Leading Practice Examples of Audit Committee Reporting

2013

Powerful Insights.
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Contents

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Key Factors in Determining Content

Understanding Board Expectations

- The Audit Committee Charter
- The Internal Audit Department Charter
- Committee members and their backgrounds focusing on any changes since last meeting
- Prior Audit Committee Reports and Minutes
- Any arrangements that have been documented concerning report content expectations
- Board Communication Style

Frequency of Meetings

Allotted Agenda Time

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Typical Audit Committee Agenda

Call to order

Review and approval of minutes from prior meeting

Audit committee report by internal auditors

Audit committee report by external auditors

Other matters (Legal, Hot Line, Compliance, etc.)

Committee meeting in Executive Session

Formal presentation of quarterly or annual reports to shareholders by CEO and CFO and approval thereof

Date and time of next meeting

Adjournment

Executive Session:

Internal Audit should also be prepared to attend the Executive Session, where outside Board members can question internal and external audit without the presence of Senior Management.

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Typical Quarterly Content

Dashboard report on current activities **1111, 2060**

Changes to annual plan

Status of the annual audit plan

Critical findings or emerging trends **2440**

Internal Audit staffing, impact of resource limitations, and costs vs. budget year to date **2020**

Results of special investigations

Department performance metrics /scorecard

Reporting of any impairments of independence or objectivity **1130**

Quarterly Audit Committee Reports:

- How reports are summarized should follow agreed upon reporting arrangements.

- The committee may not want to review all reports, although they have access to all prepared material.

- The goal is to summarize for the committee what they need to know about routine findings in a logical summary format, and report separately on more important matters such as:

  - Matters that might affect the fairness of financial reporting.
  - Breaches of the company's ethics policies.
  - Details of any frauds discovered.
  - Significant delays in management responding to or acting on findings and recommendations.

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Typical Annual Content

Content	Standard
Report on the year in review to include themes or trends identified	2060
Update of the risk assessment and audit plan	2010, 2020
Report on the results of the internal quality assurance and improvement program	1320
Discuss the results of the external quality assurance review, timing / frequency of the external assessment and reviewer's background	1312
Review and approve updates to the IA department charter	1000, 1010
Confirmation of the independence of the internal audit activity	1110
Disclosure of nonconformance with the IIA Standards	1322
Communicate an overall opinion *(if appropriate)*	2450
Resolution of senior management's acceptance of risks *(if necessary)*	2600

Annual Audit Committee Reports:

With the exception of any additional items, the annual report is typically a summary of the four quarterly reports.

Additional items to cover may include:

- Statement that all work continues to be performed in accordance with IIA standards.

- Details of changes in personnel in the internal audit department.

- The professional development courses that were given or attended during the year.

- When the next quality assurance review of internal audit is scheduled for.

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Sample Calendar

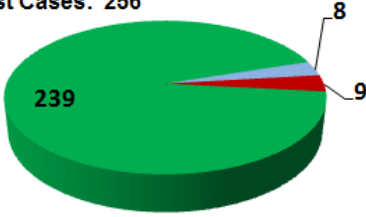**Typical Audit Committee includes reports from the following groups:**
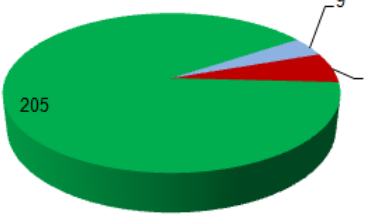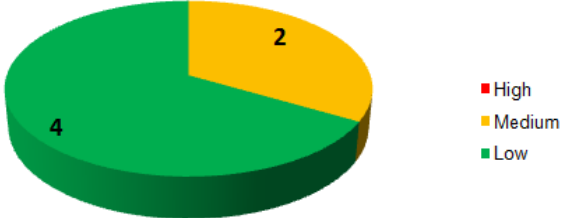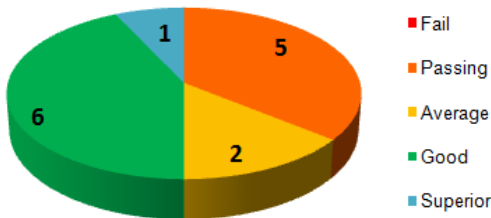
- Internal Audit
- External Audit
- Risk Management

- Legal, Compliance and Regulatory
- Financial Reporting Oversight
- Committee Structure and Function

	Q1	Q2	Q3	Q4	As Needed
1. Evaluate the Internal and Independent Audit Processes					
A. Internal Audit					
Charter, Mission, and Objectives				✓	
Appointment and compensation of Chief Audit Executive					✓
Budget, staffing and resources including resource constraints if any		✓			
Scope, procedures and timing of audits (i.e., audit plan)			✓		
Review of audit results and reports	✓	✓	✓	✓	
Review internal and external quality assurance procedures	✓				
Confirm Internal Audit Independence		✓			

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Dashboard Samples

Dashboard Sample - 1

Audits	Sarbanes-Oxley (SOX)

Audits

Overview

Internal Audit performs both 'full scope' and 'partial scope' audits.

Full & Partial Scope Audits

North America

- High
- Medium
- Low

(2, 4)

International

- Fail
- Passing
- Average
- Good
- Superior

(1, 5, 6, 2)

Sarbanes-Oxley (SOX)

Internal Control Over Financial Reporting (ICFR) Testing Summary

Total ICFR Test Cases: 256

239, 8, 9

- Effective
- Remediated
- Year-end Deficiencies

Exception / Deficiency Summary
20xx Year-end Significant Deficiency: Tax department resource limitations

IT General Computer Controls and Application Controls Testing Summary

Total IT GCC Test Cases: 228

205, 9, 14

- Effective
- Remediated
- Year-end Deficiencies

Exception / Deficiency Summary
20xx Year-end Significant Deficiency: IT security control failures

Other Core and Risk-based Audits

Audit Activities

Audit Name	Rating	Issues / Highlights
IT Portfolio Management	**Medium**	- Benefits Realization Standards lacking. - Project Management and Vendor Management needs improvement.
Data Privacy [pending issuance]	*TBD*	- Leakage of personal data continues to be a risk. - Privacy Guidance deployment progress needs improvement.

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Dashboard Sample - 2

Key Message Points

- Cash Account Reconciliations have improved, however remediation efforts related to system design deficiencies are still ongoing.

- There is no formal communication between AP and the Merchandising (Buyer) department to develop uniform, beneficial practices for supplier management, and communication with suppliers should be managed to establish mutually agreeable practices.

## Summary of Completed Activities (2nd Quarter 20XX)

- **Completed Activities**
  - Payroll
  - Accounts Receivable and Vendor Management
  - Continuation of Premium Accounts Reconciliation Special Project

Summary of Completed Activities (3rd Quarter 20XX)

- **Audits schedules for Q3 20XX**
  - Retail Stores and Back Office
  - Accounts Payable
  - Vendor Master File Maintenance

Audit Finding Remediation Status

Risk Rating Category	Beginning Balance (as of May 20XX)	New	Closed	Currently Open	Open Past Due
High	2	1	0	3	0
Medium	10	5	2	13	5
Low	17	0	2	15	3
Total Findings	29	6	4	31	8

Past Due Findings

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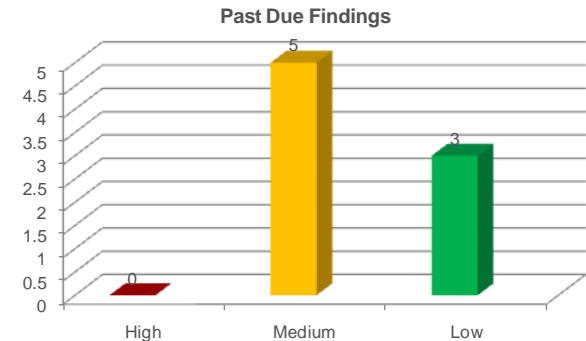
Dashboard Sample - 3

Risk & Control Awareness

- Led 3 sessions of SOX orientation for worldwide controllers – team commented that this helped improve.
- Published quarterly risk trends
- CSA training
- Provided SOX orientation to new XYZ acquisition & briefed them on SOX process
- Various - responded to over 40 inquiries & reviews such as review of new Ethics video, xx, xxx, contract review ABC, etc

Direct Support to Control Environment

- Ethics Committee participation - quarterly
- Due diligence support for XYZ acquisition
  - Identified xx control issues impacting.
- Participated in the following new system/process redesign projects
  - ABC (improved xx)
  - XYZ (improved zz)

Cost Recovery

Business Unit	Cost Savings
Duplicate payments in XYZ audit	$85K
Vendor compliance issues in ABC audit	$150K
Total	$ XX

Future Savings/Process Improvements

- Streamlining of IT access process $ XX annually
- Reduction of FTE at XYZ location due to .. $70k annually

Total	$ XX

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Internal Audit Calendar and Plan

Audit Calendar - 1

Audit	Risk	Type	Jan	Feb	Mar	Apr	May	Jun

Business Process

Audit	Risk	Type
3rd Party Contracts Audit		3
Revenue Accounting		2
Reimbursement Claims		1

Information Technology

Audit	Risk	Type
Web Portal		2
External Pen		2
SAP SOD		1

Consulting/Special Projects

Audit
Supply Chain Optimization
Application Pre-Imp

▬▬▬ Deferred Reviews
●━━● Revised Timeline

Risk Level Legend: high risk | significant risk | moderate risk | low risk

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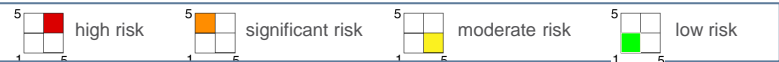
Audit Calendar - 2

20XX IT Audit Plan - Company X Audit Plan and Activities

	20XX			
	Q1 Jan - March	**Q2** April - June	**Q3** July - Sept	**Q4** Oct - Dec
Accounts Payable Review	●			
Accounts Receivable Review		●		
ITIL - Change Management & Service Desk			●	
PIMS – Interface Engine		●		
Audit Committee Reporting			●———————●	
Quarterly Follow Up		●————————————————●		
IT Risk Assessment (Initial)	●			
Update IT Risk Assessment				●
Coordinate with External Auditor	●			●

Color Legend

Complete	In Process	Not Started
●	●	●

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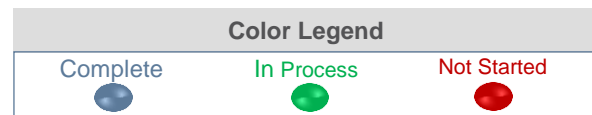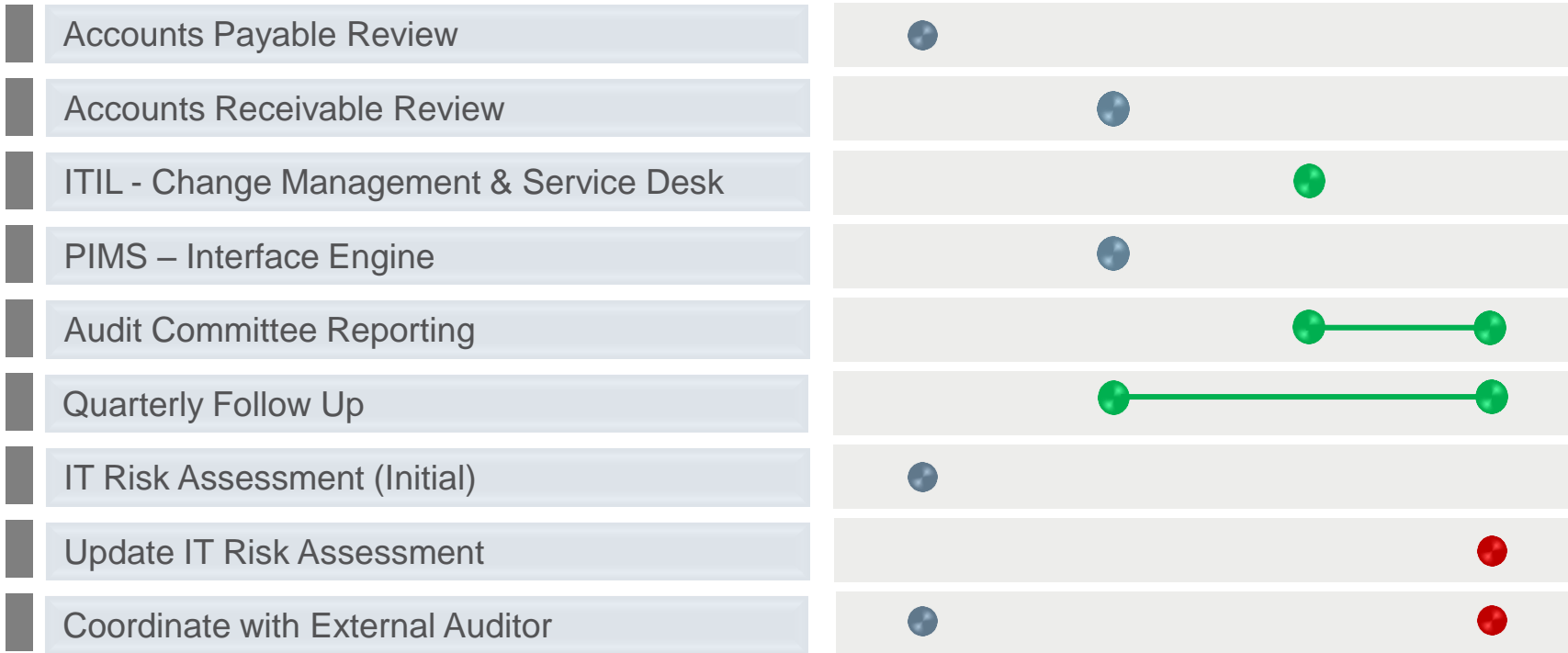
Audit Calendar - 3

Consistent with prior quarters, our Q3 IA Plan was developed based on risk prioritization in Q2. We will continue using the 'watch list' items to identify audits each quarter so we remain focused on the most critical risks facing our organization.

July – September

- Accounts Receivable
- Data Privacy
- Fraud Risk
- Network Security
- Oracle Segregation of Duties
- Real Estate/Construction
- Social Media
- Spend Risk

WATCH LIST

- Anti-corruption (FCPA)
- Citrix Deployment
- Cloud Computing
- Crisis Management
- Data Management
- Disaster Recovery
- Health & Safety
- International IT Controls
- International Operations
- IT Innovation
- Logical Access
- Regulatory
- Revenue Recognition
- Sourcing
- Succession Planning

* items listed alphabetically

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Audit Calendar - 4

	Jan – Mar	Apr – Jun	Jul – Sept	Oct – Dec
Internal Audit	Accounts Payable Review ✓	Accounts Receivable Review ✓	Review 4 ⟲	
		Anti-Money Laundering Review ✓	Review 5 ⟲	
		Review 3 ⬤	Risk Assessment ⟲	
SOX 404	Draft 20XX 404 Scope ✓	Finalize 20XX 404 Scope ✓	Execute Testing ✓	Validate Self-Assessments ✓
	Update Self-Assessment Program ✓	Schedule Audits ✓	Validate Self-Assessments ✓	Monitor Deficiency Remediation ✓
		Roll-out Self-Assessment Program ✓	Monitor Deficiency Remediation ✓	
		Update Control Documentation ✓	Complete Self-Assessment ✓	Complete Self-Assessments ✓
		Complete Self-Assessments ✓	Evaluate Tested Controls ✓	Evaluate Tested Controls ✓
		Remediate Deficiencies ✓	Remediate Deficiencies ✓	Remediate Deficiencies ✓

Deferred ⟲   **Not Started** ⬤   **Scoped** ⬤   **In Progress** ⬤   **Fieldwork Complete** ⬤   **Report Drafted** ⬤   **Complete** ✓

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Audit Scope

Audit Scope - 1

A/P	Vendor File Maintenance	Accounting
• Understand Process • Assess Control Design • Assess Control Gaps • Test	• Understand Process • Assess Control Design • Assess Control Gaps • Test	• Understand Process • Assess Control Design • Assess Control Gaps • Test

In Scope

• Expense Payables, Stock and Relay • Review for completeness, … • Review of access to systems and check stock … • Review PO and invoice matching process (pre & post paid) • Review disbursement approval process	• Review controls over stop payments & reissues • Review daily balancing performed by A/P • Review Vendor maintenance within A/P vendor master file (Stock and Relay) …	• Review Vendor master file creation for Expense Payables • Review integrity of interface from A/P sub ledger to G/L • Review monthly reconciliation of A/P Sub ledger to G/L

Out of Scope

• Petty cash at RDCs • Direct Ship • Wire transfers	• T&E from xxx • MSA on-line (rebates, deductions) • Review of Vendor master files created by Merchandising

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Audit Scope - 2

Company operates XX year-round and XX seasonal international stations throughout Canada, Europe, Latin America, Asia Pacific and Africa. In general, international stations are small.

Scope

The scope of this audit included the following key processes and corresponding control objectives:

Cash and Deposits

- Verification and tracking of cash deposits
- Tracking assignment of cash bags
- Security and timeliness surrounding the stations' daily bank deposits
- Daily and monthly reconciliation of all cash on-hand

Accountable Documents

- Appropriate access to bulk and working stock
- Tracking bulk and working stock
- Recording usage of ticket stock
- Monitoring ticket stock usage

Sales Reporting

- Complete and timely sales reporting (daily)
- Appropriate close-out of agent and station sales reports
- Verification of sales receipts
- Monitoring of discrepancies

Passenger Compensation

- Authorized/appropriate issuance of passenger compensation
- Monitoring passenger compensation issuance

Gate Operations

- Accuracy and security of paper tickets (Ticket Lift Report)
- Usage of 24-Hour Emergency Envelopes

Payroll

- Appropriate approval of overtime
- Appropriate segregation of duties

Station Administration

- Appropriate segregation of duties
- Documentation and security of station keys
- Appropriate control and monitoring of system access

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Report Summary

Audit Report Summary - 1

We assessed the existence and effectiveness of controls in relation to …

Completeness & Accuracy – Authority/Limit	Rating	Detailed Issues & Action Plans Reference
Suppliers are properly authorized prior to procuring goods/services.	🔶	Detailed Issue and Action Plan #5
Accounts Payable disbursements are properly authorized.	🔴	Detailed Issue and Action Plan #1, #2, #5, #7
Access to applicable AP systems is properly segregated.	🔶	Detailed Issue and Action Plan #2, #9, #12

Timeliness – Effectiveness/Efficiency	Rating	Detailed Issues & Action Plans Reference
Disbursements are made to maximize cash flow.	🔶	Detailed Issue and Action Plan #1, #2
Costs are reduced as much as possible.	🔶	Detailed Issue and Action Plan #2, #7, #8, #10
Processing time is minimized.	🔶	Detailed Issue and Action Plan #2, #3, #4, #5, #6
Performance measures used to control the process are reliable.	🟩	NA

🟩 Strong Controls	🔶 Moderate Controls	🔴 Limited Controls

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Audit Report Summary - 2

Background

- International stations located in Europe, Latin America

- International operations processes are divided among several departments including: …

- Relative to domestic operations, the international business offices are small, with a staff of … Due to the cultural differences, country-specific regulations, and distance between international locations and corporate headquarters, the inherent risk level is increased.

Audit Summary

This review focused on:

- Understanding policies and procedures in-place related to in-scope processes;

- Evaluating the control environment around: human resources, payroll, accounts payable, month-end procedures, expense reimbursement, and contract validation;

- Evaluating the effectiveness of procedures and internal controls related to in-scope processes. Control and process improvements were identified

Observations Summary

Control Improvement Opportunities:

- Protocols around payroll change documentation…

- The process for reviewing employee…

- Current, signed contracts are not…

Controls Assessment

Controls Rating

- Satisfactory
- Marginal
- Unsatisfactory

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Audit Report Summary - 3

Report Name: Information Security Audit --- issued 1/1/20xx
Overall Rating: High 🔴

Background and Scope:

Many companies store and process a large volume of personal and sensitive information on behalf …

The scope included:

- Network Security: Conducted a vulnerability assessment to determine …
- User Level Security Practices: Evaluated several business critical security processes …
- Governance: Reviewed the roles, responsibilities and supporting policies and procedures …

Summary Findings: The scorecard below summarizes ratings and findings by scope area.

Scope Area	Rating	Issues Summary
Network Security [internal]	**High**	Multiple network security controls are not operating effectively…
Network Security [external]	**Medium**	Employees provided valid email user names and passwords during electronic and telephonic social engineering exercises.
Management Response (at report issuance): *Management agrees with the items outlined in the report and will take corrective action to address identified issues.*		

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Audit Report Summary - 4

	Plants	Distribution Centers	Corporate Functions	Service Centers	Information Technology
Overall Rating	🟢	🟢	🔶	🟧	🔶
Audits	(P) Audit 1 🟧 [1 high item]	(DC) Audit 1 🟧 [0 high items]	(CF) Audit 1 ◆ [3 high items]	(SC) Audit 1 ◆ [2 high items]	(IT) Audit 1 🟧 [1 high item]
	(P) Audit 2 🟢 [0 high items]	(DC) Audit 2 🟢 [0 high items]	(CF) Audit 2 ◆ [4 high items]	(SC) Audit 2 🟧 [1 high item]	(IT) Audit 2 ◆ [2 high items]
	(P) Audit 3 🟧 [2 high items]	(DC) Audit 3 🟢 [0 high items]	(CF) Audit 3 🟧 [1 high item]	(SC) Audit 3 🟧 [1 high item]	(IT) Audit 3 ◆ [3 high item]
	(P) Audit 4 🟢 [0 high items]	(DC) Audit 4 🟢 [0 high items]	(CF) Audit 4 ◆ [2 high items]	(SC) Audit 4 🟢 [0 high items]	(IT) Audit 4 ◆ [2 high items]
	(P) Audit 5 🟢 [0 high items]	(DC) Audit 5 🟢 [0 high items]	(CF) Audit 5 🟧 [0 high items]		(IT) Audit 5 🟧 [1 high item]
	(P) Audit 6 🟢 [0 high items]		(CF) Audit 6 ◆ [2 high items]		(IT) Audit 6 🟧 [2 high items]
	(P) Audit 7 🟢 [0 high items]				(IT) Audit 7 ◆ [5 high items]

RATING LEGEND

🟢 Low Risk

🟧 Medium Risk

◆ High Risk *(immediate action required)*

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Continuous Auditing

At the start of 20XX, IA developed and implemented routines (i.e., scripts) in ACL to automate expense reporting, journal entry, and user administration analytics. A core team of three resources is responsible for managing our continuous auditing program. Quarterly results are provided below.

	Frequency	% of Population Tested	Issues Identified this Quarter	Significant Issues
Expense Reporting	Monthly	100%	40 🔴	2 🟢
Journal Entries	Quarterly	100%	20 ⬌	0 🟢
User Access Removal	Monthly	100%	0 ⬌	0 ⬌

Significant Issues Summary:
- Two expense reporting issues related to FCPA…

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Issue Follow Up Status

Follow Up Status - 1

Internal Audit performs follow-up reviews for each report issued to ensure that all control improvement action items have been completed.

Completed Reviews	Rating	Report Date	Follow up Status
Sales Review	N/ R	<Date>	Complete
Human Resources – Leave of Absence Audit	🟡	<Date>	Complete
Vacation Systems Development Review	N/R	<Date>	Complete
Site Audits	🟩 🟡	<Date>	Complete

🟩 Satisfactory	N/R Not Rated
🟡 Marginal	🔺 Unsatisfactory

Follow up in Progress	Rating	Report Date	Follow up Comments (ETC – Estimated Time to Completion)
Customer Service Training Audit	🟡	<Date>	Open item related to iLearning (online training) interface upgrade. ETC <Date>
Corporate Payroll Process Audit	🟩	<Date>	Open item related to edit report creation, IT request pending. ETC <Date>
Website Review	N/R	<Date>	Delays due to resource allocation to ReShop/Choice Seats. ETC <Date>
Human Resources Review	N/R	<Date>	Comprehensive process changes due to in-progress review. ETC <Date>
Inventory Management	🔺	<Date>	Open action plans are on-track for completion by <Date>

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Follow Up Status - 2

Process	Control Ref.	Controls	Status of Remed.	Testing Status	Comments	Owner
Design Remediation						
Payroll/ Benefits & Insurance	PR33	Access to process payroll runs is restricted …	Complete	Complete	Access to be reviewed and necessary remediation to be identified during SOD Analysis. *SOD Analysis pending validation by Protiviti.*	Payroll Mgr.
	PR34	Access to generate the ledger distribution, which automatically creates …	Complete	Complete		
	PR35	Access to add or update employees is restricted to the HR Representatives.	Complete	Complete	***See PR21 NEW MONITORING CONTROL for PR33***	
Operational Remediation						
Entity Level	EL41	Functional segregation of duties within key processes are reviewed annually. Where conflicts exist, …	Delayed	Delayed	SOD Analysis pending	Sr. Manager and Protiviti
Inventory	IN15	Inventory Control Associates verify the Inventory Adjustment Form is approved by a …	Complete	Complete	Discussed with Management – *remediation underway.*	Inventory Control Manager
Expend.	AP03	Accounts Payable verifies non-merchandise expenditures and employee expense reimbursements …	At Risk	At Risk	Testing in progress	Assistant Controller

Legend: ■ Complete   ■ On Time   ■ Delayed   ■ At Risk   NS Not Started

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Follow Up Status - 3

	Plants	Distribution Centers	Corporate Functions	Service Centers	Information Technology
Overall Rating	🟢	🟢	🔶	🟨	🔶
Total Issues	28	19	31	23	48
Open Issues	4	7	12	8	21
PAST DUE	0	1	6	0	9
Owner	Owner Name, *Vice President*	Owner Name, *Vice President*	Owner Name, *Senior Director*	Owner Name, *Senior Director*	Owner Name, *2nd Vice President*

RATING LEGEND

🟢 Low Risk

🟨 Medium Risk

🔶 High Risk *(immediate action required)*

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Follow Up Status - 4

Accounts Payable Audit – Remediation Tracker

Process Category	Process Risk Rating	Issue	Custodian	Target Date
Financial Controls	MEDIUM	SOX Testing Results 🟨	Owner	• **8/31/20XX** *(removal of known SOD issues)* • **12/31/20XX** *(plan and scope comprehensive ERP SOD review)*
Operational Controls	MEDIUM	Vendor Master File Maintenance 🟨	Owner	• **7/31/20XX** *(VMF review)* • **9/30/20XX (***VMF access and decision on future setup)*
		Purchase Order Acceptance Thresholds 🟩	Owner	• **9/30/20XX**
		Expense Report Review and Audit 🟩	Owner	• **9/30/20XX** *(draft policy)* • **10/31/20XX** *(finalization of policy)*
Information Technology	LOW	System Configuration 🟩	Owner	• Added to ERP prioritization list as non-urgent

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Risk Assessment Process

Risk Assessment Process - 1

Protiviti's Risk Assessment Approach

| Strategic | Operational | Financial | Compliance |

Identify Audit Universe → **Risk Rank Audit Units** → **Map Risks and Determine Final Risk Assessment** ← **Prioritize Business Risks** ← **Identify Business Risks**

Identify Audit Universe
- Identify and link organization structure, locations, and processes
- Inventory business initiatives, IT projects, applications, and infrastructure components
- Link IT applications to processes

Risk Rank Audit Units
- Assess risks in auditable units
- Prioritize and develop clear communication tools

Map Risks and Determine Final Risk Assessment
- Map business risks to related auditable units
- Aggregate auditable unit risk with business risk
- Involve appropriate stakeholders

Prioritize Business Risks
- Understand entity level control environment
- Evaluate the risk of fraud
- Prioritize risks on inherent and residual basis

Identify Business Risks
- Understand business strategy, goals and objectives, and potential obstacles to meeting them
- Customize risk model to fit organization capability and culture
- Update periodically throughout the year and consider emerging risks

Create Audit Plan
- Identify suggested audit plan with high level audit scope
- Understand and coordinate activities with other risk management and control activities in the organization
- Estimate budget and timing

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Risk Assessment Process - 2

Scope Assessment	Data Rationalization	Execute Analytics	Execute Analytics

Quantitative Analysis
• Revenue & balance sheet variances using standard deviation calculations
• Headcount changes
• Corruption index scores
Qualitative Analysis
• Time since last audit
• Significant prior audit ratings
• Management changes
• Service center coverage
• ERM
	• CEO, COO, CFO
	• Other ELT Members (EVPs)
	• CIO and CRO
	• Area/Regional Executives
	• Others
	• Significant concerns
	• Audit reports
		• Review risk assessment results
		• Prioritize audit plan information using the following considerations:
		  – Geographic
		  – BPO
		  – Information Technology
		  – Federal Government
		  – Functional Groups
		  – Tax
		  – Treasury
		  – Client Service Groups
			• Asia Pacific
			• Europe (EMEA)
			• North America
			• Latin America
			• Functional Areas
			• Information Technology
			• Federal
			• Technical

Risk Assessment Timeline (Month 1 – Month 3)

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Risk Assessment Process - 3

Q1, Q2, Q3 Process

```
Risk Committee  →  Executive Team  →  Risk Factors (suggest changes)
                                    →  Audit Committee (key changes from quarter)  →  Update BOD (as necessary)
```

Annual Oversight Process

November	December	January	March
Management Risk Assessment	Link Risk Assessment to Audit Plan	10-K (annual update) and Risk Factor Update	Present to BoD/AC on "Process" and Point-in-Time Assessments

Ongoing: Key topics presented to the BoD and Committees

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Risk Assessment Results

Risk Map - 1

The matrix below shows how the proposed 20XX plan addresses the identified risks. The proposed audit plan focuses efforts on those items strategically important to the Company and/or where potential issues could exist.
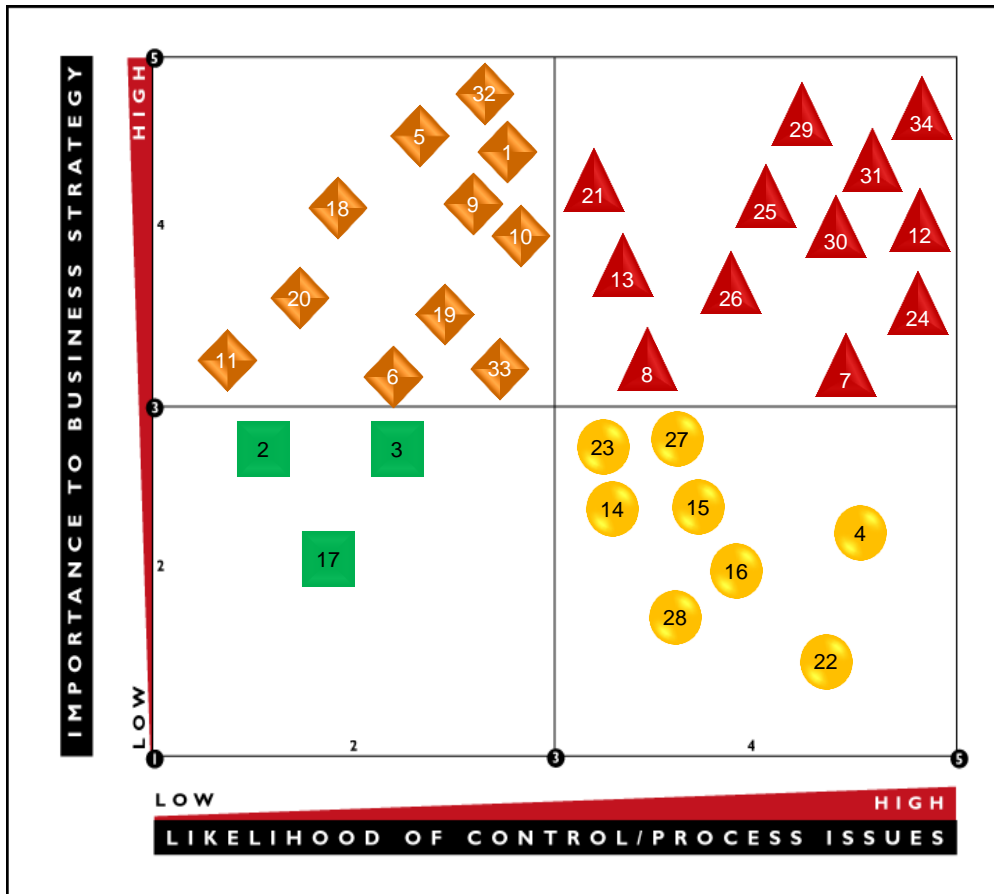
Operations	Corporate
General Operations Risks 1 - 5	**Corporate Accounting** Risks 20 - 25
Specific Operations Risks 6 - 8	**Finance** Risks 26 - 29
Customer Service Risks 9 - 15	**Information Technology** Risks 30 - 34
Maintenance Risks 16 - 19	

Legend
- High Risk
- Significant Risk
- Moderate Risk
- Low Risk

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Risk Map - 2

The Risk Map depicts the relative significance and likelihood of business risks. Risk Map includes participants' consideration of perceived internal controls and Protiviti's professional judgment and experience.

Accounts Payable
1. Inaccurate Payments to Vendors
2. Data Integrity
3. Unauthorized Disbursements
4. Financial Exposure
5. Inappropriate Use of Systems

Accounts Receivable
6. Reliability & Efficiency
7. Consistency
8. Billing and Collections
9. Business Risk Factors

IT Projects
10. Executive Ownership
11. Process & Control Reengineering
12. Development Platform
13. Project Budget
14. Project Management (PMO)

Accounts Payable   IT Projects

Accounts Receivable

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Risk Map - 3

The updated risk map represents the prioritization of IT Processes based on discussions with the individuals noted previously. As a result of our discussions, the placement of various risks has changed as indicated by the arrows and a new risk was added which has been circled

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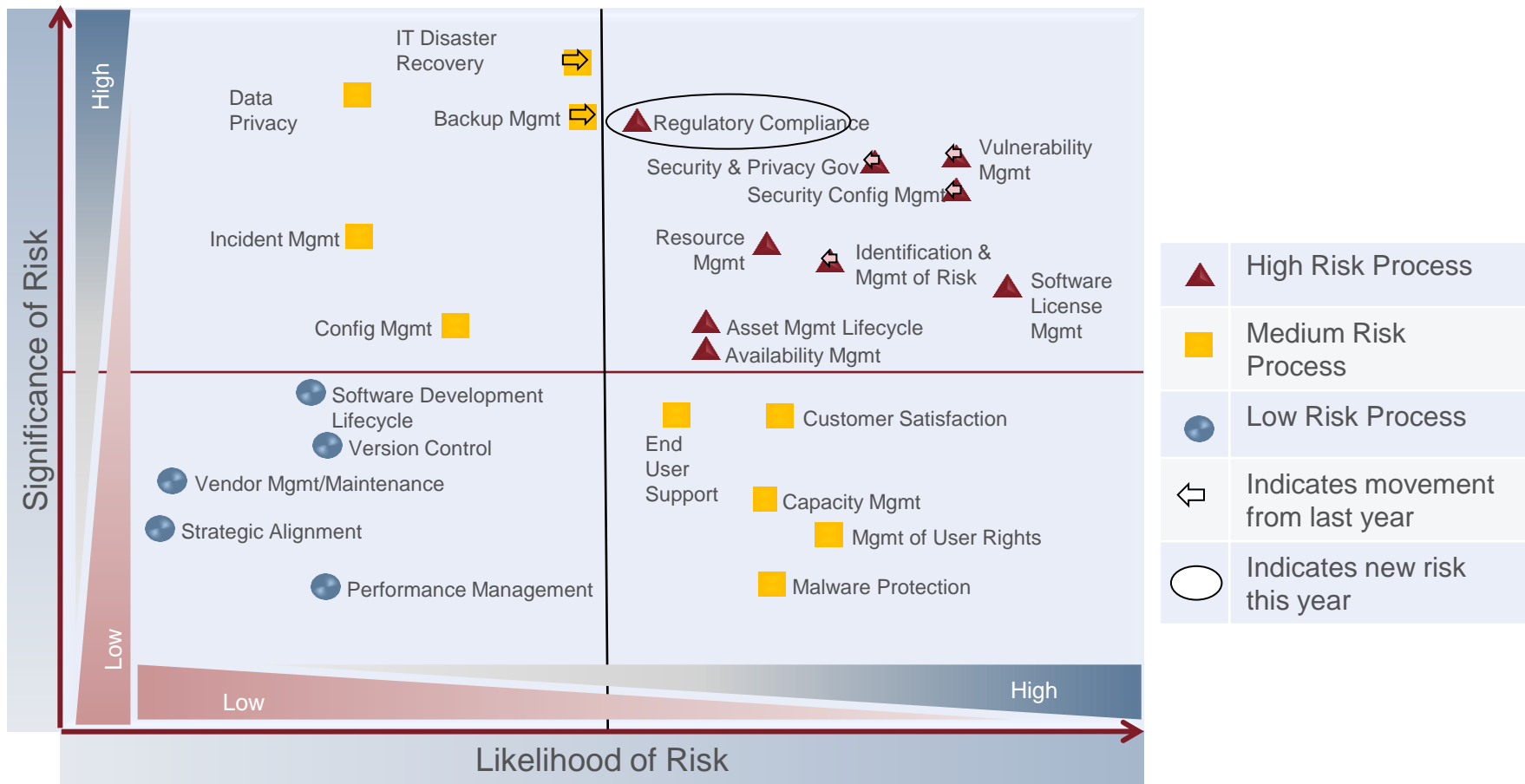
Audit Universe

Operations

General Operations

- 1 **Revenue Management**
  - Pricing and Yield Management
  - Revenue Analysis
- 2 **Domestic Sales and Marketing**
- 3 **International Sales and Marketing**
- 4 **Customer Loyalty Programs**
  - Dividend Miles Program
  - Partnership Programs

- 5 **US Vacations (USV)**
  - USV Sales
  - USV Receivables
  - USV Commissions
  - USV Refunds

Flight Operations/In-flight

- 6 **Flight Operations**
  - Routing and Scheduling
  - Flight Safety
  - Flight Manual Services
  - Flight Training and Standards
  - Fuel Planning and Optimization

- 7 **In-flight Services**
  - Dining and Cabin Operations
  - Catering Operations
- 8 **Crew Resources**
  - Crew Training
  - Crew Qualifications and Comp.
  - Crew Planning and Scheduling

Customer Service

- 9 **Reservation Centers**
- 10 **Internet Reservations**
- 11 **Customer Services**
- 12 **Domestic Airport Operations**
  - Express Operations
- 13 **International Airport Operations**
- 14 **Shared Services Organization**
- 15 **Cargo Sales and Service**

Maintenance

- 16 **Technical Operations Planning**
  - MX Strategic Planning and Analysis
  - Heavy Maintenance Planning
  - Line Maintenance Planning

- 17 **Quality Assurance and Training**
  - Quality and Compliance
  - Maintenance Training
  - Quality Control (East and West)

- 18 **Supply Chain / Procurement**
  - Technical Purchasing
  - Supply Chain Performance
  - Warehousing and Distribution
  - Powerplants / Engine Overhaul
  - Contracts and Warranties

- 19 **Maintenance / Engineering**
  - Line Maintenance
  - Base / Heavy Maintenance
  - Facilities Maintenance
  - Ground Service Equipment
  - Aircraft Induction / Returns

Corporate

Corporate Accounting

- 20 **Financial / Corporate Accounting**
  - Accounts Payable
  - Fixed Assets
  - Payroll Accounting
  - Fuel Accounting
- 21 **Financial Reporting**
  - Financial Reporting
  - International Accounting
  - Stock Compensation
- 22 **General Purchasing**
  - Office Services
  - Commodity Purchasing
  - Company Store

- 23 **Corporate Disbursements**
  - Payroll Processing
  - Disbursements
- 24 **Revenue Accounting**
  - Passenger Sales
  - Revenue Recognition
  - Sales and Tax Analysis
  - Interline Accounting
  - Accounts Receivable
  - Cargo Accounting
- 25 **Taxes**

Finance/Other Corporate

- 26 **Treasury / Financial Planning**
  - Cash and Debt Management
  - Aircraft Leasing
  - Fuel Administration
  - Capital Projects (CARE)
- 27 **Risk Management**
  - Claims and Litigation
  - Workers Compensation

- 28 **Corporate Real Estate**
  - Facilities Planning / Analysis
  - Project Bidding / Proposals
  - Contract / Construction Management
  - Facilities Administration

- 29 **Human Resources**
  - Health, Welfare and Benefits
  - Retirement and Pension Plans
  - Recruiting and Hiring
  - Compensation
  - Employee Pass Travel

Information Technology

- 30 **IT Security and Privacy**
  - Network Security
  - Operating System Security
  - Application Security
  - Database Security
  - Physical Security
  - Privacy Risk Management

- 31 **System Development Life Cycle**
- 32 **IT Processes**
  - Asset Life Cycle Management
  - IT Service and Change Management
  - User Management
  - IT Operations

- 33 **IT Organization Effectiveness**
  - IT Demand and Portfolio Management
  - IT Governance
  - IT Program Management
  - IT Risk Management
  - IT Sourcing

- 34 **Business Continuity Management**
  - Business Process Recovery
  - Crisis Management and Communications
  - IT Disaster Recovery
  - Pandemic Risk Management

Legend
- ▲ High Risk
- ◆ Significant Risk
- ● Moderate Risk
- ■ Low Risk

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Benchmarking

Benchmark Analysis - 1

Internal Audit provided the Audit Committee with several departmental benchmarking statistics in December. The graphs below provide updated information about our Internal Audit headcount and spend (at an annualized run rate) compared with three of our Site company competitors.

Internal Audit FTE Comparison *

7

14   Average IA FTEs: 26   37

10   20   30   40

* IA FTEs do not include the 3 site Compliance auditors

Internal Audit Spend Comparison **

$2M

$3.9M   Average IA Spend: $4.9M $6.1M

$1M $2M $3M $4M $5M $6M $7M

** IA spend includes payroll, travel, co-sourcing, training, recruitment, technology and other approved costs

☆ IA Budget (AC approved 12/20XX)   ★ IA Budget (updated 9/20XX)
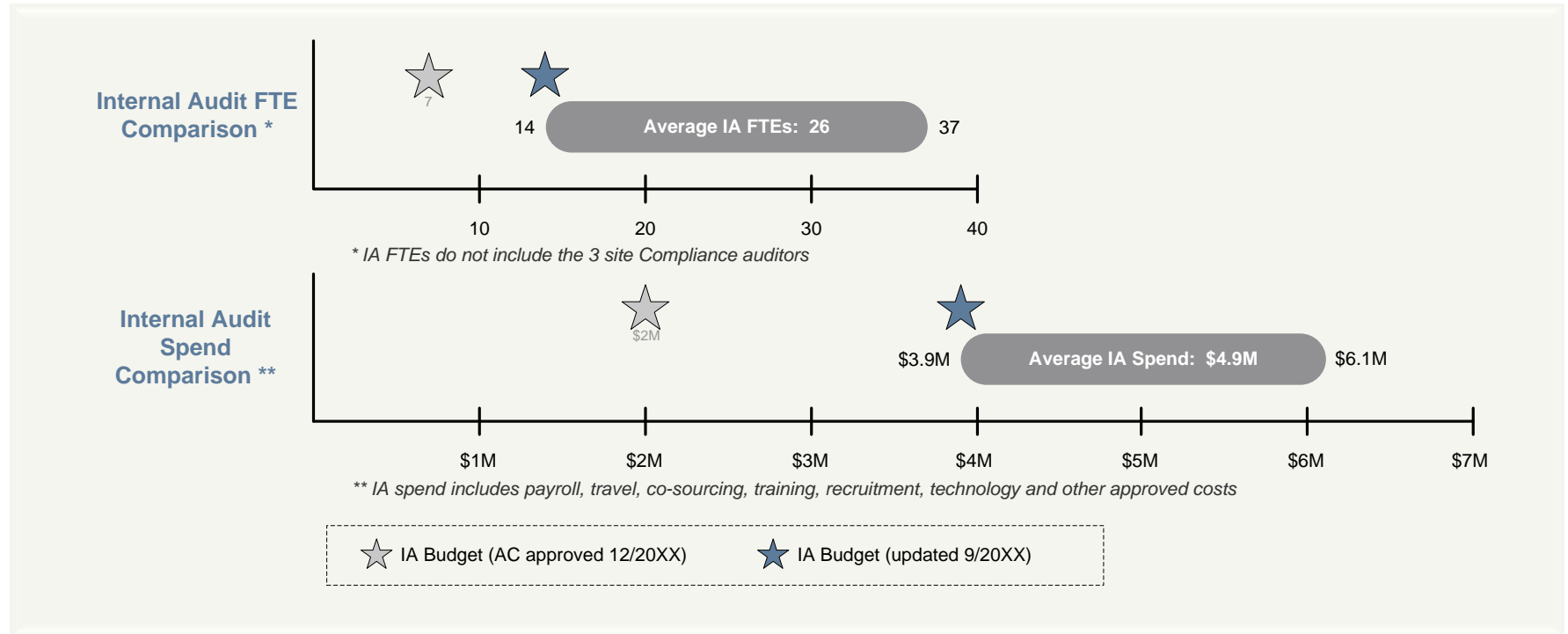
Competitor 1	.16%	Competitor 3	.07%
Competitor 2	.12%	**Company**	.10%

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Benchmark Analysis - 2

In determining the appropriate spend level for Company management should also consider the following specific risk factors which should influence spending and resource levels.

Lower impact/ ← Benchmark → Higher impact/
Lower spend $2.2M Higher spend
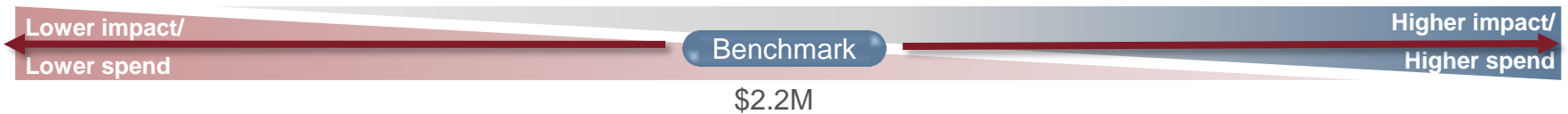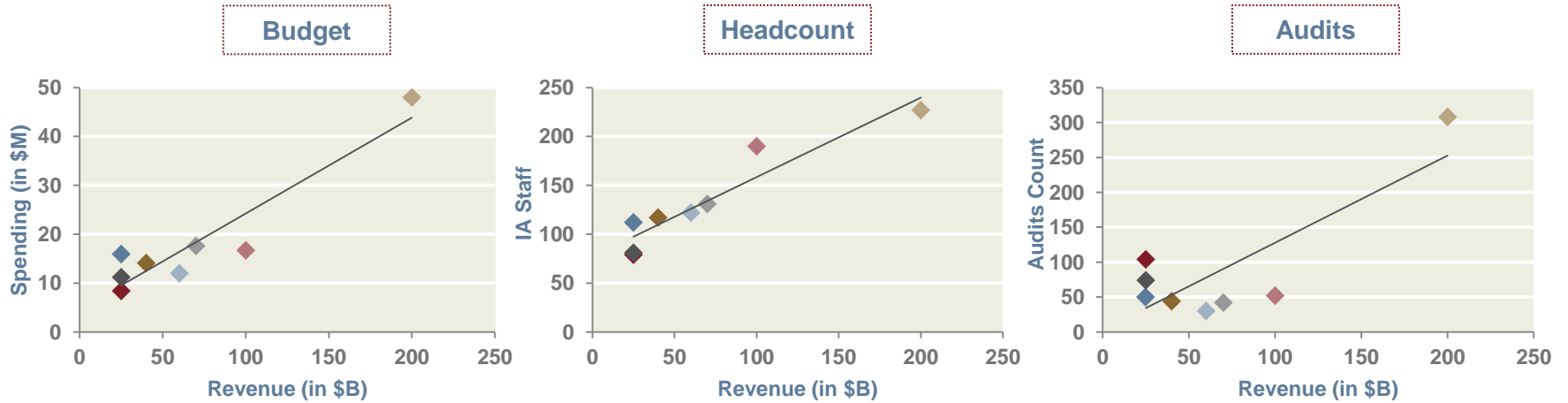
Impact of Factors Upon Company

International Locations — C →

← C — Number of Locations

← C — Degree of Centralization

Control Environment — C →

Maturity of Business Processes — C →

Audit Program Scope & Plan — C →

Degree of Change in the Business — C →

Management's Risk Tolerance — C →

C Company

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Benchmark Analysis - 3
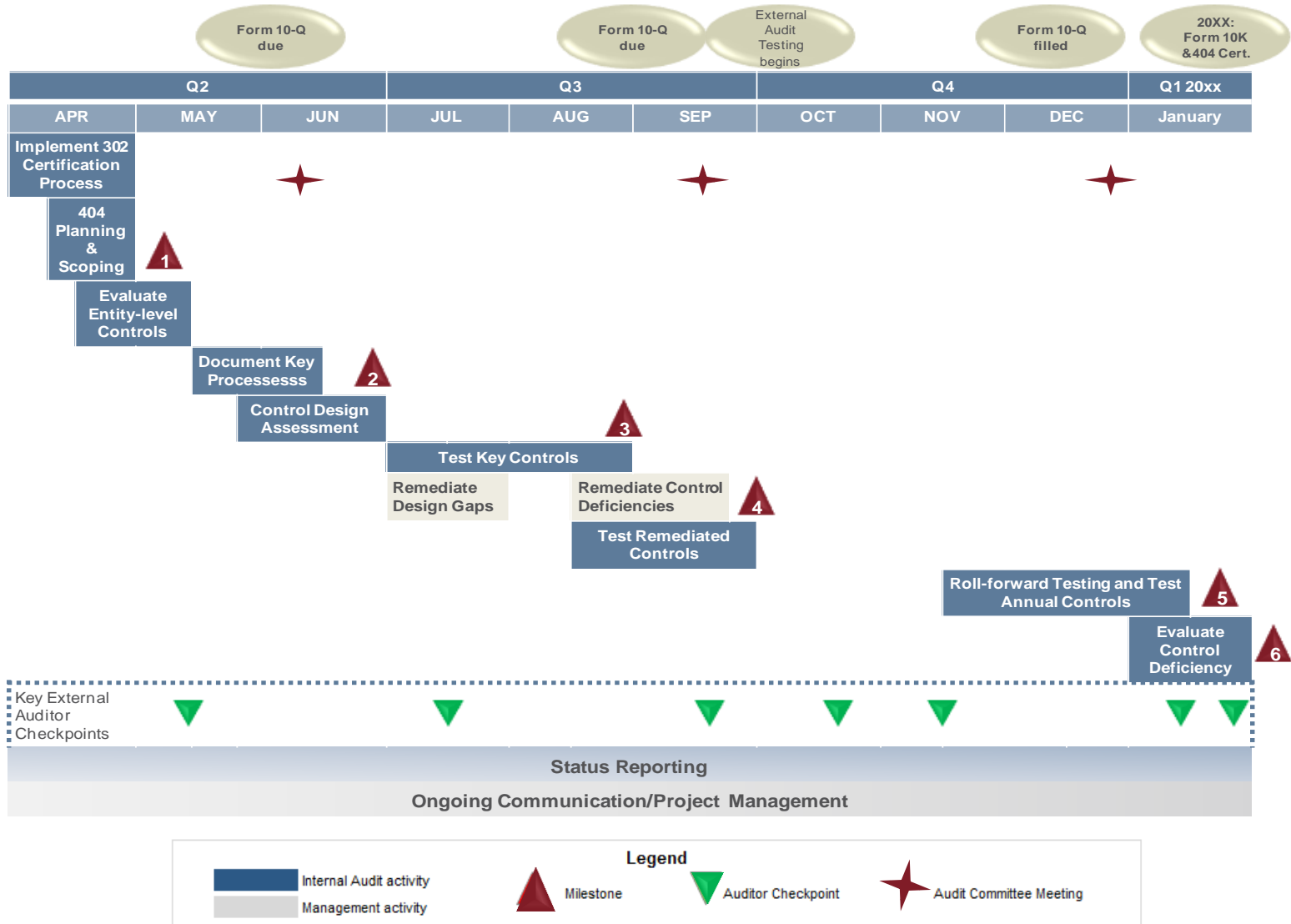

Budget — Spending (in $M) vs Revenue (in $B)

Headcount — IA Staff vs Revenue (in $B)

Audits — Audits Count vs Revenue (in $B)

Legend: ◆ IIA GAIN ◆ Co. 1 ◆ Co. 2 ◆ Co. 3 ◆ Co. 4 ◆ Co. 5 ◆ Co. 6 ◆ Co. 7

	IIA GAIN	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7
Revenues	$ 25 Billion	$ 25 Billion	$ 70 Billion	$ 60 Billion	$ 25 Billion	$ 40 Billion	$ 100 Billion	$ 200 Billion
IA Budget	$ 15.9M	$ 8.4M	$ 17.6M	$ 12.0M	$11.2M	$14.1M	$16.7M	$48M
Total Internal Auditors	97	58	93	110	64	117	175	182
IT Auditors	15	13	20	20	10	17	25	31
Annual Audits	50	104	42	30	74	44	52	308

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SOX Program Overview and Results

SOX Approach and Timeline

| | Form 10-Q due | | | Form 10-Q due | External Audit Testing begins | | Form 10-Q filled | 20XX: Form 10K &404 Cert. |

Q2			Q3			Q4			Q1 20xx
APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	January

Implement 302 Certification Process

404 Planning & Scoping ▲1

Evaluate Entity-level Controls

Document Key Processesss ▲2

Control Design Assessment ▲3

Test Key Controls

Remediate Design Gaps

Remediate Control Deficiencies ▲4

Test Remediated Controls

Roll-forward Testing and Test Annual Controls ▲5

Evaluate Control Deficiency ▲6

Key External Auditor Checkpoints ▼ ▼ ▼ ▼ ▼ ▼ ▼

Status Reporting

Ongoing Communication/Project Management

Legend

▣ Internal Audit activity	▲ Milestone	▼ Auditor Checkpoint	✦ Audit Committee Meeting
▢ Management activity			

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Internal Control Summary - 1

➡️	**Internal Control over Financial Reporting**
➡️	**IT General Computer Controls**

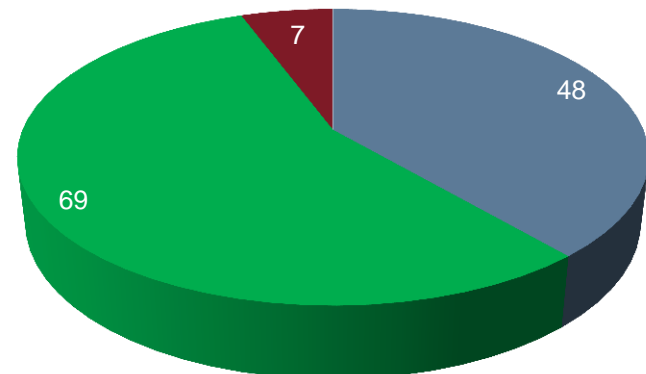## Current Events/Trends

- Interim testing is complete and preliminary results indicate that processes are well controlled and operating effectively.

ICFR Results (interim)

IT GCC Results (interim)

Legend:
- ■ Not Tested
- ■ Effective
- ■ Gaps

ICFR Results values: 2, 91, 142

IT GCC Results values: 7, 48, 69
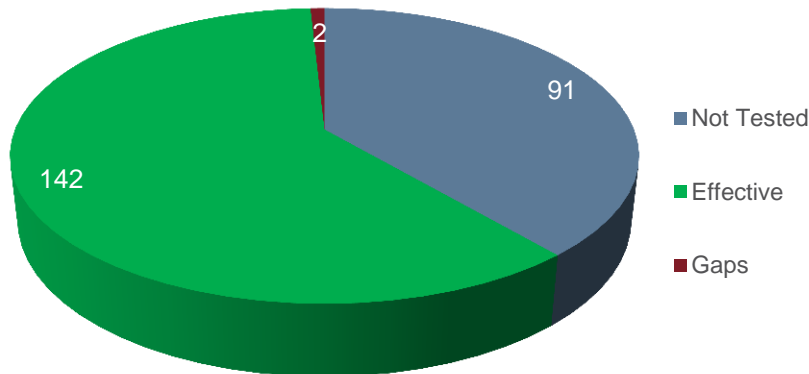
"Not Tested" includes controls that had no sample to test at Interim and controls that are only scheduled for testing during Update/Year End testing. The following control cycles will primarily be tested during Update/Year End testing:

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Internal Control Summary - 2

Internal Controls Information	Rating	Remediation Status	Actions to Complete
20YY SOX Significant Deficiency Summary (Client Management)			
Management Entity Level Controls	*Medium*	**Complete**	Finance/Legal/Development Communication; Whistleblower Hotline
Adjustments & Account Reconciliations	*Low*	**Complete**	*N/A*
Financial Accruals	*Medium*	**In-process**	New issues identified resulting in $X correction booked in Q1 – Finance leader recruited in Q2 for process enhancement
Board Level Entity Level Controls	*Low*	**Not Applicable**	*N/A*
Business Unit #2 Management Group (Financial Reporting, Treasury & Process Level)	*Medium*	**Complete**	Subsidiary books were reopened to book approximately $X in adjustments
Business Unit #2 Management Group (IT Security & Change Management)	*Low*	**Not Applicable**	*N/A*
20XY SOX Significant Deficiency Summary (External Auditor)			
No additional SOX significant deficiencies or material weaknesses identified to-date in 20XY	*Low*	**Complete**	Rating based on testing done to-date; substantial year end controls to be tested in Q3

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Audit Organization and Qualifications

Internal Audit Staffing Summary - 1

Leveraging a combination of industry and public accounting experience, our talented team is capable of successfully executing the Audit Plan. We will continue to leverage …

IA Leadership

Vice President

Certifications: CPA
Experience: 24 years

Director – Sites and Service Centers

Certifications: CPA, CIA, MBA *Candidate*
Experience: 12 years

Director – SOX, IT, Fraud

Certifications: CIA, MBA
Experience: 10.5 years

Manager / Sr. Manager

Experience: 5 years

Certifications: CIA, CISA, MBA *Candidate*
Experience: 7 years

Certifications: CPA
Experience: 8 years

OPEN

Audit Team

6 Senior and Staff Auditors

3 Compliance Auditors

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Internal Audit Staffing Summary - 2

	Budgeted	Filled/Open	Rotational	Co-Source
Chief Audit Executive	1	1/0	0	0
Leadership	15	12/3	4	0
Management	25	24/0	5	1
Staff	140	120/0	20	20
TOTALS	**181**	**157/3**	**29**	**21**

Certifications:	All resources above the Staff level have at least one certification (CIA, CPA, or CISA). Staff are encouraged to seek out a certification within their first year in the department.
Training:	Our departmental budget includes 45 hours of annual training for each employee (some may request and obtain more).

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Internal Audit Personnel Profiles

Part of the measure of an internal audit department is the qualifications of the personnel. There are currently 35 full time employees within the department.

66% of the personnel (23 of 35) hold a relevant certification, including 100% of the management group

51% of the personnel (18 of 35) are fluent in a second language

Certified Public Accountant — 13
Chartered Certified Accountant — 2
Chartered Accountant — 3
Certified Internal Auditor — 6
Certified Fraud Examiner — 3

Polish — 1, Italian — 2, French — 5, Spanish — 2, German — 3, Greek — 1, Hindi — 3, Japanese — 1, Mandarin — 4, Cantonese — 2

■ Polish   ■ Italian   ■ French   ■ Spanish
■ German   ■ Greek   ■ Hindi   ■ Japanese
■ Mandarin   ■ Cantonese
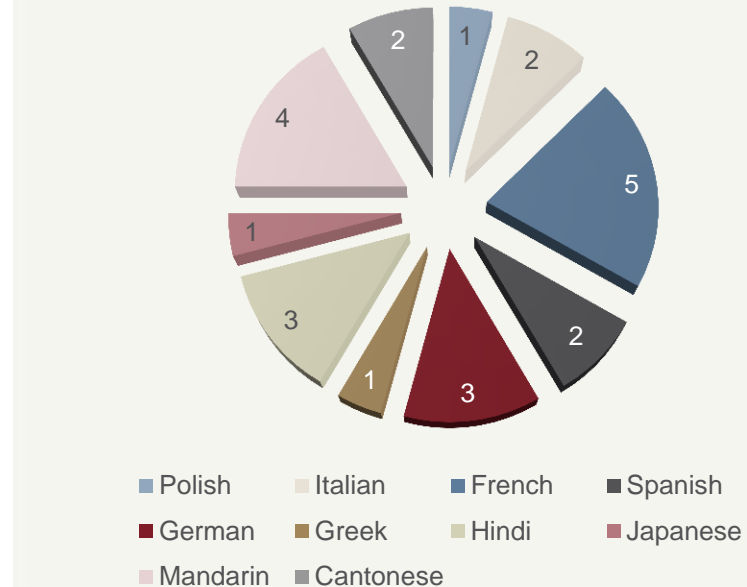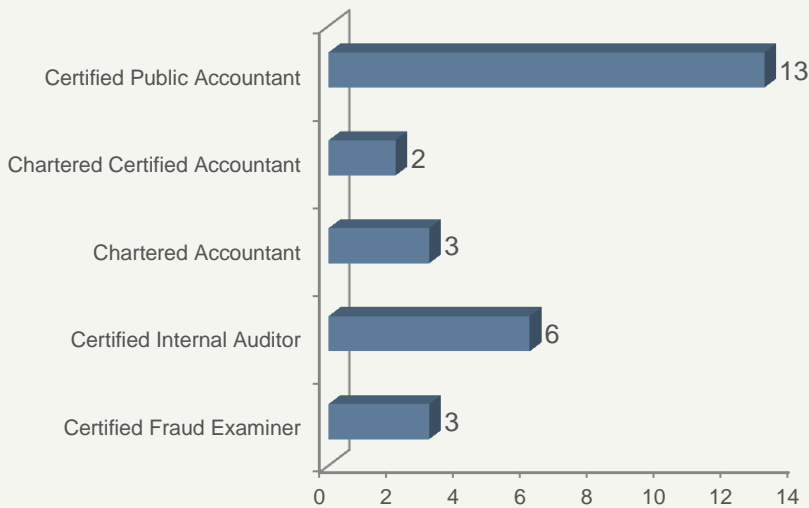
Note: some individuals hold more than one certification.

Note: some individuals speak more than one foreign language.

RETENTION: IA Staff have been in the department for 4 years (on avg.), and IA Managers have been in the department for 8 years (on avg.)

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Reports on Quality

Internal Audit Balanced Scorecard

Personnel		Execution		Quality	
Open positions filled within 60 days	🟢	Budget Vs. Actual	🟢	QAR rating of Generally Conforms	🟢
Professional certifications vs. operational backgrounds (goal is 60/40)	🟡	Completion of audit plan	🔴	Independent manager reviews of 2 svc. line work papers per month	🟢
IA leadership participate in at least one continuous improvement project	🔴	Reports issued within 10 business days of closing mtg.	🔴	90% of audits completed by established due date	🟡
All auditor obtain at least 40 hours of CPE/year	🔴	Average customer satisfaction exceeds XX	🟡		
Staff will achieve one professional certification	🟡				
IA managers will discuss career progression with staff quarterly	🟡				

20XX Key Accomplishments

- Assisted business units with completing internal review of account reconciliations
- Created internal IA technical account group
- Expanded summer intern and co-op program
- 75% of staff who left the department stayed with the company and transferred to another department

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Internal Audit Quality Scorecard

External

Completed 8/21/20XX

Key Action Items:

- – Update Charter 🟢
- – Establish Feedback Process 🟡
- – Institute periodic quality processes 🟢

Scheduled 8/21/20XX

Periodic

- X audits reviewed in 4th Quarter 🟢
- X audits per manager reviewed 🟢

Key Action Items:

- – Standardize Templates 🟢
- – Hold forum on work paper process 🟡

Ongoing

Personnel

- Open positions filled within 60 days 🟢
- All auditors obtain at least 40 hours of CPE per year 🟡

Execution

- Budget vs. Actual 🟢
- Completion of audit plan 🟡
- Reports issued within 10 business days of closing 🟢
- Follow up completed within 10 days of issue due date 🔴
- Consulted on ERP implementation 🟢

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Report on Coverage

Report on Coverage - 1

The following shows Corporate Audit activities from 2008 through 2011, as well as the proposed activities for 2012 and the impact of Sarbanes-Oxley.

	2008	2009	2010	2011	2012	SOX
General Operations						
01. Revenue Management					✓	
02. Domestic Sales and Marketing	✓					✗
03. International Sales and Marketing				✓		
04. Customer Loyalty Programs		✓		✓		✗
05. US Vacations (USV)			✓			
Flight Operations/In-flight						
06. Flight Operations			✓			
07. In-flight Services	✓			✓	✓	
08. Crew Resources				✓	✓	
Stations/Customer Service						
09. Reservation Centers				✓	✓	
10. Internet Reservations					✓	
11. Customer Services				✓	✓	
12. Domestic Airport Operations		✓	✓	✓	✓	
13. International Airport Operations			✓	✓	✓	
14. Shared Services Organization	✓		✓	✓	✓	
15. Cargo Sales and Service		✓		✓	✓	✗
Maintenance						
16. Technical Operations Planning			✓			
17. Quality Assurance and Training					✓	
18. Supply Chain/Procurement		✓	✓	✓	✓	✗
19. Maintenance/Engineering		✓		✓	✓	✗

Key:

✓ Indicates Corporate Audit performed a review or special project in some aspect of functional area in year indicated

✗ Indicates area or some aspect of area is subject to documentation and testing of financial reporting controls under Sarbanes-Oxley Section 404.

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Report on Coverage - 2

The chart below illustrates the IT audit plan coverage across the CobiT domains. The IT audit plan is risk-based and covers all high-risk areas over the course of a three-year audit cycle.

COBIT Domains	Auditable Areas	Year		
		12	13	14
Plan and Organize	• PO1 – Define a Strategic IT Plan			
	• PO2 – Define the Information Architecture			
	• PO3 – Determine Technological Direction			
	• PO4 – Define IT Processes, Organization and Relationships			
	• PO5 – Manage the IT Investment			
	• PO6 – Communication Management Aims and Direction			
	• PO7 – Manage IT Human Resources			
	• PO8 – Manage Quality	✓		
	• PO9 – Assess and Manage IT Risks			
	• PO10 – Manage Projects	✓		
Acquire and Implement	• AI1 – Identify Automated Solutions			
	• AI2 – Acquire and Maintain Application Software	✓		
	• AI3 – Acquire and Maintain Technology Infrastructure			
	• AI4 – Enable Operation and Use			
	• AI5 – Procure IT Resources			
	• AI6 – Manage Changes		✓	
	• AI7 – Install and Accredit Solutions and Changes	✓	✓	

COBIT Domains	Auditable Areas	Year		
		12	13	14
Deliver and Support	• DS1 – Define and Manage Service Levels			
	• DS2 – Manage Third-Party Services			
	• DS3 – Manage Performance and Capacity			
	• DS4 – Ensure Continuous Service			✓
	• DS5 – Ensure Systems Security		✓	✓
	• DS6 – Identify and Allocate Costs			
	• DS7 – Educate and Train Users			
	• DS8 – Manage Service Desk and Incidents			
	• DS9 – Manage the Configuration			
	• DS10 – Manage Problems			
	• DS11 – Manage Data			✓
	• DS12 – Manage the Physical Environment			
	• DS13 – Manage Operations			
Monitor and Evaluate	• ME1 – Monitor and Evaluate IT Performance			
	• ME2 – Monitor and Evaluate Internal Control			
	• ME3 – Ensure Compliance with External Requirements			
	• ME4 – Provide IT Governance			

Legend	
Internal Audit Coverage	✓

Red lettering means the auditable area was identified as high-risk

Orange lettering means the auditable area was identified as medium-risk

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Assurance Mapping

Assurance Map
--Example Only--

Risk	Assurance Coverage													Balance of Activities
	Level 1			**Level 2**								**Level 3**		
	Primary Assurance Operating Units			Secondary Assurance Corporate Monitoring								Detective Assurance Audit Groups		
	Line Mgt.	Process Owners	Risk Owners	CRO	CCO	EH&S	CIO	SOX PMO	ORM	Corporate Finance	Other	Internal Audit	External Audit	
Ex. One (depicting activity) Employee Fraud Risk (inventory/ equip.)	Resp. for 12 key trans. controls at plants	Annually required to certify on control design and operating effectiveness of a subset of the controls.	VP Operations annually assesses ERM risk response as global risk owner.					Compliance testing of all key controls (40 % coverage of locations)		Monthly analysis of cycle count results by sku and location. Quarterly monitoring reports of reconciliation process.		Observations at locations not visited by external audit. Process review of cycle count process at least every 3 yrs. Annual review of Ethics and Fraud risk programs..	Quarterly observations of cycle counts (all large plants covered annually).	Balanced
Ex. Two (depicting coverage)	Identical controls in place at 100% of locations	20% of documented controls						40% location coverage				40% location coverage.	60% location coverage	Balanced
Ex. Three (rating only)	HIGH	HIGH	MODERATE					HIGH		MODERATE		MODERATE	MINIMAL	Out of Balance

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David Brand

Managing Director

protiviti®
Risk & Business Consulting.
Internal Audit.

Phone: +1 312 476 6401

David.Brand@protiviti.com

Chicago, IL

Powerful Insights. Proven Delivery.®

Jason Maslan

Director

protiviti®
Risk & Business Consulting.
Internal Audit.

Phone: +1 312 476 6320

Jason.Maslan@protiviti.com

Chicago, IL

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Ari Sagett

Director

protiviti®
Risk & Business Consulting.
Internal Audit.

Phone: +1 312 476 6315

Ari.Sagett@protiviti.com

Chicago, IL

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