Building Blocks of the Audit Function at Etihad Airways

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AIM TO SHARE

- Etihad Airways (EY) – in Brief
- EY Internal Audit Function
- Building blocks of
  - Audit Assurance
  - Risk & Advisory
  - Compliance
- Q & A
2013 INSPIRING THE CUSTOMER

Etihad Airways (EY) – In Brief
• UAE national carrier, established in 2003.
• Mandate
  – Commercially viable
  – Best in class
  – Key partner in Abu Dhabi 2030
• Fastest growing airline in commercial aviation history.
OUR AWARDS

- **2012 World Travel Awards:**
  - World’s Leading Airline
  - World’s Leading First Class

- **2012 World Travel Awards Middle East:**
  - Middle East’s Leading Airline
  - Leading Airline First Class
  - Leading Airline In-Flight Entertainment
  - Leading Cabin Staff

- **2012 Skytrax World Airline Awards:**
  - Best First Class
  - Best First Class Seats
  - Best First Class Catering

- **2012 Business Traveler Middle East Awards:**
  - Airline with the Best Economy Class
  - Airline with the Best Cabin Crew

- **2012 Aviation Business Awards:**
  - Airline of the Year

- **2012 Premier Traveler:**
  - Best Airline in the Middle East

- **2012 Belgian Travel Awards:**
  - Best Long-haul Airline

- **2012 Mercury Award:**
  - Onboard Service Innovation

- **2012 IIRME HR Excellence Awards:**
  - Recruitment Program of the Year

- **2012 Irish Travel Trade News Awards:**
  - Best Long-haul Airline
  - Best Premium Class Airline

- **2012 CAPA Annual Awards for Excellence:**
  - Aviation Executive of the Year - James Hogan, Etihad Airways President and Chief Executive Officer
OUR BRAND STRATEGY

VISION
To be the best airline and travel company in the world

MISSION
To deliver the world’s most remarkable travel experiences

CONSUMER PROMISE
Transforming the expectations of air travel

VALUES
Inspired, Respect, Generosity, Can-do
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<tr>
<td><img src="image" alt="airberlin" /></td>
<td><img src="image" alt="Aer Lingus" /></td>
<td><img src="image" alt="Virgin Australia" /></td>
<td><img src="image" alt="Air Seychelles" /></td>
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**THE WORLD’S FIRST ‘EQUITY ALLIANCE’**

- **A 29% shareholding in airberlin**
- **A stake of just under 3% in Aer Lingus**
- **A 10% stake in Virgin Australia**
- **A 40% equity investment in Air Seychelles**
42 codeshare partners, increasing the Etihad route network to 326 destinations, more than any other Middle East airline
INVESTING IN OUR PEOPLE

• We employ more than 14,000 people

• We have more than 125 nationalities

• More than 1,200 Emirati colleagues and increasing steadily
We are playing our part in the ongoing development of Abu Dhabi as a New Global Powerhouse
WHAT DOES IT MEAN TO US AUDITORS?

WHAT IS THE END GAME?
WHAT’S THE FUTURE

- Permanent People – fake people using new 3D printer
- Flying Cars Everywhere
- Surfing from Space
- Low Cost Cars
High performing IA functions have journeyed to new heights and perceived extremely **relevant and valued** by their enterprise.

High performing IA functions stand out in 4 areas:

- **Demonstrate significantly stronger foundational capabilities** that far exceed others’ performance on core internal audit performance attributes. With strong capabilities, they have a solid foundation on which to take incremental steps up the value chain.

- **Organization’s governance, risk and compliance activities**, improving the likelihood that risks are well covered across the lines of defense and resulting in greater satisfaction with how well risks are managed.

- **Incorporate emerging risk more effectively into audit areas**, enabling internal audit to see problems sooner, add value early and stay engaged to add value throughout.

- **Partner with those they serve** by providing proactive advice and insights and actively engaging with management in organizational initiatives.

In essence, high-performing internal audit functions have strong capabilities that form their foundation as **assurance providers**, enabling them to **deliver more value** and providing them the solid ground from which to move toward a **trusted advisor** role.
AUDIT DIRECTOR ROUNDTABLE (ADR) - BENCHMARK

Increase of Audit Activities Over Time

- Strategic Risk Assurance
- Participate in Management Committees
- Project Assurance
- FCPA, UK Bribery Act Compliance Training
- Continuous Monitoring
- Regulatory Compliance Assurance
- Sarbanes-Oxley Testing
- Financial Reporting Assurance
- Assist in Control and Process Design
- Operational Risk Assurance
- Fraud Prevention and Detection
Etihad Airways – Internal Audit Function
ETIHAD’S INTERNAL AUDIT FUNCTION

- Formed in 2007. Early years till 2008 the function was outsourced.
- With carefully planned 3 year strategic plan 2008-2010, we have moved from a ‘traditional’ Audit function to a ‘value add’ focused department.
- In mid 2008 began a journey to in-source the function. Currently the function is completely managed in-house.
- We co-source with strategic partners for very specific expert skill sets.
- The department’s building blocks: Assurance, Risk & Advisory and Ethics & Compliance.
- Our staff strength is 19 and will increase to 27.
- A 3 year plan from 2011-2013 was put in place to move the function to become ‘Best in Class’, in alignment with our corporate vision.
DEFINING GOAL – KEY STEP

• Ranked the top audit department in 2011 by ADAA.

• Strive to be the best - World Class audit function.

• Led by visionary leaders to meet our clearly defined goals and objectives.
Internal Auditors are uniquely placed in the organizations to have a holistic view of the organization and therefore to be a trusted advisor to add value to the various stakeholders.
OUR ROLE

- **Our Vision** .... is to be as a trusted advisor and to actively help achieve the corporate priorities and governance.

- **Our Mission** .... is to provide the stakeholders (including the Audit Committee, the Board and management) independent, objective assurance and consulting services designed to add value and assist the Company in achieving its objectives.

- **Scope of Work**.... to evaluate whether the Company's system of risk management, internal controls, and governance processes are adequate and operating effectively.

*The Department has the authority to audit / review all areas of the business.*
EVOLUTION OF THE INTERNAL AUDIT FUNCTION

Baseline IA Function
- Alignment to ADAA Methodology
- Cost-effective audits
- Establishment of IT audit expertise
- Implementation of audit tools

Transitionary
- Higher quality assurance services with value added reporting
- Develop in-house fraud response skills and investigation capabilities
- Embed risk management into business planning process
- Enhanced audit tool functionality
- Implementation of Control Self Assessment

Realignment
- Dedicated resources aimed at advisory and consultancy for strategic and value-adding initiatives
- Continuous monitoring
- Provide education and training to the business
- Leverage technology effectively

Best in Class (Full Capability)
- Strategic business partner
- Promotes a common risk language to create a consistent understanding of risk within the company
- Integrated assurance, working collaboratively with other functions.
- Risk and control culture embedded within the organization

Goal

People Development, Continuous Improvement, Technology, Emiratisation, Knowledge Transfer, Cost Savings

2010  2011  2012  2013
We are developing our audit function to provide our principal stakeholders (Audit Committee members, government and management) with valuable and objective assurance on governance, risk and control processes, as well as consulting services to improve operations.

Balancing your core skills with expanded responsibilities to redefine the function’s value proposition.
BUILDING BLOCKS OF ETIHAD’S INTERNAL AUDIT FUNCTION
• Recognize - Key asset of our function and well supported by Audit Committee.
• Have the Best People through Recruitment
• Career Development Plan
• Emiratisation
• Knowledge is Power – away-days and team sharing on audit performed, we also take advantage of knowledgeable people in the department for their business and audit experience.
• Structured Training Plan - Networking Opportunity
• Exhibit Regional and Global Visibility
TRAINING PLAN

- Well supported by Audit Committee
- Carefully planned training plan based on our Development Framework
  
  **PROFESSIONAL DEVELOPMENT**
  - All external training such as annual conferences on audit and related industries.
  - Example - IAAIA, IIA Annual Conference, IRM ACFE.

  **BUSINESS SKILLS**
  - Internal sessions

  **JOB SPECIFIC & GENERAL PROCESS**
  - Work related training
  - Example – Risk Based Auditing, Flowcharting, Communication (report writing), Problem solving, negotiation, Data Analytics, Fraud, Risk Management, IT Audit etc.

  **PEOPLE SKILLS**
  - Behavioral or soft skills
  - Example - Ethics, Empathy for subordinates values, Mentoring, Management Leadership etc.

- Leverage own expertise
- Equipped enabler such as ADR/CEB, KL, HBR etc.
EMIRATISATION

- Currently comprises 16% workforce, aim to achieve 22% by end of 2013.
- Structured Emirati Graduate Auditor Programme – two year programme on OJT, rotation and specialisation.
- Personal Development Plan (PDP).
- Encourage and support to obtain professional qualification. Examination coaching sessions held.
- Participate actively in the General Management Development Programme (GMDP).
- GMDP Workplace Attachment Programme, internal audit as training ground.
- Mentor session - new recruit and GMDP.
HAVE THE BEST PEOPLE

- Structured recruitment process
  - Personality test
  - Written test (process thinking and report writing)
- Career fair.
- Professional recruiter, where necessary.
- Build in house skills and competencies
  - Airlines experience
  - Qualified auditors and accountants
  - Support emiratisation programme
  - Train professional such as CIA / CFE / CPA within the unit and providing training ground for business
Alignment with corporate strategy

Deliver **improved business performance** and a **superior client experience**

Become a ‘**best in class’** department

Encourage **better and faster decision making** leading to **improved performance**

Align risk management activities with business objectives to **drive value**

Offer objective **advice** and **fresh insights**

Adopt a **consistent methodology** with a robust **knowledge culture**

Implement leading practices to **produce tangible results** and **sustainable improvements**

Capitalise on opportunities that will bring **growth** and **efficiency**

**Enabler to Abu Dhabi 2030 Growth Plan**

- **Active participation** in the Emiratisation programme
- **Constructive relationship** with the Abu Dhabi Accountability Authority (ADAA)
Focussed on positioning Internal Audit as a business ‘enabler’, better equipping the Board to manage corporate risks and controls by focussing on:

- Audit, Assurance & Business Advisory
- Fraud Control Framework
- Corporate Governance Risk Management
- IT Audit & Project Assurance
- Control Self Assessment
- Integrated Assurance
- Internal Audit Organisation and Resources
- Audit Methodology
- Greater Utilisation of Audit Tools
2011 - 2013 Audit Plan

Risk & Business Advisory
- Risk management concepts introduced
- Risk terminology and quantitative analysis introduced
- EY Risk Registers
- Awareness and education
- Annual Fraud Scenario Assessment
- Integrated Fraud Policy

Audit Assurance
- Assurance in line with Annual Audit Plan
- Pre and post system implementation assurance reviews
- Collaborative working
- Audit Methodology & Audit Tools
- Controls Self Assessment
- Audit Scorecard

Compliance

Independent, Objective Assurance & Overall Control Environment Opinion
ACHIEVEMENTS TO DATE

Implementation of Risk Based Internal Auditing

Continuous Improvement in Audit Methodology

Code of Conduct

Involvement in Special Ad-Hoc Assignments

Recruitment of Qualified and Experienced Professionals (reduction in consultant dependency)

Outstation Control Self Assessment (CSA) Framework

100% e-documentation of audit activity

Comprehensive Outstation Risk Assessment

Corporate Risk Assessment

Fraud Scenario Assessment

Form Advisory Team

Corporate Self Assessment

Emphasis on Data Analytics

80% staff with professional qualification

Partner Company Audits

Ethics Committee

Assurance Value Add – AED 59mil

Follow-up Tracker

Integrated Assurance

Code of Conduct

Fraud Scenario Assessment

Continuous Improvement in Audit Methodology

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Assurance Value Add – AED 59mil

Follow-up Tracker

Integrated Assurance
2012 AUDIT ACHIEVEMENTS

- Completed 38 planned and ad hoc audit assignments.
- Value add – AED 59 million identified.
- Enhance audit methodology
  - Audit processes have been established in line with ADAA, best practice, and IIA guidelines
  - Alignment of audit process and audit tool (e-governance portal)
  - 100% e-documentation of all audit work paper in 2011
  - Incorporate usage of data analytics in all audit projects
  - Continuous monitoring in 2012
  - Updated IA Manual
  - Revised audit report format
  - Enhance audit rating structure
2012 AUDIT ACHIEVEMENTS

- Streamlined Outstation Risk & Control Matrix
  - Revised Outstation Risk & Control Matrix
  - Reduced time spent at station
- Business Advisors
- Quality Assurance Improvement Programme
- Leverage knowledge and research website such as ADR
- Integrated Assurance
RISK BASED PLANNING

- Improve audit planning - annual plan and 3 year rolling plan
- Leverage structured risk assessment exercise, for example fraud scenario analysis result, outstation risk assessment etc for annual planning
- Research on trends and emerging risk.
- Aligning with company mandates and objectives
FOLLOW-UP TRACKER

- Introduced Follow-up Tracker in Mar 2012.
- Replaces Issue Tracker / Audit Scorecard and all planned follow-up audit reviews.
- Aimed to reduce time spent on follow-up reviews, and also enable timely validation of the completion of agreed actions by its due date.
- Quarterly exercise and completed 4 follow-up trackers.
- Very well received by the senior management, especially the dashboard.
OUTSTATION CONTROL SELF ASSESSMENT

• Self-assessment is the process through which management or process owners assess the extent to which their current practices are sufficient and appropriate to achieve their strategic objectives.
• The process owners self-assess and report control weaknesses to reinforce accountability.
• Provides visibility on control environment and solutions to be implemented across the network.
• Controls are the policies and procedures that, when implemented effectively and efficiently, help minimize or reduce the impact of risk on a company or business process to an acceptable level.
• Successful implementation of Control Self Assessment to all outstations in 2011 and have completed 3 cycles.
  o Fully automated CSA submission
  o Continuous engagement with business in educating and improving the controls
CONTROL SELF ASSESSMENT

**STRATEGY SELF-ASSESSMENT**
- Understand and analyze the business.
- Identify strategic priorities.
- Communicate results and develop action plans.

**RISK SELF-ASSESSMENT**
- Determine and evaluate business risks.
- Prioritize key risks.
- Communicate results and develop action plans.

**CONTROL SELF-ASSESSMENT**
- Assess business risk management and controls.
- Enhance risk control.
- Communicate results and develop action plans.

**PROCESS SELF-ASSESSMENT**
- Improve process controls and performance.
- Improve business performance.
- Communicate results and develop action plans.
Control Self Assessment Reporting

Overall Scorecard

- Pass: 76%
- Fail: 1%
- Not Applicable: 23%

Average by Region

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<th>Region</th>
<th>Americas</th>
<th>Asia Pacific North and the Indian Subcontinent</th>
<th>Europe</th>
<th>Levant and Africa</th>
<th>Middle East</th>
<th>Southern Asia and Australia</th>
<th>UAE</th>
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<tbody>
<tr>
<td>Average of Pass</td>
<td>76%</td>
<td>82%</td>
<td>84%</td>
<td>89%</td>
<td>85%</td>
<td>82%</td>
<td>86%</td>
</tr>
<tr>
<td>Average of Fail</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>0%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Average of Not Applicable</td>
<td>21%</td>
<td>13%</td>
<td>15%</td>
<td>11%</td>
<td>12%</td>
<td>15%</td>
<td>17%</td>
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Detailed scores for each region can be found in the table below.
TOP GLOBAL IT RISKS

- Critical system failure
- Cyber attacks
- Massive incident of data and identity fraud
- Digital misinformation / social media
- Cloud computing
- Mobile devices / bring your own devices (BYOD)

Source data from World Economic Forum – Global Risks 2013 Report
## WHAT CAN GO WRONG?

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<th>Company</th>
<th>Incident Description</th>
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<tr>
<td>Yahoo</td>
<td>A group of hackers published a list of over 453,000 log-in credentials on the Internet. Exploitation of a basic SQL vulnerability. Hackers accessed the usernames and hashed passwords of 6.5 million members.</td>
</tr>
<tr>
<td>LinkedIn</td>
<td>A massive breach in its video game online network led to the theft of names, addresses and possibly credit card data belonging to 77 million user accounts. Exploitation of known vulnerability.</td>
</tr>
<tr>
<td>Sony</td>
<td>System failure caused a four day outage. The system failover did not function as previously tested.</td>
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WHAT IS THE ROLE OF IT AUDIT?

• Assurance
  To evaluate the systems and processes in place to safeguard the organisation’s information assets, maintain data integrity and ensure they operate effectively and efficiently to achieve the organization's business goals or objectives.

• Advisory
  Provide support and advice to the business and IT on improving their control environment, facilitate the identification and management of risk and embed best practices.
ETHICS AND COMPLIANCE

• Responsible for leading the ethics and compliance programme for Etihad Airways and subsidiaries.
• Key components of the programme:
  – Ethics Committee
  – Dedicated Ethics and Compliance Office
  – Code of Business Conduct
  – Mandatory Ethics Training
  – Risk assessments
ETHICS AND COMPLIANCE

Primary function:

• Manages Etihad’s anti-fraud and anti-corruption programme.
• Manages confidential reporting line.
• Works with legal on other compliance issues such as data-protection and export compliance.
• Provides the business with face-to-face and online ethics and compliance training.
• Develop key governance policies such as Code of Business Conduct, company investigation guidelines and Gift policy.
• Provides the Business with advice on various compliance issues e.g. due diligence during acquisitions.
INTERNAL AUDIT: WORKING HAND IN HAND WITH COMPLIANCE

Risk assessment
• Ethics and Compliance risk assessments (fraud, anti-trust, data protection etc.) made available to the audit team.
• Risk registers are available for inclusion in audit programmes.
• Fraud and compliance controls are tested by Internal Audit.

Investigations
• Where fraud is suspected, initial findings are handed over to the Compliance Office to conduct a full investigation.
• New fraud risks are captured during the investigation process and added to existing registers.
• Compliance risks, controls and action plans are documented and tracked using a common IT platform.
CORE FOCUS – ENTERPRISE RISK MANAGEMENT

- Creating a Risk Culture
- Support Integrated Assurance across key business units (e.g. Health and Safety, Environment, IT, Finance etc.)
- Facilitate Strategic and Corporate Risk Assessments across the Company and its Investments based on an Integrated approach
- Facilitate Fraud Scenario Assessments with Ethics and Compliances
- Collaborative interaction with Management on Control Self Assessments
Consultancy services are being recognized as part of the annual audit plan and as such are being resourced.

Reduces costs such on external consultancy by tapping into the range of skills available in Internal Audit and exploiting internal consultancy opportunities.

Advisory Services are meant to help Management in:
- Improve the effectiveness of strategy, process or operations by assessing business needs
- Providing solutions as well as helping in the implementation of these solutions
2013 INSPIRING THE CUSTOMER

Any questions?

Thank you