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, management consulting, IT advisory as well as tax, assurance and corporate finance, we are well placed to provide a truly multi-disciplined approach to business advisory. We hope you enjoy the first of our regular KPMG Kundu newsletters.

The Hidden Outcomes of Data Analytics

by David Wessels, Director

Managers need to feel confident they are making the right decisions. That means knowing that the information (and data) they use to make those decisions can be trusted. It also means understanding and managing emerging risks and opportunities.

We often hear the term ‘data analytics’ being mentioned and how it can offer significant opportunities to enhance decision making, improve performance and help manage risk.

So what is data analytics and how can it help me? Instead of simply listing the benefits of data analytics, let’s look at a recent example of data analytics used to assess a payroll system, and what the data told us.

> *Done right, analytics has the power to increase revenue, reduce costs and minimise risk throughout the business.*

A large corporate recently completed a number of staffing changes as well as implementing a new payroll system. Management was concerned about the integrity of the payroll data:

- Has income tax been accurately calculated?
- Are staff salary sacrifices meeting IRC guidelines?
- Are annual and long service leave entitlements accurately calculated?
- How many employees are claiming overtime, taking annual leave and sick days? Is there a pattern?

Analytic tools were used to understand the payroll data. This was correlated to building access records and system login data. The data highlighted some rather interesting anomalies:

- A number of employees had never taken a day of annual leave (some of whom had been employed for many years). This was quite surprising given the organisation closes over the Christmas period.
- When looking at these employees in more detail, access records indicated these staff had not accessed the work premises or logged into their computers.
- A number of employees had significant and consistent overtime which did not align with their roles. Was this indicative of misuse, a resourcing problem, or even worse, fraud.
- Some employees had incorrect start dates which had been used to calculate long service leave and final entitlements on retirement.
- Travel allowances being claimed by employees neither on leave nor travelling.
- Instances of employee bank accounts matching supplier bank accounts.

The outcome was the payroll software was functioning appropriately, however the data input into the payroll system was not reliable. A number of recommendations were made and implemented resulting in payroll savings and a reduction in leave entitlement liabilities.

This is one of many examples where data analytics has been used to help managers understand the power of the data their business produces.

Done right, analytics has the power to increase revenue, reduce costs and minimise risk throughout the business.

KPMG economics report shows tariff retaliation would damage global growth

by Brendan Rynne, Partner – KPMG Australia

Governments and businesses around the world have expressed alarm at the possibility of a trade war developing from the planned United States (US) tariffs on steel and aluminium and separate tariffs on Chinese imports.

They are wise to be concerned. KPMG Economics modelling shows that retaliation by the rest of the world to US tariffs would cause economies such as Canada, the European Union (EU) and the United Kingdom (UK) to tip into recession. It would also create substantial job losses in Australia.

Our report The Re-emergence of Protectionism argues strongly for the retention of global free-trade policies – which have seen world average per capita real income rise from less than US$4,000 in 1950 to more than US$15,000 now.

Australia is a case study in the benefits of free trade. In 1973 when Australia joined the then General Agreement on Tariffs and Trade (GATT) reduction of tariffs it was a relatively poor country, after decades of inward-focused trade policy. Within 40 years, exports and imports had tripled as a proportion of gross domestic product (GDP), as formerly-protected domestic industries had to reform to survive under global competition and other sectors with a comparative advantage thrived.

Our analysis shows that introduction of retaliatory tariffs now would see that beneficial economic process go significantly into reverse.

We modelled four scenarios:

- A 5-percentage point increase in tariffs by all countries on all manufactured goods;
- A 5-percentage point increase in tariffs by all countries on all goods, primary and manufactured;
- A 10-percentage point increase in tariffs by all countries on all manufactured goods;
- A 10-percentage point increase in tariffs by all countries on all goods, primary and manufactured.

Even in the least-worst scenario, the impacts would be substantial. The Australian economy would contract by more than 0.8 percentage points – the equivalent to AU$15 billion and 130,000 full-time equivalent (FTE) jobs.

The second would see Australia's GDP contract by 1 percent, equal to AU$18 billion or 150,000 FTE jobs.

Yet Australia would not be the hardest hit – not by a long way. In the first scenario, Canada's economy would shrink by 3.4 percent, the EU's by 3 percent and the UK's by 2.1 percent – all of them would tip into recession. Even though the overall global economy would escape a recession due to much faster real GDP growth rates of large, emerging economies, such as China and India.

But the most serious scenarios would be a 10 percent tariff hike by all countries on primary and manufactured goods – this would lead to a global recession similar to the scale of the 2009 post-Global Financial Crisis (GFC) recession which saw the world economy shrink by around 3.3 percent. This scenario would shrink Australia's economy by $35bn or 285,000 FTE jobs. And the world economy would probably need a longer recovery period given the increased levels of protectionism compared to a decade ago.

Our modelling shows clearly that countries would be wise not to retaliate to any import tariffs by the US. Their economies will be much harder hit by across the board tariffs than the US which would emerge relatively unscathed from the 5 percent scenarios, with a modest 0.37 percent decline in GDP.

Australia's economy has an 'elasticity of GDP' ratio with the US of about 2.3 percent, which is a 1 percent decline in US GDP causes a 2.3 percent decline for Australia.

But others such as Canada's, the EU's and the UK's are much higher – 8.5 percent, 7.5 percent and 5.3 percent respectively. This indicates those countries simply cannot afford to get into any sort of trade war with the US as they would lose out seriously – which is a sobering thought as they enter trade negotiations.

Recent World Trade Organisation (WTO) statistics show that over the past 12 months, import-facilitating measures have been more than twice the size of import-restricting actions. This proves that countries know the importance of trade openness. Yet it seems the WTO would not have power to act against any trade wars.

Our modelling confirms that trade liberalisation is key to economic growth and how potentially damaging protectionism is. Everyone would be much better advised to continue the free trade policies which have served the global economy so well since 1945.

Revenue – Are you prepared for IFRS 15?

by Pieter Steyn, Director and Sailas Jeffrey, Senior Accountant

All companies reporting under International Financial Reporting Standards (IFRS) in Papua New Guinea will be impacted by the new accounting standard IFRS15 Revenue from contracts with customers. The extent of the impact of the new standard will vary by industry and entities will need to apply a five-step model to determine when to recognise revenue, and at what amount.

The core principle of the new standard dictates that revenue is recognised when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised either over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer.

From a financial reporting perspective, the new standard will require extensive new and additional disclosures within annual financial reports. The requirements are more detailed than ever before and may force entities to display their organisation's 'inner workings' in new and uncomfortable ways – so getting to grips with the exact requirements of the standard and how they affect the business will be essential.

Entities and stakeholders will also need to consider other important areas that will be impacted by the new standard such as:

- Revisions may be needed to tax planning, covenant compliance and sales incentive plans.
- Sales and contracting processes may need to be reconsidered
- IT systems may need to be updated
- New estimates and judgments will be required
- Accounting processes and internal controls will need to be revised

Strong communication and co-ordination between the business and finance and other support functions (such as legal, for example) about the effects of the new rules are essential. This rule change cannot be left in an accounting silo.

IFRS 15 came into effect on 1 January 2018. Decisions should already have been made on which transition approach to adopt – retrospective or cumulative effect. Retrospective application is likely to be challenging, despite the practical expedients available.

Whilst the changes may be convoluted and daunting, KPMG is ready and available to assist you to develop and implement an appropriate action plan.

The Scope and Role of the Audit Committee

by Alana Wessels, Associate Director and Leonisa Bosimbi, Senior Accountant

KPMG PNG launched the PNG Audit Committee Institute late last year which aims to help PNG audit committee members keep up with relevant business issues, understand their roles and generally enhance audit committee practices and processes through roundtable discussions and updates. Discussed at last week's roundtable of PNG audit committee members was the scope and role of the audit committee.

The scope will depend largely on the committees the board has established, the nature of the organisation (eg financial services) and the size and complexity of the business.

Traditionally the scope of the audit committee has been to assist the board fulfil its oversight responsibilities in the following areas:

- Financial accounts and statements
- Internal controls to manage business risks
- Engagement, fees and performance of external auditor
- External auditor's annual audit
- Resources, performance and scope of internal audit
- Compliance with legal, regulatory requirements

However, recent trends have seen the role of the audit committee expanded to consider the culture of the organisation and the tone at the top and to also look into CFO succession planning.

The audit committee is essentially a sub-committee of the board, however, this does not mean that the directors can abdicate their responsibilities for the financial accounts and statements, as was upheld in the Australian case, Centro. The Centro case also held that the directors could not use the vast amount of board reading materials as an excuse for the non-performance of their role, as ultimately the board should determine how they are reported to eg they could have asked an executive summary of the key issues.

The audit committee should have an appropriate number of directors with accounting or financial expertise and best practice would be that the audit committee chair and the board chair are different people.

Ultimately auditors can provide another level of assurance for audit committees and it can be beneficial for the committee to meet separately with the auditor, receive and review the audit plan, understand what is and what is not tested by the auditor and also the auditor's materiality levels.

KPMG PNG's next Audit Committee Institute meeting will be mid-2018 and if you would like to attend or require more information please contact me at awessels1@kpmg.com.au

Tax and Statutory Compliance – Now a Priority

by Karen McEntee, Director

Recent years have seen the Investment Promotion Authority (IPA) and the Internal Revenue Commission (IRC) step up their enforcement procedures against defaulting companies. Historically companies paid taxes and/or lodged returns late without penalties or other consequences.

However the IPA's new system now imposes automatic penalties for the late lodgement of statutory compliance returns. More concerning is that it has published a list of 'defaulting companies' on its website, being companies with outstanding annual returns, and was threatening to start striking off these companies if they failed to bring their returns up to date. These strike offs were due to commence in late 2017 but due to system issues have been postponed.

Meanwhile the IRC's system now imposes automatic penalties for the late payment of tax. Poor compliance can be extremely costly with statutory penalties for late payment of salary or wages tax and GST running at 20% flat tax and 10% flat tax respectively plus 20% interest per annum. The IRC is also using other enforcement methods more frequently such as garnishee notices on bank accounts and director penalty notices (making directors personally liable for unpaid company GST or salary or wages tax). The recent Budget also saw the insertion of legislation permitting removal of the 'corporate veil' to allow the IRC seek repayment of tax debts from shareholders and/or related entities.

In addition, detection risks are increasing. Last year saw the IRC working with PNG Immigration to detect salary or wages tax non-compliance by data matching individuals entering PNG on sponsored visas against their own records. We would expect to see an increase in audit activity in this and other areas going forward.

PNG statutory compliance and tax compliance should not be neglected and should now be a priority for companies doing any business in PNG.

Recent IRC Updates

by Shane Kennedy, Manager

There have been a number of IRC developments in the past week: the IRC tax agent liaison meeting took place last Thursday and the IRC issued its tax agent bulletin and a draft tax circular. Set out below are some of the key points:

Tax agent liaison meeting

- Heavily debated matters discussed at the meeting included the application of retrospective penalties to provisional tax (where the IRC are re-assessing provisional tax with each new income tax return assessed) and the application of penalties to tax accounts even where those accounts are in credit (due to the late processing/non-lodgement of forms CR1). The IRC advised the application of penalties are policy decisions rather than systems issues. Tax agents voiced their concerns with the current processes but there was no indication these would be changed.

- IRC announced they plan to establish a Taxpayer Charter and will seek input in due course. Other publications promised include a one page document outlining when TIN numbers are required and in particular when they are needed for opening bank accounts. Despite the recent legislative changes the IRC do not currently require individuals with salary income only to obtain a TIN. Circulars will also be sent to tax agents for input in the coming weeks on superannuation, foreign contractor withholding tax and non-resident insurers. It is hoped the draft circular on foreign contractor withholding tax will address the current issues on the interaction between the domestic legislation and certain of the Double Tax Treaties.

- To facilitate tax return lodgements the IRC are considering implementing one tax remittance form that would cover all/most monthly taxes, rather than the current system of individual remittance forms. This may ease processing for both taxpayers and the IRC. The IRC also acknowledged difficulties faced by taxpayers owed money by the government and said they would consider a tax instalment arrangement (rather than facilitate an offset).

- The IRC also confirmed they are continuing data matching to third party data for audit purposes, examples last year included data matching against Immigration records.

- With regards to internal process matters the monthly processing of transactions has quadrupled in recent years and they have acknowledged there can be processing delays as a result. IRC plan to recruit some new staff as well as set up a large taxpayer unit, an SME unit and a taxpayer service division. SIGTAS is now live in Kokopo and Lae although the IRC also stated they intend to move away from SIGTAS by 2020 and onto a new platform.

Circulars

- The IRC's tax agent bulletin for 2018 issued late last week confirming the 2018 tax return due dates for companies to generally be 30 June for taxable returns, 31 October for non-taxable returns and 30 April for late lodgers (those with an outstanding 2016 return at 31 December 2017). They also confirmed the first Country by Country reports are due in 2018.

- While the IRC stated in the bulletin they are legally bound to give effect to the increased tax clearance threshold of K500,000, the required BPNG gazettal notice has not yet issued and our understanding is the banks are awaiting this notice before applying the increased threshold.

- In relation to GST the bulletin also confirmed that zero rating should only apply to supplies to resource operations of resource operators and not simply to oil and gas licence holders not involved in resource operations. In addition with effect from 1 November 2017 individual aid workers and diplomatic/consular personnel can no longer reclaim GST on local supplies.

- The IRC's circular issued this week on the taxation of consultants re-iterates the IRC's view that PNG salary or wages tax applies to payments to individuals working in PNG even where those individuals are described as consultants, are non-residents or are paid overseas. It also cautioned against engaging individuals through sole shareholder companies to avoid PNG salary or wages tax.

IRC Restrictions on Bank Cheques

The IRC will currently only accept company and personal cheques up to the value of K5,000. From 1 June 2018 they will cease accepting company or personal cheques altogether. Alternative payment arrangements include a bank draft, electronic funds transfer or internet banking.

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