KPMG

KPMG Kundu

July 2025

Foreword

Welcome to the July 2025 edition of KPMG PNG Kundu.

This month's newsletter brings together a compelling mix of insights and updates that reflect the dynamic challenges and opportunities facing organisations across Papua New Guinea.

From the transformative power of artificial intelligence in financial reporting to the evolving landscape of risk governance, our contributors offer practical guidance and strategic foresight.

We also provide timely advice to help businesses prepare for the upcoming tax reforms, effective from January 2026.

Pieter Steyn
Managing Partner

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

AI in financial reporting: transforming accuracy, efficiency, and strategy

by Nadish Vyas, Senior Manager, Audit & Assurance

Artificial Intelligence (AI) is rapidly reshaping the landscape of financial reporting, bringing unprecedented levels of automation, precision, and strategic insight. As per a recent KPMG Global CEO Outlook survey, it was noted that 60% of CEOs are planning to invest in AI to enhance financial reporting. This marks a significant shift from traditional reporting methods, which relied heavily on manual data entry and static analysis.

Automating the Mundane

AI is revolutionizing business processes, especially in financial reporting. One of AI's most impactful contributions is the automation of data collection and analysis. AI systems can now pull data from internal databases, market feeds, and third-party sources, processing vast volumes of information in seconds. This not only reduces human error but also frees up finance professionals to focus on higher-value tasks such as strategic planning and risk assessment.

Enhancing Accuracy and Compliance

AI algorithms are designed to detect anomalies, flag inconsistencies, and ensure compliance with regulatory standards. This is particularly valuable in industries with complex reporting requirements. By continuously monitoring transactions and applying rule-based logic, AI helps maintain the integrity of financial statements and reduces the risk of fraud.

Personalized and Dynamic Reporting

Traditional financial reports often follow a one-size-fits-all format. AI changes this by enabling dynamic personalized reporting tailored to specific stakeholder needs. Using natural language generation (NLG), AI can produce readable, customized reports that highlight key metrics for investors, regulators, or internal teams. These reports can be updated in real time, offering a more agile and responsive approach to financial communication. An example of how this may be used in practice is where an organisation reports its Environment Social Governance (ESG) metrics in its annual report. In order to enhance its ESG reporting, it is now able to use an AI tool to compare and benchmark its own data reported, against industry competitors. The AI tool will then also be able to provide recommendations in order to enhance the reporting as compared to its competitors.

Strategic Decision-Making

Beyond operational efficiency, AI helps finance leaders forecast cash flow and profitability, supporting better investment decisions.

Risk Assessment

It is always important to have a deep understanding and assessment of the risk arising from AI by performing an entity-level risk assessment that helps to identify if and where AI is being used throughout the entity and its impact on financial reporting objectives:

- **Business risks** – Does the use of AI increase the entity's chance of security breaches leading to access to sensitive customer or employee data? Are there new risks to the business that may have a direct impact on the financial statements, such as potential financial losses or liabilities?

- **Cybersecurity risks** – If AI has access to the internet could security risks arise from bad actors accessing the underlying algorithms with the intention to alter them? Is there a risk that "data poisoning," or manipulation of AI training data, could result in an unreliable output?

- **Fraud risks** – Are there new opportunities to commit fraud more easily by using AI? Is there a higher non-detection risk? Could AI be used to falsify records or transactions? Could deepfake technology be used to impersonate management and/or deceive entity personnel with the intention of misappropriating entity assets?

Managing these risks will require a combination of entity level controls, process control activities and general IT controls.

Audit Impact

We believe AI's impact on the audit profession should be seen through the following lens:

- Firstly, the impact on the entities that we audit—as evidenced by our research on the extent of AI use already and in the very near future, and what that means in terms of their risk assessments, control objectives and responses, etc.

- Secondly, the impact on our audit approach—if a company's financial processes are changing, then all related aspects of the audit must be adapted accordingly. Furthermore, there will likely be an enhanced risk of fraud—both frauds potentially perpetrated by management as well as companies being the target of fraud linked to AI.

- And thirdly, the transformational impact on our audit practice—in terms of recruiting, use of delivery centres, hiring, pricing, growth, career pathing, training and regulatory communications and interactions.

Looking Ahead

The future of financial reporting is undeniably intertwined with AI. As technology matures and adoption grows, we can expect even more sophisticated tools that not only report on financial health but also prescribe actions. The shift is not just about efficiency—it is about transforming finance into a proactive, data-driven function.

Elevating risk governance in PNG: Insights from KPMG's boardroom workshops
by Giann Marquez, Associate Director, Advisory

Over the recent months, KPMG PNG has facilitated a series of deep-dive risk management workshops with leadership teams and Board members across the PNG business community.

The following are the common threads that have emerged:

- Risk registers are being refreshed – Most organisations have recently completed, or are on track to complete, a comprehensive refresh of their risk registers within the year.
- Technology and cyber are now 'principal' risks – Digital dependency and rising cyber threat activity have pushed these issues to the very top of board agendas.
- Risk management frameworks are moving toward global standards – Boards are actively aligning their risk management practices with internationally accepted standards such as ISO 31000 and COSO ERM to name a few.

Against this backdrop, the specific risk concerns raised by PNG organisations echo those we see across the wider South Pacific region. The four themes that dominate boardroom conversations include:

1. AML/ CTF – turning compliance into performance
- Regulators expect evidence of effectiveness, not paperwork. Boards that are the most proactive embed risk-based customer due diligence (CDD) inside core finance/operations process workflows, freeing scarce compliance capacity for genuine anomaly detection and living for the integration principles of industry good practice.

2. ESG – securing the social license
- PNG organisations are taking on board ESG considerations. Leaders are engineering the frameworks and metrics that will anchor these promises to global ESG principles, and they are treating ESG as a strategic risk, not a branding exercise. Workshop dialogue shows momentum: Boards are starting to map climate-transition, community-impact and ethical supply chain indicators to investment decisions and executive scorecards as the blueprint crystalizes.

3. Emerging risk – horizon-scanning that delivers
- Emerging risks have limited history, unclear impact or accelerating velocity – think artificial intelligence enabled cyber threats, disruptive business models or breakthrough health technologies. Effective boards run scheduled horizon-scans, rank weak signals by plausibility and speed, and assign clear owners to track developments.

4. Technology/Cyber – the existential variable
- During our interaction with PNG organisations a consistent message has formed that ransomware, infrastructure vulnerabilities, and/or operational-technology sabotage are most likely a cause for prolonged outage. The best prepared organisations put their cyber alerts and business data on a single dashboard, giving leaders instant warning signs and clear response steps, shrinking reaction time when minutes matter.

The capability gap is the thread running through in all the above frontline threats. Skills and capabilities shortages in risk management surfaced as one of the main barriers to address within the organisations. Without deeper risk skillsets, even the best registers and playbooks stall.

What PNG organisations should consider doing now:

- Refresh the risk register before year-end, linking each priority risk to appetite and treatment.
- Commission an independent maturity assessment using workshop diagnostics as a baseline.
- Invest in structured capacity-building from Board induction to 'risk-in-action' simulations.
- Adaptability, not box-ticking, will separate winners from followers in PNG's evolving landscape.

Implementation plan for new Income Tax legislation by Karen McEntee, Partner, Business & Tax Advisory

With the 1 January 2026 deadline for the effective date of the Income Tax Bill 2025 fast approaching, taxpayers should ensure they have a full understanding of the application of the new legislation to their business, their employees and their suppliers. We strongly recommend putting in place an implementation plan which outlines the various issues for consideration, the actions required and timelines around their implementation.

A big concern for employers is the change in the tax treatment of taxable benefits for employees, particularly for company cars, and the advance communication of the potential change in tax treatment to employees. Other issues include the need to review all cross-border supplier and related party contracts to assess whether these payments will be impacted by a change in withholding tax rate, the application of withholding tax to a payment not previously caught or even the cessation of withholding tax on certain payments previously subject to withholding tax. Other key matters include the change in depreciation rates for assets and the move to depreciate assets not previously tax depreciable such as business intangibles.

With a change in the tax treatment of non-resident companies, the amalgamation legislation, thin capitalization and group tax loss relief rules from 2026, corporate groups may also want to consider whether their current group and debt structure is tax efficient under the new legislation.

Our detailed guide is available on our website. We are working with companies to prepare and plan for the upcoming changes.

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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