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.

Taxpayer service developments at the IRC

by Noel Smith, Principal and Mary Martin, Senior Consultant

KPMG was pleased to be invited to the launch by IRC of its new Large Taxpayer Office (LTO) and the state of the art Taxpayer Service Centre. This took place on 26 September 2018 and was officiated over by the Treasurer, the Hon Charles Abel MP.

The LTO will open for business on 2 October 2018 and initially cater for the 100 largest PNG taxpayers, judged by a combination of company turnover, employee numbers and volume of other tax payments. That number will rise to the top 300 taxpayers over time.

Taxpayers should receive a letter in the coming days notifying them if they are being transferred to the LTO.

One of the conditions of migration will be that all tax accounts are up to date, therefore we would expect the IRC to work with taxpayers to update any unprocessed returns or errors prior to migration.

Each LTO taxpayer will have a designated senior IRC technical officer to assist with all tax, payment and related issues, as well as to monitor timeliness of consolidated revenue obligations – this will be a one stop shop service for LTO taxpayers. The IRC key client officers will each have a portfolio of 3 to 6 taxpayers to service and those taxpayers will all be in the same industry or economic sector.

The Treasurer stressed that he had urged IRC to become more customer focused, especially in the case of LTO clients as 80% of the total tax revenue to Government comes from just the top 200 taxpayer entities.

The new and much expanded Taxpayer Service Centre will open on 5 November 2018 at IRC HQ, replacing the existing facility at Era Rumana. It will look after the needs of all SME, Micro and Individual taxpayers and provide real time processing of not just tax payments but also TIN registrations and certain return lodgements. It will be mirrored by smaller version taxpayer service centres at the IRC's regional hub offices in Kokopo, Lae and Mount Hagen. The combination of these new facilities at the POM HQ in particular will allow IRC staff to operate in a more efficient and conducive environment. Consistent with imperatives stressed by the Treasurer in his speech, that should in turn translate to more timely outcomes for all taxpayer and tax agent interactions with IRC.

Directors and governance

by Alana Wessels, Manager and Leonisa Bosimbi, Senior Consultant

Recently KPMG PNG launched its Audit Committee Institute to help PNG Directors keep up with relevant business issues and generally enhance corporate governance practices and processes. We have a strong interest in helping PNG organisations improve their corporate governance.

Independent non-Executive Directors are appointed to a Board with the approval of shareholders and they typically have additional roles and interests beyond that organisation. The statutory and common law duty of a Director to act in good faith recognises that a director's primary responsibility is to the organisation and that this responsibility must ordinarily take precedence over the personal interests of the Director or the interests of a third party.

It is important that when a Director walks into the Board Room, that Director is exercising their powers for the benefit of the organisation. This means avoiding actual, potential and perceived conflicts of interest. In a relatively small business community such as PNG, this is a challenge, but not an insurmountable one.

Sometimes a conflict is unavoidable. In such a case, Directors are obliged to disclose their conflict of interest or duty and take appropriate action to avoid any adverse consequences. Directors should tread cautiously when considering an actual, potential or perceived conflict of interest. An actual or potential conflict does not necessarily disqualify a person from serving on a board, but full disclosure is a legal and ethical imperative.

A recent trend in global corporate governance practices that the KPMG PNG Audit Committee Institute has observed is the establishment of a Senior Independent Director role. The responsibilities of that role vary among companies, but may include acting as an intermediary between independent Directors and the Chair/CEO, acting as a sounding board for the CEO on issues where the CEO wants to 'test the waters' prior to raising an issue with the full board, leading the appraisal of the Chair/CEO and providing a separate communication channel to shareholders (especially where those communications involve the Chair). Such a role may have advantages for some PNG companies.

KPMG PNG will be running the popular Audit Committee Institute workshop and its Risk workshop again next month – current dates proposed are 18 and 19 October. Please get in touch with us if you wish to attend.

Valuation of football players from the club's perspective

by David Wessels, Director

It's over: the FIFA Football World Cup, one of the largest global sporting events that combines 'big emotions' and 'big businesses. The question of footballer values following some outstanding performances on the pitch is now of even greater focus for fans and football clubs' management teams.

As football clubs and other sports enterprises often have low – and in some cases negative – equity capital, individual players are hugely important as potential carriers of hidden reserves and liabilities or for establishing anover-indebtedness status. As a result, accounting and valuation play key roles in three particular areas:

- Internal economics such as for control purposes, determination of transaction prices, and the disclosure of hidden reserves, for instance upon the sale of a player.
- External economics such as lending and collateralization, leasing, and insurance.
- Accounting, including impairment tests, examination of over-indebtedness status, and conversion to IFRS financial reporting.

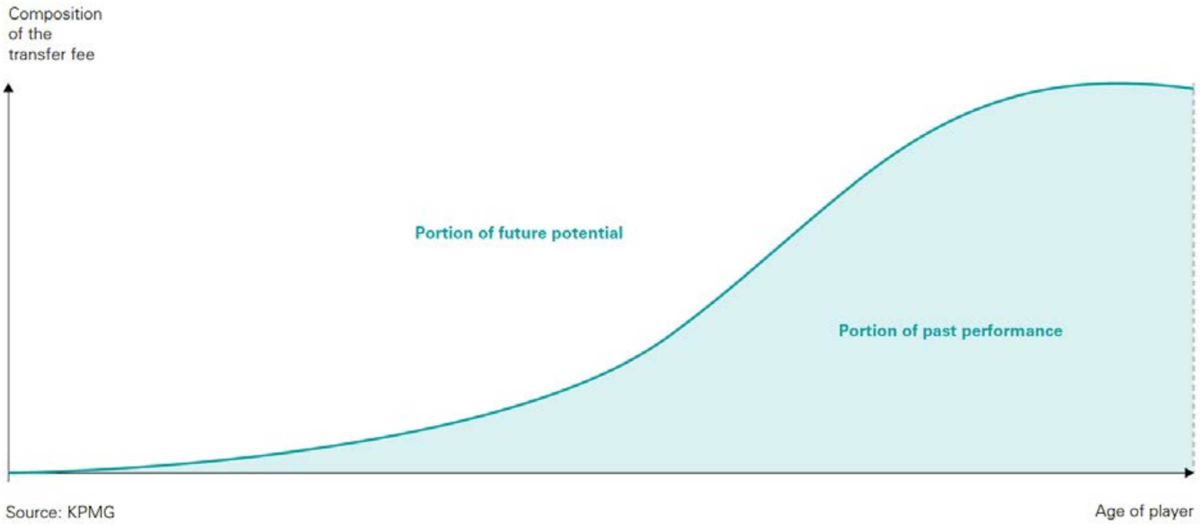
So, how do we value a football player? Players must generally be valued according to the same theoretical principles and methods as other assets. In general, values are determined on the basis of historical acquisition and production costs as well as development costs (cost approach), using the discounted cash flow method (income approach) and using different market price methods (market approach).

In practice, only the market approach is relevant, and is based on historical market prices that have been realized between third parties. The income approach is generally not practicable for team sports, as not all of a club's cash flow such as income from spectators can be broken down to individual player level, whilst the cost approach is also not suitable, as the respective costs cannot be reliably allocated to individual players. A player who has had more training would be worth more than a player with less training. The cost level cannot therefore be a valid criterion for the player's value.

By defining criteria or characteristics (e.g. age, playing position, nationality, playing characteristics, weighted performance criteria), similarities can be established in the context of a cluster analysis or a scoring model between the valuation subject (the player) and comparable players for whom a transaction has already taken place in the market. The realized transfer prices of the comparable players must be adjusted to the current market situation. In addition, individual characteristics that affect the value of the player – such as long-term injury – must be taken into account in the form of discounts or surcharges as well as the individual transfer probability, depending on the remaining term of the contract.

The derivation of a value is based on the market approach by forming a representative industry average of observable market prices, thus forming a market consensus on the valuation level of comparable players. The market approach therefore reflects the value concept of a large number of market participants in a large number of transactions and comes close to the valuation principle (within the framework of the market approach).

The market approach can lead to distortions in cases where a substantial share of the paid price for a very young player is justified by presumed future potential and not by performance to date. These are players for whom a so-called talent bonus, i.e. an advance on expected future performance and results, has been paid. The chart illustrates this characteristic of future potential without an observable history.



This future potential will only be reflected in future performance. Against this background, a classification on the valuation date based on a scoring model must lead to a very low number of scoring points, although any transfer compensation paid implies a higher value. This does not necessarily mean that the price paid is too high, but that there is a higher risk of realization through the player's future performance. In cases where a talent bonus is paid, clubs tend to award contracts of longer duration in order to participate in realizing the expected performance potential of young players, thereby receiving compensation for potential value increases in the event of a resale.

Transfer compensation for an older player, on the other hand, is also paid for his future performance. In this case, however, it is a reflection of the performance he has already demonstrated in the past and therefore focuses more on the usage component than on the resale possibility component.

While uniform standards exist and are applied in practice for accounting for typified assets, the valuation of players is not uniformly implemented. However, the accounting and valuation of players was and always will be an important role in accounting and financing questions of football clubs and associated federations. The uncertainties on the part of investors and lenders can be actively managed or reduced by football clubs, for example by introducing an objective valuation model for players.

Not everyone owns a football club, but we can help you with other valuations too!

IRC announce Acting Commissioner General

The IRC have announced that the Commissioner General Betty Palaso will be finishing up on Friday 28 September and Dr Alois Daton will take on the role of Acting Commissioner General until the role is permanently filled. The Commissioner General role is to be widely advertised and we would expect that it will take some months before the new Commissioner General is announced.

National budget speculation

We have been advised by Treasury that the National Budget is currently expected to take place on Tuesday 13 November 2018. There has been some speculation in recent weeks about possible tax changes in the upcoming National Budget including a possible increase in GST, an increase in the individual tax thresholds and a reduction at some stage in the future of accelerated tax depreciation. We will keep you informed of developments.

New accounting standards - workshops

In a matter of months, the new accounting standards – IFRS 15 and IFRS 9 – will change the way that many sectors account for Revenue and Financial Instruments.

We want to help you drive your implementation project to the finish line. So we are hosting a workshop on 24 October 2018 to cover the key considerations that you need to focus on. Companies will also have the option to book a personal timeslot to discuss with our KPMG technical specialist any company specific issues.

The time to act is now, so please RSVP to attend the workshop by 10 October 2018 and email cpake@kpmg.com.au with any queries.
