KPMG Kundu

February 2024

Foreword

We started the year with risk being elevated to be the centre of mind for business executives and all who call PNG home. As the dust settles from the events of 10 January PNG continues to face further challenges. Political uncertainty, continuing forex issues, fuel shortages, worsening law and order and the weakening of the institutions of state, just to name a few. These challenges will require consultation with significant collaboration between government, business and all stakeholders to chart a way forward.

The geopolitical landscape places PNG at the centre of the Pacific region with risks it must navigate skilfully. An excellent article below will bring you up to speed as to geopolitical risk. We provide you recent updates about tax evasion and what IRC is doing to expose these practices. Finally, we bring you up to speed on developments in the Human rights and Climate Change 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.

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Mining company charged for engaging in work visa-related tax evasion

by Karen McEntee, Partner, Business & Tax Advisory

In an alarming development IRC issued a press release this week stating they have imposed a tax assessment of K11.79m on an unnamed mining company. The company has been accused of engaging in incidences of visa violations and tax evasion. The incidences allegedly include bringing in foreign workers on a work visa for one company but then working for multiple companies, paying foreign workers through their overseas/home bank accounts while paying a low living allowance in PNG to avoid taxes and sometimes signing two contracts to avoid tax. The Commissioner advised their investigations revealed alarming discrepancies including foreign workers entering on business visas to work in inline positions within companies, where when they should have had work permits and employment visas, and not applying Salary or Wages Tax (SWT). IRC allegedly also uncovered significant mismatches between the number of foreign workers holding employment visas and the SWT declarations lodged with IRC.

As part of the investigation IRC analysed information provided by the PNG Immigration and Citizenship Services Authority (ICA) in relation to 1,187 employees covering nine years. IRC have stated this is the first case since Project Masta was launched and they are working with ICA to take action against those found to have breached tax and immigration law. We can only assume that similar projects will take place in the near future. This is not a first for PNG as back in 2017 at least three large companies were the subject of similar collaborations between IRC and ICA.

In particular, employers should ensure that individuals working in PNG have the appropriate work permits, employment visas, REV or CSV visas which permit them to actually work in PNG. Business visas allow for meetings, but not for work. Employers should also ensure SWT declarations are lodged with IRC as part of the onboarding process and that SWT is applied to remuneration where required. Due to the very broad definition of salary and wages under the PNG Income Tax Act, SWT can potentially apply to a broad range of payments therefore classifying an individual as a consultant may not relieve the employer from SWT obligations under the PNG Income Tax Act.

IRC's spotlight on this area is a keen reminder to employers to ensure that foreign workers are properly authorised to work in PNG and that the correct taxes are paid.

2024 will be a year of geopolitical risk, and the Pacific will face more than its share of challenges

by Jon Berry, Associate Director, Australia Geopolitics Hub

As the new year gathers pace, there are a broad range of geopolitical risks that are causing challenges for countries and companies alike. Conflict in Ukraine, the Middle East and Africa is upending lives and disrupting supply chains for energy and other goods. Competition over how to use and govern artificial intelligence is heating up. The global economy is still struggling to shake off the impacts of Covid and the inflationary period that followed. And all around the world citizen anger is growing, a fact that looks set to impact the record number of national elections to be held this year. KPMG's geopolitical analytics partner Eurasia Group explores these and other key risks in their 2024 Top Risks Report.

In PNG and the broader Pacific, all of these risks are very present. Disruptions to energy supply chains could exacerbate the fuel shortages that have hit the country in recent weeks. The global mood of citizen anger is also present in the Pacific, meaning that shocks like fuel shortages can result in civil unrest and violence. PNG and the Pacific are facing growing cyber security challenges, and grappling with how to legislate for rapidly evolving technological risk. Despite slow global growth, competition between major powers is playing out in the Pacific, which can result in more aid and development support for Pacific countries. But this support can come with an expectation to "pick a side", which could lead to tensions with others in the region.

Faced with this complex and challenging geopolitical landscape, KPMG clients in PNG, Australia and elsewhere are understandably uneasy about the year ahead. And they are not alone: the most recent KPMG Board Leadership Centre's Global CEO Outlook found that geopolitical risk and political uncertainty is the number one concern that is keeping leaders up at night.

But there are steps that our clients can take to navigate this challenging period. KPMG PNG in conjunction with KPMG's Australia Geopolitics Hub works with clients to identify the geopolitical risks that they face and put together strategies for how to manage them. This includes presentations to board meetings on geopolitical considerations, managing supply chains from a geopolitical perspective and economic modelling with a geopolitical overlay.

Human rights and climate change

The integration of human rights considerations into investment strategies is not only a moral imperative but a strategic one that can significantly influence the long-term sustainability and social license of institutional investors' operations. With the relentless progression of climate change, the overlap between human rights impacts and environmental degradation has become all too clear, with the former being exacerbated by the latter.

Investors need to adopt a cohesive approach that recognizes climate change as not just an environmental issue but a profound human rights challenge. Such recognition should be deeply rooted within investors' fiduciary duties and align with their commitments to international guidelines and principles, such as the UN Guiding Principles on Business and Human Rights and the Principles for Responsible Investment.

Practically, integrating the human risks associated with climate change requires reshaping existing governance frameworks to actively consider these factors in investment decisions. This may manifest in the forms of enhanced human rights due diligence processes that prioritise stakeholder engagement and transparent communication of climate-related human rights policies, or by adapting investment strategies to include positive screening and impact investing that targets solutions addressing both climate change and associated human rights risks.

Concrete steps can be taken by investors to harness the plethora of tools and collaborative platforms that already exist. For example, actively participating in multi-stakeholder initiatives such as Climate League 2030 or adopting clear, actionable plans that address both mitigation of emissions and human rights protections.

Moreover, with the momentum behind ESG investing and the rise in institutional investors' commitments to net-zero targets, there is ample opportunity for leadership in advocating for just transitions. Such transitions are not only about reducing carbon footprints but also about ensuring that the socioeconomic impacts are considered and addressed, especially for the most vulnerable groups affected by climate change.

Additionally, accountable and measurable engagement strategies, such as strategic shareholder advocacy and exercising voting rights to effect change within investee companies, can stimulate action towards responsible corporate behaviours. This extends to demanding robust climate and human rights risk disclosures and calling out and rectifying 'greenwashing' practices.

Above all, investors can no longer silo environmental concerns from social ones. Nor can they ignore the clarion call for systematic change. The era of passive investment is over; in its place stands a new frontier of proactive, responsible investment that demands not only environmental stewardship but an unwavering commitment to protecting and advancing human rights in the wake of climate change. The risks are too significant, the costs too high, to remain on the sidelines. It is incumbent upon investors to rise to the occasion, re-evaluate their strategies, and play their part in forging a path toward a sustainable and equitable future.

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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