

KPMG Kundu

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Foreword



I am pleased to share three articles by our esteemed partners. These make good reading and are quite informative on areas the firm is working on. The first article in a nutshell talks to the key strategic areas that would underpin the success of family businesses. Future proofing continued success and longevity of family-owned business must be viewed from a business lens in a PNG setting.

We also delve into new Mandatory Sustainable Reporting. International Sustainability Standards Board (ISSB) has published two IFRS Sustainability Disclosure Standards. These are global standards which came into effect on 1 January 2024. PNG will have to adopt these standards if we are to remain in conformity with global climate-related financial disclosures. A great read on what's coming.

On the technology front we discuss KPMG's KymChat AI tool and how it can assist your business. This is an evolving space with practical AI applications and tools being used to support clients. Watch this space.

KPMG in PNG has dedicated in-house locally based specialists in all of the following areas: cybersecurity and technology advisory, internal audit/risk, visa migration, corporate finance, management consulting, fraud investigation as well as tax, audit readiness, financial statement preparation, payroll services, and assurance. As such we are well placed to provide a truly multi-disciplined approach to business advisory.

Enjoy the read this month and reach out with any enquiries at kmcentee@kpmg.com.au if you would like to see KPMG cover specific topics in future editions.



Family business success

by Brett McDermott, Partner, Business & Tax Advisory

Family businesses are unique. At the centre of this difference is the family dynamic, from family, business and ownership; all of which can all play a significant role in decision making and offers both opportunities and challenges. The growth and sustainability of a family business lies in the fine balance between the needs of the business and the expectations of family members.

As with your family, your family business does not stand still.

Six elements of a strong family business

A family business has specific needs; running the day-to-day activities, planning for the future of the business and the family often present many crucial questions for the owners. Does everyone in your family share the same vision? The task of realising the full potential of the business, can sometimes be challenging given the expectations of family members, but are certainly achievable with the right kind of help.

1. Growth

Sustainable and profitable growth is an essential ingredient to continued business success.

While many businesses can achieve growth organically, this can require considerable time and effort. In order to grow, family businesses must consider all of their market opportunities including seeking out complementary businesses for acquisition, potentially divesting non-core businesses, outsourcing functions to increase cost efficiencies and potentially expanding into emerging markets.

2. Risk

In a family business, every decision can have an impact on the entire family as well as the company. Beyond the business risks, family impacts have to be considered to avoid discord and protect the business and family.

The need for effective risk and controls management is crucial in an environment of increased scrutiny. It is important to manage these risks in a family-owned business, not only for the business itself, but also for the family, property holdings and capital. It is generally agreed that family businesses have a competitive advantage over their non-family business counterparts; however, this competitive advantage can quickly turn into a threat if not properly managed.

By understanding the internal and external risks, these areas can be managed into opportunities. Improving communication, applying governance models, implementing internal controls and cyber security systems, securing new financing, efficient tax management and optimisation can all have a positive impact on the bottom line of the business.

3. Governance

Better governance of a family business can help improve business performance and satisfy the expectations of all family members.

Governance really means adopting a decision-making process. Governance issues can affect the family unity and may be fraught with difficulty. Establishing a governance framework that includes a family constitution and code of conduct for family members can help the family deal with changes in the business and family, constructively.

4. Wealth

The subject of money is an eternally contentious one and without doubt raises more anxiety than any other area, for those involved in a family business. For this very reason, wealth management within the family business requires careful planning to prepare family members for the responsibility and emotional impact of wealth and to protect business assets.

5. Transition

Transitioning any business can be a difficult endeavor. Transitioning a family business comes with a unique set of challenges, with the potential for family conflict that may affect personal relationships. Planning ahead can make it a smooth experience for everyone.

Family businesses are about a legacy. They offer a sense of accomplishment and pride. Preserving that legacy can still be possible whether that business is passed on through succession or sold.

Succession and integrating the next generation into the business is perhaps the toughest challenge faced by a family business, involving business management and ownership succession as well as leadership development. Succession planning can help families avoid conflict and ensure the needs of the business are met when ownership transfers to the next generation.

The decision to sell the business brings its own challenges and conflict. There is just one opportunity to get it right. There are many options to consider when transitioning or exiting the family-owned business.

6. People

A business is only as great as its people. A family business can experience unpredictable dynamics and unrealistic expectations. Building a successful business often requires external talent and family members

working side-by-side. The challenge involves creating balance between the family and business interests, while also creating an equitable environment where everyone thrives.

The rising "war for talent" has put increased pressure on businesses to create competitive compensation packages along with ongoing opportunities for advancement. For family businesses to survive, they now have to know exactly where and how to compete for the talent they need. Having a clear HR strategy and a strong understanding of the market can help to put the right people in the right roles.

With the right planning, family businesses can successfully implement the necessary governance structures and human resources policies that can set the expectations for all employees.

Mandatory sustainability reporting is coming

by Chris Angelopoulos, Partner, Audit & Assurance

The International Sustainability Standards Board (ISSB) has published the first two IFRS® Sustainability Disclosure Standards, which will require a broad range of sustainability disclosures. The standards have been modeled on the Task Force on Climate-related Financial Disclosures.

The standards provide a clear idea of what companies need to report to meet the needs of global capital markets – providing investors with globally comparable information.

The ISSB's first two standards are designed to be applied together. The general standard provides a framework for companies to report on all relevant sustainability-related topics across the areas of governance, strategy, risk management, and metrics and targets.

This is supported by more detailed guidance on how to report on climate-related risks and opportunities in the climate standard. ISSB has also commenced projects to research on other topics that may form the basis of future sustainability standards (currently risks and opportunities related to nature and human capital).

The standards are effective from 1 January 2024, but it will be for individual jurisdictions to decide whether and when to adopt them.

The substantive disclosures are focused on sustainability-related risks and opportunities and the disclosure requirements are broken into 4 pillars - broadly these pillars require disclosure in relation to the following:

1. Governance - the governance processes, controls and procedures the entity uses to monitor, manage, and oversee sustainability-related risks and opportunities;
2. Strategy - the entity's strategy for managing sustainability-related risks and opportunities;
3. Risk - the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities;
4. Targets and metrics - the entity's performance in relation to sustainability-related risks and opportunities, including the progress towards any targets the entity has set or is required to meet by law or regulation.

So what does this mean in Papua New Guinea?

The Accounting Standards Board of Papua New Guinea has not yet announced its approach to the new sustainability standards. However, as Papua New Guinea adopts IFRS, it is only a matter of time before sustainability reporting arrives here too.

KPMG's KymChat AI tool and how it can help your business

We included a few articles last year on the growing significance of AI but readers may be left wondering what AI means for them in practice. This article attempts to bring to life some of the practical real-life applications of AI used by KPMG with our clients.

KPMG Australia was client zero for ChatGPT. It was the first organisation in the world to have an enterprise grade version of ChatGPT, called KymChat, which was developed in conjunction with Microsoft. Over the past year KPMG has been putting the AI tool to use for its clients, training it on real life practical applications and delivering practical efficiencies for organisations.

A major benefit of the KymChat tool is that KPMG's approach is to tailor the tool on an industry specific basis so it only pulls from information that is relevant to the industry and it is not diluted by irrelevant responses from the wider ChatGPT/internet. Secondly, due to KPMG's experience in audit, assurance and internal controls, we understand what best practice looks like and train the tool to compare current practice against best practice, to identify deficiencies and recommendations and even to produce score card reporting which can be used by management to better understand their compliance and controls. In such cases the KymChat tool uses a controls subject matter expert tool and an industry subject matter expert tool to ensure it is pulling from the appropriate data sources.

The practical applications are endless – the tool works best for anything that is written and repeatable. We have set out a few real-life examples below to give you a flavour of its potential uses. Overall, we see these tools as improving efficiency and the quality of the output enabling the user to focus on what really matters to the business.

Practical examples generally relate to better knowledge management and internal control compliance outcomes such as the following:

- Compliance management has been a time consuming and onerous task. Compliance managers are required to read hundreds of pages of legislation, digest them, and then develop and analyse internal controls within the organisation to ensure the legislation and regulations are being complied with. KPMG has been working with clients over the past year to train its AI tool to ingest and read industry relevant legislation, regulations, standards, policy documents etc. The tool is trained to analyse the question asked of it by the user, and to address that question. It can even produce scoring and recommendation reports. This has resulted in better and quicker understanding of complex industry specific legislation. KPMG has been working with companies in the telecommunications, mining, banking and superannuation sectors to assist them in readily digesting industry specific legislation, regulations, standards and policies. The systems can even be used to ingest the company's internal control documentation to determine how well the industry specific standards are being complied with.
- Where there has been a recent acquisition of a company or business, or where there are multiple businesses across an organisation, the KymChat tool can be used to eliminate duplication of Governance, Risk and Compliance controls across the group. The tool can ingest the various existing control documentation, assess their quality against better practices and produce a score against best practice, and finally produce a report with recommendations.
- In the Environmental, Social and Governance space, a number of tools have been developed to help assess readiness based on internal documents, analyse these documents and deliver a report with recommendations.
- Improved searchability of documents. All industries can of course benefit from improved access and searchability of documents but one example includes the use by universities to develop better access to course material. KPMG has trained our KymChat to read course requirements so it can be asked questions and answer those questions.
- Better search functions and connectivity within organisations. The KymChat tool has been used within very large organisations to ingest company directories and staff profiles. This has enabled, for example, other personnel to quickly identify specific subject matter experts within the organisation etc.
- Improving directors understanding of their roles and responsibilities. KPMG has worked with boards of directors to train the KymChat tool to read the relevant company Act legislation so directors may ask questions of it to better understand their own personal roles and responsibilities.
- Interrogating Data Privacy or Anti-Money Laundering legislation and standards.
- Comparing old and new standards.

While many are trying to get their heads around the practical uses of AI, it is clear that things are moving fast in this space and companies will need to quickly get ahead of the curve before they find their competitors have left them behind.

Our social media presence

As usual, you may access our regular multi-disciplined thought leadership pieces, newsletters, and updates on our KPMG PNG LinkedIn page. Also, connect via our webpage www.kpmg.com.pg and Facebook <https://www.facebook.com/pngkpmg/>.

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