

## Stupid errors in spreadsheets could lead to Britain's next corporate disaster

Large firms have failed to learn lessons from Enron, one of the most famous cases of corporate fraud, where thousands of spreadsheet inaccuracies were later discovered



16pc of large companies have admitted finding inaccurate information in spreadsheets more than 10 times last year Photo: ALAMY

By Rebecca Burn-Callander

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Errors in company spreadsheets could be putting billions of pounds at risk, research has found. This is despite high-profile corporate catastrophes, such as the collapse of US energy giant Enron, ringing alarm bells about inaccurate accounts and financial spreadsheets more than a decade ago.

Almost one in five large businesses have suffered financial losses as a result of errors in spreadsheets, according to F1F9, which provides financial modelling and business forecasting to blue chips firms. It warns of looming financial disasters as 71pc of large British business always use spreadsheets for key financial decisions.

The company's new whitepaper entitled Capitalism's Dirty Secret showed that the abuse of humble spreadsheet could have far-reaching consequences. Spreadsheets are used in the preparation of British company accounts worth up to £1.9 trillion and the UK manufacturing sector uses spreadsheets to make pricing decisions for up to £170bn worth of business.

In total, spreadsheet calculations represent up to £38bn of British private sector investment decisions per year, data harvested through YouGov found. Yet 16pc of large companies have admitted finding

inaccurate information in spreadsheets more than 10 times in 2014.

Grenville Croll, a spreadsheet risk expert, said of the findings: "Spreadsheets have been shown to be fallible yet they underpin the operation of the financial system. If the uncontrolled use of spreadsheets continues to occur in highly leveraged markets and companies, it is only a matter of time before another 'Black Swan' event occurs causing catastrophic loss."

The report warns that while 33pc of large businesses report poor decision-making as a result of spreadsheet problems, a third of the financial decision-makers using spreadsheets in large UK firms are still given zero training.

Spreadsheet errors have been blamed for a number of high-profile corporate meltdowns. In 2012, a spreadsheet error in the rail franchise bid process for the West Coast Mainline cost the taxpayer around £60m. Reports suggest that **JP Morgan lost £250m because of a spreadsheet slip up in 2013**. Axa Rosenberg, the global equity investment manager, was fined £150m for covering up a spreadsheet error back in 2011.



### **The Enron collapse was turned into a satirical play on Broadway**

Kenny Whitelaw-Jones, managing director of F1F9, said the findings of the report had serious implications for business. "The failure to take seriously the risks posed by spreadsheets is capitalism's dirty secret," he said. "This YouGov report looked at businesses here in the UK but we're confident that by extension this is a global issue."

"More often than not just one person in a company has the knowledge of how the financial spreadsheet models are constructed. Other people are unable to understand and therefore check the analysis. The potential for errors is massive."

**Recent documents detailing the collapse of Enron in 2001**, released following the conclusion of all legal proceedings, showed that 24pc of the corporation's spreadsheet formulas contained errors.

Felienne Hermans, of Delft University of Technology, analysed 15,770 spreadsheets obtained from over 600,000 emails from 158 former employees. He found 755 files with more than a hundred errors, with the maximum number of errors in one file being 83,273.

Dr Hermans said: “The Enron case has given us a unique opportunity to look inside the workings of a major corporate organisation and see first hand how widespread poor spreadsheet practice really is.

“What’s truly shocking is that there seemed to be a culture of total acceptance that mistakes were simply part of working with spreadsheets.

“Some people were sending more than 100 spreadsheets back and forth on a daily basis which proves there was no agreed system or standardised way of working.”



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