Kundu

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Foreword

This month we detail why the importance of an organisation maintaining an accurate asset register, including asset verification, cannot be underestimated. We also provide some insights in the new ruling party in Australia's economic policy. In terms of compliance, we provide some insights around the draft Companies (Amendment) Bill 2021, which aims to reform the law relating to companies operating in PNG, combat money laundering, provide better governance and to facilitate the re-registration and de-registration of companies.

KPMG in PNG has dedicated in-house specialists in all the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance. As such we are well placed to provide a truly multi-disciplined approach to business advisory.

Please enjoy this month's Kundu and reach out to us at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.

Zanie

The importance of asset verification and asset register accuracy

by Lizette Theron, Senior Manager, Tax, Transactions and Accounting Services

The importance for an organisation of maintaining an accurate asset register, including asset verification, cannot be underestimated. While large businesses in PNG may use their own teams of asset officers or even external consultants to help them leverage the value of their physical assets, small businesses quite often do not appreciate that their assets help them produce income, and therefore may neither keep an accurate record nor perform periodic verification of all assets.

When dealing with fixed assets, the two keys to ensuring proper internal controls in this area are having an accurate fixed asset register and being able to determine the location and condition of each asset. This is particularly true for organisations that rely heavily on assets for operations.

An asset register, with a detailed list of all business assets, and including details such as location, condition, and financial information, enables organisations to know the status, procurement date, location, price, depreciation, and the current value of each asset.

Although establishing and maintaining a complete asset register on a day-to-day basis may seem like a lot of work, it can have an overall positive impact on an organisation's profits and audit outcomes.
While maintaining an accurate asset register is vital, it should be complemented with physical verification that increases the register's effectiveness. To reconcile theoretical assets to physical assets, using asset tags can be successful, along with periodic and consistent verification of the physical assets. Physical verification provides vital information regarding assets' existence and condition, which can be difficult to obtain and maintain as a 'desktop' exercise. For example, environmental wear and tear is almost impossible to fully identify, describe and quantify without physical verification.

Another benefit of physical verification is that it provides significant confidence in the accuracy of an organisation's asset register. As a result, the organisation is better equipped to handle external audits and compliance-related situations.

During the process of cross-checking financial records with a physical assessment, the tagging of assets serves as a tracking mechanism, providing a stable foundation for asset control. Benefits of an accurate asset register, including tagging and periodic verification of physical assets include:

- Providing an accurate audit trail by reconciliation between physical count and theoretical (asset register) count
- Helping to track and identify assets
- Preventing assets from being lost or stolen with accurate location data i.e. ensuring the safety of assets
- Ensuring accurate financial reporting, by reporting only assets which exist, and including values of all the organisation's assets
- Allowing the calculation of depreciation
- Identifying impairment of assets
- Estimating maintenance and repair costs
- Ensuring all assets remain compliant with regulatory standards
- Efficient management of asset and resource allocation
- Getting rid of waste assets
- Providing complete transparency of all asset data, by compilation of a consolidated physical report for all the sites and assets

When an organisation initially establishes an asset register, it is recommended that they take an export of all assets, as recorded in their accounting or asset management software, or even on an excel spreadsheet. The next step is to carry out a physical verification and condition assessment of all assets. Physical verification can be easier if organisations have tagged their assets – a tag can be in a variety of forms and materials and can be as simple as a number on a sticker, a bar code, or even an electronic transmitter, especially within companies with expensive and attractive assets. The tag number then becomes the primary identifier in the fixed asset register and enables the preparation of the asset verification report.

After the verification, the list of assets from their asset register is compared with the physically verified assets. Condition assessment of assets will also be vital to determining assets' remaining useful lives and identify indicators of impairment (being an annual requirement to comply with International Financial Reporting Standards applicable to companies in PNG).

Inevitably, organisations are likely to find a difference between the verified assets and the theoretical list (register) of assets. Missing assets are technically termed ghost assets and are typically written-off.

Once an organisation has created a fixed asset register keeping it updated and accurate can be challenging. Particularly if assets frequently move across multiple locations. Depending on the values and number of assets to verify organisations may choose to outsource this process to external consultants.

The Australian Labor Party's economic policy

by Dr. Brendan Rynne, Partner, Deals Tax Legal & Alia Lum, Partner, Deals Tax Legal

The Labor Party has secured government but has inherited a domestic economy that has a number of challenges, not least of which is a global economic environment that is experiencing large inflationary headwinds of a scale not seen for at least 40 years.

The Australian economy can be characterised as currently being in a 'tricky position'.

Driven predominately by external factors, inflation is high and rising.

Domestic demand is strong, and the labour market is very tight, but economic growth is slowing due to deteriorating net exports.

Interest rates are lifting from their extraordinarily low settings. Global factors like the Russia / Ukraine conflict and COVID-19 are disrupting global markets and supply chains.

Such is the combined virtuous and vicious economic cycle the Labor Government faces.

The Government has promised a host of major new and enhanced spending initiatives during the election campaign, costing around $18.9 billion over the forward estimates.

These include increases to the childcare subsidy ($5.4 billion) and new subsidies for TAFE and university places ($1.2 billion).

There is also the $10 billion investment in the Housing Australia Future Fund.

The challenge for the Government is implementing these new policy initiatives without stoking the inflationary fire.

A core element of the Labor policy platform is the provision of around 6,000 new public houses for lower-income and vulnerable people for each of the next five years.

This rate of new construction for public housing is possible, albeit it is about twice the number of total new public sector dwellings that were completed across Australia during 2021.

The bigger issue is the cost of building new houses, which has risen 13.7 percent over the past 12 months, and is expected to remain elevated in the short term.

A significant election policy is the reduction of carbon emissions by 43 percent and the transition of the domestic energy market to be 82 percent sourced from renewable energy, both by 2030.

The challenge remains how to best assist the transition of those emission-intensive industries that will face significant change under a net-zero policy.

On the tax front, the Government announced pre-election that it would adopt the OECD / G20 – sponsored Inclusive Framework's 'BEPS 2.0' plan for reform of international business taxation.

The international community's current objective is for these measures to commence in 2023.

Labor policy also includes a change in the thin capitalisation "safe harbour" to 30 percent of EBITDA from 1 July 2023 and businesses should be modelling the potential impact of this change.

The prospect of holistic reform of tax and industrial relations seems remote for this new term of government. Such big picture initiatives were notably absent during the election campaign.

However, such reforms will need to occur in the near term if we want to improve our nation's productivity outlook and position the country as a leader in a post-carbon, new technology world

Key observations:

- There will be a challenge for the government in implementing spending plans without creating further inflationary pressure in the economy.

- Further planning on how to assist emission-intensive sectors to transition to a net-zero operating environment will be important to the economy's future resilience.
- Holistic tax and industrial relations reform remain a near-term need.

Overhaul of ROC/IPA process

by Alois Miniru, Assistant Manager, Tax, Transactions and Accounting Services

The Companies (Amendment) Bill 2021 aims to reform the law relating to companies operating in PNG, combat money laundering, provide better governance and to facilitate the re-registration and de-registration of companies. The Bill is yet to be Gazetted but this could happen very soon.

The changes include:

- Anti-Money Laundering (AML) changes giving extended powers to the Registrar of Companies (ROC) to inspect company records in relation to beneficial ownership without the need for a court warrant.
- All registered companies will be asked to re-register online so as to confirm their company details. Re-registration will be free for companies that are up to date with their annual return filings and will take the place of the annual return in the year after the system goes live so that there is no additional burden placed on PNG companies. Companies will be required to re-register before they are able to submit any other filings to the registry. The re-registration period will be one year and companies that fail to re-register will be struck off. However, there is a pathway for these struck off companies to be restored to the register by undertaking a later re-registration plus filing all outstanding annual returns and paying a late penalty fee plus additional admiration fees.
- A transfer of shares must be updated within ten days. The old Act did not require a company to report a transfer of shares to the Registrar when it occurs. This meant that the shareholder information was only updated once a year when the annual return was filed. The amendments address this gap.
- Simplification of ability of Registrar to remove companies from the Register. This includes removing the requirement for the Registrar to publicly advertise a notice of intention to deregister companies that have failed to file one or more annual returns within six months of the filing month and to remove the one-month grace period from notification.

The Company Registry Software is undergoing major changes to prepare for these amendments. The updated system should allow for all filings to be submitted online, including for business names, associations, business groups and foreign investor certifications. The upgrades include a mobile phone app and automated reminders to companies of their ongoing obligations.

Businesses and companies should urgently review their statutory filings and ensure that any outstanding company statutory lodgements with the ROC or Investment Promotion Authority are urgently updated.

IRC release new SWT tables

The IRC have released new SWT tables effective during the period 1 June to 31 December 2022. The SWT tables increase the tax threshold from K12,500 to K17,500.

GST and excise changes

Parliament put through GST amendments in May under which the supply of petrol, diesel, kerosene and zoom to households and small and medium sized business shall be exempt from tax from 1 May to 31

October 2022. The exemption does not however apply to imports or to supplies for the sole use of resource companies, international freight operators, or power producers.

Excise rates on petrol, diesel and zoom are exempted from 1 May to 31 October 2022 but subject to Gazettal.

Our social media presence

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