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 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.

2019 National Budget changes

by Zanie Theron, Managing Partner

The 2019 Budget is the second budget of the new Medium Term Fiscal Strategy (MTFS) 2018-2022. It follows on from the theme of ‘reviewing priorities, refocusing energies and reinforcing strengths’ in 2018, and demonstrates progress in terms of the implementation of the MTFS. This Budget is a positive one, framed against a supportive world economic environment and domestic economic conditions recovering from past difficulties while tempered with an improved outlook due to inroads made into domestic fiscal and financing challenges.

The overall aim of the Government’s 110 Day/25 Point Plan (25PP) is to ensure sound macroeconomic and fiscal management and to restore confidence and generate investment, and to achieve this through a multi-pronged and strategic approach around improved governance, fiscal discipline, foreign exchange boosting, revenue growth and a strengthened economic base.
This year’s theme reflects an increased level of private investor confidence and the stimulus of the domestic non- mining sectors. The 2019 Budget is aimed at ensuring a broad-based resilient economy that, as far as it is possible, has future-proofed itself from the volatility that can be brought about by economic and environmental disruption.

Total revenue and grants are expected to increase to K14.27bn in 2019 from K13.4bn in the 2018 Supplementary Budget estimates. Total expenditure is projected to be K16.14bn (up from the appropriated K15.3bn in the Supplementary Budget). The budget deficit for 2019 is estimated at 2.1% of GDP or c.K1.87bn.

The GDP growth rate is expected to reach 4% in 2019, and between 2019 and 2023 the economy is expected to grow by an annual compound rate of 5%. Inflation is expected to ease to 5.4% in 2019.
Revenue collections will be increased through a further increase in compliance efforts as well as the introduction of new revenue measures including the broadening of the tax base. Whereas 76% of total revenue will come from taxes, of interest in terms of non-tax revenue is the K1.2bn expected from state dividends and K751m from statutory transfers.

The 2019 expenditure strategy focuses on allocative and expenditure efficiencies. The Government will focus on adequately finding its five key expenditure programs around free tuition, free primary healthcare, infrastructure projects, agriculture and SMEs. In terms of expenditure control it appears the 2018 Budget aim of introducing greater financial controls over Government personnel expenditure (PE) spending has not eventuated. This has resulted in a commitment to introduce reforms in 2019 to contain PE within the budget ceiling of K4.5bn. Other areas with histories of overspending and possibly under budgeting, will also be addressed to ensure that future capital expenditure funding is not required to be diverted again to fund inefficient operational expenditure.

The Government plans to fund the full 2019 budget deficit financing requirement from external sources and complete their debt retirement plan in mid-2019. The 2019 Budget forecasts a 30.8% debt to GDP ratio and 2018 is expected to end up at 30.9%.

Of particular note this year is the Government's success at raising its first US$500m (10 year) sovereign bond. It is expected that this success will result in similar financing initiatives planned for 2019. In addition, the Government has secured an additional US$600m direct budget support over three years from the Asian Development Bank and the World Bank, and are looking at securing a US$300m low-cost 2019 Budget support loan from a commercial bank.

One of the significant outcomes predicted by the Government is the elimination of the foreign exchange imbalance no later than 2019. The Treasurer is of the view that this elimination is theoretically achievable by the end of 2018.

The 2019 Budget makes changes to tax rules around losses carried forward, tax thresholds and certain customs and excise rates. Changes foreshadowed for 2020 are the possible introduction of capital gains tax, the implementation of a simplified tax regime for SMEs, a minimum tax on loss making companies, a revision of the tax depreciation schedules and a turnover tax on mobile telecommunication companies all of which are to undergo consultation reviews during 2019.

It is worth noting two specific areas impacting on the 2019 Budget and future years. The Government plans to operationalise the Sovereign Wealth Fund after the appointment of the inaugural Board in 2019, while recognising that it will not be fully operational until the required fund balances have been built up. In terms of APEC, the expected economic benefits are expected to be mainly in the areas of beneficial international trade and tax policies, as well as direct infrastructure development support.

Has the Government remained on track in terms of its 25PP, and is the 2019 Budget a further step in the achievement of its overall goal? With the Government confident of beginning 2019 on a very sound fiscal basis and with financing in place to execute the 2019 Budget from day one, *it appears so*.

Our detailed 2019 National Budget commentary is available at http://www.kpmg.com.pg/publication/.
Let us know if you require further information in relation to any of the topics raised.

Driving business performance using data analytics

by Charles Judd, Director and Leonisa Bosimbi, Senior Consultant.

Many companies are overlooking a significant opportunity to enhance decision making and improve performance that is captured in their organisations' systems (i.e. enterprise resource planning).

These systems collect and store vast amounts of data derived from running important business functions, such as managing payroll, paying suppliers, invoicing customers, preparing the financials, paying taxes, and so on. The data contains extremely valuable insights that companies are often unable to tap due to complexity or lack of skills.

The technique of data analytics is the key to unlocking this additional value. By deploying advanced technology and statistical methodologies to collect, integrate, analyse, and present the data, companies can gain powerful insights into important elements of a business and the way in which it operates. These insights can yield significantly better bottom-line performance, thereby strengthening a company's competitive advantage.

A recent KPMG LLP survey of executives around the world shows that market leaders are managing risk as they enhance performance. 59% of market leaders use data analytics to connect the management of enterprise risk and performance, compared with only 47% of 'others' surveyed.

Over the last three years, companies in the survey expect the main benefits of data analytics efforts will be to develop new revenue streams, improve operational efficiency, and gain greater customer insights.

Data analytics can help companies in a range of different operational areas. It can, for example, enhance data quality and system integrity, uncover fraud and other irregularities, improve supply chain and inventory management, standardize and develop system use, and enable the benchmarking of key information. Data analytic capabilities can also be embedded in continuous auditing/ continuous monitoring (CA/CM) solutions. CA/CM is used, for example, to keep track of credit limits, changes in sales trends, the timely delivery of orders, the number of credit notes raised, or occurrences of breaches in process controls.

We have seen a number of companies in PNG already starting to tap into their data repositories. Here are a few of the ways we have seen companies benefit from data analytics:

- Processing very large data sets efficiently and consistently.
- Identifying a lack of harmony between processes and transactional data.
- Incorporating predictive analytics based on historical trends.

How is your organisation tapping into this hidden value?

Registration of various businesses with Bank of Papua New Guinea

by Rachael Sindigaim, Assistant Manager

Bank of Papua New Guinea (BPNG) issued a public notice in the national newspaper this week requiring financial institutions and designated non-financial businesses or professions to register with their Financial Analysis and Supervision Unit (FASU) prior to 31 December 2018. Registration is required under Section 57 of the Anti-Money Laundering and Counter Terrorist Financing Act 2015.

The table below sets out the various entities required to register under two primary categories – the listing is quite broad and encompasses a wide range of service providers such as motor dealers, legal firms, real estate agents and accounting firms:

Financial Institutions	Designated Non-Financial Business or Professions (DNFBP)
1. Commercial banks	1. Real estate agent
2. Foreign subsidiaries of banks	2. A motor vehicle dealer
3. Savings and loan societies, microbanks, micro-finance companies	3. A dealer in precious metals
4. Life insurance, general insurance	4. A dealer in precious stones
5. Superannuation funds	5. Legal firm
6. Investment banks	6. Notary public or other independent legal professional
7. Mortgage companies, finance companies	7. A trust or company/service provider
8. Money remitting services, money changers	8. Accounting firm

FASU have stated that they will be able to conduct money laundering and terrorist financing risk assessments of each sector using the information collated.

Registration can be made by completing and submitting a “Registration of a Financial Institution or DNFBP” form by 31 December 2018 - this form can be obtained from FASU via fasuregister@bankpng.gov.pg and no registration fee is applicable.

BPNG have stated that failure to register with FASU is a crime under Section 58 of the Act and will result in a fine not exceeding K25,000 for a natural person and K50,000 for a corporate body.

Removal of GST zero rating on supplies to resource companies

by Hellendra Maruse, Senior Tax Manager

Effective 1 January 2019 supplies to resource companies will be subject to 10% GST and will no longer be eligible for GST zero rating. Suppliers to resource companies should start planning for the impact this fundamental change will have on their GST returns and internal billing processes.

PNG's zero-rating arrangements are unusual in that supplies provided to resource companies by third parties are zero-rated. As supplies by the resource companies are generally zero rated exports the measure meant that resource companies could avoid being in constant refund positions by receiving their inputs at the zero rate of GST.

However as the GST refunds are now spread across a wide range of suppliers, rather than just a grouping of resource companies, this has added to the complexity in the administration of GST refunds for the IRC and has raised significant compliance issues as many more businesses who would not otherwise be eligible become entitled to refunds.

The IRC also suspect this arrangement may have allowed fraudulent GST refund claims by suppliers.

The requirement from 1 January 2019 to charge GST on supplies to resource companies is intended by the IRC to reduce administration and curb fraudulent claims.

Quarterly global economic outlook

by Brendan Rynne, Partner, Chief Economist, KPMG Australia

The global economy has proved so far to be resilient to the growing backdrop of trade tensions, but this is suspected to change in the near future.

For most of 2018, the performance of many major economies has been strong, and KPMG Economics in our latest Quarterly Economic Outlook predicts that growth for 2018 will be 3.8 percent. This has been achieved without any significant inflationary pressures, although several countries are now tightening monetary policy in response to fears that the inflation genie might start scrambling out of the bottle.

Growth rates differ considerably of course. India's recent rate is 8 percent, China's is 6.5 percent, while Japan's is 0.7 percent. In Europe meanwhile, the region-wide growth rate is 0.4 percent. And there have been some notable flashpoints of economic distress – notably Venezuela, Argentina, Turkey and South Africa. But overall, global economic growth has been fairly solid.

Going into 2019 there may be slightly weaker growth. This is due to a number of macroeconomic factors, but particularly a possible ratcheting-up of the US/China trade war – and the endgame of the Brexit saga. KPMG also queries the ability of emerging economies to manage their foreign-denominated debt exposure in the face of a strengthening USD, driven by rising bond yields in the US.

KPMG's growth expectations for Australia in FY19 and FY20 remain positive, albeit softer than last year. Influences such as the extreme drought conditions and the acceleration in the downturn in the housing market are expected to be a drag on growth with GDP growth moderating to 2.8 percent and 2.4 percent respectively for the next two financial years.

Major reform of PNG's public procurement laws

Foreign owned businesses engaging with the State or its public or statutory bodies may wish to seek legal advice in relation to the implications for them of the National Procurement Act (NPA). The NPA has been passed by the National Parliament but is awaiting certification and publication in the National Gazette before becoming law.

The key feature of the NPA is the set-up of a central National Procurement Commission which will undertake all procurement for all public and statutory bodies (except those certified as having procurement capability). In addition contracts will be void unless cleared by the State Solicitor before they are signed.

Of particular note are the restrictions applicable to foreign owned companies under the NPA. For example, contracts with a value of K10m or less will only be granted to nationally owned companies or citizens and contracts with a value of K10m to K30m will only be granted to businesses with at least a 50% national content. While contracts for more than K30m may be granted to either foreign or citizen owned businesses, a margin of preference of 15% for goods, 7% for services and 4% for joint ventures (where majority is citizen owned) will apply. This means that bids by foreign owned businesses must be at least 15%, 7% or 4% lower than a citizen owned business when competing on price.

Given the significance of the proposed new legislation those engaging or about to engage in public contracts would be advised to seek legal advice in this regard.
