



Kundu

February 2021



## Foreword



This month we explore why it makes sense for SMEs to outsource their accounting function rather than invest in a full-scale in-house team. We also touch on the key points noted at the Back to Business breakfast held recently. In addition, the potential negative impact of the new share transaction levy on the already sluggish local stock market is discussed in the light of the concerns raised by PNGX.

In this foreword KPMG acknowledges the passing of Sir Michael Somare, PNG's first Prime Minister, one of only two Grand Chiefs in the history of PNG. Grand Chief's Somare's contribution to the building of this independent nation is respected.

Please enjoy this month's Kundu and reach out to us at [kmcentee@kpmg.com.au](mailto:kmcentee@kpmg.com.au) if you would like to see KPMG cover specific topics in future editions.

**Zanie**

## Why should PNG SMEs invest in outsourced accountants?

by Lizette Theron, Tax, Transactions & Accounting Services

Although PNG companies come in different forms across various industries, the challenges each of them faces is not dissimilar from the others (i.e. sustainable practices, market expansion, etc.). Some of the challenges we have seen in PNG, especially facing Small and Medium Enterprises (SMEs) have included:

1. Resource capacity constraints and stable pipeline of talent.
2. Limited resources to access 'best practice' and learn from other similar businesses.
3. Difficulty with access to readily available traditional finance options.

All SMEs need to accurately record and report business transactions, keep track of invoices and receipts, and therefore reduce problems with the IRC. In order to do this, accounting procedures need to be coordinated, and an accounting system - manual or automated - needs to be implemented.

### Back-office accounting

The purpose of accounting procedures is to organise, accumulate and report on financial information about the performance, financial position, and cash flows of the business at any given time. These are important elements of business regardless of a company's size, which can help resolve or reduce the risk of reporting inconsistencies to management, investors and tax authorities. This information then also allows decision-

makers to make informed decisions for investments, purchases, sales and other financial operations involved in running a business.

For SME owners, smooth accounting is crucial for the following reasons:

- Accounting gives a better grasp of the well-being of the business. Every business owner should have detailed knowledge of their business to exercise better control over the operation of their business. This can be done by learning to read a balance sheet, income statement, and cash flow statement.
- Keeping track of cash flows. To prevent the business cash flow from running dry, policies should be implemented for efficient record-keeping and a sound financial strategy.
- Accounting helps detect and avoid frauds and theft by customers, employees and suppliers.
- When business finance and dealings are understood, SMEs are better equipped with facing audits.
- Bankers are more confident when dealing with business owners who have a handle on the business finances and actually understand financial implications.

### **Financial reporting**

Financial reporting refers to standard practices to give stakeholders an accurate depiction of a company's finances, including their revenues, expenses, profits, capital, and cash flow, as formal records provide in-depth insights into financial information. The following are some of the benefits of financial reporting:

- Progress and compliance. Not only does access to this level of analytical reporting offer an opportunity to improve financial efficiency over time, it will also ensure SMEs remain compliant – which is essential if the business is to remain active.
- Access to formal finance. In interviews conducted by Tebbutt Research (2014), one of the main obstacles to borrowing SMEs in PNG faced, was the lack of knowledge of financial reporting.
- Improved debt management. Debt can cripple the progress of any company, regardless of sector. While there may be many different types of financial reporting, almost all solutions will help track current assets divided by the current liabilities to help gauge liquidity and manage debts accordingly.
- Trend identification. Regardless of what area of financial activity is being tracked, financial reporting will help identify trends, both past and present, which will enable SME owners to confront potential weaknesses while helping to make the kind of improvements that will benefit the overall health of the business.

SMEs might be tempted to manage the business finances themselves, but financial matters can be delicate and may require a trained professional to handle them correctly. Outsourced professional accountants could assist SME owners in making smart financial decisions while adhering to compliance requirements. If any of the following affects an SME's business, it is time to make a change and invest in outsourced accountants:

- Capacity constraints – missing key team members or limited ability to up-skill the current workforce
- Time management – unable to reliably delegate critical functions of the business
- Marketing strategy – difficulty assessing market trends and accessing the right supply chain components
- Non-existent or underdeveloped accounting systems – inconsistent procedures and manual (error prone) processes are affecting the bottom-line and growth trajectory
- Access to finance – traditional options do not appear to be realised

Here are some of the benefits to SMEs when investing in an outsourced accountant for back-office accounting and financial statement preparation:

### **Back-office accounting**

- Reduces administrative burden, through efficient operations
- Access to leverage expert accounting management
- Timely and accurate response to the changing business environment
- Unbiased information that is verifiable and objective

## Financial statement preparation

- Preparation of financial statements based on the International Financial Reporting Standards (IFRS) and therefore readily accepted by financial institutions
- Reliable reporting turn-around
- Expert insights and customised advice based on each SME's unique business needs
- Analyses of financial data and determining areas for improvement - this is crucial for the long-term health of the business

The right accounting and bookkeeping services provider can help SMEs create a smooth back office and strong financial foundation to drive growth and success in the company. An outsourced accounting department as part of an SME's back office frees up time by tackling day to day bookkeeping and accounting tasks, in addition to providing the financial information you need to make data-driven, strategically smart decisions for the company's future.

The path of SMEs is often lonely with limited choices for suitable professional services support. Based on KPMG's effort in the SME space over the years we are looking forward to strengthening the sector through collaboration with individual SMEs.

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## Prime Minister promises project progress.

by Wayne Osterberg, Director, Advisory Services

Prime Minister Marape addressed the Port Moresby business community at a "Back to Business" Breakfast briefing this month during which he discussed a number of issues pertinent to the economy and the measures GoPNG is taking to create an enabling environment:

- Almost 80% of the population is not formally contributing to the economy and more needs to be done to extend economic inclusion across PNG.
- Land for agricultural production is significantly under-utilised and its more efficient use has great potential to underpin growth and development.
- The focus needs to be on the mindset to address issues such as complacency and corruption which has held progress back in the past. This is a key pillar of the Take Back PNG initiative – adopting a relevant mindset.
- PM Marape thanked business for their patience and apologised for any stresses caused by delays in projects from GoPNG but emphasised that the priority is to secure the best possible outcome for PNG from any new resource projects.
- The fight against corruption is viewed by GoPNG as an economic tool as corruption undermines the positive effects of resource project advancement.
- The next ten-year focus of GoPNG is on investing in major infrastructure projects, specifically in respect of major highways, to improve logistical connectivity. This is overlaid with a focus on the power sector for cheaper and more reliable power; and in respect of internet connectivity.
- In respect of major project advancement PM Marape expected an announcement on the Wafi-Golpu agreement within weeks of his address and advancement of the Papua LNG project and Porgera Mine.

Subsequent to the Briefing it was announced last week that Total, ExxonMobil and Oil Search have signed a Fiscal Stability Agreement with GoPNG. PM Marape issued a statement that "this FSA gives full effect to the Papua LNG Gas Agreement, signed in April 2019". The specific details of the FSA are not disclosed but it allows for the progression of engineering design and commercial negotiations to move forward and represents an important step in the process of bringing the project into production.

PM Marape stated that the signing of the FSA "demonstrates that by and large, the Government can still honour legally signed agreements, which in the long run provides comfort to long term investors".

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## Share market transaction levy concerns PNGX

by Wayne Osterberg, Director, Advisory Services

The Securities Commission of PNG has imposed a 0.75% levy on all share market transactions. The order was gazetted on 10 February 2021 and will come into effect on 8 March 2021. The levy will be collected by the stockbroker and remitted to the stock exchange each month for onward transmission to the Securities Commission.

The levy has given rise to concerns that the imposition of the levy is counterproductive to the development of the capital markets in PNG and that it will further encourage trading for larger companies to move off-shore to the ASX in Australia. The PNG Stock Exchange, PNGX, has commented that “PNGX is concerned that the increase in charges will discourage investors from investing in PNG. It has the potential to disincentivize activity in the market at a time when we are trying to build it up from its existing low base.”

In an unrelated development, Niuminco Group Limited (ASX:NIU), dual listed on ASX and PNGX, has resolved to move its primary listing from the ASX to the PNGX with effect from 26th February 2021.

PNGX and ASX listed Oil Search (OSH) announced its full year results this past week which reflect a 32% decline in revenues, year on year and a net loss after tax of US\$321m, driven by significantly lower realised hydrocarbon prices in 2020. The accompanying commentary highlights the positive developments for the Papua LNG project discussed in the Kundu, and notes that the PNG LNG project achieved record production in 2020.

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## 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](http://www.kpmg.com.pg) and Facebook <https://www.facebook.com/pngkpmg/>

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## Contact us

Zanie Theron  
Managing Partner  
[ztheron@kpmg.com.au](mailto:ztheron@kpmg.com.au)

Herbert Maguma  
Partner  
[hmaguma@kpmg.com.au](mailto:hmaguma@kpmg.com.au)

Karen McEntee  
Partner  
[kmcentee@kpmg.com.au](mailto:kmcentee@kpmg.com.au)

Pieter Steyn  
Partner  
[psteyn@kpmg.com.au](mailto:psteyn@kpmg.com.au)

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