KPMG Kundu

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Foreword

In our October Kundu Newsletter, we discuss Audit readiness, Geopolitics and IRC developments.

As companies are facing into their financial year-end and the upcoming audit period it is timely to consider whether the company is audit-ready and if not, what actions can be taken to be audit-ready.

We also share our geopolitical insights on the impact of competition for renewable and electric vehicles for the region.

Finally, we discuss the latest developments from IRC, their strategy, and their restructuring plans. We also have the latest on the new Income Tax Act Rewrite.

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.

Audit readiness
by Lizette Theron, Associate Director, Business & Tax Advisory

Improving financial management and audit opinions

Financial management for reporting entities in Papua New Guinea (PNG) should include an audit readiness program, which refers to strengthening of internal controls and improvement of financial processes and systems, so that there is reasonable confidence that information is available and can withstand an audit by an independent auditor.

Without an audit readiness process, with ongoing preparation and planning throughout the year, the following consequences may arise:

- Audit delays, resulting from auditors putting their work on hold while waiting for the entity to resolve their issues, for example incomplete accounts or reconciliations, and absence of supporting documentation.
- Loss of credibility and trust resulting from unfavourable audit findings.
- Inability to raise funds to finance operations, resulting from unfavourable audit reports.

Audits present unique challenges for entities, and preparing for audits can be an intimidating, time-consuming process. Financial institutions and investors take audit opinions seriously and will be reluctant to do business with entities with adverse audit opinions and disclaimers of opinion.

Be audit ready

Being fully prepared for a financial statement audit conducted by an independent external auditor, means that accurate and complete financial records have been maintained in accordance with International Financial Reporting Standards (IFRS), and relevant laws and regulations have been complied with. It also means that internal controls and processes have been established to ensure transparency and accountability.

Many business failures have been attributed to the inability of finance managers to plan and control properly all aspects of financial management. In particular, small and medium-sized entities (SMEs) in PNG are facing difficulties in their development due to the lack of financial resources and management experience. SMEs may encounter challenges such as poor managerial skills, unqualified staff and reduced access to finance due to reporting and information deficiencies.

While access to finance is critical for SMEs to survive and grow, unfavourable audit reports contribute to lenders' reluctance to provide finance. In order for SMEs to improve their financial management and obtain more favourable audit opinions, corrective actions must be prepared to address control weaknesses, non-compliance and other audit findings.

By addressing the following considerations, clients in both the public and private sectors (with the assistance of consultants where required) can streamline their operations in preparation for an annual audit:

- ***Daily and monthly procedures*** – To improve audit readiness, it is best to develop, implement and apply measures (implemented policies and procedures), which will ensure appropriate and consistent performance of staff in day-to-day operations, accountability, and standardisation of processes. Reconciliations ensure that current information is processed and that unreconciling items are cleared in a timely manner. An outsourced accounting function or additional resources provided by a professional firm may be required.

- ***Monthly and annual reporting*** – Monthly management accounts with comparative information makes the analytical review process easier and assists in addressing concerns. On a monthly basis, asset registers should be updated with additions, disposals and depreciations and must agree to the general ledger. Annual asset counts are also recommended. The preparation of the annual financial statements is the result of the ongoing procedures and periodic reporting mentioned above.

- ***Supporting documentation*** – Preparing financial reports is important but records supporting the information recorded is fundamental for good governance and effective administration. Documentation supporting financial transactions are also required by the auditors. A vital step is to create a year-end audit file supporting the information captured in the general ledger and ultimately in the financial statements.

- ***Resources*** – Critical skills and capacity shortages are some of the key issues in finance and accounting departments. Educating and training staff regarding their roles and responsibilities with compliance requirements help mitigate risks and enable progress towards improved financial management. Preparation of IFRS-compliant financial statements requires staff to attend regular technical updates and programmes to keep abreast with any changes. Where appropriate recruitment and skills development strategies have not been implemented, it would be beneficial to obtain support from experienced professionals who have in-depth knowledge of the steps needed to prepare for and complete a financial statement audit.

- ***Audit management and communication*** – By maintaining open communication and actively participating in the audit process, entities can ensure that auditors adhere to established protocols and conduct a fair assessment. Depending on the size and complexity of the entity, an individual or team of individuals must be assigned to manage the audit process. This individual or team must ensure to provide documentation timely and to hold the auditors accountable to the agreed timelines committed to during the engagement negotiation

Audit readiness is a fundamental aspect of financial management, essential to bring about improved data quality, increase the accuracy of financial statements, and eventually allow for more effective business processes. Obtaining support from professional consultants, either to add to resources, or to identify potential weaknesses and address areas for improvement, can assist to develop an effective audit readiness program.

Geopolitical competition for renewables and EVs by Jon Berry, Associate Director, KPMG Geopolitics Hub

The major industrial countries of the world are locked in geostrategic competition over green technology, and this could make it harder to meet global decarbonisation goals. Neither China, the US nor the EU wants to end up dependent on others for increasingly important green tech goods. As a result, they are building up domestic renewable energy and electric vehicle (EV) industries and protecting them from competition. The result could be higher decarbonisation costs – and a slower roll-out.

Energy security is an essential part of national security, and countries are anticipating a time when they will rely on renewables and batteries, rather than oil and gas. Usually, we would expect global competition to drive down prices, but that's without taking into account the geopolitically competitive environment.

The Insights below lay out how this great power competition is distorting markets for new energy products. Insight 1 details the barriers that major economic powers are putting up to protect domestic green tech producers from competition. Insight 2 reveals that as China finds its EVs and renewable goods increasingly shut out of major Western markets, other markets such as those in Africa become more important. Insight 3 considers what this green energy race could mean for the Pacific.

Insight 1: US and EU close the gate to foreign EVs

The world's biggest economies are trying to establish pole position in the global EV and renewables race, with complex implications for global decarbonisation goals.

For example, in the past few months the US and EU have imposed tariffs of 102.5% and (up to) 48% respectively on Chinese-made EVs, which account for more than half of EVs produced globally. The moves were driven by concerns that imported subsidised Chinese EVs would undercut government investment. The stakes are high, because governments understand that their future national security relies on access to the energy sources – and vehicles – of the future.

The implications are complicated. On one hand, the tariffs could lead to some lower prices, because as Chinese EVs are effectively shut out of some markets, exporters will direct more supply to others.

Australia and other mid-size countries may benefit from lower cost green vehicles. But on the other hand, the tariffs could mean higher EV prices in the EU and US, two major sources of carbon emissions. Higher costs may mean a slower energy transition, which would have climate implications for all.

Insight 2: EV trade wars – promoting China-Africa engagement

As Chinese EV and renewables exporters face barriers in major Western markets, [many are turning to Africa]and other developing countries for trade links. This is adding another dimension to aid and economic engagement between China and Africa.

China's investments in Africa already include major sources of the critical [minerals needed to create renewable energy technologies] (such as copper, cobalt and lithium) as well as in the first mega-scale [EV battery factory in Morocco]. Reports from the [recent Forum on China-Africa Cooperation (FOCAC)] indicate that China also increasingly values Africa as a [potential growth market]for renewable energy products and EVs.

As global trade in EVs and other green goods increasingly flows along geopolitical lines, China and Africa may find more and more reasons to cooperate. This may help African countries decarbonise and increase their participation in the industries of the future, and could also increase Chinese influence in this fast-growing region.

Insight 3: What this great power competition could mean for the Pacific

Great power competition over green technology may make it harder for Pacific Island countries to access the renewable energy products they need. This could complicate Australia's reputation as a reliable development – and security – partner in the region.

As China, the EU and US compete over renewable energy and EVs, they are also trying to grow their influence in the Pacific region. As a result, Pacific nations are facing pressure over whose green technologies they adopt. Development support from both China and the US often comes with conditions regarding which renewable technologies recipients can install. These rules could impact Pacific nations' ability to access the most suitable renewable energy infrastructure at the lowest cost.

This matters for Australia's role in the Pacific. For one thing, as a close US ally, Australia's growing development engagement in the region may be impacted by the same lending conditions, leading to higher project costs. A broader challenge may come from Australian development initiatives coming into competition with other countries' priorities, competition that some believe threatens to undermine development and security objectives throughout the region.

IRC developments
By Karen McEntee, Partner, Business & Tax Advisory

The Commissioner General, Sam Koim, spoke at the POMCCI breakfast on 15 October. In terms of strategy, the Commissioner's focus is on their people first, then their systems and finally the legislation.

IRC have restructured their teams into a tax intelligence division (which is investing in data analytics), a prosecution division, a taxpayer services division, the audit division is split into an audit strategy and an audit operation divisions while debt collection also has a strategy and operations focus.

IRC's focus is on upskilling staff and on migrating staff with the appropriate skills to the appropriate divisions. They have been training staff on data analytics for the past year with the first batch having recently graduated.

Digital transformation is a pillar of reform for IRC. They are at the final stages of seeking approval for funding for replacement of the SIGTAS system. IRC are also procuring a GST monitoring system which would track GST at all point of sale systems. IRC are collaborating with FASU and receiving reports on suspicious transactions for further investigation. They are also scooping immigration data from ICA to identify non-compliant FIFO workers. IRC are also developing an analytical tool to analyse and assess returns lodged online.

Finally in terms of legislative changes, the Commissioner mentioned they are exploring the taxation of digital services such as Facebook etc. He stated that if a robust GST system is achieved, then a reduction in SWT and CIT rates may be explored. Finally, he also confirmed that the new Income Tax Act Rewrite is expected to be put before Parliament in November.

Income Tax Act Rewrite

As mentioned last month, we were invited to make a submission to Treasury in respect of the 15th draft of the Income Tax Act Rewrite and of the 3rd draft of the Regulations. This was the first time the Regulations had been shared for consultation. We met with Treasury as part of the consultation process on 29 October and resulting from this consultation further amendments may be considered to the draft legislation. Treasury's intention is to submit the final legislation to Parliament in the November sitting. The legislation will have a one year cooling off period and is expected to come into force in 2026.

Our social media presence

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