Accounting for Accrued Liabilities

Background

During the past year, at least 5 Brink's subsidiaries overstated accrued liability amounts recorded to the balance sheet primarily related to the following reasons:

1) Little monitoring of the accounts occurred to verify the accrual remained valid, and no supporting documentation existed to support the required reserve.
2) Excess reserves were recorded as a conservative measure; however, accruals were unsupported and not acceptable under US GAAP.
3) Accruals (and related expenses) were recorded ratably throughout the year based on annual budgeted amounts, which is not in accordance with US GAAP.

As a result of these overstatements, the Brink's subsidiaries have written off a combined total of over USD 1.2 million. This also resulted in multiple "Out Of Period" adjustments over the past several quarters.

Guidance

As described in the Brink's global accounting policy, *Accrued Liabilities*, all obligations for the payment for goods delivered or services performed must be recognized in the accounting period during which the associated liability is incurred. Accrued liabilities should be recorded only when they exist as supported by an underlying event. Accrued liabilities should be recorded at the actual or estimated amount to be paid.

Because The Brink's Company must report consolidated financial statements on a quarterly basis, the accuracy of accrued liabilities is important each quarter, not only at year end. If an excess or incorrect accrual or reserve is identified, the amount should be written off immediately upon identification. An Out of Period form should be completed and provided to BCO Accounting if the excess or incorrect accrual resulted from an error in a prior quarterly or annual period and the amount exceeds USD 250,000.

On a monthly or quarterly basis, as defined with the applicable BSAR policy, all balance sheet accounts should be reconciled in accordance with the applicable BSAR policy. Accounts must have a subledger or written quantitative calculation with objective inputs supporting the account balance. This subledger must be independent of the general ledger.

For further information, please see the following references:

- Specific examples encountered at Brink's subsidiaries included below under Lessons Learned
- Global accounting policies entitled, *Accrued Liabilities,* and *Balance Sheet Account Reconciliation Policy* or *Balance Sheet Account Reconciliations – Blackline,* as applicable
- Global accounting policy entitled, *Commitments and Contingencies,* if the amount owed is in dispute or otherwise contingent

Lessons Learned

Key lessons learned:

- Accrued liabilities should be recorded in the period the liability is incurred as supported by an underlying event.
- Account reconciliations should be performed timely and unsupported balance sheet amounts should be investigated and resolved timely.

Example 1

A Brink's subsidiary held insurance accruals on the balance sheet supposedly related to outstanding claims for events that occurred 4-5 years ago. No support existed to support the validity of these claims, and account was not reconciled in a timely manner. All accrual accounts should have been reconciled timely in accordance with the applicable BSAR policy, and if valid supporting detail and/or written calculation did not exist, amounts should have been written off. As a result, an out of period was recognized when amounts were finally identified and written off.

Example 2

A Brink's subsidiary estimated an accrual for transportation charges for the last week of the month as invoices were received mid-month rather than month end. Part of the accrual was supported by a calculation with objective inputs; however, in order to be conservative, an additional amount was accrued above the calculated estimate. This additional amount was not supported, was not based on an actual event that occurred in the accounting period, and should not have been recorded.

Example 3

A Brink's subsidiary submitted its 2013 budget accounting for specific expenses to be incurred in the 4th quarter 2013. In order to reduce the impact of the total expenses in the 4th quarter, budgeted expenses and the related accrual were recognized ratably over the year. No underlying event had occurred during the first through third quarters of the year that would warrant the accrual of expenses. Such expenses should not have been accrued or recorded until such time the underlying event occurred in the fourth quarter. This resulted in out of period amounts during each of the first three quarters of 2013.