

KPMG Kundu

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Foreword



In this edition we discuss the highlights of the PNG Mid-Year Economic and Fiscal Outlook Report for the current year. On the eve of preparing for year-end audits in 3 months' time for most entities, we also provide some guidance on audit-readiness to remove the sting from this process. As always, we focus on cybersecurity in this market, and briefly discuss the benefits of a well-structured Cyber Incident Response Plan (CIRP). Finally we touch on the Income Tax rewrite status and the IRC budget status.

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.



Highlights of the PNG Mid Year Economic and Fiscal Outlook Report by Wayne Osterberg, Director, Advisory Services

The Treasurer recently published the Mid-Year Economic and Fiscal Outlook Report for the current year (MYEFO).

The highlights of the report are:

- The MYEFO budget deficit is unchanged from 2023 Budget - K4,985m or 4.4% cent of GDP.
- There is an 8.2% increase in forecast revenues of K1,614m to K21,196m from higher commodity prices (K684m); increased Corporate Income Tax (K989m); and higher Personal Income Tax (K399m).
- Expenses are forecast to rise for rentals (K153m), water & power bills (K68m) and international interest costs (273m). The interest rate on the ADB and World Bank loans has risen from 2.25% in September 2022 to 5.31% in July 2023.
- Due to new accounting rules agreed with the IMF, PNG's budget deficit is based on changes between the opening and closing balances of GoPNG accounts. In the first six months of 2023, the balances in PNG's trust accounts fell by K342m. The MYEFO assumes this level of net change remains the same for the remainder of the year.
- K464m in surplus forecast revenues over expenses have been allocated to a "MYEFO Contingency Fund" with their allocation to be determined by GoPNG and Parliament.
- 2023 Budget expenditure is expected to reach a record K26,181m, an increase of 6.6% from the 2023 Budget.
- The largest downside risk to the MYEFO forecasts are non-tax revenues which performed poorly in H1 2023. Although entered into law, the Non-Tax Revenue Administration Act has not yet been applied but is still expected to 'happen' this year. Dividend payments have also been slow, especially from Kumul Petroleum Holdings.

- Within these budget aggregates, the key initiatives from the 2023 budget remain in place – including K590m for a Household Assistance Package; a capital budget of K9,796m; a K401m increase for Law and Order; and a K406m increase for Health and Education.
- Real non-resource GDP is expected to increase by 4.8% in 2023, up from the 4.6% budget forecast.
- The delayed resumption of the Porgera Mine, relative to budget forecasts, has seen resource GDP growth fall from the budget estimates. Estimates for Mining & Quarrying have dropped from 23.4% to 6.9%; Oil & Gas estimates are up from -7.2% to -5.5%. on the back of increased output for LNG (1.1%) and Condensate (5.0%).
- Overall real GDP growth is expected to fall from a budget projection of 4% to a forecast 3%; growing from K108bn in 2022 to K112bn in 2023, a small decrease from the K113bn forecast at budget time.
- The inflation rate for 2023 has been revised down from 5.7% to 5.5% and is expected to fall below 5% in 2024.
- GoPNG debt stock is projected to remain unchanged at K58.7bn but is projected to rise as a percent of GDP from 51.9% to 52.2%.

Our key takeaways from the MYEFO are that the continued delay in the re-opening of Porgera is undermining the budget assumptions and the reopening in Q4 2023 may be optimistic; the cost of GoPNG's foreign debt is rising; and that the dividend projections of K1.9bn will all need to come in H2 as none have yet been received.

Being audit ready eliminates audit surprises

by Lizette Theron, Associate Director, Business & Tax Advisory

Whether your 2022 company audit is approaching or has been completed – now is still a good time to consider and plan for audit readiness.

Organisations often find that juggling the accounting, financial, and operational needs of the business and actually running it at the same time is not always easy.

Audits present unique challenges for organisations in the private and the public sector. Preparing for audits can be intimidating and a time-consuming process - resources are often strained during the audit process and adverse findings can impact organisational reputation, which may require costly remediation.

An 'audit-readiness' process, with sufficient and on-going preparation and planning throughout the year, can bring about improved data quality, increase the accuracy of financial statements, and ultimately allow for far more effective business processes.

Obtaining support from professional consultants, either to add to the resources, or to identify potential weaknesses and areas for improvement, while working to improve the efficiency of operational functions, can assist in developing an effective 'audit readiness' program.

By addressing the following considerations, professionals can help clients in both the public and private sectors streamline their operations in preparation of the annual audit.

Daily and monthly procedures

To improve audit readiness, the best place to start is with the development, implementation and daily application of measures prescribed in implemented policies and procedures. This ensures appropriate and consistent performance of staff in day-to-day operations; clarity of expectations including accountability for performance; and standardisation of processes to enable consistent outcomes.

Bank and other reconciliations ensure that current information is processed and that non-reconciling items are cleared in a timely manner. An outsourced accounting function or additional resources provided by a professional firm tackling day to day bookkeeping and accounting tasks may be required.

Monthly and quarterly reporting

Monthly and quarterly reports measuring the actual results against the budget should be used as a checkpoint to identify challenges and correct action plans. 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 depreciation and must agree to the general ledger. Annual asset counts are also recommended.

Supporting documentation for the considerations and conclusions of the above are required by the auditors. Preparing management account reports is important but sound records supporting the information recorded is fundamental for good governance and effective administration.

Half yearly financial statements

Preparing half-yearly financial statements will ensure that a roll-forward of the opening balances is performed and confirmed with the closing balances of the audited trial balance at an early stage. Updating the notes on the financial statements will reduce time spent during year-end preparations and will highlight shortcomings, areas of concern and new reporting requirements. Some of these financial matters can be delicate and may require a trained professional to handle them correctly.

Annual reporting

The preparation of the annual financial statements is the result of the number of key inputs mentioned above. 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. 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.

Internal controls

Regular reporting should drive a culture of self-assessment of key internal controls. An internal audit function should review the effectiveness of the internal controls and identify areas of development. Where an internal audit function has not been established, outsourcing should be considered, to provide internal control implementation support and training.

Previous years audit findings

Once the year-end external audit has been finalised, compiling a register of findings and action plans for each underlying root cause, to be monitored and presented at audit committee meetings, would highlight the status of the findings as well as proactive processes put in place to avoid similar findings in future.

Corporate governance

Sound corporate governance requires greater corporate responsibility and conduct within acceptable ethical standards. Annual training initiatives could be established to assist the board/council and its sub-committees to implement its oversight role.

In conclusion, support from professional consultants can help develop the tools and resources an organisation needs to prepare for a financial statement audit. Over a relatively short period of time, using a streamlined approach, they can assist in identifying and addressing gaps in audit readiness. It is never too early or too late to put in place the processes to be audit ready.

From chaos to control - the role of cybersecurity incident response in a PNG organisation

by Charles Judd, Principal Director, Advisory Services

Cyber Incident Response is a coordinated approach to managing the aftermath of a cyberattack or data breach, with the goal of limiting damage and preventing further unauthorized access or data loss. This process involves a set of well-defined actions and procedures to detect incidents, contain the impact, eradicate the cause, and recover from the event. This is a cornerstone of any robust cybersecurity strategy.

The benefits of a well-structured Cyber Incident Response Plan (CIRP) are invaluable. An effective CIRP can minimize operational disruptions, protect sensitive data, and help maintain PNG customer trust. This will also help organizations to better meet compliance requirements and reduces the potential for legal repercussions. In PNG we have seen cyber threats increasing both in number and complexity. PNG organisations having an incident response strategy is not just good practice, it is a business imperative in PNG as we are becoming a more digitally interconnected world.

Income Tax Act Re-write

Another consultation process took place in August with Treasury in relation to the Income Tax Act Re-write. The proposed Act is undergoing its final changes with the expectation that it will be passed into law with the upcoming Budget in November, but effective from 2025. One of the main changes to the latest draft is the removal of capital gains tax on PNG land and buildings. Instead capital gains tax will largely be limited to resource licences and companies deriving the majority of their value from resource licences in PNG.

IRC ahead of budget

It was reported this month that tax collections by IRC are 5% ahead of the year-to-date target. The first half of 2023 saw a collection of K8.474bn by IRC with K7.211bn transferred to the Waigani Public Accounts by June 2023.

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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