

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.

Directors and conflicts of interest by Zanie Theron, Managing Partner

For most Directors it is inevitable that at times they will face conflicts of interest, whether actual, potential or perceived. Conflicts of interest, in and of themselves, are not an issue prima facie; it is how Directors and Boards deal with them that is critical to good governance.

For the last three years KPMG has been holding quarterly KPMG Audit Committee Institute roundtables to provide support to PNG's directorial community. Our July roundtable was dedicated to the topic of Director conflicts of interest. Stephen Lewin from the legal firm of Leahy Lewin Lowing Sullivan joined this roundtable as a co-facilitator together with KPMG.



The session generated much discussion, particularly around topics such as Nominee Directors, personal relationships and confidentiality. Several practical and relevant scenarios were put to the group of Directors to discuss and to provide advice to a mythical director facing these different challenging situations. In the PNG environment these scenarios represent very real issues that Directors face on a day to day basis.

The session was a great reminder for Directors on the importance of disclosure, what it means to be acting in the best interests of the company and being able to demonstrate that they are acting reasonably and maintaining appropriate confidentiality.

The key messages about managing conflicts of interest were that Directors should always ask themselves "to whom do I owe a duty" and if in doubt, disclose a perceived, potential or actual conflict of interest so the Board can decide how that Director should or should not participate in the relevant discussion and decision.

We believe that to effectively manage Directors' duties Boards should consider an annual refresher of key governance principles and work through scenarios as a group of Directors as to how they would manage different and challenging situations. These principles could then be captured in a Board Charter or Board Code of Conduct.

The future of electricity in PNG

The power generation industry in the developed and the developing world is undergoing major disruption and this will have implications for PNG.

Most people are aware of the major intrusion of renewable power into the world power generation market. Last year India was investing more in renewable energy than coal burning plants for the first time. In the order of 38% of China's total installed power capacity is now provided by renewable energy sources. China hooked up over 20 gigawatts in wind power in 2018 alone and increased renewable power sources by 12%. Even an oil rich state such as Saudi Arabia has announced intentions to develop 59 gigawatts of renewable energy capacity by 2030.

The future power generation plant will avail itself of technologies that are being developed now.

Like many areas, AI or machine learning will allow power plants to provide a data driven power supply. The emerging technology can discern trends and patterns better than people to more accurately manage energy supply and demand. Considering the massive rise in electric vehicle numbers, which can themselves act as domestic batteries, in the coming years the need to better balance power supply and demand will be paramount.

Energy storage, particularly as the price of battery technology comes down, will be a major disruptor to power plants. Households in some countries may effectively not need access to the grid through reliance on solar or other renewable energy sources and batteries.

The implications of a possible reduced demand for oil and gas burning power plants should not be lost on the so called "resource curse" countries, of which PNG may be one, who are heavily reliant on fossil fuels.

As PNG wrestles with its massive target of reaching power penetration of 70% by 2030, from such a low base (estimates vary but it could be as low as 13%), it has to have regard to not only generation costs, where solar in particular is starting to make major inroads, but also distribution costs. The potential of a decentralised renewable power generation system, which would massively reduce the need for transmission equipment such as poles and wires, may become compelling.

No one can envy PNG Power the enormity of their task. The burden of catch up expenditure to renew ageing infrastructure and a massive investment requirement to allow PNG people to access power are formidable issues. It will be critical for them to leap frog and utilise the latest technology where it is available and cost effective.

Provisional tax

The second instalment of provisional tax for corporate taxpayers is due by 31 July 2019 and automatic penalties will apply for late payment. Provisional tax for 2019 is automatically re-assessed by the IRC once the 2018 tax return (or any other last lodged tax return) is assessed. Where the provisional tax is increased retrospective penalties are applied. Once a tax return has been assessed it is important to obtain an updated provisional tax notice to ensure that correct provisional tax is being paid.

How a fish tank helped hack a casino

Hackers are constantly looking for new ways to penetrate into organisations and access people's data. Even worse, some hackers seek to disrupt or disable an organisation's systems. Recently, the way was as simple as a fish tank.

A North American casino with a large fish tank decided that sensors linked to a PC would be installed in order to regulate the temperature, food and cleanliness of the tank. The hackers were able to access the casino's main computer system via the fish tank PC and stole a significant amount of personal data.

Most if not all organisations today would say their IT systems are critical to their business and that the data they contain is an important asset. With the interconnectedness and complexities of IT systems and devices these days it is so important to protect those systems and data.

What this means is that an organisation should have strict policies about how any new software, or even apps, are able to be loaded onto the organisation's PCs and main systems. This is even more complex and difficult where an organisation allows employees to bring their own devices to work. PNG businesses should ask themselves whether they know what employees have loaded onto the devices and as such how vulnerable they are to a hacker.

It would probably be fair to say that most PNG businesses do not fully appreciate how vulnerable they are to a cyber-attack and how much damage a cyber-attack could cause. Our IT advisory team can assist with assessing vulnerabilities and providing recommendations.

Statutory compliance – a focus on changes in operating locations

The Investment Promotion Act 1992 allows a foreign enterprise to carry on business in PNG by allowing the Investment Promotion Authority (IPA) to issue a certificate to that business.

An overseas company or a PNG incorporated company (that is not majority owned and/or controlled by a PNG citizen or national enterprise) must obtain a certificate from the IPA to carry on business in PNG. This certificate contains terms and conditions for foreign certification which include locations at which the enterprise is to carry on business.

However as contracts get renewed or varied companies can often add new locations to their business activities. It is a requirement as part of the terms and conditions of certification to notify the IPA of any change in operating location within PNG. This includes additional locations of operation as well as any change in the location of operations. Penalties may apply for non-compliance so it is important the required notifications are submitted.

Peer review of PNG's 'exchange of information request' practice

PNG underwent a Global Forum Peer Review of its exchange of information request (EOIR) practice and law in July. The Global Forum is a multilateral framework for tax transparency and information sharing with over 150 participating jurisdictions. The review covered a wide range of issues such as the types of business entities required to be registered for both IPA and IRC purposes, their legal and beneficial ownership requirements, the types of accounting information they are required to keep and the requirements for third party information holders for AML purposes etc. This is a further step in PNG's move towards increased participation in the global exchange of tax data.

© 2019 KPMG PNG. KPMG PNG is associated with KPMG Australia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.