



## **Efficiency Of Internal Audit In Risk Management Strategies Of Star Rated Hotels In Nairobi**

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### ***Abstract:***

*The initiative was driven by realization that internal audit work was based on traditional approach where solution to problems come after the Company has already suffered loss. The government wants Companies to adopt risk based audit approach, where the audit identifies the possibility of loss and institute strategies to prevent problem from occurring. The purpose of this research to evaluate the efficiency of internal audit in risk management strategies and came up with recommendation on how internal audit can efficiently management risk in star rated hotels in Nairobi.*

*This study entails both qualitative and quantitative data hence descriptive research is valid for the purpose of this study. In Nairobi City there are 18 hotels rated three to five stars out of the 27 classified hotels and restaurant. This is 66.7% of the 1 to 5 star rated hotels and restaurants from Nairobi. Therefore the sample population was 9 Managers, 45 departmental heads and 36 internal audit staff making a total sample of 90 out of 180. The study used stratified random sampling method in order to focus on the respondents that have the information to being sought. The captured was presented by use of tables and percentages to enhance a meaningful description. Weighted average was calculated where necessary to determine positive or negative position on each statement from respondents then ranked accordingly. Furthermore, inferential statistical analysis (chi-square) was used to measure statistical significance of the variables.*

*Respondents indicate there was Risk Management in hotels, but it does not involve the stake holders. The inferential statistics analysis also showed that respondents were unfamiliar with modern methods of Risk Management. However, the findings of this study show that the internal auditors in the hotel are lagging behind in the implementation of modern methods of Risk Management as advocated by the various models. From the analysis, it can be concluded that internal auditors are underperforming on thier role and hence inefficient.*

## 1. Introduction

The business world is becoming increasingly complex due to new, evolving, and emerging risks. Organizations are giving Risk Management more consideration, but implementing an effective Risk Management program takes time and discipline. Internal auditors can play important roles in Risk Management, but there are many roles that internal audit activities are either not ready to pursue or are not proactive in pursuing (IIA, 2011).

The history of Risk Management dated back to 2002, when the US Congress reacted to a series of accounting scandals by enacting the Sarbanes-Oxley Act (SOX) with the costly and burdensome Section 404 (S404). Initially, internal auditors dedicated most of their resources toward meeting S404 requirements causing the internal audit pendulum to swing from a consulting focus to an assurance or compliance focus, (PwC, 2005). While most internal auditors agreed that they should direct the internal control compliance effort, they found the work to be tedious and mundane (Nagy & Cenker 2007). As such, many internal auditors sought ways to lessen their S404 compliance role and return to areas requiring more of their expertise and professional judgment. Increased scrutiny from investors and regulators resulting from accounting scandals in the early 2000 and the more recent recession has caused companies to formalize Risk Management practices. Within the last five years, there has been an increasing awareness and need for improved and more flexible Risk Management. Other factors such as changes in stakeholder expectations and legislative and regulatory pressures on Risk Management have also been noted.

In 2001, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) set out to establish a Risk Management framework that would be readily usable by managers to evaluate and improve their organizations' Risk Management discipline in these turbulent times. COSO also recognized that a considerable amount of information regarding Risk Management had already been developed but that no consolidation of effort had taken place.

One important step was the new definition of internal auditing issued by the IIA (1999), which clearly states that the internal auditing activity should evaluate and contribute to the improvement of Risk Management, control and governance (IIA, 1999).

Savcuk (2007) argues that the developing role of the internal auditing is becoming important as 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.

In the GAIN flash survey, 24% indicated that their Internal Audit activity had a primary responsibility for Risk Management in their organizations, which are likely reflected in the lead role that internal auditing play in a daily basis.

Chambers (2000) observed the increasing references to risk (management) over the last five years in professional journals related to internal audit. Moreover, over 60 per cent of the respondents of a (KPMG survey, 2002) in eight European countries believed that their systems of Risk Management and internal control add value to their organization.

The (Leung et al., 2003) large-scale study within Australian companies revealed that a large majority of internal auditors regarded Risk Management (74 per cent) and internal control (91 per cent) as important internal audit objectives.

Moreover, the Institute of Internal Auditors (2004), stated that the internal audit activity should evaluate and contribute to the improvement of Risk Management, control and governance, recognizes the assurance and consulting role of internal auditing in corporate governance and simultaneously in risk assessment.

The key activity with respect to risk is to manage it. (Selim & McNamee, 1999a) argued that this starts with a risk assessment where the organization attempts to estimate the probable consequences of threats and opportunities (risk identification, measurement and prioritization), followed by Risk Management, where decisions need to be made about how to manage the perceived consequences of that risk. Business risk assessment is the first stage which is designed to give a top-down, business-risk orientation to audit work (Bell et al., 1997). Risk assessment is an on-going and integral responsibility of management, because management can not establish objectives and simply assume that they will be achieved and all the time new risks deviate from the internal and external business environment (Sawyer, 2003). The new approach is intended to provide valuable insights and information to management (Crawford & Stein, 2002). According to Williams (1995) risk identification is the most important stage in the assessment.

According to Institute of Internals Auditors ( 2010), the Role of Internal Auditing in Risk Management include Seeking opportunities to perform more Risk Management consulting services in support of risk managers program, and formally communicate the results of those consulting services to the audit committee and management, evaluating strategic risks, developed prudent Risk Management techniques to address those risks, and established sufficient monitoring of strategic risk to identify risk occurrences in time

to take the appropriate actions. The detailed responses help bring awareness to the issues surrounding the selected business topics, and that management, regulators, investors, and the internal audit profession will be better equipped to position the internal audit function and their companies in the business community.

Business can better manage risks with a Risk Management methodology that is recommended by Carl (1999), which involves identifying, which infrastructures of their prioritising them based on the consequences. The objectives are bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk, management, control, and governance processes.

According to Institute of Internal Auditors (2011), providing assurance on the Risk Management, control, and governance processes within an organization, internal auditing is one of the key cornerstones of effective organisational governance. The guidance was issued by Institute of Internal Auditors and it was designed to help internal auditing in its assurance and advisory role with regard to specific aspects of organisational governance. According to Price Waterhouse Coopers (2011) on the 'Article growth reimagined', Chief Executives anticipate trends of business is changing and creatively search for value in new markets with new customers and partners expect to find great opportunities. As their Chief Executives step onto a larger stage, internal auditors should be taking a similar approach by preparing for a best supporting role. And as their companies focus outward, internal auditors would be wise to expand their reach to encompass a more diverse set of risks and engage stakeholders on the need for support in non-traditional areas. Internal audit managers can help their audit committees and management understand an extraordinarily dynamic and complex risk environment and make it easier to adapt to a rapidly changing world. Those who succeed in this endeavour will add tremendous value; those who do not seize this opportunity risk losing relevance within their organizations.

The financial risk management profession has grown considerably in the last 15 years, according to the Global Association of Risk Professionals (GARP). The demand in the profession has been spurred by the complexity of financial products, increased regulations and the failure of financial institutions that helped fuel the recent global recession. The profession has also become important in the wake of advancement in information technology, liberalization and globalization (Financial risk Management, 1999).

According to Zagats (2009), U.S. Hotels, Resorts and Spas survey, business travel has

decreased in the past year as a result of the recession. 30% of travelers surveyed stated they travel less for business. Reasons for the decline in business travel include company travel policy changes, personal economics, economic uncertainty and high airline prices. Hotels are responding to the downturn by dropping rates, ramping up promotions and negotiating deals for both business travelers and tourists (Zagat, 2009).

According to G. Oliver (2010), drop in traveller number has an implication on Financial Viability of the Hotel sector. There is a significant amount of capital currently flowing into the hospitality industry. Not only are investors betting on a strong recovery, but also in some cases they are not performing realistic projections and investment analyses. Should expectations not materialize, then sub-par returns could damage the overall financial credibility of the hotel industry. Managers of hotel firms often encounter a situation where available cash resources are not sufficient to finance investment in productive assets. Investment in the hotel business generally requires relatively large initial cash expenditure. The cash return on the investment, however, tends to be spread out over many years in the future. Delayed cash return strain a firm's ability to make additional investments.

Employee turnover in the hospitality industry often averages as much as 200% to 300% per year. This means that the entire staff of a hospitality operation turns over two to three times per year (Woods, 1997: 141). Hotel industry is a labour-intensive industry, and labor costs on goods and services produced are very high. It means that labor expenses have an important share on total expenses (almost 40%). In order to serve quality goods and services with a reasonable price, and compete with their competitors, hotel administrations must control the labor expenses and satisfy their employees, and decrease undesired employee turnover (Klebanow and Eder, 1992).

Kamenidou et al. (2009), the study identified the need for efficient audit function as the solution to quality service delivery and that was lacking in hotel industry.

Karagiorgos et al. (2010), the study identified internal audit function was present in big hotels as lacking operational structure in small hotels.

In Kenya, while it is relatively easy to introduce new systems and procedures, it requires a much longer time horizon to change attitudes, particularly if vested interests are involved. In addition, technical capacity constraints continue limit the Internal Audit Department's ability to carry out its mandate (Wasike and Mwencha, 2008). The hotel sector being one of the largest revenue earners in the economy requires a firm solution to help the sector withstand and overcome the challenges. The risk management on the

other hand was driven by realization that though internal audit is strategically positioned to help organizations, find solution to problems before entity suffers loss. Risk management strategies, if well implemented, helps the entities identify the possibility of loss and institute strategies to prevent possible loss from occurring. It was therefore the purpose of this research, to evaluate the efficiency of internal audit in formulation of risk management strategies used by the hotels and give recommendation on possible improvements as advocated by risk management models.

The main objective of the research was to evaluate the efficiency of internal audit of Risk Management strategies on star rated hotels in Nairobi County. The specific objectives were;

- To find out whether internal audit staff have the efficiency variables required by the audit profession and the work environment which they operate.
- To evaluate the methods used in risk identification, measurement and prioritization in the hotel sector.
- To assess the contribution of internal audit in improving operational and financial performance of the hotels.

## **2. Literature review**

### *2.1.Theoretical Review*

Indicators of Financial and Operational Performance in the organization

Standards established by Institute of Internal Auditors specify that the scope of internal Auditing should encompass Risk Management and control systems. This includes evaluating the reliability of reporting, reviewing the effectiveness and efficiency of operations, safeguarding assets and ensuring compliance with laws, regulations and contracts. Regarding the idea of internal audit provides the Risk Management initiative with the necessary supporting evidence on internal controls are operating as management believes they are, the audit team would then need to identify those risk that of greatest potential impact on the business and to assess the mitigating controls for each of these risks within the process being reviewed. According to Sawyer (2003), benefits to the operations control can be analyzed as follows;

- Financial and operating information is accurate and reliable

Appraising the reliability and integrity of financial operating information by evaluating the means developed by management to identify, classify, measure and report such information. Internal audit ensures that employees who have access to organization funds in any form must follow the prescribed procedures for recording, handling, and protecting money as detailed in this document. Specifically the employee shall: act with honesty and integrity, timely and understandable, act in good faith; responsibly and with due care, competence and diligence without misapprehending material facts or allowing one's independent judgement to be subordinated and respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Financial Management Manual, (2011).

- Risk to the enterprise are identified and minimized

When risks have been identified, analyzed, reported and ranked the next stage will be to prepare and agree an appropriate risk action plan. Treating risk in an appropriate way is aimed to constrain the risk to an acceptable level or actively taking advantage, regarding the uncertainty as an opportunity to gain a benefit; Treating risk involves taking a corrective action to reduce the negative or increase the positive magnitude of the risks using the approaches discussed as follows;

#### Risk Transfer

In some cases, the risk identified is such that it is best managed and assumed by a professional risk manager. This is achieved by transferring the risk, for example by insurance or paying a third party to take the risk in another way.

#### Risk Acceptance

In some cases the value of a risk is such that it is so low that the cost of mitigating it is higher than the value of the risk. In such a case, it is better to accept the risk and do nothing about it. Minor risks fall into this category. However, such risks must be constantly monitored to ensure that they do not mutate into other more serious or significant risks. This tolerating of the risk can be supplemented by contingency plans if deemed necessary.

#### Risk Termination / Avoidance

Some risks may be so significant that they may not be cost effective and / or practical ways to mitigate them. In such a case, the only obvious solution is to terminate them. Terminating the activity giving rise to the risk where possible, should be done while bearing in mind that this option is limited given Bureau activities and mandate as set out in Statistics Act, (2006).

- External regulation and acceptable internal policies and procedures are followed. Studies done by Price water house Coopers, (2012), illustrated that changing business environment, has necessitated regulation as government policy-makers around the globe attempt to constrain risky activities, restore consumer and investor confidence, and change how governments are engaging the business community. Resulting from massive reform packages have been adopted throughout the world with Companies moving into emerging markets will face both risks and opportunities as governments enact labor market reforms and approve tax incentives in hopes of creating competitive advantage. The complexity, diversity, and global reach of regulatory change have caused internal audit organizations to think creatively about how they address these risks and assess the response by management to the changing regulatory environment. In line with regulatory compliance, internal audit should be in a position to support the business and the audit committee. The uncertainty and intensity of debate surrounding today's regulatory environment also requires companies to determine which new regulations are relevant to their business. This creates an opportunity for internal audit to engage with the company's general counsel and other compliance functions to help develop effective and efficient enterprise wide program. New rules, further disclosures, and strict enforcement are causing dramatic changes for businesses around the globe; including banking and capital markets, healthcare, private equity, and nearly every other industry (Price Waterhouse Coppers, 2012).

- Satisfactory Operations criteria are met

One of the key requirements of the Board or its equivalent is to gain assurance that Risk Management process are working effectively and that key risk are being managed to an acceptable level. It is likely that assurance will come from different sources. Of these assurance from the management is fundamental. This should be completed by the provision of objective assurance for which the internal audit activity is a key source. Other sources include external auditors and independent specialist reviews. Internal auditors will normally provide assurance on three areas: Risk Management process, both their design and how well they are working; Management of those risk classified as key, including the responses to those controls and their responses to them; and reliable and appropriate assessment of risk and reporting of risk and control status (IIA, 2009).

- (1) Resources are used efficiently and economically.



Internal audit profession focuses on the rising importance of Risk Management and the increasing expectations of internal audit's contribution to the effort. The highlights are in the rising stakeholder expectations and where internal audit is required to play in the Risk Management challenge, to deliver the greatest value by expanding the footprint of risks they cover and clearly communicating deeper insights. In today's ever-shifting risk landscape, internal audit cannot afford settle for and helps ready organizations for new threats and opportunities (Price Waterhouse Coppers articles, 2012).

- The organization's objectives are effectively achieved.

Risk Management increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the organizations overall objectives. It must be integrated into the culture of the organization with an effective policy and a programme led by the most senior management. It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organization with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels (David, 2010).

### *2.2. Enterprise Risk Management Model*

The Enterprise Risk Management is the most appropriate model for hotel industry. This is because ERM has an elaborate framework for identifying, managing and reviewing risk. The model is widely used in Risk Management with a great level of success as evidenced in two recent papers (IIA, 2004).

<b>Impact</b>	<b>Risk Management Actions</b>		
<b>Significant</b>	Considerable management required	Must manage and monitor risks	Extensive management essential
<b>Moderate</b>	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
<b>Minor</b>	Accept risks	Accept, but monitor risks	Manage and monitor risks
	<b>Low</b>	<b>Medium</b>	<b>High</b>
	<b>Likelihood</b>		

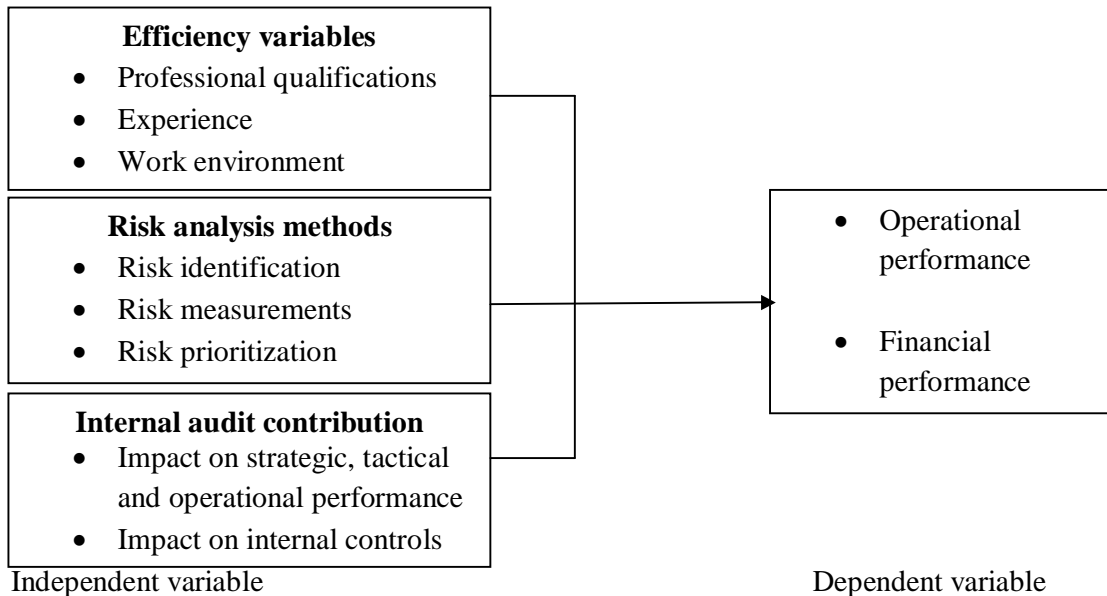
Figure 2.1: Source: Smiechewicz, (2001)

Regarding project management in general, then there would be a reasonably concise number of models to which you could refer to as illustrative models. For example: PERT, PRINCE, CCPM and CMMI – all of which can be applied generically to most projects. However, the situation with Risk Management is very different. The likely risks for someone working in healthcare will be significantly different to someone working in construction, and as different again to someone else working in finance. The simple fact is that Risk Management models are created to fit each unique project that arises. So, as the project manager you must be prepared to create a new model when planning the project and make a provisional assessment of the risk. The adjoining grid might help in assessing those Risk Management actions.

### 3. Conceptual Framework

The focus of the Risk Management system is to identify and treat risks. Its objective is to add maximum sustainable value to all the activities of the hotels. The Risk Management system exploits potential upside and downside of all the events that can affect hotels. This represents the elements that bring out the interrelationship between the major variables of the research and theoretical framework. Risk Management is the independent variable because the level of risk identification, measurement and prioritization determines the achievements of operation and control. Performance indicators in the Operations control are the dependent variable. The success of operations

and control is dependent on the success of the Risk Management process. The relationship is clearly illustrated by figure 2.1



*Figure 2.2 Evaluate the efficiency of internal audit of Risk Management strategies*

#### 4. Empirical review

Popescu and Omran , (2007),examined managing risk and internal auditing. The impact of risk is often high especially for complex risks aimed at vulnerable areas of the entity. Risk assessment is essential because it is central to the process of Risk Management responsibility of leadership, management entity.

Given these considerations present further directions that will guide future research: the role and size of the pattern of psycho-behavioural mechanisms in the auditor and audit process; explore ways of assessing and monitoring internal audit by resorting to techniques such as: self-evaluation of internal control (internal control methodology that reduces risk to an acceptable level to facilitate the objectives of the entity), integrated audits (combining adjacent audit activities to assess key controls), continuous auditing (more frequent monitoring and evaluation); deepening and expanding research on psychology and behavioural skills in verbal and nonverbal communication of auditors who must become much better communicators and counsellors; research level and quality of specialized skills acquired by graduates from which most of the internal auditors to capture how their academic preparation contributes to the assimilation of skills and competencies necessary to conduct audits in accordance with professional standards, especially internal audit functions.

Walker et al., (2002) provide descriptive information about the role of internal auditing in ERM processes at five leading companies (First Energy Corporation, General Motors, Unocal, Wal-Mart, and Canada Post Corporation). The study identifies the major foundational elements in an ERM implementation and highlights the role internal auditors have played in these five organizations on a case by case basis. The authors find that the internal audit function is heavily involved in ERM in each company, but in different ways. The internal audit function assisted in identifying risks, facilitated risk workshops, integrated and aggregated information from the workshops, helped develop ERM processes (setting risk appetite, development process, identification and developing risk matrix) and generated risk reports (Walker et al., 2002).

The authors also note that the chief audit executive plays a significant ERM leadership role in each company – including such roles as spearheading the ERM effort, being the ERM process owner and being given the role of risk champion (Walker et al., 2002)

### **5. Critique Of Literature Review**

Most of the previous studies, research on hotel Risk Management is scanty. Most of the studies done on Risk Management relate to other sectors. A number of articles done on Risk Management looked at the situation of specific country. The articles done on Risk Management and internal audit role indicate a form of disconnect in the integration of both roles. The Risk Management models are continually being reviewed for any researcher to accurately rely on one model for long-term Risk Management.

### **6. Research Methodology**

Descriptive research in the definition of both qualitative and quantitative research methodologies and can utilize both elements often within the same study (AECT, 2001). This study entails both qualitative and quantitative data hence descriptive research was valid for the purpose of the study.

In Nairobi City there are 18 three to five stars out of the 27 classified hotels and restaurant (Gazette Notice, 2003, 2004). This is 66.7% of the 1 to 5 star rated hotels and restaurants from Nairobi. This research therefore focused on hotels falling into the category of 3 to 5- star, because Managers in the category has made an effort of instituting internal audit and Risk Management framework due to large volume of business handled and have departments with the relevant information required for the study. The study used stratified random sampling method in order to focus on the

respondents that have the information to being sought. This method involves dividing Hotels into two or more groups which are homogeneous then a given number of cases are selected from each group or population (Mugenda, 2003). This method was adopted because it allowed a consideration of the heterogeneous nature of the study population and prevents bias in sample selection.

For the study the 18 hotels were divided into groups according to their respective categories of 3-5 star rated hotels. Mugenda & Mugenda, (2003) prescribe 50% as the viable proportion of the sample population for a study using random statistical method which the study employed.

To collect primary data, the researcher walked in and hand in the questionnaire and waited to be given a filled questionnaire. A questionnaire was used as preferred research approach to gather responses in the chosen hotels. The design helped the researcher in the collection of quantifiable data that gives a true picture of the role of internal audit in managing risk as well as the benefits to the hotels.

Secondary data was sourced from relevant source such as reports, books, the Internet, journals, articles and ministry of tourism.

All data from the questionnaires was coded, tabulated and edited for computer analysis using scientific package for social science (SPSS). The data was captured tables and percentages to enhance a meaningful description. Weighted average was calculated where necessary to determine positive or negative position on each statement from respondents then ranked accordingly. Furthermore, inferential statistical analysis (chi-square) was used to measure statistical significance of the variables answering the research questions.

## **7. Results**

The data collection instrument, which was the questionnaires, was sent to 90 employees. The response rate was 100% resulting from intensive follow ups. The high response of managers and internal audit staff made a significant input to the study, more especially in the statistical analysis. The larger the sample of the respondents, the better the statistical analysis in presenting a true and accurate reflection of the results.

## **8. Efficiency variable required by the audit profession and work environment**

### *7.1. Academic qualification of the respondents*

Most of the respondents hold Bachelors degree at 49%, followed by 31% Masters while 20% held diploma certificates. The hotels prefer employing people with Bachelors and Masters Degrees. There was indication that the hotels prefer academically qualified persons as internal auditors and Managers.

### *7.2 Age of the respondents and length of work in the hotel*

The study found out that age of the respondents significantly varied with the length of work in various establishments. Those who have worked for less than 6 years were of very few in all the categories. This clearly shows that most establishments employ few younger staff and few older staff while the majority of the older persons are in management. Audit staff and departmental heads are aged between 41 years to 50 years indicating that the hotels value experience.

### *7.3 Work environment in which internal auditors operate in their respective hotels.*

There is a significant high level of awareness regarding Risk Management being tied to good governance principles as majority of the respondents strongly agreed that Risk Management is tied to good governance principles at 58.9% while 2.2% disagreed with the same statement. 55.6% agreed that Risk Management is beneficial to whole hospitality industry. The study noted that most of the respondents mean were neutral in most of the aspect and this was attributed by level of agreement "neutral" having a higher mean score of 40.2.

The study realized that most of the respondents were neutral on the level of awareness that Risk Management is a concept that is well understood by employees at 55.3% of the total participants in the survey. The finding again contradicts Beasley et al., (2005) on evidence of internal audit focus on coordinating ERM efforts among various parties, assisting with risk identification, suggesting control activities, and monitoring the ERM process. It is interpreted that respondents perceive Risk Management as tied to good governance and beneficial to the industry but neutral to all other possible benefits.

**Test statistics**

	Risk Management is a concept that is well understood by employees	Risk Management is beneficial to whole hospitality industry	Risk Management is tied to good governance principles	Risk Management is an initiative of all employees	The shareholders and government support Risk Management initiatives	Hotels have a mechanism of communication potential risk factors
Chi-Square	52.400 <sup>a</sup>	59.156 <sup>a</sup>	44.600 <sup>b</sup>	43.956 <sup>a</sup>	19.467 <sup>b</sup>	24.267 <sup>b</sup>
Df	3	3	2	3	2	2
Asymp. Sig.	.000	.000	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.5.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 30.0.

Chi- square test revealed that there was significance difference on Risk Management is a concept that is well understood by employees (df 3), Risk Management is beneficial to whole hospitality industry (df 3), Risk Management is tied to good governance principles (df 2), The shareholders and government support Risk Management initiatives (df 2), and Hotels have a mechanism of communication potential risk factors (df 2), at  $p < 0.05$  as shown in the table above.

### **9. Methods used in risk identification, measurement and prioritization in the hotel sector**

Interpretation presented by the findings is that respondents strongly agree with identifying risk in relation to threat of losing money and partially consider other threats to be of any significance. The methods respondents identify with are non-conventional methods of risk identification and measurements. The results of the study showed that most of the respondents were not conversant with the steps in risk identification process according to ERM. According to Walker et al., (2002), internal audit function assisted in identifying risks, facilitated risk workshops, integrated and aggregated information from the workshops, helped develop ERM processes (setting risk appetite, development process, identification and developing risk matrix) and generated risk reports.

**Test Statistics**

	setting risk appetite	risk development process	risk identification	development risk matrix
Chi-Square	44.578 <sup>a</sup>	20.044 <sup>a</sup>	34.622 <sup>a</sup>	29.289 <sup>a</sup>
Df	3	3	3	3
Asymp. Sig.	.000	.000	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 22.5.

Chi- square test revealed that there was significance difference on setting risk appetite (df 3) at  $p < 0.05$ , risk development process (df 3) at  $P < 0.05$ , Risk identification (df 3, and development risk matrix (df 3) at  $p < 0.05$ , in regard to all aspects asked being useful in risk identification.

### 10. Contribution of internal audit in financial and operational performance

The study discloses that Risk Management has a significance contributing to improving operation and control this was attributed by 27.8% of the respondents who strongly agreed and 52.2% who agreed combined 80%. This was followed by Risk Management system is working well for the hotel with participant strongly agreeing at combined score of 46.6%. Majority of respondents were indifferent regarding Risk Management being key to the future of the hotel industry at 57.8%. The derived interpretation was that respondents agreed to the role of Risk Management in improving operations and control and were non committal to the idea that Risk Management is working well for their hotels.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Financial and operating information is accurate and reliable	4.4	48.9	44.4	2.2	0.0
2	Risk to the hotel are identified and minimized	20	48.9	17.8	13.3	0
3	External regulations and acceptable internal policies and procedures are	2.2	41.1	50	6.7	0



	followed					
4	satisfactory operating criteria are implemented	8.9	44.4	31.1	13.3	2.2
5	resources are used efficiently and economical	26.7	32.2	30	11.1	0
6	The organization objectives are efficiently achieved	16.7	26.7	34.4	15.6	6.7
	Total	<b>78.9</b>	<b>242.2</b>	<b>207.7</b>	<b>62.2</b>	<b>8.9</b>
	Mean	<b>13.2</b>	<b>40.4</b>	<b>34.6</b>	<b>10.4</b>	<b>1.5</b>

Chi- square test revealed that there was significance difference in almost all aspects of benefits of Risk Management in hotels at  $P < 0.05$ , it was noted that the aspect of Resources are used efficiently and economical as a benefit of Risk Management was also significant at  $P = 0.02$ .

### 11. Summary

Majority of the respondents also admitted to the use of traditional methods of risk identification such as culture and industry. Majority of respondents were neutral to level of compliance practice as risk identification method. The respondents were neutral to the modern methods of risk identification; setting risk appetite and developing risk matrix. Based on the analysis, most respondents perceive Risk Management from the aspect of threat of losing money, threat of accidents and threat of insecurity. Very few perceived threat of abuse of private information as a risk factor.

Majority of respondents pointed out that risk managers do neither use the values of likelihood and impact in measuring risk, nor do they classify impact in values of minor, major and catastrophic.

The respondents agreed to almost all the stated performance indicators of efficient audit function apart from the aspect of organization objectives being achieved which received neutral response. Majority of the respondents were torn between whether strategic risk should be prioritized or not. The same case was replicated on responses for operational risk. On the other hand, a large number of respondents disagree that there was tactical risk planning.

On the general opinion regarding internal audit efficiency in Risk Management, majority of the respondents agreed that Risk Management has significant contribution to improving operations and control but also non committal to whether Risk Management is working well in their hotels.

### **12. Conclusion**

Respondents indicate there was Risk Management in hotels, but it does not involve the stake holders as advocated by Beasley et al., (2005) on evidence of internal audit focus on coordinating ERM efforts among various parties, assisting with risk identification, suggesting control activities, and monitoring the ERM process. The inferential statistics analysis also showed that across the categories, respondents were unfamiliar with modern methods of Risk Management. The respondents are aware of the Risk Management and the benefits that can accrue from proper implementation. However, the findings of this study show that the internal auditors in the hotel are lagging behind in the implementation of modern methods of Risk Management as advocated by the various models. From the analysis, it can be concluded that internal auditors are underperforming on their role and hence inefficient.

### **13. Recommendations**

Internal auditors must rally the support of managers, employees, directors and shareholders in achieving efficiency in Risk Management strategies in order to realize the full benefits of its implementation in finance and operations.

The Enterprise Risk Management is the most recommended and appropriate model for hotel industry. This is because ERM has an elaborate framework for identifying, managing and reviewing risk. The model is widely used in Risk Management with a great level of success due to the steps of implementation that rallies the support of all stakeholders in the organization. The model is also appropriate for short term and long term planning.

### **14. Area of further study**

Further studies should be conducted to determine the factors that deter coordination of efforts from the internal auditors, employees, management and other stake holders in

implementation of Risk Management in the hotels, despite having the knowledge of benefits to finance and operational performance.

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**16. Questionnaire****Personal/ General Information****Instructions: Tick as appropriate**Age: 21 – 30  31 – 40  41- 50  51 – 60  Above 60 Gender: Female  Male Position Held: Manager  Departmental head  Internal Audit Category of the Hotel: Three star  Four star  Five star Years the Hotel has been in Operation: 0 – 10 yrs  11-20 yrs  21 and above **SECTION I: Evaluate the efficiency variable required by the audit profession and work environment**

Q1. (a) Indicate the academic qualifications

Certificate  Diploma  Bachelor's Degree  Masters 

(b) Indicate the years of work experience in your Organization?

0- 5 yrs  6 – 10 yrs  Above 11 yrs 

Q2. Evaluate the work environment in which internal auditors operate using the variables below.

**USE THE SCALE OF 1-5 WHERE: 1 – Strongly Disagree (SD), 2- Disagree (D), 3- Neutral (N), 4- Agree (A), 5- Strongly Agree (SA).**

<b>Indicate the extent to which you agree with the following statements</b>	<b>SA 5</b>	<b>A 4</b>	<b>N 3</b>	<b>D 2</b>	<b>SD 1</b>
Risk management is a concept that is well understood by employees					
Risk management is beneficial to the whole hospitality industry					
Risk Management is tied to good governance principles					
Risk management is an initiative of all employees					
The Shareholders and government support risk management initiatives					
Hotels have a mechanism of Communicating potential risk factors					



**SECTION 2: Evaluate the methods used in risk identification, measurement and prioritization in the hotel sector.**

**USE THE SCALE OF 1-5 WHERE: 1 – Strongly Disagree (SD), 2- Disagree (D), 3- Neutral (N), 4- Agree (A), 5- Strongly Agree (SA).**

**Q3.** Methods of identifying risk are dependent on external and internal factors. Indicate the extent to which you agree with the use of the following traditional methods.

		SA 5	A 4	N 3	D 2	SD 1
1	Culture					
2	Industry practice					
3	Level of compliance					

**Q4.** Risk identification is done in relation to the following threats in your hotel. Indicate the extent to which you agree.

		SA 5	A 4	N 3	D 2	SD 1
1	Threat of losing Money					
2	Threat of abuse of private information					
3	Threat of accidents and casualties					
4	Threat of insecurity					

**Q5.** Indicate the extent to which you agree with the use of modern methods of risk identification process.

		SA 5	A 4	N 3	D 2	SD 1
1	Setting risk appetite					
2	Risk development process					
3	Risk identification					
4	Developing risk matrix					

**Q6.** Risk Managers measure risk using the values of likelihood and impact.

Yes  No

**Q7.** Risk manager classify risk according to the impact; minor, medium and catastrophic.

Yes  NO

**SECTION 3: To assess the contribution of internal audit in financial and operational performance**

**Q8.** To what extent do you agree with the listed Performance indicators in your Hotel.

		SA	A	N	D	SD

		5	4	3	2	1
1	Financial and operating information is accurate and reliable					
2	Risk to the Hotel are identified and minimized					
3	External regulations and acceptable internal policies and procedures are followed					
4	Satisfactory operating criteria are implemented					
5	Resources are used efficiently and economically					
6	The Organizational objectives are effectively achieved					

Q9. To what extent do you agree with how your organization prioritizes risk under the following categories.

		SA 5	A 4	N 3	D 2	SD 1
1	Strategic risk					
2	Operational risk					
3	Tactical risk					

Q10. What is your general opinion regarding internal auditors efficiency in Risk Management

	To what extent do you agree with the following general opinion on the functioning of risk management	SA 5	A 4	N 3	D 2	SD 1
1	Risk management system is working well for the Hotel					
2	Risk management has significant contribution to improving Operations and Control.					
3	Risk management is key to the future of the hospitality industry					