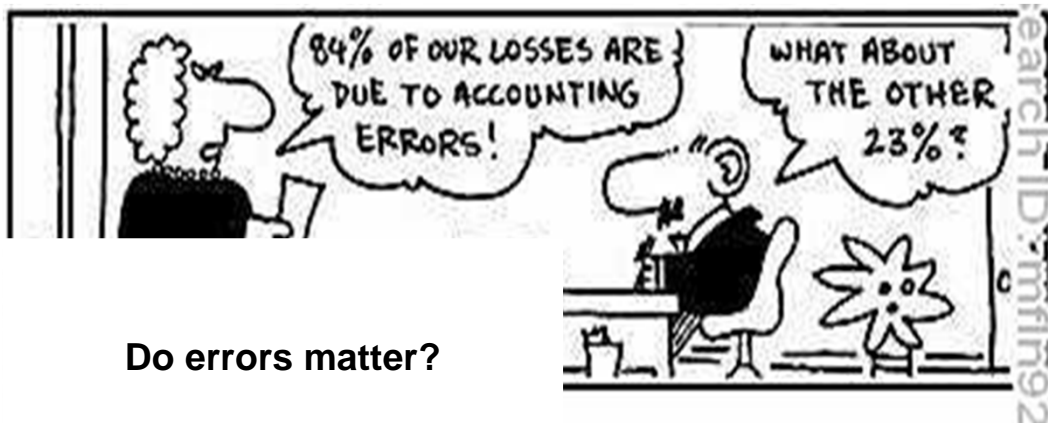


Lessons Learned !? Published Errors in Audited Financial Statements

3rd Audit in Europe Conference
25 November 2011

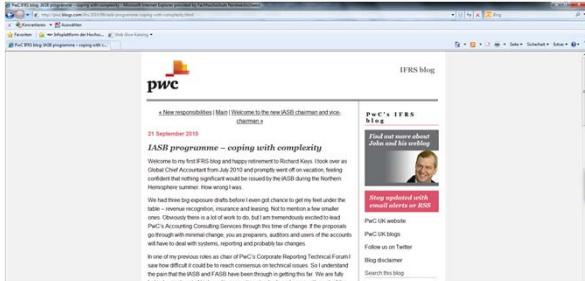
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Do errors matter?

IFRS are complex ...



Deloitte.

Addressing the complexity of IFRS
Considerations for the people related challenges
of conversion



Errors are costly ...



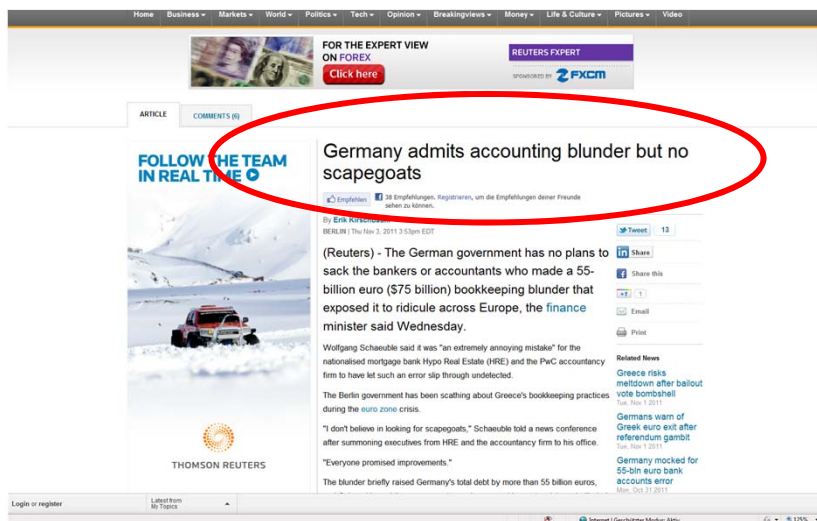
Errors have consequences ...



... due to a sign flaw the company reported a loss of 8.562 K€ instead of a gain of 8.559 K€

Endkonsolidierungsergebnis aus der Veräußerung der SND Electronics Inc.
Aus der Veräußerung der SND Electronics Inc. und ihrer Tochtergesellschaften wurde im Vorjahr ein Endkonsolidierungsverlust in Höhe von 8.562 Tsd. € in den sonstigen betrieblichen Aufwendungen ausgewiesen. Im Wesentlichen aufgrund eines Vorzeichenfehlers hätte sich anstelle des Endkonsolidierungsverlustes in Höhe von 8.562 Tsd. € ein Endkonsolidierungsgewinn in Höhe von 8.559 Tsd. € ergeben müssen. Es handelt sich dabei im Wesentlichen um die ertragswirksame Auflösung der bisher im Eigenkapital erfassten Eigenkapitaldifferenz aus der Fremdwährungsrechnung des historischen Eigenkapitals der SND Electronics Inc..

... sometimes not

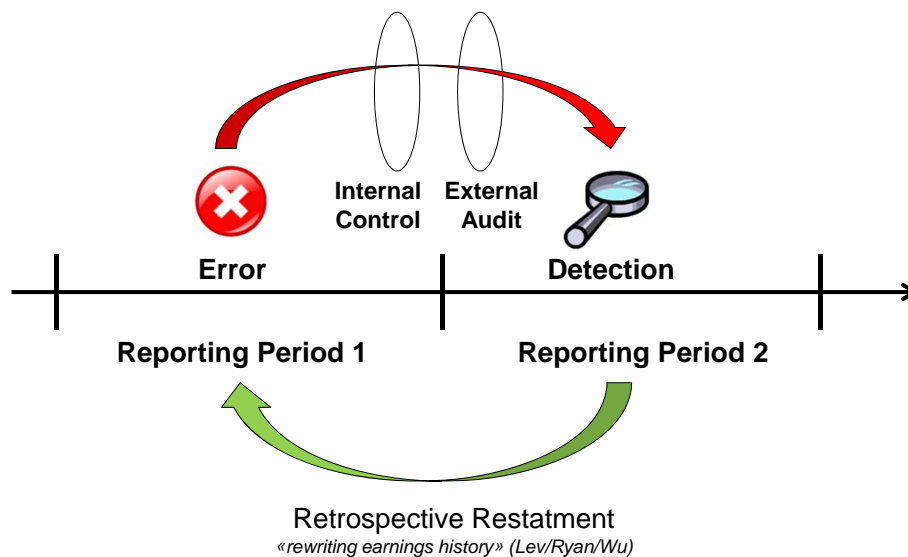


... but: more complexity, more errors?¹

- (1) Analysis of the correction of prior period errors (IAS 8)
- (2) Sample consists of 504 Financial Statements (IFRS), FY 2008 - 2010
- (3) Swiss Quoted Companies
- (4) All Industries (no Banks and Financial Institutions)
- (5) Detailed Search of the published Financial statements using the relevant keywords (i.e. IAS 8, Error, restatement, correction in german, english, french and italian)
- (6) Prior Study covered erroneous statements of German Quoted Companies²

(1) Hütche: *Dicke Bretter, wenig Späne – Eine Analyse veröffentlichter Fehler Schweizer Unternehmen, Der Schweizer Treuhänder, forthcoming.*
(2) Hütche: *Aus Fehlern lernen, IRZ 2009, S. 325 – 333.*

Prior Period Errors show a different grade of quality



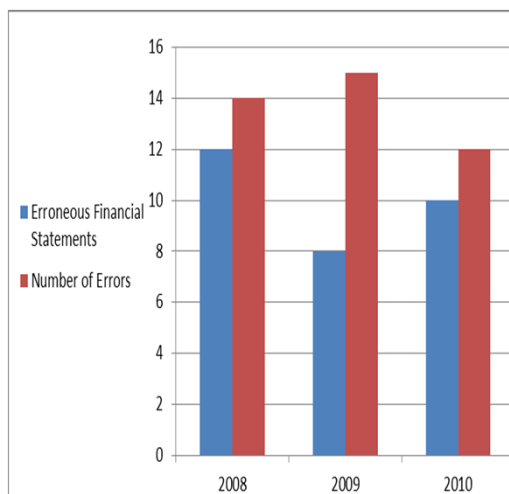
IAS 8 – Definition of Errors

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

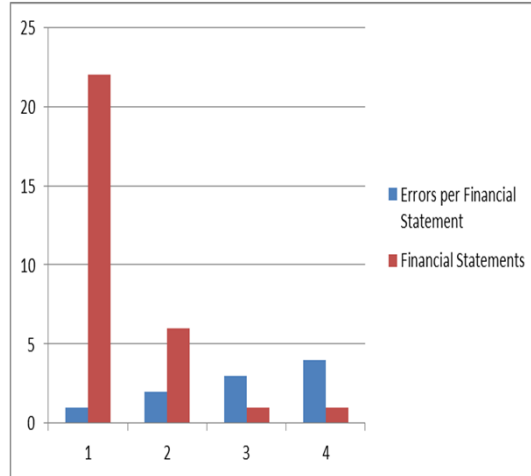
Findings I



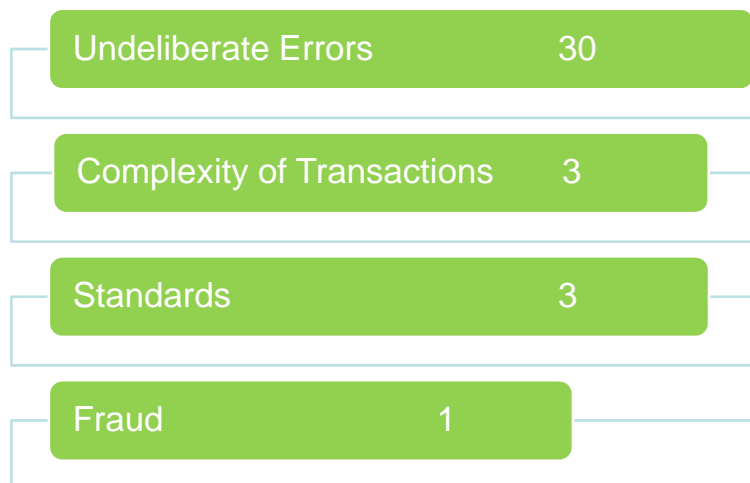
- (1) 28 Companies restated their financial statement, error rate about 7% (enforcement about 4 to 9%)
- (2) Two Companies report errors in two subsequent years
- (3) Two Companies chose other auditor

Findings II

- (1) Subsequent Errors count as one error
- (2) Some companies do the restatement erroneous
- (3) Some companies don't restate, arguing that the comprehensive income was not affected
- (4) No restatement of notes or MDA



Causes for errors



Errors – Top Ten



- (1) Erroneous Calculation of EPS (dilution, minorities) – 5
- (2) No current / non current distinction (Financial instruments, provisions, other assets) – 5
- (3) No deferred taxes on transactions (IPO cost, cash flow hedge, PPA, currency translation) – 5
- (4) Erroneous presentation of items (discounts, revenue, investment property, plan assets) - 5
- (5) Incorrect classification of Cash flows (interest payments, proceeds from treasury stock) – 2
- (6) No or arbitrary provisions has been made up - 2
- (7) Erroneous calculations (Plan assets, PPA) - 2

Lessons to learn

- (1) Prior Period Errors (PPE) indicate a different grade of accounting- and/or audit-quality
- (2) Publishing restatements means publishing a (former) lack of quality, so they should be avoided
- (3) PPE are mostly caused by erroneous calculations and presentations, so they are avoidable
- (4) The complexity of IFRS doesn't lead necessarily to erroneous financial statements: showing the quality of standards or quality of accountants and auditors?
- (5) Further research needed: market shares vs. erroneous financial statements, causes for international differences



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