

# **Risk Assessment – Internal Audit's Role**

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# 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



# Audit Universe

## 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

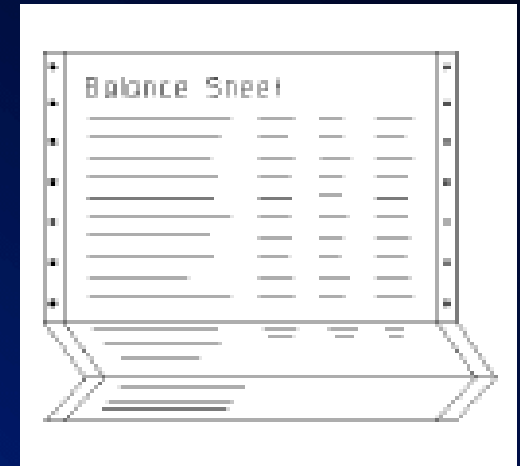
- Domestic operations (ATOs & CTOs)
- International operations (ATOs, CTOs, Admin offices, & GSAs)
- Cargo Facilities
- Alliance Partners



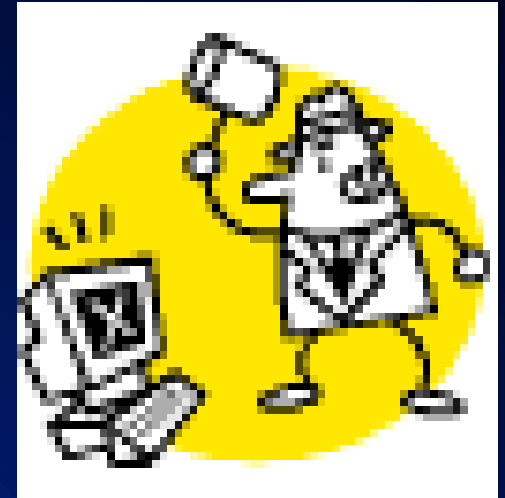
# Audit Universe

## 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



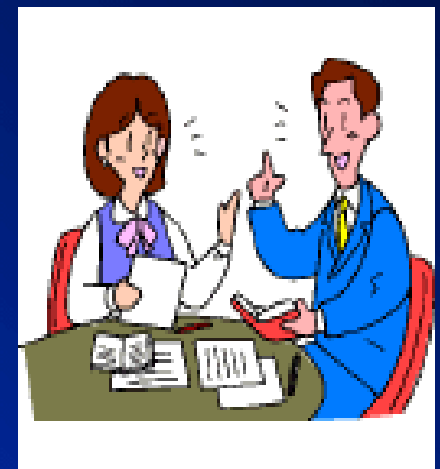
## SYSTEMS OPERATIONS

- New Systems Development
- Existing applications
- General security controls – data centers
- Business resumption planning
- Penetration / attack scenario

# Field Risk Assessment

## THE PROCESS

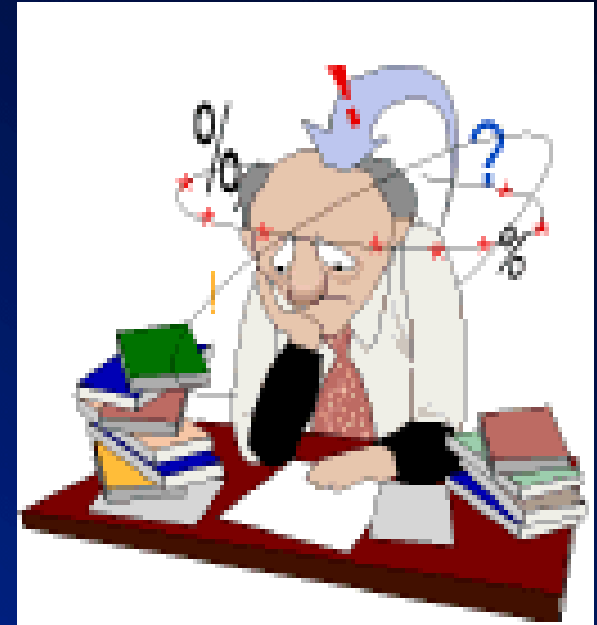
- Determine a methodology to identify High Risk Locations to receive priority audits
- Identify the key risk factors for the locations
- Obtain input from Key Constituents (CFO; V.P. & Controller; Airport Services Senior Management; International Sales; Public Accountants)
- Plan the audit schedule based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

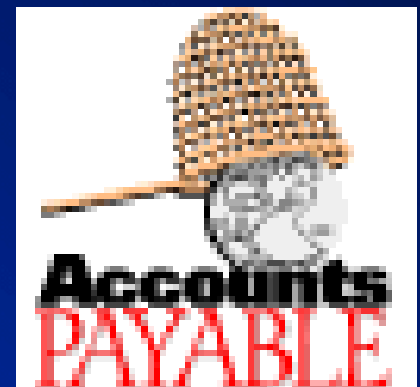
## EVALUATING THE RISKS

- 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

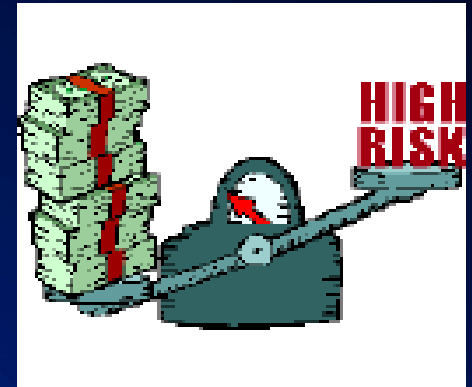
- Determine significance of Hot-Button items or other management concerns
- Identify timing to conduct exam (sooner vs. later)



# 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)

HIGH	Cash Mgt X	Rev Mgt X
	Aircraft Rentals X	Advertising X
LOW	Employee Uniforms X	PAC X
		Company Store X
	LOW	HIGH

\$ Impact

Risk Assessment

# 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

