THE ROLE OF THE INTERNAL AUDIT IN THE TOURISM UNIT'S RISK MANAGEMENT PROCESS

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ABSTRACT: *Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Management periodically reviews its objectives and goals and modifies its processes to accommodate changes in internal and external conditions. Management also establishes and maintains an tourism unital culture, including an ethical climate that fosters control.*
Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Controls may be preventive (to determine undesirable events from occurring), detective (to detect and correct undesirable events which have occurred), or directive (to cause or encourage a desirable event to occur). The concept of a system of control is the integrated collection of control components and activities that are used by an tourism unit to achieve its objectives and goals.

KEY WORDS: *audit; tourism; management; evaluation; control.*

JEL CLASSIFICATION: *M42, M48.*

The scope of internal auditing work in a tourism unit should encompass a systematic, disciplined approach to evaluating and improving the adequacy and effectiveness,of risk management, control, and governance processes and the quality of performance in carrying out assigned responsibilities. The purpose of evaluating the adequacy of the tourism unit's existing risk management, control, and governance processes is to provide reasonable assurance that these processes are functioning as intended and will enable the tourism unit's objectives and goals to be met, and to provide recommendations for improving the tourism unit's operations, in terms of both efficient and effective performance. Senior management and the board might also provide general direction as to the scope of work and the activities to be audited.

Internal auditors should consider some suggestions when evaluating the nature of the internal audit tourism activity's work. These sugestions are not intended to represent all the considerations that may be necessary during such an evaluation, but simply a recommended set of items that should be addressed.

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Adequacy of risk management, control, and governance processes is present if management has planned and designed them in a manner which provides reason able assurance that the tourism unit's objectives and goals will be achieved efficiently and economically. Efficient performance accomplishes objectives and goals in an accurate, timely, and economical fashion. Economical performance accomplishes objectives and goals with minimal use of resources commensurate with the risk exposure. Reasonable assurance is provided if the most costeffective measures are taken in the design and implementation stages to reduce risks and restrict expected deviations to a tolerable level. Thus, the design process begins with the establishment of objectives and goals. This is followed by connecting or interrelating concepts, parts, activities, and people in such a manner as to operate together to achieve the established objectives and goals.

Effectiveness of risk management, control, and governance processes is present if management directs processes in such a manner as to provide reasonable assurance that the tourism unit's objectives and goals will be achieved. In addition to accomplishing the objectives and planned activities, management directs by authorizing activities and transactions, monitoring resulting performance, and verifying that the tourism unit's processes are operating as designed.

Broadly, management is responsible for the sustainability of the whole tourism unit and accountability for the tourism unit's actions, conduct, and performance to the owners, other stakeholders, regulators, and general public. Specifically, the primary objectives of the overall management process are to achieve:

- *relevant, reliable, and credible financial and operating information.*
- *effective and efficient use of the tourism unit's resources.*
- *safeguarding of the tourism unit's assets.*
- *compliance with laws, regulations, ethical and business norms, and contracts.*
- *identification of risk exposures and use of effective strategies to control them.*
- *established objectives and goals for operations or programs.*

Management plans should organizes and direct the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Management periodically reviews its objectives and goals and modifies its processes to accommodate changes in internal and external conditions. Management also establishes and maintains an tourism unital culture, including an ethical climate that fosters control.

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Internal auditors evaluate the whole management process of planning, organizing, and directing to determine whether reasonable assurance exists that objectives and goals will be achieved. Internal auditors should be alert to actual or potential changes in infernal or external conditions that affect the ability to provide

assurance from a forward-look: nq perspective. In those cases, internal auditors should address the risk that performance may deteriorate.

These internal auditing evaluations, in the aggregate, provide information to appraise the overall management process. All business systems, processes, operations, functions, and activities within the tourism unit are subject to the internal auditors' evaluations. The comprehensive scope of work of internal auditing should provide reasonable assurance that management's:

- *risk management system is effective.*
- *system of internal control is effective and efficient.*
- *governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.*

Internal auditors should consider the following suggestions when evaluating a tourism unit's governance activities related to information security. This advices are not intended to represent all the procedures necessary for a comprehensive assurance or consulting engagement related to information security, but simply a recommended core set of high level auditor responsibilities to complement related board and management responsibilities.

Internal auditors should determine that management and the board; audit committee, or other governing body have a clear understanding that information security is a management responsibility. This responsibility includes all critical information of the tourism unit regardless of media in which the information is stored.

The chief audit executive should determine that the internal audit activity possesses, has access to, competent auditing resources to evaluate information security and associated risk exposures. This includes both internal and external risk exposures, including exposures relating to the tourism unit's relationships with outside entities.

Internal auditors should determine that the board, audit committee, or other governing body, has sought assurance from management that information security breaches and conditions that might represent a threat to the tourism unit will promptly be made known to those performing the internal auditing activity.

Internal auditors should assess the effectiveness of preventive, detective, and mitigative measures against past attacks, as deemed appropriate, and future attempts or incidents deemed likely to occure. Internal auditors should confirm that the board, audit committee, or other governing body has been appropriately informed of threats, incidents, vulnerabilities exploited, and corrective measures.

Internal auditors should periodically assess the tourism unit's information security practices and recommend, as appropriate, enhancements to, or implementation of, new controls and safeguards. Following an assessment, an assurance report should be provided to the board, audit committee, or other appropriate governing body. Such assessments can either be conducted as separate stand-alone engagements or as multiple engagements integrated into other audits or engagements conducted as part of the approved audit plan.

The definition of internal auditing calls for "...a disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors have a key role to play in an tourism unit's risk

management process in order to practice internal auditing in accordance with the Standards. This advisory seeks to provide internal auditors with guidance for determining their role in an tourism unit's risk management process and for complying with the Standards.

Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. Boards and audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal auditors should assist both management and the audit committee by examining, evaluating, reporting, and recommending improvements on the adequacy and effectiveness of management's risk processes. Management and the board are responsible for their tourism unit's risk management and control processes. However, internal auditors acting in a consulting role can assist the tourism unit in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.

Developing assessments and reports on the tourism unit's risk management processes is normally a high audit priority. Evaluating management's risk processes is different than the requirement that auditors use risk analysis to plan audits. However, information from a comprehensive risk management process, including the identification of management and board concerns, can assist the internal auditor in planning audit activities.

The chief audit executive should obtain an understanding of management's and the board's expectations of the internal audit activity in the tourism unit's risk management process. This understanding should be codified in the charters of the internal audit activity and audit committee.

Responsibilities and activities should be coordinated among all groups and individuals with a role in the tourism unit's risk management process. These responsibilities and activities should be appropriately documented in the tourism unit's strategic plans, board policies, management directives, operating procedures, and other governance type instruments. Examples of some of the activities and responsibilities that should be documented include:

- *setting strategic direction may reside with the board or a committee;*
- *ownership of risks may be assigned at the senior management level;*
- *acceptance of residual risk may reside at the executive management level;*
- *identifying, assessing, mitigating, and monitoring activities on a continuous basis may be assigned at the operating level; and*
- *periodic assessment and assurance to others should reside with the internal audit activity.*

Internal auditors are expected to identify and evaluate significant risk exposures in the normal course of their duties. The internal audit activity's role in the risk management process of an tourism unit can change over time and may be found at some point along a continuum that ranges from:

- *no role, to*
- *auditing the risk management process as part of the internal audit plan, to*

- *active, continuous support and involvement in the risk management process such as participation on oversight committees, monitoring activities, and status reporting, to*
- *managing and coordinating the risk management process.*

Ultimately, it is the role of executive management and the audit committee to determine the role of internal audit in the risk management process. Management's view on internal audit's role is likely to be determined by factors such as the culture of the tourism unit, ability of the internal auditing staff, and local conditions and customs of the country.

The definition of internal auditing calls for "...a disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors have a key role to play in an tourism unit's risk management process in order to practice internal auditing in accordance with the Standards. However, some tourism units may not have an established risk management process. This advisory seeks to provide internal auditors with guidance for determining their role in an tourism unit without an established risk management process.

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If a tourism unit has not established a risk management process, the internal auditor should bring this to management's attention along with suggestions for establishing such a process. The internal auditor should seek direction from management and the board as to the audit activity's role in the risk management process. The charters for the audit activity and audit committee should document the role of each in the risk management process.

If requested, internal auditors can play a proactive role in assisting with the initial establishment of a risk management process for the tourism unit. A more

proactive role supplements traditional assurance activities with a consultative approach to improving fundamental processes. If such assistance exceeds normal assurance and consulting activities conducted by infernal auditors, independence could be impaired. In these situations, internal auditors should comply with the disclosure requirements of the Standards.

A proactive role in developing and managing a risk management process is not the same as an "ownership of risks" role. In order to avoid an "ownership of risk" role, internal auditors should seek confirmation from management as to its responsibility for identification, mitigation, monitoring, and "ownership" of risks. In summary, internal auditors can facilitate or enable risk management processes, but they should not "own" or be responsible for the management of the risks identified

Internal auditors may be charged with the responsibility for providing assurance to management and the audit committee on the adequacy of the tourism unit's risk management processes, This responsibility would require the auditor to formulate an opinion on whether the tourism unit's risk management process is sufficient to protect the assets, reputation and ongoing operations of the tourism unit.

These sugestions could provide guidance on the major risk management objectives that the auditor should consider in formulating an opinion on the adequacy of the tourism unit's risk management process. This practice advisory covers only the assessment and reporting of the effectiveness of the tourism unit's risk management process. Other Practice Advisories will address controls and consulting issues in greater depth. This advisory recognizes that an tourism unit's risk management process is an important business process that can and should be evaluated in a manner similar to other strategically important processes.

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Each tourism unit may choose a particular methodology to implement its risk management process. The internal auditor should determine the methodology is understood by key groups or individuals involved in corporate governance, including the board and audit committee. Internal auditors must satisfy themselves that the tourism unit's risk management processes address five key objectives to formulate an opinion on the overall adequacy of the risk management processes. The five key objectives of a risk management process are:

- *risks arising from business strategies and activities are identified and prioritized.*
- *management and the board have determined the level of risks acceptable to the tourism unit, including the acceptance of risks designed to accomplish the tourism unit's strategic plans.*
- *risk mitigation activities are designed and implemented to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.*

- *ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.*
- *the board and management receive periodic reports of the results of the risk management processes. The corporate governance processes of the'tourism unit should provide periodic communication of risks, risk stratigies, and controls to stakeholders.*

Internal auditors should recognize that there could be significant variations in the techniques used by various tourism units for their risk management practices. Risk management processes should be designed for the nature of an tourism unit's activities. Depending on the size and complexity of the tourism unit's business activities, risk management processes can be:

- *formal or informal*
- *quantitative or subjective*
- *embedded in the business units or centralized at a corporate level.*

The specific process used by an tourism unit must fit that tourism unit's culture, management style, and business objectives. For example, the use of derivatives or other sophisticated capital markets products by the tourism unit would require the use of quantitative risk management tools. Smaller, less complex tourism units may use an informal risk committee to discuss the tourism unit's risk profile and to initiate periodic actions. The auditor should determine that the methodology chosen is both comprehensive and appropriate for the nature of the tourism unit's activities.

Internal auditors should obtain sufficient evidence to satisfy themselves that the five key objectives of the risk management processes are being met in order to form an opinion on the adequacy of risk management processes. In gathering such evidence, the internal auditor should consider the following types of audit procedures:

- *research and review reference materials and background information on risk management methodologies as a basis to assess whether or not the process used by the tourism unit is appropriate and represents best practices for the industry.*
- *research and review current developments, trends, industry information related to the business conducted by the tourism unit, and other appropriate sources of information to determine risks and exposures that may affect the tourism unit and related control procedures used to address, monitor, and reassess those risks.*
- *review corporate policies, board, and audit committee minutes to determine the tourism unit's business strategies, risk management philosophy and methodology, appetite for risk, and acceptance of risks.*
- *review previous risk evaluation reports by management, internal auditors, external auditors, and any other sources that may have issued such reports.*
- *conduct interviews with line and executive management to determine business unit objectives, related risks, and management's risk mitigation and control monitoring activities.*
- *assimilate information to independently evaluate the effectiveness of risk mitigation, monitoring, and communication of risks and associated control activities.*

- *assess the appropriateness of reporting lines for risk monitoring activities.*
- *review the adequacy and timeliness of reporting on risk management results.*
- *Review the completeness of management's risk analysis, actions taken to remedy issues raised by risk management processes, and suggest improvements.*
- *determine the effectiveness of management's self-assessment processes through observations, direct tests of control and monitoring procedures, testing the accuracy of information used in monitoring activities, and other appropriate techniques.*
- *review risk related issues that may indicate weakness in risk management practices and, as appropriate, discuss with management, the audit committee, and the board of directors. If the auditor believes that management has accepted a level of risk that is inconsistent with the tourism unit's risk management strategy and policies, or that is deemed unacceptable to the tourism unit, the auditor should refer to and any related advices for additional direction.*

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