



Kundu

May 2020



Foreword

Our Kundu this month focuses on the proposed economic stimulus package, the recent MOU renewal between IRC and IPA, Internal Audit navigating the “new normal” through data analytics, and a new initiative to boost GST revenue through SOEs.



As 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. We hope you enjoy our regular KPMG Kundu.

Enjoy this month’s edition and please reach out if you would like to see KPMG cover specific topics in future editions.

[Zanie Theron, Managing Partner](#)

Need partner time?

If you need some face to face time with one of the KPMG partners, we are on the ground here in Papua New Guinea and have been throughout the State of Emergency. Reach out, we are here. We are committed to maintaining strict hygiene and social distancing protocols whilst remaining as accessible to our clients as they need us to be.

How effective is the economic stimulus package likely to be? by [Wayne Osterberg, Director, Advisory Services](#)

Treasurer Ian Ling-Stuckey announced an economic stimulus package on 2 April 2020 to deal with the anticipated impact of the Covid-19 pandemic on PNG’s economy.

PNG, as does any nation, relies on the free movement of people, goods and services to stimulate economic activity. The global lockdown to prevent the transmission of the virus effectively stopped that free movement in a short sharp fashion and economic activity largely ceased for a period.



At the time the stimulus package was announced the impacts of the lockdown were not known and still, largely remains uncertain. Data on the virus and infection rates and transmissibility are still being formulated and, frankly, there is probably more unknown about the conditions for the spread of the virus than are known. This means it will be a long while before economic activity returns to 'normal' in PNG.

The stimulus package was announced in conjunction with several other initiatives such as price controls, reduced capital adequacy rules for banks, loan repayment holidays and access to superfund savings for those losing jobs. The package was K5.6bn in total, of which K500m was for specific health and security measures, and supporting agriculture, households and small businesses.

The Treasurer recently announced that the initial K500m has been detailed and allocated and has been expanded to K523m as follows:

Stimulus spending targets	Km
Business, Agriculture & Household	243
Agriculture development & food security in provinces	113
Additional stimulus measures to be determined	70
Small cash crop producer price support	50
Specific debt payment & cost reduction efforts	5
Rural MSME & household support	5
Health & Security	280
Defence force to build 10 customs posts	73
Hygiene initiatives at potential hotspots	60
Police, defence force and prisons to defend borders and strengthen law & order	60
22% increase to Provincial Health authority budgets	37
PPE equipment for Department of Health	30
Department of Foreign Affairs to help repatriate PNG citizens	15
Church support for food assistance	5

Source – KPMG analysis

The bulk of the spending appears to be for 'channels' rather than for specific identified end recipients. For example, the largest chunk of the business, agriculture and household sector spend will be K113m for the districts and provinces to promote agricultural development and food security through an outreach campaign and grants for improved crop production.

If the spending is channelled correctly and finds its way into the hands of private sector contractors and intended end users, it will certainly ameliorate some of the negative impacts of the pandemic response through the multiplier effect.

The government has responded well with its decision to implement the stimulus package. Whilst there could be some criticism of the delay in announcing the detail, that would be unfair given the difficulties in allocating scarce funds to maximum effect. These spending measures, together with the overall stimulus package, should assist in providing a welcome boost to those sectors of the economy where it can have the most positive impact – the small and medium enterprises, agricultural entities, and rural households. The measures should also boost the health, security and safety of Papua New Guinea with specific targeted spending.

Implementation, as always, is key.

IRC collaborations with IPA and Customs

by Shane Kennedy, Manager, TTA

The Investment Promotion Authority (IPA) and the Internal Revenue Commission (IRC) recently renewed their Memorandum of Understanding (MOU) which allows them to share information and resources.

One of the most noticeable aspects of this partnership is that the IRC will locate a counter within the IPA head office premises. This will allow for over the counter company registrations and tax registrations to be processed within the same sitting. From the IRC's side it ensures that companies are properly registered for taxes while from the taxpayer's side it means they no longer have to travel between offices across town to achieve the same outcome.



The IRC will have access to the IPA database in real time for the purposes of profiling taxpayer companies – it will therefore have access to details including directors, shareholders and related entities.

The IPA are also seeking to bring in other PNG regulators in order to facilitate its efforts to become a one stop shop for business clients. This was demonstrated by IRC's new MOU with PNG Customs which will enable the IRC to have real time access to the ASYCUDA Customs database. Although PNG Customs administers GST on imports on behalf of the IRC to date the IRC did not have visibility over Customs records. This visibility will enable IRC to better monitor taxpayer returns particularly in relation to GST claims for imports.

The IRC has indicated its willingness to reach out to and partner with other PNG regulators for the purposes of overcoming historical barriers to information sharing that have existed without MOUs. This will also be in line up with the IRC's strategy of digitizing its taxation services, combatting tax avoidance and providing a more streamlined business process.

Internal audit navigating the new normal through data analytics

by Eugene Michelo, Manager, Advisory Services

Data and information have never been more critical as organisations face uncertainties during this difficult time, as the business communities are adjusting to the "new normal". The current circumstances have challenged Internal Audit leaders to raise their game as they become more crucial as trusted advisors to management and the Board.

Data Analytics is viewed as the audit of the future. As business and environmental risks keep evolving at a faster pace Data Analytics is now critical for Internal Audit to implement in their reviews. The "new normal" has changed the way organisations operate, particularly in emerging economies such as Papua New Guinea. This has accelerated the implementation of digital operations which were otherwise postponed as other areas took priority.



We are seeing PNG organisations starting to fast track their efforts of scaling up operations or adjusting their operations to survive these difficult times.

The "new normal" of working, coupled with technology enhancements, has increased the risk profile within organisations and therefore Internal Audit can leverage on Data Analytics by:

- 1 **Providing real time assurance to management and the board** – Data Analytics brings efficiencies into the Internal Audit process. Internal Audit team members are capable of providing insights to management for decision making in a shorter period of time.
- 2 **Deep and wider coverage of key processes** – Data Analytics have the capability to provide more accurate insights to management as the need for sampling is reduced in the Internal Audit process. Additionally, Internal Audit is able to dive deeper into the data many organisations maintain, whereas before, this was a daunting and time consuming process.
- 3 **Analysing trends in information to determine emerging Risks** – Data Analytics can provide trends and through predictive analytics is able to link risks through to multiple processes within the organisation.
- 4 **Facilitating continuous auditing** – Internal Audit can have an on-going view of business risks, and although the practice has been complying with the annual audit plan, Data Analytics facilitates the agility required to assess risks arising and give immediate assurance to management.

These data insights are already sitting within your organisation's databases. For any organisation to obtain these insights, all you need is the support of your Internal Audit team. Your Internal Audit team will understand where your data resides and should have the necessary skills to extract the necessary data insights for the management and Board.

There is no time that is better to do that than now!

Government entities including SOEs to withhold GST from service providers

IRC have announced a new move under which all Government entities including State Owned Enterprises (SOEs) will withhold all GST to be paid to their contractors or service providers and remit that GST directly to the IRC under Section 65A of the Goods and Services Act. The IRC are amending their systems at the moment and intend for the new process to start shortly.

The objective seems to be to boost GST collection and Government cash-flow and to also ensure compliance with tax obligations. Government contractor taxpayers will still lodge their returns, accompanied by a suppliers list for IRC to do the verifications. In addition to this IRC will also establish a returns review process for all GST returns to be reviewed before being processed.

While we can understand the driver for the new process is to ensure the GST is actually remitted directly to IRC, this new process relies on a number of factors, being the timely remission of the GST payment by the Government entity/SOE to the IRC, the reconciliation by the IRC of the payment to the contractor's GST return, the transfer by the IRC from the payer to the payee's IRC GST account etc. It will remain to be seen how this will play out in practice and unfortunately given GST penalties are automatically applied by the IRC system for late payment, it is likely that many taxpayers will end up incurring costs trying to get their GST accounts updated, reconciled and penalties reversed.

IRC have however assured us that they have taken steps to improve their business processes before the notices are issued. They are also considering a phased approach, starting off with a few entities and eventually a roll-out to all Government Departments and SoEs.