



Kundu

April 2020



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.

The economic impact of Covid-19 in PNG by Wayne Osterberg, Director, Advisory Services

The coronavirus started out as a health crisis but very rapidly escalated to a pandemic and then to a full blown economic pandemic as governments around the world scrambled to put in place measures to halt the spread of the virus. They were all working off an imperfect data set, with virus modelling generating some terrifying potential outcomes. With time, more is being understood but the lack of certainty is making it very difficult to predict the future.

The world's stock markets were the first to react to the pandemic as they shed points faster than a cough cleared a public space. The governments of the world were next to respond – each government cutting interest rates, promising stimulus packages and support for those affected by the pandemic. There has been little scrutiny of the numbers underpinning the costs and how those will be met. This will come.

The Government of Papua New Guinea has taken reasonable, measured and appropriate steps. We have previously noted that the stimulus package is light on detail, which is not unreasonable given that the impact of the pandemic is not yet fully known. The uncertainty is making forecasting extremely difficult for everyone - families, businesses, corporations and governments. How many businesses will not survive? How many jobs will actually be lost? There is a massive global information vacuum, filled by speculation and fueled by a great many social media experts.

What does this all mean for Papua New Guinea? We cannot speak to the potential health issues as speculation in that regard is inappropriate in this context save to express confidence that the government has adopted a sensible and measured approach to contain the potential spread of any infection.

At a macro level, the spread of the initial panic coalesced in early March with a material oil price drop – the largest fall in decades - as the output of the price war between the main suppliers met sharply reduced global demand expectations to drive prices to a generational low.



The impact will be felt most strongly in the reduced export earnings from gas. Given the selling price link to the oil price, we will experience a material drop in export earnings. This will flow through to tighter availability of foreign exchange to meet the demand pipeline. It will also result in lower tax revenues. The Kina may come under pressure from supply and demand forces.

Downstream there will be less investment by the energy companies operating in PNG. Oil Search recently announced a US\$300m reduction in capital investment and a suspension of ongoing projects. Oil Search has a 29% stake in the PNG LNG venture and its share price is down more than 70% since January.

The mining sector should be more resilient as demand for its products has not been materially affected. Gold is a common commodity to hold in times of volatility and low interest rates and the world gold price has held well. Copper demand will be correlated with increased economic activity. However, the recent non-renewal of the Porgera JV mine lease with Barrick will likely increase the perceived jurisdictional risk of PNG.

The Government has been smart in securing multinational funding to support its stimulus measures as it goes into battle against Covid19 with a depleted fiscal arsenal. Sensible stimulus measures will be very useful if they build economic capacity.

These are uncharted waters for PNG and only time will bring a greater sense of perspective.

Internal audit, how involved are you?

by Raymond Conchina, Manager, Advisory Services

The Covid-19 pandemic has disrupted the way we do business. This pandemic has had implications for Papua New Guinea and the world economy as a whole. Consequently, there have been many unanswered questions regarding the short-term and long-term consequences of this pandemic on business entities regardless of industry or geographical location. This includes questions such as, how soon business can return to “normal” operations and what are the long term implications for this disruption etc. Nonetheless, one thing is for sure, the crisis is real, and we are living in the new norm.

As organisations navigate this time of uncertainty, internal audit leaders can play an important role in being an example for discipline during this new norm, continuing to be responsible in your work and ensuring to do what is best for the organisation.



How can we go about addressing the current challenges?

- **Being extraordinary leaders** – extraordinary times require extraordinary leaders. Being able to reach out to your key business leaders and offer a helping hand. Internal audit has sufficient knowledge of most of the organisation’s business operations and has therefore the potential to add value. Internal audit leaders can play a more active role in supporting the business during this time. They can be the calming voice in this time of chaos.
- **Leveraging knowledge in technology** – there has been an increase in risk due to operational changes in the way we do business during the pandemic which could expose your organisation to weaknesses and problems in internal control. As such, internal audit can adopt a data-driven approach that monitors and takes immediate actions to help mitigate risks created by Covid-19. Consider performing internal audits without the need for traditional site visits leveraging data analytics for evaluating the effectiveness of operating controls and processes to ensure checks and balances are still in place.

- **Be an innovative thinker in supporting business decisions** – internal audit leaders have the opportunity to support their organisations by developing simple dashboards/ data visualisation using relevant internal and external data to guide your business leaders. These dashboards can enable management to be more proactive and decisive in making business decisions alleviating the effects of this pandemic on the organisation.

As internal audit leaders we should be asking ourselves whether we are getting more involved or whether we have not taken the initiative to add-value to our organisation. Perhaps now it is time to reflect and reconsider our approach.

Provisional tax

The first instalment of 2020 provisional tax is due for payment by 30 April 2020. Unfortunately, the IRC have not deferred the due date for provisional tax due to Covid-19. The IRC would likely have estimated the 2020 provisional tax based on the last assessed corporate income tax return as adjusted for an uplift of 8% per annum. If the company believes its actual 2020 tax will be lower than that estimated by the IRC it may lodge a provisional tax variation any time between now and 31 October to vary the provisional tax assessed downwards. However, if the company underestimates the tax by 25% then penalties may apply.

As has been the IRC practice in recent years, the IRC may re-assess the provisional tax either upwards or downwards if an income tax return is assessed between now and 31 October (for example if the 2019 tax return is assessed in the meantime). Unfortunately, if the tax is assessed upwards the IRC system will automatically impose retrospective interest so we recommend that companies consider their 2020 tax position carefully and discuss their estimate and the best approach with their tax adviser.

Leveraging salary sacrifice to give your employees more

Salary packaging is a tax effective way of giving employees more at no extra cost to the employer. The arrangement allows an employer and employee to mutually agree changes to the terms of the employee's employment contract reducing that employee's entitlement to cash pay in return for a non-cash benefit which may either be exempt from tax or subject to tax at a lower prescribed value. The arrangements are most frequently used by national staff for rental payments, school fees and/or airfares. Conditions apply and it is important that the appropriate policy, salary sacrifice election forms and supporting documentation is in place. However, for a small administrative burden employers can give real value to their employee packages without any additional cash cost - during these times in particular every bit helps. Salary packaging can also make one employer more attractive to the employee than another.

Special economic zones

Passing into legislation in recent times has been the establishment of a Special Economic Zone Authority to regulate the establishment and development of Special Economic Zones in PNG. This Authority will have the ability to acquire land, evaluate submissions and make final determinations on the granting of licences. There is still quite a lot to hammer out in terms of the Special Economic Zones including clear guidance, how the Authority will fit in with other government bodies and legislation, and whether there is a commercial appetite for new businesses to locate to such areas.

Companies Act amendments

We understand that Company Law reform is on the agenda of both the IPA and Treasury although there is no detailed plan at present. We will keep you informed if we receive further updates.

KPMG PNG media

We, at KPMG PNG, are regularly putting out articles and commentary on a range of business, economic and finance related topics and issues. To keep up to date with the latest news please find and follow up on LinkedIn, Facebook or check out our website at www.kpmg.com.pg.

© 2020 KPMG PNG. KPMG PNG is associated with KPMG Australia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.