

## ***Accrual of KPMG Worldwide Audit Fees***

### **Background**

Countries that are included in the KPMG Worldwide Audit must follow the accrual methodology set forth in the ***Accrual and Payment of External Audit Fees Policy*** (BGAST 2012-02). Upon review of the KPMG Worldwide Audit expense and liability accounts, the Corporate Accounting group noticed that many countries are not following the policy correctly.

### **Issues Identified**

1. Before the current year fees are distributed, some countries are accruing KPMG fees based on Plan amounts, rather than using the prior year fees as an estimate for current year fees. (this is only applicable for reliance locations)
2. Countries are not using the correct accrual methodology each quarter (some countries are recording the fees over the 12 months on a straight-line basis, rather than based on the percentages below).
3. Some countries are recording fees for the KPMG Worldwide Audit to the wrong expense and liability accounts.
4. Some countries are not submitting invoices for approval prior to payment.

### **Accrual Methodology**

The methodology for accruing the KPMG Worldwide Audit fees varies depending on if the country is a reliance location or a non-reliance location. This differentiation is made by KPMG based on the amount of work performed in each country for the BCO Consolidated audit. The accrual methodology is based on the timing of when work is generally performed by KPMG. To determine if your country is considered a reliance or non-reliance location, refer to the ***Accrual and Payment of External Audit Fees policy***. Additionally, the Monthly Closing Checklist in DataFlow indicates whether your country is a reliance or non-reliance location. This checklist also calculates the accrual that should be recorded each month and should be compared to the balance in 2040\_30 to ensure your country has recorded the correct accrual each month.

Each year, the BCO Corporate Accounting and Control team will issue the allocations of the KPMG Worldwide Audit fees for each country, usually in the third quarter. Until current year fees have been distributed, countries should use the prior year fee as an estimate for the current year fee.

Countries should record the expense for these fees to 7200\_20 and the liability to 2040\_30.

*Reliance Locations* - The KPMG Worldwide Audit fees should be accrued based on the table below for **reliance locations**.

<u>Current Year</u>				<u>Next Year</u>
<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
5%	5%	55%	25%	10%

\*Note: When following this methodology, the first quarter of each year should contain two accruals: 10% of the prior year audit fees plus 5% of the current year audit fees.

*Non-Reliance Locations* - The KPMG Worldwide Audit fees should be accrued based on the table below for **non-reliance locations**.

<u>Current Year</u>				<u>Next Year</u>	
<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
0%	0%	0%	30%	60%	10%

Payment of Invoices

Before you pay any invoices received from KPMG, the BCO Corporate Accounting and Controls team must ensure that all local KPMG teams have certified their independence and provided statutory audit reports to Brink’s. Please send all KPMG invoices to Charity Bess, BCO Manager – Consolidation and Control for review prior to payment to ensure these requirements are met and the charges are correct. Sometimes a local KPMG office may send an invoice to a country with overrun costs included. We generally do not pay these overrun costs. Any additional amounts charged by KPMG in excess of the Worldwide fee allocation must be approved by the BCO Corporate Accounting and Controls team prior to payment.

**Lessons Learned**

1. Refer to the ***Accrual and Payment of External Audit Fees policy*** to determine if your country is considered a reliance location or a non-reliance location. This policy will also provide more detail on the accrual methodology as well as an example of how the accruals should be calculated each quarter.
2. Because the current year allocations of the Worldwide Audit fees are not usually finalized until the third quarter, when recording the expenses for the first and second quarter, countries should use their prior year allocation as the estimate for current year expenses. A true-up should be recorded when the current year fees are received.
3. All KPMG invoices must be sent to the Corporate Accounting Office for review and approval prior to payment.