Risk Assessment Agenda

• Audit Universe
  – Field Audits
  – Corporate Audits
  – Systems Audits

• Field Risk Assessment Process
  – 8 Key Factors

• Corporate & Systems Risk Assessment Process - Key Factors
FIELD OPERATIONS

- Aircraft are in the air around the world, around the clock
- Service reaches 5 continents: Europe, North America, South America, Asia and Australia
- Serve 210 airports worldwide with over 2,100 daily departures
Audit Universe

FIELD OPERATIONS

• Domestic operations (ATOs & CTOs)
• International operations (ATOs, CTOs, Admin offices, & GSAs)
• Cargo Facilities
• Alliance Partners
Audit Universe

CORPORATE OPERATIONS

• Discern auditable entities
• Review Balance Sheet / Income Statement Accounts
• Large Budget Variances
• Hot-Button Items (i.e., officer expenses, capitalized assets)
Audit Universe

SYSTEMS OPERATIONS
- New Systems Development
- Existing applications
- General security controls – data centers
- Business resumption planning
- Penetration / attack scenario
Field Risk Assessment

THE PROCESS

• Determine a methodology to identify High Risk Locations to receive priority audits
• Identify the key risk factors for the locations
• Obtain input from Key Constituents (CFO; V.P. & Controller; Airport Services Senior Management; International Sales; Public Accountants)
• Plan the audit schedule based on this analysis
Field Risk Assessment

KEY RISK FACTORS

- Location Size
- Last Audit Review
- Management Change Date
- Unreported Sales Value
- Timeliness of Sales Reporting
- Accuracy/Propriety of Local Disbursements
- Timeliness of Deposits
- Timeliness of Cash Transfers
Field Risk Assessment

QUANTIFYING THE FACTORS

• Criteria was established to determine a measure for the significance of the risk
• Point value of risk assigned to each factor
• Higher point value for each factor translates to HIGHER RISK
Field Risk Assessment

POINT SYSTEM DEFINED

Size
- Hub/Level 1 = 5
- Level 2 = 3
- Level 3 = 2
- Level 4 = 1

Last Audit Date
- < 5 years = 4
- < 4 years = 3
- < 3 years = 2
- < 2 years = 1

Mgmt Change
- < 1 year = 4
- < 2 years = 3
- < 3 years = 2
- < 4 years = 1

Unreported Sales
- > $2,500/qtr = 5
- > $1,500/qtr = 3
- < $1,500/qtr = 1
Field Risk Assessment

POINT SYSTEM DEFINED

Sales Reporting
>2 days late = 4
<2 days late = 1

Disbursement

Accuracy
>50% errors = 4
>25% errors = 2
<25% errors = 1

Deposit/Transfer

Frequency
High/High = 4
High/Med = 3
Med/High = 2
Low/Low = 1
Field Risk Assessment

EVALUATING THE RISKS

• Total Composite Risk Value = 30
• Locations computing risk value greater than 17 considered first for inclusion in audit plan
• Risk Assessment revealed certain number of high and medium risk locations
Corporate Risk Assessment

THE PROCESS

- Analyze Balance Sheet and Income Statement accounts for large dollar amounts
- Inquire of Senior Management, Controllers Group, and External Auditors
- Analyze large budget variances and related explanations
- In house vs. third-party vendor
Corporate Risk Assessment

THE PROCESS

• Discern likelihood of errors/strength of controls associated with auditable entities
• Assess prior audit results for auditable areas
• Ascertain if a new area or major changes to the function from prior exam
• Corporate image / Regulatory compliance
Corporate Risk Assessment

THE PROCESS

• Determine significance of Hot-Button items or other management concerns

• Identify timing to conduct exam (sooner vs. later)
Corporate Risk Assessment

FACTOR IDENTIFICATION

• Create a Matrix
• High/Low impact ($) and High/Low risk determination
• Quantitative & qualitative assessments required
Corporate Risk Assessment

EVALUATING THE RISKS
(illustration only)

<table>
<thead>
<tr>
<th>$ Impact</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Mgt</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Aircraft Rentals</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Rev Mgt</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Employee Uniforms</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>PAC</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Company Store</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Systems Risk Assessment

THE PROCESS
- Identify new systems development projects
- Locate AFE/work-in process values for software development
- Discern major existing applications and platforms utilized
- Obtain input from key constituents (CFO; CIO; VP & Controller; key business users)
Systems Risk Assessment

THE PROCESS

• Major control issues in each selected area

• Last audit date (for applications)
Systems Risk Assessment

EVALUATING THE RISKS

• $ Impact on company
• Impact on company if system fails to work as planned
• Security considerations (password; access)
• Business continuity planning
Risk Assessment

OVERALL CONCLUSIONS

- High risk areas now identified expeditiously
- Continuous updates of risk factors
- Improved resource allocation to perform audits
- Management input obtained more timely
- Operating divisions now utilize factors for monitoring
- Auditor judgment is critical
Questions