

**Ministry of Education of Azerbaijan
Republic**

**Hospitality Management Accounting
Problems and Solutions to Them**

Aghayeva Mirgullar

UNEC SABAH

Azerbaijan State University of Economics



May 2018

Acknowledgements

I would like to state my deepest appreciation to the Azerbaijan State University of Economics for providing me with an opportunity to make my dream of being a student here come true.

I would also like to acknowledge the Ministry of Education of Azerbaijan Republic for providing me with an opportunity to study in SABAH Groups and know very kind and friendly dean – Aida Guliyeva and the respected teachers.

To my academic supervisor, Agil Azizov, I am grateful for your support and recommendations throughout my thesis.

A rest of my gratitude also belongs to my friends and fiancée for supporting me morally during this period.

Abstract

In hospitality enterprises like all other enterprises during either establishment, or operating period managers have to make decisions, which have financial content and results financially. Managers take advantage of relevant and reliable accounting information to make the most proper decision under indefinite circumstances due to nature of hospitality industry. Hospitality management accounting provides managers with the information on which basis they need to make decisions, designs, interprets reports and it also makes auditing possible by annual budget and applying standards. Except for the past few years, small development has happened in management accounting applications since the start of the 20th century. Hospitality management accounting has got even less interest. A lot of hospitality management accounting problems are considered to deserve research interest. These problems encompass errors and frauds. They hinder management operations to happen as planned. The losses cause confidence reduction to the management accounting profession and managers. In this context, the aim of this study is to determine management accounting errors and frauds, together with the role of internal control in preventing these errors and frauds.

It is necessary to have an accounting system and an effective internal control system that responds to every need in terms of not having problems in the issues stated in the hotel companies. During this study application of management accounting information in hospitality enterprises, fraud and error factors happening in this field and importance of internal control in preventing and eliminating them is searched. Furthermore, it is tried to provide some suggestions regarding these problems.

Key words: Management accounting, errors and frauds, internal control, hospitality enterprise

TABLE OF CONTENTS

CHAPTER 1. INTRODUCTION

- 1.1 Research background**
- 1.2 Purpose of the research**

CHAPTER 2. LITERATURE REVIEW

- 2.1 Description of management accounting**
 - 2.1.1 Role and importance of management accounting in hospitality industry**
 - 2.1.2 Application of management accounting in hotels**
- 2.2 Error and fraud factors in hotel management**
- 2.3 Description of error factor**
- 2.4 Description of fraud factor**
- 2.5 Features of hotel management that increase possibility of error and fraud**
- 2.6 Types of error in hotel management**
- 2.7 Types of fraud in hotel management**
- 2.8 Description of internal control and its importance in hotel management**
 - 2.8.1 Importance and objectives of internal control system**

CHAPTER 3. THE MAIN PROBLEMS OF HOSPITALITY MANAGEMENT ACCOUNTING IN AZERBAIJAN

- 3.1 Analysis and results**

CHAPTER 4. CONCLUSION

- 4.1 Summary of findings**
- 4.2 Suggestions**
- 4.3 References**

CHAPTER 1. INTRODUCTION

1.1 Research background

With the development of science and technology, the increase of relations among societies, the development of transportation possibilities and the change of customer demands, the hotels have become not only a place for accommodation and catering but also facilities for business meetings, conferences, seminars and scientific congresses. There are also hotels offering private health and sports facilities. Hotels, which are very important in terms of domestic and foreign tourism, are an industry with many services and they are continuing successfully with their assets showing and managing important factors effectively.

The hotels face factors such as changing domestic and international environment, advanced technology, diverse needs and requirements of both customers and investors, different locations and cultures, and skill and expertise ratings of employees. Technology is operating in an environment that is constantly changing due to increased developments, fluctuating economic environment, changing workforce and customer expectations. In these circumstances, for successful management, the modern manager needs to use effective estimation and control techniques, and to use accounting knowledge in planning, implementation and control to support the decision-making process and meet the objectives.

In this process, long-term objectives must first be identified, and then the environment in which the enterprise is currently involved and in which it will operate in the future should be analyzed. The external analysis involving ratios, customers, economics and legal changes should be combined with analysis of all sources and internal activities.

Financial and management accounting provide the financial information needed to track business strategies and the information needed to support the decision-making process.

Management accounting works to support direct management decisions with the data generated by all phases of accounting and to create the most appropriate decision-making environment for management. Unlike other accounting functions, management accounting is shaped entirely according to the needs and desires of the business and provides information for the management of the company, not the external environment. In this respect, there is no compulsory model in which the system imposes legal obligations on construction and use. Management accounting systems can directly affect the productivity and profitability of the business under a full system approach by using the data generated by the financial accountant in the data produced by its own subsystems, such as costing,

Hotels are labor-intensive enterprises that can provide services to thousands of customers at the same time. Profitability in the sector is directly related to customer satisfaction and right price policies. Because there are complex structures consisting of many departments and subdivisions, the number of decisions administrators make during the day is rather high. Most of the people who work in the hospitality enterprises where the consumption takes place at the same time as the production are in direct contact with the customers. All of these factors cause the effects of the decisions that the accommodation management managers will receive to be instantaneous. Under this structure, management accounting systems can provide information flows that enable short-term and long-term strategic decisions to be taken by hospitality businesses to be mutually supportive.

Nowadays, errors and frauds are one of the main issues in organizations. Increasing economic subjects, expansion of entrepreneurship create necessity to establish modern requirements of financial control system in the world including Azerbaijan and internal control is the most common form of the financial control. According to these errors, frauds and any illegal acts many people face big problems and obstacles. These inappropriate situations primarily influence the companies and their stakeholders, then also affect to the country's economy

negatively. In addition, it affects the tax income which is one of the primary income for state budget like Azerbaijan.

In the second chapter descriptions of main terms used in this research such as management accounting, internal control are demonstrated by experts and authors' definitions. In the third chapter the main problems regarding hospitality management accounting in Azerbaijan are emphasized. In the fourth chapter summary of findings and some suggestions regarding them are provided.

1.2 Purpose of the research

The purpose of this research is to clarify the importance of management accounting practices in hospitality industry and the problems which hinder the normal usage of it. Moreover, this study provides some solutions with respect to these problems.

CHAPTER 2. LITERATURE REVIEW

2.1 Description of management accounting

It is possible to come across with lots of management accounting definitions or reinterpretations due to updates in this field from past to present.

Management accounting is a phase of internal accounting function, which provides managers with useful statistical data for policy determination, planning and operations audit by means of collection, recording, reporting and reporting accounting. (Crossman, 1958)

It must be understood what management accounting is in order to discuss it. Management accounting besides satisfying curiosity is an activity and result of collecting useful financial information. Here, term of useful refers to decision-making context. (Singer, 1961)

Management accounting is determined as an application that processes past and future economic data of company by suitable concept and techniques in order to support administrative board during planning, decision-making and arranging operations. It focuses on specific problems that various managers of companies with different functions face. In management accounting it is not defined by relevance of accounting standards whether something is good or bad, but by supervisory benefit of accounting results. (American Accounting Association, 1962)

There are different viewpoints in definitions of management accounting. Caplan's study about behavioral assumptions is one of these differentiations. Management accounting is a behavioral function itself; human behaviors and accountants who establish and manage these systems influence scope and nature of management accounting systems obviously. (Caplan, 1966)

Management accounting demonstrates planning and control of business operations and collection and analysis of accounting data to assist managers during decision-making on specific matters. (Üstün, 1992)

When considering present definitions of management accounting besides similarities with those mentioned above, it is observed that the role of management accounting in business has expanded due to scientific studies and applications in this field and for the reason that past definitions are insufficient, actual definitions related to modern management accounting are more comprehensible.

Management accounting is about internal information and measurement of organization. This information is used for evaluating past decisions and improving future decisions. Decisions encompass distribution of resources, provision of coordination among departments, pricing, financing and etc. This information is obtained through non-financial and financial sources such as budgeting, product pricing systems and performance measurement. (Lambert, 2007)

Management accounting provides numerous information that business managers need to make healthy decisions. From this point of view, all accounting work carried out with respect to the business managers' goals, starting from collecting relevant information as raw data to preparing the appropriate reports as necessary create management accounting. (Büyükmirza, 2008)

Management accounting refers to applying principles of accounting and financial management in order to create, protect and increase the value for stakeholders of profit or non-profit organizations either in public or private sector. (The Chartered Institute of Management Accountants, 2008)

Management accounting is a profession which accompanies managers' decision-making, planning and performance management systems and supports managers in implementation of organizational strategy by providing professional financial reporting and control. (Institute of Management Accountants, 2008)

Functions of management accounting start to take action when fundamental functions of financial accounting complete their activity and in this stage data and information gained from financial accounting are processed in order to benefit during decision-making process. (Atrill, 2009)

Management accounting has four fundamental objectives: (Kahveci, 2009)

- Providing information to managers for decision making and planning,
- Assisting the managers in direct and controllable transactions,
- Motivating employees and managers who will take the organization's objectives forward
- Benefiting measurement of managers and other employees' performance

Management accounting can also be identified as a branch of accounting which is about how to use accounting and other financial data in business administration. (Bhimani, 2013)

2.1.1 Role and importance of management accounting in hospitality industry

Managerial operations can be defined as provision of information in advance which managers need. This information is obtained from employees in different departments; economists, finance experts, marketing staff and accountants. Due to this fact it can be said that subjects which are needed by management accounting interests all management personnel. Role of management accounting in hospitality industry is determined as following: (Türksoy, 1998)

- Provides managers with information used in planning and decision-making: New investment of a hotel can be a subject for decision-making. In this case management accounting prepares a budget and calculates estimated annual income for new department. Thus by evaluating net income of the investment beforehand, necessary planning can be made.
- Supports managers in supervising and controlling business operations: Control of food and beverage service of a hotel is connected to an effective accounting system, while cost control requires an effective costing system. Protection of this data is closely related to the collection and audit of accounting data – the person who is in charge of management accounting system.
- Motivates employees with respect to the goals of a hotel: Motivation of an employee is connected to the determination of limits of their authority and liability. Management accounting is the best assistant to identify which operation is more effective in order to determine the limits of managers' authority and liability.
- Measures performance of various departments of a hotel: Not all of the food and beverage in the menu benefits the hotel in the same way, even sometimes some of them cause a loss and are needed to remove from the menu. In this stage with the assistance of management accounting

profitability of all food and beverage can be measured easily by data which can be converted to different information.

2.1.2 Application of management accounting in hotels

Hotels have an interesting environment from viewpoint of management accounting practices, because it is a capital intensive industry with a strong link between profitability and asset values and it is expected that the assets should protect their value term and not be worn out, adequate funds are reserved for protection and business income is maintained. (Collier, 1997)

It can be assumed that the hotel management needs to provide information to help with planning and control and decision making. Planning and control considerations include building budgets and monitoring the performance of a single hotel or group of hotels against established objectives. Decision-making is limited to the use of strategic management accounting to provide information on pricing, information and techniques to aid investment decisions, and strategic decisions on marketing, finance and investment.. Strategic management accounting provides decision makers with information on financial indicators of alternative business strategies. (Collier, 1995)

One of the most powerful aspects of the management account's development was the measurement and evaluation of the product in its production and its finished product inventories. In many service operations this process is problematic because production and consumption take place simultaneously and there is no inventory following this. In addition, cost allocation methods based on inventory valuation can lead to misleading information in the decision-making process in service enterprises. Within this framework, it was no surprise that the service sector quickly adopted new methods of distributing costs such as activity-based costing to product-oriented activities. (Modell, 1996)

Traditional management accounting instruments often involved production operations in relation to the development process of the management account (industrial revolution). However, from the mid-19th century onwards, steps have been taken regarding modern management accounting and tools and applications including service enterprises have been developed.

In the mid-1970s, Brown found out that hospitality sector is market-oriented, market orientation is a high degree of commitment to demand and that significant problems that may arise in businesses and solutions to these problems will come from operating, cost or production by far. Thus, the work to be done should be income-oriented as in modern management accounting systems, not cost and production oriented as in classical management accounting. (Brander, 1995)

Harris and Brown had explained why the findings and performance measurements made in manufacturing enterprises can not be applied to the use of management accounting systems in hospitality industry for three reasons: (Harris & Brown, 1998)

- First of all, the products produced in the production enterprises are the same products produced within the standards and as a result of the automation-based production processes. In the hospitality industry, this process is different, due to the conditions of the food and beverage department and the guest accommodation department, it requires intense interaction with the customer. This increases the diversity of service production. For example, accommodation businesses have highly heterogeneous client profiles (such as male, female, young, old, independent or corporate customers with different cultural backgrounds and lifestyles). This type of structure creates demand for more than one service type. This demand leads to extreme uncertainty in the working environment.
- Secondly, the personalized and customized nature of accommodation, the presentation of products and services is heavily influenced by the

workforce. Therefore, the level of quality of management depends on the managers. The high level of responsibility of managers and direct communication with customers further increase the ambiguity of the working environment. On the other hand, technology in production quality of products plays an important role due to the influence of mechanization in production enterprises.

- Finally, the products and services of the accommodation companies are not stable and physical. At the same time, the production, delivery and consumption of the products of these enterprises are realized simultaneously. For example, a hotel's suite room and restaurant changes daily and seasonal, and if a suite can not be sold in a room or restaurant on a table day, there will be no possibility of reselling that room or table for that day. In industrial enterprises, however, a completed product can be stored and stored at a later date. All these reasons lead hotel managers to work in a highly complex environment under high degree of uncertainty.

When accommodation operators announce a new product or service, competitors are ready to adhere to the same idea and offer a market, which shortens the life of the product and service produced. To remain competitive for this reason, market leaders must make continuous improvements to their existing products and services. On the other hand, hotel managers will support their managers in making the right decisions to protect profitable products, services and market segments while raising awareness of their market shares and market segments, non-profit products and services as well as new opportunities. The management accountancy system undertakes an important task in the hotels by providing information on the effectiveness of the customer retention and customer satisfaction, as well as sales promotion programs, room type income.

Managers can use the management accounting system while positioning their business in competitive markets. For effective positioning, managers need instant information that considers the environment in which they operate. In other words,

the timeliness of information (updating) has a critical prescription to improve the efficiency process and reduce waste. (Mia & Patiar, 2001)

Strategic management accounting is the preparation and analysis of management accounting data related to business strategy, in particular levels and trends related to real cost and demand for prices, volumes, market share, cash flow and total resources of the company. (Institute of Management Accountants, 1991) It is emphasized that accountants are needed not only for their own firms but also for considering the cost structures of all the investments in the relevant market, and that they can not be taken apart from the cost demand factors. (Collier, 1997)

This aspect of strategic management accountancy depends on the availability of appropriate information. The hotel sector meets these needs due to the open structure of the industry and the availability of price and some cost data. Managers should encourage accountants, especially those who do not have knowledge, and should recognize and use accountants' skills in interpreting information. (Jobnston, 2002) Strategic management is increasingly used in hotel groups in terms of accounting, planning, evaluating market conditions and competitive analysis. (Adams, 2006) The research has identified two major areas of strategic management accounting, first one is the preparation of information that assists in the development of strategic plans, and the second one is monitoring the costs of the market and the competitors. The development of strategic plans includes the preparation of long-term plans as long as 5 years, profit and loss account, balance sheet and cash flow.

The main features of the hotel industry are fluctuating demand, high fixed costs, product instability and profitability. This is why there is a strong justification for adopting an approach to marketing to operate the flour mills in the 1990s. Today, as regards the administration of the hotels, it is seen as an important key to the satisfactory success of the customer needs. Decisions should be made when marketing orientation is reached and information should be gathered from all levels of the organization. (Downie, 1997)

Decision-making marketing requests are determined by the needs and desires of the customer, so hotel managers must constantly monitor and respond to changes in demand for their products and services. Any decision affecting the customer should be considered as a marketing decision. In this case, it is reasonable to argue that marketing decisions are not taken only by the marketing managers, and that every guest in the hotel is in the process of making a decision that will affect the customer. (Anderson, 1994)

When you make effective decisions that will generate profit and profit for your company, you need 2 main sources of information. In order to assess the client's acceptability of the activity, customer information and marketing information on competitiveness and accounting require accounting information to evaluate the company's capital profitability. It is much more about supporting the role of accounting information in marketing decisions. Accounting within an organization involves many roles, mainly related to planning and control functions. This role comes from the duty of being information provider. The interest in accounting information focuses on the knowledge that managers use when making marketing decisions, usually in the area of management accounting. (Anderson, 1997)

There are similarities between accounting and marketing roles in the marketing decision-making process. Although the two branches have different foundations and objectives, they both perform core activities in planning, analysis and control in marketing activities. (Foster & Gupta, 1997)

2.2 Error and fraud factors in hotel management

Errors and frauds are actions that prevent business activities from taking place as planned. (Azaltun, 2010) Faulty and fraudulent transactions confront information users with financial risks, accounting risks, risk of loss, and the risk of wrongdoing. In particular, financial and accounting risks are the risks faced by

management. Financial risks arise from non-use of appropriate financial management policies, losses arising from fraudulent and mismanaged business assets. Accounting risks – the possibility of error in reports and records where the accountability obligation for assets is fulfilled. Ineffective activities lead to the risk of damage in the management of the aftermath assets and in the protection of the assets from theft, in terms of partners and buyers. The risk of error appears when intentional and unintentional mistakes made in accounting records and reports and if such information is used in decisions made by both managers and non-business persons. The responsibility of controlling the error and fraud factors that cause these risks to occur is the business management. Errors and frauds may arise in the accounting process, as well as in other departments that provide accounting data, and the accounting data itself may be incorrect. (Coltman, 1998)

2.3 Description of error factor

The error is an unintentional mistake. When evaluated in terms of accounting auditing, the term error refers to inadvertent mistakes made on the financial statements, and includes the principal entries in the preparation of the financial statements and the mathematical or regulatory mistakes made in the accounting records, the mistakes made during the application of the accounting principles and the errors such as misinterpretation during the preparation of the financial statements. (Jagels, 1978)

With the developments in technology, the preparation of accounting processes in computer environments has greatly reduced accounting errors and even completely eliminated some of them. However, the types of errors that are frequently encountered in applications are; mathematical errors, recording errors, transport errors in manual records, forgetting and repetition errors, balance sheet errors, compensating errors. (Kirik, 2007)

In general, ignorance and carelessness of the staff leads to fault. Personnel should be subject to in-service training not only at the time of recruitment but also at certain intervals during each progression of work. It is inevitable for a staff member to make a mistake in an unknown situation. Although ignorance can be overcome, it is challenging to control carelessness. A staff member makes a mistake because they can not concentrate on their job due to being tired, sleeplessness, some personal problems, weakening of their mental ability due to the increase of age. The task of the management is to improve the system to keep the error in a minimum level. (Gee, 1994)

2.4 Description of fraud factor

The fraudulent operations done by employees can be experienced in every business. Because the research shows that 85 percent of the employees are prone to fraud. According to a generalization made, 10 percent of employees cheat in every case, while 15 percent never cheat. 75 percent of employees will apply fraud if they get the chance. (Bozkurt, 2011)

According to a report published by ACFE in 2010, due to fraud and irregularities, companies lose about 5% of their income each year, and incur more than \$3 billion financial loss around the world. Fraudulent operations generally take place in the form of abuse of assets (70%), unfair acquisition (25%) and financial statement aggregation (5%) (Terzi, 2013).

Cheating occurs in the form of abuse of assets and fraudulent financial reporting. (Bayou ve Reinstein, 2001)

In the International Auditing Standard (IAS) 240, the responsibilities of the Independent Auditors in relation to fraud are explained. According to this standard, fraud arises in two ways: fraudulent financial reporting and abuse of assets. (IFAC, 2013)

Fraudulent financial reporting is the presentation of an entity's financial position by masking the financial statements. In such cases, the financial status of the business is better represented than in most cases. The practice of showing worse than it is in financial situations is not very common. One reason for this is that it is extremely difficult to provide personal benefits in such a way. The purpose of the fraudulent financial reporting made by the senior management of the business is to provide indirect benefits in this way. In this process, the internal control system is often neglected, various information is hidden, records and documents are falsified, and fraudulent and misleading documents can be prepared. The intentional amendment of the fraudulent financial reporting accounting estimates occurs in the form of contingent liabilities, shifts of income or expense between periods, the application of suspicious receivables and the sale of assets between companies. (Çıtak, 2009)

Major fraud areas that can be made by the employees of the operator are cash, stock and fixed asset robbery, embezzlement, bribery, payment, buying and selling, and document fraud. In this context, business managers should be careful about the fraudulent operations that can be done by employees. (Geller, 1985)

Fraud refers to not reflecting the facts intentionally, hiding the facts deliberately to deceive others, doing something to deceive others, avoiding explaining material facts. In other words, fraud is deliberate deception in order to provide personal benefit. While the error means the mistake made without knowing, the fraud means the mistake made deliberately. (Çıtak, 2009)

The fraud is defined as deliberately misrepresenting or deliberately giving incomplete information in financial statements and appendices in Auditor's Responsibility for Detecting and Reporting Error and Fraud No 53 by American Institute of Certified Public Accountants and encompasses following activities:

- To modify, alter or falsify supporting documents and accounting records that form the basis for the preparation of financial statements;

- Intentional concealment or misrepresentation of events, records, and other important information;
- Deliberate misapplication of generally accepted accounting standards related to amount, classification and disclosure.

With fraudulent operations, two objectives can be pursued, such as embezzling and displaying business-related values differently. (Azaltun, 2010)

2.5 Features of hotel management that increase the possibility of error and fraud

A hotel has features that can be considered as both commerce and an industry enterprise, while it basically takes place in the service management group in order to bring together the many goods and services that are needed by the guests. (Azaltun, 2010)

The features that increase the likelihood of error and fraud in hotels can be listed as follows:

- Labor intensification

The fact that the activity of the hotel is based on direct contact with the people and that the needs of the guests are only met with a certain number of personnel requires the hotels to be labor-intensive. There are limited spaces for automation, but in the preparation of beds, food preparation and service a large amount of human power is used to welcome the guests. Depending on the type of service offered by the hotel enterprises, 700 to 1100 personnel are employed in a hotel with a capacity of 1000 beds. Because error and fraud are human-specific actions, the probability of errors and frauds in hotel businesses employing and hosting so many people will be higher than in other businesses. (Powers, 1988)

- Multiple income centers

If a hotel wants to satisfy the guest by giving more comfort to his or her than their own home, many goods and services will be needed to be available for the guest. It will not be possible to sell all the goods and services at a single price. Hotel operators collect some service fees in accordance with usage, which causes the establishment of many income centers in hotels and the collection of money in these centers. As hotel businesses grow, the number of income centers will increase and the likelihood of errors and fraud will increase. (Powers, 1988)

- Multiple monetary operations

It's a fact that money is known to be the main goal, especially about the fraud. There is a direct correlation between the intensity of cash use and the high probability of fraud. In the case of very large cash accumulation at the sales points, it is easy to lose some of it in the middle. Credit cards, money cards, current accounts are used widely in the hotels, but the use of cash in the hotels is big enough. Hotel guests prefer to use cash for reasons such as tip, shopping, entertainment and recreation, currency exchange. (Harris, 1979)

- Demand for non-qualified personnel

Hotels serve for 24 hours a day, 7 days a week and 365 days a year. In non-stop working and labor-intensive hotels many non-qualified personnel are employed, because they have low labor costs and their job can be done by non-qualified personnel. The wage paid increases as the amount of capital increases. Employment of non-qualified personnel, which seems to be very normal for the hotel in terms of decreasing cost and activity structure, brings a danger. Because in this case the need and rationalization conditions for the fraud will be realized. The less qualified a person is and the fewer fees they charge, the more they will make errors and especially the fraud. (Powers, 1998)

- Positions with low social status

A significant portion of the services provided by the employees of the hotel constitute jobs with low social status such as cleaning, transportation and service. For those positions which have a very important role in meeting the needs of hotel guests, a large number of non-qualified personnel are employed and the amount of wages paid to them is low. Hotels can satisfy this need by new employees, trainees, low-educated people and immigrants. These types of employees are often difficult to train because they see the work they do as a temporary work and of the difficulties they have experienced in integrating the culture of the hotel. They are less careful, make more errors, and tend to make frauds, because they have a high turnover rate and they think they will not work long term in the business. (Powers, 1998)

- Sales of high value products

Some of the products such as foreign drinks, fish and meat varieties, vegetables and fruits which have a high unit price due to the seasonal and availability features in hotel stock attract the personnel who can not buy it under normal conditions, so their unfair acquisition may be the issue. (Dopson, 2009)

- Sales of everyday products

Bed sheets, towels, cleaning materials used in a hotel's housekeeping department, all kinds of tools and equipment used in the food and beverage department, meat, milk, oil etc. used in food production are similar to the products consumed and used by the staff themselves and their families daily and even guests may want to steal them from the hotel instead of buying. Such products can easily be stored and removed from the hotel, as well as consumed inside the hotel. (Aktaş, 2002)

2.6 Types of errors in hotel management

- Accounting errors

Financial errors may arise from the accounting process or may arise before accounting. Accounting errors are errors that occur when accounting data is

processed and are misstatements in the application of accounting standards for valuation, classification and disclosure. (Azaltun, 2010)

- Errors regarding standards

Errors in standards are misapplication of generally accepted accounting standards. Accountants fulfill the requirements of generally accepted accounting standards in order to make the accounting information in the financial statements meaningful and usable. One of the main issues in which accounting standards are concerned is the determination of the nature of the transactions and events to be accounted and accordingly the determination of the rules related to the recognition of the transaction or event and the determination of which balance sheet items or income statement items have changed in this frame. The other one is how this transaction and event will be expressed in the balance sheet and income statement or in additional statements. The lack of standard errors depends on the fact that the standards are well understood. (Mia and Patiar, 2001)

A few examples of such errors are:

- Including fixed costs in inventory costs;
- Incorrect use of distribution keys in the cost account;
- Accounts with separate meanings are monitored on a single account, such as various receivables and debts;
- Incorrect processing of depreciation method and proportion;
- Considering sales of fixed assets as sales of goods.

- Technical errors

Technical errors can result from an impairment of the accounting organization, and an inadequacy of human abilities. Technical errors usually occur during the registration process of financial characters. Technical errors can be classified as followed: (Drury, 2001)

- Missing an accounting record;

- Incorrect accounting recording;
- Incorrect calculation;
- Losing an evidence document;
- Transmission error between account books.

- Errors regarding other departments

There are numerous faults that can occur unintentionally in every department of the hotel. Some of these are: (Urquidi and Ripoll, 2013)

- Stinking of meat, vegetables and so on due to forgetting to turn on the refrigerator in the kitchen after cleaning;
- Fading of the color of the carpet due to not mixing enough water with the cleaning materials in concentrated form;
- Deformity of employees' uniforms due to excessive hot water washing;
- The forgotten vegetables become unusable due to the fact that the new arriving vegetables are placed on top of the old ones;
- Due to not writing confirmation letter, making a reservation of a customer at another hotel;
- Deleting all extras of the guest of the front office clerk who presses the wrong button on the computer;
- Due to the skipping of the purchasing phase, some items on the menu can not be prepared;

2.7 Types of frauds in hotel management

It is possible to group the fraud varieties according to who applies them. Cheating acts may be done by personnel of the hotel or by people outside the hotel. Internal personnel theft is classified as internal theft, guests theft is classified as external theft. It is stated that the two types of inner theft are theft of the staff and management theft. Employee robbery involves taking advantage of the weakness of internal

control which can take time to uncover. Management theft is the most dangerous and most costly to operate. It is emphasized that the managers have adopted a way of the fraudulent treatments in order to fit the real situation of the hotel into their own interests and personnel embezzles the goods and money that is easy to steal. External theft is divided into two groups. The first one is the hotel guests' stealing of the goods or the hotel products used in the business and the second one is the theft made by the companies that are in business relations with the hotel, such as the enterprises supplying goods to the hotel and the ones working with service contract and these frauds are reflected in the accounting records. (Coltman, 1998)

- Frauds regarding purchasing

It is possible for sellers and distributors who see that there is no internal control methods at the hotel, to deceive the hotel in many different ways. Examples of cheating methods they can apply are: (Coltman, 1998)

- Invoicing at a high quality price when the product is delivered at a low price;
- Packaging high quality goods on the top of the parcel, but low quality ones at the bottom;
- Opening the parcel to take some of the products from it, closing it again and receiving the whole parcel price;
- Distributing meat and similar products at lower cost than the shown one on invoice;
- Bringing some products watery or damp which is priced based on weight;
- Taking the delivered products directly to the warehouse and invoicing more than the distribution price;
- Returning unapproved items without a refund.

- Frauds regarding delivery and storage

If those who deliver and store are not properly controlled, will tend to deceive a hotel as following: (Coltman, 1998)

- Showing the invoice as the products were distributed by agreeing with the distribution driver that were not actually delivered;
 - Invoicing low-quality products at a high price by agreeing with the seller;
 - Stealing from the stock which is kept under control and making changes in the inventory records so that they are not revealed.
-
- Frauds regarding money collection

Cash funds are defined as the main cash, small cash, bank or coin cash, food and beverage unit cash and the front desk cash which are kept under control by the chief cashier. Personnel who have direct contact with money can cheat like this: (Azaltun, 2010)

- Throwing money into the pocket and showing it as a cash register defect;
- Recording personal expenditure receipt as a payment made for business purposes;
- Throwing the amount of difference into the pocket by showing the cash report missing;
- Trying to cover up a cash loan for personal use with a fake check of future date;
- Taking the amount of difference by recording only a part of the collections from the guests who pay with debit card;
- If a doubtful receivable is collected, it is not recorded in the records but is shown as a bad credit;
- In case of working with more than one bank, transferring between the accounts in the banks to hide the money for personal use;
- Not recording the income from various sales such as postcard, souvenir, coke machine, empty coke box etc.

- Frauds regarding payment

The following types of fraud methods are applied: (Coltman, 1998)

- Creating a fake company and preparing fake invoices on behalf of that company;
- Making a contract with a merchant who provides goods to the hotel and sending exaggerated bills to the direct payment officer;
- Preparing the check for paid invoices once again;
- Making exaggerated payments to imaginary employees;
- Making extra payments by agreeing with employees;
- To keep paying employees who have been hired;
- Imitating signatures and arranging fake checks and paying them.

- Frauds regarding food-beverage income

Especially service personnel and cashiers apply the following frauds: (Coltman, 1998)

- Taking food and drink from the kitchen or the bar without recording them on the sales check. These items are used for personal consumption;
- Collecting money from the guests without a sales check and not recording it;
- Collecting money from a guest with a collected sales voucher of another guest and not recording the sale;
- Collecting money with the real sales voucher, but not recording the sale by destroying the voucher;
- Exaggerating the sum of the sales receipt, correcting the sum of the sales receipts after the guest has paid and stealing the amount of difference;
- Collecting money with real sales receipt and recording it as cancelled in the records;

- Using a fake sales voucher to collect money from the guest, and not recording the sale;
 - Not returning the credit card of the guest after the sales process is finished, uploading the cash sales to this credit card with a fake signature;
 - When stolen credit cards are canceled by the guest, continuing the fraud by giving this cancelled card to another guest during the sales;
 - Pretending the guest has escaped after finishing the payment.
- Frauds regarding bar income

It is necessary to be very sensitive about the fraudulent possibilities in bars where bartenders collect the money. The following examples can be given to the frauds performed by the bartenders: (Azaltun, 2010)

- Pouring drinks at a rate of one-eighth of a normal gauge, taking money for a drink of eight. To hide it, using their own scale instead of the scale used at the hotel;
 - Bringing drinks from the outside and selling them on their behalf;
 - As sales of bottles are cheaper, not recording the sales until the sales come in a bottle as a scale and showing the sales as a bottle sales and stealing the amount of difference;
 - Showing the sales of a drink as poured one;
 - Diluting some liquors and to taking the money from extra sales;
 - Selling a low-quality brand drink as a high-quality item and throw the amount of difference into the pocket;
- Frauds regarding rooms income

The rooms in the hotel can be extra income for the dishonest staff. An unfair member of rooms department may cheat as follows: (Azaltun, 2010)

- If a guest arrives late and leaves early who made payment in advance, stealing by deleting the record and not processing it on customer's account. This requires collaboration with one of the housekeepers;
 - Doing the same thing for the guests who use the room daily;
 - Recording a payment of guest and then cancelling the registration card, writing on the top of the foil that the guest did not stay. For this purpose also it is necessary to cooperate with one of the housekeepers;
 - Changing the amount on the copy of the hotel foil after the guest has paid and stealing the amount of the difference;
 - Showing the guest as escaped without paying after payment has finished;
 - Selling the keys of the guests' rooms and cases to the thieves;
 - Making the payment suspicious by showing the paid loaned cash as unpaid, and taking the money;
 - Stealing units used in the hotel, such as towels, pillows, detergents, pens, paper, etc. for personal use;
 - Converting travel checks to local currency on behalf of themselves rather than the hotel.
- Frauds made by top management of a hotel

In particular, managers try to make their performance seem high and stakeholders try to change the scope and meaning of the balance sheet in order to make the situation of the business seem better by fraudulent operations. The following examples can illustrate frauds that alter the scope and meaning of the balance sheet: (Coltman, 1998)

- Frauds applied by increasing the amount of assets and decreasing the amount of liabilities in order to provide credit procurement, acquisition of new partners, transfer, sale and merger of the hotel:
 - Valuing assets high in inventory;

- Including some imaginary elements in the company's assets;
 - Keeping assets in the balance sheet, which do not constitute a real asset or which do not have a real value;
 - Showing losses as an element of an asset;
 - Recognizing maintenance costs as if they have increased the value of fixed assets;
- Frauds made by decreasing the amount of assets and increasing the amount of liabilities in order to make a deal with creditors, show revenue less and pay less tax:
 - Showing imaginary loan in liabilities;
 - Showing value of assets less than it actually is;
 - Allocating excessive amortization;
 - Delaying record of income;
 - Not showing some of the income resources;
 - Showing future expenses as current.

The top management does not apply fraudulent operations merely to make the performance of hotel seem better. In order to provide personal benefits, they may personally apply some of the fraudulent operations deemed for hotel departments, or they perform these frauds accompanied with other employees. It is very dangerous for top managers to apply fraudulent operations in order to obtain personal benefit, because as the responsibility of preventing the fraud belongs to managers, when they do it themselves, it makes prevention and elimination of fraud challenging. (Coltman, 1998)

One of the main factors which creates fraud environment is people who have a reliable position in company and are not counted as causes of fraud. So, some employees use this privilege for their own interests. They know about all procedures and it helps them to misuse their responsibilities easily. The main reason which

intends people to cheat and break transparency arrangements is the low life standards and low wages. On the other hand, unsatisfied work conditions, waiting promotion for a long time, lack of the managers' appreciations and motivation tools, being unfair from their collaborations also, can create these malpractices. (Lea, 2009)

Providing an opportunity for the workers to plan and apply a fraud is seen as one of the main important factors in the application of fraud. If an employee knows that there is a strong internal control and safety management system in the company, thinks about high chance of getting caught, thus he or she won't be eager to make a fraud so easily. In contrast, a worker who sees some serious drawbacks in the internal control system of the company, thinks that there are so easy ways or opportunities for applying a fraud and is aware of the low chance of getting caught, thus has more desire and willingness to apply a fraud and plans and prepare a necessary ground for this purpose. The other factors allow the employees working in the company do such kind of frauds can be summarized as the follows: (Atmaca, 2012)

- Lack of the assessment and appreciation of the quality of the works done by workers;
- Weak ethics policies;
- Secret agreements made with third persons and partners;
- Lack of the discipline in punishment of those who make a fraud;
- Insufficient flow of information among employees in the company;
- Insufficiency, incapacity and indifference at the first level management;
- Lack of a regular and safe audit controls;
- Incredibly complex operational structure;
- The lack of effective internal audit;
- Significant level of deterioration of the businesses;
- Frequent change of the managers.

2.8 Description of internal control system

The concept of control is different from accounting control and is used to mean having the power to influence events, activities and people. The controls may be accounting or out of accounting. (Alagöz, 2008) The concept of internal control is used to distinguish existing controls in a company from outside controls. In an audit report published in 1949 by the American Accountants Institute, the organization carried out the first comprehensive research on internal control, defines internal control concept as the whole of all prevention and methods to protect organizational plans and business assets, to investigate the authenticity and reliability of accounting information, to increase the efficiency of activities and to encourage commitment to established management policies.

The internal control system, on the other hand, comes at the expense of policies and procedures designed to provide reasonable assurance of governance in achieving its objectives. Such policies and procedures are briefly referred to as "controls" or "internal control". (Banker, 1999)

The internal control system provides significant contributions to the prevention and institutionalization of the disadvantages that will prevent businesses from achieving their objectives. (Coltman, 1998)

2.8.1 Importance and objectives of internal control system

As firms grow physically under the influence of improving economic relations, the number and complexity of their activities and the value movements that are taking place increase the chance of controlling the business activities of the business management directly. (Geller, 1985)

The internal control system helps governance in terms of timely, complete and accurate information access, minimizing the risk of error in the financial reporting, ensuring that the work is done with maximum confidence, and preventing operations from suffering in the field. (Adams, 2006)

The basis of trust in the business is the integrity of the internal control system. The reliability of financial reporting is ensured by the existence of an effective internal control system, protection of business assets against misuse, compliance with the efficiency, efficiency, legal and other regulations of business activities. (Coltman, 1998)

With a well-functioning internal control system as well as significant contributions to both internal and external audit work, internal control has become an issue that managers must focus on in terms of their own purposes and information systems, rather than a tool that independent auditors use for financial statement audit purposes. (Woods, 1998)

Business owners or senior management who wish to establish an internal control system should first determine the financial risks and accounting risks of the entity. At a later stage, staff should be informed by establishing policies and procedures to avoid these risks or to minimize these risks. These policies and procedures will constitute the internal control system of the entity. (Kepekçi, 2004)

The existence of an effective internal control system in the business allows the employees to determine how active the company has played in its objectives for the purposes it has set. In addition, the clear definition of those responsible for financial and non-financial transactions through the internal control system facilitates the settlement of corporate governance in the enterprise in accordance with transparency, equality, accountability and accountability principles. (Atmaca, 2012)

The internal control system is more important in hospitality enterprises than in other businesses. Hospitality businesses are businesses that need to have an efficient internal control system, such as being labor-intensive, employing a large number of staff, dense monetary transactions, and finding products with very high unit prices. (Alagöz, 2008)

In a study conducted by Ömürbek and Altay (2011) in a five-star hotel business, it was found out that the implementation of an effective internal control system has

resulted in a possible increase in the cost of food and beverages of tourism enterprises.

Similarly, in a study by Gönen and Ergun (2008), the effectiveness of the internal control system in the food and beverage departments of a five star hospitality enterprise operating in Izmir was investigated. According to the results obtained; the distribution of the duties regarding to the areas of expertise, the application of standard prescriptions, the preparation of menu planning and the determination of the standard portions increase the effectiveness of the internal control system.

The main objectives of the internal control system, which is a process designed by the business management and intended to provide reasonable assurance: (Coltman, 1998)

- Protecting assets owned and held by the entity;
- Ensuring the accuracy and reliability of business accounting information;
- Ensuring efficiency and policy compliance of business activities;
- Ensuring the economic and efficient use of resources;
- Ensuring that the goals and objectives set by the management are met;

It is possible to list the benefits that an active internal control system has in operation as follows: (Coltman, 1998)

- Determining whether employees are acting in accordance with the policies and rules to be followed in order to achieve the main objectives set by the top management;
- Producing reliable information that senior management needs to determine the efficiency and effectiveness of its activities;
- Ensuring that the wastes and debris in the activities desired by the top management are at minimum level, ensure that resources are not wasted;
- Protecting the assets that are in operation in the direction of the top management's request from being stolen, lost or used.

CHAPTER 3. THE MAIN PROBLEMS OF HOSPITALITY MANAGEMENT ACCOUNTING IN AZERBAIJAN

3.1 Analysis and results

The quality of services and management accounting are connected in some ways in hospitality enterprises. Quality of services defines the customers' loyalty and satisfaction which affects the income of hotels directly. As management accounting is concerned with financial data, problems of quality of services can also be considered as management accounting problems.

Very actual for today is the topic of quality of hotel services. This is especially true of the financial side of the hospitality industry, since a huge share of profit depends on the quality of services. Quality in the service sector is primarily a sense of customer satisfaction with service, and a quality service is a service that meets the needs of the guest. The quality level, in turn, depends on the degree of coincidence of the client's ideas about the real and desired service in the hotel.

It is necessary to provide services in such a way that the properties of services exclude the possibility of causing harm and do not endanger the life and health of clients. Recently, hotel managers drew attention to the beneficial side of creating an environmentally friendly living environment for their customers. For example, they seek to use natural materials instead of synthetics when decorating interiors, fabrics for bed linens made of natural silk and cotton, reduce the use of strong and harmful cleaning agents, etc.

The entire hotel industry, from the creation of the optimal organizational structure of a separate hotel company to the development of professional standards and job descriptions, is based on the standardization of operational processes and is subordinated to the tasks of quality service.

Quality management in hotel enterprises is a very important and difficult type of activity. The activity on quality management is aimed at maintaining quality indicators at a certain (high) level; to stimulate the staff in providing services of

exceptionally high quality; to increase the volume of services provided to a larger number of consumers; to victory in the competition with other hotels.

The current state of the hotel business in Azerbaijan is characterized by a lag in the quality of servicing of domestic enterprises from foreign ones.

However, today there are processes of active development of franchising in the field of hotel business. Domestic enterprises are eager to join such titans of the hotel industry as Marriott, Holiday Inn, Sheraton, etc. These hotels, which are part of the well-known European hotel chains, are distinguished by higher quality of service compared to the enterprises of domestic owners.

One of the main reasons for the backlog in the quality of services offered by hotels in Azerbaijan is the lack of clearly defined and formulated standards in this area.

The principal feature of the operation of hotels operating in Azerbaijan on the basis of a franchise is that they are managed with strict observance of the corporate standard used in a particular hotel chain. They maintain European (higher) standards of quality of service. For hoteliers going to a franchise, there is no choice - to apply or not to apply the standard of service. They can choose a hotel corporation that agrees to manage their hotel facility or transfer service technology based on their corporate standard. The standard of service, as well as the description of the technological processes of providing services, is the know-how of every hotel operator that provides it with competitive advantages in the international market of hotel services.

Thus, the quality of services is the basis for the functioning of any enterprise in the hospitality industry and the entire industry as a whole. Quality determines the policy of a particular enterprise, the prices of services, their composition and nature, the popularity of the enterprise, its competitive position and policy, its share in the hotel services market, profits and many other factors and indicators.

The capital city does not yet have large professional management companies - operators of hotel business, there are no hotels belonging to national and international networks.

Experts say that the demand for five-star hotels is not satisfied in the Baku market. The vast majority of Baku hotels did not pass "star" certification, but they also do not lack customers. According to experts, hotels of all formats are in demand: the average annual load of large hotels is more than 60%. In the week of its level is approaching 80-90%, in the weekend falls to 35-40%, mini-hotels show similar indicators.

The analysis of quality management of hotel companies in Baku showed that in general, the quality service is available in no more than 10% of hotels from all the enterprises of the hotel industry of the city.

Hotels in Azerbaijan can be offered a service quality model, commonly known as conceptual. This model was proposed in 1985 by an American market scientist Berry Leonard. It determines the quality of service in terms of meeting customer expectations. The model includes the following steps:

- At the first stage: focus on customer expectations and reaction of the hotel management.

The hotels need to conduct preliminary consumer studies to find out the market requirements, and then reorient their activities according to these requirements. In order for customers to know that the hotel takes care of the quality of service, you can conduct a survey.

- The second stage: focus on management's perception of the specifics of the quality of service.

Goals should be supported by the hotel staff. Management must show its support to subordinates through proper evaluation of the results of their work, communication of management with employees and the promotion of particularly well-working.

- The third stage: focus on management's perception of quality of service.

This stage arises when management understands what customer needs are, and knows what requirements for providing quality services are developed, but employees are not able at this level of service or do not want to provide it. Errors at this stage occur at the "moment of truth", when the employee of the enterprise and the client interact.

Errors at this stage can be reduced through the internal marketing program. The main ways to prevent errors at this stage are training, monitoring of working conditions and the development of employee incentive schemes.

- The fourth stage: focus on provision of services and obligations.

Of particular importance in the provision of services is the observance of constancy. A luxury hotel must provide service, even if it has one client. You have to be prepared to pay the price of risk and remain a high-class hotel. It must also be borne in mind that the provision of services and service policies are one. There can not be double standards. For example, a hotel cashier refused to accept payment from a client on a credit card without motivating her actions. She offered to pay in cash, although a month ago the same guest accepted payment on the same card.

Failure to comply with these rules leads to errors at this stage.

- The fifth stage: the expected service and the perception of the service provided. This stage is a derivative of others. As any of the preceding steps may increase in size, the fifth stage also has growth opportunities that result from the difference between the expected quality of service and what is actually provided.

The expected quality is what the guest expects to receive from the hotel. The rendered service is that the guest feels that he received from the hotel. If the guest receives less than expected, he remains dissatisfied and will never return to this hotel. In the hotel enterprise, it is necessary to establish control and coordination of work on quality management, which should be performed by the quality manager.

The quality manager will perform daily monitoring of the quality of service and its compliance with technological standards and sanitary standards. He will carry out his activities in close contact with the leaders of other sections of the hotel. The comments of the quality manager to the heads of departments and employees are mandatory for execution.

The quality manager together with the personnel department, heads of other hotel departments organizes training and retraining of personnel, and together with

marketing managers monitors and recommends new hotel and restaurant services, technologies, and participates in the development of the hotel company strategy. Independent experts, consulting and training firms are involved in this work.

The quality manager, together with other hotel units, participates in the development of a quality improvement program, as well as systems controlling the organization and provision of services.

The quality manager participates in the work of the culinary board, which develops a new menu, wine cards and service technology for public catering enterprises of the hotel complex.

The position of the quality manager is introduced in the hotel for systematic and planned work aimed at improving the quality and organization of services.

The quality manager will be entrusted with the task of making contacts with the certification bodies of hotel services, sanitary and trade inspections, with whose representatives he participates in the audits. Most often, the most effective communication with customers is through employees directly engaged in their service.

There are many systems and methods for managing the quality of services in the hotel, programs to increase it and ways to control it. The combination of correctly selected systems and methods for managing the quality of services allows you to build work in an enterprise so that all three subjects of the hotel industry will benefit: the guest satisfied with the service, and the hotel staff satisfied with the work, and receiving the hotelier's profit from it.

Quality improvement programs, as well as ways to control it, should be an integral part of the hotel.

Summarizing, despite all the difficulties, the growth of the hotel industry in Azerbaijan is gradually gaining momentum. The quality of hotel services will increase as the hospitality industry develops in the country as a whole.

CHAPTER 4. CONCLUSION

4.1 Summary of findings

Accounting information is used to select the best alternative for daily activities, planning for future activities, planning and controlling, budgeting, and solving problems related to the activities. Constant decisions are taken in the establishment and activities of the owners. It is the main purpose of accounting to provide useful information on management in helping to make sensible decisions about price determination, marketing, finance and investment.

In this labor-intensive sector, where the worker's turnover is so frequent that the success of the service is tied to the smallest chain of the chain, which is highly competitive, like the hotel industry, highly influenced by the outside world, the demands of the managers, maximizing and minimizing the cost, while trying to protect the profit level without affecting the service provided to the customer. In this way, accurate steps will be taken where management accounting information is used. Some features that the hotel enterprises in terms of their structure and activity cause the probability of error and fraud to be higher than those of other enterprises. Especially in the case of hotel enterprises with high monetary transactions, large number of revenue centers and sale of high value products, it is necessary to establish a highly effective internal control system by increasing error and fraud possibilities in such enterprises. However, the effectiveness of the internal control system in hotel operations in our country can only be ensured if the following conditions are fulfilled:

- Separation of organization structure and duties
- Institutionalization
- Automation
- Qualified personnel are dependent on operation, monitoring and rotation
- Disclosure of internal audit
- A robust data collection and recording system
- Cyclic activities

Nowadays, too many growths of businesses, in-house and out-of-office organizations, complexity of the structure, increasing competition, international activities brought by globalization, and cyclical fluctuations bring with it a variety of errors and frauds. It is becoming a necessity to establish the necessary internal control systems in order to identify the errors and frauds to come out never again. Especially in catering operations where food and beverage operations are very important, errors and frauds are more likely to originate from this department and reach large numbers.

Responsible persons for the prevention of errors and frauds in accounting are business owners, business managers, internal auditors, professional accountants. In particular, business managers have the information of all business units in their hands because they are at the top of the business. This significantly increases the level of responsibility of business managers in avoiding errors and frauds in accounting. Business managers must fulfill their responsibilities with respect to errors and frauds made in accounting, in order to prevent both the image of the operator and the operator from facing too much difficulty in reaching impossible dimensions in the long run.

The internal control system has gained more importance in recent years which focuses on a complement to the accounting organization; protection of business assets, prevention of errors and corruption and accuracy and reliability of accounting information. Internal control system; is defined as a process designed by an executive board member, management and other personnel to be considered in achieving its objectives such as effectiveness and efficiency of activities, credibility of financial reporting, compliance with relevant laws and regulations.

The establishment of an effective internal control system requires a good organizational plan and accounting system, sufficient number and quality of staff and internal audit department. When internal control performs a preventive function, internal auditing is an important function that provides management information on whether the internal control system achieves its main objectives

As in all fields of activity, the effectiveness of the internal control system becomes inevitable in hospitality enterprises, which are based on labor-intensive production techniques and which enable the tourism sector to come to an important position. It is possible to list the purposes of establishing an effective internal control system in the hotel enterprises as follows:

- Providing information about the financial strength and situation of the operator,
- To record and inspect the value movements expressed in money related to the assets and resources in the business,
- Determination of revenue and expenditure of the units within the scope of complementary services section separately,
- Displaying the costs and revenues of the various departments of the operator on separate tables, measuring the profitability of the departments and the general business,
- Providing statistical information that enables comparison based on financial reports and contributing to making future decisions.

As all other parts of the world there are current hospitality management accounting problems in Azerbaijan, which are needed to be prevented and eliminated in order to improve the quality of services and decision-making quality in hotels. Management accounting problems in hotels can be solved indirectly by improving the quality of services. The quality model can be applied in order to develop quality of services.

However, there are direct solutions to hospitality management accounting problems, which will be discussed in the next unit.

4.2 Suggestions

The insecurity of information users by the financial statements presented by the operator has increased the importance of independent accounting audit. A significant portion of the work of independent auditors is an examination of the internal control structure of the entity they are seeking to formulate opinions on their financial

statements, because the financial statements that the auditor tries to form an opinion on the correctness and reliability are results of the operator's internal control system. Internal control is directly related to the authenticity and reliability of an entity's financial information. Therefore, the auditors primarily try to understand the internal control of the operator and plan the audit activity according to the information they receive here.

It is possible that the financial data of the operator is correct and that errors within the enterprise are removed or minimized by an effective internal control system. However, in order to establish an effective internal control system, it is necessary to determine the risk of fraud in the accounting system. A fraud risk can be defined as the likelihood that employees will gain unfair earnings by intentionally using or acquiring the resources and assets of the employer they are in.

The accounting system consists of personnel, software-hardware, document-record system, account plan and reporting, covering the functions of accountant control, registration, reporting and analysis and interpretation. For this reason, the first function of the accounting system is to select and compile transactions involving numerous financial events that occur in the business, and systematically make the record in monetary terms.

In order to ensure the security of the accounting information system, firstly it is necessary to determine what the threats are to the system. All kinds of data and information in the accounting information system are under the threat of errors and especially the frauds. The fraud comes out of three conditions, and these conditions are called fraud triangles. These conditions, which provide for the emergence of selenium; Incentives / Pressures, Opportunity and Attitudes / Rationalization can be examined under the headings.

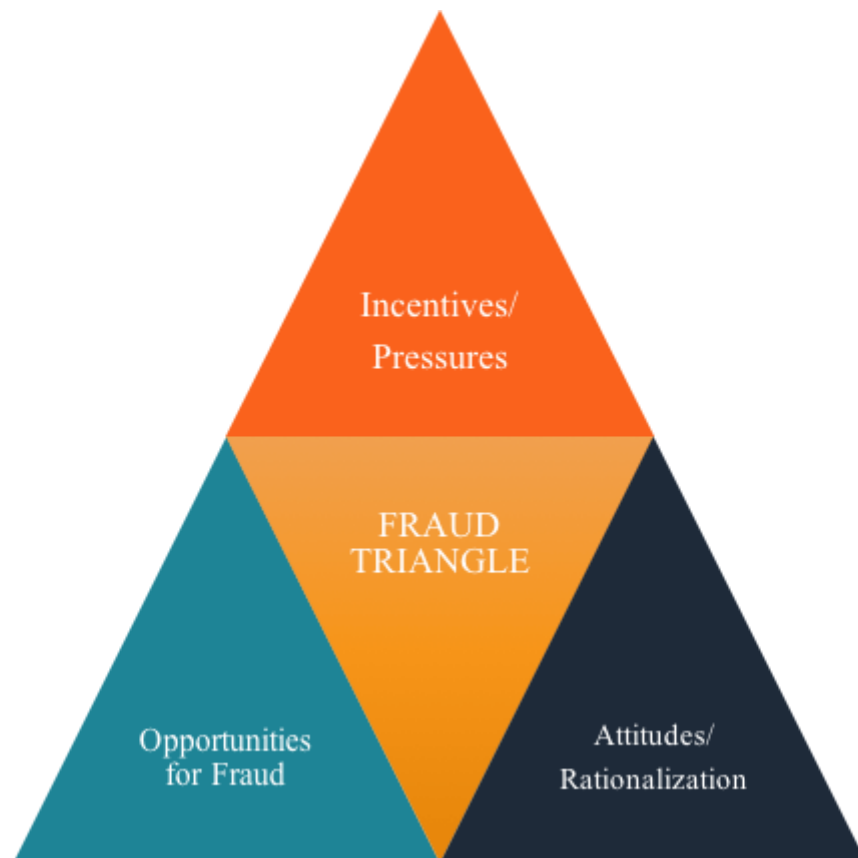


Figure 1.

Source: <https://corporatefinanceinstitute.com/resources/knowledge/accounting/audit-fraud/>

Incentives / Printing: Generally, managers want financial results to look good. This is because it depends on their wages, premiums and business continuity. This kind of pressure can create falsification of the accounting information of these people and result in the improper production of financial reports. On the other hand, such pressures can arise for personal monetary interests. Gambling debts of some employees, credit card debts and money requirements arising from various reasons lead to the use of fraudulent ways by putting pressure on them.

Opportunity: The lack of an internal control system in the business does not mean that the internal control system does not function as efficiently as it does, employee fraudulent transactions. However, an effective internal control system that exists in the business restricts the opportunity to conduct fraudulent transactions.

People who are in the possession of the rules and who benefit from the gaps in the rules because they are not allowed to work in the lower positions of the hierarchy or

insufficient control systems allow them to neutralize existing control systems or create opportunities to override them.

Rationalization / Behavior: People perceive themselves as honest. They try to justify it when they get into criminal behavior. They try to convince themselves in verifying the fraud. The common attitude of these employees who are engaged in cash thefts is that they intend to replace this money later. For them it is not a theft, it is not borrowed. Occasionally, employees see this type of behavior as a revenge because they are angry with managers. While the internal control system of the operator is being established, adherence to rules, principles and measures that will control the fraudulent elements as much as possible will contribute to minimizing fraudulent transactions.

Unlike the error, the detection of the fraud is very difficult. Because the cheater does the operation intentionally, he also thinks about the alternative ways that the process can not be detected in the same way. The difficulty of revealing the selenium leads researchers to develop new methods. In particular, the "proactive methods" developed in the fight against fraud have gained serious importance in order to be able to understand the existence of the fraud from the very beginning and to prevent the destruction without reaching great dimensions.

It is difficult to obtain concrete evidence, especially at the beginning of the act of fraud. The reason for this is that the fraud is not clear.

The most striking approach in fraud detection studies is red flag. Many studies reveal that fraudulent transactions can be revealed with this approach.

Computer technology offers new techniques for auditors to examine the automated business environment. In this process; techniques such as trend analysis, ratio analysis, comparative analysis, data mining, continuous audit, notice lines (supervising whisper) and Benford Law can be utilized. These approaches are not only used to reveal the fraud, but also because of the deterrent effect.

As an investigation technique in the course of fraud inspection; family, friends and social group should be investigated, surveillance should be done, digital data analysis

should be conducted, interviews should be conducted with witnesses and suspects, confirmation from the customers and suppliers should be provided.

The indispensable element to be able to detect the leaning is that the auditor moves in professional skepticism. In this process, sudden workplace visits can be made, cash and inventory counts can be made, auditing techniques can be changed, interviews can be made with employees and management, verification can be done, counter review and reconciliation can be done, lifestyle research can be done and other employees' opinions (notice, supervising whisper) can be used.

For the frauds made by the employees, every operator needs to establish an appropriate internal control system. Many different control techniques can be used in cheating control. When a preliminary analytical examination of the fraud audit process reveals an indication of the presence of a fraud, the matter should be examined in detail with additional audit techniques. When the presence of the fraud is detected; the fraudsters should be punished, a lawsuit must be filed for compensation of damages given, a solution proposal should be presented to the management of the enterprise and the problems identified in the internal control system should be removed.

The business management should establish the necessary control systems by carrying out specific work on the areas causing the fraud risk in the framework of the fraud audit advice letter to be presented to the auditor. If the audit committee is in operation, the audit committee should work in cooperation with the senior management and pass on the necessary practices to the applicant. For this, a management philosophy should be established on the basis of ethical values, an effective internal control system should be established, appropriate human resources policies should be established in order to determine the recruitment, retirement and authority and responsibilities of employees.

Businesses exploit various abnormal situations or various fraud clues to find out accounting errors and frauds, especially made by top managers. The aim here is to take advantage of the clues that will bring about the situation that goes wrong or that

will help to sense it. In general, error and fraud hints made by the managers are classified as follows:

- Abnormalities in the conduct of activities,
- Abnormalities related to the features of the managers,
- Organizational structure anomalies,
- Irregularities in relation to third persons,
- Abnormalities made by employees who are closely related to business managers.

The success and power elements that have a positive effect on the level of responsibility of business managers in the prevention of errors and frauds in accounting; to have a good knowledge in human psychology, to have a good education in management field, to have authority to reward subordinates and their staff, to be reliable and likable managers having the power of expertise (knowledge, skills, experience), having a sympathetic and admirable personality, can help prevent errors in accounting.

It can be uncovered in simple or usual controls to be made by business managers for the fact that the error is made unintentionally and that there is no obfuscation as in the case. However, it is not that simple to uncover the fraud. Some of the methods need to be exploited in order to reveal the frauds and to do a serious work in preventing them. The methods that can be used by business executives to prevent errors and frauds in accounting are presented below:

- Removing elements causing errors and frauds in accounting:

Factors that cause business managers to make errors and frauds in accounting are oppression, opportunity and justification. Opportunities can be identified by looking at and assessing employees and identifying whether they have oppression, delinquency and bad habits that cause errors and frauds. Thus, the identification of these elements by business executives may help reduce the risk of error and fraud in accounting.

- Establishment of Internal Control System:

The internal control system includes all measures and methods used to protect an entity's assets, to ensure the accuracy and reliability of information and reports related to accounting and other activities, to increase the effectiveness of the entity's operations, to determine the appropriateness of policy operations determined during business management, to establish the accounting plan and reporting system, , authorization and responsibilities, and the organizational plan of the operator subject to the test. For this reason, the establishment of such a system by the managers in operation may help reduce the risk of error and fraud in accounting.

- Use of Analytical Review Method:

The main purpose of the analytical review method is to try to help prevent errors and frauds in accounting by comparing the results of the management with the data provided by the management and the related data obtained from outside the enterprise.

- Use of Data Mining:

Data mining is the process of using data to uncover previously undiscovered information based on a wide variety of data held in data warehouses, making decisions and implementing action plans. This point can be defined as a tool to support the decision process to reach solution, not a solution on its own, but to provide the information necessary to solve the problem. Since 100% of the bookkeeping checks made using data mining have been scanned and audited, and there are fewer mistakes than the other methods, there is a heavy use by business managers in avoiding errors in accounting.

- Use of Benford Law:

Benford Law is used to determine the normal level of repetition of digits in data sets. Thus, abnormal numbers in the data sets can be determined. Naturally occurring numbers are found with Benford Law, and if there is a difference between the numbers that need to be formed naturally and the numbers that are included in the declarations, the assumption that the numbers in the declaration may have been produced incorrectly and fraudulently.

- Use of Deterring Penalty Methods:

Business managers should adopt a decisive attitude that does not compromise against errors and fraudulent incidents in accounting, deterrence of criminals in the administrative posture of the enterprise as well as legal follow up by notifying the competent authorities, thus creating a deterrent in terms of tendency to make errors and frauds. Managers have the best ability to implement this punishment system.

- Usage of Other Methods:

Trend Analysis is an area of increasing importance in the prevention and discovery of errors and frauds also includes the examination of repetitions in the statement. Ratio Analysis is examining a number of ratios, such as financial ratios that inform the operator about the financial situation, may also provide information on whether errors and frauds are present.

As a result, if the above-mentioned or similar methods are used effectively by managers, it can help reduce or even mitigate the risk of error and fraud in accounting.

REFERENCES

1. Atrill, P., & McLaney, E, Management Accounting for Decision Makers (6th ed.), 2009
2. Bhimani, A., Horngren, C.T., Datar, S.M., Management and Cost Accounting, 2013
3. CROSSMAN, Y. Paul, “The Nature of Management Accounting”, The Accounting Review, Vol 33, No 2, 1958
4. SINGER, A. Frank, “Management Accounting”, The Accounting Review, Vol 36, No 1, 1961
5. American Accounting Association, “Report of Management Accounting Committee”, Vol 37, No 3, 1962
6. CAPLAN, H. Edwin, “Behavioral Assumptions of Management Accounting”, The Accounting Review, Vol 41, No 3, 1966
7. Institute of Management Accountants, “Statement on Management Accounting – Definition of Management Accounting”, 2008
8. CIMA, Official Terminology, CIMA Publishing, 2005
9. LAMBERT, A. Richard, “Agency Theory and Management Accounting”, Handbook of Management Accounting Research, Volume 1, 2007
10. ÜSTÜN, Rıfat, Yönetim Muhasebesi, İkinci Baskı, 1992
11. BÜYÜKMİRZA, H. KAMİL, Maliyet ve Yönetim Muhasebesi – Tek Düzene Uygun Bir Sistem Yaklaşımı, Onüçüncü Baskı, 2008
12. Martin G. Jagels, Michael M. Coltman, "Hospitality Management Accounting 8th ed.", 2004
13. Collier P- Gregory, A., “The Practice of Management Accounting in Hotel Groups”, Accounting and Finance for the International Hospitality Industry, 1997
14. Collier,G., Gregory,A., “Strategic Management Accounting:a UK. Hotel Sector Case Study”, International Journal ofContemporary Hospitality Management, Vol.7,No.1, 1995

15. Johnston, R.-Brignall, S.-Fitzgerald, L., “The Involvement of Management Accountants in Operational Process Change”, International Journal Of Operations & Production Management, Vol. 22, No. 12, (2002)
16. Coltman, M.M., Hospitality Management Accounting, 1998
17. Türksoy, Adnan, Otel Yönetim Muhasebesi, 1998
18. Azaltun, Murat ve Kaya, Ergün, Konaklama İşletmelerinde Muhasebe Uygulamaları, 2010
19. Gee, N. Chuck (1994), International Hotel Management, UK. Educational Institute of the AH&MA
20. American Institute of Certified Public Accountants, Codification of Statements on Auditing Standards 1 to 63 Chicago: Commerce Clearing House, 1990
21. Debra Adams, Management accounting for the hospitality, tourism and leisure industries : a strategic approach, 2006
22. BARROWS, W. Clayton, POWERS, Tom (2009), Introduction to Management in the Hospitality Industry, Ninth Edition, John Wiley & Sons Inc., New Jersey
23. Aktaş, Ahmet, Turizm işletmeciliği ve Yönetimi, Genişletilmiş 2.Baskı, 2002
24. Lea R. Dopson, David K. Hayes, Managerial accounting for the hospitality industry, 2009
25. Peter James Harris, Peter A. Hazzard, Managerial Accounting in the Hospitality Industry, (1979)
26. Mia, L., & Patiar. A., The Use of Management Accounting Systems in Hotels: an Exploratory Study, 2001
27. Urquidi, Ana C. & Ripoll, Vicente M. (2013). The Choice of Management Accounting Techniques in the Hotel Sector
28. DRURY, Colin (2001), Management Accounting for Business Decisions, Second Edition, Thomson Learning, London
29. Downie, N. J., “The Use of Accounting Information in Hotel Marketing Decisions”, Accounting and Finance for the International Hospitality Industry, der.Harris, P., Butterworth-Heinemann, Linacre House, Jordan Hill, Oxford, 1997

30. Anderson, E., Fornell, C, Lehmann, D., 1994. Customer satisfaction, market share, and profitability: findings from Sweden. *Journal of Marketing*
31. Anderson, E., Fornell, C, Rust, R., 1997. Customer satisfaction, productivity and profitability: differences between goods and services. *Marketing Science*
32. Foster, G., Gupta, M., 1997. The customer profitability implications of customer satisfaction. Working paper, Stanford University and Washington University
33. Geller, A.N., 1985. Tracking the critical success factors for hotel companies. *Cornell Hotel and Restaurant Administration Quarterly*
34. Bozkurt Nezat, (2011). “Hile Teorisi ve Uygulaması”
35. Çıtak Nermin, (2009). Hileli Finansal Raporlamada Yaratıcı Muhasebe. İstanbul : Türkmen Kitabevi.
36. Terzi Serkan, (2012). “Hile ve Usulsüzlüklerin tespitinde Veri Madenciliğinin Kullanımı”, *Muhasebe ve Finansman Dergisi*
37. Banker, R., Potter, G., Srinivasan, D., 1999. An empirical investigation of an incentive plan based on non-financial performance measures. *The Accounting Review*
38. Woods, R.H., Sciarini, M., Breiter, D., 1998. Performance appraisals in hotels. *Cornell Hotel and Restaurant Administration Quarterly*
39. Alagöz, A. (2008). “İşletmelerde İç Kontrol Sisteminin Önemi Ve Denetim Komiteleri İle İç Denetim Birimi İlişkisinin Hata Ve Hilelerin Önlenmesindeki Rolü”
40. Kepekçi, C. (2004). *Bağımsız Denetim*. İstanbul: Avcıol Basım Yayın
41. MODELL, Sven, “Management Accounting and Control in Services: Structural and Behavioral Perspectives”, *International Journal of Service Industry Management*, Vol.7, No.2, 1996
42. BRANDER, Brwon, J., & McDonnell, B. (1995). The Balanced Scorecard: Short-term Guest or Long-term Resident?. *International Journal of Contemporary Hospitality Management*

43. Atmaca Metin, (2012). “Muhasebe Skandallarının Önlenmesinde İç Kontrol Sisteminin Etkinleştirilmesi”, Afyon Kocatepe Üniversitesi, İİBF Dergisi, XIV