2011 Out of Period Adjustments

Purpose

The purpose of this Learn Once, Globally is to outline some of the lessons learned as a result of out of period adjustments identified. A selection of out of period adjustments identified in 2011 are summarized briefly below and accompanied by a lesson learned as a result of the adjustment.

2011 Out of Period Adjustments

1. Understated obligations to former employees – A Brink's subsidiary did not record a liability for a pension obligation the subsidiary had negotiated with a former employee. Instead, the subsidiary recorded expense each month as the obligation was paid. In addition, the subsidiary had not accrued for future annuity payments owed to several former employees as a result of unfavorable court rulings. As a result, an out of period adjustment was recorded in order to accrue for the pension and court-awarded obligations owed to the former employees. The current CFO was not aware of these agreements.

   Lesson Learned – It is important for Accounting teams to inquire of management throughout the organization to confirm that all agreements to make payments to current and former employees have been properly recognized in the financial statements.

2. Bank reconciliations - A Brink's subsidiary reorganized their bank account structure by significantly reducing the number of bank accounts used. However, due to lack of proper planning, the reorganization of bank accounts dramatically increased unreconciled items on cash reconciliations. As a result, an out of period adjustment was recorded related to expenses which should have been recorded in other periods but instead weren't recorded until a subsequent period, when the accounts were fully reconciled.

   Lesson Learned – When undergoing significant changes in processes, it is important to plan appropriately and to consider the impact on the accounting processes. In addition, it is important to reconcile cash accounts on a frequent basis to prevent the buildup of significant reconciling items which may need to be written off/up.

3. Overstated employee receivables – A Brink's subsidiary inappropriately recorded an asset related to employee expense accounts. The subsidiary recorded advances as receivables until expense reports were filed, at which time the expense was recorded. The amounts should have been expensed as incurred (in this case, when the amounts were initially advanced). As a

result, an out of period adjustment was recorded in 2011 to recognize expense for these advances to employees.

Lesson Learned – Advances to employees for work-related expenses should be accrued and expensed as the advance occurs. Any changes in classification of the expense can be corrected when the final expense reimbursement occurs.

4. Overstated bonus and legal liability – A Brink's subsidiary did not reconcile their bonus and legal accruals timely during 2011, resulting in over accruals not being properly reversed.

   Lesson Learned – It is important to reconcile all balance sheet accounts on a timely basis in accordance with the *Balance Sheet Account Reconciliation* policy. Unreconciled accounts are at risk of containing aged items which need to be written off/up.

5. Overaccrued severance liability – A Brink's subsidiary inappropriately recorded severance expense prior to meeting the US GAAP criteria for accounting recognition. As a result, an out of period adjustment was identified.

   Lesson Learned – Because the US GAAP accounting for these transactions can be complex, it is important to consult with Corporate Accounting regarding material transactions (such as severance plans) in accordance with the *Communication of Material Transactions* policy. Communication with Corporate Accounting should occur prior to finalizing the accounting treatment.

6. Overstated fixed asset inventory (existence) – A Brink's subsidiary performed a detailed review of its fixed assets subledgers in 2011 which resulted in a number of discrepancies between what was recorded in the subledger and what was able to be physically verified. Most of these discrepancies were believed to have originated in prior years; therefore, resulting in an out of period adjustment. The discrepancies were due to the existence of the asset not being verified or the asset being maintained on the subledger although it was no longer in service.

   Lesson Learned – Physical inventories of fixed assets should be conducted periodically in accordance with the *Fixed Assets* policy. In addition to physical inventories of assets, fixed assets should also be reviewed to ensure that obsolete assets are written off in a timely manner.

7. Overstated fixed assets inventory (valuation) – A Brink's subsidiary overstated its spare parts inventory due to valuing refurbished parts using current prices for new parts. Given refurbished parts had a significantly lower cost than cost for new parts, an out of period adjustment was recorded to

correct the value of inventory. The Brink's subsidiary had been reconciling the account using a parts/valuation listing supplied by a third party.

Lesson Learned – Reports obtained from third parties to support assets recorded on our financial statements should be fully understood by Brink's accounting teams in order to verify the valuations are in accordance with US GAAP.