

The performance audit as a function for increasing tourism efficiency

Petra Barisic, Dijana Vukovic

Faculty of Economics and Business, University of Zagreb, Croatia

Faculty of Economics, University of Bihac, Bosnia and Herzegovina

pbarisic@efzg.hr

vukovic.dijana@hotmail.com

Abstract

During the past few decades tourism has experienced a boom, so there is an increased need for providing effective and reliable tourist services, whereby performance audit plays an important role. Despite these, the problem of performance audit in tourism and its role in increasing tourism efficiency is hardly addressed. This study highlights the importance of building and managing the performance audit in tourism, and based on the case studies of implemented audits in the European Union and well-known Mediterranean destination of Croatia analyses how these destinations successfully managed their tourist activities. According to the study, in Croatia is carried out only one performance audit in tourism, and it was as a pilot project, while the situation is significantly different in the European Union. That indicates that Croatian economy lags behind developed countries in understanding the importance of performance audit, and its influence on overall economy.

Keywords: *Croatia, European Union, Performance audit, Performance audit in tourism, Tourism*

1. Introduction

This paper highlights the importance of tourism for the success of the overall economy, and significance of efficiency measuring in it. Above all, revenues from tourism activities are an important source of income for many countries, and they have direct influence on the increase of economic parameters. Tourism is highly sophisticated integrated system (Cavlek *et al.*, 2011: 243) which involves stakeholders from all three sectors; public, private and non-profit organisations (Font and Ajhem, 1999). The role of the public sector is that in the most effective way manage the infrastructure and resources necessary to perform tourism activities, on the other hand private businesses provide most services which tourists need (Sillignakis). Tourism in the European Union is of high importance, growth in tourism demand increases the number of employees, turnover and added value (UNWTO, 2013a). When it comes to the Republic of Croatia, the positive effects of tourism can be felt throughout the Croatian economy in terms of increased business volume and employment rate (Barisic and Maric, 2012: 423). As tourism has a significant impact on the economic trends, it is essential to monitor whether the funds allocated to them, have been spent in a transparent way. The crucial role in monitoring a performance of institutions and programs in tourism has a state audit, or performance audit respectively. The findings of the provided audits enable insight into the current status of the audited institutions or programs, where implementation of auditor recommendations can achieve a high level of efficiency (CPA Australian forum, 2008).

The paper presents the findings of a conducted performance audits, as a functions for increasing efficiency in tourism in Croatia and the European Union. The first part of the research discusses the importance of tourism for the overall economy for both destinations, while the second part deals with the performance audits, and consequently performance audits in tourism.

2. Tourism phenomenon

Tourism as a highly sophisticated integrated system (Cavlek *et al.*, 2011: 243) is one of the most important generators of economic, environmental and socio-cultural force (Hall and Jenkins, 1995; UNWTO, 2013) of development. It has earned status of one of the biggest, most dynamic and complex socio-economic phenomena in modern world (Cavlek *et al.*, 2011: 23). Tourism is major source of income for many destinations, and affects the economy of both the source and host destination. Hunziker and Krapf defined it as the sum of the phenomena and relationships arising from the travel and stay of non-residents, insofar as they do not lead to permanent residence and are not connected with any earning activity (Markovic and Markovic, 1970: 10). In 1976, the Tourism Society of England's defined tourism as temporary, short-term movement of people to destination outside the places where they normally live and work and their activities during the stay at each destination. It includes movements for all purposes (Beaver, 2002: 313). Today, in most of the countries is adopted a general conceptual definition of tourism proposed by World Tourism Organization (Cavlek *et al.*, 2011: 30). Toward it, tourism is the act of travel for the purpose of recreation and business, and the provision of services for this act. It is activity of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes not related to the exercise of an activity remunerated from within the place visited (UNWTO, 1995: 10).

Due to its complexity, tourism involves stakeholders from public sector, private business and non-profit organisations (Font and Ajhem, 1999) who all together try to produce goods and services acquired by visitors. Private businesses provide most services that tourists need to get to the destination and the products consumed while on site. The public sector owns and manages the destination's infrastructure and is concerned with the overall country's well-being, and finally non-profit organizations monitor and overlook a large number of the attractions at the destination (Sillignakis).

Private businesses in tourism include lot of different stakeholders from various industries which can be in direct or indirect relation with tourism. Directly linked with tourism are transport and hospitality providers, travel organizers such as tourist agencies and tour operators, souvenir producers, amusement parks etc. Some representatives of public sector are ministry of tourism, tourist boards of municipalities, cities, regions, counties, national tourist board, and destination management organizations. They should all work together for successful implementation of tourism programs in order to get satisfied and loyal guest. So, there is a need for holistic approach to tourism development, management and monitoring. This approach is strongly recommended in order to formulate and implement national and local tourism policies and programs as well as the necessary international agreements or other processes in respect of tourism (UNWTO, 2013).

2.1 Tourism in the European Union

In the twenty first century, European tourism has faced a number of challenges, including the economic crisis, demographic change, globalisation and even natural phenomena such as the eruption of the Eyjafjöll volcano in 2010. However, despite all of these challenges, the European Union has remained the world's number 1 tourist destination (UNWTO, 2012) not only in its traditional role as leading destination in terms of tourist arrivals, but also as a tourism generating region (Leidner, 2004). European tourism represents the third largest economic sector in the EU, after the trade and distribution sector and the construction sector. Accounting for 52% of all international arrivals worldwide, Europe reached 534 million tourist arrivals in 2012, what represents 18 million more than in 2011, or 3% more. International tourism receipts increased by 2% in real terms totalling USD 458 billion, representing 43% of the world total (UNWTO, 2013a).

The EU tourism has become a sector of major importance for the European economy as a whole. As tourism demand in the EU has grown steadily, tourism enterprises have increasingly generated additional employment, turnover and added value. Over the last decade, the job creation rate in the EU tourism was above the average observed for the EU economy as a whole. Tourism plays a particularly important role in terms of employment of women, young people and the less skilled. For these reasons, the tourism has been identified as an industry with an important role to play in attaining the EU's goals for growth and jobs, as set out in the Lisbon Strategy (ECORYS, 2009). In the year 2012 tourism provided 3.6% of direct employment (8.007.000 jobs), or 9.1% of total employment (20.020.500 jobs) (WTTC, 2013: 1).

There are many diverse businesses operating within the tourism in the EU covering travel organisers, visitors' attractions, restaurants, and tourism related means of transport. The majority of the companies in the sector are micro-, small- and medium-sized enterprises, but there are also large multinational organisations (RPA, 2012: 1). In the year 2012, tourism generated indirectly more than 10% of Europe's gross domestic product (RPA, 2012), or 3% directly (USD 504.7 billion). Visitor exports generated 5.6% of total exports (USD 412.0 billion), whereby investment in tourism counted 4.8% of total investments (USD 143.7 billion) (WTTC, 2013: 1).

In the 2012 among top ten countries in the world by number of international tourist arrivals, five of them were EU members (France, Spain, Italy, Germany, and United Kingdom), whereby France was the leading destination with the 83 million of international tourist arrivals. Also, the same countries were among top ten world countries by number of international tourism receipts (UNWTO, 2013a). Thus, no wonder the forecast of the World Tourism Organisation which anticipate that the Europe will remain the world's most important tourist destination and tourism generating region (UNWTO, 2008).

2.2 Tourism in Croatia

Croatia is one of the most important Mediterranean tourist destination, with presence of tourism longer than 150 years (Pirjavec, 1998), but about tourism as a mass phenomenon it is possible to talk from about sixty years ago. Until then, tourism represents one of the most important generators of economic development in Croatia. Although in terms of the number of tourist arrivals, Croatia cannot compare with major tourism powers such as France, Spain or Italy. In the 2012 Croatia had 11.8 million tourist arrivals, 10.4 million of them were international which are the best results in the history of Croatian tourism. In the same year it had 62.7 million tourist nights, also the best results ever (DZS, 2013: 13). Those numbers represent an increase of 3.3% in tourist arrivals and 4% in bed nights (Ministry of Tourism,

2013). Most foreign tourist nights (32%) were spent in the County of Istria, where tourism is most developed in terms of infrastructure. The other coastal counties follow: Primorje-Gorski Kotar (19%), Split-Dalmatia (17%), Zadar (11%), and Dubrovnik-Neretva, Šibenik-Knin and Lika-Senj (together 17%). All others continental counties, accounted for 4% of the total number of nights. Accommodation is distributed according to these figures, mainly along the Adriatic coast (DZS, 2013).

Positive effects of tourism can be felt throughout the Croatian economy in terms of increased business volume observed in retail business, processing industry orders and summer seasonal employment (Barisic and Maric, 2012: 423). Tourism direct contribution to Croatia GDP in the 2012 was 11.9% (HRK 34.5 million). Including its wider economic impacts, the total contribution to GDP was 27.8% (HRK 80.7 million). In the same year travel and tourism directly supported 138.500 jobs (13.1% of total employment), indirectly they supported 319.000 jobs (30.2% of total employment). Visitor exports generated 44.4% of total exports and 12.1% of total investments (WTTC, 2013a).

Croatia's revenues from tourism in 2012 amounted 6.83 billion euros, or 3.2% more than in the 2011. Tourism revenues accounted for 15.4% of GDP, which represents a slight increase in relation to the previous year. The fact that tourism revenues continued the positive trend despite the unfavourable economic situation in Europe shows that Croatia has become a recognised tourist destination worldwide (Ministry of Tourism, 2013).

On the tourism and travel competitiveness world scale, Croatia is ranked 35th of 140 countries compiled by the World Economic Forum. As they reported, Croatia is endowed with a remarkable 18 cultural World Heritage sites and one natural World Heritage site, and is ranked 29th in terms of its overall affinity for travel and tourism. In addition, the country's tourism-specific infrastructure is ranked 5th worldwide, which means that visitors to Croatia have many hotels to choose from, excellent car rental facilities, and many ATMs for withdrawing cash. In other words, visitors have choices in how they visit, travel, and move around the country, and they have the necessary facilities for a comfortable stay. Also, Croatia highly dependent on the quality of its natural environment for leisure tourism, it means that makes efforts toward sustainability (44th) and has good health and hygiene standards (31st). On the other hand, in order to improve the sector's competitiveness further, a goal will be to upgrade its ground transport infrastructure, particularly its railroads and ports, and its air transport infrastructure. More efforts should also be devoted to ensuring that the country's policy rules and regulations are supportive of developing the sector (96th) with improvements in areas such as FDI, property rights protection, and red tape. Besides improving the tourism industry, such advances would favour general development in the country (Blake and Chiesa, 2013).

At the end of this part imposes itself only one possible conclusion, namely that tourism significantly contributes to the Croatia's economic and socio-cultural growth and prosperity of its populace, and without them Croatia would not be able to keep up with the rest of the EU.

3. Concept of the performance audit

Conducting the performance audit The Office of State Audit conducts, examines or tests certain business aspect of particular institution, or their programs and activities in terms of economy, efficiency and effectiveness. With them institution uses its resources, and notifies about them authorized institutions. The performance audit covers (Okanovic, 2012):

- Economy audit of administrative activities in accordance with the administrative principles and practices, as well as policy management.
- Effectiveness audit of using human, financial and other resources, including examination of the information system, performance measures and control procedures, as well as procedures for removing shortcomings, which implements entity who is the subject of the audit.
- Effective performance audit with regard to the entity achieved goals, which is the subject of the audit.

Performance audit is the method for business control in the public sector, and method for stakeholder inspection in the flow and results of public sector. Audit performance reports have significant benefit for the entire public sector, for its administration and the general public, because they are a reliable basis for both prevention and detection of irregularities, and for the adoption of corrective decisions. The objective of performance audit is to assess whether resources in public sector have been used in the most efficient way, whether the use of available resources in a timely manner provide the best services, whether the strategic goals are accomplished, and whether there is an impact on the implementation of these goals. The important role of performance audit is to identify existing gaps and accordingly give recommendations. The implementation of recommendations should lead to positive changes in the system as a whole, creation of added value, and improve operation of system or entire institution, which is reflected in the improvement of economy, efficiency and effectiveness in the resource usage. Performance audit not only provides the initiative for improvement and better performance, it promotes transparency and accountability of the public sector. Performing audits require different academic titles of their employees (expertise in administration, management, economics and other social disciplines), and it is necessary employees with proper qualifications allocated to proper tasks.

Performance audit is often called mean for evaluating the performance of the public sector. It emphasizes the integrity of business through the three E access (Economy, Efficiency and Effectiveness; Figure 1), which consists of (Daujotaite and Macerinskiene, 2008):

- Cost-effectiveness (Economy) - whether the costs are kept under control;
- Efficiency - whether the resources are used in the “right” way; and
- Effectiveness - whether you are doing "the right thing".

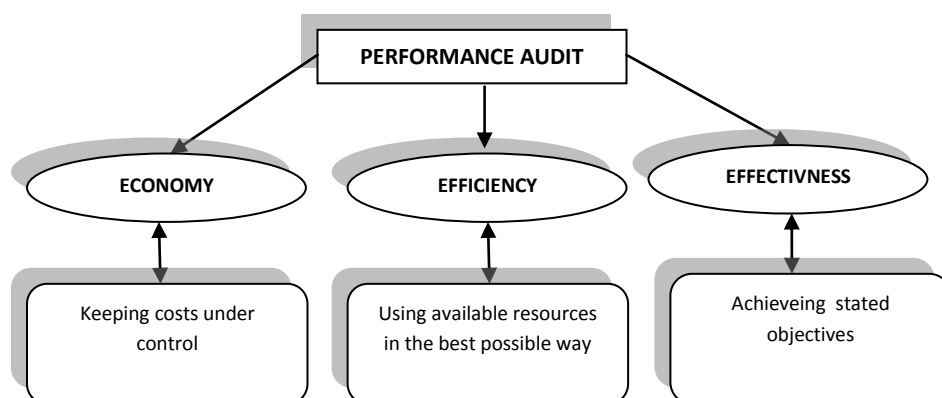


Figure 1: Hieratic presentation of performance audit (Okanovic, 2012)

This approach allows organization to be more flexible, and capable react quickly to current and future challenges. Performance audit is specific and in many ways differs from financial audits. Some of the specifics of performance audits are (Državni ured za reviziju, 2007):

- It is focused to the optimum use of resources.
- It is focused to the organization, programs and their effectiveness.
- It reviews the entire business or its specific part, projects or activities of an audited entity, evaluating economy, efficiency and effectiveness.
- Audit methods are not standardized and may differentiate from audit to audit.
- Evaluation criteria vary from audit to audit, till selection criteria depends on the assessment of State Auditors.
- The audit is carried out if a specific problem has been observed.

To estimate the three "E", it is of vital importance to have reliable and independent information. Performance audit can be regarded as an independent researcher, who represents the public interest and in this context is responsible for the research activities of public institutions. It has the ability to point out on inadequate public spending in order to achieve improvements.

Performance audit is first mentioned in Australia, 1886 in the Rules of Supreme audit institution (Grupa autora, 2009: 150), and at the end of the sixties, it is introduced in the United States and then in Canada, United Kingdom, Sweden, and after that in other developed countries. In many countries, performance audit is not yet established, and the reasons for that are various, from limited resources to insufficient experience in implementing these types of audit. When considering the concept of the performance audit, it is difficult to give one comprehensive and standardized definition. In some countries, they say that it is the best value for invested money, some simply call it the success audit. Different interpretations of the meaning of performance audit are to a certain extent good, considering that they contribute to its creative development. However, these differences should not be wide, because they may cause difficult operations and incompatibility of analysis and results. In fact, in the world there are multiple definitions for performance audit. INTOSAI standards do not say much about the performance audit, but specifies that entire scope of work of government auditing includes regularity and performance auditing (NN, 93/94; 146/11).

In European guidelines for the implementation of INTOSAI auditing standards is stated that the audit success of task execution is dealt with examining the efficiency, effectiveness and productivity. The objective of audit success that deals with task execution can be testing one, two or all three forms of execution of tasks (State Audit Office of Croatia, 2006).

4. Performance audit in tourism

The objective of the performance audit is to identify efficiency opportunities and challenges through periodic, comprehensive, systematic and independent investigation into the effectiveness and specificity of the activities and programs in tourism. It recommends strategic and action plans to maximize the effectiveness of tourism services (Presenza, 2005). Through implementation of audit recommendations and efficiency a greater economy is achieved; efficiency and effectiveness of tourism boards and all other institutions in the sector, and most important of all is that by increasing the quality of tourism programs and increasing the efficiency of tourist community, the result is improving living standards (CPA Australian forum, 2008). During the past few decades tourism is experiencing a boom, so there is an increased need for providing effective and reliable tourist services, therein

performance audit plays a key role. It promotes efficient and effective use of revenues from tourism activities and programs. Findings and recommendations of performance audit and their adequate implementation improve the tourism sector, as well as the entire public sector. Performance audit in general should be ex post audit, representing revision of achieved results. That is the reason why it is carried out subsequently, covering a larger period of observation and a larger number of subjects (at the same time whole system of tourist boards, incentives, etc.).

However, the practice in developed countries has shown that more frequent preparatory audits are performed, before the program is implemented (Australia, Canada, US). The objective of any program or activity in the tourism should be measurable, and performance audit determines whether resources are used in the most efficient way, whether the use of available resources provide the best services, whether they fully fill strategic objectives, and are there limitations in the implementation of these objectives. Good management in tourism assumes the existence of a strategic vision and long-term perspective, in order to achieve desired results. For the purpose of assessment, it is necessary to carry out the evaluation of success. Are services directed towards customers, is the management of tourist boards successful, are resources used in the right way, are the responsible ones for making decisions taking in to account key performance indicators, connecting the output values with the desired results, and above all, public should be informed about the performance of these activities. Measurement of achieved results and evaluation of efficiency can be seen as the impact on the community, evaluation of the impact on users, and results measurement and reporting (Okanovic, 2012).

In some developed countries such as the US, Canada or Australia, the highest national tourism organization creates for each year a plan for the effectiveness of national tourism. Through this plan they identify all possible constraints in development and implementation of anticipated programs, set goals they want to achieve and in the end, through performance audit, analyse what have been achieved and provide recommendations for the next year. In the developed countries of the European Union audit is common in tourism sector, but the most important document is the report of the European Court of Auditors, which analysed the tourist programs that were financed by the European Regional Development Fund.

4.1 Performance audit in tourism - case of the European Union

Tourism sector is an area where the European Union has the competence to carry out campaigns for supporting, coordinating or supplementing actions of the Member States. Treaty on the Functioning of the European Union stresses the importance of the tourism sector, and the Union's objective is to support favourable conditions for tourism development of its members and allows exchange of experience among them. The primary goal of Structural Funds in the field of tourism is to create and maintain employment, and to support economic development. In the period 2000 to 2006, the European Fund for Regional Development gave support to productive investments for creation and jobs protection, and for tourism development and investments in culture, provided that these investments will be sustainable. The projects are co-financed by the EU through multiannual operational programs. These programs define priorities, each of them consists of a number of measures, and some of them include support for tourism.

In the period 2000 to 2006 The Structural Fund has allocated 7.994 million euros for tourism, including 4.623 million from the ERDF (European Regional Development Fund) for physical investments (information centres, tourist accommodation, hospitality facilities). The remaining 3.371 million euros were assigned to non-physical investments (development and

provision of tourist services, sports, cultural and leisure activities), shared services and vocational trainings (European court of auditors, 2011).

Performance audit refers to the physical investments in tourism, which are co-financed by the ERDF during the 2000-06 programming period. In this period, the program was co-financed more than ten thousand projects. The main objective of this audit was to assess whether tourism projects achieve results that are expected of them, do they have stable results, and is their implementation enable support of the EU (European court of auditors, 2011):

Audits included 206 projects, which have received funds from the EU total of 369 million euros. Results indicate that all projects had positive results in at least one category. 74% of projects are directly credited for increasing tourism activities, while 73% created additional tourist capacity and 58% of project created or maintained 2.520 jobs. 44% of the project had scores in all three categories. 8% of the projects did not achieve results in these categories, but it has been found that they were helpful for the local economy or that have helped protect the elements of regional culture, history, art and environmental heritage. Objectives were set in only 58% of projects. Where the goals were set, they were also achieved, 75% of goals were linked to the creation and maintenance of jobs, and 93% of goals were aimed at increasing tourism capacity. 9% of the reviewed project did not achieve the result in terms of jobs, although it was expected. 14% of projects increased tourism capacity, and also 14% of projects created new jobs, although that goal was never intended (European court of auditors, 2011).

4.2 Performance audit in tourism - case of Croatia

In 2007 The Audit Office of the Republic of Croatia performed an efficiency audit for collection and allocation of sojourn taxes in tourist boards. Subjects of audit were the Ministry of Sea, Tourism, Transport and Development, Croatian National Tourist Board and the State Inspectorate. The audit covered the period from the early 2004 until the end of the 2006. The objectives of the audit were to: verify the authenticity and credibility of the financial statements for the year 2004 and 2005, examine compliance with legal and other regulations, analyse the performance of revenue, expenditure and plan implementation, examine the financial and other transactions in terms of economical, efficient and effective expenditure of funds, and through audit procedures encompass the entire business of tourism boards (Državni ured za reviziju, 2007a).

The audit backbone accounted of following questions (Državni ured za reviziju, 2007a):

- Is the organization of tourist boards effective?
- Is the collection of sojourn tax efficient?
- Is the distribution of funds from the sojourn tax expedient and in accordance with the regulations?

While conducting performance audit of tourist boards, some deficiencies in regard to the collection and distribution of sojourn tax were observed. One part of the taxpayers do not charge the tax and do not register their guests, and some taxpayers collect tax, but they do not pay it to the tourist board in a timely manner. Also, it is pointed out on the shortcomings of the tourist boards system and supervision, as well as irregularities in the use of revenues generated from the sojourn tax by tourist boards. For these reasons, it was estimated that performance audit of collection and use of revenues from sojourn tax will contribute to increase the efficiency of tourist boards (Državni ured za reviziju, 2007a).

Performance audit carried out by the Audit Office of the Republic of Croatia, pointed to the limitations of the current system of tourist boards and problems in collection and distribution of funds from the sojourn tax. The audit determined, that in order to increase efficiency of tourist boards, it is necessary to increase the efficiency of sojourn tax collection, purposefully distribute revenues from it, strengthen the supervision for tax charging, and increase compliance with the laws when it comes to the correct practice of tourist boards.

After the audit was completed, the evaluation showed that operation of tourist boards, sojourn tax charging, distribution of revenues generated from tax, and supervision will be more effective when will authorized institutions (Državni ured za reviziju, 2007a):

- adopt strategic documents and new or adaptable existing regulations,
- clearly determine the competence and responsibility of the each individual tourist board, compared to other levels of tourist boards,
- establish monitoring and evaluation of implementation set goals and programs both at level of individual tourist boards, and at the level of the whole system,
- determine the deadlines and purpose submission of the proposal for action plan, determine the proposal of the financial plan and annual financial statements to tourist boards at senior level,
- prescribed measures which competent authorities may take when determine irregularities or illegalities in the work of tourist boards, and increase number of conducted controls,
- establish joint information system of tourist boards, as well as accurate and up to date register of taxpayers, and
- establish accurate and update claim register for accrued and collected sojourn tax, determine criteria and establish unique register of debt collection, and charge penalty interest.

4.3 Prospects for the development of Croatia as a member of the European Union in the area of performance audit in tourism

By joining Croatia to the European Union, there have been some changes and activities related to the external audit of the public sector. These new circumstances in the pre-accession period represented for the Office new professional challenges, which, among other things, required additional training for state auditors, change in both organizational and personnel structure, and enhanced international cooperation. This cooperation, among others, involved activities within the Network of Supreme Audit Institutions of the candidates, potential candidates and the European Court of Auditors. The Croatian Audit Office cooperates with the European court of auditors in reviewing projects in Croatia, which are partly or wholly financed by the European Union, as well as in the state auditor training according to the program of the European Court of Auditors.

The European Court of Auditors audits the performance audit of joint programs and institutions of the European Union. The Court examines the quality of revenues and expenditures of the EU and verifies implementation of the principles according to good financial management practices. These audits include examination of programs, operations, management systems and procedures for all departments and institutions that manage EU funds, in order to assess whether or not these resources have been spent in an economical, efficient and effective manner. Operations performance audits carried out by the Court, cover a wide range of topics, with a special attention on issues related to growth and employment, European added value, management of public finances and environmental and climate change (Državni ured za reviziju, 2013). Reviewing the effectiveness of tourism includes evaluation

of various aspects of the process in public interventions, including investments (financial, human, material, organizational and regulatory resources required for the implementation of programs), outputs and results (programme immediate effects on direct users or recipients) and effects (long-term changes in society arising from the operation of the EU).

When it comes to the Republic of Croatia, performance audit is present just less than eight years, and for now only one audit is made in tourism. That audit included tourist boards and collection and allocation of revenues form sojourn tax. System of tourist boards has a significant impact on the overall success of Croatian tourism, so it is necessary to ensure efficient system operations and purposeful revenue spending.

Performance audit of programs in tourism is also necessary to trace the impact of development programs in tourism. Programs designed for tourism are related to destination management through partnership, development, and management of destination management organizations, destination marketing and use of marketing tools, making tourism development plans, project management, controlling and monitoring the efficient use of resources, applying for EU funds, creating a complex tourist products, etc. Ministry of tourism promotes development of tourism sector through subsidy program loans and programs that enhance tourism and develop new products for sustainable tourism (Ministarstvo turizma, 2012). But performance audit of tourist programs in the Republic of Croatia has not yet been carried out, which is understandable due to the relatively short period of performance audit and lack of resources (time limit, trained personnel, funds). Figure 2 is a diagrammatic representation of program evaluation in tourism. It raises basic questions to be answered during the evaluation of the program.

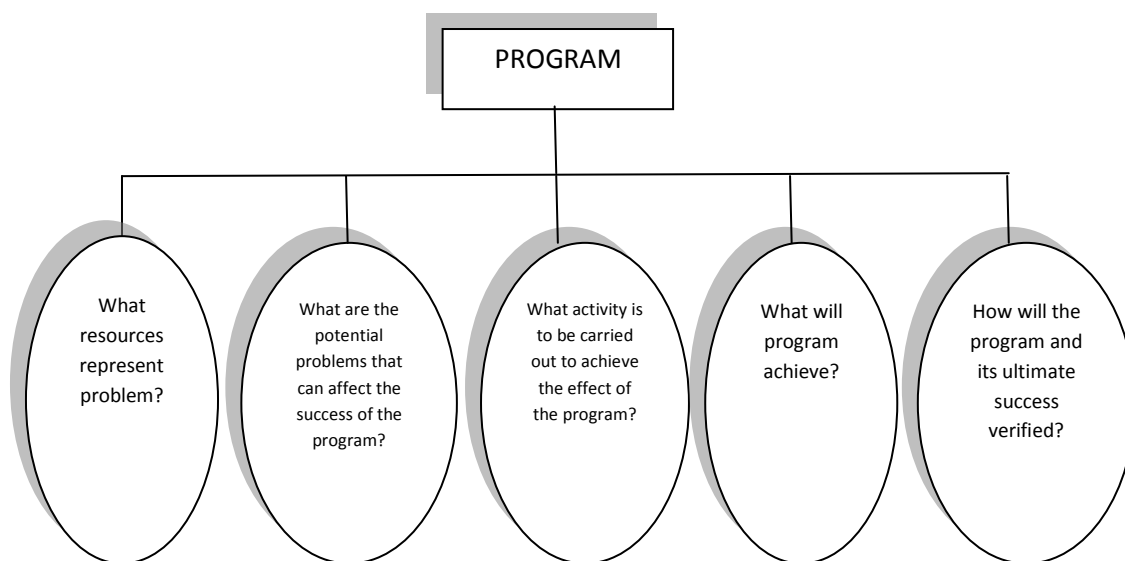


Figure 2: Hieratic presentation of program evaluation in tourism (Okanovic, 2012)

5. Conclusion

Tourism is one of the most important generators of economic, environmental and socio-cultural development. It affects to both generating and host country, and it is major source of income for many destinations. European Union is the world's number one tourist destination, and tourism in the EU represents the third largest economic sector. Croatia as part of the EU

has a similar situation. Croatian tourism is one of the most important generators of economic development and prosperity of its people, so performance audits is of utmost importance for its further progress. Specifically, it allows identifying opportunities and challenges in the implementation and realization of different activities and programs in tourism. Performance audit is not a goal in itself, its contribution is to give specifications to achieve economy, efficiency and effectiveness, and monitors the implementation of the recommendations. The implementation of the recommendations should ultimately lead to improvements in tourism institutions and activities. Performance audit does not end with reporting, but represents continuous process which should follow the dynamics of implementation of recommendations in future period.

In developed countries, is more often along with the financial audit plan performance audit, because it gives a broader insight into the situation in which is the entity to the audit. In Croatia, the situation is somewhat different. Performance audits are not conducted on an annual basis, but due to the fact that this type of the audits have been applied in relatively short period, and that there are many limiting factors for its frequent implementation (limited resources) that is realistic to expect. In Croatian tourism only one performance audit was conducted (Efficiency of collection and allocation of sojourn tax at the tourist boards) as a pilot project at the outset of implementation. Number of programs and projects financed by the Croatia and various EU funds in the last few years is expanding, and audits of them have not yet been conducted. Therefore, it is necessary as soon as possible to analyse their effectiveness and legitimacy in order to trace the impact on tourism and on the overall economy of Croatia.

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