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Internal audit function in the Croatian hospitality industry

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Abstract

Purpose – This study aims to examine the current state-of-the-art foundation, organization, role, processes, and functioning of internal audit (IA) within Croatian hotel companies in order to suggest improvements.

Design/Methodology –qualitative research was conducted using a questionnaire distributed to Croatian hotel companies that quote their stocks on the capital markets, noted destinations, and internationally renowned hotel companies that operate in Croatia from March to May 2023. Based on the responses received, semi-structured interviews were conducted with internal auditors who are or have been employed by hotel companies in order to obtain more detailed information about the organization and performance of the internal audit function (IAF).

Findings – The results showed that not many hotel companies in Croatia have organized IAF because it is not a legal obligation for the hospitality industry. The current stage of IAF in these companies is infrastructural or integrated, which shows possibilities for its improvement. The role of internal audit is not recognized because it is seen as a time-consuming activity and an additional expense for the hotel company, without awareness of its real purpose, opportunities to improve the efficiency and effectiveness of hotel operations, and other benefits of this function.

Research limitations – the small sample of hotel companies that have IAF organized within and also a limited number of internal auditors that have experience, knowledge, and qualifications to work in the hospitality industry.

The originality of the research – the first study regarding the organization of IAF in the hospitality industry.

Keywords: internal auditing, internal auditor, internal audit function, hospitality industry, hotel companies

1 Introduction

The development and growth, globalization processes, and technological innovations have a great impact on the business activities of companies. To this end, constant monitoring of business activities and processes is necessary to detect their shortcomings and propose timely improvements.

Hotel companies operate in a complex, dynamic, and interconnected environment, and if they want to be competitive and successful, they should not be reactive, but anticipate changes and seek solutions for their businesses. Managers who run a hotel business are responsible for managing hotel businesses successfully and achieving satisfactory business results to ensure its operation in the future. Internal audit (IA) is an independent and objective assurance and consultation activity function that provides managers with the information necessary

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for managing risks, setting proper internal controls, and improving the effectiveness and efficiency of a hotel's business.

The role of the Internal audit function (IAF) has changed over time. It evolved from simple tasks such as reviewing accounting processes to providing assurance on the systems of internal accounting control when the number of transactions increased and processes became more complex. Today, IA is considered an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IPPF, 2017).

IA in the Republic of Croatia is made mandatory by national regulations only for specific sectors and companies: public sector by the Law on the internal control system in public companies NG. 78/15, 102/19; banks and financial institutions by the Law on financial institutions NG. 159/13, 19/15; 102/15, 15/18; 70/19, 47/20; 146/20; 151/22; insurance companies by the Law on Insurance NG. 30/15, 112/18; 63/20; 133/20, 151/22, and companies that quote their stocks on stock markets that are in possession of the Republic of Croatia have an obligation to Binding decisions on the Code of Corporate Governance NG 132/2017. Also, according to the Law on obligatory pension funds NG. 19/2014 and Act no 3. of the Rulebook on organizational requirements for pension companies in managing mandatory pension funds there is a requirement for organizing IAF within companies that are partially owned by pension funds. In other sectors and types of companies, the IAF is optional and is organized "in the case of economic necessity and need" (www.hiir.hr).

Research on IA in the hospitality industry is scarce, and in order to contribute to this field, it was decided that the specifics related to the function and role of internal auditors in hotel companies should be the focus of this research. Therefore, the aim of this study is to examine the current state-of-the-art IAF organized in Croatian hotel companies and to show what improvements can be made in order to improve the current position of IA. In order to obtain this information, the questionnaire on IAF was sent to Croatian hotel companies. The questionnaire was combined with a semi-structured interview conducted only with internal auditors who have experience working in hotel companies. The possibilities of changing the general understanding of the opportunities and benefits of IAF are also discussed. IA should rather be seen as a function that looks for possibilities for improving the effectiveness and efficiency of business processes within hotel companies than be seen as a watchdog (Roussy, 2013). The usefulness of IA has yet to be proven, as there is very little public awareness of the actual performance and functions of IAF (Archambeault et al., 2008).

The paper is organized as follows: The first part includes a literature review of the IAF in relation to its role and organization, the second part explains the methodology used for this research, followed by the third part presents the results and recommendations for this function in hotel companies. The limitations of the study are also pointed out also directions and ideas for future research. The conclusion and references follow at the end of the paper.

The focus of this research is on the hospitality industry as it is an important sector for the Croatian economy. Tourism contributes to the Croatian Gross Domestic Product (GDP) by 15.9% in 2021. (HTZ, 2021), while its contribution is 6.1% on average worldwide (www.statista.com). Considering the fact that Croatian hotel capacities represent 15% of the total tourism volume (in number of beds) (HTZ, 2022), special attention is needed for Croatian hotel companies.

The total contribution of travel and tourism to global GDP was approximately $ 5.8 trillion in 2021. (www.statista.com) The global hotel industry was worth $4.13 billion in 2021, growing at an average rate of 10% per year. There are over 700,000 hotels worldwide, contributing 3,4 trillion annually to the global economy (Hotel Industry Statistics & Trends 2022).

2 Literature review

Managers are responsible for managing business at all levels, meeting the needs of their owners, using resources efficiently, improving quality, and ensuring the sustainability of their business. Today's trends in business management are based on flexibility, information and communication, teamwork, innovation, and knowledge related to changes arising from the environment. They are implemented in the definition of IA, focusing on the independence of the auditor, objective assurance, and consulting activities to add value and improve the business. Managing businesses in the future is complex and the existing IAF should incorporate new business conditions and a new environment into its work. These tasks require the IAF to change to a proactive and client-

focused function whose main role is to anticipate risks and advise management on the internal controls to be put in place for this purpose.

The IAF is usually in companies exchanged for internal controls and therefore it should be noted to what extent IAF influences IC (Christensen, 2022). The reason for that can be found in the role of internal controls in revealing company frauds because nearly half of the detected cases of fraud occurred due to a lack of internal controls (29%) and override of existing controls (20%) (ACFE Report to the nations 2022, p. 35). It has to be emphasized that internal controls represent only one segment of internal audit. Apart from internal controls and processes that should operate in an effective manner, the IAF in a company is a third line of defense (Figure 1) and is in charge of risk management, and risk compliance therefore for its proper and independent functioning it is important that the auditors have to stand separately in a company to review it without personal bias.

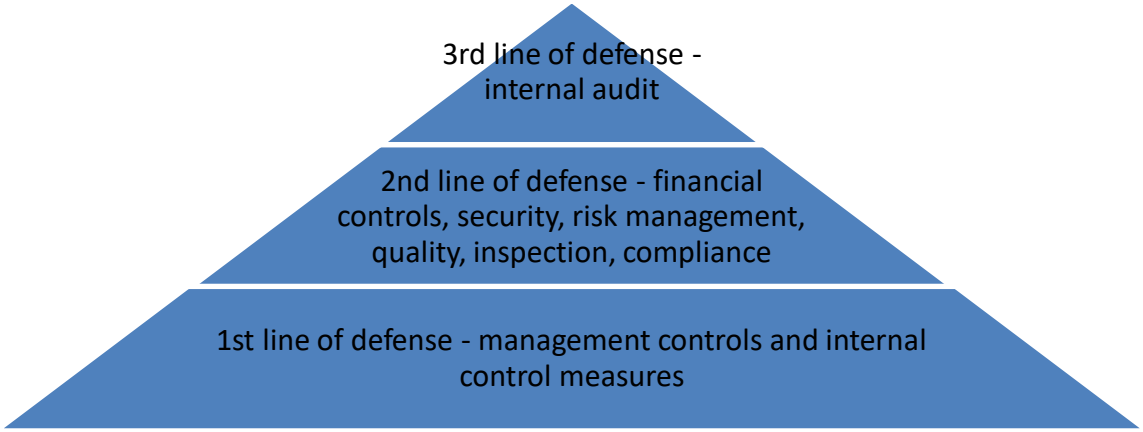

Figure 1: Traditional three lines of defense model
Source: Adapted model of Three Lines of Defense (The Institute of Internal Auditors, 2013)

The three lines of defense model published by the Institute of Internal Auditors in 2013 was organized with the aim of providing a comprehensive framework to consider the overall arrangements for managing risk and exercising control within a company. The first line deals with the primary responsibility of operational management for managing risks through designing and implementing controls. The second line of defense is reported to senior management and comprises risk management and compliance functions to build and monitor controls set in the first line. The third line of defense i.e., the task of IA is to provide assurance on the effectiveness of governance, risk management, and internal controls independent of management with direct reporting to the audit committee.

Only the experienced professionals can make the assessment and bring about the desired organizational behavior or else it would bring in issues thereby affecting the management performance. Hence, it is very important to study how an auditing function impacts management performance (Shahroor, H. 2018, p 1) and how managers' knowledge of the purpose of IAF should be enhanced. IAF is established with the aim of reviewing the effectiveness and efficiency of companies' activities, ensuring compliance with established regulations, and evaluating of risk management and internal controls system of an organization (Badara and Siti, 2013). According to previous studies, the main role of IAF is to add value to the company it operates. Assurance and consulting activities should be operational, tactical, and strategic and they should improve operations. Also, assistance with risk management, control, and governance processes considered to be primary duties will add a different value to the company. It should be kept in mind that the specific needs of companies and the industry they are operating within are of great importance (Reding et.al, 2013). The internal auditor has the obligation to contribute to the evaluation of the corporate governance process in a variety of ways (Cattrysse, 2005). The role of internal audit is accomplished or the services provided using different means. Services provided are typically based on the company's needs and the IAF's authority, scope, and capacity. Services contain the provision of assurance and consulting activities and can consist of audits of transactions, compliance, systems, processes, operations, performance/value-for-money, information and related technology, and financial statements and systems. There is relatively little regulatory or best practices guidance related to the distribution of IAF activities and there is no current research on these activities (Abbot et al. 2010, p 1)

The IAF aims at reducing a company's exposure to risk and orients its task towards predicting the company's future risks. Therefore, it is expected that internal auditors should think strategically but should also be tactical and detail-oriented, providing generated insights into the business processes of the company, internal control, and coverage of risks. The IAF being an integral part of the organizational environment has different users within the company and with their consulting services provides insurance against risk. IA at the same time is the agent of the audit committee (AC) and also a partner to management i.e., it serves two masters (Abbot et al. 2010, Hoos et al. 2014). The AC has to reduce a company's exposure to risk, and management objectives include greater exposure to risk since the risk in its slightest degree is a key driver in the creation of added value for a company over time (Ernst & Young, 2006, p. 11). Previous research shows that reviews conducted jointly between the IAF and the AC positively influence the internal audit (Jung and Cho, 2022). Also, in the scientific literature the emphasis is on the importance of interaction among internal auditors, top management, or shop floor workers claiming that in addition to basic skills in auditing, there is a need for strong communication skills. Auditors need preparation and training support in this matter to be able to present and discuss audit findings at different organizational levels (Kaziliunas, 2008; Balagué, 2009). This is an important issue because from the companies point of view, IAs are the main source of effective management, reliable accounting information for managerial and financial reporting, auditing efficiency and effectiveness in business operations, and promoting the preservation and rational use of assets, operational audit for expenses and incomes, etc. (Arsenyev et al. 2019).

The strategy and activities of the IAF need to be in line with the organizational goals, quality, and quantity of IAF resources sufficient for the current and future objectives of the company. If the IAF is not able to use its resources to satisfy the needs of the main stakeholders, the position and perception of the IAF might harm the corporate governance of the whole company (Eulerich & Eulerich 2020, p. 84).

Previous research find that differences exist between the IA services provided and the fulfillment of IIA's definition, and stakeholders pose questions on whether IA is able to live up to its assigned role at all and expect more from their IAFs. They want IAFs to provide assurance that controls are working properly, to give advice on changes and operational issues and to anticipate and provide insights on risks to the organization (Heesakkers et al., 2019).

There is research with negative viewpoint on IA where several respondents perceive the IA activity as a waste of time from which little value was gained and claim that auditors focus on compliance and not on improvements of operations (Chiarini, 2019), reveal perceptions of audits as being a time-consuming activity with limited value added by the audit findings (Roth, 2003; Ramly et al., 2018;). From the other viewpoint, the research also shows positive impact of internal audits especially in its role on continuous improvements of business performance (Alic & Rusjan, 2011; Underdown & Yentzen, 2012; Verkhovskaya et al., 2016), and in enhancing customer satisfaction (Tomic & Spasojevic Brkic, 2019) which is very important regarding hotel companies.

Previous research is oriented towards exploring on the effectiveness of IA (Barzan 2018, Ayman 2022) and reliability of the performance of internal auditor by the stakeholders for their decision making (Ashfaq et al., 2022), efficiency and effectiveness of IAF (Boţa-Avram & Palfi, 2009; Arena & Azone 2009; Roussy et al. 2020; Yung and Cho, 2022) and its quality (DeAngelo, 1981; Prawitt et al, 2009, Jiang et al. 2017).

The research on internal audit is mostly pointed towards regulated sectors eg. banking (van der Nest et al., 2015; Rijamampianina, R., 2016; Lambekova et al. 2018; Hayek et al. 2022), insurance (Badara and Saidin, 2014; Bshayreh et al., 2019; Sulaiman et al., 2022; Ahmeti et al., 2022,) or public companies (Van Gansberghe, 2005; Arena & Jeppesen, 2015; Roussy, 2022, Hanaty et al. 2022) in comparison to the sectors where IAF has not been mandatory (Tsvetanova, 2014, Amoako et al., 2018).

The research regarding the degree of IA conducted in Croatia did not separate hospitality industry from other industries. This research includes different industries within single country and shows that they do not correspond to the development degree of modern market economies and that in order to improve this situation continuous education not only of internal auditors but also managers of the companies is required in order to increase the awareness and actions in the function of internal audit (Tušek & Sever, 2007). The research results on IA conducted by Croatian Institute of internal auditing and PwC (2009) state that 87% of companies use their own resources when conducting activities of IA, having their appropriate status within the company, respects and applies standards of IA institutes, with 65% believing they bring advantages in a form of lower expenses. The biggest problem is considered to be insufficient communication with management and that IA lacks support within the company especially from the viewpoint of Board of directors (27%). Generally, the biggest challenge for IAF is their acceptance and support within the company and therefore in the future the IAF will have to reconsider the way that it will report their work and values to internal users (HIIR, 2009). Also, there is research conducted in IAF of Croatian public sector and according to this research, although this function is separated from other parts

of company it is marked by subordination to the management and negatively affects the efficiency of implementation (Mijoč et al. 2018).

It should be pointed out that the internal auditing for banking, insurance companies and public sector has been regulated in many countries including Croatia by law and therefore their guidelines and best practices can benefit for application in other industries or private sectors, among others, hotel companies where applicable (eg. public inventory procurement, defining operating and other risks etc.).

Hospitality industry characteristics are that the services provided in the form of lodging, food and beverage and others are intangible, have specific life cycle, are aggregated, heterogenous and in the same timeframe produced and consumed and offer experience. Tourist products in a great part consist of intangible elements connected to specific material components. The direct consequence of intangibleness (immateriality) is that tourist products or services cannot be transferred, or tested in advance and therefore are considered to be perishable. It is their usage that is transferrable to the customer (guest). This implies to the fact that the product purchased is unique and consists of both intangible and tangible elements and in its basics, it is considered to be a unique experience. Besides, intangible also means that the customer (guest) is not sure of its purchase until it actually consumes the product/service and therefore will require as much as possible advanced information in order to lower its uncertainty and fear. Tourist products/services cannot be stored as inventories and therefore if not sold and consumed at a particular moment they are represented as seized opportunity or waisted. Therefore, the hospitality industry is under the pressure regarding the market where the services are sold.

The research regarding IA in hospitality industry is very scarce. The first one contains findings on internal activities of large lodging chains and emphasizes that this activity has been highly centralized, the IA personnel not being large, spends most of their times on traditional auditing activities with little time spent on efficient and effective use of resources, more time spent on assisting external audit and concludes that substantial progress should be made to its practices (Schmidgall & Damitio, 1990). The second research contains effectiveness measurement of IAs in Greek hotels that have little evidence regarding this function in hospitality industry (Karagiorgos, Drogalas, and Giovanis, 2011). Third research is on the form of IA of the activity results at the enterprises of hotel and restaurant business where the conclusion is that it depends on the frequency of the implementation of audit procedures and stages of its occurrence that are divided into previous, current and next types of audits (Arsenyev et al., 2019, p.4). Research mostly considers the components of the audit process, but no attention is given to specifics regarding hotel (or restaurant business) companies (Alberca & Parte, 2018). Modern business conditions and changes require additional work regarding the improvement of the organization and methods of IA of the main activities of hotel (and restaurant) companies (Jung, 2018). In order to add to the scientific literature, this research examines the organization, functioning and monitoring of IAF in hotel companies.

3 Research methodology

The qualitative method was chosen for this research because of the specificity of research aim. It has been emphasized that qualitative methods can be used for research with narrow aim, highly specific participants, established theory supported, strong interview dialogue, and where in-depth exploration of narratives or discourse details is required (Malterud et al. 2015). It is also stated that “an important value of qualitative research is description and understanding of the actual human interactions, meanings, and processes that constitute real-life organizational settings” (Gephart, 2004, 455) and that the qualitative inquiry provides insights into how broad concepts and theories operate in specific cases. Proponents of qualitative research make statements consistent with the “exploratory” stereotype that leads to a tone of apology in some cases that qualitative research lacks the power of quantitative studies (Gephart, 2004.; Humphrey, 2014.), however quantitative methods could be enhanced by an improved understanding of practitioners’ work realities as experienced in the specific fields through qualitative methods (Bansal et al. 2011; Birkinshaw 2011; Power & Gendron, 2014).

This research aimed to reveal the state-of-the-art of the foundation, organization, the role, processes and functioning of IAF in Croatian hospitality industry. The selection of hotel companies was guided by the fact that there is no mandatory obligation for having this function organized. From this point of research onward, it was clear that the focus should be placed on large and medium hotel companies. Accordingly, the research sample was selected using the following criteria: it included Croatian hotel companies that quote on the Zagreb Stock Exchange under sector hotel (https://zse.hr/hr/sektor/302?sector_id=243 I), noted Croatian destinations and renowned international hotel companies that operate in Croatia. It has to be emphasized that the number of hotel companies is constantly changing due to merges and acquisitions. Because of the small sample of hotel companies included in this research, qualitative method was selected as the appropriate method of research. The number of hotel

companies included in the research was initially 18 containing the total of 123 hotels, with total number of 12.132 rooms.

The final response was received from 11 hotel companies containing 88 hotels. The value of the assets of these hotel companies varies from 48 to 563 mil. €, with the average of 228.5 mil. € (in 2021). Total revenues vary from 4 to 210 mil. €, with the average of 53 mil. €. The average number of employees is 1,014, and their capacity is 54.953 accommodation units/rooms.

On the basis of previously conducted research of IAF (Tušek and Sever 2007, Schmidgall and Damitio, 1990) the questionnaire was developed in order to ensure adequate research basis and results. The questionnaire consisted of two parts, first part containing six questions with general information for hotel companies with last question seeking information whether there was no internal audit, it was outsourced or it was organized as a separate department within the hotel company. According to the answer received, second part of the questionnaire was sent to hotel companies. The second part of questionnaire sent to the hotel companies that have not internal audit organized, among others, contained questions regarding the reasons for not having this function organized. For the outsourced internal auditing the questionnaire contained questions seeking reasons for using this option, and for the hotel companies that had IAF organized, the questionnaire sent followed strategically all stages of its foundation, organization and functioning. This part of questionnaire comprised a set of closed, open-ended questions, and 5-point Likert scale affirmations.

The first part of the questionnaire was initially distributed to management of Croatian hotel companies in March 2023 in order to obtain initial information, and the remainders were sent accordingly in April. Upon the receipt of the first part of the questionnaire, second part questionnaire was distributed individually to hotel companies. For the hotel companies that had this function organized as a self-standing and independent function currently or had this function organized in the past, interviewees were invited using a formal invitation letter through email and convenient date and time were agreed upon for the interview. Interviews were specifically targeted to internal auditors working in hotel companies. Before the interviews, interviewees prepared themselves using questions from the second part of the questionnaire. The interviews were conducted during April and May 2023 in person and through teams, according to the possibilities and availability of the internal auditors. The interviews followed questions from the second part of a questionnaire (semi-standardized interviews) in order to obtain deeper understanding on the issues regarding the foundation, organization and operation of IAF in practice. Both authors of this research were present in every interview and with the notes taken during each interview, a written report was made after the interviews were completed. The second part of these questionnaires was sent once again to interviewees after the interviews were conducted for verification, and after their receipt, they were again examined separately and jointly by both authors to obtain clear and unbiased answers from interviewees.

4 Research results and recommendations

The research results show that Croatian hotel companies have IAF organized only in the case when they are legally obliged to do so and in the case of economic necessity and need. The remainder of hotel companies that do not have IAF, have an internal controls department or personnel that are in charge of establishing internal controls instead. In several cases, the controlling department of a hotel company has this task and checks internal controls through controlling reports (eg. lodging department with detailed planned, actual or past revenues and expenses) which is not internal auditing and cannot be accepted as the third line of defense of a hotel company. The reasons for not organizing IAF lay in the fact that this function is considered to be time-consuming and expensive, there is a lack of certified internal auditors with specific knowledge for the hospitality industry and the advantages of internal audits are not viewed as such. Because IAs work is not observed through the benefits it provides but is only viewed as a time-consuming, expensive activity with a limited value that provides for the company, the opinion as such is unfortunately, not an exception (Ramly et al., 2018; Lenning & Gremyr, 2022). If the actual role and function of IA are recognized by management and especially external stakeholders, then the public opinion on the IAF would differ from its current state. Therefore, to increase the knowledge of the aim, purpose, and benefits of IAF for a hotel company the summary of IAF activities must be published within financial statements as is the case with large international hotel companies or large companies in other industries (NH hotels, 2021; Melia Hotels International 2022, Atlantic group 2021, Unicredit, 2022; Intesa San Paolo 2022).

There is also a lack of qualified personnel within hotel companies regarding IAF because to be employed in the hotel as an internal auditor requires specific education and knowledge that is time-consuming, expensive, and complex. To obtain a certificate of internal auditor (CIA) one must hold a bachelor's degree or higher, hold an active Internal Audit Practitioner designation, possess five years of internal audit experience, or be an active student in the final year of college or be an active student with an approved Internal Audit Education Partnership (IAEP) school (www.theiia.com). Changes should generally be included in all types of educational and other

informational programs including workshops, conferences, and training for managers, and should include an introduction to the basics of IA in management courses to reveal its role regarding and gain deserved attention.

According to the answers presented by hotel companies that do have not IAF organized within, there is a general need for changes that should be focused on educating management on IAF benefits but also on informing stakeholders what is the actual purpose of having IAF in a hotel company. Not only the expenses but also positive sides of it through reporting on IAFs benefits, possibilities, cost savings, improvements, risk detection (if the risk is not detected, its coverage would not take place, and material and financial damage can occur), monitoring and minimization, increasing efficiency and effectiveness, overseeing the company's operations regarding modern principles and improving operating business processes through enhancement of internal controls. The actual value created by IAF and its origin must be considered in an organization-specific manner which in this case is a hotel company.

For the hotel companies in which IAF is organized, the following order is presented: the foundation of IAF - its organization and legal documents – planning IA activities – executing IA activities – reporting on IA findings – monitoring of execution - supervision of IAF. This order is shown in Figure 2.



Figure 2: The function and organization of IA activities
Source: authors' suggestion according to International Professional Practice Framework (IPPF)

For the hotel companies that have IAF, internal auditors interviewed have confirmed that this function has been founded differently. Mostly, they are organized as the general office of management and supervisory board or a separate office that reports audit committee as advisors to the supervisory board. In one case, IAF is organized as a self-standing unit ranged as other business units.

For the IAF of hotel companies, they must be functionally and organizationally separated from other business units eg. To be organized as a self-standing business unit but also not to be in line with other functions but above them, right beside management.

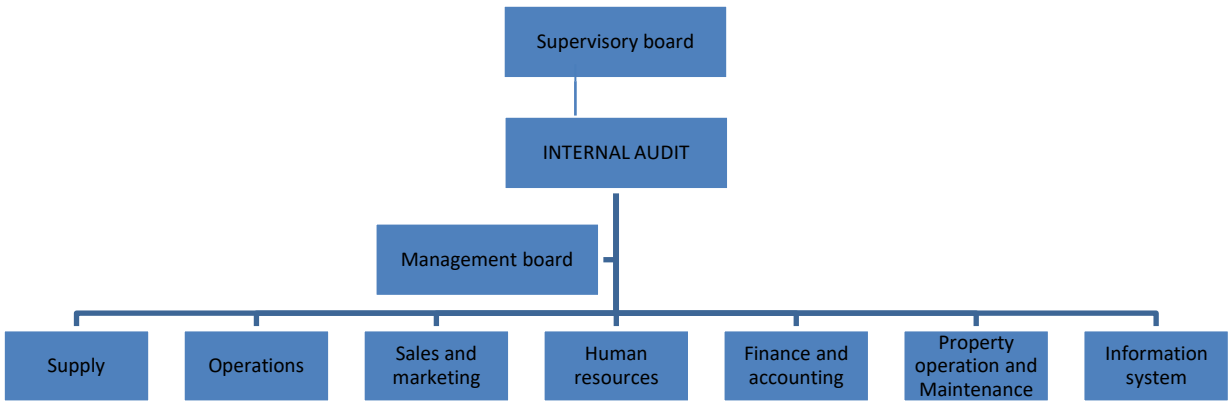

Figure 3: Model of optimal positioning of IAF in hotel company
Source: authors suggestion according to Tušek B., (2005), Organizacija i upravljanje intercom revizijom, Računovodstvo i porezi u peaks, 8/2005, p. 72.

The optimal position of IAF in the organizational structure of a hotel company would be between management and the audit committee which is very important because in this way a proper place in the organizational structure

where with their consulting activity role, IA would be focused on informing management on possibilities of improving efficiency and effectiveness of business operations, anticipating and risk minimization (Figure 3).

The existence of IAF in hotel companies differs. In some hotel companies, this function has been provided for more than 15 years, but mostly it is present for less than five years. In some hotel companies, this function is in its infancy meaning that they are in the process of its foundation and still in the process of its development. It should also be noted that several hotel companies had IAF in the past, but have eliminated this function due to different reasons: changes in organizational structure, cost reduction, taking over from other companies that found IAF unnecessary (in which case the other company did not have IAF and does not recognize its benefits as such), lack of experienced personnel, emphasis on other functions in hotel company considered to be more important than IAF, replacing IAF with controlling or internal control department that is considered to be sufficient for hotel companies. It should be noted that there is a lack of general knowledge on the actual role of IAF and because of this fact and that IA is considered in a wrong context, actions on its popularization should be taken. As has already been emphasized, additional education and informational life-long learning programs should be provided in the future.

Hotel companies that have IAF act according to attribute and performance standards of the Internal Professional Practices Framework (IPPF) that among others states "The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing) (IPPF, 2017)." Apart from the code of ethics, standards of IA, and IA Charter, hotel companies have also enacted standard operation procedures (SOPs) for internal audit.

Regarding the responsibility of the head of IA (executive or manager) in its independent and self-standing completion of activities accountable, hotel companies state that this person is responsible to the management board and audit committee meaning that apart from reporting to management, the head of IA also reports to audit committee which is the second line of reporting, and in this way Ias confidential work is protected and its independence kept as a basic principle of IA in its work as enacted by international standards. Because of dual reporting to both management and audit committee, the lines of reporting are clearly stated and their procedures are strictly followed. Also, the independence of IA is ensured through the fact that the employees that perform internal control and audit within the hotel company are not company related e.g., they are not in a conflict of interest to the hotel company itself.

To perform audit activities in hotel companies, the internal auditors have confirmed unlimited and permanent access to all documents, employees, assets, and company operations in a manner that they can examine and edit all data without the possibility of changing them. This access includes accounting, financial business, reception, food and beverage, inventory, business intelligence (BI), payroll modules, etc.

The yearly plan of IA is delivered and communicated by all hotel companies to the Audit Committee (AC) for its acceptance and approval. Also, in the newly established IAF, this plan is additionally presented to the management board.

Concerning risk management, the IA in hotel companies' evaluation of types and levels of risks differs. They do not make this evaluation at all or include the basis of external information. Older IAF apart from having their methodology in managing risks uses best international practice if available, management expertise, and key drivers of business processes in business units.

In measuring the efficiency and effectiveness of business processes, internal auditors of hotel companies use both financial and non-financial indicators, most of them consider both of them to be important for old IAF. Newly organized IAFs in hotel companies place greater attention and consider financial indicators more important.

The control of the functioning of IA that ensures its independence and efficiency is for all hotel companies under the jurisdiction of AC and the management board. Additionally, for the internal control activities management board is also competent/authorized.

It has to be noted that internal auditors of hotel companies state that apart from activities connected to IAF, they also perform other activities such as different types of surveillance during takeovers of company units, consulting activities in acquisitions and merging processes, deliveries and takeovers of facilities, etc. They also perform project management, leases, and rentals, assets management, inventories, insurance, restructuring processes, and implementation/ introduction of new business processes according to new EU regulations to add value and improve the efficiency of business processes regarding internal controls and managing risks. In the banking sector that is legally obliged to have IAF, the ratio of IA employees is 1 to 125, while this ratio in insurance companies is 1 to 300 (PWC, 2009, p.7). The ratio of IA employees in hotel companies exceeds these numbers, and in this matter, it should be emphasized that regarding additional activities internal auditors need to fulfill, the issue of work overload of IA personnel is questioned. According to the research findings it should be noted that

the amount of work placed on IA staff/personnel working in hotel companies is substantial and raises questions of the quality dedicated to performing existing planned activities and also to conflict of interest that in these situations can eventually occur. To overcome this issue, additional qualified IA personnel should be appropriated or their services outsourced in the future for performing specific projects if they occur (eg. Specialists for acquisitions, or takeover of facilities, project managers, and assets managers).

The internal audit performed by IAF is generally connected to operational audits, internal financial audits, and managerial audits. Operational audits in which efficiency and effectiveness of organization and business operations are the ones that IAF spends most of the time for hotel companies whose IAF is recently organized. Hotel companies with older IAFs concentrate on managerial audits that are focused on consultation with management and internal auditors to strategic management and decision-making are performed to create added value and increase the effectiveness and efficiency of internal controls and managing risks.

The activities performed by internal auditors and the contribution of IA to improvement in hotel companies are evaluated from their side with average, where all interviewees agreed that this question should have been posted to external auditors, management, and audit board for evaluation. The same comment was received when asked to evaluate the role of internal auditors of hotel companies in strategic management. In this sense, the internal auditors showed their understanding and sensitivity towards the value of self-evaluation. Also, in financial institutions according to IPPF independent expert evaluates the quality of IAF activities every five years (e.g. Unicredit Bilanci e Relazioni, 2022, p.878) which can also be applied to hotel companies.

Internal auditors of hotel companies also emphasize that in evaluating business internal resources eg communication with employers that are providing services to guests are considered very important. External information, business associates, industry key performance indicators, and financial statements are also used in this matter.

Internal auditors in hotel companies perform maximal internal controls and processes compliance as well as controls regarding external regulation laws and procedures compliance, while evaluation of efficiency and effectiveness of company resource usage is used on average.

To communicate findings and recommendations that IA suggests for different improvements to management boards and audit committees in hotel companies the information is also communicated to the personnel of organizational units whose activities were audited. IA keeps in this sense feedback on the recommendations that have been implemented, not implemented, or are in the process of implementation regularly. Hotel companies use different forms for this communication that range from paper form to Excel or other specially tailored digital platforms that generate information on the status of recommendations in real time. The intention for the future is that these activities are digitalized and automatized which would result in improved efficiency and effectiveness of performance.

After conducting an audit internal auditors monitor the audited process and execution of recommendations for which they have set the timeframe. Internal auditors are constantly communicating with employees involved in the audited process.

The planning and conducting of IAF activities during the year are regularly reported to AC and the management board in written form. Ias of hotel companies mostly present these reports quarterly in each meeting session of the AC for consideration and acceptance.

The future of IAF in hotel companies depends on its possibilities of adapting to changes in the business environment and understanding its role by internal and external users in hotel companies. Because of the importance of the tourism and hospitality industry in Croatia and the size of hotel companies that increased through mergers and acquisitions during the last decade, it is recommended that internal audit becomes legally obligatory for large hotel companies. In this case, IA would help hotel companies minimize risks, and improve effectiveness and efficiency of hotel operations and business in general.

This is important from the viewpoint of IAS performance standards according to which effectively managed IA achieves its purpose and responsibility included in the IA charter, conforms to the Standards, individual members conform with the Code of Ethics and the Standards, considers trends and emerging issues that could impact the hotel company (IPPF, 2017). The need to form practical guidelines enabling the exchange of practice among internal auditors of hotel companies due to the specifics of the industry is crucial. The models and best practices on processes and department standard operating procedures (SOPs) are welcome so that improvements can be made in the future. Regulations of IAF in banks, and insurance companies, and examples that exist in other industries can be used in providing guidelines for reporting on internal auditing in hotel companies internally and externally. Also, more research on internal controls in the hospitality industry nationally and internationally should be conducted.

The limitations of this research are a small number of hotel companies that have IAF founded and organized and are limited to a single country.

We suggest further research should be extended to internal auditors and IAF of hotel companies in other countries in the area eg. Mediterranean, EU countries, international or renowned hotel chains, best-ranked hotel companies according to different criteria, etc. Best practices from other industries could be adjusted and applied as role models for organizing IAF in hotel companies. Also, guidelines for implementing IAF should be elaborated to help companies find, develop, and improve their IA units. Organizing sections with exchanging knowledge regarding specifics of hotel companies in connection to particular processes and problem-solving cases and additional education for managers and stakeholders on the role of internal auditing and its importance in improving hotel operational performance could increase its valorization and utilization.

5 Conclusions

The trend on IAF in Croatia shows that there are not many hotel companies that have this function organized and several hotel companies that used to have IAF as separate units have it eliminated. The reason can be found in the fact that there is no national regulation of IAF as mandatory for hotel companies. There is a general viewpoint by managers of hotel companies that internal audit is not considered to be among the priorities necessary to be organized within the hotel company and instead of IAF, they have internal control functions or departments organized. There is also a lack of publicly available information on the activities that internal audits perform in hotel companies and therefore lack of understanding by the hotel owners and other stakeholders, management, and members of staff on the role and multiple benefits of internal audit activities. Internal audit should be supported by becoming mandatory for large hotel companies, creating guidelines for publicly reporting on internal auditing activities and communicating the value of IAF's role within and outside hotel companies.

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