



Professionals connect – case study

Fraud – a business survives

Case history

- > A Private company operated an auto electrical business for eight years with three foundation directors / shareholders, one of whom “did the books” and the remaining two were “on the tools”.

Issues

- > The two auto electricians did minimal office work and trusted implicitly their co-director whose duties included running the office and keeping the company’s books and records eg. billing and collecting debtors, calculating and paying wages, and managing and paying creditors.
- > When creditors began demanding payment, the two auto electricians sought an explanation from their fellow director who assured them that all creditors had or were in the process of being paid.
- > Management reports on trading and financial position had not been provided to the directors.
- > The board rarely met to discuss the financial performance and position of the company or the business’ future strategy.
- > Management accounts had been drafted but not provided to the external accountant to enable the financial accounts and taxation returns to be prepared, signed and lodged.
- > Cheques were being presented against the bank but not included in the accounts.
- > The two auto electricians began to hear rumours that their fellow director had been seen regularly at the local clubs’ gaming rooms. It was confirmed she had and had been using company funds to support her habit.
- > The company had lost around \$300,000 over the previous two years and could not pay its debts.
- > Directors were concerned about running an insolvent company.

Action taken

- > The company’s board appointed PPB as Voluntary Administrator of the company.
 - Investigation of the company’s financial position began – the company could not survive.
 - The size of the loss was determined.
 - The fraudulent director was dismissed.
 - The business was advertised for sale and ultimately sold to the other two directors at fair value.
 - At the end of each days’ trading the two auto electricians spent an hour together completing the office work necessary to run the business, including paying the business’ creditors.

Positive outcomes

- > The business was resurrected and survived.
- > All creditors were paid.
- > The landlord retained a tenant.
- > The employees retained their jobs.
- > The accountant retained his client.
- > The two auto electricians;
 - Remained in paid work and regained faith in themselves.
 - Learnt how to run a business.
 - Eventually sold their business, and are now looking to buy another business.
- > The fraudster was bankrupted.

Alternative

- > Had the accountant not intervened the company would have been wound up involuntarily, the directors would have lost their business and the accountant may have lost a client.

Important:

This information is not advice. Readers should not act solely on the basis of information contained in this document. We recommend that formal or independent advice be sought before acting in the areas covered herein.

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