Risk Management Report

The operation of Airport Authority Hong Kong (“AAHK”) encompasses a diverse range of risks. At the corporate level, risks which may hinder AAHK from achieving its long term objectives are analysed within the context of its Master Plan (conducted in five-year intervals). Risks relating to AAHK’s short and medium term objectives are identified and addressed annually during the preparation of the rolling Five-year Business Plan.

Risk Management Framework
AAHK’s internal controls are designed to manage and mitigate risks, rather than eliminate risks. Risk assessment and management is a critical focus for all levels at the AAHK: The Board, the Audit Committee and Finance Committee (ACFC), the Executive Management and the operating and supporting functions.

Operating and Supporting Functions
Our quantitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions.

Given the myriad of potential risks that may affect the operations of the airport, all operating departments are required to implement a thorough risk identification process to review the risk and business continuity management processes pertaining to operational areas that are critical to sustaining the continuous operation of the airport.

Risk Identification and Business Continuity Management Process

The key elements of AAHK’s integrated and multi-layered risk and business continuity management process include the establishment of an Operational Risks Register to track and document identified risks, the development and continuous updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.
Executive Management
With a view to staying alert to any emergent risk resulting from economic, market or environmental changes, an ongoing risk assessment approach is adopted by Management for the identification of new exposure areas and implementation of appropriate mitigation measures.

A diversity of approaches is adopted for the collection and analysis of market intelligence and data, which include close interface and communication with business partners, industry bodies, Government counterparts and opinion leaders through liaison groups, committees, international organisations and engagement exercise.

Upon collection of useful information which may impact on AAHK’s operations or risk exposures, deliberation of the necessary follow-up or preventive measures will be made at regular intra or inter-departmental meetings.

During the year under review, the Executive Management reviewed AAHK’s risk profiles and control system and concluded that the control system is effective and adequate. A consolidated review report was compiled and submitted to the ACFC for review. The Board then reviewed the effectiveness of AAHK’s risk management and control system via this consolidated report after its consideration by the ACFC.

Audit Committee and Finance Committee
The ACFC is responsible for reviewing AAHK’s risk management system and ensuring that effective controls are in place. It receives reports from both the external and internal auditors and considers any control issues arising from these reports.

The ACFC needs to review all risk areas presented in the risk information matrix and identify key risk issues that require its further attention and, if appropriate, the Board’s focus.

In the year, the ACFC reviewed the consolidated review report on AAHK’s risk profiles and control system and confirmed that no significant risk control issues would need to be escalated to the Board for immediate action.

The Board
The Board is overall responsible for ensuring that AAHK has effective risk management and control systems and is assisted by the ACFC in discharging this responsibility.

Annual Review
The annual internal control review evaluates all major operations and processes of AAHK based on the five main components of the COSO framework, namely: control environment, risk assessment, control activities, information and communication, and monitoring.

As part of the annual review, all AAHK departments and major subsidiaries are required to assess the risks associated with their key processes and the effectiveness of the controls in place to mitigate such risks. Independent verification of the effectiveness of controls for those high-risk areas is also carried out. Based on the results of these reviews, AAHK departments and major subsidiaries make representations to Executive Management as to whether internal controls are working as intended or that enhancements are to be made.

Risk Profiles and Controls
Key risks identified in the annual review for 2011/12 and controls put in place are as follows:

Strategic and Operational Risks
Maintaining Hong Kong as a centre of international and regional aviation is a statutory mandate of AAHK. Continuous improvements are made to ensure efficient and safe operations of the HKIA amid ever-increasing traffic demands.

HKIA handled over 54.9 million passengers, 3.9 million tonnes of cargo and 339,000 flight movements in 2011/12. Based on industry forecasts, air traffic demand was expected to reach 97 million passengers, 8.9 million tonnes of cargo and 602,000 flight movements per year by 2030. The HKIA Master Plan 2030 (MP2030) addresses major medium to long term challenges and lays out options and strategies to ensure HKIA is well placed to meet long term capacity issues.

Operational risks identified included potential degradation of service delivery standards, unforeseen disruptions to flow management, maintenance challenges to aging facilities. Continuous investments in facilities upgrade and replacement projects had been initiated. Other appropriate controls such as constant monitoring of service delivery standards, operating procedures and fallback contingency plans had been established to ensure impact on passengers would be minimized. Regular drills were also carried out to test the response capabilities of all concerned parties in case of eventualities.
Environmental Risk
Caring for the environment is an imperative for the long-term sustainable development of HKIA. AAHK has put in place vigorous measures to manage environmental issues and strives to operate and develop the airport in an environmentally responsible manner.

At the strategic level, a three-year environmental action plan had been developed involving working towards benchmarked best practices in key work areas as compared to other major airports and leading Hong Kong organisations. A principal part of the strategy involves partnering with the airport community in developing and implementing airport-wide environmental programmes.

At the operational level, management of environmental challenges was incorporated in facilities planning process to ensure full compliance with the statutory and applicable requirements for all airport developments from inception to completion. An environmental audit process is in place to gauge the environmental performance of airport operators who are required to set carbon reduction targets and report their achievements to the Authority.

Further details on our environmental initiatives are set out in the Corporate Sustainability section on pages 54 to 61.

Safety, Security and Health Risks
Airport and aviation safety is fundamental to the operation of HKIA. Safe operation of HKIA is achieved through the concerted efforts of AAHK, airlines, aircraft manufacturers, air traffic control organisations and other key stakeholders. AAHK regularly reviews various standard operating procedures that cover all parts of HKIA’s operations on the airfield, on the apron, at gates and in maintenance areas.

In parallel with this, instilling an effective safety culture from the top management down has remained a priority. Reporting of safety hazards and occurrences has been encouraged and monitored at all levels. As in previous years, safety, as measured by the rate of airport staff and passenger injuries at the airport, remains a key performance indicator of AAHK and forms one of the key elements in the annual corporate goals by which the variable compensation awarded to staff (including the Chief Executive Officer and Executive Directors) is determined.

The construction, maintenance and operation of airport facilities involve risks in the workplace that can be reduced, mitigated and transferred but not eliminated completely. Recognising that minimising occupational health and safety incidents is one of the keys to the sustainability of HKIA, AAHK has formulated a Safety Management System which is regularly reviewed and updated.

Airport security continued to see challenges arising from increasing volumes of passenger traffic and the evolving nature of the threats against civil aviation. Enhanced initiatives and effective equipment and facilities have been and will continue to be employed to ensure that highest security standards are maintained.

To address health risk, AAHK has a Stepped Response Plan in place for major public health issues.

Financial Risk
AAHK’s activities are exposed to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. Details of AAHK’s exposure to financial risks and the policies and practices adopted to manage these risks are described in Note 21 to the Financial Statements on pages 103 to 108.

Information Technology Risk
The effectiveness and security of information technology systems is instrumental to ensure a smooth and safe operation at the HKIA. An IT Governance Framework and IT Risk Management Framework are established to ensure consistent risk assessment and management. Annual review is being undertaken to ensure that IT projects align with corporate strategies. IT obsolescence status is reviewed biannually. Emerging IT security risks are monitored and proactive measures are in place to enhance risk awareness.

Any interruption of the IT services and failure of system contingency may disrupt airport operations. To address this risk, preventive maintenance, detective monitoring and containment measures are implemented to mitigate the risk of operation disruption. Security threats are mitigated through preventive and detective measures including restricted network access, installation of intrusion detection system and the use of security monitoring tools to alert Management on risks and vulnerabilities.
Legal and Regulatory Risk
Violation of law, non-compliance with regulatory requirement, and breach of contract, even though unintentionally, will bring about legal consequences impacting on the AAHK, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits. Whilst some of the legal risks are stand-alone, many of them dovetail with operational, financial, reputational, political, tax and regulatory risks. Effective management of legal and regulatory risk will help the Management avoid taking unnecessary and imprudent risks in the business, operation and development of the HKIA.

AAHK has been taking a proactive and forward-looking approach to monitor changes in government policy and legislation. Judgments, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to the AAHK. Policies, procedures and appropriate action steps to address the changes are developed in a timely way to guide the Management to operate legally and within AAHK’s acceptable risk level. Ongoing education is provided to the Management to adapt to these changes. Adequate risk mitigation measures are in place and they are constantly reviewed for enhancement. AAHK will continue to monitor and manage legal and regulatory risk vigilantly on a going-forward basis.

Human Resources Risk
Airport expansion has been earmarked as one of the key work focuses in the medium to long term to meet the traffic demand. An insufficient supply of talent to support airport development will adversely affect the growth and hence the hub status of HKIA.

Talents in possession of airport experience and knowledge is particularly important in the light of the impending development projects at the HKIA. A people development and succession planning framework has been drawn up, in addition to internal training programmes, to better prepare for the future manpower requirements at an airport environment.

Reputational Risk
Public sentiment and socio economic dynamics are closely monitored to manage and pre-empt possible reputational risks that may have implications on the corporate image of AAHK. Meanwhile, continuous engagement with key stakeholders is carried out to enhance understanding of and gauge views about HKIA’s short-, medium- and long-term developments.

A database to track and monitor public affairs issues has been established and stakeholder engagement plans are in place to ensure effective communication with key stakeholder groups on an ongoing basis.

Sustainability
Sustainable development, to AAHK, is a resilient process that balances business objectives and stakeholders’ interests within a holistic management framework. In the year under review, sustainability continued to be integral to the operations and developments at the HKIA.

Benchmarking exercises with major international airports and major local corporations in corporate sustainability had been done by an independent organisation. Improvements were identified and the Management is working towards formulating a corporate sustainability plan for AAHK.

Way Forward
As HKIA’s operations have been growing in size and complexity, the risk management framework is being reviewed from time to time to ensure its effectiveness and robustness, which is essential in fulfilling the objective of maintaining the status of Hong Kong as a centre of international and regional aviation.

Going forward, we will expand our initiatives across our operations and continue to support and share best practices across all departments and with business partners.