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# **CHALLENGES OF AUDITING IN THE HOSPITALITY INDUSTRY**

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# *Definition of Internal Audit*

Internal Auditing is an *independent*, objective *assurance* and *consulting* activity designed to *add value* and *improve* an organisation's operations to accomplish its objectives by bringing a *systematic*, disciplined approach to *evaluate* and *improve* the *effectiveness* of *risk management*, *control* and *governance processes*.

*.....The Institute of Internal Auditors.*



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## The Challenges

- ❑ The diversity of the complex issues in the hotel industry – right from rate contracting to engineering to marketing to service delivery which would take time to grasp for newcomer;
- ❑ The complexity of the information systems. Different systems are used for various processes/departments:
  - ❖ Opera for PMS,
  - ❖ Micros for F&B,
  - ❖ MC for Stores/Purchasing,
  - ❖ SUN for financials, etc.

In the absence of one ERP, auditing various systems can be complex.



## The Challenges

- ❑ Uncertainties of risk profiling – Due to the unpredictability of the industry performance, it is difficult to plan what risks to audit around because completely new risks may emerge while at it that may affect work;
- ❑ Inadequacy of sufficiently qualified auditors – getting key staff who would work without supervision while grasping the complex issues is a challenge. It is just not enough to have a degree, CPA, CIA, etc;



## The Challenges

- ❑ Changes in processes within the various services offered to guests may mean change in processes complicating auditing around these. They may not be communicated on time to all, including auditors;
- ❑ Absence of Board Risk & Audit Committees in the case of non-regulated companies.



# Hospitality Fraud

- ❑ *Among the major reasons that hospitality companies are exposed to high levels of fraud is that the industry's culture frequently emphasizes customer service over the internal controls that go into running a hotel, resort or restaurant.*
- ❑ No problem with that, right? Better customer service equals more repeat business, means bigger profits. But it comes with a hefty price.
- ❑ When line employees, supervisors, managers and senior executives are focused so narrowly on getting customers to come back, financial controls inevitably get short-changed.



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# Hospitality Fraud

- ❑ A good hotel manager naturally wants to spend most of his or her time meeting and greeting guests than authorizing guest refund requests... monitoring check-in procedure... or verifying employee time card accuracy.

**Result:** Dishonest employees, guests, vendors and passers-through often have numerous opportunities to exploit missing or flawed anti-fraud controls. Losses to fraud are the inevitable result.



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## Hospitality Fraud: Lessons learned

- ❑ Properly designed internal controls can never be tight enough in a hospitality property. Dishonest hotel, restaurant and bar employees and guests seem to always find new ways to steal.
- ❑ The company's audit and accounting departments, in cooperation with management, must continuously review existing controls... improve on them and carefully screen for new tricks that employees and outsiders are inventing to steal their money.

***CONTROLS IS EVERYBODY'S BUSINESS***





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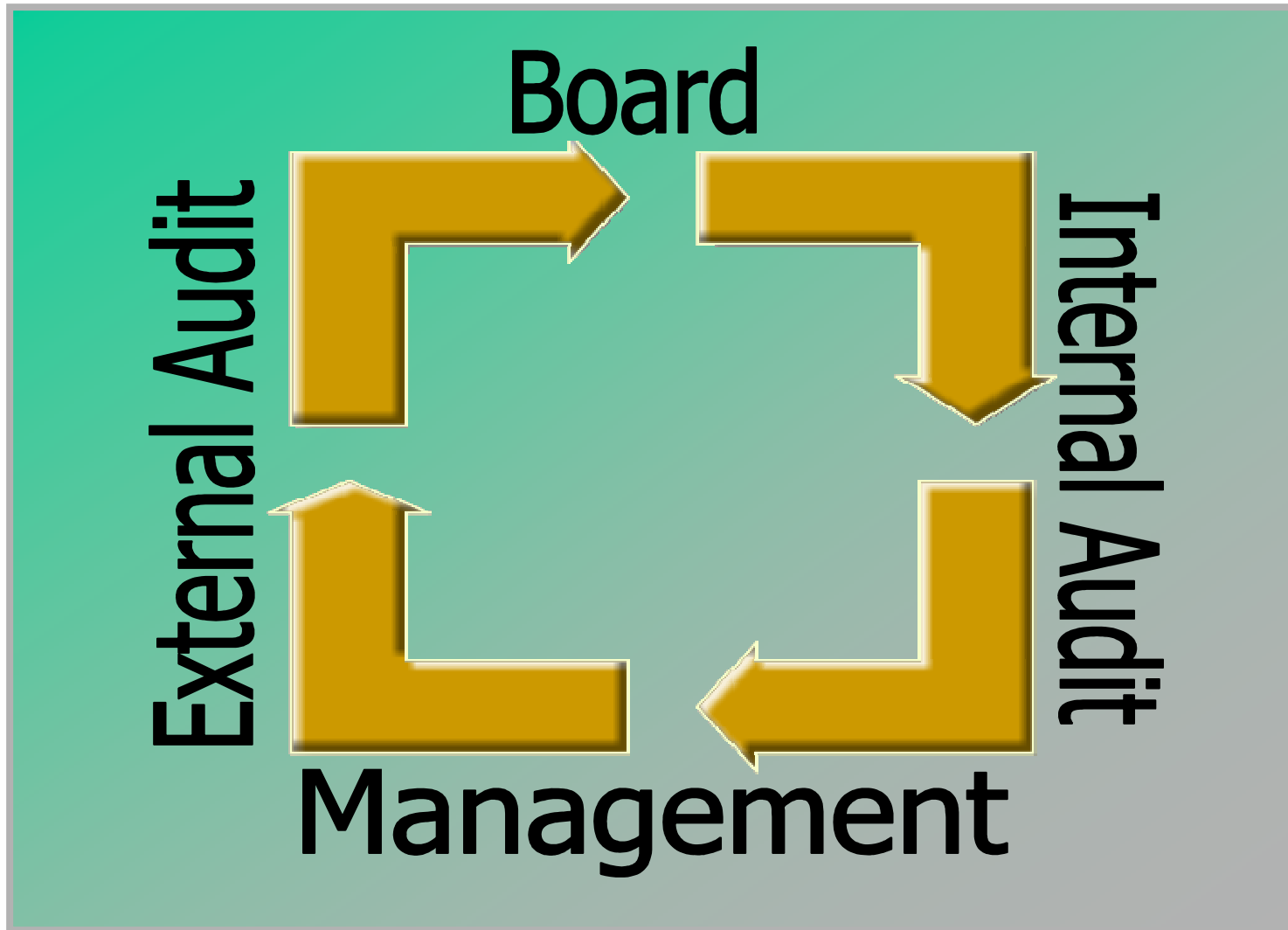
## Hospitality Fraud: Lessons learned

- ❑ While customer service is indeed the ultimate factor determining if a hospitality property sinks or swims, *neglecting anti-fraud controls is bound to shrink the bottom line...no matter how wonderful guests think their visits are.*
- ❑ The challenge is to achieve balance. Balance between the *quest for premium customer service and the unavoidable necessity to keep hard-earned revenues from flowing out through exploitation of inadequate internal controls.*



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# Corporate Governance Grid





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# Questions??

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Amboseli Serena Safari Lodge



Kirawira Luxury Tented Camp



Kampala Serena Hotel



Serena Beach Hotel & Spa

