



Kundu

October 2020



Foreword



In this month's edition, very topical discussions: we talk about those considerations companies should keep in mind when implementing a new accounting system. Also, what would be the impact of the pandemic on the value of a business? In the world of tax, we discuss the PNG peer review on exchange of information on request, and instalment plans for provisional tax.

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 +675 321 2022 if you would like to see KPMG cover specific topics in future editions.

Zanie

Considerations when implementing an accounting system by Lizette Theron, Senior Manager, Tax, Transactions and Accounting

One of the top priorities for any company is a good accounting system – this is true for a business of any size. Failing to keep an accurate record of business transactions causes inefficiencies and is one of the key reasons for business insolvency. Accounting systems help business owners and managers to accurately measure business growth in terms of profitability, as well as identify areas that need attention and improvement.

Although many companies believe that a good accounting system only requires accounting software, this would be overestimating the capabilities of software, as the output of the software is dependent on the people who use the system.

Nowadays companies can choose from various accounting software systems, such as Quickbooks, MYOB and Xero. These are the most popular accounting software being used by small to medium sized businesses in Papua New Guinea. Lesser known systems include Wiise, Sage, Zoho, Wave and Able.



Any of these accounting systems require a certain level of training and experience, and some of these offer free trials to help decide which one works best for the business. It is then possible to upgrade to more features and functionalities to streamline the business.

Management often has little understanding of the suitability of accounting packages and for this reason often implements software recommended by the company accountant or auditor. This could mean that software being used, although suitable for requirements of the accountant or auditor, may be inadequate for the wider requirements of the company.

A company needs accounting software to help it accomplish daily accounting tasks – recording payments, tracking expenses, invoicing customers and reconciling transactions – but also to give management insight into the business's financial health, and to allow the generation of reports to help analyse the business's performance from various angles. Considerations, when selecting the right accounting software for the business, should include:

- The total annual cost, and whether there is setup, cloud storage fees or other hidden costs
- Which features the business needs included in the accounting software offered, e.g. billing, invoicing or purchase order creation, general ledger and expense tracking, inventory management, and bank integration
- The reporting features offered by the software
- How many employees and clients the software can accommodate
- Whether the software is a good fit for the industry that the company operates in
- How the software can help with IFRS and tax compliance
- How the data is backed up, and which security measures are in place to keep data secure.
- Whether, and in which way tech support is provided

An accounting system is however also much more than just the accounting software being used for processing accounting transactions. Processes need to be developed to describe how components of a transaction, from commencement to conclusion, should be dealt with by the various role players of the transaction, from warehouse staff to accountants and other administrative staff. This not only provides accuracy to a transaction, but provides internal control, giving management confidence that the right transactions are being processed to the accounting software. The staff operating the system also need to be trained and competent in using the system.

Companies should also consider the alternative to engaging an internal bookkeeping team, which is to outsource bookkeeping tasks to a properly qualified service provider. This is a way of ensuring the company has professional staff who are competent in providing the bookkeeping service. Bookkeeping staff engaged through professional firms will have professional skills and the necessary credentials, and with today's technology, communications with these professionals should be seamless.

No matter how companies get their accounting done, it is important to have a sound accounting system, including accounting software and internal controls over processes. Without these, the likelihood of business failure increases, due to lack of accurate and up-to-date information for decision making.

Please let us know if you would like to discuss our services including outsourced bookkeeping services, secondments, internal control reviews, financial statement preparation etc.

Impact of coronavirus on valuations

by Wayne Osterberg, Director, Advisory

The Covid-19 pandemic and the various responses of governments, businesses and society have had a significant impact on the environment for companies and businesses globally. This has an impact on the valuations of companies and businesses. The impact on public companies in listed environments has been easier to assess, as it is reflected in the market valuations of those companies. Given the theory that capital markets are efficient allocators of capital, they are assumed to have priced in all publically available information into the values of the respective companies.

In respect of unlisted investments, the effect of the pandemic is less clear. The basic rules of valuation continue to be applied consistently, with fair value continuing to represent the amount that would be received in an orderly transaction using market participant assumptions rather than being representative of a fire sale price.

Control premium considerations are less likely to be impacted by the pandemic than the overall trends in the corporate environment and there is little data to suggest that this premium has altered materially in 2020.

The value impact depends on the characteristics of individual investments. Demand-based assets are most at risk from a downward value adjustment, particularly those investments exposed to the travel sector and those directly correlated with GDP performance. Availability based or regulated assets are expected to be more stable at a revenue level. Demand-based assets, however, are likely to recover more quickly once economic activity returns. Scenario modelling of adjustments to capital expenditure profiles, operational expenditure and distribution/financing flows will be important for understanding value impacts.

The value impact will potentially be greater for assets where there is a shorter-term view on explicit future cash flows.

The shape of the eventual recovery is important for all investments, but is especially critical to investments with shorter lives and when determining near-term cash flows that impact valuation. The contribution from terminal value may increase for many investments valued under a discounted cash flow approach. For companies that do not have whole-of-life forecasts or typically do not have the ability to forecast far into the future, a greater percentage of overall value is likely to be associated with the terminal value period. Inherently, this will require increased focus on the assumptions that drive the terminal value, and the supporting evidence used to establish the long-term growth assumption.

At the same time, for investments valued under an earnings-based approach, a key challenge will be determining what near-term cash flows to apply to market multiples.

Counterparty risk will be amplified - a broad economic downturn will increase counterparty risk and the potential for default on existing obligations.

Determining appropriate discount rates and multiples that reflect the current market and underlying cash flow risk is key. Whilst greater market uncertainty typically leads to the application of higher discount rates and lower multiples, it is important to ensure that value is not subject to a 'double dip'. If forecast cash flows have been adjusted to reflect current lower performance expectations, then the level of increase in the discount needs to be carefully considered.

PNG peer review on exchange of information on request

by Karen McEntee, Partner, Tax, Transactions and Accounting

The IRC have published on their website the officially titled OECD (2020), *Global Forum on Transparency and Exchange of Information for Tax Purposes: Papua New Guinea 2020 (Second Round): Peer Review Report on the Exchange of Information on Request*. This report examined the implementation of the international standard of transparency and exchange of information on request in PNG under the second round of reviews conducted by the Global Forum.

It assesses both the legal and regulatory framework and the practical implementation of this framework, in particular in respect of Exchange of Information requests received and sent during the review period from 1 October 2015 to 30 September 2018. PNG joined the forum in 2015 and this report is the first assessment to be performed.

The overall conclusion is a Largely Compliant rating with a breakdown as follows between assessment categories:

Element	Determination on the legal framework	Rating on implementation
A.1 Availability of ownership and identity information	Needs improvement	Partially Compliant
A. 2 Availability of accounting information	Needs improvement	Partially Compliant
A.3 Availability of banking information	Needs improvement	Largely Compliant
B.1 Access to information	In place	Compliant
B.2 Rights and Safeguards	Needs improvement	Large Compliant
C.1 EOIR Mechanisms	Needs improvement	Largely Compliant
C.2 Network of EOIR Mechanisms	Needs improvement	Largely Compliant
C.3 Confidentiality	In place	Complaint
C.4 Rights and safeguards	In place	Compliant
C.5 Quality and timeliness of response	In place	Compliant

Of note is that during the peer review period PNG received five requests for information and sought information in four cases. Australia, New Zealand and Indonesia were PNG's main Exchange of Information partners.

A follow-up report on the steps undertaken by PNG to address the recommendations made in this report is due to be provided to the Peer Review Group by 30 June 2021.

Provisional tax and tax instalment plans

The final instalment of provisional tax for companies is due for payment by Monday 2 November 2020 this year (the usual 31 October deadline has been moved to 2 November due to the weekend). The IRC have advised they are willing to consider instalment plans for the third instalment of provisional tax due if a company is unable to pay due to Covid related financial difficulties. To support a payment plan application, they will require bank statements for six months and/or a bank notice, an eviction notice, a disconnection notice, a repossession notice, a notice of impending legal action, contract payment schedules, staff pay records etc.

National Budget

Initial indications are that the National Budget may take place on Tuesday 17 November although this has not as yet been officially confirmed. As usual we will post our views and commentary on the PNG National Budget the night of the Budget and circulate our commentary by email to our clients and contacts. Please let us know if you would like to be added to our mailing list.

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 and Facebook <https://www.facebook.com/pngkpmg/>

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