



Kundu

January 2020



## Foreword

As KPMG is the only professional services firm in PNG with 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, we are well placed to provide a truly multi-disciplined approach to business advisory. We hope you enjoy our regular KPMG Kundu.

### Cyber threats in PNG's business environment by Happymabel Ketias-Zingunzi, IT Advisory Manager

Recent news about hacks, ransomware attacks, data breaches, and theft of personal information has become familiar in the land of the unexpected over the past few months, but the level of impact has increased exponentially. Simply put, cybersecurity has become one of the significant security concerns in PNG's current business environment. Cyber criminals are aware that the market is vulnerable and they are attacking company networks with increasing frequency and severity.

A common cyber-attack has been a virus sent through emails that locks staff out of their computer files until a ransom is paid to the hackers. Similarly, in the past, IT staff have forgotten to perform basic tasks such as reconfiguring access ports or changing default passwords on assets such as printers and CCTVs hooked to the network, which has made it easy for criminals to gain unauthorized access to systems and disrupt operations or cause denial-of-service on business platforms.

The majority of targeted businesses lack discipline in areas such as documentation of policies and procedures, user awareness on basic controls, monitoring and controlling access management (particularly off boarding employees and contractors), backup and recovery of critical data, reconfigurations and system hardening of key platforms and implementing key security patches. However, cyber-criminals are not invincible and while they can cause real damage to a business, steps can be taken for protection.

Business owners in PNG may want to focus on these key areas before investing significantly into cyber:

- Ownership: They need to find ways to ensure that the whole business is taking ownership of cyber security and that discipline is being maintained. When business heads treat cyber security as an IT risk only, they risk missing opportunities and inflection points that could help fuel business growth. No matter what industry you are in, data is the lifeblood of modern business.



- Awareness: Business should improve its understanding of their employees' ecosystem, third party participants, outsourced service providers, and other non-employees with access to data, in order to manage their risk in a consistent manner. IT staff in PNG are placing more focus on streamlining business operations and increasing cyber security stances. For this reason, PNG business owners should evaluate the risk of cyber incidents across every aspect of the entity's operations and business, including financial reporting and compliance with relevant laws and regulations through performing vulnerability assessments and penetration testing.
- Preparedness: Business should activate a response and recovery program and simulate the way an attacker behaves and also improve employee training. A high-quality cyber preparedness program will not only focus on keeping the data safe and secure, it will also help to increase and improve the integrity of that data to make sure that you have the right and complete data upon which to base your business decisions.

We encourage businesses to be aware of the cyber threats through periodic network vulnerability assessments. In addition, personnel should complete security training upon hire and a 'refresh training course' which focuses on IT security and access communications.

At KPMG, we can help clients to prepare for, protect against, detect and respond to breaches, cyber-attacks and cyber-crime. Far from a pure technical fix, we focus on an integrated approach that embeds cyber risk into all our clients' activities. We help our clients to build strong foundations and enable organisations to move beyond fear and uncertainty, to a position where they are free to pursue new opportunities.

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## Now more than ever PNG businesses need strong corporate governance

By Eugene Michelo, Manager and Raymond Conchina, Manager

The effects of the recent pressures on the PNG economy are widespread. Our business community has been acutely aware of the impact of recent economic conditions, and in response many organisations have sought to reduce operating costs including payroll.

An unintended consequence, in many organisations, is the weakening of the corporate control environment, leading to a greater risk of fraud, error and perhaps more importantly missed opportunity. Whilst initially it may seem counter-intuitive to isolate third lines of defence such as internal audit from corporate austerity programs, in the current local economic environment strong corporate governance (and in particular a strong internal audit function) can be a critical component of an organisation's strategy to protect value as well as enhance value.

The PNG business community has little to no appetite to return to the days where internal audit and compliance officers 'box-tick' long lists of risks and controls. Today's boards and management need internal audit to generate insights that can inform business strategy and help manage operational change, as well as being able to have an informed discussion with management and the board about the implications of business restructuring. If it is not internal audit doing this, then who provides the board and management with such valuable advice?

The board and management need internal audit to have an opinion on strategy but also whether the organisation has the right control environment in place to help it succeed. Internal auditors have a valuable contribution to make in challenging management about how it is managing the risks around strategy and risks around decisions coming from the current economic conditions.

It is time for PNG's internal audit profession to show themselves to be increasingly commercially-savvy. The function however itself still often operates as a 'policeman' and is seen by some parts of the business community as a brake on commercial decision-making. That needs to change.

Now more than ever, for PNG businesses to survive and then thrive, strong corporate governance is critical and a commercially-focused and risk aware internal audit function is a critical component.

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## Global quarterly economic outlook: January 2020

By Brendan Rynne, Deals Tax Legal, KPMG Australia

As 2019 came to a close some of the major uncertainties impacting the world economy in recent months and years appear to be resolving themselves.

Our forecast for global GDP growth for both 2019 and 2020 has been reduced to 3 percent, which represents the weakest rate of global GDP growth since the GFC. This summer most of Australia has been in the grip of one of the worst natural disasters the country has experienced in decades, but it is too early to quantify with any degree of accuracy the impact these events will have on the Australian economy. Even before this terrible summer the Australian economy had been performing poorly relative to its recent history.

### Key takeaways: Australia economy

- The 2019 Q3 National Accounts show that economic growth has been very narrow with the majority of the growth occurring from exports and government spending, while private demand fell by 0.3 percent q/q and 0.4 percent over the year.
- Consumption activity remains one of the key weaknesses in the Australian economy. Household final consumption expenditure grew by 0.1 percent q/q during 2019 Q3, and 1.2 percent y/y. Consumer sentiment has now fallen 6.1 percent since the middle of the year, when the RBA started easing the cash rate downwards.
- Total business investment fell 0.9 percent between the June and September quarters with a 4.2 percent quarterly decline in business investment in machinery and equipment. Housing investment continued to act as a drag on economic activity in the September quarter 2019.
- Comparing the Commonwealth Department of Finance November 2019 Monthly Financial Statement to MYEFO we note that the three largest expenditure by portfolio, being social security, health and education, are all tracking proportionally higher compared to the same time last year.
- The run of trade surpluses has continued unbroken since the beginning of 2018 through to November 2019. Given the positive trade results for October and November 2019 it would seem net exports will continue to positively contribute towards economic growth in 2019Q4.
- The latest Labour Force data from the ABS shows Australia recorded a very healthy monthly gain in employed persons of just under 40,000 in November, which was on the back of a 25,000 fall recorded in October.

### Key takeaways: Global economy

- Despite some positive outcomes near the end of 2019, there remains a range of geopolitical and economic issues continuing to create tensions and pressure in various countries and regions. Inflation in general has remained low. KPMG's medium-term outlook is one of overall moderate global growth
- The US and China have signed a phase one deal to deescalate the trade war. The December Minutes of the FoMC show an upward bias in expected settings for the Fed Funds Rate. KPMG's outlook for US growth in the next couple of years is growth at slightly above trend pace of 2.0 percent.
- The now re-elected UK government, the Conservative Party, pledged relatively moderate increases to current expenditure, investment spending and tax revenues. The decision to leave the EU has already negatively impacted the size of the UK economy.
- The appointment of von der Leyen and Gentiloni has lifted speculation regarding potential reforms to the EU's fiscal rules. The ECB has responded to this extended weakness in growth and inflation by easing monetary policy again during the final quarter of 2019.
- The Chinese economy has continued to slow as 2019 progressed. The People's Bank of China (PBoC) has adopted a range of measures to help stimulate the Chinese economy, including allowing the Yuan to depreciate against the US dollar and cutting the reserve requirement ratio (RRR) for major banks.
- Japan Prime Minister Abe announced a US\$239bn stimulus package to offset negative influence by Typhoon Hagibis.

- The Indian economy is facing a severe demand slowdown. India surprisingly withdrew from the Regional Comprehensive Economic Partnership (RCEP) Trade Agreement at the ASEAN Summit in Bangkok in early November 2019.
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## SWT Amnesty

A reminder that the salary or wages tax amnesty mentioned in our December newsletter is underway. It will run from 1 January 2020 to close of business 31 March 2020. Under the amnesty a remittance of 100% of all SWT penalties will be applied where outstanding SWT base tax is paid in full during this period. If the taxpayer does not have outstanding base tax but has SWT penalties at the start of the amnesty then 90% of the penalties will be remitted to nil if 10% of the penalties is paid during the amnesty period.

There are a number of important pre-conditions for the SWT amnesty as follows;

- All SWT returns must be up to date including December 2019.
- The use of GST credits to offset SWT will not be allowed.
- Any SWT debt established under an IRC audit will not qualify under this amnesty.

No doubt this amnesty will be welcomed by many taxpayers particularly given the punitive level of penalties automatically applied for the late payment of SWT (20% flat tax plus 20% interest per annum). The first step is for taxpayers to ensure their SWT returns and liabilities are up to date and properly recorded so as to place them in the best position to avail of this amnesty. We are already working with clients who will be availing of this amnesty.

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## IRC announcements

We congratulate Mr Sam Koim who has been appointed as the Commissioner General. Mr Koim had been acting in this role for a number of months.

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## Further income tax changes

A further amendment Bill is currently being drafted in order to correct some changes made to the Income Tax Act following the recent Budget. The amendment Bill may also include some new provisions not included in the recent Budget however we understand the provisions and wording are still in discussion.

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