



Kundu

June/July 2021



## Foreword

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](mailto:kmcentee@kpmg.com.au) if you would like to see KPMG cover specific topics in future editions.

## Could IFRS 17 insurance contracts apply to you as a non-insurer?

By Llewelin Gwekwete, Senior Manager, Audit & Assurance Services

IFRS 17, *Insurance contracts* is the first truly international IFRS Standard for insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 4 has allowed insurers to use different accounting policies to measure similar insurance contracts they write in different countries. Some practices currently used by insurance companies have evolved in tandem with circumstances in particular countries; often the practices address only insurance products most prevalent in a country. In many cases, features of the accounting models used by the insurance industry are inconsistent with the IFRS Standards applied by other industries in the same country—limiting comparisons with other industry sectors which is what the new standard has now zoned in on.

IFRS 17 is applicable for annual reporting periods beginning on or after 1 January 2023 with restatement of comparatives for the previous reporting period i.e. 1 January 2022. As the standard deals with insurance contracts, the scope of IFRS 17 goes beyond the insurance industry as it applies to all entities, whether they are regulated as insurance entities or not.

Insurance contract definition – ‘an insurance contract is a contract under which one party (the insurer) accepts ‘significant insurance risk’ from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The definition of an insurance contract raises several questions that need to be understood to determine whether a contract is an insurance contract, specifically:

- What is ‘insurance risk’?
- When is insurance risk ‘significant’?
- What is a ‘specified uncertain future event’?
- What is an ‘adverse effect’ on the policyholder?

To determine if a contract is an insurance contract, there are four main steps:



From the above and depending on other specifics, a simple fixed fee maintenance contract issued by a non-insurer could satisfy the criteria for an insurance contract given stepping through the above steps:

- Is there a contract? Yes
- Is there a specified uncertain future event? Yes, as uncertain when the machine would breakdown
- Is there adverse effects on the policyholder? Yes, malfunctioning of the equipment adversely affects its owner
- Is there insurance risk? Yes, risk that the equipment will not work is not a financial risk
- Is the risk significant? Yes, if the equipment breaks down it could be more than the service fee received for that contract, creating a significant risk.

The example highlights the need for all entities to assess the contracts in place and whether these could fall within the scope of IFRS 17. There are specific scope exemptions which mean that an 'insurance contract' as defined by IFRS 17, may not need to be accounted for under IFRS 17 if it meets scope exemption and these cover various common contracts that a non-insurer might enter into.

---

## Foreign direct investment in PNG

Foreign direct investment into Papua New Guinea (PNG) has decreased by around 45 per cent in the last two years according to the Investment Promotion Authority (IPA), PNG's companies' regulator. According to IPA Managing Director Clarence Hoot investment interest plummeted from over 1,000 in 2019 to roughly 300 in the first quarter of this year. IPA are concerned that in 2019 the total number of foreign direct investment documents received was 1,116 dropping to 800 in 2020 and 300 in the first quarter of 2021.

IPA have attributed the downturn partly to the impacts of the Covid-19 but believe PNG also has to look at its domestic policies, laws and regulations. Unfortunately there are indicators that PNG's standing in terms of business-friendly locations has decreased. PNG was ranked 108 out of 190 countries in 2018/2019 dropping 12 positions to 120/190 in 2019/2020.

At KPMG we continue to monitor new company registrations and in particular foreign entrants to the market and have also noticed a decline in the last 18 months, however, we also note with travel restrictions due to COVID-19 this has delayed a number of projects that we anticipate will proceed once the restrictions are eased or lifted.

For companies looking to enter the PNG market we recommend you do your research in terms of understanding the local regulatory and tax regime before committing and to also build into the planning process the timelines required for registration.

---

## Income tax extensions

Better late than never the IRC finally released the tax extension Circular. The Circular affords a further two month extension to taxpayers included in a tax agent lodgement listing. This means those companies (not late lodgers) with a 31 December year end now have an extension until 31 August (for taxable companies) and 30 September (non-taxable companies).

---

## IRC aiming to be robust, modern and efficient tax administration

IRC's vision is to become a robust, modern and efficient tax administration system by 2025. As part of this goal they have made some digital transformation changes within IRC. Most of the provincial centres were connected with basic ICT and internet structure earlier this year. Other changes involve the introduction of cloud based writing tools to assist with professionalism of written communications, productivity monitoring software and GPS trackers in cars. The productivity monitoring software is particularly interesting as it involves stealth mode surveillance of officer activity including profiling officers' time and attendance, tracking applications and websites used during work hours and capturing what's on the employees' screen automatically and randomly every 30 minutes. Automated real-time dashboard reports are produced for management to view and use as performance management tools.

---

## 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/>

---

## 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)

---

©2021 KPMG PNG. KPMG PNG is associated with KPMG Australia, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.