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.

Anti-money laundering obligations for certain PNG businesses

by Ifraz Khan, Manager, Risk & Compliance

A range of businesses were required to register with the Financial Analysis and Supervision Unit (FASU) of the Bank of PNG by 31 December 2018. This was required under PNG's Anti Money Laundering and Counter Terrorist Financing (AML/CTF) Act 2015 (Act). These businesses fall into two categories, 'financial institutions' and 'designated non-financial businesses or professions' as follows:

Financial Institutions	Designated Non-Financial Business or Professions (DNFBP)
1. Commercial banks	1. Real estate agents
2. Foreign subsidiaries of banks	2. Motor vehicle dealerships
3. Savings and loan societies, microbanks, micro-finance companies	3. Dealers in precious metals
4. Life insurance, general insurance	4. Dealers in precious stones
5. Superannuation funds	5. Legal firms
6. Investment banks	6. Notary publics or other independent legal professionals
7. Mortgage companies, finance companies	7. Trusts or service providers
8. Money remitting services, money changers	8. Accounting firms

Obligations

These businesses have a significant number of obligations under the Act, with non-compliance resulting in substantial fines and/or imprisonment. This would include the following eight main compulsory actions: performing an initial AML/CTF risk assessment, implementing an AML/CTF program, appointing an AML/CTF compliance officer (insourced or outsourced), reviewing and auditing the risk assessment and AML/CTF programs, arranging the conduct of an independent audit, and complying with a number of reporting obligations.

While Bank of Papua New Guinea have held some information sessions unfortunately many of these businesses may not currently have the necessary in-house processes or skills to put these systems in place. KPMG’s risk team can assist businesses in addressing these very serious obligations, and also provide that outsourced compliance officer that many businesses may require.

Why PNG organisations should have a fraud risk management program
by Carsten Goebel, Senior Manager, Advisory

Fraud and corruption are widely recognized as a significant risk for PNG organisations. This can be devastating to victims and stakeholders. Managing fraud risk is increasingly gaining importance for business leaders across all industries.

Fraud cases occurring in PNG range from occupational fraud including corruption, misappropriation of assets, and financial statement fraud to external fraud against a company (dishonest vendors, demand of bribes, dishonest customers, security breaches etc) as well as fraud against individuals such as identity theft, Ponzi schemes, phishing schemes, and advanced-fee frauds.

International studies show that companies with effective Fraud Risk Management Programs in place are less financially impacted by fraud.

An effective Fraud Risk Management Program includes Fraud Risk Governance, Risk Assessments, Control Activities, Investigation and Corrective Action and Monitoring Activities.

Fraud Risk Governance aims to achieve organizational commitment, comprehensive Fraud Risk Management policies, clear definition of Fraud Risk Governance roles and responsibilities, effective reporting channels, as well as continuous communication and training.

Fraud Risk Assessments evaluate the potential likelihood and impact of a wide range of fraud schemes, including a focus on incentives, opportunities, personal rationalisations to commit fraud, and determine adequate fraud risk responses.

Fraud Control Activities focus on design, implementation and evaluation of preventive and detective fraud controls to mitigate the risks identified in a fraud risk assessment.

Companies should establish fraud investigation and response protocols, conduct coordinated remediation across departments, and ensure consistent disciplinary procedures.

Regular objective evaluations of the company’s Fraud Risk Management processes should result in communication and remediation of deficiencies.

KPMG has experienced staff dedicated to helping PNG companies effectively manage their fraud risks and currently is the only PNG company employing a Certified Fraud Examiner (CFE).

Proposed foreign investment reform in PNG
by Shane Kennedy, Manager, Business Advisory Services

In January of this year the PNG government tabled the Foreign Investment Regulatory Authority Bill 2018 (the Bill).

The Bill is said to provide a “regulatory framework for foreign investments in the interest of national, social and economic development, and to establish a body known as the Foreign Investment Regulatory Authority”.

Some of the functions of the Authority would include regulation, certification, licensing and monitoring of all foreign investment in PNG. These functions are currently performed by the Investment Promotion Authority.

However, in addition to establishing the Authority, the Bill, if enacted, would also limit foreign investment by:

- Reserving all investment below K10 million for PNG citizens and ‘national enterprises’ (i.e. enterprises more than 50% PNG-owned).
- Giving non-compliant foreign-owned businesses a three-year ‘transitional period’ from the enactment date of the Act, after which they will have to become compliant or cease doing business in PNG.
- Substantially expanding the number of business activities that can be conducted only by PNG citizens and national enterprises.

The business activities that would be limited to PNG citizens and national enterprises are on the Reserve Activity List for Citizens. These activities fall within certain sectors including Agriculture & Livestock, Building & Construction, Clothing & Textiles, Culture, Entertainment, Fishing, Forestry & Logging, Food & Catering, Hospitality & Tourism, Household, IT, Mining, Recycling, Retailing & Wholesaling, Security, Training & Education, Health & Social Work, Transportation, Equipment Hire, etc.

The Reserved Activity List itself is not a new concept. The 1992 Investment Promotion Act (from which the IPA was created) contains the Cottage Business Activities List, but those restricted activities are largely traditional ones, and of low value. Under PNG’s Mining Act, alluvial mining is also already reserved for businesses with majority PNG ownership.

There are some exemptions contained in the Bill for certain religious, charitable, educational or socially useful activities and non-profit purposes, however, these activities will not be exempted from the Reserved Activity List, only the other provisions of the Bill.

We understand the Bill is due before Parliament in May. We will closely monitor the outcome of this proposed legislation as if enacted it will greatly change the compliance and investment landscape in PNG for foreign investors.

Business visas and work permits
by May Solulu, Assistant Manager, Business Advisory Services

Being on the wrong visa in PNG can have very serious consequences so it is in the interest of the employer and the employee to ensure the correct paperwork is in place.

We receive many enquiries as to whether a person can work on a business visa. While a business visa allows the visitor to attend business meetings/negotiations, board meetings, conferences and exploratory business visits, it does not allow them to work, either on a short term or long term basis. To legally work in PNG the visitor must generally have a work permit and an employment visa.

Despite recent announcements that multiple entry business visas will be re-instated, this has not yet been done. Business visitors can still only obtain the single entry business visa, which is valid for 30 days.

In addition to the usual visas, there are shorter term Restricted Employment Visas (REVs) available for emergency or urgent situations such as shut-downs, commissioning of specialized equipment, highly technical services and maintenance of plant and equipment and/or an emergency or urgent situation. These are valid for a single entry only with a maximum stay period of thirty (30) days only.

IRC tax updates

On the IRC front, we were told at the recent Tax Agent Liaison meeting that the generic exemption letters being issued to businesses for Business Payments Tax (BPT) should not be relied upon as only Policy & Advice can give these formal exemptions. By way of example we have seen exemption letters issued for “Other Consulting Services” when the contractor in fact provides electrical installation services subject to BPT. As the tax risk falls on the payer, not the payee, the payer should review all BPT exemption letters obtained from contractors to re-determine whether or not BPT should apply.

The IRC re-confirmed that credit offsets between different taxpayer companies are still not possible under their current system for security reasons.

Meanwhile, the much awaited IRC circular on foreign contractor withholding tax is promised within the next couple of months.

IRC reminded taxpayers that the tax amnesty on salary sacrificing for superannuation requires the SWT under-returned to be lodged with the February 2019 SWT return due by 7 March 2019.

It was also announced that the IRC will be recruiting a communications expert with a view to improving IRC communications through all forms of media including written and verbal communication.
