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Internal Audit Function and Financial Performance of Hospitality Industries in Port Harcourt Metropolis

Imo, Thankgod Obutor Ph.D

Accountancy Department
Faculty of Management Sciences
Rivers State University
Nkpolu-Orowokwo, Port Harcourt, Nigeria
Email: thankgod.imo@ust.edu.ng, thankgodimo17@gmail.com

ABSTRACT
The study determined the impact of internal audit function on financial performance of hospitality industries in Port Harcourt metropolis. Two research questions and two hypotheses were formulated to guide the study. Primary source of data collection was adopted using 4-Likert Scale. The findings showed that there is positive and significant relationship between asset safeguard and return on investment of hospital industries in Port Harcourt metropolis. The result also showed that asset safeguard is crucial tool for actualization of net profit in the hospitality industries in Port Harcourt metropolis. It is concluded that hospitality industries are characterized with the following paraphilia; lodging, event planning, theme parks, transportation, cruise line, etc, and the role of internal audit functions in financial performance is enormous which cannot be overlooked. The internal audit functions are frauds detection, misappropriation of cash and cash equivalents from verification of documents, assets assessment, auditing of books of the account, and rendering stewardship on financial reporting to Board of Directors, Management or External Auditors. It is recommended that hospitality industries should incorporate the internal audit unit to oversee the financial management of the organization; that hospitality industries should employ the services of professional accountant to main the audit unit; that internal auditing unit of hospitality industries should carry out daily assessment of operations to avoid misappropriation of funds and that due process of approving and reimbursement of fund should go through audit unit for auditing, verification, certification and approval of reimbursement.
Keywords: Hospitality industries, internal audit function, financial performance, asset safeguarding, return on investment, return on net profit.

INTRODUCTION

Hospitality industry is a well-organized corporate organization with primary aim of making profit. The hospitality industry has been seen as one of the lucrative ventures that cut across all the crooks and crannies of Port Harcourt city. It is a service-oriented business that generates a lot of revenues. These ventures are segmented into three basic parts: lodging/accommodation, event centres and restaurant/bar services.

Hospitality organization must have up-to-date and active internal control mechanism to succeed in this competitive world. An enterprise's internal control mechanism parade organization's objectives achievement through accurate financial reporting and compliance with the ordinances of the organization. Hence, organization's resources are managed, monitored and measures through internal control mechanism. It also serves as a vehicle for eliminating and discovering of fraud associating from the day-to-day business.

Al-Twaijry, et al (2003) suggested that there are two merits embedded in internal audit department within organizations. First, it enhances organizational activities and risk reduction. Second, it assists organization to prevent and show error or fraud and asset safeguard. Therefore, the Institute of Internal Auditors (2011) now defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It can be argued that this definition tabulates two important issues: The independent of internal auditor and appraisal function for the organization's activities. According to this definition, internal auditors play a relevant role in assessment and enhancement of effectiveness of risk management process.

In addition, the audit function culminates to the reinforcement of management and audit committee (Hutchinson & Zain, 2009). Likewise, it is the functions of audit unit to regulate the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based.

Financial performance is a measure that shows the financial ratio of organization through monetary values. This ratio includes return on investment, return on assets, return on equity, earning per share, etc. These returns are considered as profitability indicator of business evaluation and efficiency of management.

Quality customer service is well needed in the hospitality industry as the requirement for effective and efficient operation. The problems why so many hospitality industries in Port Harcourt are not striving very well is due to poor accounting tools. The employee of this organization uses the profit to their advantage. The total neglect for the position of internal audit becomes the principal challenges of hospitality industry.

The challenge here is that most hospitality industry do not regard the services of internal auditor as important. Again, division of labour in the hospitality industry is limited – where three or four employees do the work of ten people, were responsibilities are fused into one. Here a cashier also serves as an accountant, the manager acts as auditor with others such as cooks, waitress, bar attendants. The cluster of the responsibilities of employee engineer for poor cash book. This expressly enroute for financial misappropriation in the industry. This insufficiency of personnel may cause a lot of errors emanating from misunderstandings of job descriptions, poor or inexperienced of the job and lack of knowledge or skills to adequate tackle any challenge. The competence, skills and understanding of business network of the industry by the director is an invaluable and indispensable benefit to the establishment.

Another precipitating problem here is that hospitality industry, guest house, resort centres are owned by an individual most often, in addition this gives the owner the upper hand to safeguard and nurture the business the way he/she deems it appropriate thereby not minding the role of internal audit functions, so rendering the unit ineffective. In this vein, the risks of not able to fix and launch effective internal control in the establishment can be mitigated by the regular and frequent involvement by management in day-to-day operations. Properly designed internal controls can never be tight enough in a hospitality industry.

The company's audit and accounting departments, in cooperation with management, must continuously review existing controls and make improvement with carefully screening for new tricks that employees and outsiders may invent in misappropriation or stealing of monies and other property.

This study however, seeks to cover the gap in literature by outlining the intricacies functions of internal audit and financial performance of the hospitality industry in Port Harcourt metropolis.

The following research questions were constructed to guide the study.

1. To what extent does asset safeguard impact on return investment?
2. To what extent does asset safeguard impact on net profit?

Therefore, below are formulated null assumptions that will drive this study towards findings and conclusions.

1. There is no significant relationship between asset safeguard and return investment.
2. There is no significant relationship between asset safeguard and net profit.

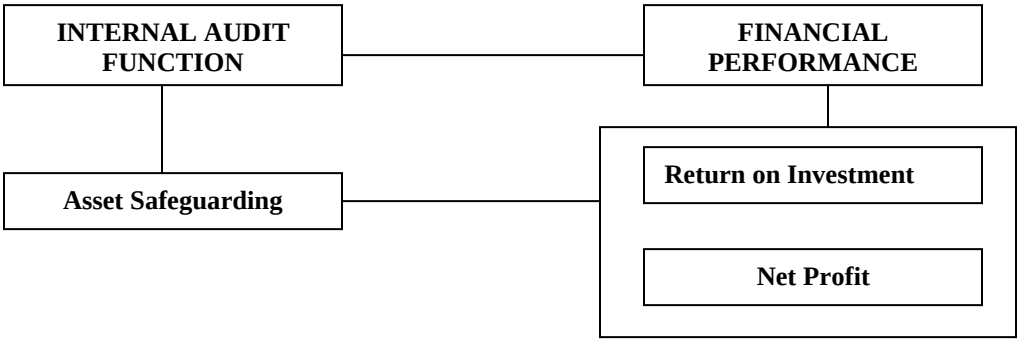

Fig 1. Researchers conceptual framework, 2020

Literature Review

Agency Theory

This theory unravels the relationship between an agent and a principal (Adams, 1994). The principal delegated responsibilities/functions to the agent for payment. However, agency theory means the practice for which productive services is rendered difference individuals (Millichamp & Taylor, 2008). In the context of an organization, this theory proponents that agents behavior should be in the interest of their employers. However, the disclosed agents have been alleged to act on their personal reason instead of shareholders. The foregoing is upheld to beget trust involving two parties (principal and agent).

Consequently, the trust increases when the inclination of not monitoring of the agents' (directors and managers) activities is shown by the principal. Upon the foregoing principle lies the foundation of auditing profession (Millichamp & Taylor, 2008). The theory further throws more light on the principle agent problem, that is, agency predicament.

From the agency point of view, the role of strong governance within a firm lays by aligning the management interests with the stakeholders in order to minimize agency costs (Cohen et al., 2002). An independent board chairman, independent directors on the board, internal audit, external audit and effective audit committee are different corporate governance mechanisms used to monitor behavior of the management (Cohen et al., 2004; Davidson et al., 2005). According to Cohen et al., (2004) the complex interactions within these governance mechanisms are like a "corporate governance mosaic". But problems between independent and executive directors due to asymmetry information shows internal audit more likely as a complementary mechanism.

Internal Audit Functions

Management of hospital industry all over the world, are aware that audit functions provide room for the achievement of organizational goals (return on investment), and the implementation of strategies for their achievement (Ljubisavljevic & Jovanovi, 2011).

In addition, the audit function culminates to the reinforcement of management and audit committee (Hutchinson & Zain, 2009). Likewise, it is the functions of audit unit to regulate the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based.

The successful implementation of internal audit function implies that it must be independent, i.e., management of the company should not be controlled by its work, information, conclusions and evaluations. In this way, the internal audit report becomes vehicle of communication between internal audit and management; and important guideline for the successful management of the company (Ljubisavljevic & Jovanovi, 2011).

Furthermore, internal audit function expedites the activity and effective working of the audit committee as the audit function goals are consistent with the former's financial reporting oversight responsibilities (Goodwin and Yeo, 2001; Goodwin, 2003; Scarbrough, et al, 1998). The transposition of internal audit function is supported by the governance reports and previous studies (Collier & Gregory1996; Goodwin & Kent, 2003) as a tool to influence internal governance processes.

Along this line of argument, Al-Shammari (2010) stated many factors in tandem with hospital industry regarding internal audit functions and they are:

1. The internal control systems facilitate that the accounting system and internal controls systems are suitable make sure that the systems are suitable for the facility and propose system enhancements.
2. Assessing strategies and processes to determine weaknesses in the systems and ways used by the organization and propose modifications and enhancements needed, and to provide authority to the internal auditor for the examination of the aspects of establishment activity.
3. Taking into account the staff obligation to the organization policies and procedures and therefore, internal auditor has to check these framework of operations' implementation and to clarify them to the employees.

There is need to place safety on the established funds as a measure of developing and advancing organization effort to ensure that the assets are safeguarded from manipulation and fraud. The following four factors comprises in IAC, qualifications of the chief audit executive, size, qualification and experience of the audit department.

Asset Safeguarding

Asset safeguard is define-d in paragraph 7 as those policies and procedures that provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements". This definition is consistent with the definition provided in the Committee of Sponsoring Organizations (COSO) of the Treadway Commission's Addendum, Reporting to External Parties, which provides the following definition of internal control over safeguarding of assets: Internal control over safeguarding of assets against unauthorized acquisition, use or disposition is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements (COSO Framework, 2014).

Although the bodily inventory count does not safeguard the inventory from theft or loss, it stops material misrepresentation in the financial statements if performed effectively and timely (COSO Framework, 2014). Therefore, given that the definitions of material weakness and significant deficiency relate to the likelihood of misstatement of the financial statements, the failure of a preventive control such as inventory tags will not result in a significant deficiency or material weakness if the detective control (physical inventory) prevents a misstatement of the financial statements.

The COSO Addendum also indicates that to the extent that such losses might occur, controls over financial reporting are effective if they provide reasonable assurance that those losses are properly reflected in the financial statements, thereby alerting financial statement users to consider the need for action (COSO Framework, 2014). It is important to note that properly reflected in the financial statements includes both correctly recording the loss and adequately disclosing the loss.

Material weaknesses relating to controls over the safeguarding of assets would only exist when the company does not have effective controls (considering both safeguarding and other controls) to prevent or detect a material misstatement of the financial statements (COSO Framework, 2014). Furthermore, management's plans that could potentially affect financial reporting in future periods are not controls.

For example, a company's business continuity or contingency planning has no effect on the company's current abilities to initiate, authorize, record, process, or report financial data. Therefore, a company's business continuity or contingency planning is not part of internal control over financial reporting. The COSO Addendum provides further information about safeguarding of assets as it relates to internal control over financial reporting

Financial Performance

It is used to measure firm's overall financial stability over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Return on Investment

The aim of every investment is profiteering which hospitality industry is not left behind. Return on investment (ROI) is a measure of profitability performance used by investors and business analysts to assess a company management's efficiency in using available resources and financial strength or to compare the efficiency of a number of different investments. It is one of those important ways of making judgements as to where to direct new investment funds as they become available. The concept 'ROI' can be applied to a number of business such as divisions, product lines, or product centres. For example, it can be applied to evaluation of a segment or a branch or department of an enterprise, a product line, a transaction or an individual investment, and even to evaluate the total enterprise.

In this way, it gives management a basis for comparing the performance of different areas and shows how effectively each division used its invested capital to earn a profit. ROI can also be used to evaluate a proposed investment in new equipment by dividing the increase in profit attributable to the new equipment by the increase in invested capital needed to acquire it.

If the ROI so obtained is higher than the company's cost of capital prior to the investment, and no better investment opportunities exist for those funds, it may make sense to purchase the equipment. ROI is also useful to hospitality industry in determining the gain (or loss) achieved by investing in a company over a period of time.

Net Profit

Net Profit is calculated as gross profit minus expenses. Net income or net profit may be determined by subtracting all of a company's expenses, including operating costs, material costs (including raw materials) and tax costs, from its total revenue.

METHODOLOGY

The research design for this study is quasi-experimental because it involves the direct contact with the hospitality industry in data collection using questionnaire.

The population of the study involved all the hospitality industry in Port Harcourt. Hence, the accessible population consisted of all the guest houses, resort centres, restaurants, parks, etc. Hence, the population of 134 will be used for this study.

The sample and sampling procedures were obtained by adopting random sampling techniques. The sample of this research is calculated by using Taro Yamane (Yamane, 1973) formula with 95% confidence level.

The population of 100 will be substituted into the formula to obtain sample size. The calculation formula of Taro Yamane is presented as follows =

$$= \frac{N}{\left(1+N\right)(e)\ \ )}$$

Where: n = sample size required ; N = number of people in the population

e = allowable error (%)

then, substituting the value of 134 into the equation

$$= \frac{134}{\left(1+134\right)(0.05)^2)} \qquad = 100.45$$

After calculating the sample size by substituting the value into the Taro Yamane formula, the numbers of sample is 100.45 persons and thereby approximated to the nearest whole number which is 100. Questionnaire will be distributed in line with organizational staff strength using Likert's 4 points scale, in this order: Strongly agree (4), agree (3), disagree (2), strongly disagreed (1) as the research instrument used in this study.

Linear regression analysis using SPSS ver. 22 was adopted for this study as the method of data analysis.

The model is expressed in the equation form as follows:

$Y = a + b_1x_1 + b_2x_2 + e$

Where y is the dependent variable – financial performance (FIPERF) b_1, b_2

b_1 = Return on Investment (ROI);

b_2 = Net Profit (NP)

While the independent variables are x_1, x_2, x_3,

X_1= Asset Safeguard (SA)

a = constant of intercept

b1 to b_2 = coefficient of the regression parameters
e = error term

RESULT AND DISCUSSION

Data presentation

The data was obtained from Hotel Presidential, Port Harcourt Zoo and Isaac Daka Boro Park.

Table 1 Distribution of questionnaire

S/No	Hospitality Industries	Administered Instrument		Total
		Return	Unreturned	
1	Hotel Presidential, Port Harcourt.	43	7	50
2	Port Harcourt Zoo	18	7	25
3	Lime Wood Hotel, GRA Port Harcourt.	19	6	25
	Total	80	20	100

Table 1 showed the distribution of research instrument to the selected three hospitality industries with 73.08% properly filled instrument and 26.92% improperly filled instrument.

Data Analysis

Table 2 Asset Safeguard and Return on Investment

S/N	Question Statement	SA	A	D	SD
1	The appraisal of non-current asset.	39 (48.75%)	16 (20%)	10 (12.50%)	15 (18.75%)
2	The assessment of current asset.	33 (40%)	20 (25%)	14 (17.50%)	13 (16.25%)
3	Management regulation with reasonable assurance on unauthorized acquisition of assets.	25 (31.25%)	20 (25%)	19 (23.75%)	16 (20%)
4	The disposition of the entity's assets should be regulated	30 (37.50%)	21 (26.25%)	14 (17.50%)	15 (18.75%)
5	The physical inventory identity (numbering).	30 (37.50%)	23 (28.75%)	13 (16.25%)	14 (17.50%)

Table 3 Asset Safeguard and Net Profit

S/N	Question Statement	SA	A	D	SD
1	Quality service asset safeguarding.	35 (43.75%)	21 (26.25%)	13 (16.25%)	11 (13.75%)
2	Satisfactory working capital.	36 (45%)	17 (21.25%)	12 (15%)	15 (18.75%)
3	Functional internal control	25 (31.25%)	24 (30%)	14 (17.50%)	17 (21.25%)
4	Sales appraisal.	35 (43.75%)	21 (26.25%)	16 (20%)	8 (10%)
5	Inventory management	30 (37.50%)	23 (28.75%)	13 (16.25%)	14 (17.50%)

Tables 2 and 3 revealed the descriptive analysis of research questions one and two indicating that asset safeguard positively and significant impact on return investment of hospitality industries as indicated above. Hence, that to greater extent does asset safeguard impact on net profit.

Test of Hypotheses

Hypothesis 1: Asset safeguard does not impact on return investment significantly.

Table 4 The relationship between asset safeguard and return investment

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.920[a]	.894	.687	141.51022	.774	802.844	7	4	.182	2.886

a. Predicts: (Constant), AS; b. Dependent variable: ROI.

Table 4 indicated the result analysis of hypothesis one at correlation coefficient (r) of 920[a] at 5% level of significance. Hence, the r^2 0.894 is greater than 0.05 level of significance. Therefore, the decision is to accept Ho if P > 0.05 and reject Ho if P < 0.05. From this, it is obvious that correlation coefficient is greater than the criterion value of (R > 0.05), therefore, we reject the null hypothesis and accept the alternate hypothesis which states that asset safeguard significantly impact on return investment. The Durbin-Watson statistic of 2.886 is statistically significantly which is above the established criteria of 2.00 (Koutsoyiannis, 2005) illustrates the presence of autocorrelation in the model specification.

Hypothesis 2: Asset safeguard does not impact on net profit significantly.

Table 5: The relationship between Asset safeguard and Net Profit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.621[a]	.574	.509	159.32531	.498	811.501	7	4	.160	2.291

a. Predicts: (Constant), AS; b. Dependent variable: NP.

Table 5 indicated the result analysis of hypothesis two at correlation coefficient (r) of 0.621[a] at 5% level of significance. Hence, the r^2 0.574 is greater than 0.05 level of significance. Therefore, the decision is to accept Ho if P > 0.05 and reject Ho if P < 0.05. From this it is obvious that correlation coefficient (R > 0.05) we reject the hypothesis and accept the alternate hypothesis which means that asset safeguard does impact on net profit significantly. The Durbin-Watson statistic of 2.291 is statistically significantly which is above the established criteria of 2.00 (Koutsoyiannis, 2005) illustrates the presence of autocorrelation in the model specification.

DISCUSSION OF FINDINGS

The study contains five research questions and five research hypotheses and was subjected to descriptive statistics and linear regression analyses to ascertain the relationship between the independent and dependent variables. The results of the description statistics are contained in tables 2 to 3.

Tables 4 indicated the result analysis of hypothesis one at correlation coefficient (r) of .920[a] at 5% level of significance. Therefore, the decision is to accept Ho if P > 0.05 and reject Ho if P < 0.05. So we then stated that asset safeguard significantly impact on return investment significantly. Tables 5 revealed the result analysis of hypothesis two at correlation coefficient (r) of 0.974[a] at 5% level of significance. Therefore, the decision is to accept Ho if P > 0.05 and reject Ho if P < 0.05. Then, we stated that asset safeguard significantly impact on net profit significantly. The result showed that internal control has direct impact on financial performance of hospitality establishments in Port Harcourt.

CONCLUSION

Hospitality industry is characterized as service industry with the following paraphilia; lodging, event planning, theme parks, transportation, cruise line, etc. The role of internal audit functions in financial performance is enormous ranging from frauds detection, misappropriation of cash and its equivalents from verification of documents, assets assessment, auditing of books of the account, and rendering stewardship on financial reporting to Board of Directors, Management or External Auditors. Internal control will help to facilitate the achievement of an organization's objectives in operational effectiveness and efficiency.

RECOMMENDATIONS

From the findings, the following recommendations were drawn:

(i) Hospitality industries should incorporate the internal audit unit to oversee the financial management of the organization.

(ii) That hospitality industry should employ the services a professional accountant to main the audit unit.

(iii) That internal auditing unit of hospitality industries should carry out daily assessment of operations avoid misappropriation of funds.

(iv) That due process of approving and re-imbursement should go through audit unit for certification and approval before payment.

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