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## ***Reconciliation of Statutory to US GAAP***

### **Background**

Some subsidiaries of Brink's maintain their primary ledger in accordance with local GAAP and record certain adjustments for reporting to Corporate in accordance with US GAAP.

In preparing and/or reviewing recent statutory ledger to US GAAP reconciliations, the following errors were discovered:

1. One subsidiary identified various differences between the statutory ledger and the US GAAP ledger that were not properly supported. The differences related to fixed assets accounts. Upon further reconciling the fixed asset subledgers, management discovered the differences related to purchase accounting adjustments dating back more than 10 years that had never been depreciated.
2. Another subsidiary identified inappropriate adjustments made to the US GAAP ledger. The specific adjustment related to a vacation accrual which was reversed for US GAAP reporting but remained on the statutory ledger. Given the liability was the same under US GAAP and local GAAP, the accrual should have remained on the books under both models.

Both errors were identified and corrected multiple years after the original error occurred. The extended period of time between the occurrence and the identification of the errors contributed to a much larger accounting correction than had the error been corrected initially.

### **Control Breakdowns:**

*Statutory to US GAAP Reconciliation:* The Statutory to GAAP reconciliation was not being completed with enough scrutiny by management to ensure they understood the reconciling adjustments.

*Review of Journal Entries:* Journal entries made by the CFO related to reversal of vacation accrual were not reviewed by anyone else.

### **Other Issues Identified:**

*Ownership of US GAAP ledger:* The completeness and accuracy of the US GAAP ledger reported to Corporate is the responsibility of each country. In some cases local management rely on Corporate accounting for supporting

documentation or explanation of entries made on the US GAAP to statutory reconciliations.

### **Lesson Learned**

As a result of these errors identified, we would like to emphasize the following processes and lessons learned to ensure these issues do not occur again:

- A Statutory to US GAAP reconciliation should be completed on a periodic basis to ensure any differences between the two reporting methods are understood and supported. Emphasis should be added on scrutinizing adjustments made to the statutory ledger to ensure they are complete and appropriate in accordance with US GAAP.
- Management continues to ensure appropriate individuals in each region/country have sufficient knowledge of US GAAP. Management is committed to providing additional training as necessary to ensure employees are up to date on the differences between Statutory and US reporting requirements.
- The local general ledger balance sheet should be reconciled to the US GAAP reported balances in HFM at least annually. Any differences between the two ledgers should be understood and supported.
- Other controls already in place at the subsidiaries will be emphasized by management, including maintaining support for all journal entries and having all journal entries reviewed by a person other than the preparer of the journal entry (including entries prepared by the CFO).
- The completeness and accuracy of the US GAAP ledger reported to Corporate is the responsibility of each country. This includes responsibility for monitoring and understanding entries determined and pushed down by Corporate accounting (such as purchase accounting adjustments). Local management certifying US GAAP reporting should understand and if necessary, obtain supporting documentation from Corporate for all statutory to US GAAP differences.