



Kundu

June 2020



Foreword

Our Kundu this month talks about the recent amendments to the local mining and oil and gas legislation, and provides some guidance around future expected changes in this arena. We also cover the importance of corporate governance and the role robust policies, procedures and documented processes play as key contributors to good governance. This applies to all entities in the private and public sectors. Planned IRC activities and staff changes are highlighted, and also the 1 July increases in work permit and visa processing fees.



KPMG is a 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.

Please enjoy this month's Kundu and reach out if you would like to see KPMG cover specific topics in future editions.

Zanie

Policies and procedures in the governance framework by Lizette Theron, Senior Manager, TTA

In past decades, in order to establish a company to produce goods or services, permission from a regulatory body would have been the "licence to operate". These days the licence to operate a company is much more complex and board directors have to consider not only the regulatory aspect, but also industry and market standards, industry reputation, the media, political opinion and the attitudes of customers, suppliers, employees, investors and communities.

Some of the key catalysts for strong and sustainable socio-economic growth of developing countries such as PNG are foreign direct investment and responsible and transparent spending. Good governance has been identified as an important factor that influences both foreign investment decision-making and the degree of confidence that the investors have in its elected boards.



Corporate governance is the international term associated with the trend towards greater corporate responsibility and the conduct of business within acceptable ethical standards. If there is a lack of good corporate governance in a market, capital will leave that market. As Arthur Levitt, the former Chairperson of the US Securities and Exchange Commission has said, "If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere".

The simplistic approach to corporate governance adopted by many local companies needs to change. Companies must visibly demonstrate impeccable governance standards in all sectors of commercial activity not only in principle, but also in practice, to be a destination of choice for emerging market global investors.

The process of developing a governance framework is the first important step in ensuring that there is agreement in the understanding of the business activities that are required for successful management, both financial and operational. Proper financial management, including financial reporting and the existence of policies and procedures, supports good corporate governance.

Financial management ranges from daily cash management through to the formulation of long-term financial objectives, policies and strategies in support of the strategic and operational plans of the company. It includes the planning and control of capital expenditure, working capital management, interaction with investors, funding and performance decisions. It supervises the supporting financial and management accounting functions, which are predominantly concerned with the collection, processing and provision of financial information and the planning, operation and control of the supporting financial information systems.

Accountability

A proper governance framework requires of those involved to identify and articulate their responsibilities and their relationships; to consider who is responsible for what, to whom, and by when; to acknowledge the relationships that exist between stakeholders and those who are entrusted to manage resources; and to deliver required outputs and outcomes while sharing a common value system.

The clear identification and communication of roles and relationships is one of the processes required when responsibility is assigned and accountability exercised.

Business processes

Business processes, including documented policies and procedures, form an important cornerstone of the way to achieve objectives. If considered, developed and applied carefully it can contribute to the effectiveness of processes. A proper governance framework identifies existing processes that are reflected in policies and procedure manuals and evaluates the effect it can have on specific objectives.

Review of policies and procedures

Companies should maintain all current management policies, procedures and standards covering all administrative matters, internal controls, financial management, human resources, information technology, risk management strategies and operational policies. A proper governance framework provides the mechanism to determine the relevant policy and procedures at a given moment, and to determine the impact and possible changes that might be required to ensure profitability does not suffer. It links policies and procedures to activities and ultimately to strategic objectives. This ensures that existing policies that fail to deliver effective and efficient delivery of goods and services are identified in a timely manner and improved. It enables management to avoid the trap of having generic policies that impact negatively on achieving objectives that are normally planned within specific areas.

In short, good corporate governance is key to the development of PNG businesses and we are seeing many more of our clients turn their focus to this critical business area.

Changing legislative landscape for Mining and Oil & Gas in PNG

by Wayne Osterberg, Director, Advisory Services

In keeping with the broad theme of Take back PNG the Papua New Guinea Parliament passed two new Bills into legislation on 10 June 2020 – the Mining (Amendment) Bill and the Oil and Gas (Amendment) Bill. These amend the Mining Act 1992 and the Oil and Gas Act 1998 respectively.

The Minister for Petroleum and Energy stated in introducing the Oil and Gas (Amendment) Bill that the amendments are intended to alter key outdated sections of the Act which “inhibit or frustrate the State’s ability to secure the best deal possible from Papua New Guinea’s participation in Oil and Gas projects”.



The Minister further put Parliament on notice that the Government will be introducing a new Bill for a “new Organic Law to move us away from our current ‘Concession’ based licencing system to a production sharing agreement for both the mining and the petroleum industries”.

The Minister for Mining, in introducing the Mining (Amendment) Bill stated that the Bill proposes “to establish a mechanism in law whereby the state may reserve land, the subject of an expired, surrendered, cancelled or relinquished tenement over which a new application may be made by the state”.

The Mining Amendment Bill introduces a central monitoring hub and requires every operating mine to transmit ‘live’ data on mineral production and extraction. It also gives state entities priority in tenement applications over ‘reserved’ land and requires any related arbitration to be conducted in PNG. The Oil and Gas amendments give the Minister greater flexibility in determining whether to grant or refuse petroleum development licenses (PDLs). It does not appear to affect existing PDLs.

Following the passing of the Bills, the PNG Chamber of Mines and Petroleum issued a press release expressing “surprise” at the passing of the Bills, referring to a commitment to effective consultation made by the Government. A subsequent press statement by the chamber stated that “the amendments to the Mining Act, introduced in Parliament last week, and statements related to their introduction, will cause private sector explorers and foreign investors to reconsider investment plans for PNG. Taken in conjunction with the government decision to not renew the Porgera Special Mining Lease they diminish PNG’s mineral investment potential and increase its country risk profile as an investment-friendly destination.”

The legislative changes come soon after the April 2020 announcement by the Government that it would not renew the mining lease at the Porgera gold mine, a joint venture between Barrick Gold (47.5%), Zijin Mining (47.5%), the Enga Provincial government (2.5%) and the Porgera landowners (2.5%). The original lease was a 30-year Special Mining Lease gazetted in August 1989. The Porgera Mine is the third largest mining operator in PNG after Lihir and OK Tedi and produced 284,000 ounces of gold in 2019. Whilst Barrick is challenging the decision it has placed the mine on care and maintenance.

In 2019 the extractive industries contributed around 28% of PNG GDP and constituted around 98% of exports. Hydrocarbons, being crude oil, LNG and condensate, made up 52% of exports by value and metals and minerals (primarily gold, copper, nickel and cobalt) comprised 47%. Total mineral exports, including mining and hydrocarbons, were projected to have generated K32.5 billion in 2019.

These legislative changes are a significant move by the Government to shape the minerals sector in PNG. The changes are likely to create some uncertainty in the short term and we await greater clarity on certain aspects of the new legislative regime.

Sources include the Oxford Business Group, Devpolicyblog, PNG Chamber of Mines and Petroleum; and the Bank of Papua New Guinea.

IRC activity

IRC to recommence site visits

The IRC have announced they will be recommencing outdoor/field engagements from mid-June while observing social distancing measures. Taxpayers should confirm the following if a person purports to be an IRC officer – check the name and designation, ID number, nature of the visit and the IRC business area they represent.

New taxpayer services strategy team

The IRC have established a new project team to review existing services and recommend changes to improve the level of service IRC provides to taxpayers. The main objective is to improve taxpayer voluntary compliance. The IRC held two days of meetings with external stakeholders (being tax agents and companies) to get feedback on the services IRC provides to taxpayers and how this can be improved. The project team is due to report its recommendation by the end of June and any actions identified will be implemented over the next two years.

IRC personnel changes

There have been a number of recent personnel changes within the IRC as part of plans to align IRC senior management with the priorities identified for the organisation. These include the appointment of Mr Sam Loi to Acting Commissioner of Tax for three months, Ms Pauline Bre will head the internal governance and reorganisation priorities as Commissioner for Services and Mr Elijah Titus has been appointed as Assistant Commissioner for Legal working with Treasury on tax reform.

Work permits – processing and increase in government fees

The PNG Department of Labour & Industrial Relations is now accepting new applications for work permits. It had put these on hold for a while in recent times and was only processing renewals. We are having success in the timely turnaround of work permits and visas.

Unfortunately, from 1 July 2020 the Government has increased filing fees for work permit applications. This increase sees most fees double including fees for new work permit applications, renewal applications and other fees.