



Air Niugini

**REFOCUS AND REALIGNMENT
OF ANNUAL AUDIT PLAN**

2020



1. OBJECTIVE

Due to the negative impact on the operations and cashflow of the Airline as a result of the Covid19 pandemic, the Board and Management have requested that IA should refocus and realign its annual audit plan to ensure that;

- a) Internal Controls are adequately designed and embedded throughout the PX Network and working effectively to ensure there are no leakages in revenue, revenue is protected at all costs with 100% collection and reporting of revenue.
- b) Review Deloitte's findings on Revenue Leakage Report to assist test of controls embedded throughout the sales platforms (PX sales, travel agents, IATA BSP, GSA, online, etc) in protecting revenue from potential leakages.
- c) Internal Controls are adequately designed and embedded throughout the PX Network and working effectively to ensure there are no leakages in cash (cash outflow) through illicit payments, double payments or or through uncontrolled payments or expenses.

2. PROGRESS OF 2020 AUDIT PLAN

The following table shows progress of the 2020 Annual Audit Plan:

2020 AUDIT PROJECTS COMPLETED AS AT 20 JULY 2020			
2020 PROJECTS	MUST COMPLETE	OPTIONAL	TOTAL
Projects on Plan	54		54
Adhoc Projects	25		25
TOTAL PROJECTS	79		79
Projects Completed (including 25 adhoc projects)	42		42
Projects Dropped	12		12
Projects on Hold/Deferred	2		2
Projects in Progress	8		8
Projects Pending	17		17
Projects Completed (%) – all inclusive	53.16%		53.16%
Projects Completed (%) – excluding projects dropped	62.69%		62.69%

- Projects Dropped = 12 [10 projects assigned to 2 auditors who were retrenched early this year, 2 projects dropped as per directive from CEO and Board, these 2 are; Route Profitability Audit and Contract Employment Remuneration Structure & Process Review].

- Projects on Hold/Deferred = 2 [Cairns and Manila port audits have been deferred or put on hold due to Covid19 travel restrictions and cashflow issues].
- Spot Checks are carried out as and when requested by the management or when IA feels necessary, especially during peak periods.

3. DELOITTE'S REVENUE LEAKAGE AUDIT REPORT – FINDINGS

The following findings were highlighted by Deloitte in its Revenue Leakage Audit Report;

- a) Monthly Fare Audit Not Operational since 2016.
- b) No Control Assessment on Revenue Process performed Post Sabre Implementation.
- c) Limited Involvement by Internal Audit during Sabre Prep and Post Implementation.
- d) Reliance on manual, labor intensive processes.
- e) No defined fraud risks management framework.
- f) Limited access and connectivity at regional level.
- g) Limited capability in extracting bulk data from Sabre, impacting on management's ability to perform detailed data analysis.
- h) User access to edit booking information, tickets, fares and ancillary charges are broadly unrestricted and unmonitored.
- i) Delays in data flows between systems.

As part of this refocusing and realigning we will consider additional projects focused in addressing some of the findings (issues) highlighted by Deloitte.

4. REFOCUS AND REALIGNING OF 2020 AUDIT PROJECTS

Basing on Deloitte's report on Revenue Leakages, the 2020 Annual Audit Plan was focused on Improving Processes in Protecting Revenue and Preventing/Minimising Fraud. 54 project were planned for the year with 32 (59%) of these projects are focused on protecting revenue alone. Apart from the 32 projects, 23 surprise spot checks have also been carried out, mostly during peak periods to ensure revenue is protected. However, we have realign the plan again to focus more on protecting revenue and saving costs (outflow of cash/payments).

As part of this refocus and realignment, the following additional audit projects will be carried out;

- **Revenue Protection**

1. Test of Control – Fare Audit Function. This issue was highlighted by IA in two different reports and also by Deloitte. Thus Finance did implement the Fare Audit module in Rapid system and is up and running. IA will again test is effectiveness to ensure fare audit is effectively performed and revenue is protected.
2. Test of Control – Revenue Control Assessment in Sabre. IA agree with Deloitte's finding that no control assessment was done post Sabre implementation. Thus IA will consider a full process review in/of Sabre system on the following;
 - i. Fare Edit Access & Controls (PX Sales, GSA).
 - ii. UATP Account Access, Edit & Control.
 - iii. Credit Card Usage, Security & Control (PX).
 - iv. Cash & System Refunds (Pax Sales).
 - v. Cash & System Refund (Cargo).
 - vi. Cash & System Refund (General Sales Agent - GSA)
3. Ancillary Revenue – review of process and ancillary revenue forgone. For instance, Cargo Storage Fees not charged, EMDs, No Show, Rebooking, etc.
4. Spot Checks Inbound Cargo - reweigh inbound cargo to ensure correct cargo weight is charged and revenue collected. Already on plan.
5. Spot Checks Inbound Excess Baggage - reweigh inbound excess baggage to ensure correct excess weight is charged and revenue collected.
6. Spot Checks – continue to performed regular spot checks and cash counts at major ports and sales office to ensure every cash sales is reported and banked.
7. Sales Not Reported Review - sales reported by not processed or sales not reported at all, loss of revenue will be reviewed with an aim to recover revenue loss.

- **Costs Savings (Expenditure Control)**

1. Major Contractual Payments Review – ensure all payments are as per agreement and agreed rates, focused on saving costs.
 - i. PX Apartment Management Costs Review (this is in process, final stage).
 - ii. Aviation Fuel Costs Review (Boeing/Fokker/DH8 fuel already on plan except GSE and M/V).
2. Over Time Payments Review – significant costs savings noted in the last few years and we will continue to review OT payments this year (ongoing, already on plan).
3. Passenger Disruption Costs Review – we will continue to review this (on going, already on plan).
4. Accounts Payable Payment Review - review of all payments made so far to ensure no duplicate payments/same vendor registered twice/two different invoice for same service or goods provided/payment for service or goods not provided/over payments/incorrect rates/etc .
5. Accounts Payable – Creditors Accounts Review (Reconciliation of Account Balances, on plan and in progress).

- **Projects to be Deferred or Dropped**

The two projects highlighted by the CEO will be deferred or dropped but may be considered next year. They are;

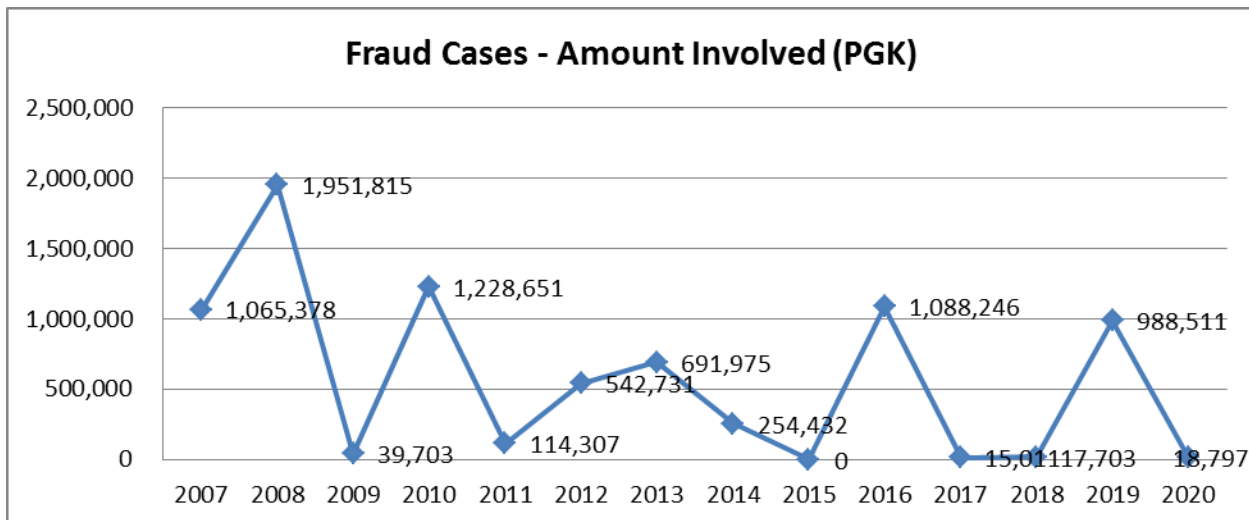
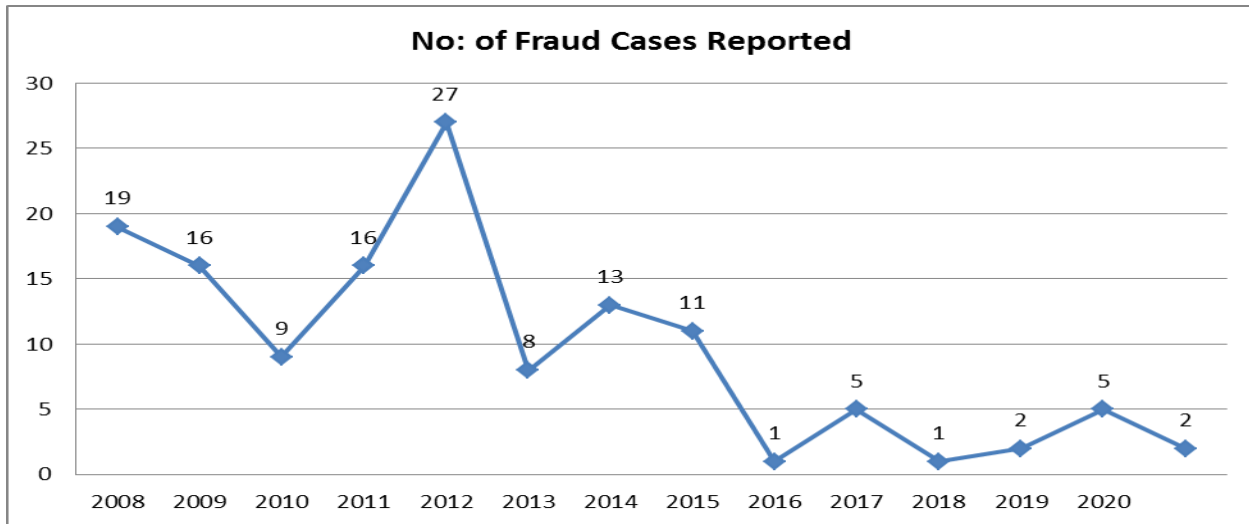
1. Route Profitability Review (Domestic Route/Sectors/Destinations).
2. Contract Employment Remuneration and Process Review.
3. Other Projects not relating to Revenue or Costs Savings on plan would not be given priority or considered if time does not permit.

5. HIGHLIGHTS & RESULTS OF PAST & CURRENT AUDITS

The following reflects the results of what we have achieved so far as a team.

3.1 Improvements to Fraud Management

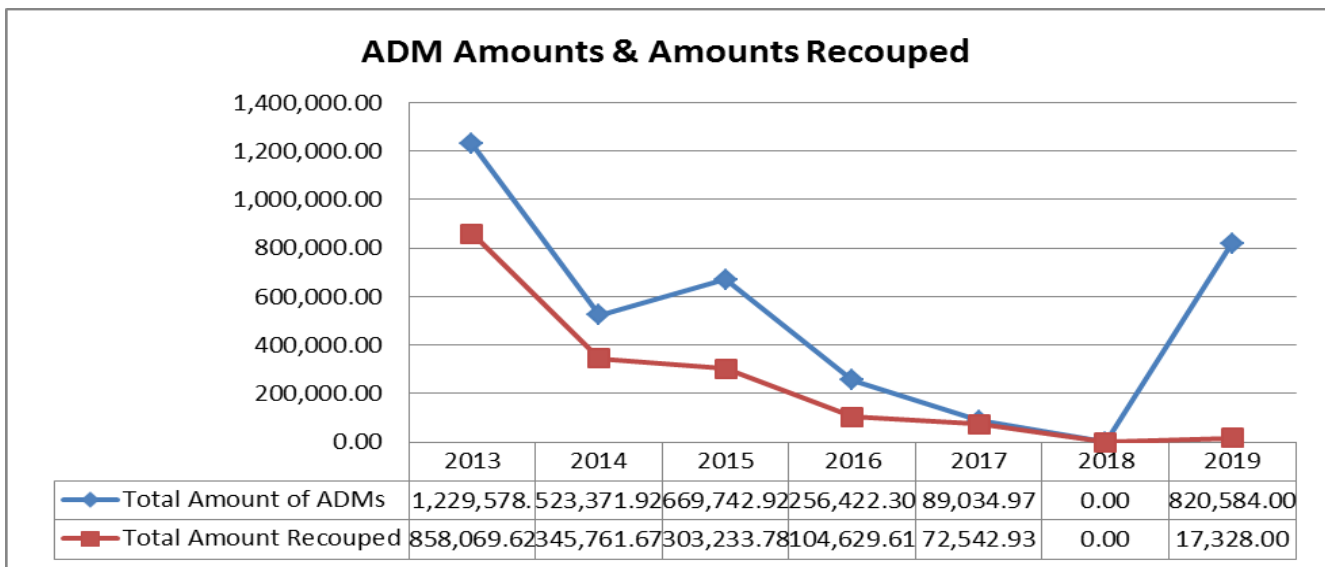
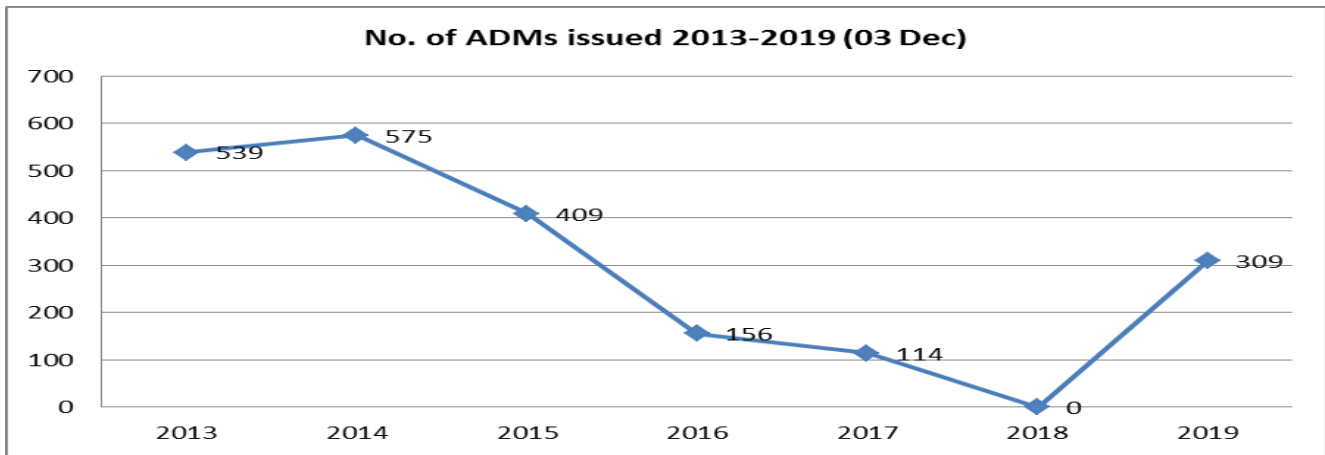
The two graphs below show trend of fraud cases detected and the amount involve in each case reported and investigated from 2007 to 2019 (02 December 2019).



- As at 20th July 2020, only two (2) Fraud cases were reported to IA. The two cases are Cairns Credit Card Ticketing Frauds cases.
- Investigation into Fraud cases are considered as ad-hoc audit projects. However, Internal Audit's engagements into continuous process improvements is aimed at preventing fraudulent activities.

3.2 Improvements to Revenue Leakages

The two graphs below show trend of revenue leakage cases detected & captured by Rapid system, the amount of loss through leakages per year from 2013 to 03rd Dec 2019 and the amount recouped per year.

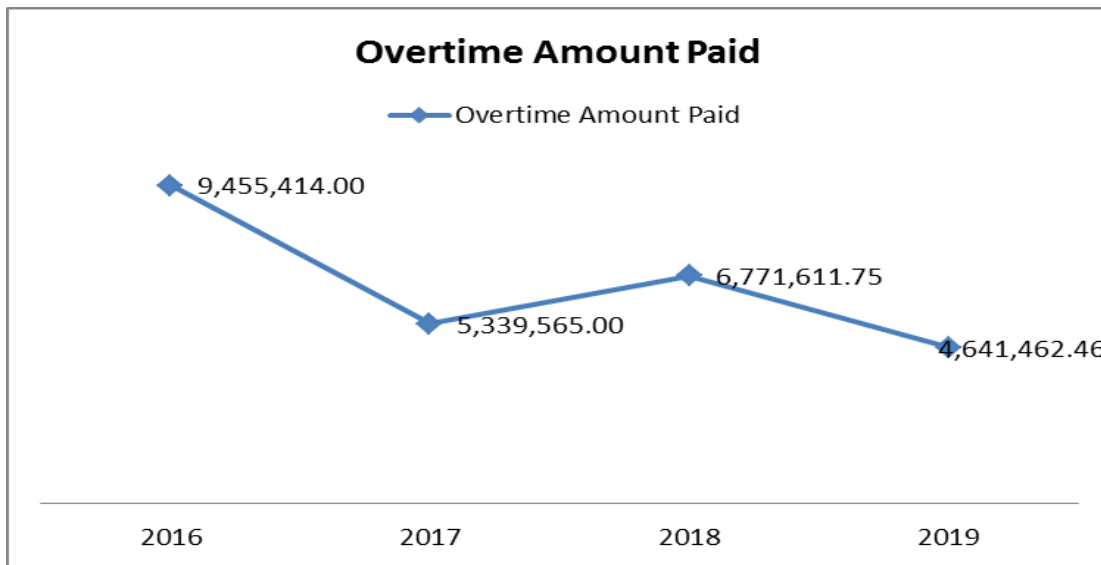


- The number of revenue leakage cases have constantly declined due to internal audit's presence and awareness over the years.
- However, due to Fare Audit Module/Function removed from Rapid System in mid 2016, not much of revenue leakage cases have been captured and reported in 2017 and 2018.
- After this issue of NO FARE AUDIT PERFORMED BY FINANCE was highlighted by Internal Audit and also by Deloitte. This module was again reinstalled in May 2019 and Finance reperformed the function from June 2019.

- As the fare audit function is now up and running, leakage in revenue is expected to improve (reduce). IA will give an update for the year 2020 at the end of the year after Fare Audit Function is reviewed and its effectiveness is tested.

3.3 Improvements in Over Time Payments

The graph below shows results (trend) of over time payments over the years up to 06th December 2019.



- There has been a decline in Over Time Payment since IA performed OT Review and highlighted the issue to management.
- Internal Audit will continue to review and monitor overtime payments to ensure overtime payments are maintained at reasonable level, hence save costs.
- IA will continue to review Over Time Paid in 2020 and give an update for 2020.

3.4 Significant Improvements to Sales Not Reported

- Sales Not Reported means Cash proceeds from sales of tickets, EMDs or Airways Bills have not been reported to the cashier for banking (not banked) or sales reported but not processed by Finance.
- In prior audit reviews, we do see huge number of documents and large amount of money captured as Sales Not Reported. However, in 2019 a significant improvement has been made to Sales Not Reported cases compared to the prior years.

Table below shows amount of Sales Not Reported in 2018,2019 and 2020 as at 21 July 2020.

AMOUNT OF SALES NOT REPORTED			
YEAR	PASSENGER	CARGO	TOTAL
2018	3,306,628.62	5,679,861.70	8,986,490.32
2019	90.00	169,142.86	169,232.86
2020	0	0	0
REDUCED BY	3,306,538.62	5,510,718.84	8,817,257.46

- As on date there are No Sales Not Reported outstanding for the prior years, except for the May/June 2020 which are currently being processed. Credit goes to Sales Processing Team in Finance for a tremendous job done to ensure every sales is report, processed and accounted for.

3.5 Double Payments/Cash Loss Recovered

As part of our routine audit, Internal Audit always try to uncover undetected double payments, incorrect payments, over payments, illicit and illegal payments. Between 2018, 2019 and 2020 we have recovered (recouped) a total of USD 441,392.67. Details as follows;

No.	AMT Recovered	Year	Particulars
1	USD78,930.00	2018	Received Credit Note: Incorrect Excess Hour Rates Applied - Boeing Lease Payments (P2-PXV/PXW).
2	USD100,275.00	2018	Received Credit Note: Incorrect Excess Hour Rates Applied - Boeing Lease Payments (P2-PXV/PXW).
3	USD199,749.00	2018	Received Credit Note: Incorrect Excess Hour Rates Applied - Boeing Lease Payments (P2-PXD).
4	USD62,438.67	2018	Double Payment - DH8 Maintenance Reserve to Avmax, Off set from invoice paid thereafter.
5	USD589,420	2019	Received Credit Note – Incorrect Rate applied on lease payment.
6	USD115,926	2019	Received Credit Note – Incorrect Rate applied on lease payment.
7	PGK2.m	2020	Recovery of more than K2.m in progress, will be reported once recovered in full.
Total USD	1,146,738.67		PGK 3,529,512.68. (exchange rate: USD 0.3249)
Total PGK	PGK2.m	2020	Recovery of more than K2.m in progress, will be reported once recovered in full.

IA will continue to pursue uncovering of loss through such payments. Thus we have included various expenditure reviews in our 2020 Audit Plan to review all payments made to service providers and suppliers of goods.

This revised audit plan will be executed effective immediately upon review and approval by the management, Chairman Board Audit Sub-Committee and the Board.

Prepared by:

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