientele with their in-ranging service offer from high end to budget. The company was started 30 years ago and it has grown into a chain of over 50 hotels that dot major cities in the US today. Recently, the company has enjoyed explosive growth although it has been stymied somewhat by the financial crisis. The corporation has adopted a strategy of building hotels each designed for niche clients. Some of their hotels are the most exclusive while others are budget. While this strategy has its own weaknesses, it has proved extremely critical during the financial crisis enabling the hotels to weather the storm. The hotels are built to purposely offer guest rooms, conference facilities, and shopping experience that meet international standards under one roof in some cases. They

periodically undergo more beautifications and modifications to meet high international standards. The conference halls are multifunctional and equipped with interpreting facilities which can simultaneously interpret six different languages. The physically handicapped can easily move in the hotels which are specially designed with their special needs in mind. Customers can relax at the bar or at the coffee shop. The Restaurants offer diversified cuisine ranging from Russian, Japanese, Cantonese and others. The rooms are roomy and comfortable to live in, they are air conditioned and fitted with a satellite TV.

The organizational chart is hierarchical as shown above with the president being at the top. Accounting department reports to the managers but works closely in the same line with marketing and HR. The stakeholders in the hotels are the stock holders, the employees, creditors, suppliers, communities around their establishment and the government. Shareholders are interested in the running of the company so that they can get value for their money. Employees need to know whether they have a future with the company. Creditors are interested in knowing if the corporation will honor its debt obligations. Suppliers and the community will be directly affected by the goings on at the organization. The government is interested to know whether the company is paying taxes and if its corporate governance is sound so that shareholders do not lose out.

## **Political environment**

Government interference in the running of hospitality industry is not adverse apart from the normal regulation. The biggest impediment remains high rate

of taxation especially for the high end hotels and the pressure from interest groups such as environmental lobbyists who continue to press for more stringent and regulatory regimes which are costly to comply with.

## **Economic**

The health of the industry is dependent to a great degree on the country's economic performance at large (Chen, & Clarke pg 240). Business for the Classic hotels has been especially difficult since the start of the financial crisis. High end hotels depend mostly on holiday makers and business executives. The credit crunch meant everybody, including companies cut back on spending. A lot of people have been out of wage bill for long. This explains the hotels poor run in recent years. However, starting mid-last year, the business has recovered significantly.

## **Social**

Globalization has not only meant more travel and more business; it has also meant close interaction among people of different cultures. Overseas tourists have a vastly different culture, far different from what Americans are familiar with. For instance, some overseas business executives shun some of the luxuries that add value to hotel stay and yet are profit centers for the hotel.

## **Technological**

Newer and better hotel management software are emerging by the day. Classic hotels have adopted online reservation system. Also, offering such as internet and air conditioning are important make the hotel stand out as among the best.

## **SWOT analysis**

One of the strength of Classic Hotel is that it is a market leader in the hotel, gaming and hospitality industry. Its hotels are range from high end, business to budget-this way, all type of clients are served at Classic Hotels. The company manufactures if furniture and has an online reservation arrangement. Both of these help the company save millions. However, Narrow focus is a major weakness for the Hotel. During the recent economic crisis, their business was really down and even right now, the company has not recovered fully. Also, Classic hotels were also affected during the bird-flu scare and the resultant restrictions on travel. Its arrangement makes it vulnerable to strikes. Its diversification across the product offering in the hotel as a hospitality unit is an opportunity as they can and should offer distinct and special services such as weddings (both planning and hosting), spas, cruise lines, cruise ship, branching to emerging markets. One of the recent strategies by the management at classic Hotels is step up efforts to mix entertainment and gaming. Such a move, though sound, is a potential thereat should the management overextend it. Another thereat is the sluggish economic recovery and terrorism.

## **Analysis on how the accounting department works**

The operations department of the hotel produces numbers which the accounting department works on to produce monthly financial reports or accounting period reports as they are commonly called. The period covered the number of days of the month. This monthly financial reports are good for comparison of month-to-month performance but the problem arises where the length of the months differs such as February and March. Accounting

period starts at the same in every week. The process of closing monthly financial reports involves three steps namely pre-closing information, month end and post closing review. Several days before the end of the month, transfers documenting entries, physical inventories, and invoices are scrutinized for mistakes before they are transferred to the accounting office. During the first day of the next month or month end, accounting office closes hotel accounts and posts entries for the month just ended. For example, cumulative sales for the month are summed, balanced, verified and then closed out in the income journal. Then, the accounting office opens up a new income journal for the next month and all revenue and income for the month are set up. The clerk responsible for the account payables receives and inventories invoices to be paid and charged to that month after verifying with the managers. This ensures clean and consistent cutoff for the month just ended. Basically, accounting office receives and verifies information received from other department so that it can prepare accounts and reports. This accounts helps prepare P&L, make necessary adjustments in A&L to equal physical inventories with balances in the account books. P&L is the most important reports prepared. Once the first draft is prepared, senior accountants such as director of finance and assistant controllers review P&L correcting mistakes that could have occurred in the process. The process of review is an involving process that incorporates non accounting function employees such as mangers.

## **An analysis of the strengths & weaknesses of the accounting function**

One of the strength of the working of the accounting department described above is the system of double checks instituted to avoid both intentional and unintentional mistakes. For instance, two days to the end of the month, documenting entries, physical inventories, and invoices are scrutinized for mistakes before they are transferred to the accounting office. The Accounting office, with due diligence verifies with source documents. Invoices are particularly scrutinized verifying details with the managers. Later, P&L is also scanned for mistakes and possible fraud by senior managers. However, there are some glaring weaknesses that can ease fraud. Account receivables are not confirmed with customers. There is too much reliance on written records without confirming with outside parties be they suppliers etc. Confirmation is done with senior manager who can collude with employees at the accounting office other departments.

## **Ethical dilemmas facing the company**

As a whole, the business is faced by ethical dilemmas. Accounting department also has its dilemmas unique to its function (Farrell, Faedrich, & Ferrell, 2009 pg 69). Classical hotels has in recent years come under scrutiny in regard to how healthy is the menu offered. Its budget hotels specifically offer fast food. Fast foods have documented bad effects. The diseases associated with obesity are very expensive to treat or manage and that is why obesity is rightfully described as number one health challenge. As part of their corporate social responsibility, the hotel chain help children and adults with life threatening illness but ironically their food contributes to

illness some of which are life-threatening. Their advertisements do not fully offer information about the possible consequences of consuming their food. The dilemma is whether to continue reaping profits to the detriment of others and not informing them in the ads. Also, should the menu be discontinued, the bottom line will be affected because healthy foods are more expensive and not as popular. In the accounting department, there has been a documented case of conflicts of interests that has raised ethical issues. These cases have occurred primarily because of the weak accounting system. One such case involved a senior manager who had instructed a subordinate at supplies and procurement to record instruction in an incorrect manner. That fraud could have gone undetected because the company does not confirm transactions with customers but relies on written records only (Farrell, Faedrich, & Ferrell, 2009 pg 100).

### **Recommendations as to possible improvements to the system of internal control and corporate governance**

The company's accounting system as it is now is prone to manipulation that may give way to corporate scandal. One of the controls that should be instituted immediately is the practice of verifying source documents with customers on a routine basis (Mallin, 2007 pg 96). There should also be a background search done by a third party to determine the integrity of the employees at the accounting department. Also, continuing education in ethics should be given preference and there should be clear guidelines in solving known dilemmas in the workplace. Guidelines on financial reporting and disclosures should be followed more closely (Knell, 2006 pg 312).



## **References**

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Chen, W, & Clarke, A 2007), International hospitality management: concepts and cases, Butterworth-Heinemann, London