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## Constellation Brands reporting in doubt

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Published: June 15, 2009 - 5:35PM

Constellation Brands' internal control over its financial reporting has been cast in doubt after auditors KPMG expressed doubts in a review, with the parent of Constellation Wines Australia, Australia's second-largest wine company, also admitting to deficiencies in its local Australian winery inventory systems.

The failure in reporting systems was centred around the group's Australian operations with reconciliation and review controls for vineyard farming costs failing to meet standards as well as accounting systems accounting records not kept at a sufficient level of precision.

Constellation Brands, which owns Hardy Wine Co, said if the deficiencies continued to progress unchecked it could have led to discrepancies to accumulate in particular inventory accounts.

Reporting to shareholders in its annual report, Constellation Brands president and chief executive Rob Sands also said the manufacturer and marketer of beer, wine, spirits and other drinks would not be immune to the slowing global economy despite an aggressive strategy to prune its portfolio of brands over the last year.

The company had hoped that Australia's oversupply of wine would move into balance this year but a large grape harvest in 2008 and another sizeable crush in 2009 meant the current Australian bulk wine surplus, and related intense competitive conditions in the UK and Australian markets, are not expected to ease in the near term.

Constellation Brands reported sales of \$US4.723 billion (\$5.9 billion) for the 12 months to February 2009, against revenue of \$US4.885 billion in 2008. The company booked its second consecutive loss, posting a net loss of \$US301.4 million against \$US613.3 million in 2008.

Buried in the back of the 90-page report was a statement from Constellation Brands' management on the outcome of a review into the company's internal accounting controls.

"Based on that evaluation, management concluded that the company's internal control over financial reporting was not effective as of February 28, 2009.

"As a result it was at least reasonably possible for discrepancies to accumulate in these inventory accounts, which could have resulted in material differences between the actual costs for inventory on hand and the costs that should have been released to cost of product sold."

The company said the deficiency resulted in immaterial adjustments to inventories and cost of product sold in the company's consolidated financial statements for the fiscal 2009 year. There were also immaterial adjustments made to previous financial reports, Constellation Brands said.

KPMG found a similar issue in its work and expressed an adverse opinion on the effectiveness of Constellation Brand's internal control over financial reporting.

Addressing the company's outlook, Mr Sands said as global economic conditions worsened in 2008-09 the Constellation Brands became increasingly vigilant and expedient over costs, efficiencies and reducing its portfolio.

"Worldwide and domestic economies have experienced adverse conditions and may be subject to further deterioration for the foreseeable future."

Following a review of its operations Constellation Brands decided to slash the value of its UK wine business, booking an impairment loss of \$US252.7 million.

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*This story was found at: <http://www.smh.com.au/business/constellation-brands-reporting-in-doubt-20090615-c8hu.html>*