
An Objective Look at International Financial Reporting Standards (IFRS)

Has Adoption of a Common Accounting Standard Improved Corporate Financial Reporting?

Investors, regulators and many other interested parties need to be able to analyze corporate financial data to make decisions on corporate strength and viability. Of great concern is the transparency and reliability of the financial data – can it be trusted to accurately represent the underlying health of the business?

Accounting standards have come under fire for not providing a clear picture of corporate financial condition, and even contributing to the global financial crisis. Adding to these concerns has been difficult in comparing across countries, with many countries having propagated their own versions of accounting standards.

To address these concerns, the adoption of common accounting standards has taken hold, first in Europe and now spreading globally. In analyzing corporate financial data, corporate stakeholders must determine whether they can rely on these new standards, and the integrity of those applying the standards. This report provides the findings from an extensive analysis of the International Financial Reporting Standards (IFRS) and whether these standards have improved the consistency and comparability of financial reporting.

Summary of Findings

This research report covers a subset of seventeen countries in Europe, which were chosen due to their broad adoption of International Financial Reporting Standards (IFRS.) These countries represent the most developed financial markets in Europe, from an investment and regulatory standpoint. Financial statements were reviewed and compared for the period 2001-2008.

The primary purpose of this research was to support the development of the Audit Integrity risk ratings, know as the Accounting and Governance Risk rating (AGR[®]), for European publicly traded companies. The AGR ratings are based on an extensive set of accounting and governance metrics, with the accounting metrics using data provided through publicly available corporate financial reports.

The questions this research is meant to address revolve around (a) whether IFRS has been implemented consistently across Europe, (b) has IFRS adoption resulted in a “common standard” in the reporting of financial data, and (c) how does IFRS compare to U.S. GAAP, as it relates to the depth and comparability of data.

In all of these areas, this research looks at the level of data provided and the consistency, or lack thereof, of that data. The AGR risk ratings, as well as other types of analysis, require access to high quality financial data. The data used in this analysis was sourced from Reuters (now Thomson Reuters), which Audit Integrity has found to be a high quality source of “as reported” financial statement data.

A summary of the research findings indicates:

- While IFRS implementation in Europe, where it has received the strongest backing by regulatory agencies, has been widespread since 2005, there are notable exceptions across countries in IFRS adoption rates, financial reporting frequency and timeliness of filings:
 - Adoption rates have varied by country, with numerous exceptions given to companies based on size, primary exchange and other country-by-country criteria
 - Reporting frequency remains inconsistent across countries, with several countries allowing for semi-annual rather than quarterly reporting periods
 - Timeliness of financial statement filing varied widely by country and was significantly slower in Europe than in the U.S.
- IFRS has improved the consistency and comparability of financial statements across Europe, but anomalies and inconsistencies remain within and across countries:
 - Improvements were seen after IFRS adoption in the number of “outliers,” indicating greater consistency in reporting
 - Individual metrics vary significantly across countries
 - Certain countries, such as Greece, France and Italy, show the most variance when comparing key financial ratios
- IFRS has no noticeable advantage over U.S. GAAP based on the objective measures used in this research:
 - U.S. GAAP filers have more metrics and greater depth of reporting
 - U.S. corporations file more frequently and in a more timely manner than do corporations in Europe, as a whole
 - Some governance data, such as executive compensation, and Board composition are reported at a much lower level in Europe

Overall, IFRS has improved financial reporting in Europe. There are clear indications that financial reporting has become more consistent and comparable. Differences remain across countries, however, in the way in which IFRS has been implemented, and in the interpretation of the standard.

There can be no conclusion as of yet that IFRS is an improvement on GAAP. If anything, the frequency of filings, the timeliness of financial reporting and the depth and breadth of financial data give an edge to GAAP filers. It is beyond the scope of this report to measure the quality of the two reporting standards, or whether a principles-based approach is better than a rules-based approach.

As it relates to Audit Integrity and our ratings on financial reporting risk, IFRS provides similar breadth and depth of data coverage to U.S. GAAP. The level and consistency of reported data are sufficient for creating risk ratings based on statistical modeling. Future improvements in corporate disclosure are anticipated, which will improve the effectiveness of evaluating corporate integrity.

Background

International Financial Reporting Standards (IFRS), the international accounting standards set by the International Accounting Standards Board (IASB), have become one of the two dominant accounting standards worldwide, along with U.S. GAAP. IFRS now accounts for 35 percent of global market capitalization, having surpassed U.S. GAAP's 28 percent of global market capitalization. Approximately 113 countries worldwide currently require or permit utilization of IFRS for preparation of consolidated financial statements. With additional countries in the process of or planning to adopt IFRS, its percentage share will continue to rise.

As part of its development of a financial reporting risk service for Western Europe, Audit Integrity conducted a thorough analysis of IFRS data, with the goal of establishing the comparability and consistency of financial statements for companies using IFRS. Looking at several years of financial statement data, Audit Integrity was able to analyze whether IFRS has resulted in a common standard by which to compare company financials and measure risk. This report summarizes the findings of that analysis.

Adoption and Usage of IFRS

First mandated by the Parliament and Council of the European Union in 2002, all 27 EU member states were required to convert from national GAAP to IFRS for their consolidated financial statements as of 2005, or as of 2007 if the company was already using U.S. GAAP. The regulation now also applies to the members of the European Economic Area (EEA): Norway, Iceland and Liechtenstein (and Switzerland, by option.)

The introduction of IFRS was to satisfy the need to develop an integrated financial services market in the EU. However, additional countries worldwide voluntarily have chosen IFRS adoption, in accordance with the *harmonization concept*: the attempt to reduce accounting differences across countries and the problems associated with the lack of worldwide accounting standards.

In addition to the broad adoption across Europe, other countries have made the commitment to move to IFRS. India has announced IFRS implementation effective 2011, and both Canada and Korea have announced IFRS implementation by 2011, with early adoption permitted. Numerous other countries have adopted IFRS with some modifications, including Australia, New Zealand, and the Philippines.

As part of the movement to IFRS, there has also been a shift towards a more "principles-based" approach to accounting, as compared to the "rules-based" accounting that has come to dominate U.S. financial reporting. The goal of principles-based accounting is to reduce complexity, as well as costs, in financial statement preparation. It also allows for more judgment and flexibility in financial reporting, rather than adhering to strict rules that may not reflect changes such as valuation of complex investments.

U.S. GAAP consists of a complex and detailed set of rules with specific application guidance, which eliminate much of the leeway for interpretation and is meant to promote consistency in application. IFRS, in contrast, consists of standards with limited application guidance, which are written with the goal of capturing the spirit and intent of economic transactions and thereby leave room for interpretation. The types of differences between IFRS and U.S. GAAP may be generally classified into three main categories as follows:

- 1) Recognition differences – related to a) whether an item is recognized or not, b) how it is recognized, or c) when it is recognized. Included in this category, would be research & development (R&D) costs (IAS 38)¹, intangible assets (IAS 38), deferred tax assets (IAS 12), and past service costs related to vested pension benefits (IAS 19), among others.
- 2) Measurement differences – result in the recognition of different amounts. This can be due to different measurement methods required, or from alternatives allowed by one set of standards but not the other. Included in this category, would be inventory (IAS 2), and property, plant, and equipment (PP&E) (IAS 16), among others.
- 3) Presentation and disclosure differences – related to the manner in which items are presented on the financial statements or disclosed in the notes to the financial statements. Included in this category, would be extraordinary items (IAS 1), discontinued operations (IFRS 5), and presentation of financial statements (IAS 1), among others.

¹IAS (International Accounting Standard), issued by the International Accounting Standards Committee (IASC), IASB's predecessor.

FASB and IASB continue to proceed with convergence of the two sets of financial reporting standards, according to the 2002 Norwalk Agreement. Some FASB-IASB differences are within scope of the convergence projects, and so are likely to be eliminated over time.

Key convergence initiatives include the short-term convergence effort and joint projects. The short-term effort is to address topics for which reporting standards differences seem resolvable in a short time period. Joint projects address broader issues that are expected to take longer to resolve than those under the short-term convergence effort.

The United States' conversion to IFRS is currently in a holding pattern. After making a commitment to a "road map" that would have initiated conversion to IFRS beginning in 2011, the change to a new administration and the priority of dealing with the current financial crisis has caused financial standards setters in the U.S. to back off of that commitment.

Robert Herz, Chairman of the Financial Accounting Standards Board was recently quoted as saying that the convergence efforts to reconcile U.S. GAAP and IFRS would not be completed for "10-15 years." New SEC Chairman Mary Shapiro has also made

it clear in recent comments that the convergence efforts and shift to IFRS would not receive the same priority as under the previous administration.

Opinions vary among rule makers and stakeholders as to the quality of IFRS and the feasibility of the implementation schedule for the U.S. CFOs in the U.S. have become more vocal about the costs and confusion that would result in a change to IFRS, and have been joined by others in questioning whether a change in accounting standards would help or hurt investor confidence in corporate financial reporting.

The recent pause in commitment from the U.S. to endorsing and implementing IFRS has been met with warnings from IFRS proponents that if the U.S. does not commit to IFRS over the next few years, it will be an "outlier," which would prove to be costly for the U.S.

Questions Surrounding IFRS

Questions continue to exist as countries and companies convert to this relatively new accounting standard. While no one would question the need for and benefits of a common accounting standard, the primary questions at this point are:

- Has IFRS been consistently adopted across companies and across countries?
- Is IFRS a "common" standard with regard to how it is being applied?
- Does IFRS provide better financial reporting and financial statement data than U.S. GAAP?

These questions arise from concerns over the lack of accountability and fragmented ownership of IFRS standards setters. Dozens of regulatory agencies are involved, each with their own set of priorities and interests. There remains the potential that implementation of IFRS standards will be uneven across countries, and open to political influence. Additional concerns have been voiced as to an "over-academic" approach to standard setting with IFRS.

While the research and analysis Audit Integrity conducted cannot answer all questions on the effectiveness of IFRS, it has provided a thorough, objective look at IFRS reporting. By comparing an extensive coverage of public companies over several years, looking at a broad range of financial ratios (termed "metrics,") Audit Integrity has compared the financial reporting of IFRS reporting with pre-IFRS reporting standards in Europe and with U.S. GAAP reporting.

"Metrics" are defined as ratios and data points that are meant to be a common basis for relevant comparisons – Accounts Receivable over Sales, as an example, or Average Tenure of CEO/CFO. Audit Integrity uses these metrics to identify statistical models and ratings that are designed to be predictive of negative events such as regulatory actions, shareholder litigation and financial restatements. By observing patterns of behavior that led to such events in the past, certain metrics can be found to be the best predictors of future negative events.

The analysis in this report will not attempt to make subjective judgments on the quality of financial reporting – e.g., it will not determine whether IFRS or GAAP is better at lease accounting. What will be covered is an objective look at the quality of financial reporting as it relates to measurable observations – the breadth and depth of coverage of financial statement reporting, the frequency and timeliness of statements, and the consistency of reporting within and across two regions, North America and Europe.

An Objective Look at IFRS

In calculating a proprietary measure of financial reporting risk, called the Accounting and Governance Risk rating (AGR[®]), Audit Integrity calculates and compares over 100 different accounting and governance metrics. These metrics focus on areas that have historically been associated with financial statement fraud or misreporting.

The forensic and fundamental metrics include such areas as Accounts Receivable, Inventory, Prepaid Expenses and Goodwill – areas where financial statements can be manipulated to present a misleading picture of financial strength and stability.

In calculating these metrics for individual companies and creating industry averages, Audit Integrity statistical analysis first identifies which metrics have been most consistently associated with fraudulent behavior, based on SEC regulatory actions, then looks for companies that are reporting unusual variance or volatility in these measures.

For this analysis, Audit Integrity limited the universe of companies to a subset of European countries that had shown a clear adoption of IFRS standards from 2005 forward. The full set of accounting and governance data used in this research was calculated using two different data sets of eight quarters each: 1) national (i.e., country-specific) GAAP data from 2003 Q1 to 2004 Q4, and 2) IFRS data from 2006 Q4 to 2008 Q3.

Statistical tests were then performed to review the comparability and consistency of accounting and governance data between pre- and post-IFRS and between IFRS and U.S. GAAP. The goal of this research was to let the numbers speak for themselves, without subjective opinion and assessments. The Detailed Findings section to follow provides the results of that objective analysis.

Detailed Findings

Adopting IFRS

With the regulatory mandate for European companies to begin reporting in IFRS starting in 2005, evaluation of companies utilizing IFRS exhibited a clear move to IFRS in 2005 and the following years, as shown in Table 1 below.

Table 1								
IFRS Adoption								
Country	2001	2002	2003	2004	2005	2006	2007	2008
Austria	71%	73%	75%	82%	87%	96%	96%	95%
Belgium	11%	11%	24%	61%	80%	91%	91%	92%
Denmark	3%	2%	4%	31%	38%	37%	39%	40%
Finland	2%	3%	6%	74%	97%	99%	100%	100%
France	3%	2%	1%	48%	80%	88%	88%	87%
Germany	45%	48%	49%	59%	75%	83%	84%	86%
Greece	4%	2%	2%	41%	96%	100%	100%	100%
Ireland	2%	2%	2%	55%	69%	89%	88%	93%
Italy	1%	1%	1%	48%	78%	99%	100%	100%
Luxembourg	45%	33%	43%	67%	81%	100%	100%	100%
Netherlands	3%	2%	4%	51%	86%	90%	91%	91%
Norway	1%	1%	2%	70%	88%	89%	92%	91%
Portugal	0%	2%	3%	48%	92%	94%	98%	100%
Spain	1%	1%	1%	69%	83%	85%	88%	89%
Sweden	2%	2%	3%	62%	84%	81%	78%	77%
Switzerland	64%	64%	64%	64%	73%	73%	74%	75%
United Kingdom	1%	1%	2%	32%	46%	66%	81%	84%
Europe	10%	10%	10%	46%	66%	76%	82%	84%

As noted, there remain companies within Europe that do not yet file under IFRS. Further research into this discrepancy identified a number of exceptions to mandatory IFRS filing, primarily based on the size of the company and the primary exchange listing. Some examples include:

- French and Belgian companies listed on Alternext can report under national GAAP
- German companies listed on the Entry Standard can report in national GAAP

- Austrian companies listed on the Multilateral Trading System are not required to report in IFRS
- Switzerland has not fully required companies to report in IFRS standards

Another notable difference in adoption of GAAP has been in the frequency of financial statement filings. As noted in Table 2 below, the majority of IFRS filers in several countries report financials on a semi-annual basis, compared to the standard quarterly filing in the U.S. and other countries.

Table 2

Percentage of Quarterly Filers by Year

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	88%	93%	96%	96%	98%	98%	96%	93%	96%
Belgium	40%	49%	45%	48%	44%	39%	37%	35%	41%
Denmark	49%	59%	49%	50%	50%	47%	45%	48%	55%
Finland	91%	98%	99%	97%	97%	97%	98%	98%	98%
France	40%	24%	14%	8%	5%	5%	6%	9%	16%
Germany	93%	95%	92%	88%	87%	83%	79%	76%	82%
Greece	82%	88%	97%	99%	100%	100%	99%	100%	99%
Ireland	35%	22%	21%	11%	12%	15%	13%	15%	20%
Italy	25%	28%	31%	33%	63%	89%	90%	89%	94%
Luxembourg	75%	58%	57%	58%	61%	55%	56%	59%	77%
Netherlands	53%	50%	51%	52%	51%	54%	53%	56%	60%
Norway	100%	100%	100%	100%	100%	100%	100%	99%	99%
Portugal	63%	24%	24%	25%	25%	68%	75%	78%	95%
Spain	72%	53%	40%	41%	39%	40%	44%	50%	63%
Sweden	100%	100%	100%	100%	99%	98%	97%	98%	98%
Switzerland	23%	33%	37%	35%	35%	33%	31%	31%	42%
United Kingdom	15%	10%	9%	8%	8%	8%	7%	7%	9%
United States	100%	100%	100%	100%	99%	98%	98%	97%	97%
Canada	99%	99%	99%	99%	99%	99%	96%	97%	97%

In comparing and analyzing companies across Europe, both adoption of IFRS and filing frequency must be taken into account, as there are some clear differences on a country-by-country basis. For investors and others attempting cross-country or regional (to say nothing of global) comparisons, assuring use of IFRS financial reports and making adjustments for differences based on frequency of filing will be necessary.

A final measure of the effectiveness of IFRS on standardizing financial filings was to look at the timeliness of reporting. To do this, a comparison was made between the period end date (e.g., December 31, 2008) and the date on which the company filed

financial statements. As with IFRS adoption and filing frequency, there is a notable difference by country in how quickly companies file financial statements. For quarterly and semi-annual filings, for example, the average number of days it takes to file ranges from 31.5 (Finland) to 89.0 (Luxembourg). For annual filings, the range is 68.1 days (Denmark) to 141.9 (France). Table 3 below summarizes the results by country.

Table 3

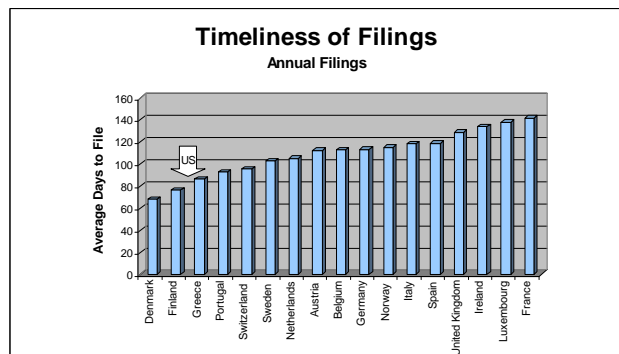
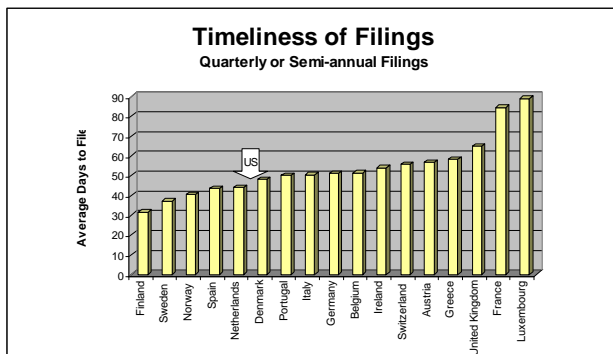
Timeliness of Statement Filings

Region	Fiscal Quarter	Country	Avg # Days from Qtr End to Filing
North America	Q	United States	45.9
North America	Q	Canada	52.5
North America	A	United States	84.7
North America	A	Canada	99.9
			57.3
Europe	Q/S	Finland	31.5
Europe	Q/S	Sweden	37.1
Europe	Q/S	Norway	40.5
Europe	Q/S	Spain	43.4
Europe	Q/S	Netherlands	43.9
Europe	Q/S	Denmark	48.0
Europe	Q/S	Portugal	50.2
Europe	Q/S	Italy	50.2
Europe	Q/S	Germany	51.1
Europe	Q/S	Belgium	51.3
Europe	Q/S	Ireland	53.9
Europe	Q/S	Switzerland	55.7
Europe	Q/S	Austria	56.6
Europe	Q/S	Greece	58.1
Europe	Q/S	United Kingdom	64.9
Europe	Q/S	France	84.3
Europe	Q/S	Luxembourg	89.0
			53.5
Europe	A	Denmark	68.1
Europe	A	Finland	76.3
Europe	A	Greece	86.2
Europe	A	Portugal	93.0
Europe	A	Switzerland	95.3
Europe	A	Sweden	102.6
Europe	A	Netherlands	105.0

Europe	A	Austria	112.7
Europe	A	Belgium	112.8
Europe	A	Germany	113.5
Europe	A	Norway	115.1
Europe	A	Italy	118.6
Europe	A	Spain	118.9
Europe	A	United Kingdom	128.9
Europe	A	Ireland	134.2
Europe	A	Luxembourg	138.3
Europe	A	France	141.9
			116.0

Q=Quarterly, A=Annual, Q/S=Quarterly or Semi-Annual

Overall, European corporations are notably slower than their U.S. counterparts in filing financial statements, as noted in the following exhibits.



Measuring Commonality

In observing whether IFRS has resulted in a common standard, the research looked at two equivalent time periods – a “pre-IFRS” period of Q1, 2003 – Q4, 2004, and a “post-IFRS” period of Q4, 2006 – Q3, 2008, which was the latest available quarter as of the time of this analysis. Pre-IFRS data was based on National GAAP accounting standards, while post-IFRS data was based solely on IFRS filings.

Results are shown in Attachments A and B at the end of this report – the “Heat Maps.” These Heat Maps provide a summary of the metrics tested by Audit Integrity in calculating AGR ratings, and are based on a broad range of forensic accounting, fundamental analysis and corporate governance measures.

The Heat Maps are meant to show the metrics, by country, that are at a significant variance to the European regional averages. For each of the quarters observed – 8 quarters for both pre- and post-IFRS period – the research noted the number of quarters with a significant variance.

It would be expected that the implementation of IFRS would reduce the number of “outliers” – quarters in which a country had an unusual value in a certain metric. This is in fact what was observed. There is improved comparability across countries once IFRS is adopted as compared to periods where various national GAAPs were being applied.

European countries using national GAAP (pre-IFRS) had outliers for 21.3% of the total quarters observed, while European countries using IFRS (post-IFRS) had outliers for 15.8%, a 25% decline in the incidence of outliers in IFRS versus national GAAP.

Several metrics showed notable improvement in the consistency of reporting, as noted in the following table:

Table 4	
Accounting Metrics Showing Greatest Improvement Pre-IFRS to Post-IFRS	
Metric	Number of Outlier Quarters
Intangible Assets/Assets	84% fewer
Operating Revenues/Operating Expenses	64% fewer
Prepaid Expenses/Operating Expenses	56% fewer
Other Assets/Assets	50% fewer
Inventory/Operating Revenues	47% fewer
Debt/Equity	47% fewer

* Actual period covered: Q4, 2006 - Q3, 2008

Significant differences still do exist, however. As noted in the post-IFRS Heat Map, there are still a number of areas where country-level averages remain outliers to the rest of Europe. The table below shows the accounting metrics that showed the greatest inconsistency in both pre-IFRS and post-IFRS periods.

Table 5	
Accounting Metrics Showing Greatest Inconsistency	
Pre-IFRS (2003-2004)	Post-IFRS (2007-2008)*
Accounts Receivable/Sales	Other Operating Exp/Operating Exp
Intangible Assets/Assets	Accounts Receivable/Sales
Other Operating Exp/Operating Exp	COGS/Operating Revenues
COGS/Operating Revenues	Other Revenue/Revenue
Depreciation/PP&E	Goodwill/Assets

* Actual period covered: Q4, 2006 - Q3, 2008

Of note are some relatively common forensic measures such as Receivables and Goodwill, as well as “catch all” accounts such as Other Revenue that are open to manipulation.

It should be noted that Audit Integrity tests over 100 metrics as part of the AGR rating process, and it should be expected that there will be differences within this broad collection of data. The majority of metrics show a minor level of country-by-country variance. The Heat Maps indicate a selection of the most commonly used forensic and governance metrics reported under IFRS.

With regard to which countries show the greatest divergence from the IFRS common standard, the following table lists the top five countries in terms of consistency pre- and post-IFRS:

Table 6	
Countries Showing Greatest Inconsistency	
Pre-IFRS (2003-2004)	Post-IFRS (2007-2008)*
Greece	Greece
Italy	France
Spain	Italy
UK	Portugal
Portugal	Norway

* Actual period covered: Q4, 2006 - Q3, 2008

The lists are similar, with France and Norway showing less consistency post-IFRS and Spain and the UK greater consistency.

Mind the GAAP

There has been and will continue to be a great deal of discussion and debate on the merits of IFRS vs. GAAP. That debate is not for this research to resolve. What this report analyzes is the comparability of IFRS and GAAP based on coverage and consistency of accounting – and some governance – metrics.

In conducting such analysis, the comparability and consistency of data is critical. Conversion to IFRS is expected to result in a number of changes in financial reporting for GAAP filers. Based on an extensive review of accounting literature on this subject, the following list summarizes the primary differences:

- **Revenue Recognition:** The major differences involve multiple deliverable arrangements where the timing of recognition can be earlier under IFRS. Much of the difference is in industry-specific guidance.
- **Expense Recognition:** Differences in when expenses are recognized for share based compensation and related taxes as well as whether awards are classified

as liabilities (requiring mark-to-market) or as a component of equity. There are differences in some of the methods allowed for depreciation of fixed assets. Advertising expenses can be delayed under GAAP, not IFRS. Acquisition costs can be capitalized in GAAP, but must be expensed under IFRS.

- **Asset Valuation:** LIFO is not permitted for inventory valuation under IFRS. There are differences in asset impairment testing resulting in impairments usually being recognized earlier under IFRS. Assets can only be written down under GAAP, while IFRS also allows them to be written up to fair value. Development costs are generally capitalized under IFRS but expensed as incurred under GAAP. Leasing arrangements are also treated differently.
- **Financial Assets:** Many asset securitizations that could be carried off balance sheet under GAAP would require balance sheet recognition under IFRS. There are also differences in allowable valuation methodologies for some financial instruments. Derivatives and hedging are treated differently; certain elements are more restrictive under GAAP, others under IFRS.
- **Consolidation:** GAAP considers who has the controlling financial interest while IFRS has a control-based model. Generally more entities are consolidated under IFRS.
- **Business Combinations:** U.S. GAAP is converging to IFRS in this area. Changes include expensing acquisition costs that previously were capitalized, separately recognizing restructuring costs, and changes in recognition of contingent liabilities.

In looking at the data, the metrics showing the greatest difference when comparing U.S. averages to European averages were the following:

Table 7
Metrics Showing the Greatest Difference European Region vs. U.S.
Notes Receivable over Assets
Prepaid Expenses over Operating Expenses
Deferred Income Tax Assets over Operating Expenses
Goodwill over Assets
Intangible Assets over Assets
Property, Plant & Equipment over Assets

Overall, the majority of metrics showed average values that were comparable between U.S. and European corporations.

Another comparison between GAAP and IFRS was conducted by looking at the depth of coverage – i.e., how detailed are the financial statements? To answer that question, a comparison was made of the number of metrics per company for Europe as a region, and comparing that to the U.S. region. The results are listed in Table 8, below, overall, and by the four AGR rating categories.

Average Number of Metrics per Region			
Region	AGR	Average # of Metrics	Average # of Flagged Metrics
North America	Very Aggressive	28.73	9.73
Europe	Very Aggressive	23.75	8.23
North America	Aggressive	27.98	6.62
Europe	Aggressive	23.70	5.71
North America	Average	25.65	3.58
Europe	Average	22.82	3.20
North America	Conservative	20.91	0.89
Europe	Conservative	20.40	0.87
North America	All AGR	25.80	4.52
Europe	All AGR	22.77	3.98
Difference		13%	14%

In summary, U.S. corporations were found to have an average of 25.8 metrics per company, vs. 22.8 for European firms, a 13% difference. A similar difference was noted in comparing the average number of “flagged” metrics – or metrics that failed an AGR test, indicating higher risk.

Finally, in comparing GAAP to IFRS, the research looked at the actual metrics, comparing coverage by region on a metric by metric basis. Overall, as noted above, U.S. firms have more metrics, and there are a number of individual metrics that stand out as having much greater coverage in the U.S. There are also some metrics that had greater coverage in Europe, pension metrics being one notable example.

A summary of metric coverage by region is included below as Table 9.

Table 9

Comparison of Metric Coverage by Region

Risk Type	Metrics With Greater U.S. Coverage	Metrics With Greater European Coverage
Corporate Governance	Compensation: ex., Ratio of CEO to CFO Total Comp Average Tenure of the CEO and CFO	
Revenue Recognition	Doubtful Accounts Allowance/Gross Receivables Unearned Revenue Current/Revenue	Other Revenue/Revenue
Expense Recognition	Deferred Long Term Charges/Operating Expenses Deferred Income Tax Assets Current/Operating Exp. Amortization Expenses/Gross Intangibles Prepaid Expenses/Operating Expenses R & D Expenses/Operating Expenses S G & A Expenses/Operating Expenses	Other Operating Expenses/Operating Expenses Deferred Income Tax Assets Long Term/Operating Exp. Labor Related Expenses/Revenues
Asset/Liability Valuation	Accrued Expenses Payable/Operating Expenses Other Assets/Assets Other Liabilities/Liabilities Impaired Asset Expenses Held for Use/Assets	Other Current Liabilities/Current Liabilities Pensions: Projected Benefit Obligation/Liabilities Pension Liabilities Discount Rate Domestic Pension Comp. Expected Rate of Increase Underfunded Pension Benefits/Liabilities

Observations and Conclusions

The widespread and growing adoption of IFRS has the goal of reducing accounting differences across companies, and ultimately supporting investors and others who desire to compare companies across countries based on common standards.

Since 2005, the pace of adoption has accelerated rapidly, particularly in Europe. As part of an effort to provide its Accounting and Governance Risk ratings (AGRs) on European corporations, Audit Integrity has conducted a thorough analysis of the comparability and consistency of IFRS financial statements.

Comparisons were based on rate of adoption, frequency of filing, and reporting timeliness of IFRS financial reporting, and on the breadth and depth of the actual financial statement data. In doing so, three broad questions were addressed:

- Has IFRS been consistently adopted across companies and across countries?
- Is IFRS a “common” standard with regard to how it is being applied?
- Does IFRS provide better financial reporting and financial statement data than U.S. GAAP?

Observations and conclusions from the research can be summarized as follows:

1. Has IFRS been consistently adopted across companies and across countries?
 - a. Adoption – Adoption rates have varied by country, with numerous exceptions given to companies based on size, primary exchange and other country-by-country criteria
 - b. Frequency of Filing – Reporting frequency remains inconsistent across countries, with several countries allowing for semi-annual rather than quarterly reporting periods
 - c. Timeliness of Filing – Timeliness of financial statement filing varied widely by country and was significantly slower in Europe than in the U.S.

Conclusions: While IFRS implementation in Europe, where it has received the strongest backing by regulatory agencies, has been widespread since 2005, there are notable exceptions across countries in IFRS adoption rates, financial reporting frequency and timeliness of filings. Based on objective measures, IFRS has improved financial reporting in Europe, and brought European financial reports closer to the consistency and comparability of North American reporting.

2. Is IFRS a “common” standard with regard to how it is being applied?
 - a. Variance – Improvements were seen after IFRS adoption in the number of “outliers,” indicating greater consistency in reporting
 - b. Metric inconsistency – Individual metrics vary significantly across countries

- c. Inconsistency by country – Certain countries, such as Greece, France and Italy, show the most variance

Conclusions: Overall, IFRS has improved financial reporting in Europe, and there are clear indications that financial reporting has consolidated around this shared standard. Differences remain across countries, however, in the way in which IFRS has been implemented, and in the interpretation of the standard. Anomalies and inconsistencies remain within and across countries

3. Does IFRS provide better financial reporting and financial statement data than U.S. GAAP?
 - a. Depth of Metric Coverage – Overall, U.S. corporations report more detailed financial data. Governance data such as executive compensation and Board composition are reported at a much lower level in Europe. Several individual metrics were reported on with differing frequencies. In general, U.S. companies reported on more metrics, but certain metrics (e.g., Pension metrics) were reported with greater frequency in Europe.
 - b. Differences Continue post IFRS – In looking at average metric values, a small number of metrics had notable differences. Along with expectations for differences in financial reporting between IFRS and GAAP, this would lead to concerns in comparing financial statements using different standards.

Conclusions: There can be no conclusion that IFRS is an improvement on GAAP. If anything, the frequency of filings, the timeliness of financial reporting and the depth and breadth of financial data give an edge to GAAP. It is beyond the scope of this report to measure the quality of the two reporting standards, or whether a principles-based approach is better than a rules-based approach. The conclusion that can be drawn, however, is that it is best to compare within each accounting standards – GAAP-to-GAAP and IFRS-to-IFRS – to ensure the highest level of consistency.

More specifically for Audit Integrity, the final question is whether IFRS has resulted in setting a standard that allows for comparability of financial information for the purpose of developing risk models. The short answer is yes. The longer answer is yes, with some caveats.

In terms of number of metrics and consistency of metric reporting, IFRS is comparable to U.S. reporting. Certain metrics, such as compensation, are not available at this time, but are increasingly being reported. Other metrics, such as pension metrics, use inherently different assumptions.

The analysis and finding presented above covered an extensive review of IFRS financial reporting. Audit Integrity has incorporated these findings into a risk model built on the effectiveness of AGR ratings in identifying potential fraud and financial reporting risk in the North American market.

Based on the above observations and conclusions, it was determined that the best approach was to use only IFRS data from the period 2005 forward, and construct the universe of companies to those countries that have clearly committed to a full implementation of IFRS. That group encompasses the 17 countries listed in this report.

The second report in this series on IFRS will focus on the result of that AGR process, identifying the countries and companies in Europe that are viewed by Audit Integrity as carrying the greatest risk in financial reporting, or, more broadly, have the greatest integrity risk.

The Audit Integrity Accounting & Governance Risk (AGR®) Model

Audit Integrity is the leading provider of accounting and governance risk analysis on public companies. Through the forensic study of the factors behind fraud, Audit Integrity proprietary modeling effectively detects and measures fraud and transparency-related risks in more than 12,000 publicly traded corporations.

The proprietary Accounting & Governance Risk (AGR) rating is a measure of corporate integrity based on forensic accounting and corporate governance metrics, and is an indicator of aggressive corporate behavior which can put stakeholders at risk. The AGR Score is based on a quantitative model which weights specific accounting and governance metrics derived from corporate reporting. The score ranges from 0 to 100, with lower scores indicating higher risk.



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Heat Map for Europe - pre-IFRS

An Analysis of Anomalies in Financial Reporting

Based on National GAAP Filings, 2003 - 2004

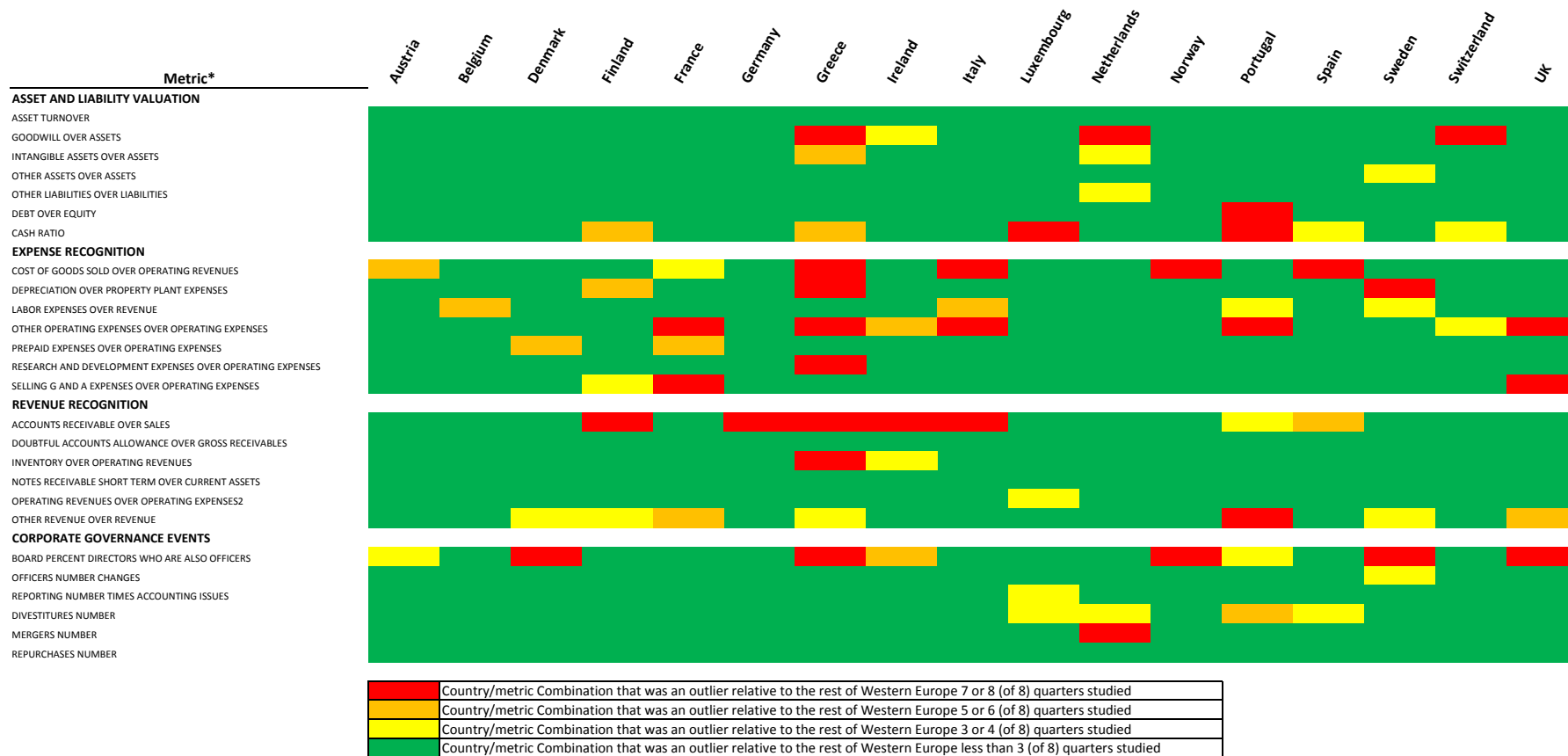


* This list presents a representative sample of the 100+ metrics used by Audit Integrity

Heat Map for Europe - post-IFRS

An Analysis of Anomalies in Financial Reporting

Based on IFRS Filings, 2007 - 2008



* This list presents a representative sample of the 100+ metrics used by Audit Integrity