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New approaches to public service delivery

Lessons for island economies

By: Dr. Josh Hjartarson, Vice President, Public Sector | KPMG Canada

Dr. Josh Hjartarson is Vice President of KPMG’s Canadian Public Sector. He joined KPMG from the Ontario Chamber of Commerce, where he was Vice President, Policy & Government Relations. He was also Policy Director at the Mowat Centre, where he helped build one of Canada’s most prolific and respected think tanks. He has emerged as one of Canada’s foremost thought leaders on the pressing policy challenges facing Canada and Ontario.

Dr. Hjartarson is the key note speaker at the 2016 Chamber of Commerce AGM Luncheon. He will address the subject of how the public actor is being transformed around the world by the converging forces of public demand for service quality and fiscal constraints.

By some measures, government is the single most important sector in an economy. According to the OECD, government spending typically accounts for 15-20 percent of Gross Domestic Product (GDP) and about 20-25 percent of total employment.

In a context of foreseeable low economic growth, governments everywhere are looking to generate higher returns on their investments in public services and to lever the public sector spend to generate growth and instill innovation, entrepreneurialism, and productivity improvements. They are doing so in three related ways.

First, governments are rethinking the mix of providers (public, private, and not-for-profit) in most sectors, and the extent to which public services can or should be exposed to user choice, competitive tendering, and performance benchmarking.

Second, governments are demanding more and better evidence to support decision making when making program and policy decisions and evaluating the performance of existing services. The goal is to ensure that program and service decisions are supported by a rigorous evidence-base focused on the desired outcomes.

Third, governments are adopting new service delivery models. The old dichotomy between delivering services in-house and outsourcing is being replaced by new models that seek to leverage the core competencies of government and third parties in new and innovative ways. These new models are applied in a range of services, from hospital linens, to social services, to land registries.

Such exercises are not driven by ideological motives. Governments of all party stripes have adopted all or a combination of the three approaches noted above. Instead, they are motivated by the need to preserve the capacity of government in core public service areas in a context of low growth, increased demand for services, and evolving citizen expectations.

Island economies, such as Bermuda, have a tremendous opportunity to learn from and contribute to these approaches, adding their own flavor and adopting them to suit their domestic contexts.

For further information on this article, please do not hesitate to contact:

Josh Hjartasdon
Vice President, Public Sector, KPMG Canada
+1 416 777 8604
jhjartasdon@kpmg.ca
Your Business Matters

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Key Contact:
Steve Woodward
Head of KPMG Enterprise
+1 441 294 2675
stevewoodward@kpmg.bm

kpmg.bm

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#1: Be a ‘facilitator’ of decision-making

Telling someone to change makes it less (not more) likely that they will change. People almost never change without weighing options and then making their own decision.

As a manager, you will probably be more effective if you simply see yourself as a ‘facilitator of decision making’, helping the other person choose options that they realise will benefit them.

If you focus on encouraging good decisions, you then spend most of your time sharing information the other person may not know that will help them see things differently or, suggesting ideas on how to approach situations for better results. Then you step back and let them decide.

One specific technique is to pose ideas with indirect language. Use phrases that suggest options or different viewpoints, and then help the other person think through the benefits and difficulties. Try phrases such as:

‘Can I suggest . . .’

‘Have you considered . . .’

‘What if you . . .’

‘I would like to recommend . . .’

#2: Be a ‘facilitator’ of decision-making

Helping employees who are new to their jobs is a fairly straightforward process. You review their current skills, explain what is expected, give clear directions and establish achievable steps.

However, it becomes more challenging when you need to offer help to your more experienced employees who know as much as (and probably more than) you do about their jobs. You need to approach them differently.

Here are things to keep in mind:

- Skilled employees gain satisfaction from achieving results. Be clear about the results expected.
- Skilled employees like the independence that comes with working without close supervision. Give them autonomy in goal setting and planning.
- Everybody faces problems to solve in their work. If you are the manager of experienced employees, your main roles are to jointly explore ideas, offer guidance (without ‘telling’) and give feedback in the light of strategic goals.
- Recognise that competent employees can become bored after they achieve success. Look for opportunities for interesting challenges they would like to pursue.
- Don’t ignore the importance of investing in the continuing development of their expertise through advanced
• Offer them opportunities to teach and coach others.

The best thing about working with competent employees is that there is no substitute for experience. Use it. Leverage it.

#3: Be a ‘facilitator’ of decision-making

Communication experts call them tee-up phrases. We tend to use them in important conversations when we want to emphasize how honest we intend to be. They include phrases like ‘to tell you the truth’, ‘frankly’ and ‘honestly’.

The irony is that the phrases are often heard as disingenuous. The most cynical listeners say to themselves, ‘Why did you just stress you’re telling me the truth? Have you not been telling me the truth up to this point?’

The further irony is that we often use such phrases in our most sensitive conversations – when we are giving bad news or when negotiations reach a critical point. Even amateur negotiators know when they hear, ‘To be honest, that’s the best price I can offer,’ they should just sit silently and wait. If you wait long enough, the person’s next move is likely to explain they truthfully made a mistake and can do a little better on the price.

In feedback situations, research shows that when people hear such phrases they simply stop listening. They know the phrase will be followed by criticism and their confrontational emotions kick in, interfering with their ability to hear the logic of your comments.

So when you talk with employees, here is a full list of tee-up phrases to avoid:

• Candidly
• To be perfectly honest
• Don’t take this the wrong way
• I just want you to know
• I hate to be the one to tell you this
• With all due respect
• If I’m not mistaken
• To tell you the truth
• Frankly
• Honestly
• Truthfully

It turns out they are negative phrases, no matter what your intent.

Curt Peoples is Director of Learning & Development for KPMG in Bermuda and delivers a range of open-enrollment management and communication courses for clients throughout the year. For a course catalogue and dates, please contact Jennifer Outerbridge, Program Administrator, at 294 2657.

Curt Peoples
Director, Learning & Development
curtpeoples@kpmg.bm
On the horizon: NFPO and PSAB update

By: Joanne Orszag, Manager | KPMG Enterprise

Bermuda organisations who follow Canadian accounting standards have to now focus on the ongoing changes to financial reporting frameworks as Canada’s Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) continue to modify standards in order to achieve greater user relevance, and the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) continue to work together in an attempt to converge significant standards.

Most government and other Not-for-Profit Organisations (NFPOs) have adopted the standards issued by PSAB for Government NFPOs (GNFPOs) or by the AcSB for NFPOs. This article focuses on recent developments in accounting standards for NFPOs and GNFPOs.

Revised Section - Controlled and Related Entities A450

With the elimination of proportionate consolidation in ASPE Part II, a definition of proportionate consolidation was added to Section 4450.

“Proportionate consolidation is a method of accounting and reporting whereby a venturer’s pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the venture’s financial statements. This method of accounting differs from full consolidation in that only the venturer’s portion of all assets, liabilities, revenues and expenses is taken up rather than the full amount, offset by non-controlling interests.” (ASNFPO 4450.02(g))

Under the current standards, NFPOs have a choice related to accounting for controlled NFPOs. They can either prepare consolidated financial statements or provide prescribed information in the notes to the financial statements. The revised section above requires that NFPOs prepare consolidated financial statements which include all controlled NFPOs.

Controlled for-profit organisations would be required to report using the equity method for NFPOs that report under Part III of the CPA Canada Handbook – Accounting. GNFPOs that report using Public Sector Accounting Standards (PSAS) would use the modified equity method for investments that meet the definition of a government business enterprise (GBE) and consolidate other investments. This change is effective for annual periods beginning on or after January 1, 2016.

Joint Not-for-Profit Review

The AcSB and PSAB issued a joint Statement of Principles (SOP) for NFPOs in April 2013. The two Boards propose to revise Part III of the CPA Canada Handbook - Accounting and the PS 4200 series of the CPA Canada Public Sector Accounting (PSA) Handbook, respectively, to improve existing standards for financial reporting by NFPOs.

In March 2015, PSAB and AcSB announced they would independently pursue improvements, but collaborate on common issues. The AcSB approved the following three projects to address the proposals in the SOP:
Project 1 - Accounting Standards Improvements Phase 1
This phase of the project addresses the proposals that an NFPO:
- applies the referenced accounting standards for private enterprises in Part II of the Handbook to report the capitalisation, amortisation and disposal of tangible capital assets and recognise write-downs to reflect a partial loss of service potential of a tangible asset still in use;
- continues to apply the existing Part III standards for intangible assets and adds a requirement to Part III to recognise write-downs to reflect a partial loss of service potential of an intangible asset still in use;
- continues to apply the existing Part III standards for collections and adds a requirement to Part III to recognise collections at either cost or nominal value; and
- maintains the existing standards in Part III for works of art, historical treasures and similar items that are not part of a collection, related party transactions, and allocated expenses (related to fundraising and general support costs).

The AcSB plans to issue an Exposure Draft for the Phase 1 project in Q2 2016.

Project 2 - Accounting Standards Improvements Phase 2
This phase of the project relates to whether, and how, to amend Section 4450, Reporting Controlled and Related Entities by Not-for-Profit Organisations, and addresses the proposals that:
- require consolidation of controlled NFPOs, subject to an exclusion from consolidation of a large number of individually immaterial organisations;
- require the application of the equity method to account for controlled profit-oriented enterprises, although an organisation would not be required to conform the accounting principles of the subsidiary with those of the parent;
- maintain the existing standards for definition and disclosure of economic interests; and
- present expenses by function in the financial statements, disclose expenses by object in the notes, and present total fundraising and support expenses in either the financial statements or disclose them in the notes.

Project 3 - Contributions – Revenue Recognition and Related Matters
This project will include researching the recognition of revenue from contributions, as part of addressing the proposals that state:
- pledges should meet the definition of an asset in order to be recorded;
- a contribution stipulation should meet the definition of a liability in order to not be recognised as revenue when received or receivable;
- when a stipulation gives rise to a liability, revenue would be recognised as the liability recorded is settled.

This project will also address the implications of eliminating the $500,000 size exemption in Part III that permits non-recognition of tangible and intangible capital assets; and applying the referenced standards in Part II to the presentation of financial statements subject to retaining guidance material in Part III that addresses unique financial statement presentation issues faced by not-for-profit organisations.

Public Sector Enterprises
There have been a number of developments in the PSAs which are detailed below.

New guidance issued
Handbook Improvements:
PSAB issued amendments to Section PS2601 Foreign Currency Translation, and Section PS 3450 Financial Instruments, to clarify the transition provisions in these standards. The transition provisions in Section PS 2601 and Section PS 3450...
have been amended to clarify the effective date for government organisations. For government organisations who applied the CPA Canada Handbook – Accounting prior to their adoption of Public Sector Accounting Standards, the effective date was years commencing on or after April 1, 2012. For all other government organisations the standards were effective for years commencing on or after April 1, 2015 however this has now been extended to years commencing on or after April 1, 2019.

New Sections
The PSAB issued the following sections in 2015:

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<td>Inter-entity Transactions, Section PS 3420</td>
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<td>Contingent Assets, Section PS 3320</td>
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Related Party Disclosures (PS 2200), Inter-entity Transactions (PS 3420)
PS 2200 defines a related party and establishes disclosures required for related party transactions.

Related parties exist when one party has the ability to control or has shared control over another party.

Disclosure is only required when transactions occur at a value different from that which would have been arrived at if the parties were unrelated, and transactions have a material financial effect on the financial statements.

PS 3420 provides guidance on how to account for and report transactions between public sector entities within a government reporting entity. Transactions are measured at the carrying amount, except in specific circumstances:

- Under a policy of cost allocation, revenues and expenses are recognised on a gross basis, and cost allocations are reported using the exchange amount.

- A recipient may choose to recognise unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice.

- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely.

PS 3380, Contractual Rights, defines and establishes disclosure standards on contractual rights. Disclosure of information about contractual rights is required in the financial statements including a description about their nature and extent and the timing.

Amendments to Standards
Introduction to Public Sector Accounting Standards
The main features include: replacing references to “government,” “public sector reporting entity,” “entity” and “reporting entity” with “public sector entity,” where applicable, in certain standards and guidelines of the PSA Handbook; and removal of government partnerships, and school boards from the definition of public sector in the Introduction to Public Sector Accounting Standards. This is effective for fiscal years beginning on or after January 1, 2017.

Ways KPMG can help
KPMG professionals assist organisations affected in understanding their financial reporting framework, be it IFRS, ASPE, or standards applicable to not-for-profit or public sector organisations. Additionally, we have a range of publications and resources addressing developments in all of these areas and the implications for organisations following Canadian accounting standards.

For further information on this article, please do not hesitate to contact:

Joanne Orszag
Manager,
KPMG Enterprise
+1 441 294 2597
joanneorszag@kpmg.bm
The benefits of governance

Great family businesses are built on strategy, vision, values, and execution, but family businesses that endure across generations have an additional edge: governance.

Governance becomes vital to a family business as it grows and confronts new opportunities, challenges, and critical questions about its future direction. “The growth and sustainability of a family business lies in the fine balance between the needs of the business and the expectations of family members,” notes Christophe Bernard, KPMG partner based in the French firm’s Paris office. “Effective governance of a family business can help improve the company’s performance and satisfy the expectations of family members.”

Defining governance

Governance is a broad term that can encompass many aspects relevant to the running of a business; in short, however, it defines the rights and responsibilities of the various stakeholders in the business, determines how decisions will be made, and establishes checks and balances. And a central element of corporate governance is the role of the board.

“The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and shareholders,” according to the OECD Principles of Corporate Governance. There are family businesses that survive – and even thrive – across generations without boards or independent directors; however, these are the exception rather than the rule. “A board that includes independent directors can add value – to strategic planning, succession, execution – by bringing in new ideas, spurring innovation, and helping the owners make necessary, tough decisions,” notes Christine Blondel, adjunct professor of Entrepreneurship and Family Enterprise at the Wendel International Centre for Family Enterprise at INSEAD.

This perspective is consistent with the findings of a study conducted in the US of more than 80 family businesses run by the third or later generation that, as referenced in the IFC’s Family Business Governance Handbook, “showed that the existence of an active and outside (non-family-controlled) board was the most critical element in the survival and success of these companies”.

Factors shaping boards

Boards – and directors – are not all the same. Contrary to Tolstoy’s line that “all happy families are alike,” all family businesses – whether successful or struggling – face different challenges, and their boards are shaped by different factors, including:

• The legal and regulatory obligations of the relevant geography – which may range from a highly regulated environment that dictates board composition and responsibilities, to no applicable laws at all, depending on the country in which the business is based.
• The company’s ownership structure – which may range from a business closely held by a few family members who see each other on a daily basis, to one with numerous, geographically dispersed, distant family members, to inclusion of other investors, either through private equity investment or publicly traded stock.
• The expectations and interests of key stakeholders including owners, other interested family members (such as the owners’ likely heirs), customers, and insurers.
• The company’s attributes – size, resources, maturity, culture and level of complexity.

Each family business is unique, and of course its needs will change over time. The key, is to have the family, the stockholders, and the business well-coordinated. And it’s clear that family businesses with effective governance – including a board that brings experience, insight and objectivity to the table – are far better positioned to not only survive, but also thrive across generations.

For further information on this article, please do not hesitate to contact:

Steve Woodward
Head of Enterprise,
KPMG Enterprise
+1 441 294 2675
stevewoodward@kpmg.bm
Recognising your business’ growth potential

Your business has transitioned from a start-up to an established small to medium family-run enterprise, but how do you know whether now is the time to pursue growth? This is a frequently asked question for many business owners, and one that requires ample assessment and consideration. Growth introduces a number of new complexities and is not without its own set of challenges. Recognising the different stages of business growth and understanding how to determine whether the time is right for your business is key to the process. “Every family business reaches a plateau,” writes Angela Stringfellow, a principal at CODA Concepts, on the Intuit Small Business blog. “You’ve maxed out your current capacity, but you’re hesitant to hire another employee, open another location, or take another step forward.”

Identifying that your business is ready for you to take the next step can be tricky. There are no specific indicators common to every family business and every situation, but there are a few questions that one can use to assess your readiness for growth. For one, you might ask whether there’s too much work on the table for the current team to manage.

Is your business ready for growth?

If the volume of work generated by your business outweighs your capacity to complete the work, you may need to consider expansion to meet expectations and to deliver at a consistent standard. It’s critical to keep market research at the heart of all expansion decisions and considerations. Results from market research offer valuable information for your business, and may reveal new potential and opportunity that you hadn’t yet considered.

In addition, understanding market shifts and your consumer can facilitate a better understanding of whether expansion is really needed. Relying on old market research reports and out-dated results may prove detrimental to your business, so it’s important to consider the role of research in your day-to-day business management and strategy. In the same way, choosing to follow the same business approach and plan is not always the most effective strategy for business growth.

The importance of flexibility

There are a number of different strategic approaches that a growing business might consider. For example, a business may choose to keep the core competencies in-house while outsourcing additional resources to help with the other components of the business. Allowing your business plan to be a flexible and workable document can facilitate a sustainable future for your company.

As your business grows and the market changes, you need to be able to evolve your strategy and approach. Changing circumstances and a stagnant business plan don’t make for a good fit, and remaining inflexible will be to the disadvantage of your business’ growth prospects. It’s important to remember that when you started the business, it was very likely that your growth strategy involved a big drive for customer acquisition.

Your business plan and approach would have been centrally focused on achieving leads and developing new customer relationships. As your business settles, and you reach a comfortable level of stable growth, a shift in approach and focus is needed. Instead of customer acquisition, your focus should shift to customer retention – this is to ensure lifetime value from your customer base.
Realising the opportunity for growth

Another relevant question for you to reflect on is how successful and effortless your lead-generation currently is. If your business receives high volumes of valuable leads (with limited effort or investment), it may be an indication that there’s a reasonable level of demand for your product or services. If keeping up with these leads becomes a challenge, the opportunity for growth is definitely rife.

Once the opportunity for growth has been recognised, putting in place effective measures, processes, and strategies will ensure that you have less to alter and contend with once growth has taken place. Every major decision during the growth phase needs to be mapped out and planned, in a similar fashion to when your business was just getting started. The practice of prioritisation becomes increasingly important and relevant as your business expands.

Recognising your business’ growth potential

Understanding and identifying the key drivers of growth is a good starting point, and will assist in outlining which tasks and activities need to be tackled first or given the most attention. Be careful not to be too opportunistic when it comes to growth potential. Expanding into areas that are an ill fit for your business strengths and competencies may place undue stress on your company and employees, and may translate to a shift away from your original business vision.

Family business growth presents the business owner with a number of challenges and opportunities. Each of these demands a different approach, a different solution, and a shift in the way the company does business. It’s essential to remember that the processes and strategies that were effective and workable when your business was smaller, may not offer the best solution in the business’ growth phase.

For further information on this article, please do not hesitate to contact:

Felicia Govender
Senior Manager, KPMG Enterprise:
+1 441 294 2649
feliciagovender@kpmg.bm

In the spotlight

Bing Lin
Manager, Advisory

Bing Lin was born and raised in China. After he graduated with a Bachelor degree, double majoring in Management Information Systems and Accounting, from Shanghai University of Finance & Economics in 2007, Bing continued his Master’s degree in Information Systems at Kelly School of Business, Indiana University in the US. Bing is a Certified Information System Auditor (CSIA) and also Certified Public Accountant (CPA) in the State of Illinois, US. Prior to joining KPMG Bermuda, Bing spent six years with KPMG’s US IT Advisory practice in Chicago. Bing is experienced with IT risk management in both internal and external audits and attestation services, such as Sarbanes-Oxley (SOX) 404 and Service Organisation Control (SOC) (former SAS 70) reports; Bing also has financial due diligence experience using his CPA and accounting background. Bing moved to Bermuda in 2015 and has been enjoying Bermuda both professionally and personally. In his spare time, Bing enjoys playing basketball and traveling with his wife.