KPMG Kundu

May 2024

Foreword

In our May edition we share four noteworthy articles for businesses we believe are key to navigating challenges ahead:

1. Internal Audit- We drill down on key thematic areas to consider for 2025 and beyond:
   - We describe these as external pressures brought to bear by geopolitics, economic uncertainty, ESG, Supply Chain and the like.
   - Securing Success in a world that is constantly evolving as we embrace digital transformation and the operational challenges that come with it; and
   - We highlight the unveiling of global evolution in innovation and connectivity, the challenges of Cyber security, Data Privacy, Governance and digital disruption for business.
2. We share the IRC's assessment of the impact of the January 10 riots on businesses.
3. We take a closer look at IRC's 2023 Performance Report; and finally, we.
4. Foreshadow the IFRS 19 reduced disclosures for subsidiaries to be discussed later.

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.

Ces

Internal Audit: key thematic areas to consider in 2025

To assist Heads of Internal Audit, we have compiled a portfolio of key thematic areas and their associated risks that Internal Audit functions should consider during the formulation of forward-looking Internal Audit Plans for 2025. These themes encompass a spectrum of both emerging and established risks that should be applied in the creation of a responsive and agile Internal Audit Plan. Below is a selective list of thematic areas – while not comprehensive, it is intended to provide a foundation upon which Internal Audit may base its evaluation of the organisation's risk and control standing for the forthcoming year.

External Pressures

In light of the escalating levels of economic, geopolitical, and environmental uncertainty, the frequency, intensity, interconnectedness, and velocity of existing risks and threats are evolving, while new risks, once thought improbable, are coming to the forefront, substantially impacting on the economy. These influences encompass a spectrum of factors including disruptions in supply chains, surges in inflation and rising costs, spikes in energy expenditures, tightening regulatory requirements, shifts in monetary policy, and evolving stakeholder expectations. Consequently, it is essential that the risk management frameworks of organisations become more predictive and agile than ever to effectively confront these challenges. We have highlighted the three main areas of focus:

Economic Uncertainty and Geopolitical Volatility

Internal Audit is obliged to evolve in response, integrating geopolitical risk assessment as a core element in audit planning and risk evaluation. This integration should provide Internal Audit with the scope to comprehend and appraise how the organisation's first and second lines of defence are addressing and managing the amplified risks and operational impacts associated with geopolitical volatility. Employing advanced tools like Dynamic Risk Assessment (multi-faceted risk assessment solutions) and scenario modelling may enable an internal audit function to move beyond a standard two-dimensional risk analysis to investigate the connections between risks, their velocity and impact.

Environmental, Social and Governance

Internal Audit plays a crucial role in supporting organisations by assessing readiness for reporting requirements, offering guidance on governance and controls, and reviewing processes related to ESG metrics reporting. They also provide advice on aligning risk management capabilities with ESG risks and organisational goals, while continuously ensuring the effectiveness and efficiency of ESG risk management, internal controls, and governance. Additionally, Internal Audit evaluates data governance and control mechanisms to ensure accurate and thorough reporting.

Third-party relations & supply chain

Internal Audit should go beyond contract management and assess the maturity and resilience (and concentration) of supply chains, as well as providing advice on the suitability of the supply chain operating model, and determine if sufficient consideration has been given to the risks associated with current macroeconomic and geopolitical conditions.

Securing success: Operational challenges in the digital age

In navigating the operational landscape of 2025, organisations must anticipate and address a myriad of thematic areas to stay resilient and competitive. The heightened levels of economic, geopolitical, and environmental uncertainty are creating new risks, threats and opportunities at an unprecedented rate and impacting the economy. Amidst the priority for escalating digital transformation, it has become apparent that functions need to be more progressive and dynamic than ever before to navigate concerns surrounding operational challenges. Below, we have included the three main areas of focus:

Profitability, inflation and liquidity

Organisations must recognise the heightened strain on their finance teams due to challenging macroeconomic conditions. Internal Audit teams should conduct thorough reviews of investment and financing decisions, as well as supply chain and procurement practises. Additionally, Internal Audit should assess management's approaches to identifying, evaluating, and mitigating risks associated with inflation and interest rates, which includes undertaking scenario analyses to prepare for potential adverse scenarios.

Operational resilience

Internal Audit is tasked with evaluating the effectiveness of the organisation's operational resilience and crisis management frameworks. This involves verifying that significant threats have been identified, that suitable response plans are established and effective, and that the consideration of emerging risks and the evolution of key threats is ongoing. Additionally, Internal Audit should ensure that organisations comprehend the impacts of disruptions, determine intolerable levels of risk, and examine the cost-benefit analysis of mitigation and resilience measures.

Talent management and retention

Internal Audit should evaluate the organisation's strategies for workforce planning, future skill requirements, talent acquisition, and retention. It is crucial to comprehend the implications of employee turnover and hiring freezes on the internal control environment and the broader organisational impact. Moreover, assessing management's oversight and plans to improve employee-centric aspects is an essential component of Internal Audit's role.

Unveiling the Global Evolution of Innovation and Connectivity

In the dynamic landscape of technology in 2025, global developments are catalysing transformative shifts across industries. The rapid advancement of artificial intelligence (AI) and machine learning technologies continues to redefine operational paradigms, enabling unprecedented automation, optimisation, and decision-making capabilities. Regulatory frameworks like the European Union's General Data Protection Regulation (GDPR) and evolving global standards, underscores the imperative for organisations to prioritise robust cybersecurity measures in their technological endeavors. Holistically, organisations' risk management processes need to be more prognostic and dynamic than ever before to navigate these challenges. Below we have included the three main areas of focus:

Cybersecurity

Internal Audit should assess existing controls to mitigate cybersecurity risks and ensure that the first and second line of defence are continuously monitoring cybersecurity controls. This includes undertaking a controls assessment against relevant regulations or industry standards. Internal Audit can also provide valuable assurances through undertaking targeted reviews around user access management, data management and incident response. A technical assessment, such as a vulnerability assessment or penetration test, will help determine if your organisation has external vulnerabilities that could be exploited in a cyber-attack.

Data privacy and governance

Internal Audit should assess the data privacy and protection controls within an organisation to ensure it is clear what data the organisation has collected and why this occurred as well as where the data will be stored & transferred, if it is secure, how long the data will be retained for and how it is disposed of in line with any regulation & organisational needs.. Internal Audit should also evaluate data breach response plan design, readiness and interlock with third-party data breach response plan. Additionally, ensure a comprehensive understanding of whether third parties have access to the organisation's data and, if so, how this access is monitored and controlled.

Digital disruption & emerging technology

Internal Audit should assess the digital transformation strategy to further provide advice on governance and control matters. This includes review of the design and controls around emerging technologies, including cloud transition, DevSecOps, zero trust architecture and distributed ledgers. Internal Audit can review how and why AI is being used by organisations and what controls are in place to mitigate the risks that occur with using AI. This includes data, reliability, accountability, governance, security and privacy. KPMG's Trusted AI Framework outlines our strategic approach to reviewing AI solutions to ensure they are established and controlled in a responsible and ethical manner.

In conclusion, the ability to anticipate potential issues and the flexibility to modify audit strategies are essential for safeguarding against such disruptions. The persistent uncertainties and disruptions experienced in recent times – including supply chain challenges, inflationary effects, and geopolitical instability – serve to amplify the stress on organisations' risk and control frameworks, necessitating vigilant and strategic responses.

IRC assessment of impact of 10 January riots on businesses

There was an interesting tax development this month as a consequence of the civil unrest in January. Following the riots, which caused extensive damage, many businesses submitted a request for assistance to the government. It transpires that IRC conducted an assessment of the impact of the 10 January riots on these businesses and found that a total of 71 businesses reported being affected by the riots. Of these, 36 businesses have paid taxes in the last three years, while the remainder have never complied with tax obligations. Unfortunately for the non-compliant taxpayers the assessment uncovered what IRC have referred to as "surprising discrepancies" between businesses' declarations and their actual financial health. Some entities that had consistently reported minimal earnings over the years revealed substantial wealth during the crisis. The IRC advised it is closely scrutinizing these discrepancies and will take appropriate measures to ensure transparency and fairness in tax assessments. IRC further stated that they have provided their assessment report to the government to aid in its decision-making process regarding assistance to affected businesses.

This further illustrates that IRC's ways and means of detecting non-compliant taxpayers is increasing over the years particularly with increased cross body/departmental collaboration in recent years.

IRC releases its 2023 performance report

IRC released its 2023 performance report this month. IRC reported that tax collections almost doubled from c. K8 billion in 2020 to c. K15.6 billion in 2023. The tax collection for 2024 is projected to reach K17.4 billion. The majority of the 2023 tax take was due to corporate income tax, followed by personal income tax, GST and then other direct taxes. The IRC contributed around 89% of total government internal revenue in the 2023 National Budget. Tax to GDP ratio has improved from 13% in 2022 to 14% in 2023. According to IRC all of this was achieved with one of the lowest cost tax administrations in the world with a cost of collections at 0.06%.

IRC has said they are continuing to make substantial investment in some of their strategic initiatives such as digital transformation and they are committed to enhancing the taxpayer experience ensuring interactions with the tax office are streamlined and user friendly. Certainly this would be welcomed by taxpayers and tax agents alike.

IFRS 19 – reduced disclosures for subsidiaries

The International Accounting Standards Board has released IFRS 19 Subsidiaries without Public Accountability: Disclosures. IFRS 19 allows subsidiaries of companies using IFRS® Accounting Standards to substantially reduce their disclosures. More to follow at a later date.

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/.

Contact us

Zanie Theron
SPP PIC
ztheron@kpmg.com.au

Ces Iewago
Managing Partner
ciewago@kpmg.com.au

Karen McEntee
Partner
kmcentee@kpmg.com.au

Brett McDermott
Partner
bmcdermott@kpmg.com.au

Pieter Steyn
Partner
psteyn@kpmg.com.au

Christian Angelopoulos
Partner
cangelopoulo@kpmg.com.au