



Private Enterprise

# Business Matters

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Private Enterprise

## Your Business Matters

At KPMG Private Enterprise, we believe performance is not only measured by the service we provide, but also by how well we know our clients' businesses and their needs. We go to great lengths to understand where you want to take your business to deliver ideas, insights and actions to help you get there, faster.

We will even help you feed the animals.

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# COVID-19 reporting issues under PSAB

By Bailey Church

Partner, Accounting Advisory, KPMG in Canada



On February 24, 2021, KPMG in Bermuda hosted its annual Public Sector Accounting Standards ("PSAS") update, which was presented by Bailey Church. Bailey leads the National Public Sector Accounting Advisory service line at KPMG in Canada. In this article, Bailey discusses COVID-19 reporting issues for the public sector.

Not only has the ongoing pandemic temporarily shifted the pattern of our society, and tested the resilience of our economy, but it has fundamentally altered our financial reporting environment this year and next year, and perhaps for much longer.

Regardless of a public sector entity's size and complexity, COVID-19 will impact your disclosures and financial reporting for this year end. Some of the more significant elements you should think about:

- Subsequent events;
- Going concern;
- Contingent liabilities and contractual obligations;
- Impairment (of tangible capital assets, and financial assets);
- Government transfers;
- Loans with concessionary terms; and
- Tax revenues.

## Subsequent events

- The COVID-19 pandemic has evolved rapidly in 2020 and 2021 and has impacted how public sector entities evaluate and disclose events after the reporting date ('subsequent events'). Depending on an entity's reporting date, the impacts of the COVID-19 outbreak could be adjusting or non-adjusting events.
- For public sector entities with reporting periods ending March 31, 2021, the COVID-19 outbreak is likely to be a current-period event that will require ongoing evaluation to determine the extent to which developments after the reporting date should be recognised in that reporting period.

## Action tips

- Identify and consider all subsequent events until the date the financial statements are authorised for issue and determine whether these events are adjusting – i.e. they provide evidence of conditions that existed as at the reporting date or indicate that the going concern assumption may be inappropriate.
- Disclose the nature and financial effects of events that are considered to be material, even if they are non-adjusting.

## Going concern

- Under PSAB, going concern is a rebuttable presumption. It is assumed to be valid unless events exist suggesting otherwise.
- With respect to COVID-19, management needs to consider whether these events or conditions, either individually or collectively ('current events or conditions'), cast significant doubt on the entity's ability to continue as a going concern. If management is comfortable that significant doubt does not exist, due to the strength of their financial position, or flexibility of funding sources, the going concern assumption remains appropriate. In severe cases, management may question whether the going concern assumption is still appropriate as a basis for the preparation of the financial statements.

### Action tips

- Management should be prepared to demonstrate their consideration of going concern to their auditors, even if significant doubt does not exist.
- If significant doubt does exist, management should prepare forecasts and sensitivities taking into different possible outcomes.
- Consider downside scenarios.
- Assess plans to mitigate events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (including reassessing funding sources).
- Assess whether its plans are achievable and realistic.

## Contingent liabilities and contractual obligations

- Public sector entities may struggle to fulfil certain legal or contractual obligations and may be subject to penalties – e.g. for delays or non-performance – resulting in a provision.
- Public sector entities may also create new contractual obligations that will become future liabilities, based on the terms of COVID-related financial assistance committed to others.

### Action tips

- Consider if COVID-19 has triggered a liability that would result in an outflow of resources, or a new contractual obligation.
- Review termination clauses in key contracts to consider if a liability should be recognised. Consider if COVID-19 falls under the force majeure clause, where applicable.

- Where there remains uncertainty with respect to the amount of an obligation a public sector entity may ultimately incur, the likelihood of an adverse outcome must be evaluated by management. Public sector entities should account for these based on PSAB's contingent liabilities guidance.

## Impairment

- The COVID-19 outbreak is having a significant impact on global markets driven by supply chain and production disruptions, workforce restrictions, travel restrictions, and reduced spending. This is impacting the financial performance of many investments which public sector entities may hold.
- Public sector entities are also unable to deliver certain programs and services in accordance with their mandate.
- As a result, the conditions requiring a write down of certain investments and tangible capital assets are more likely to be noted, requiring a formal assessment of impairment.

### Action tips

- Management should consider if conditions are present which suggest that an asset may be impaired, requiring a formal impairment assessment.
- If conditions of impairment are noted, management should perform an impairment assessment.
- Where it is determined that a tangible capital asset can no longer contribute to the public sector entity's ability to provide goods and services, it should be written down.
- For other financial assets, a write down is necessary where management determines there is a loss in value that is "other than temporary". This will require the exercise of significant professional judgement.

## Government transfers

- In Canada, Federal and Provincial governments have reacted to the impact of COVID-19 with a variety of measures, including tax rebates and holidays and various grants, to provide financial support to citizens and businesses. Similar measures have been taken by the Government of Bermuda.
- Certain of these programs will meet the definition of a government transfer under PS3410: Transfers of monetary assets from a government to an individual, an organisation or another government for which the government making the transfer does not receive any goods or services directly in return; expect to be repaid in the future; or expect a direct financial return.

- PS3410 determines the accounting for government transfers from both a transferring and recipient government perspective.

#### Action tips

- Public sector entities should assess any transfers arising from COVID-19 to determine if they meet the definition of a government transfer.
- Transferring and recipient governments should determine the timing of recognition of transfers based on the guidance in PS3410.

#### Loans with concessionary terms

- In response to COVID-19, many public sector entities have announced loan programs to provide financial support to citizens and businesses.
- Certain of these loans may have significant concessionary terms, such that part of the loan is more akin to a grant.
- Loans may also have forgivable conditions, suggesting they are, in substance, a grant.

#### Action tips

- Public sector entities should consider whether COVID-19 related loan programs contain forgivable conditions or significant concessionary terms.
- Where such conditions or terms are present, the public sector entity should ensure that the appropriate component of the loan considered to be a grant (or the entire loan amount, if appropriate) is expensed in the period the loan is made.
- For loans with forgivable conditions, the public sector entity should consider if the loan meets the definition of a conditional grant, and be accounted for as a government transfer.

#### Tax revenues

- The COVID-19 pandemic has had a significant, adverse impact on the economy, and the financial well-being of many citizens.
- The economic shock brought on by COVID-19 will impact the tax revenues which may be collected by government, as the underlying assumptions previously used to determine tax revenues may no longer be appropriate.
- Given the financial hardship faced by many businesses and citizens, collection of taxes due may also be challenged.

#### Action tips

- Governments should re-consider their assumptions and processes used to estimate tax revenues, to ensure they remain appropriate in the COVID-19 environment.
- Governments should also evaluate assumptions regarding the collectability of tax revenues, to consider if further write-downs for bad debt are necessary.

#### Employee benefits

- Public sector entities may make changes to or introduce new remuneration policies.
- The accounting implications, including any employee termination plans, will require careful consideration.
- Updated actuarial valuations of defined benefit liabilities might be required.

#### Action tips

- Consider the appropriate accounting for new employee benefit arrangements
- Assess when to recognise an expense and liability for termination benefits.
- Update estimates, including actuarial assumptions used to measure all employee benefits.
- Consider the need for updated actuarial valuation reports.
- For any actuarial valuation reports obtained before the reporting date, consider how to reflect material events occurring between the valuations and reporting dates.

For more information on this article, please contact Bailey Church or Steve Woodward.

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# Building a greener and fairer world

**By: Lori Rockhead**

Director, Sector Lead, Infrastructure,  
Government & Healthcare



Arguably the most exciting emerging trend in infrastructure for island jurisdictions is the pivot by global infrastructure developers and investors to focussing on greener and fairer outcomes.

The global challenges posed by the pandemic have created a sea shift in priorities which is good news for the way infrastructure is delivered. It's always positive when the public and private sectors share a mutual interest in project objectives. After all, infrastructure is not simply about the capital build. Investing in infrastructure has the potential to transform economies, benefit current and future generations and mitigate climate change by building in resilience.

When public interest becomes a shared objective of public and private partners, it may level the playing field for island governments which have been challenged to be effective counterparties on multi-varied and complex infrastructure transactions. It also brings to bear one of the most valuable contributions of P3s - harnessing innovation and know-how to create better outcomes for island economies, communities and the environment.

One of the benefits of leading practice competitive procurements is the opportunity to use private sector innovation to improve the economics and the outcomes of a project. With a greater focus on environmental and social benefits, islands stand to harness international best practice and innovation in outcomes which contribute directly to longer term public interests. For instance, a fairer approach to infrastructure might involve increasing local labour participation in construction by up-skilling trade workers. Expanding local trade skills, also provides greater participation on future projects whether they be hotels or hospitals.

Greater societal fairness can also be achieved through infrastructure. For instance, digital health infrastructure can improve accessibility to health care and improve health outcomes particularly for citizens living on remote islands.

Greater sensitivity to fairness also bodes well for islands as infrastructure developers need to demonstrate to shareholders and stakeholders that infrastructure projects will contribute positively to raising up the lives of the local population.

The good news for island jurisdictions is that greener options no longer equate to more cost. The economics of renewables have rapidly changed. Recent estimates suggest that — in countries that represent two-thirds of the world's population — renewable energy is now the cheapest form of power. Lower cost green construction and energy offer the significant long-term upside of environmental sustainability. The other implication of more affordable renewables is the ability to avoid significant outward investment to import fossil fuels.

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The combination of investor pressure, improving economics for sustainable infrastructure, and rapidly changing societal attitudes add up to the perfect conditions for a golden, or rather green, era for infrastructure. And all those working in the sector can be proud to be part of the movement that will safeguard the future of our planet.

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# The power of women in family business

## A generational shift in purpose and influence

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**Felicia Wilsen**, Director  
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Encouraging studies have examined women's changing roles over the years. However, studies that examine the role of women in family businesses are sparse and fragmented. Various scholars have indicated the need for more systematic and extensive research into the factors that are affecting women's involvement, leadership, and performance in family businesses.<sup>1</sup>

This was an important area of focus in the STEP 2019 Global Family Business survey, and the in-depth interviews with prominent female and male family business leaders that followed. Based on the conversations that took place, "The power of women in family business: A generational shift in purpose and influence" takes an up-close look at the demographic shifts that are changing the role of women in family businesses, the value that women contribute, the various forms of influence they have and the unique competitive advantages they can deliver.

Changing demographics are creating new roles and leadership opportunities for women in family businesses. Alongside these opportunities, external factors such as societal prejudice, unconscious gender bias and family traditions are examined, as well as stereotypes that need to be challenged to provide a roadmap for women family business leaders of the future.

“ My husband and I run this company together and we do not promote the fact that we are husband and wife. We even use different family names so that we are not positioned as ‘husband and wife’ inside the company. Otherwise, employees and customers talk to me differently – as the CEO’s wife and not someone who has the ability to help solve their serious technical issues. ”

**Female family business co-owner**  
Russia

### The 'hidden' CEO

Due to the influence of societal bias in the past, as well as cultural or family traditions in some cases, women were consciously or inadvertently consigned to the role of 'chief emotional officer' in some family business situations. In this 'hidden' CEO role, they took care of the emotional needs of the family, keeping the family together and perpetuating the family's values and traditions.<sup>2</sup>

The segregation of roles based on gender, both at home and in business, can be traced back to the Industrial Revolution. While men were associated with traits such as independence, autonomy, success and achievement, women were generally classified as nurturing and caring. Some of this gender bias continues today, even when it isn't conscious.

1. (Mussolino, Cicelin, Iacono, Consiglio, Martinez, 2019; Gimenez-Jimenez, Edelman, Minola, Calabrò, Cassia, 2020).

Gimenez-Jimenez, D., Edelman, L. F., Minola, T., Calabrò, A., & Cassia, L. (2020). An Intergeneration Solidarity Perspective on Succession Intentions in Family Firms. *Entrepreneurship Theory and Practice*.

2. Lyman, 1988; Salganicoff, 1990

“ My mother was the guiding principle for the family and the entire company. She was the mother of the company, not just our mother, and everyone was clear that as long as she was there, everything would continue to run and we didn't need to worry. ”

**Family business CEO,  
Mechanical engineering  
Germany**

Traditionally feminine characteristics such as loyalty, concern, sensitivity to the needs of others, problem-solving and conflict resolution genuinely reflect a holistic leadership style – for women and men. In a family business, these unique characteristics and the associated management style are assets to both the family and the business, combining loyalty to the firm and family with a sensitivity to individuals' needs and a decision-making process that is based on instinct and intuition as well as evidence.

This is a constructive approach for any business and can create a potential competitive advantage in family businesses in particular.

#### **How women are redefining 'women's work'**

Industries that have traditionally been dominated by men are inclined to exhibit more gender bias than others. In such cases, women are encouraged to go into traditional 'women's jobs', and their ability to be leaders of these businesses may not be well recognised.

Nevertheless, despite a conventional view of 'women's work' in some parts of the world and in certain industries, a brighter light is shining through the glass ceiling of many family businesses. In what would have been considered a non-traditional female occupation in the past, particularly in male-dominated industries such as heavy manufacturing, an increasing number of highly competent women leaders are now standing confidently in the limelight.

Several of the women in family business who contributed their views to the article are founders and cofounders of companies in industries that would historically be labelled as 'men's work', including steel and scrap-metal processing, cement manufacturing and the production of hardware products. Their view is that there should not be a bias towards women or men in any business; that diverse ideas and experiences add tremendous value to a team, making it more interesting and generating higher levels of innovation.

Many of these female family business leaders are successfully breaking down the barriers and redefining how some women in family businesses may have been perceived in the past. They are not waiting for some other person or some other time for the environment to change around them.

While biases may persist in some parts of the world, industries and even among some families, the interviews have shown that the role of women in family business is changing and will likely escalate as a new generation of successors assume the business reins.

#### **The transformational power of women**

It has generally been held that women, by their nature, encourage more collaboration and consultation than their male counterparts. The women interviewed agreed with that view. Through the generations, many have been raised to be more sensitive to the needs of others and more social as mother, peacekeeper and caretaker.

Nevertheless, the female family business leaders interviewed raised a concern regarding women who are expected to have this naturally enhanced level of sensitivity and face the danger of being pigeon-holed as the chief emotional officer of the family business – and nothing more. When this is the case, there is a danger that female family members will not be socialised and groomed to internalise the business values and practices to the same extent as their male family members. And by not being given the same opportunities to actively participate in the business and build their own successful careers, they risk being left out of opportunities to assume leadership positions.

Family businesses led by female CEOs generally have a distinct transformational and less autocratic approach to leadership, as we observed in the transformational leadership style of many of the family business leaders with whom we spoke. The evidence generally shows that women tend to encourage individuals and teams to pursue new business opportunities, identify opportunities for change and make decisions on their own.

For further reading on this article, visit: <https://bit.ly/3u27x4x>

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# KPMG'S IMPACT

## 2020 Corporate Citizenship report

2020 has been a year of transformation and resilience, for both our firm and community, with our reality shifting in the face of COVID-19. This change sharpened our focus, to contribute to our community's strength, and heightened our appreciation of togetherness for the events prior to the pandemic such as the KPMG Round the Grounds race and International Women's Day celebrations. We supported all of our annual events such as Relay for Life, MOverner and Toys for Tots, finding innovative ways to raise funds for these fantastic causes and contributed to a variety of new causes by supporting various local charities whose missions range from education to health. Continually, we support our youth through educational outreach, the KPMG Investment Challenge and the Lift Off Program, providing an environment for lifelong learning.

This year, our major focus was on COVID-19, fundraising to support our island and those vulnerable in our community, made possible by the generosity of our people. Our people are at the heart of our corporate citizenship strategy, for better, and through their generosity we bring our commitment to life. During these trying times their wellbeing was our number one priority and we encouraged them to take the opportunity to enjoy nature, participating in individually completed charity runs and wellness committee challenges. Our firm continue to focus on inclusion and diversity, supporting the Black Lives Matter movement locally, and introducing new management training to create a work environment where our people can thrive. Amid a new reality our community has demonstrated great resilience and we remain proud to support it.

For more information on our Corporate Citizenship program, visit: <https://bit.ly/3qxqABS>.

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# In the spotlight

Meet our new CPAs



**Ciara Rego - CPA US**  
**KPMG Private Enterprise**

“ The two year journey has finally ended – I have successfully completed the U.S. Certified Public Accountant exam process. From the moment I found out scores were released for my final exam to the moment I found out my results, my emotions were a roller coaster. I can say that I am extremely relieved and grateful to be finished. I am thankful for my family, friends, colleagues and KPMG for providing support during the process of accomplishing something for my career and my future that was extremely draining, but so worth it at the end. ”



**Jahlae Outerbridge - CPA US**  
**Financial Services**

“ After two years of studying, I am proud to finally say that I have successfully completed all four parts of the U.S. Certified Public Accountant Exam. It was a tough journey, but this feeling of accomplishment has definitely made the entire process worth it. Thank you to KPMG for their investment in my education and career! ”



**Ranisha Simmons - CPA Canada**  
**Financial Services**

“ It is a blessing to have successfully completed my CPA CA designation journey after two years of hard work. I’m filled with joy and relief that this process has come to an end, and I look forward to the new opportunities it will bring. Through the challenges, obstacles, and moments of self-doubt, I’m thankful for the unwavering support I received from KPMG, family, and friends. ”

# KPMG 2021 spring training schedule

## MARCH

MON	TUES	WED	THURS	FRI	SAT	SUN
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	<b>23</b> Writing emails for results	<b>24</b> AML training for beginners	<b>25</b> Coaching for high performance: tips and techniques	26	27	28
29	<b>30</b> The rising female leader	31				

## APRIL

MON	TUES	WED	THURS	FRI	SAT	SUN
			1	2	3	4
5	6	7	<b>8</b> Advanced approaches for coaching individuals and teams	9	10	11
12	<b>13</b> Communicating with impact	14	<b>15</b> Having difficult conversations	16	17	18
19	<b>20</b> Managing time and working productively	21	<b>22</b> Presenting and pitching remotely	23	24	25
	MLRO updates					
26	27	28	29	30		

 Advisory training  Soft skills training

If your organisation would like their compliance officers to attend any of our AML or MLRO training sessions, please contact:



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