

## Foreword

As KPMG is the only 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.

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### Importance of business planning in PNG by Norbert Kneifel, Senior Manager, Advisory

In our experience in PNG it is common for an information gap to exist between management and other stakeholders. This gap should be reduced through strategic and business planning. A business plan is a very important strategic tool for companies by:

- Helping the company achieve its short-term and long-term objective;
- Serving as an efficient communication tool between the management and stakeholders including financing banks;
- Ensuring the shareholders have control over management; and
- Increasing the management's accountability.

Our experience shows that a proper business plan will not just help communication between management and the stakeholders, but it will significantly reduce the risk of misappropriation of funds.

The misuse of funds is more frequent when management's responsibilities are not properly set and no clear expectations are communicated on an operational and financial level. We are of the view that many disputes between shareholders and management could be avoided through proper business planning.

At many PNG companies the business plan is considered as a financial tool only and operational staff are not involved in the process. In such cases, the operational staff are not committed to meeting the KPIs and do not accept accountability against the business plan.

While the finance department has a key role in designing and running the process, it is crucial that operational managers are involved and committed to achieving financial and non-financial goals determined by the business plan.

By involving all key departments in the planning process, the business plan will also give management an additional tool to implement an efficient, KPI based remuneration system as well as an increase to the commitment of the employees in achieving the corporate goals.

The balance and harmony between financial and non-financial KPIs is crucial. A good business plan cannot guarantee success but it can go a long way towards reducing the odds of failure.



Common issues we see in PNG include unwise or excessive spending by operations teams as they have no KPIs or business plans to measure against. We are currently working with a number of clients in Papua New Guinea to deliver a comprehensive business model tailored to their specific needs and to help improve their performance.

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## Choosing the right internal audit model for a PNG organisation

Organisations of all sizes can benefit from Internal Audit (IA), however the decision to use an in-house team of IA staff, external consultants or a combination of both can impact how much value IA can deliver.

Choosing the right IA model should begin with assessing the size, complexity and needs of the organisation. In addition, it must also have independence so that it can make accurate, objective assessments – a critical factor in its success.

Whether an IA function is insourced, outsourced or co-sourced, it is essential that the skills of the team align with the specific needs of the business. As IA expands from traditional compliance auditing to reviewing how a company's strategic goals could be influenced by risk, having an array of skills to assess all aspects of the business is vital.

Each approach to IA can have advantages and challenges.

It is common for large organisations to have their own IA function, which for complex, listed, global businesses could comprise hundreds of people. An in-house IA function enables management to retain full control over their IA approach, and have immediate knowledge of the issues at hand. However, as a critical component of IA is independence, the structure and reporting line of an in-house IA function requires careful consideration.

Fully outsourced IA is often only the domain of small, complex organisations. The positives of a fully outsourced IA can be access to valuable expertise, flexibility of cost and an independent viewpoint that could see things that employees do not. It can bring third-party assurance, as well as fresh industry or global perspectives.

After weighing up each model, many PNG organisations arrive at the decision to co-source. A combination of a core in-house team boosted by external specialist skills sets or extra resources to backfill gaps in the core team can bring in the strategic elements. Co-sourcing can be particularly beneficial if the organisation has a continued relationship with the external IA supplier, so they can grow to understand the business. Co-sourcing can enable an organisation to top up skill sets, fill staff shortages, or perform work in various locations. An organisation could gain access to innovation in tools, audit techniques, thought leadership and benchmarking.

For any queries please contact our Certified Internal Auditors (CIA) Charles Judd at [cjudd@kpmg.com.au](mailto:cjudd@kpmg.com.au) or Carsten Goebel at [cgoebel1@kpmg.com.au](mailto:cgoebel1@kpmg.com.au).

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## CPA conference in Kokopo focused on tourism

The CPA Kokopo conference held on 21 June 2019 outlined the Province's goal to become PNG's tourism hub of the future.

As keynote speaker the Governor, Mr Nakikus Konga, shared his vision for transforming East New Britain. This vision includes upgrading the airport to receive large aircraft, increasing the number of hotel rooms available tenfold as well as inviting more investors. The day's speakers continued the theme of "Tourism a catalyst for driving economic activities in autonomous provinces".

The conference also included a wealth of discussion around the growing SME sector in PNG generally and it was made clear that the growth should be well supported by the Government and private sectors.

Dr Alois Daton shared interesting insights around potentially different tax structures applying to SMEs and all in all the conference was well attended and was a very business-minded rather than a purely accounting and accountant-focused event.

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## Audit committee institute

We will be holding our Audit Committee Institute meeting again on 4 July 2019. This is a quarterly roundtable to help audit committee members keep up with relevant business issues and generally enhance audit committee practices and processes. New attendees are welcome so please contact Zanie Theron (ztheron@kpmg.com.au) if you wish to attend.

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## Risk management roundtable

Our quarterly Risk Management Roundtable will be held on 4 July 2019. This is an ongoing conversation around embedding risk management into everyday business processes and creating value for an organization through a well-functioning risk management function. This workshop is suitable for managers and staff involved in risk management. Please contact Carsten Goebel (cgoebel1@kpmg.com.au) if you would like to attend.

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## Capital gains tax and SME consultation

As mentioned last month the consultation process for the new proposed capital gains tax and small medium enterprise regimes took place in Port Moresby on 12 June 2019. Treasury advised that they intend to introduce this new legislation in the 2020 Budget in November. They indicated that the actual commencement of the legislation will depend on the IRC's administrative capabilities. It was clear from the consultation discussions that there are a number of details that still need to be considered.

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## Legislative changes

A re-write of the Income Tax Act is ongoing, the objective being to simplify and re-organise the Income Tax Act 1959 (as amended). The new Act will work in conjunction with the Tax Administration Act, which although passed in 2017 has yet to come into force. Implementation is expected from January 2021 on a phased basis. A consultation process will take place in relation to the new Act in due course. We will keep you updated.

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## Prime minister's announcements

The new Prime Minister, Mr James Marape, has announced that Manus will become the first corporate tax free zone in PNG. No details are available as yet as to how the tax free zone would be applied but, we look forward to hearing more in the coming months.

The Prime Minister also announced that the IRC would be the first Government department he will visit. It appears he will be looking closely at the IRC's tax collection system.

In his view the IRC are looking at the "same old collection spots" and he believes there are many who are evading tax and are using transfer pricing to pay less tax. He has also said they are getting international assistance to assist with audits.

This links in with our previous bulletins in which we announced the IRC were getting international assistance on transfer pricing audits. We will watch this space but it looks like the IRC will become even more active in the near future. Our tax health-check service can be a means of identifying issues and getting systems in order.

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