Night Audit / End Of Day

Complete Steps and Procedure

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Welcome to a new learning session!

Knowledge is Money.

What is Night Audit?

- Daily review and verification for accuracy and completeness, of guest and non-guest records (accounts) in a hotel.

- *Complicated and bookish*?

- Audit is checking of documents that have financial data and information of a business/ company recorded on them. Here, its the hotel!

Why Night Audit?

- ***It is to make sure of the accuracy, reliability and thoroughness of hotel accounts.***

- Money is a resource.

- Resources are not equally available to all.

- There is a competition for resources.

- Competition may breed unfair means to capture resources.

- Audit protects the business from such unfair means and unethical people.

Why audit hotel accounts at night time?

- Hotel run 24 by 7!

- Audit process requires disturbance free work environment.

- In most hotels, the time after midnight is when most guests have returned to their rooms.

- In casino hotels, it could be after 4 AM (early morning).

Night Audit & End-of-Day?

- End-of-Day in a hotel is a point in time that defines the daily charging period for the hotel room rent.

- The gap between two consecutive/ successive End-of-Day is 24 hours, similar to a calendar day.

- Night audit begins at the end of one hotel day.

- Next hotel day begins when the night audit process ends.

- The audit work time = 1:30 AM till completion.

What if a transaction takes place when the night audit is still on?

- It will be recorded at the revenue centre, like In-room dining, but the date will be of the next day.

- Posting of the charge into the guest account by Front Office will only take place after the night audit is complete.

Classifying Transactions

- **Cash** : guest pays cash to hotel.
- **Charge** : guest buys from hotel, on credit.
- **Paid-out** : guest buys from a third party, hotel pays in cash, on behalf of the guest.

Vouchers & Checks

- Transaction are recorded on these documents at the point of sale departments.

- Vouchers contain the details of the transaction and guest.

- Voucher is to be verified (vouch for trueness) with the signature of guest and the staff processing/producing it.

- A written record prevents disputes later.

Night Audit Reconciles

- Postings into customer account at Front office

- Transactions at revenue centre/ Point-of-Sale

- Reconcile means that both data match exactly.

- Prevents both overcharging and undercharging the guest account.

- Fair, transparent and correct!

In balance & Out of balance

- **In balance**
- The data of front office and point of sale match

- **Out of balance**
- The data of front office and point of sale (revenue department) does not match (tally).

Night Auditor reviews the following;

- Account statement i.e. Folio
- Vouchers
- Support documents (e.g. KOT- cashier's copy, cashier's shift summary, cash sheet etc)
- Department source documents (e.g. KOT- kitchen copy)

Audit Meaning?

- an official inspection of an organization's accounts, typically by an independent body. (noun)

- conduct an official financial inspection of a company or its accounts. (verb)

Synonyms:

 inspect, examine, survey, look over, go over, go through, scrutinize, probe, vet, investigate, look into, enquire into, check, check into, assess, appraise, evaluate, review, analyse, study, pore over, peruse, sift, dissect, go over with a fine-tooth comb, delve into, dig into.

Why Audit?

Auditing provides assurance to clients, owners, shareholders, Government, and creditors that company funds (money, material, resources) are handled appropriately. ...no fraud, fudging or falsifications!

Audit is a confirmation that books of accounts of a company are accurate (mathematically), genuine (factually) and legal (tax calculations are correct and paid on time).

Types of Audit

- Internal (by employees of that company)
- External (independent International agency e.g. Deloitte, PriceWaterHouse Coopers, Ernst & Young, KPMG or Chartered Accountants in India)
- Government mandated (for tax assessment)

Night Audit is an internal audit system of a hotel.

Why Night Audit?

- A hotel runs non-stop.

- Large hotels, with high business levels, generate an enormous volume of transaction documents, that can not be checked once a year, like normal businesses.

- Customers of hotels are mostly strangers and some never return.

- Some may be living in foreign countries.

Why Night Audit?

- Once a guest leaves the hotel, it is difficult to collect an unpaid account, even legally.

- Hotels also suffer from a *Charge Back* problem in Credit Card settlements, where the guest protests to the Bank that a charge is false, after leaving the hotel. E.g. Express Check-Out.

- Therefore, the hotels must ensure that all accounts are exact and settled on time.

- Any mistake in guest account can provoke legal battles and ruin the hotel's reputation.

- Any negligence could mean that revenue is lost for ever.

- Employees may show dishonest tendencies.

Honesty is an expensive gift.

Don't expect it from cheap people.

Estimated Number of Transactions

In a hypothetical situation:

- Number of hotel room= 500

- Average Occupancy= 75% => 375 rooms/day

- Number of days/year=365

- Average number of transactions/guest/day=10

- Total number of transactions=375x365x10 => 13,68,750 (13 lacs plus\1 Million plus)

End of year audit may not be sufficient and effective in a hotel!

Owner versus Employee: Conflict of Interest

Without going into details, it must be noted that owner's desire and employee's expectations run opposite to each other. Increase in salary and benefits will mean lesser profit for the owners!

Manager may come and managers may go! Owners the world over want to keep a strict watch on financial activities to minimize theft, fraud, embezzlement etc. Hence, there is an increasing trend of appointing Financial Controllers loyal to the owner. Night Auditor could be a part of that control mechanism.

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Other Techniques of Financial Control

- Random Stock\Inventory Checking
- Random Pocket\Locker\Cash Drawer Checking
- Strict control over personal wallet
- No personal mobile phones and calls on job
- Separation of responsibilities\authority
- Continuous Rotation of Position, Shift etc.
- Continuous Surveillance
- Decoy Customers (Spies of Owner/s, pretending to be genuine hotel guests)

Hotel Night Audit: Definition

A daily review, analysis, recapitulation and reporting of the financial data, facts and events to achieve the following three purposes:

- Accounts are true and error-free.

- Financial Health of the business is understood.

- Data is summarized meaningfully for management to take correct financial & operational decisions.

Why Daily Audit at Night?

- Night time is less busy because most outlets close by then and, audit work causes least interruption to normal hotel operations then.

- Hotels have to charge room tariff daily. There must be a clear-cut "Hotel Day", (with an end-of-current-day\beginning-of-new-day point in time), for exact and fair calculations. Calendar date changes at 12 midnight and generally, hotels also like to keep their end-of-day near that to minimize confusion in records.

Night Audit Procedure: Major Tasks

- Post room tariff plus taxes in all folios for current day.

- Reconcile (compare to match, voucher amount and folio amount) posting of F & B (POS) charges into respective guest folio.

- Reconcile , for all points-of-sale departments, sales summary sheet with copy of vouchers.

- Verify "No Show" reservations and post retention charge in guaranteed reservation folios.

Night Audit Procedure: Major Tasks

- Resolve any discrepancy\difference between room occupancy data of FO & HK.

- Calculate total revenue from rooms, points-of-sale (separately) and finally, whole hotel.

- Prepare a list of accounts which are near or over permissible credit limit (high balance report).

- Calculate Occupancy %, House count, Average Daily Rate, RevPAR and other evaluation statistics, as instructed or needed. (M.I.S.)

Sequence of Audit

1. Guest Account
2. City Account
3. "Point-of-Sale" Sales Summary Sheet

However, during checking of guest folios, auditor verifies the charge postings related to revenue centre transactions first.

Only after POS charges are verified, that room rate and taxes are posted.

Transactions That are Checked

- Room Tariff
- Tax
- F & B Checks (Restaurant & Bar Credit Bills)
- Miscellaneous Charges (Laundry, Spa, Telephone, VPO, Business Centre etc.)
- Allowance (Rebate\Deduction\Compensation)
- Incentive (monetary reward for better staff performance)

Transactions Checked

- Commission (Incentive for sales promotion to an outside agency)

- Complimentary (free goods or services)

- VPO (money paid by hotel on guest's behalf to an outsider)

- Discount (tool for increasing sales during off-season)

- Upgrade (Marketing tool of hotel promotion, by assigning a room of higher value to guest, but at the price of a lower category room)

Transactions Checked

- Walking a guest (denying room to a guaranteed reservation)

- Account Transfer (balance transferred, from one guest account to another, from guest ledger to city ledger)

- Room Transfer (Change of room, equivalent category or different)

- Coupons & Vouchers for sales promotion

Purpose of checking?

- No undue benefits, profits, commissions to any one!

Night Audit

The night audit focuses on two areas:

1. The discovery and correction of front office accounting [Errors](#)

2. The creation of accounting and management [Reports](#)

Night Audit

Audit Work Time

- ➢ **Time from beginning to end of night audit.**

- ➢ **"End of Day" is when the audit begins.**

- ➢ **Transactions received during this time are held and posted once the audit is completed.**

Audit Trail (path)

- ➢ **Recreating the flow of source documents which details each step in the processing of a transaction.**

Night Audit

Bucket Check

➢ Cross check folios with housekeeping occupancy report and FO room rack. (triple verification of guest presence)

➢ Make sure all occupied rooms have a folio and are charged.

➢ Bucket check helps detects errors made due to carelessness at check-in or check-out.

Audit is complete when:

➢ Totals for all guest, non-guest and departmental accounts are in balance. Meaning, every transaction is posted in accounts and totals are matching-up.

➢ If it is out of balance, auditor has to find the error or missing entry!! (either, omitted or committed)

Night Audit Reports

Department Detail & Summary Report:

Total revenue, allowances, discounts, complimentary and transfers

High Balance Report:

Accounts (Resident & City) near or over the permissible credit limit, actions taken on yesterday's high balance accounts and the result of those actions.

Daily Operations Report:

Occupancy % (FIT, GIT, Domestic, Foreign, Bed), House count, Average daily Rate, RevPAR, OOO\OOS rooms, Variance between actual & budget figures, etc.

High balance account and line of credit

- The line of credit, that is given to the guest to make charge purchases in the hotel, is guaranteed by the credit card company.

- It depends on three factors;

a. Floor limit of the credit card

b. House limit set by the hotel

c. Guests reputation as a potential credit risk

Calculating Account balance

Yesterday's (previous) outstanding balance + Today's debits (charge purchases) – Today's credits (payments) = Today's (net) outstanding balance

This is also called the audit post formula;

PB + DR – CR = NOB

Daily & Supplemental Transcript

- **Daily Transcript**

1. Worksheet/ spreadsheet
2. For resident guests
3. Every transaction from POS, tariff, tax is entered here.
4. Departmental total must match with folio totals

- **Supplemental Transcript**

1. Worksheet/ spreadsheet
2. For non resident guests
3. Every transaction of non-guests from different POS is entered here.
4. Departmental total must match with folio totals

Night Audit Modes

- Non-automated or manual

- Semi-automated or electromechanical machine based

- Automated, fully computerized with Property Management System installed at all revenue and cost centres

Non-automated or manual mode

Includes the following documents;

- Daily & Supplemental transcript
- Guest & non-guest folios
- Front Office cash sheet
- Audit recapitulation sheet

Semi-automated or electromechanical machine based

- Instead of posting everything many times with pen, this system uses the advantage of machine posting on to folios.

- However, it is not able to retain the yesterday's folio balance.

- We re-enter it everyday, sometimes making a "pick-up" error.

- Pick-up error is simply entering the yesterday's closing balance incorrectly.

Advantages of machine posting

- Same details are imprinted on voucher as on folio. It acts as a cross reference and confirms that the amount of the voucher and amount machine-printed on the folio are exactly same.

- The same amount is also imprinted on the internal machine tape.

- Machine tape roll may assist during establishing an audit trail while finding errors.

Audit Trail

- An organized flow of source documents, for each transaction event.

KOT (4 copies)

Kitchen   Cashier   Waiter   Stationery

KOT box   F & B check

Night Audit   Guest Folio
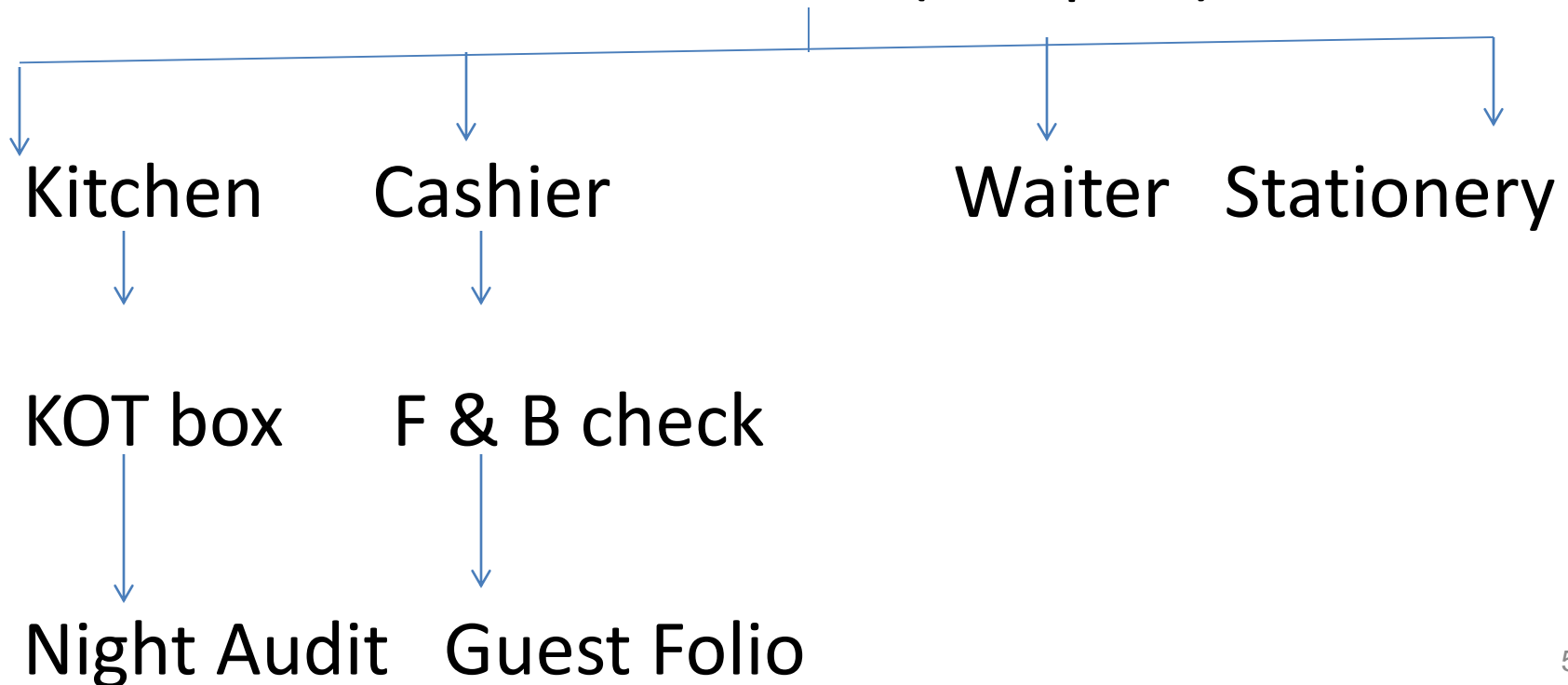
Documentation in Semi automated audit mode

- Front Office Cash Report

- Night Auditor summary report- D Card

- Zero balance report- Z Card

Fully automated audit system

- Overcomes the cumbersome and tedious procedures of the other two modes.

- Rarely do the audit data and FO daily reports don't match. In case it does occur, it is due to an internal computer problem or unusual data handling error.

- Data is stored in electronic database.

- Night audit process includes a series of steps; input data or elements into PMS; based on computer PMS generated commands that must be obeyed to complete the audit process successfully.

System Update

- In PMS, night audit is called system update.

- System update may be executed any number of times, at any point of time.

- It can detect errors through processes like "range check".

- Range check highlights those amounts in a series of postings that are abnormally large or small. For example, a restaurant bill of 1500 dollars could actually be of 15.00 dollars, only!

Monitoring Credit Limits

- With the help of system update, the guest ledger totals may be printed any time of the day to detect if any account is accumulating abnormally high charge purchases.

- This could be the sign of a potential 'skipper'!

- Another sign of a guest likely to run away without paying is abnormally large sums of cash given out as tips to servers, to demonstrate "creditworthiness"!

Calculating Occupancy %

Room Occupancy% = $\dfrac{\text{Total occupied rooms}}{\text{Total Saleable Rooms}} \times 100$

House count= Yesterday's House count – Today's departures + Today's arrivals

Bed Occupancy% = $\dfrac{\text{Total occupied beds}}{\text{Total available beds}} \times 100$

Calculating Operational Statistic

Average Daily rate =

$$\frac{\text{Total revenue from room sales x 100}}{\text{Total number of occupied rooms}}$$

Revenue per available room=

$$\frac{\text{Total revenue from room sales x 100}}{\text{Total number of saleable rooms}}$$

What is the difference between these two, you might be thinking! Refer to chapter on "Evaluating Front Office Performance" in third year.

Calculating Occupancy%

Domestic Occupancy% =

$$\frac{\text{No. Of Indian guests} \times 100}{\text{House count}}$$

Foreigner Occupancy % =

100 – Domestic Occupancy%

Night Audit & Revenue Management

- Revenue management is the topic learners will encounter in the final year.

- Revenue management is the practice of three main strategies to optimize the hotel room revenue; variable pricing, discount allocation and controlling the length of the guest stay.

- Night audit process generates reports, that form the foundation of successful revenue management strategy.

Night Auditor as Night Receptionist

- Process late check-ins

- Process early check-outs

- Monitor fire alarm system

- Act as Manager-on-duty

- Handle emergencies

Night Auditor Profile

- Accounts background

- Hotel management degree

- Temporary posting (no one likes continuous night shifts)

- Reports to FOM & Chief Accountant

Running Trial Balance

- On a Tab sheet, like Vertical Tabular Ledger, all transactions are posted room-wise.

- Total of all columns and all rows on this Tab sheet must be equal to prove accuracy of postings.

Room N0.	101	102	201	202	301	302	Total
Name							
Pax.							
Room						→	
Tax							
Restaurant							
Bar							
Laundry							
	↓						↓
Total						→	
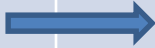
Components Of Night Audit Report

- **Total restaurant sales and sales tax**
- **Tips for restaurant, room service, banquet, and lounge employees**
- **Room service Sales**
- **Banquet sales**
- **Banquet Bar and Total Lounge Sales**
- **Valet Charges**
- **Telephone Charges**

Components Of Night Audit Report

- **Gift Shop Sales and Tax**

- **Vending Sales**

- **Spa**

Common Errors Corrected During The Night Audit

Balance Pickup Errors
- Incorrectly enter the folio's previous balance
- Does not happen with fully automated systems

Transposition Errors
- Transaction numbers are reversed
- Post $25 instead of $52
- Subtract numbers and divide by 9 (Rule of 9)
- 52 - 25 = 27
- 27/ 9 = 3 (Whole number)

Also, the missing folio!

Missing Folio Error

- The folio, if removed from the storage bucket, without putting a warning note in the bucket, will keep the audit process incomplete.

- It is removed by Credit Controller to deal with high balance accounts.

- Sometimes, the folio may be moved to the forward section of the bucket, where settled or transferred folios are kept after check-out.

- Another mistake is to settle A account (Direct Billing) but leave B account (incidentals).

Error in Accounting

- Lastly, it is possible to post the voucher amount correctly, but in the wrong folio. So, the account may be in balance but the guest will challenge the wrong entry at the settlement stage.

- This error may be nearly impossible to find unless we systematically go through the transactions, department wise, room number wise and observe carefully.

Sharer Room and half tariff mystery

- While verifying posting of room rate and taxes, the auditor may see tariff that is roughly 50% of the actual tariff.

- In such cases, it is possible that the booking is by a group and delegates are on shared-basis accommodation.

- If the second person has also joined, then the remaining half of the tariff must be posted by the night auditor.

Precautions while posting

- Post charges on the same date it occurred. Any mix-up in dates may confuse the guest at check-out stage and he may dispute it.

- It will be even better if charges on the same date are also entered sequentially in time. For example, morning charges first and evening charges last. That is how we humans try to recall events in our mind.

- This saves much headache during final settlement stage.

Precautionary Back-Up of Data

- In PMS & POS, crashes may cripple the operations if the back up is not maintained on CD, Paper, cloud storage etc.

- The computer may also be commanded to create system restore (Windows command) points at least once in 24 hours; to avert any major problems of loss in data.

Accounting Integrity

Integrity is an important fundamental element of the **accounting** profession.

Integrity requires **accountants** to be honest, candid and forthright with a client's financial information.

Accountants should restrict themselves from personal gain or advantage using confidential information.

Account Integrity

- May be achieved through separation of duties and authorities.

- Mainly, the three accounting functions are allotted to three different persons.

1. **Posting**

2. **Verifying**

3. **Collecting payment**

Discrepancy Report

- Front office department prepares its occupancy list based on the records of check-in & check-out.

- HK staff are asked to submit a perceived occupancy report of each serviced room.

- This may lead to differences between the two sets of data.

- Night audit is responsible to prepare the discrepancy report highlighting critical differences between the FO & HK room status.

Reasons of discrepancy

- Skippers
- Sleeper rooms
- Undeclared joiners
- Sleep outs
- Walk-outs (left without realizing they have an account to settle.)

Resolving discrepancy

- Such differences in room status must be quickly sorted out to prevent any financial loss to the hotel.

Handling No Show Reservations

- Only guaranteed no-shows have to be billed.

- Before billing, confirm for duplication of reservations.

- It is possible that two bookings exist for the same guest.

- Some times, the names may simply be reversed; Raj Kamal having registered as Kamal Raj!

- Extreme care needs to be taken, or the guest will be upset for being billed twice.

Disabled Guest In-house Report

- It is mandatory for the hotel to keep a print-out of this report handy at all times.

- In situations of emergencies, these guests need to be assisted first; and in the best possible way, indeed!

- Allotment of room at check-in must be done keeping in mind the convenience and emergency evacuation of the disabled guest.

PMS- Stand Alone Systems Interface Procedure Review

- In connected properties, the data from systems like POS, ELS, EMS, CAS are automatically posted in the guest folio at PMS.

- However, even this data may become corrupt due to technical glitches.

- Control folio, created automatically within PMS, is a collection of all the transactions flowing from one revenue centre to the guest account.

- This data in control folio should also be compared with the actual postings printed in guest folio to find errors.

What is Night Audit, once again?

- Matching (reconciling) the data of different departments with data in the Front Office folio.

- Success is achieved when both sets of data are proved to be identical.

Recap. of Night Audit Steps

- Complete outstanding postings

- Reconcile room status discrepancies

- Balance all departments

- Verify room rates (compare rate on GRC & Folio)

- Verify no-show reservations

- Post room rates and taxes (but after verifying other transactions)

- Prepare reports (D Card & Z Card in semi-automation system

- Deposit cash

- Clear and/or back-up system

- Distribute reports

Room Status after Night Audit

- All the vacant and ready rooms, that are available for sale the next day.

- All discrepancies between HK & FO room status have been resolved.