



Kundu

April 2022



Foreword



The importance of having effective sanctions controls processes, as well as supplier codes of conduct embedded within an organisation are highlighted this month. It is clear this is not “tomorrow’s problem” and companies are urged to consider and act accordingly.

Certain cost-of -living tax changes were recently announced in PNG, and companies are reminded that provisional tax payment are due early next week.

KPMG in PNG has dedicated in-house specialists in all 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 if you would like to see KPMG cover specific topics in future editions.

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Knowing your clients and sanctions risks

by Karen McEntee, Partner, Tax, Transactions and Accounting Services

An Australian based freight forwarding company, Toll, made global headlines this month for violations of US sanction regulations attracting a penalty of over USD6m. The violations relate to c. 3,000 self-reported breaches of US sanctions against Iran, North Korea and Syria between 2013 and 2019 involving payments processed through the US for sea, air or rail shipments by Toll, its affiliates or suppliers.

This highlights the importance of ensuring all types of businesses, not just financial institutions, have in place controls and policies to prevent transactions being conducted with designated parties and jurisdictions. As sanctions can also extend to individuals and companies involved in criminal behaviour, such as drug trafficking, it is important these controls are drawing from all relevant sanctions lists. This is even more significant with the recent sanctions imposed by Australia, Japan, the US, the EU, the UK and Switzerland against Russia and Russian designated parties.

Although Toll had sanctions compliance processes as part of their controls, they were not deemed effective enough to keep up with the complexity of its fast-growing business ultimately resulting in the breaches identified. This case demonstrates the importance of having effective controls and screening tools that use the most current lists.

Designated jurisdictions and parties often use methods of evading sanctions such as the use of cryptocurrencies, using shell companies to disguise the beneficial owner of assets and entities, the use of shell entities in jurisdictions neighbouring or connected with sanctioned jurisdictions and the use of falsified documents around the origin/type of goods being financed or transported.

In this ever more complex business world, it is important that all types of businesses know who they are dealing with and have appropriate compliance processes in place as the cost of noncompliance can have serious financial and reputational implications.

Knowing your suppliers and supplier codes of conduct

by Karen McEntee, Partner, Tax, Transactions and Accounting Services

As part of a focus on corporate social responsibility and also on inclusion, diversity and social equality many businesses are drawing up supplier codes of conduct to ensure their suppliers (and those within their direct and indirect supply chain) are behaving in a legal and ethical manner and in alignment with the business' own values.

The United Nations Global Compact is a voluntary international corporate citizenship network which supports the private sector in advancing corporate citizenship and universal social and environmental principles to meet the challenges of globalisation. The Compact outlines ten principles which many businesses draw on to inform their own Supplier Code of Conduct:

- respecting the protection of international human rights
- ensuring they are not complicit in human rights abuses
- upholding the freedom of association and of the right to collective bargaining
- supporting the elimination of all forms of forced and compulsory labour
- supporting the abolition of child labour
- supporting the elimination of discrimination in respect of employment and occupation
- support a precautionary approach to environmental challenges
- promote greater environmental responsibility
- encourage the development and diffusion of environmentally friendly technologies and
- work against corruption in all its forms including bribery and extortion

There is no prescribed format for a Supplier Code of Conduct, they may be a simple one-page document or may run to many pages and they may incorporate some or all of the above guiding principles as well as other values important to the business such as respecting intellectual property and/or avoiding conflicts of interest. Suppliers are usually also asked to communicate and cascade the Code to all within their own supply chain.

Besides the ethical reasons for complying with these principles, there may also be group policy requirements to do so. For example, while PNG is not legally bound by the Modern Slavery Act 2015 PNG companies that are part of a multinational group may be required to comply with this Act under their group policy.

Consequences of non-compliance by the supplier with the Supplier Code of Conduct could potentially be stated to include sanctions, suspensions and/or cancellations of supply arrangements.

Whether your business is the principal contractor, a direct supplier or an indirect supplier within the supply chain these Codes are likely to become a growing feature in future tender and contracting discussions.

Parliament tax announcements

We mentioned last month the flagged changes to the GST rate for certain products. These ultimately did not materialise as instead the last sitting of Parliament before the elections announced a cost-of-living package worth PGK611m involving:

- an increase in the tax-free threshold from K12,500 to K17,500 effective from 1 June to 31 December 2022. Employers will need to amend their payroll systems to capture this change.
- the removal of excise and GST on all fuel products for six months from May 2022
- funding for school project fees and
- planned cost reductions worth K100m on products such as rice, tinned fish, and flour.

Provisional tax due

The first installment of 2022 provisional tax for companies with a 31 December year end and the second installment for companies with a 30 September year end are due for payment by 2 May 2022. If taxpayers believe IRC's estimate for 2022 is higher than the actual 2022 liability is anticipated to be, they may apply to vary the liability downwards - although care should be taken to ensure penalties do not apply for excessive variation. Penalties will apply for late payment.

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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