KPMG

Kundu

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Foreword

In our April edition we explain how an ‘audit-readiness’ process, with sufficient and on-going preparation and planning throughout the year, can bring about improved data quality, increase the accuracy of financial statements, and ultimately allow for far more effective business processes. We also provide some thoughts around the current global economic outlook and, as always provide tax and IRC related insight for this month.

KPMG in PNG has dedicated in-house specialists in all of the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance. As such we are well placed to provide a truly multi-disciplined approach to business advisory.

Please enjoy this month’s Kundu and reach out to us at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

Zanie

Being audit ready eliminates audit surprises

by Lizette Theron, Senior Manager, Tax, Transactions & Accounting Services

Whether your 2020 company audit is approaching or has been completed – now is still a good time to consider and plan for audit readiness.

Organisations often find that juggling the accounting, financial, and operational needs of the business and actually running it at the same time isn’t always easy.

Audits present unique challenges for organisations in the private and the public sector. Preparing for audits can be intimidating and a time-consuming process - resources are often strained during the audit process and adverse findings can impact organisational reputation, which may require costly remediation.

An ‘audit-readiness’ process, with sufficient and on-going preparation and planning throughout the year, can bring about improved data quality, increase the accuracy of financial statements, and ultimately allow for far more effective business processes.

Obtaining support from professional consultants, either to add to the resources, or to identify potential weaknesses and areas for improvement, while working to improve the efficiency of operational functions, can assist in developing an effective ‘audit readiness’ program.

By addressing the following considerations, professionals can help clients in both the public and private sectors streamline their operations in preparation for the annual audit.

Daily and monthly procedures

To improve audit readiness, the best place to start is with the development, implementation and daily application of measures prescribed in implemented policies and procedures. This ensures appropriate and consistent performance of staff in day-to-day operations; clarity of expectations including accountability for performance; and standardisation of processes to enable consistent outcomes.

Bank and other reconciliations ensure that current information is processed and that non-reconciling items are cleared in a timely manner. An outsourced accounting function or additional resources provided by a professional firm tackling day to day bookkeeping and accounting tasks may be required.

Monthly and quarterly reporting

Monthly and quarterly reports measuring the actual results against the budget should be used as a checkpoint to identify challenges and correct action plans. Monthly management accounts with comparative information makes the analytical review process easier and assists in addressing concerns.

On a monthly basis asset registers should be updated with additions, disposals and depreciation and must agree to the general ledger. Annual asset counts are also recommended.

Supporting documentation for the considerations and conclusions of the above are required by the auditors. Preparing management account reports is important but sound records supporting the information recorded is fundamental for good governance and effective administration.

Half yearly financial statements

Preparing half-yearly financial statements will ensure that a roll-forward of the opening balances is performed and confirmed with the closing balances of the audited trial balance at an early stage. Updating the notes on the financial statements will reduce time spent during year-end preparations and will highlight shortcomings, areas of concern and new reporting requirements. Some of these financial matters can be delicate and may require a trained professional to handle them correctly.

Annual reporting

The preparation of the annual financial statements is the result of the number of key inputs mentioned above. A vital step is to create a year-end audit file supporting the information captured in the general ledger and ultimately in the financial statements.

Resources

Critical skills and capacity shortages are some of the key issues in finance and accounting departments. Preparation of IFRS-compliant financial statements requires staff to attend regular technical updates and programmes to keep abreast with any changes. Where appropriate recruitment and skills development strategies have not been implemented, it would be beneficial to obtain support from experienced professionals who have in-depth knowledge of the steps needed to prepare for and complete a financial statement audit.

Internal controls

Regular reporting should drive a culture of self-assessment of key internal controls. An internal audit function should review the effectiveness of the internal controls and identify areas of development. Where an internal audit function has not been established, outsourcing should be considered, to provide internal control implementation support and training.

Previous years' audit findings

Once the year-end external audit has been finalised, compiling a register of findings and action plans for each underlying root cause, to be monitored and presented at audit committee meetings, would highlight the status of the findings as well as proactive processes put in place to avoid similar findings in future.

Corporate governance

Sound corporate governance requires greater corporate responsibility and conduct within acceptable ethical standards. Annual training initiatives could be established to assist the board/council and its sub-committees to implement its oversight role.

In conclusion, support from professional consultants can help develop the tools and resources an organisation needs to prepare for a financial statement audit. Over a relatively short period of time, using a streamlined approach, they can assist in identifying and addressing gaps in audit readiness. It is never too early or too late to put in place the processes to be audit ready.

The global economic outlook

by Sheryl Roge, Manager, Advisory Services

After around a year of living under the Covid pandemic, KPMG's Global Economic Outlook considers the outlook for several different economies around the world. It highlights that the role of the state has been more prominent during the pandemic with the focus of government spending on health and economic support. This spending has been underpinned by low interest rates which have seen total government fiscal commitments of around USD$10 Trillion in those economies. Looking forward to the post Covid economic recoveries the outlook varies across the major economies.

In the **US**, a 3.9% surge in goods consumption was attributed to increased activity from those working from home and spending more time in the home together with increased wealth from the residential housing market benefitting from low interest rates. Overall, the US market is expected to recover to pre Covid levels boosted by a US$1.5 trillion stimulus package.

China's economic rebound boosted manufacturing and exports with employment increasing by 2.9 million jobs above targeted projections. Domestic consumption of goods and services, together with external demand, underpin the recovery and as the stimulus policies end, more fundamental policies will continue to drive the economy.

Japan's post Covid economic recovery is attributed to a progressive vaccine rollout and external demand for exports, which will increase to meet demand from other large economies. GDP is expected to grow to 2.3% in 2021 and 2.1% in 2022, with Japan's low inflation rates trending sharply downwards due to the pandemic, low borrowing interest rates and large domestic savings, this is likely to provide for an uptake in fiscal policy stimulus packages.

India, at the time of the report and prior to the current Covid wave, had been the quickest economy to recover in Asia, boosted by public stimulus spending; SOE reforms; and an upswing in manufacturing. This has led to the revival of consumer confidence. Government coffers have been swelled by an increase in GST collections.

Eurozone countries benefitted from stringent social distancing measures which suppressed the impact of Covid and also from the substantial monetary and fiscal support of governments. The economic outlook, however, is dependent on the vaccine rollout and further waves of new strains. Some Eurozone countries experienced a sharp rise in youth unemployment during the pandemic; and other economies, such as Spain, were badly affected by the drop in tourists during peak times.

United Kingdom's GDP, inflation and unemployment rates are projected to improve leading up to 2022 as the vaccine rollout should provide confidence and an improved economic outlook for the second half of 2021. Brexit related uncertainty is set to dampen the outlook somewhat, but this has not been quantified and is expected to ease from July 2021 onwards. Household savings increased due to the extended lockdowns and this may translate into stronger consumer spending.

Overall, the implementation of strong fiscal and monetary policy measures; the progressive rollout of vaccines; the execution of stimulus packages; and low interest rates across all markets underpins the expectation for stable inflation rates, stronger GDP and lower unemployment between 2020 to 2022. There is a measured forecast that manufacturing, privatisation, commodity and financial markets will return economic conditions to pre-Covid times.

IRC developments and tax return deadline

by Karen McEntee, Partner, Tax, Transactions & Accounting Services

Tax return forms

Last month we mentioned that the IRC had issued a series of new tax return forms for 2020 in late March. These returns departed from the single Form C approach and instead six different types of tax returns were issued for primary production, the extractive industries, PNG activities and foreign activities. Unfortunately, these forms contained a number of errors and shortcomings and IRC agreed during April to withdraw these tax return forms. Instead a new 2020 Form C has been published on the IRC website which is similar to the 2019 Form C but with a year change. While the revised forms have not been implemented at this stage they give an insight into IRC's intentions. We hope there will be a consultation process in relation to the issue of any new substantially different tax returns forms and also that IRC will issue accompanying guidance.

Tax return deadlines

IRC issued the tax agent bulletin in April which confirms the tax deadlines applicable for 2020. As expected the tax deadlines for 31 December 2020 year ends are generally 30 June for taxable returns and 31 July for non-taxable returns where a taxpayer is on a tax agent lodgement listing unless the tax returns for 2019 was not lodged by 31 December in which case a 30 April deadline applies. Taxpayers not on a tax agent lodgement listing should have lodged their tax returns by 28 February so any taxpayers not using a tax agent are already overdue for lodgement. Proportionate deadlines apply for taxpayers with substitute accounting periods. While we understand IRC are considering possible further tax deadline extensions due to the Covid situation, these have not as yet been communicated and we recommend taxpayers proceed on the assumption the standard deadlines apply.

To avail of the extensions prior taxes and provisional tax should also be up to date. It is important to note that the latest date on which a taxpayer can be added to a tax agent lodgement listing is 10 May 2021 so we strongly recommend taxpayers organise a tax agent as soon as possible if not already done.

Provisional tax

The first instalment of provisional tax is due 30 April 2021 for companies with a 31 December 2020 year end. The second and third instalments are due 31 July and 31 October 2021 respectively. This year IRC have implemented the amended payment dates for companies with substitute accounting periods, therefore, for example, provisional tax for companies with a 31 March 2021 substitute accounting period is due 31 July, 31 October 2021 and 31 January 2022.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters and updates on our KPMG PNG LinkedIn page. Also connect via our webpage www.kpmg.com.pg and Facebook https://www.facebook.com/pngkpmg/

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