Risk Assessment

IIA Dallas Chapter
December 1, 2011 Meeting
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Developing a Risk Based Audit Plan

• Introduction to SWA Internal Audit
• Examples of inputs to the risk assessment process
• Frequency in which assessments are performed
• Who does what? Team Members’ roles in evaluating risk
• End Result----Audit Plan
• Questions
Let'sa Go!
OUR MISSION

Internal Audit champions compliance and governance and offers practical solutions to improve business operations.

OUR VISION

Internal Audit will be Collaborative, Truth-telling Partners where the work product of its qualified Employees contributes to the success of Southwest Airlines.

We accomplish our vision by:

Exhibiting proactive Customer Service while serving as qualified, trusted, and valued Partners.

Supporting SWA Leaders by offering timely, practical solutions, and/or assurance of compliance.

Being the best place to work.

OUR VALUES

LIVE THE SOUTHWEST WAY

Warrior Spirit
Display a sense of urgency
Desire to be the best
Servant’s Heart
Treat everyone with respect
Have FUN

CODE OF ETHICS

Operate with integrity
Maintain objectivity
Maintain confidentiality
Stay competent
Communicate concerns

TEAMWORK

Identify the right People for the job
Be a passionate Teamplayer
Understand your role (know expectations)
Gain commitment to shared goals
Hold each other accountable
Encourage debate and dialogue
Operating Principles

• Objective, Qualified, Competent Employees
• Timely & Relevant Audits
• Truth Telling Partners
• Practical Solutions
• Advocates for Southwest Airlines’ Shareholders
Today’s Agenda

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Goal: Propose a risk-based Audit Plan to the Audit Committee and Senior Leadership

Approach: Utilizing the Company’s Strategic Plan and List of Primary Business Processes (Process Universe), identify risks by performing the following:

- Ensure business strategic goals and critical processes are identified
- Conduct interviews to gain additional insights
- Rank and prioritize based upon the importance to Business/Financial performance
- Document results in the Risk Model
- Build Plan by “themes” or process
"...review and assess the organization’s top risks and key performance indicators (KPIs) associated with the organization’s core business strategy (or strategies); and incorporate appropriate coverage of this strategy (or these strategies) into the internal audit plan."

*IIA Imperatives to Change-2011*
Understand Strategic Goals

• Stay current on Company information
• Understand CEO’s “Battle Cry”
• Gain an understanding of the Company’s strategic plans
• What are the performance indicators that the CEO reviews? Trace the Money - Annual Operating Plans, Budgets, and Budget revisions
• Obtain Goals of Key Department Leaders
• Review Company and competitors’ risks as outlined in SEC Filings (10K, 10Q, etc.)
Key Points from Interviews

Customer needs to understand Internal Audit wants to focus on areas which will provide THEM value and/or required assurance for the Company. You need candid participation.

• What are the areas of your business that are critical to your objectives?
• Are there areas in your span of control which have experienced high levels of change, and/or change in management?
• If you had more time/people, on what areas of your business would you focus?
• What reports does your organization provide on an ongoing basis that help you monitor risks?
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Who and How frequently?
How frequently do we assess risk?

It’s a Continual Cycle......

and.....

.......it is EVERYONE’s J-O-B
Benefits of Continual Process

• Keeps communication flow constant with the Business....COMMUNICATE, COMMUNICATE, COMMUNICATE

• Builds trusting relationships

• Keeps Employees engaged in the business of “knowing”

• Keeps your presence known
Continual Cycle...Why?

Business is Complex and Change is Inevitable
• The problems solved today change risk profile of business tomorrow
• Priorities shift (economic reasons, competitive reasons, energy prices, and acquisitions....)

We have limited resources & have to make choices
• We cannot invest in everything
• Our decisions must be made in the context of the “bigger picture”, not in isolation
• Timely & Relevant Audits
Who Participates?

- Assign ownership to “Risk Assessment Team” and ensure Department knows how to communicate/document knowledge

- It is everyone’s job to “own” key relationships at appropriate levels and to understand challenges and concerns
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Building the Plan

All processes are scored and risk rankings are calculated based on:

- Fraud
- Financial Reporting (complexity and materiality)
- Regulatory / Legal
- Operational
- People
- Customer Experience
- Dependence on IT

Scores are calculated and categorized as High, Medium and Low Risks

Higher residual risk scores result in stronger consideration for audit engagements
Making Internal Audit Relevant

• Understand Company’s Strategic Goals
• Select a handful of “key” Leaders and visit regularly with them
• Stay competent and understand the “why’s” behind what you are doing
• Establish a strong risk assessment driven at providing timely, risk-based engagements
Established documented audit approach which provides:

- Formal guidance
- Sets performance expectations
- Drives consistency in work

Our Methodology provides a means for continual updates—it is a “living” process and extremely “planning-centric.”
The End!