A FINANCIAL ANALYIS OF THE AWU WEST AUSTRALIAN BRANCH 1991 TO 1997 *

By John Lourens

** The author acknowledges the considerable editorial contribution of Val Majkus, LLB (Hons) UTS.*

Introduction

Between 1991 and mid-1995, a massive fraud was perpetuated on the Australian Workers' Union (AWU). At the heart of the financial swindle was the creation and subsequent operation of unauthorised bank accounts. Their apparent purpose was to enable the systematic and large-scale misappropriation of money. Following intensive investigation in 1996, then National Secretary of the AWU, Ian Cambridge (now a Commissioner of The Fair Work Commission) discovered the existence of thirteen unauthorised bank accounts created, and subsequently operated, by officials associated with the AWU. Five of the unauthorised accounts were located in Western Australia, and eight were located in Victoria. All thirteen accounts were held with the Commonwealth Bank of Australia, and many (but not all) had names suggesting a direct link to the AWU.

Magnitude of the AWU fraud including AWU unauthorised bank accounts in WA and Victoria

By any measure, the overall fraud upon the AWU was massive. It is difficult to determine the precise dollar amounts involved due to the absence of complete information. However, based on evidence contained in the September 1996 Affidavit by Ian Cambridge, it is possible to make reasonable estimates of the scale of the financial swindle. Figure 1 below sets out the likely magnitude of the fraud. Estimated dollar minima and dollar maxima are presented in total as well as for the geographic locations involved. Also shown is a purchasing power comparison between dollars at the time of the fraud, and what the equivalent dollars would be in more recent times. This comparison is based on Consumer Price Index data published by the Australian Bureau of Statistics. Contrasting the purchasing power of a dollar on 31st December 1995 (index value 66) with what that same dollar was able to purchase on 31st December 2013 (index value 104.8) serves to maintain a sense of just how big the fraud was, and not allow the significance of the dollars involved to be diminished over time.

Figure 1 –Magnitude of the AWU fraud

Location	31st December 1995 dollars	31st December 2013 dollars
Western Australia		
Estimated minimum	540,825	858,765
Estimated maximum	600,341	953,269
Victoria		
Estimated minimum	339,808	539,574
Estimated maximum	392,828	623,763
Combined total		
Estimated minimum	**880,633**	**1,398,338**
Estimated maximum	**993,169**	**1,577,032**

The analysis in this paper is confined to Western Australia. There the major fraud upon the AWU was allegedly conceived, engineered and carried out by two AWU officials – Bruce Wilson and Ralph Blewitt. In Western Australia, the major fraud consisted of Wilson and Blewitt receiving secret misdirected monies from Australian civil engineering and construction company, Thiess Pty Ltd. The monies were secret in the sense they were not disclosed to the National Office of the AWU or its West Australian branch (AWU WAB), and misdirected in the sense that Thiess intended the monies be paid to, and received by, the AWU WAB. The monies were not received by the AWU WAB. Instead, the monies were deposited in the bank accounts of an entirely secret, unauthorised and bogus entity – the now infamous Australian Workers' Union Workplace Reform Association (AWU WRA). Once deposited in the bank accounts of the AWU WRA, Wilson and Blewitt then (presumably) used the money for their own personal benefit, including the purchase of private real estate in Melbourne, Victoria. This would not have been possible without the prior establishment of the bogus AWU WRA. Indeed, unauthorised use of the AWU name, along with the device of an outwardly legitimate incorporated entity, were indispensible elements of the scam designed to enhance the success of, and prevent others from discovering, the fraud. Of the five Western Australia accounts, only two were opened in the name of the bogus AWU WRA. Payments made by Thiess were deposited into AWU WRA bank accounts, and related to two separate Thiess contracts – one in Western Australia and one in Victoria.

Thiess payments to the AWU WRA in relation to the Western Australia contract began in April 1992 and continued until October 1994. The contract involved construction of a man-made channel 2.5 kilometres in length, 200 metres wide, between 6 and 6.5 metres deep and requiring removal of 4.5 million cubic metres of soil and rock. Designed to address an ecological disaster threatening wildlife and improve water quality in significant coastal wetland near Mandurah 80 kilometres south of Perth, construction work involved widening and deepening the natural estuary opening, and creating a new man-made channel from Peel Inlet to the Indian Ocean. The new man-made channel came to be known as the Dawesville Channel or, more commonly in local parlance, the "Dawesville Cut". Dawesville is a suburb of Mandurah. Work on the Dawesville Cut commenced in early 1992 and finished in April 1994.

In 1993 Thiess entered into a long-term contract with Victorian utility company, Melbourne Water, to provide maintenance services for newly privatised water mains and pumping stations. Thiess payments to the AWU WRA in relation to Melbourne Water started in October 1993 and ended in June 1995.

As Figure 2 below indicates, the monies Thiess paid to the AWU WRA extended over a very long payment period, and were very substantial in amount.

Figure 2 – Thiess payments deposited into AWU WRA bank accounts 1992-1995

Financial Year	Dawesville Cut		Melbourne Water		Total	
	Hours	$	Hours	$	Hours	$
1992	1,166	41.990	-	-	1,166	41,990
1993	3,056	110,030	-	-	3,056	110,030
1994	2,581	92,923	1,200	43,200	3,781	136,123
1995	1,778	64,009	1,930	69,480	3,708	133,489
Total	**8,582**	**308,952**	**3,130**	**112,680**	**11,711**	**421,632**

Although payments made by Thiess represented the bulk (just under 80 per cent) of monies deposited in the AWU WRA bank accounts, the Cambridge affidavit disclosed monies were also received from other sources (see Figure 3 below).

Figure 3 – Total deposited into AWU WRA bank accounts 1992–1995

Total deposits	$
AWU WRA (cash management) a/c 6005 1000 2590	156,849
AWU WRA (cheque) a/c 6005 1000 2582	383,332
Received from all payment sources	**540,181**
Received from Thiess	421,632
Received from other sources	**118,549**

The present research

The focus for the present research arose from a single observed fact. The key players who allegedly conceived and directed the massive fraud upon the AWU between 1991 and 1995 (Wilson and Blewitt), were also the same persons who ran the official Western Australia branch of the Union between mid-1991 and early 1995. This suggested a number of interesting research questions. How did the bogus and fraudulent AWU WRA operation compare to the legitimate AWU WAB operation? Were the two operations comparable in size? Were the two operations essentially 'quarantined' from one another, or were the affairs of each intermingled? Were the financial dealings of both operations similar, or were they different? Were the perpetrators of the fraud upon the AWU good stewards of AWU WAB resources entrusted to them – did they run the Branch efficiently and effectively? Or did they run the Branch with the same recklessness and ruthless self-interest so clearly evident in the fraudulent AWU WRA operation? It was decided that conducting a financial analysis of the legitimate AWU WAB operation would provide the best means of exploring these questions, and maybe even supply some tentative answers.

Financial data and financial statements analysed

So far as it concerns the financial dealings of the AWU WAB, the financial analysis presented here is derived from information obtained from examining the Branch's published financial statements. Financial reports were obtained for the twelve financial years 1991 to 2002 inclusive. However, and in line with the research focus outlined in the previous section, the data analysed were in the main restricted to the financial years 1991 to 1997. Although Wilson and/or Blewitt were responsible for running the Branch from the start of the 1992 financial year until just over mid-way through the 1995 financial year, the period of analysis was extended to include the 1991 financial year as well as the 1997 financial year. This, it was felt, would offer a modest, albeit imperfect, benchmark against which to judge the stewardship of Wilson and Blewitt during the periods they conducted the affairs of the AWU WAB.

Copies of the AWU WAB published financial reports were obtained through the Fair Work Registry in Sydney, NSW, and comprehensive spreadsheet analyses were subsequently carried out. The general content of each financial report examined is indicated in Figure 4 below.

Figure 4 – General content of each annual financial report

Document	Signed by
Committee of Management Certificate	*Branch Secretary plus Committee Member*
Accounting Officer's Certificate	*Branch Secretary*
Secretary's Certificate	*Branch Secretary*
Audit Report	*External auditor*
Income Statement	-
Balance Sheet	-
Statement of Cash Flows	-
Notes to the Financial Statements	-

Other general information pertaining to individual Branch financial reports (namely report signatories and external audit details) is shown in Figure 5 below.

Figure 5 – AWU West Australian branch financial report signatories and External Audit

Financial Year	Branch Secretary	Committee Member	External Auditor	Audit partner
1991	Joe Keenan	-	-	-
1992	Bruce Wilson	R Blewitt	Hewitt & Company	V Borovac
1993	Ralph Blewitt	G Ivory	Hewitt & Company	V Borovac
1994	Ralph Blewitt	G Ivory	Hewitt & Company	V Borovac
1995	Peter Trebilco	Glen Anderton	Hewitt & Company	V Borovac
1996	Peter Trebilco	Glen Anderton	Haines Norton	V Borovac
1997	Tim Daly	Norman Dicks	Haines Norton	V Borovac

Although it appears the AWU WAB changed its external auditor for the 1996 financial year, this was in fact not so. At the start of July 1994, Hewitt & Company became a member of Haines Norton, an association of Australian Chartered Accountants. This is why the same audit partner, Vojislav (Wally) Borovac BCom ACA, continued to sign the Branch external audit reports after 1995.

Finally, two further points must be made about the financial analysis presented below:

(i) The AWU WAB financial reports for 1991 and 1997 were not supplied by the Fair Work Registry as these were "not available". However, and as is standard financial reporting practice, comparative financial data from the previous year are always included as part of the published financial report for the current year. It was thus possible to incorporate 1991 and 1997 financial data in the overall analysis by referring to the 1992 and 1998 financial reports. It should be noted, however, that cash flow statement data for 1991 were not included in the 1992 financial report. This is because there was no accounting requirement for reporting entities to publish cash flow statements prior to the 1992 financial year.

(ii) The financial year observed by the AWU WAB changed slightly in 1994. For 1991, 1992 and 1993 the financial year ended on 31st July. For 1994 and all subsequent years, the financial year ended on 30th June. This one month difference was not considered significant in the context of the present research and was therefore ignored. The one month difference was also ignored by preparers of the AWU WAB financial reports.

Some useful background

Although the historical narrative is yet to be completely revealed, there is much that can be discovered from various documents currently on the public record.

In May 1991 an official of the AWU, Bruce Wilson, became WA branch Secretary following the resignation of the previous branch Secretary, Joe Keenan. A short time later, in December 1991, Ralph Blewitt, who was also an official of the AWU, became Assistant Secretary of the WA branch.

In July 1992, some fourteen months after taking on Secretarial responsibility for the AWU WAB, Wilson moved to Victoria to assume the role of Acting Secretary of the AWU Victoria branch while the existing incumbent took extended leave. During Wilson's absence from Western Australia, Blewitt acted as WA Branch Secretary.

When it became evident in around November 1992 that the existing Victoria branch Secretary was unlikely to return to his position, Wilson relinquished his position of WA branch Secretary and officially became Victoria branch Secretary in February 1993. Blewitt officially became WA branch Secretary.

In 1993, the AWU amalgamated with the Federation of Industrial, Manufacturing and Engineering Employees (FIMEE) to form a new union entity, the AWU-FIMEE Amalgamated Union. The new union subsequently operated with Joint National Secretaries and Joint National Presidents.

According to Ian Cambridge's 1996 affidavit, further administrative change occurred. On 17th February 1995, the Union changed its name to the Australian Workers' Union. Also on that date, the Victoria branch and the AWU WAB were both dissolved, and a reconstituted AWU branch established for each State. Existing State assets and income were taken over by the new branch concerned. In Victoria, some existing assets and members were transferred to a newly created industry-based branch, the National Construction Branch (NCB). The following year, in 1996, Union rules were changed to provide for only one National Secretary and one National President.

Blewitt ceased to be WA branch Secretary when the new AWU branch in Western Australia came into being in February 1995. For a very short while, Wilson continued as Victoria branch Secretary of the new AWU Victoria branch. However, in March 1995 he gave up this position and became Secretary of the new NCB. Five months later, in August 1995, both Blewitt and Wilson resigned their Union memberships.

As indicated above, this paper analyses the financial operation of the AWU WAB during the years 1991 to 1997. For each year, three financial statements are analysed – the income statement, the balance sheet and the cash flow statement. The information below each statement is taken from the extensive notes to, and forming part of, the financial statements supplemented by the author's comments in obvious instances. The final part of the paper contains the author's interpretational commentary on various issues arising from the financial analysis.

Income Statement analysis

An income statement shows how well an entity has performed during a financial year. The statement contains two main components – income and expenses. If income exceeds expenses, the entity has made a "surplus" (or profit) for the year. But if expenses exceed income, the entity has made a "deficit" (or loss) for the year. Overall surplus or deficit for the year is reported on the last line of an income statement.

Overall performance

For some organisations, when reporting a surplus/deficit for the year, it is customary to show income and expenses of an abnormal nature separately from income and expense items that are regarded as having a normal nature. Having an 'abnormal nature' can mean being unusually large or occurring only rarely. The distinction between normal and abnormal items therefore gives rise to two measures of annual performance – surplus/deficit before abnormal items and overall surplus/deficit for the year.

The financial performance of the AWU WAB for the years 1991 to 1997 inclusive is summarised in Table 1.

Table 1 – Annual performance summary

During financial year	1991	1992	1993	1994	1995	1996	1997
Total Income	2,713,256	2,779,796	2,704,624	2,259,694	2,304,883	2,063,032	1,669,679
Total Expenses	3,147,346	2,592,925	3,194,153	2,355,917	2,044,653	2,206,891	1,732,309
Surplus/(deficit) before abnormal items	**(434,090)**	**186,871**	**(489,529)**	**(96,223)**	**260,230**	**(143,859)**	**(62,630)**
Fee charged by Head Office	(376,039)	-	(308,200)	-	-	-	-
Devaluation of premises	-	-	-	-	(644,616)	-	-
FIMEE / NCB receivables write off	-	-	-	-	-	-	(171,331)
Overall surplus/(deficit)	**(810,129)**	**186,871**	**(797,729)**	**(96,223)**	**(384,386)**	**(143,859)**	**(233,961)**

NOTES TO TABLE 1

T1.1. Fee charged by Head Office

Between 1 August 1989 and 31 March 1991, the AWU WAB was subject to "central funding" and was not permitted to operate its finances independently of Head Office (1992 Note 14). During the period it administered the AWU WAB finances, Head Office charged the Branch administration fees. The $376,039 administration fee for the 1990 financial year remained unpaid until the following year. The Branch accumulated the unpaid amount as a Head Office loan, and recorded an abnormal expense in its 1991 income statement. In early 1992, Head Office agreed to a 10-month moratorium on the maintenance fees the AWU WAB was obliged to remit to it each year. The moratorium, which began in March 1992 and lasted until December 1992, was granted in order enable the AWU WAB to "regain its financial strength". Having previously instructed the amount was not to be reflected in AWU WAB expenses, Head Office subsequently advised the Branch that the amount would eventually need to be repaid (1993 Note 16). As a result, the $308,200 maintenance fees that had accrued during the moratorium period were accumulated as a Head Office loan during the 1993 financial year and reported as an abnormal expense in the 1993 income statement.

T1.2. Devaluation of premises

This relates to the AWU office in Perth, and two investment properties in Karratha. The Perth office was revalued downwards by $744,216 (which represented more than 50 per cent of its previous book value) and the Branch's two investment properties were revalued upwards by $99,600 (which represented more than two thirds of their previous book value). This resulted in a net downward revaluation of $644,616.

T1.3. FIMEE / NCB receivables write off

It appears following the amalgamation events of 1993, and also the 1995 restructure, both the FIMEE and the NCB owed sizeable amounts to the AWU WAB. An unpaid debt of $171,331 was later written off by the Branch as an abnormal expense in 1997. The financial reports do not disclose the precise amount owed by the FIMEE or when this receivable came into being. But the 1995 and 1996 balance sheets both list an amount owing by the NCB in excess of $160,000 (see later Balance Sheet analysis).

Income earned

As shown in Table 2 below, the three main sources of income for the AWU WAB were member contributions, rental income and grants/subsidies.

Table 2 – Three main sources of income

During financial year	1991	1992	1993	1994	1995	1996	1997
Membership contributions	2,311,462	2,711,821	2,583,754	2,158,076	2,129,124	1,836,818	1,613,065
Rental income	9,638	13,082	40,300	21,088	23,096	23,463	17,851
Grants/subsidies	nil	54,250	67,777	79,850	40,850	57,924	3,450
Total Income	**2,713,256**	**2,779,796**	**2,704,624**	**2,259,694**	**2,304,883**	**2,063,032**	**1,669,679**
Number of members	14,831	15,366	14,607	10,239	9,056	5,250	na

NOTES TO TABLE 2

T2.1. Membership contributions

Membership numbers declined markedly over the period. Membership data for 1997 were not available. However, membership data for subsequent years were available and are shown in Schedule T2.1 below.

Schedule T2.1 – Membership data post-1997: five year period 1998 to 2002

At financial year end	1998	1999	2000	2001	2002
Number of members	5,476	3,661	4,099	4,737	4,398

T2.2. Rental income

The Branch listed three real estate assets from which it earned rental income – the AWU office premises at Wellington Fair in East Perth and two investment properties in Karratha. Karratha is a coastal town adjoining the port of Dampier in the Pilbara region of Western Australia, and is situated nearly 1,600 kilometres north of Perth. The Karratha investment properties, both residential houses, were located in the Karratha suburb of Pegs Creek - one in Nelson Court and the other in nearby Frinderstein Way. Both properties were sold sometime during the 1996 financial year. The proceeds of sale are reflected in the financial reports (see later Cash Flow Statement analysis.)

T2.3. Grants/subsidies

The financial reports give no indication as to the origin of grants and subsidies received. However, it is notable that grant/subsidy income was earned only during the six years 1992 to 1997. No grant/subsidy income was earned in 1991, or during the years 1998 to 2002 inclusive. A relevant factor here might be the influence of the specific AWU WAB leadership team in place. Grant/subsidy income began, grew and peaked, during the Wilson-Blewitt leadership era, only to fall away sharply in 1997 and reduce to zero from 1998 onwards.

Expenses incurred

When preparing an income statement, it is common practice to classify expenses into functional categories. Such classification assists in the evaluation of financial reports. The AWU WAB classified its expenses into six categories. The six categories, together with category totals, are depicted in Table 3.

Table 3 – Expense categories and category totals

During financial year	1991	1992	1993	1994	1995	1996	1997
General expenses	624,844	392,398	624,831	554,185	422,848	434,093	415,603
Staffing costs	1,714,158	1,283,875	1,472,916	939,633	855,877	1,044,271	769,603
Organising expenses	260,434	291,955	398,040	229,024	164,791	182,964	135,782
Property costs	100,551	93,091	99,271	86,222	71,261	96,123	91,752
Office costs	95,281	136,190	181,486	122,242	127,351	128,800	100,483
Administration expenses	352,078	395,416	417,609	424,611	402,525	320,640	219,086
Total Expenses	**3,147,346**	**2,592,925**	**3,194,153**	**2,355,917**	**2,044,653**	**2,206,891**	**1,732,309**

Looked at in broad, and with some exceptions, the expense categories appear to share a common generalised pattern – increasing expenditure during 1991, 1992 and/or 1993, followed by decreasing expenditure from 1994 onwards. The extent to which this expenditure pattern was influenced by the Wilson–Blewitt leadership teams is an open question. Wilson, it will be recalled, took over as Branch Secretary in May 1991 and could not have directly influenced the 1991 financial results. His captaincy is reflected in the 1992 and, most likely, the 1993 financial results. Wilson signed off the 1992 accounts and was Branch Secretary for the majority of the 1993 financial year, even though his replacement, Ralph Blewitt, formally signed off the 1993 accounts. In his capacity as Branch Secretary, Ralph Blewitt was responsible for, and signed off on, the 1994 financial accounts. When the Wilson-Blewitt "era" ended, responsibility for preparing and signing off on the Branch accounts was assumed by the replacement Branch Secretaries – first Peter Trebilco (1995 and 1996) and then Tim Daly (1997 onwards).

NOTES TO TABLE 3

T3.1. General expenses

Four general expenses were consistently significant over the seven year period 1991 to 1997 – Head Office maintenance fees, affiliation fees, bereavement grant fund subsidy and legal costs (see Schedule T3.1 below). But a further significant (and also unusual) general expense was incurred during the 1993 financial year – a $109,285 donation for the "Drive for Dignity". There appears to be little, if any, publicly available information about the Drive for Dignity. But from the few snippets that have been located, it seems the Drive for Dignity was part of the Carmen Lawrence State Labor government re-election campaign in early 1993. A specially outfitted bus was chartered and driven around Western Australia in an effort to garner support for State Labor Party candidates. Carmen Lawrence, who at the time was WA Premier, lost the State election on 6th February 1993 and Richard Court became the new Liberal Premier.

Schedule T3.1 – Significant general expenses

During financial year	1991	1992	1993	1994	1995	1996	1997
Head Office maintenance fees	354,576	214,906	287,093	284,220	258,972	261,860	246,536
Affiliation fees	110,805	88,587	78,398	48,813	28,918	25,518	53,450
Bereavement Grant Fund subsidy	48,504	50,933	32,030	24,394	40,789	16,784	15,614
Legal costs	93,868	27,360	99,806	184,394	80,309	40,804	16,744
"Drive for Dignity" donation			109,285				
Total general expenses	**624,844**	**392,398**	**624,831**	**554,185**	**422,848**	**434,093**	**415,603**

It is interesting to note that the Drive for Dignity donation was also given prominent mention in an internal union circular published nine months later in October 1993 by the "AWU Rank and File Reform Group". This alleged group consisted of individual AWU members who were very unhappy at the way in which Secretary Blewitt was conducting the affairs of the AWU WAB. Among the list of grievances published by the group was the statement "We now know $150,000 was blown on the Tour of Dignity Junket Trip." The October 1993 circular, together with an earlier one published in September 1993, formed the basis of a defamation writ lodged at the Supreme Court of Western Australia on 22nd October 1993. The writ, prepared and filed by legal advisors Slater & Gordon, was issued against four defendants – the individual AWU employee who allegedly authored the two circulars, the company that printed 900 copies of each circular, an individual employee of the printing company and the mailing company that distributed the circulars throughout Western Australia. The plaintiff in the defamation action was Ralph Blewitt.

AWU WAB legal costs reported in 1994 ($184,394) were nearly double those reported in 1993 ($99,806). Legal costs then decreased to more "normal" levels in 1995 and beyond. Clearly, 1994 was a year of unusually high legal costs. However, the financial reports do not disclose the specific nature of costs incurred. It is therefore not clear whether the Supreme Court defamation action initiated by Secretary Blewitt in October 1993 was, or was not, included in the reported Branch legal costs for 1994. If the defamation action was included, then Union funds were used to finance the litigation of one union employee against a fellow union employee. But if the defamation action was not included, then the Supreme Court litigation was obviously funded in some other way. One possibility is that the plaintiff (Ralph Blewitt) financed the action using his own personal funds. Another possibility is that Slater & Gordon acted for Ralph Blewitt on a personal and pro bono basis. Both the federal AWU and the AWU WAB were clients of Slater & Gordon at the time these events took place.

T3.2. Staffing costs

Three staffing costs were consistently significant over the seven year period 1991 to 1997 – officials' salaries, administrative salaries and superannuation (see Schedule T3.2 below). What seems especially noteworthy here is the salary expense for both union officials and administrative staff. The salary costs for both union officials and administrative staff peaked in 1993. Salary costs fell dramatically in 1994 and beyond. Overall salary costs were at their highest in 1991 to 1993 (the latter two years Wilson and/or Blewitt were in charge of the Branch) and subsequently fell to more modest levels under the leadership teams of Peter Trebilco and Tim Daly.

Schedule T3.2 – Significant staffing costs

During financial year	1991	1992	1993	1994	1995	1996	1997
Salaries - officials	1,129,602	855,461	984,642	603,557	461,682	656,480	466,601
Salaries - administration	371,808	271,256	303,493	190,600	203,271	199,435	169,357
Superannuation	115,041	123,318	103,102	103,662	96,682	100,546	83,296
Total staffing costs	**1,714,158**	**1,283,875**	**1,472,916**	**939,633**	**855,877**	**1,044,271**	**769,603**

T3.3. Organising expenses

Three organising expenses were consistently significant over the seven year period 1991 to 1997 – travel and accommodation, motor vehicle expenses and meeting expenses (see Schedule T3.3 below). The first two of these increased significantly in 1993 (travel and accommodation nearly doubled compared to 1992) and all three expenses dramatically decreased in 1994 and beyond. It is perhaps remarkable that meeting expenses decreased from a peak of $50,401 in 1992 to a mere $4,808 in 1997.

Schedule T3.3 – Significant organising expenses

During financial year	1991	1992	1993	1994	1995	1996	1997
Travel and accommodation	74,188	100,097	184,224	108,483	62,254	60,066	58,126
Motor vehicles expenses	147,777	141,457	178,145	106,365	89,832	117,709	72,848
Meeting expenses	38,469	50,401	35,671	14,176	12,705	5,189	4,808
Total organising expenses	**260,434**	**291,955**	**398,040**	**229,024**	**164,791**	**182,964**	**135,782**

T3.4. Property costs

Three property costs were consistently significant over the seven year period 1991 to 1997 – rent, electricity and rates and taxes (see Schedule T3.4 below). Other than a general trend of decreasing expenditure after 1992, none of these costs exhibit any obvious pattern of increase or decrease during the period in question. The audited financial reports do not indicate why, in light of the Branch listing premises in Perth and also earning rental income each year (see Table 2 earlier), it was necessary to consistently incur substantial amounts on rent expenditure. One possible explanation is that the Branch rented office accommodation in other parts of Western Australia. Another possible explanation is that the Branch paid for, or subsidised, the housing costs of some of its officials and/or employees.

Schedule T3.4 – Significant property costs

During financial year	1991	1992	1993	1994	1995	1996	1997
Rent	43,299	28,530	35,642	35,946	26,642	41,845	50,902
Electricity	28,441	24,930	24,663	24,525	14,345	19,814	17,134
Rates and taxes	20,448	14,974	16,749	10,588	14,990	8,030	11,464
Total property costs	**100,551**	**93,091**	**99,271**	**86,222**	**71,261**	**96,123**	**91,752**

T3.5. Office costs

Three office costs were consistently significant over the seven year period 1991 to 1997 – telephone, office equipment leases and computer expenses (see Schedule T3.5 below). For all three expenses, an unmistakable pattern can be discerned – steep increases peaking in 1993 followed by a general, sometimes dramatic, fall in 1994 and beyond. Office equipment lease expenditure, although the smallest item in terms of absolute dollar value, experienced the most significant swings – rising from $319 in 1991 to $14,835 in 1993 only to then decrease by nearly 50 per cent in 1994 and beyond. The audited financial reports give no explanation why telephone costs or computer expenses were so substantial over the seven-year period, and especially in 1993. Telephone and computer expenditure in 1997 had roughly halved from that incurred four years earlier in 1993.

Schedule T3.5 – Significant office costs

During financial year	1991	1992	1993	1994	1995	1996	1997
Telephone	73,355	86,030	102,208	67,279	74,716	49,160	50,551
Office equipment leases	319	11,092	14,835	7,798	8,120	8,605	8,504
Computer expenses	11,619	22,787	50,287	30,891	32,159	56,410	29,600
Total office costs	**95,281**	**136,190**	**181,486**	**122,242**	**127,351**	**128,800**	**100,483**

T3.6. Administration expenses

Five administration expenses were consistently significant over the seven year period 1991 to 1997. The expenses referred to were depreciation, loss on sale of assets, postage/couriers, printing/stationery and training/seminars (see Schedule T3.6 below). The underlying assets to which the depreciation expense relates (buildings, motor vehicles, furniture/equipment) will be addressed in the balance sheet analysis presented later in this paper. But perhaps the most noteworthy administration expense is the loss on sale of assets expense. The Branch engaged in asset sales in each of the seven years analysed and incurred a substantial loss on sale for each year except 1996. A profit on sale of assets (income) totalling $85,361 was reported in 1996 which might have arisen in whole or in part from the Branch selling its two Karratha investment properties that same year.

Schedule T3.6 – Significant administration expenses

During financial year	1991	1992	1993	1994	1995	1996	1997
Depreciation	198,619	176,818	178,668	145,140	144,832	121,976	100,179
Loss on sale of assets	44,452	22,024	3,570	38,309	49,099		4,599
Postage/couriers	10,153	13,996	34,572	22,633	27,560	23,765	16,270
Printing/stationery	34,165	59,629	69,631	59,925	78,611	57,579	11,474
Training/seminars	9,261	10,623	19,874	23,775	364	33,004	1,440
Total administration expenses	**352,078**	**395,416**	**417,609**	**424,611**	**402,525**	**320,640**	**219,086**

Balance Sheet analysis

A balance sheet indicates three things – the resources (assets) an entity has as its disposal and that it needs to conduct its normal operations, the amounts that an entity owes to outside or external parties (liabilities) and the overall wealth that an entity enjoys (accumulated funds). Overall wealth is often referred to as "net assets", and can be usefully regarded as the excess of an entity's assets over its liabilities. Put another way, an entity's overall wealth is represented by the assets that remain once all liabilities have been repaid.

Resources held (assets)

Assets are the resources an entity uses to conduct its normal operations. For reporting purposes, assets are classified as being either "current" or "non-current". A current asset is a resource that is expected to be held or used for 12 months or less. A non-current asset is a resource that the entity expects to hold or use for longer than 12 months. Assets controlled by the AWU WAB from 1991 to 1997 are summarised in Table 4 below.

Table 4 – Assets

At financial year end	1991	1992	1993	1994	1995	1996	1997
Current assets	30,914	56,774	68,050	18,046	197,562	336,383	199,985
Non-current assets	2,206,081	2,153,419	2,233,993	2,001,889	1,287,003	955,173	853,817
Total assets	**2,236,995**	**2,210,193**	**2,302,043**	**2,019,935**	**1,484,565**	**1,291,556**	**1,053,802**

Two things stand out about the Table 4 data. First, for the entire seven-year period, assets controlled by the Branch were predominantly non-current in nature. The second thing that stands out is that non-current assets, and also total assets, peaked in 1993 and then continued to decrease significantly each year thereafter.

NOTES TO TABLE 4

T4.1. Asset proportions

As Schedule T4.1 below indicates, during the seven-year period, current assets as a proportion of total assets ranged from less than one per cent (in 1994) to just over 26 per cent (in 1996).

Schedule T4.1 – Current assets and non-current assets as a proportion of total assets

At financial year end	1991	1992	1993	1994	1995	1996	1997
Current assets	30,914	56,774	68,050	18,046	197,562	336,383	199,985
% of total	1.38	2.57	2.96	0.89	13.31	26.04	18.98
Non-current assets	2,206,081	2,153,419	2,233,993	2,001,889	1,287,003	955,173	853,817
% of total	98.62	97.43	97.04	99.11	86.69	73.96	81.02
Total Assets	**2,236,995**	**2,210,193**	**2,302,043**	**2,019,935**	**1,484,565**	**1,291,556**	**1,053,802**

Although a trade union would not necessarily adopt the same financial indicators as, say, a retail organisation, it does seem reasonable to suppose that a current asset level of less than 15 per cent of total assets is rather low. Certainly, for an entity holding total assets in excess of $2 million, and earning revenue in excess of $2 million per annum, a current asset proportion of less than three per cent seems unbelievable. Current assets can provide a reassuring and useful ‘safety net’ should there ever be a need to raise cash in a hurry. In the case of the AWU WAB, such a safety net was clearly absent between 1991 and 1995.

T4.2. Current assets

The AWU WAB reported only three current assets in its balance sheets – cash, amounts owing from the National Construction Branch and other debtors/prepayments. As Schedule T4.2 below indicates, the cash asset remained astonishingly low until the 1996 financial year. The already tiny $29,473 cash holding in 1992 fell to a negligible level in 1993 and remained this way for the next two years. It seems inconceivable that entities earning annual revenue in excess of $2 million, and reporting total assets also in excess of $2 million, would have a cash holding of virtually zero. Yet this is precisely what happened with the AWU WAB from 1993 to 1995 during the Wilson-Blewitt leadership era.

Schedule T4.2 – Current assets

At financial year end	1991	1992	1993	1994	1995	1996	1997
Cash	6,290	29,473	1,595	1,431	1,968	156,344	161,167
Owing from National Construction Branch					165,332	160,509	
Other debtors/prepayments	24,624	27,301	66,455	16,615	30,262	19,530	38,818
Total current assets	**30,914**	**56,774**	**68,050**	**18,046**	**197,562**	**336,383**	**199,985**

It will be recalled that the National Construction Branch (NCB) was constituted as a new AWU branch at the start of 1995, and that Wilson became its founding Secretary. The NCB debt reported as a current asset in both the 1995 and 1996 AWU WAB balance sheets is noteworthy in two respects.

First, the financial reports provide no explanation of precisely how and why the NCB debt arose. For both the 1995 and 1996 AWU WAB balance sheets, the only information given is by way of note (Note 18). The note states that the debt owing was “an amount charged to the AWU – National Construction Branch incurred on its behalf by the WA Branch”. The note also reveals that “recovery of this amount is yet to be ratified by the National Executive”. This surprising admission will be discussed in later commentary.

Second, it is unclear whether the amounts owed by the NCB were properly classified as “current” assets. As explained earlier, current assets are expected to be held or used for 12 months or less. By reporting the amounts owing from the NCB as current assets, the Branch was unequivocally signalling its expectation that the debt would be received within 12 months. Logically, and taking the 1995 and 1996 Branch balance sheets at face value, two possibilities exist:

(i) The $160,509 amount owing from the NCB, and reported as a current asset, in the 1996 balance sheet is an altogether different debt from the $165,332 reported as a current asset in the 1995 balance sheet. That is to say, the NCB repaid the $165,332 owing to the AWU WAB in 1995, but now needed to repay a new $160,509 debt incurred during 1996.

(ii) The $165,332 owing to the AWU WAB in 1995, and the $160,509 owing to the AWU WAB in 1996, relate to one and the same debt. That is to say, the AWU WAB received a $4,823 net payment from the NCB during the 1996 financial year, and that reduced the overall amount owing.

No financial statements for the NCB were available from Fair Work Australia, so the matter cannot be definitively resolved. On the evidence available, neither of the two possibilities can be ruled out. If the latter possibility applies, then the amounts owing from the NCB were wrongly classified as "current" assets in at least the 1995 balance sheet. But the subsequent 1997 abnormal expense write off pertaining to the NCB amounts receivable does suggest the two amounts discussed above do relate to the same debt (see "Overall performance" section, note T1.3 on page 7).

T4.3. Non-current assets

Three non-current assets were reported in AWU WAB balance sheets during the period 1991 to 1997 – land and buildings, motor vehicles and furniture/equipment. The pattern of non-current asset holding is shown in Schedule T4.3 below.

Schedule T4.3 – Non-current assets

At financial year end	1991	1992	1993	1994	1995	1996	1997
Land and buildings	1,455,534	1,442,355	1,461,614	1,439,641	870,654	601,029	577,065
Motor vehicles	317,876	343,502	448,999	278,711	233,859	211,787	144,988
Furniture/equipment	432,671	367,562	323,380	283,537	182,490	142,357	131,764
Total non-current assets	**2,206,081**	**2,153,419**	**2,233,993**	**2,001,889**	**1,287,003**	**955,173**	**853,817**

Motor vehicles were reported as a separate non-current asset only until 1996. In the 1997 balance sheet, motor vehicles were combined with furniture/equipment and reported as a single composite non-current asset. For purposes of financial analysis, an estimate was made of the value of motor vehicles held in 1997. This estimate was based on the average relative proportion of motor vehicles to furniture/equipment prior to 1997.

Up to and including the 1995 financial year, land and buildings comprised three real estate properties. The largest of these was the Union premises in the Wellington Fair business district of East Perth. The smaller properties were two rental houses in Karratha. As discussed earlier in the Income Statement analysis, all three properties were revalued in 1995. The AWU office in Perth was revalued downwards by an amount more than 50 per cent of its previous $1.384 million value. The two Karratha properties were revalued upwards by more than two thirds of their previous $146,054 value. The resultant net revaluation downwards explains the drop in land and buildings value in 1995 compared to 1994. The further large drop in value the following year is explained by the sale of the Karratha properties sometime during 1996. Other fluctuations in the land and buildings asset value can be attributed to depreciation charges and capital improvements in relation to the Perth premises.

As can be seen in Schedule T4.3, land and buildings and motor vehicles exhibit the same pattern. The value of both assets increased and peaked in 1993. From 1994 onwards, the asset values then decreased each year. Indeed, and in comparison to 1991 values, by 1997 land and buildings had declined in value by more than 60 per cent, while motor vehicles had declined in value by more than 50 per cent.

A slightly different pattern is evident for the furniture/equipment asset. This asset did not increase and peak in 1993, but steadily declined in value from 1991 onwards. By 1997, the furniture/equipment asset had declined by nearly 70 per cent compared to its 1991 value.

Amounts owed to external parties (liabilities)

Liabilities are the amounts an entity owes to external parties. For reporting purposes, they are classified as either "current" of "non-current". A current liability is an amount that an entity expects to repay within 12 months. A non-current liability is an amount that will take longer than 12 months to repay. The liabilities of the AWU WAB during the years 1991 to 1997 are summarised in Table 5.

Table 5 – Liabilities

At financial year end	1991	1992	1993	1994	1995	1996	1997
Current liabilities	807,434	586,910	1,085,151	986,651	630,249	682,854	658,166
Non-current liabilities	538,976	545,827	937,165	849,780	955,784	953,443	974,338
Total liabilities	**1,346,410**	**1,132,737**	**2,022,316**	**1,836,431**	**1,586,033**	**1,636,297**	**1,632,504**

Several things are evident from Table 5. Up until 1994, Branch current liabilities exceeded non-current liabilities by a significant margin. Between 1995 and 1997, the position reversed and non-current liabilities exceeded current liabilities by an even more significant margin. Current liabilities reduced substantially in 1992 (more than 25 per cent) only to just about double in 1993. Thereafter, current liabilities demonstrated a steady downward trend and in 1997 were just over 60 per cent less than their 1993 peak. In terms of dollar amount, non-current liabilities generally grew during the period of analysis, and in 1997 were nearly 81 per cent higher than in 1991.

NOTES TO TABLE 5

T5.1. Liability proportions

As Schedule T5.1 below indicates, during the seven-year period of analysis, current liabilities as a proportion of total liabilities ranged from just under 40 per cent (in 1995) to just under 60 per cent (in 1991). In terms of pattern, current liabilities were more prominent than non-current liabilities from 1991 to 1994. For the period 1995 to 1997, the reverse applied, and non-current liabilities assumed a far greater prominence than current liabilities.

Schedule T5.1 – Current liabilities and non-current liabilities as a proportion of total liabilities

At financial year end	1991	1992	1993	1994	1995	1996	1997
Current liabilities	807,434	586,910	1,085,151	986,651	630,249	682,854	658,166
% of total	59.97	51.81	53.66	53.73	39.74	41.73	40.32
Non-current liabilities	538,976	545,827	937,165	849,780	955,784	953,443	974,338
% of total	40.03	48.19	46.34	46.27	60.26	58.27	59.68
Total liabilities	**1,346,410**	**1,132,737**	**2,022,316**	**1,836,431**	**1,586,033**	**1,636,297**	**1,632,504**

T5.2. Current liabilities

Five current liabilities were consistently significant over the seven year period 1991 to 1997 – bank overdraft, accounts payable, employee benefits provisions, membership dues in advance and short term hire purchase obligations (see Schedule T5.2 below).

Schedule T5.2 – Current liabilities

At financial year end	1991	1992	1993	1994	1995	1996	1997
Bank overdraft	149,240		256,985	272,140	93,707	128,581	158,350
Accounts payable	286,084	277,211	405,355	276,310	213,617	317,746	343,387
Provisions – employee benefits	186,673	131,734	132,569	98,028	88,952	116,367	96,429
Membership dues in advance	185,437	111,716	155,788	280,649	203,739	91,272	
Hire purchase – short term		66,249	134,454	59,524	30,234	28,888	
Total current liabilities	**807,434**	**586,910**	**1,085,151**	**986,651**	**630,249**	**682,854**	**658,166**

According to the financial statement Notes, the bank overdraft liability was secured by a mortgage over the Union premises in Perth. For 1991 and 1992, the maximum overdraft facility was $150,000 (1992 Note 9). This limit was increased to $250,000 (1993 Note 9) in 1993 and to $400,000 in 1994 (1994 Note 10). In 1995 the maximum limit was decreased to $150,000 (1995 Note 10) where it remained for all subsequent years. It is likely that the $250,000 decrease in the bank overdraft limit in 1995 was a consequence of the Perth premises being revalued downwards the same year. It will be recalled from earlier discussion, the Perth premises were revalued downwards by $744,216 from their previous value of $1.383 million to a revalued amount of $625,000. Under such circumstances, and given the Perth premises provided mortgage security for the bank overdraft, it is perhaps understandable the $400,000 overdraft limit would be dramatically reduced in 1995.

Accounts payable are amounts owing to external parties that arise from normal operations. The external parties referred to are suppliers of goods and services. It is clear that for the entire period of analysis, the AWU WAB owed a considerable amount to its suppliers. The accounts payable liability was, by a large margin, the single most significant current liability for all years except 1994. Accounts payable display a pattern evident in so many other items contained in Branch financial reports - growing and peaking in 1993 followed by a significant fall in the following year or years. Accounts payable grew by 46 per cent in 1993 compared to 1992, and then decreased by 32 per cent in 1994. There was a further 23 per cent decrease in 1995.

The provisions for employee benefits were for annual leave and long service leave and did not include union officials and industrial officers. Officials and industrial officers were covered by a separate fund administered by Head Office (1992 Note 12 and a corresponding financial statement note 1993 to 1996).

The hire purchase liability relates to motor vehicles. Between 1992 and 1996, the Branch relied on hire purchase finance to fund a significant proportion of its vehicle fleet. Notes to the financial statements reveal the proportion was 36 per cent in 1992, grew to 62 and 59 per cent in 1993 and 1994 respectively and then fell away to 30 and 27 per cent in 1995 and 1996 respectively. (1992 Notes 10 and 13; 1993 Notes 10 and 13; 1994 Notes 11 and 14; 1995 Notes 11 and 14 and 1996 Notes 11 and 14)

A confidential, but reliable, AWU WAB source confirmed that Branch policy was to change over motor vehicles (all of them Ford vehicles) at intervals of 100,000 kilometres or two years whichever occurred first. The confidential source also confirmed motor vehicle acquisitions were made under a fleet owners' discount deal. In terms of classification, hire purchase liabilities relating to motor vehicles were both current and non-current. But between 1992 and 1996, motor vehicle hire purchase commitments were overwhelmingly current in nature.

T5.3. Non-current liabilities

The AWU WAB reported only three non-current liabilities in its 1991 to 1997 balance sheets – Head Office loan accounts, long term hire purchase obligations and provision for long service leave (see Schedule T5.3 below).

Schedule T5.3 – Non-current liabilities

At financial year end	1991	1992	1993	1994	1995	1996	1997
Head Office loan accounts	538,976	507,586	885,937	849,780	930,602	953,443	951,682
Hire purchase – long term		38,241	51,228		25,182		
Provision for long service leave							22,656
Total non-current liabilities	**538,976**	**545,827**	**937,165**	**849,780**	**955,784**	**953,443**	**974,338**

As the name suggests, the Head Office loan account liability represents amounts owed to Head Office. It represents the maintenance fees that the AWU WAB was obliged to remit to Head Office each year (see Schedule T3.1 earlier). The loan liability grew from $538,976 in 1991 to $951,682 in 1997, which suggests the Branch struggled to meet this financial obligation for the entire period of analysis. Nonetheless, the AWU WAB depended on Head Office for its very survival as a going concern. Indeed, each financial report between 1993 and 1996 stated (at Note 17): "The ongoing availability of these loan funds from Head Office is crucial to the ability of the Branch to continue under its current structure." It is of interest to note, however, that in 1998, Head Office loans totalling $953,443 were forgiven. This amount was reported as abnormal income in the Branch's 1998 income statement.

Overall wealth

The overall wealth of the AWU WAB for the years 1991 to 1997 inclusive is summarised in Table 6.

Table 6 – Annual wealth summary

At financial year end	1991	1992	1993	1994	1995	1996	1997
Total Assets	2,236,995	2,210,193	2,302,043	2,019,935	1,484,565	1,291,556	1,053,802
Total Liabilities	1,346,410	1,132,737	2,022,316	1,836,431	1,586,033	1,636,297	1,632,504
Accumulated funds	**890,585**	**1,077,456**	**279,727**	**183,504**	**(101,468)**	**(344,741)**	**(578,702)**

As can be seen from Table 6, overall wealth grew modestly in 1992, only to spectacularly plummet in 1993. The downward spiral in wealth continued each year until 1997, with Branch liabilities exceeding Branch assets during the last three years. Put another way, there existed insufficient entity assets to cover entity liabilities. Thus, for the three years 1995 to 1997 the Branch was possibly insolvent – the entity equivalent of personal bankruptcy. By way of comparison, directors of a public company who knowingly permit the company to continue trading while insolvent commit an offence, and would be subject to hefty fines and/or terms of imprisonment. Solvency means the ability to meet debts as and when these fall due. Whether an entity is actually insolvent is not something that can be definitively determined from a financial report. This is because debts can be guaranteed and/or additional loans advanced by outside parties should the need arise. However, and at the very least, a deficiency of assets over liabilities would normally set insolvency alarm bells ringing as such deficiency is frequently a sign of financial distress.

NOTES TO TABLE 6

T6.1. Branch annual wealth beyond 1997

It was only in 1998 that the sustained and dramatic slide in Branch wealth depicted in Table 6 above was halted and reversed. Following a remarkable turnaround in 1998 (nearly $1 million), there was a steady upward trend in wealth until at least 2002 (see Schedule T6.1 below).

Schedule T6.1 – Branch annual wealth 1998 to 2002

At financial year end	1998	1999	2000	2001	2002
Total Assets	1,063,363	968,359	876,289	908,380	982,037
Total Liabilities	696,563	620,545	529,882	430,279	430,017
Accumulated funds	**366,800**	**347,814**	**346,407**	**478,101**	**552,020**

T6.2. Components of business wealth

Although the label "accumulated funds" provides a convenient single measure of overall business wealth at a single point in time, accumulated funds usually consist of several components. This is because business wealth can arise from several different sources, with each source often given its own label designation. Overall wealth reported by the AWU WAB during the period 1991 to 1997 comprised different components – accumulated surplus and accounting reserves (see Schedule T6.2 below).

Schedule T6.2 – The components of Branch wealth

At financial year end	1991	1992	1993	1994	1995	1996	1997
Accumulated surplus	460,054	646,925	(150,804)	110,755	(273,631)	(417,490)	(651,451)
Reserves	430,531	430,531	430,531	72,749	172,163	72,749	72,749
Accumulated funds	**890,585**	**1,077,456**	**279,727**	**183,504**	**(101,468)**	**(344,741)**	**(578,702)**

The Schedule indicates that, for the most part, accumulated surplus was the largest determinant of Branch wealth during the period of analysis. However, before commenting further, explanation is required as to the general meaning and significance of business wealth components.

Accumulated surplus

Earlier in this paper, a "surplus" (profit) was defined as the excess of an entity's income over its expenses in any one year. However, when an annual profit is earned, an important decision must be made. The decision involves the entity concerned choosing from one or more of the following options:

- The entity distributes the profit to its owner(s) in the form of an immediate financial return, for example, dividends.
- The entity retains the profit (or part thereof) for distribution to its owner(s) in future years. When profits are retained, they are commonly referred to as "retained earnings" or "accumulated surplus".
- The entity reduces/increases the size of the retained earnings pool by transferring amounts to/from "quarantined areas" known as accounting reserves. Generally speaking, accounting reserves are often unavailable (at least in the short term) for distribution to an entity's owner(s).

Accumulated surplus thus represents current and past profits that have been retained for distribution to an entity's owner(s) in future years.

Accounting reserves

It is common accounting practice for entities to establish accounting "reserves" and include these in overall wealth. Reserves can be established in different circumstances, and can represent different things. For instance, reserves can represent past profits that have been 'quarantined' from retained earnings and set aside for a special purpose. Or reserves can represent increases in the value of some of the entity's individual assets such as land or buildings. Or, as used to be commonplace, reserves can even represent profits made on the sale of property assets, although this is no longer permitted by accounting standards. It is acknowledged that accounting reserves are sometimes difficult to conceptualise – even by professional accountants! However, the name of an individual reserve will often provide a clue as to what that reserve represents.

T6.3. Accumulated surplus

Logically, the accumulated surplus existing at the end of an accounting year depends on three factors – the accumulated surplus existing at the start of the year, the operating result (profit or loss) for the year and any amounts transferred to and/or from various accounting reserves. Details of the AWU WAB accumulated surplus for 1991 to 1997 are shown in Schedule T6.3 below.

Schedule T6.3 – Branch accumulated surplus

At financial year end	1991	1992	1993	1994	1995	1996	1997
Accumulated surplus at start	1,532,653	460,054	646,925	(150,804)	110,755	(273,631)	(417,490)
Operating result for the year	(810,129)	186,871	(797,729)	(96,223)	(384,386)	(143,859)	(233,961)
Transfers to/from property realisation reserve	(262,470)			357,782			
Accumulated surplus at end	**460,054**	**646,925**	**(150,804)**	**110,755**	**(273,631)**	**(417,490)**	**(651,451)**

The $262,470 transfer to the property realisation reserve was the profit on sale of land and buildings reported as income on the 1991 income statement (1992 Notes 6 and 7). Three years later, in 1994, an amount of $357,782 was transferred from the property realisation reserve back into retained earnings.

But the most notable thing about Schedule T6.3 is that the healthy $646,925 accumulated surplus reported on the 1992 balance sheet had turned to a $651,451 accumulated deficit by the end of the 1997 financial year. By any measure, this reversal of nearly $1.3 million in the space of a mere five years represents an astonishing financial deterioration.

T6.4. Reserves

The AWU WAB reported three reserves between 1991 and 1997 as shown in Schedule T6.4 below.

Schedule T6.4 –Branch reserves

At financial year end	1991	1992	1993	1994	1995	1996	1997
Property realisation reserve	357,782	357,782	357,782				
Property revaluation reserve					99,414		
Capital reserve	72,749	72,749	72,749	72,749	72,749	72,749	72,749
Total reserves	**430,531**	**430,531**	**430,531**	**72,749**	**172,163**	**72,749**	**72,749**

The Branch had established a property realisation reserve sometime prior to 1991, and this had grown to $357,782 by the end of the 1991 financial year. The amount represented "the profit on sale of various properties previously owned by the Branch" (1992, 1993, 1994 and 1995 Note 7). The reserve balance remained intact until 1994 when it was then reduced to zero by transferring it to "general funds" (1994 Note 7) via an offset against the $96,223 deficit reported in the 1994 income statement. This was most likely done as a balance sheet "window dressing" exercise designed to turn a potentially large accumulated deficit ($247,027) into a modest accumulated surplus ($110,755) on the 1994 balance sheet.

The $99,414 property revaluation reserve that appeared on the 1995 balance sheet, and then disappeared from the 1996 balance sheet, presents something of a mystery. There is no Note in the 1995 financial report that explains the reserve – the reserve just appears on the balance sheet. Even more peculiar, however, is what appears in the 1996 financial report. The 1996 balance sheet shows the property revaluation reserve valued at zero and refers readers to Note 7. In turn, Note 7 is headed "property realisation reserve" and indicates that $99,414 was transferred to retained earnings. Three observations can be made about this.

(1) Property revaluation reserves and property realisation reserves are not the same thing. Property revaluation reserves are established when property is revalued upwards, and reflect the increase in the asset values concerned. Property realisation reserves are established when property is actually sold for more than what its recorded value is, and therefore reflect the profit made when assets are sold. In technical accounting terms, revaluation reserves represent "unrealised" (or theoretical) property profits whereas realisation reserves represent "realised" (or actual) property profits.

(2) The 1996 balance sheet item is labelled "property revaluation reserve" and refers to Note 7. Yet Note 7 purports to relate to an entirely different reserve – the property realisation reserve. This inconsistency cannot be explained or justified.

(3) Notwithstanding the label inconsistency, 1996 Note 7 indicates that $99,414 was transferred to "general funds" (retained earnings). Yet no such amount was added to accumulated surplus in 1996. It will be recalled that when the $357,782 property realisation reserve balance was transferred to general funds two years earlier in 1994, this amount was actually transferred to accumulated surplus in 1994 (refer Schedule T6.3 above). Contrary to what would be expected, no equivalent transfer is evident anywhere in the 1996 financial report.

There is reason to believe several significant accounting errors were made in relation to the $99,414 property revaluation reserve during the preparation of both the 1995 financial report and the 1996 financial report. It is conceivable that an error initially made in 1995 was somehow detected the following year, and efforts were made to rectify the mistake in the 1996 financial accounts. If this is indeed what occurred, then the 1996 rectification failed to fully or properly reverse the 1995 mistake, and resulted in additional accounting errors of its own.

Although it is not possible for an examination of the financial reports to reveal exactly what transpired in relation to the property revaluation reserve, a plausible scenario is offered below. The scenario is a qualified one in that it is unable to offer explanation of a $186 discrepancy. But balanced against this is the fact that $186 is a small sum compared to a $99,414 transaction.

As discussed earlier (see "Overall performance" section, note T1.2 on page 6), in 1995 the Union's Perth office was revalued downwards by $744,216 while the Branch's two investment properties in Karratha were revalued upwards by $99,600. In theory, these events could be recorded in either of two ways:

(a) The Branch could regard the events as a single transaction resulting in a single outcome – an overall net revaluation upwards, or an overall net revaluation downwards. An overall net revaluation upwards would be recorded as a property revaluation reserve in the balance sheet whereas an overall net revaluation downwards would be recorded as an abnormal expense in the income statement.

(b) The Branch could regard the events as two separate transactions – one an upwards revaluation and one a downwards revaluation. The upwards revaluation would be recorded as a property revaluation reserve in the balance sheet. At the same time, the downwards revaluation would be recorded as an abnormal expense in the income statement.

It seems that instead of choosing between these two options, the AWU WAB elected to have both. An overall net revaluation downwards of $644,616, was reported as an abnormal expense in the 1995 income statement (see Table 1). At the same time, a $99,414 property revaluation reserve also appeared on the 1995 balance sheet (see Schedule T6.4). Since the only upwards revaluation occurring in 1995 related to the Karratha investment properties, it seems too coincidental that the upwards revaluation amount ($99,600) would be virtually the same as the property revaluation reserve amount ($99,414). The difference of a mere $186 might have been due to arithmetical error, or even some sort of property transaction expense.

If the $99,414 property revaluation reserve was created as a result of the Karratha investment properties being revalued upwards, the upwards revaluation was recorded twice in the 1995 financial accounts. The first time was when it was netted off against the downwards revaluation and a $644,616 abnormal expense recorded in the 1995 income statement. And the second time was when a $99,414 property revaluation reserve was included in the 1995 balance sheet. What the Branch should have done is either record a $644,616 abnormal expense in the 1995 income statement and not have a property revaluation reserve appearing in the 1995 balance sheet, or record a $744,216 abnormal expense in the 1995 income statement and have a property revaluation reserve included in the 1995 balance sheet. In 1996, the "superfluous" property revaluation reserve might have been discovered. As discussed earlier, 1996 Note 7 indicates that $99,414 was transferred that year to retained earnings. Yet no such amount was added to accumulated surplus in 1996. It seems the property revaluation reserve that appeared on the 1995 balance sheet simply vanished without trace from the 1996 balance sheet, and without obvious indication of where it went.

The author of this research paper is unable to offer any explanation as to how the AWU WAB was able to mask the apparent errors pertaining to the property revaluation reserve and, at the same time, make both the 1995 and 1996 financial statements appear to be completely in order. Accounting is based on the "double-entry" bookkeeping system where every transaction has a twofold effect. Among other things, this means the addition or subtraction of a single item on the balance sheet must be accompanied by an equal and opposite adjustment elsewhere in the financial reports – either on the income statement or on the balance sheet. The property revaluation reserve on the 1995 balance sheet does not appear to be related to any other individual item contained within the financial reports. The same can be said for the reserve's subsequent disappearance from the 1996 balance sheet. Lack of explanation could, of course, signify that the scenario outlined above is totally in error. Should this be so, the matter of the property revaluation reserve would then remain an unanswered mystery.

T6.5. Clear implication

The clear implication to be drawn from the foregoing discussion of overall wealth is that the continual, dramatic deterioration in Branch wealth for the seven years ended 1997 is explained by consistently poor operational performance on the part of Branch management. As Schedule T6.2 (see earlier) indicated, Branch wealth during 1991 to 1997 was overwhelmingly determined by operating performance (accumulated surplus), rather than by changes in the value of, or profits on the sale of, individual property assets (reserves).

Cash Flow Statement analysis

A cash flow statement shows what money has flowed in to an entity during the year (cash inflows) and what money has flowed out (cash outflows). A cash flow statement therefore explains how an entity's "cash at bank" asset as shown on the balance sheet has changed during the year. As well as indicating what cash inflows and cash outflows have taken place during the year, a cash flow statement also classifies the cash flows into three categories – cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

Cash flows from operating activities are cash flows closely associated with an entity's main purpose or reason for being. For example, the main purpose of trade union would be to attract new members and then service the legitimate interests and needs of its membership. Cash flows from operating activities would therefore include a range of cash inflows and cash outflows directly arising from servicing the membership, for example receiving membership subscriptions or publishing union newsletters. Cash flows from investing activities involve the purchase and sale of non-current assets. Non-current assets, it will be recalled, are the long-lived resources an entity needs and uses to conduct and maintain its normal operations. And cash flows from financing activities involve taking out long-term loans (loans having greater than a one year repayment period) and then repaying the amounts borrowed.

Overall change in cash position

It was explained earlier (see "Financial data and financial statements analysed" section, at page 4) that prior to 1992 there was no accounting requirement for a reporting entity to publish an annual cash flow statement. As a result, the AWU WAB prepared cash flow statements only from 1992 onwards. The overall change in Branch cash position for the years 1991 to 1997 is summarised in Table 7 below.

Table 7 – Branch cash flow summary

During financial year	1991	1992	1993	1994	1995	1996	1997
Cash balance at year start	**na**	**(142,950)**	**29,473**	**1,595**	**1,431**	**1,968**	**156,344**
Net cash flow from operations	na	245,503	(481,594)	98,340	126,503	(72,612)	9,125
Net cash flow from investing	na	(146,180)	(262,812)	48,654	(24,247)	195,801	(3,422)
Net cash flow from financing	na	73,100	716,528	(147,158)	(101,719)	31,187	(880)
Overall net cash flow	**na**	**172,423**	**(27,878)**	**(164)**	**537**	**154,376**	**4,823**
Cash balance at year end	**(142,950)**	**29,473**	**1,595**	**1,431**	**1,968**	**156,344**	**161,167**

The AWU WAB did not have particularly healthy cash holdings for the period 1991 to 1997. The period began with a remarkable turnaround in the Branch's cash position during the 1992 financial year. From a $142,950 cash deficit at the start of the year to a $29,473 cash surplus at the end of the year, the Branch managed to produce an impressive $172,423 improvement in its cash holding. Information on why or how the Branch came to be in such an adverse cash position at the start of 1992 is not available to the author. However, and following the positive turnaround in 1992, the Branch cash position deteriorated, and only showed marked improvement in 1996.

With the possible exceptions of 1996 and 1997, the cash balance at the end of each year seemed remarkably small for an organisation receiving annual membership fees in the vicinity of $2 million. This was especially evident for the years 1992 to 1995 – the time Wilson and/or Blewitt were in charge Branch finances. In 1993, 1994 and 1995 end of year cash balances were miniscule. It is difficult to imagine a cash balance of less than $2,000 would be adequate for a multi-million dollar trade union branch.

NOTES TO TABLE 7

T7.1. Cash flows from operating activities

The two dominant cash flows from operating activities during the six year period 1992 to 1997 were union dues received from members and payments to suppliers and employees (see Schedule T7.1 below).

Schedule T7.1 – Cash flows from operating activities

During financial year	1991	1992	1993	1994	1995	1996	1997
Receipts from members	na	2,638,100	2,627,826	2,282,937	2,052,214	1,747,814	1,648,867
Paid suppliers and employees	na	(2,392,338)	(3,153,961)	(2,219,293)	(2,049,109)	(1,909,075)	(1,802,617)
Other income	na	67,332	111,277	101,618	175,676	132,945	189,964
Interest received	na	643	9,593		83		8,339
Interest, costs of finance paid	na	(9,683)	(20,045)	(14,494)	(13,804)	(9,611)	(13,612)
Taxes paid	na	(58,551)	(56,284)	(52,428)	(38,557)	(34,685)	(21,816)
Net cash flow from operations	**na**	**245,503**	**(481,594)**	**98,340**	**126,503**	**(72,612)**	**9,125**

The financial accounts for the period do not indicate the division between suppliers and employees, and treat the two groups as a combined aggregate. The dramatic decline in Branch membership between 1992 and 1996 (see Table 2 on page 7), meant that receipts from members decreased significantly each year up to and including 1997. However, payments to suppliers and employees did not always exhibit a similar trend, and where they did, not to the same extent. In 1993, and despite the slight fall in membership receipts for the year ($10,274), payments to suppliers and employees increased by nearly 32 per cent ($761,623) compared to the 1992 financial year. This remarkable increase would reverse the following year when payments to suppliers and employees decreased by $934,668 in 1994. Payments to suppliers and employees then decreased each year until 1997, but the annual decrease did not keep pace with the continuing annual decline in membership receipts. Indeed, payments to suppliers and employees exceeded receipts from members by more than $150,000 in both 1996 and 1997.

T7.2. Cash flows from investing activities

Cash flows from investing activities arose from the Branch purchasing and selling non-current assets (property, plant, equipment) each year between 1992 and 1997. And for most of those years, asset purchases exceeded asset sales (see Schedule T7.2 below).

Schedule T7.2 – Cash flows from investing activities

During financial year	1991	1992	1993	1994	1995	1996	1997
Purchase property, plant, equipment	na	(209,469)	(340,738)	(40,896)	(207,474)	(98,271)	(4,772)
Sale of property, plant, equipment	na	63,289	77,926	89,550	183,227	294,072	1,350
Net cash flow from investing	**na**	**(146,180)**	**(262,812)**	**48,654**	**(24,247)**	**195,801**	**(3,422)**

Contrary to the general pattern indicated in the Schedule, 1996 sales of non-current assets exceeded new asset purchases by nearly $200,000. This was most likely due to the sale of the two Karratha investment properties (see “Income earned” section, note T2.2 on page 7).

Also noteworthy about Schedule T7.2 are the unusually large non-current asset purchases in 1993. During that year, purchases of non-current assets totalled $340,938 which represented a more that 60 per cent increase compared to the $209,469 non-current asset purchases for 1992. In 1994, non-current asset purchases dropped to a mere $40,896 which represented an 88 per cent decrease compared to the previous year.

T7.3. Cash flows from financing activities

Cash flows from financing activities arose from the Branch taking out long-term loans, and making repayments on those loans, each year between 1992 and 1997 (see Schedule T7.3 below).

Schedule T7.3 – Cash flows from financing activities

During financial year	1991	1992	1993	1994	1995	1996	1997
New loans taken out	na	133,228	782,777	15,157	155,573	57,715	881
Repayment of loans	na	(60,128)	(66,249)	(162,315)	(257,292)	(26,528)	(1,761)
Net cash flow from financing	**na**	**73,100**	**716,528**	**(147,158)**	**(101,719)**	**31,187**	**(880)**

For three of the years (1992, 1993, and 1996) new loans taken out exceeded loan repayments made. Loan repayments exceeded new loans taken only in 1994, 1995 and 1997. The 1993 financial year was especially noteworthy in terms of new loans taken out compared to loan repayments. During 1993 the Branch borrowed an astonishing $782,777 which is more than double the loans taken out for the other five years combined! There is nothing in the financial reports examined that definitively explains the reason why the Branch borrowed such a large amount of money during the 1993 financial year. However, the 1993 accounts do disclose one specific event that, in all likelihood, modestly contributed to the need for additional borrowing. That event was the $109,285 "Drive for Dignity" political donation made in support of the Carmen Lawrence State Labor government re-election campaign of early 1993 (see "Expenses incurred" section, note T3.1 on page 8).

Issues, questions and concerns

Inevitably, there will be a high degree of aggregation in any published financial report, and the 1991-1997 financial reports of the AWU WAB are no exception. Analysis of published financial reports will therefore always be limited both in its scope and its capacity to provide precise, definitive explanations of past events.

Nonetheless, analysis of the 1991-1997 financial reports of the AWU WAB did provide some significant insights. The analysis did highlight a number of issues, concerns and questions about how the AWU WAB was operated, especially during the period 1992 to 1995 under the stewardship of the Wilson and Blewitt leadership teams. The 1993 financial year stands out as exceptional for many of the items contained in the financial accounts.

Although different people are likely to see different things in any given set of financial reports, several matters stand out as especially significant for the author of this research report. These matters are presented below in no particular order of importance, and constitute a series of issues, questions and concerns.

Why such substantial trading in non-current assets?

The Branch engaged in what seems to be an unusually high level of non-current asset trading for a trade union body. As both the Income Statement analysis and the Cash Flow Statement analysis revealed, considerable amounts of non-current assets were purchased and sold each year during the period 1991 to 1997. This is depicted in Table 8 below.

Table 8 – Evidence of consistent non-current asset trading

Reference	1991	1992	1993	1994	1995	1996	1997
Income Statement analysis:							
Profit /(Loss) on sale of assets	(44,452)	(22,024)	(3,570)	(38,309)	(49,099)	85,361	(4,599)
Cash Flow Statement analysis:							
Cash received from asset sales	na	63,289	77,926	89,550	183,227	294,072	1,350
Cash paid for asset purchases	na	209,469	340,738	40,896	207,474	98,271	4,772

At least two questions could be asked in relation to Branch non-current asset trading:

(a) Trade unions are not normally associated with buying and selling substantial amounts of non-current assets on a regular basis. For what reason, then, was it necessary for the Branch to engage in such activities?

(b) Why were non-current assets so often sold at a considerable loss? A loss on the sale of an individual asset is not unusual, but what does seem remarkable is the consistently high level of losses incurred.

Which non-current assets were bought and sold so regularly?

Although non-currents assets were bought and sold, and profits or losses on sale reported, for each year of the period of analysis, the financial reports contained no explicit detail on asset sales or asset acquisitions. There was not a single financial Note, or other piece of information, explaining which particular non-current assets had been acquired or disposed of. This is significant because the non-current asset portfolio held by the AWU WAB was limited in both its nature and dollar value.

During 1991 to 1997, only three non-current asset classes were ever listed on Branch balance sheets – land and buildings, motor vehicles and furniture/equipment. It seems reasonable to suppose, therefore, the non-current assets that were so regularly traded would have fallen within one or more of these three classes.

Trading in used furniture and equipment?

Despite the high level of furniture/equipment listed on Branch balance sheets (see Schedule T4.3 earlier), it seems strange the AWU WAB would have bought and sold furniture/equipment on a regular basis during the seven year period of analysis. Even if this was the case, it would take a very large quantity of used furniture/equipment to generate the substantial profits or losses, and the yet more substantial cash flows, indicated in Table 8 above. Trading in motor vehicles would seem to offer a much more likely scenario in this regard. For the most part, motor vehicles constituted a larger non-current asset during the period of analysis than did furniture/equipment. And due to the higher per unit cost involved, a lesser quantity of used motor vehicles would be needed to generate the profits, losses and cash flows presented in Table 8.

The size of the motor vehicle fleet?

Branch balance sheets disclose a high level of investment in motor vehicles especially in 1993. Motor vehicles increased from $317,876 in 1991 to $448,999 in 1993 after which the asset steadily decreased in value each year. On the 1997 balance sheet motor vehicles were valued at $144,988 – a decline of just under 68 per cent compared to the asset's peak value in 1993. On these figures, the Branch vehicle fleet does seem rather large. Admittedly, Western Australia is a very large land mass to traverse geographically, and work related travel distances would be long. But questions can still be asked about the physical number of motor vehicles that the AWU WAB maintained in its fleet.

A confidential internal source informed the author that the AWU WAB acquired only Ford vehicles through a fleet owner's discount scheme offered by one of Western Australia's largest Ford dealerships, McInerney Ford. Branch vehicle policy was to purchase only the basic model Ford Falcon for union organisers, and change the vehicles over at 100,000 kilometres or every two years whichever came first. Using historical data from RedBook, Australia's pre-eminent provider of car prices values and vehicle identification details, together with the information provided by the confidential source, it became possible to estimate the number of cars that comprised the Branch vehicle fleet during the period of analysis. The results are shown in Table 9 below, and are based on new car prices averaged over two years – the maximum length of time that vehicles were retained by the Branch.

Table 9 – Estimated number of cars in the AWU WAB motor vehicle fleet 1991 to 1997

Ford vehicle details	1991	1992	1993	1994	1995	1996	1997
Model	Falcon	Falcon	Falcon	Falcon	Falcon	Falcon	Falcon
Series	EAII	EB	EBII	ED	EF	EFII	EL
Body type	sedan	sedan	sedan	sedan	sedan	sedan	sedan
Transmission	auto	auto	auto	auto	auto	auto	auto
Price when new ($)	24,297	23,833	25,704	26,935	29,506	30,249	29,950
Average price if 2-year retention ($)	24,059	24,065	24,769	26,320	28,221	29,878	30,100
Balance sheet fleet asset value ($)	317,876	343,502	448,999	278,711	233,859	211,787	144,988
Estimated fleet size (vehicles)	**13**	**14**	**18**	**11**	**8**	**7**	**5**

It seems quite remarkable the Branch vehicle fleet would shrink so dramatically in the space of four years – from an estimated 18 cars in 1993 to an estimated 5 cars in 1997. Even in the face of falling Union membership (see "Income earned" section, Table 2 on page 7) the drop in estimated vehicle numbers seems somewhat large. After all, and notwithstanding the decline in Branch membership, the AWU WAB was still required to service union members who were widely dispersed throughout the vast state of Western Australia.

Trading in real estate property?

Based on data contained in Branch balance sheets, it would seem impossible that the AWU WAB bought and sold real estate property each and every year from 1991 to 1997. Between 1991 and 1995, the Branch listed the same three properties as comprising its only property assets – the Union offices in Perth and two rental houses in Karratha (see "Resources held" section, note T4.3 on page 13). In 1996 and 1997 the two Karratha properties no longer appeared on the balance sheet, leaving the Union offices in Perth as the sole remaining property asset. According to balance sheet data, therefore, the AWU WAB did not engage in property transactions other than (apparently) in 1996. But the Karratha properties pose something of a mystery in their own right.

The Karratha rental properties – some unanswered questions

It can only be assumed the two Karratha rental properties were indeed sold. The houses simply "disappeared" from the 1996 balance sheet having last appeared on the 1995 balance sheet. This, together with the fact a profit on sale was reported on the 1996 income statement, is the basis for statements made at various places throughout this paper that rental properties located in Nelson Court and Frinderstein Way, Karratha were sold in 1996.

Even if one accepts the Karratha houses were sold that year, the 1996 financial report contains no indication the houses were sold at a profit. Although the 1996 income statement includes an item "profit on sale of assets $85,361", the financial report does not disclose how this profit figure was derived, or to which individual asset(s) the profit relates. The $85,361 could simply be a net amount whereby some non-current assets were sold at a loss, and others at a profit. It might be tempting to conclude the two Karratha houses were sold at profit of $85,361 but it would be unreasonable to do so without further inquiry. What seems strange, however, is that considerable detail was given in the Branch financial report when the rental houses were revalued upwards in 1995 (see "Overall performance" section, note T1.2 on page 6), but absolutely no details were disclosed when the properties vanished from the 1996 balance sheet.

Two serious balance sheet anomalies

For most people, it is axiomatic that independently audited financial reports are to be trusted. Although external auditors are not in the business of giving guarantees, their work normally provides a high degree of public assurance that published financial reports are accurate. In the case of the AWU WAB, all financial reports published between 1991 and 1997 underwent independent external audit examination. And although two of those reports (1995 and 1996) received qualified audit reports due to there being a deficit of Branch assets against Branch liabilities, for every year the external auditors provided a written opinion that the AWU WAB maintained satisfactory records and that its financial statements gave a true and fair view of the Branch's financial affairs. This being the case, a reasonable question one might ask is this: would it not be sensible and sufficient to simply accept the generally favourable written opinions furnished by the AWU WAB external auditors? The short answer to this question is a resounding "no". There are good reasons for believing the balance sheets produced by the Branch, and signed off by the external auditors, are seriously lacking. Specifically, for all years between 1992 and 1997, the balance sheet contains gross misstatements of non-current assets as well as gross misstatements of non-current liabilities. Conclusions for 1991 could not be drawn because sufficient financial data were not available. That the AWU WAB balance sheets could contain serious anomalies casts doubt on whether Branch balance sheets can, or should, be taken at face value. It also seems to call into question the quality of the external audits carried out between 1992 and 1997. If Branch balance sheets cannot be trusted, and if reports provided by the independent auditor can be questioned on grounds of adequacy, reliable financial analysis becomes problematic.

Serious anomaly no.1: Non-current assets missing from the balance sheets

As discussed earlier (see "Cash Flow Statement analysis" section, at page 21), the investing activities section of a cash flow statement shows what cash has been received from non-current asset sales, and what cash has been paid out for non-current asset purchases, during the year concerned. Non-current assets can, of course, also be sold or purchased on credit. Where this has occurred, corresponding assets (receivables) and liabilities (payables) would appear on the balance sheet – either as current or non-current items.

This discussion points to the fact there should always be consistency between a cash flow statement and a balance sheet as far as non-current asset trading is concerned. The overall net cash sales or net cash purchases implied by the cash flow statement, when combined with the overall net credit sales or net credit purchases implied by the balance sheet, should always reconcile with the level of non-current assets reported on the balance sheet. This does not happen in the AWU WAB financial reports. For each year between 1992 and 1997, the level of non-current assets reported on the Branch balance sheet does not reconcile with other information disclosed by the cash flow statement or on the balance sheet.

Trading in non-current assets – cash flow perspective

By comparing two consecutive balance sheets, it is a simple matter to determine how an individual balance sheet item has changed from one year to the next – whether the item has increased or decreased, and by how much. Table 10 below compares (a) the annual change in non-current assets as indicated by comparative balance sheet amounts with (b) the annual change in non-current assets as indicated by the cash flow statement. For convenience, it is initially assumed no non-current assets were bought or sold on credit. This assumption will be relaxed in the next section.

<u>Table 10</u> – Non-current asset balance sheet misstatements 1992 to 1997: cash flow perspective

Data source	1992	1993	1994	1995	1996	1997
Balance sheet data:						
Total non-current assets	2,153,419	2,233,993	2,001,889	1,287,003	955,173	853,817
Asset increase / (decrease)	(52,662)	80,574	(232,104)	(714,886)	(331,830)	(101,356)
Cash flow statement data:						
Cash received from asset sales	63,289	77,926	89,550	183,227	294,072	1,350
Cash paid for asset purchases	209,469	340,738	40,896	207,474	98,271	4,772
Asset increase / (decrease)	146,180	262,812	(48,654)	24,247	(195,801)	3,422
Unadjusted excess / (deficiency)	**(198,842)**	**(182,238)**	**(183,450)**	**(739,133)**	**(136,029)**	**(104,778)**
Adjustment for profit / (loss) on sale	(22,024)	(3,570)	(38,309)	(49,099)	85,361	(4,599)
Asset excess / (deficiency)	**(176,818)**	**(178,668)**	**(145,141)**	**(690,034)**	**(221,390)**	**(100,179)**

The main conclusion to be drawn from Table 10 is that non-current assets seem to be missing from every AWU WAB balance sheet published between 1992 and 1997. The amounts involved are substantial. The 1995 balance sheet is especially notable with a non-current asset deficiency totalling $690,034. Table 10 is based on the assumption that all non-current asset transactions were cash transactions, and that no assets were sold or bought on credit. But what if this assumption is wrong? What if each year between 1992 and 1997 non-current assets were sold or bought on credit as well as for cash? Could credit-based transactions explain the non-current asset deficiencies identified in Table 10?

Could the missing non-current assets have been sold on credit?

It is theoretically possible non-current assets identified as "missing" in Table 10 are not missing at all. It is conceivable the allegedly missing non-current assets were sold on credit, which would certainly explain their absence from the balance sheet concerned. In order to test this proposition, one must look for corroborating evidence on the balance sheets themselves.

Selling a non-current asset on credit will have a two-fold effect on the balance sheet. Non-current assets will decrease, and a corresponding receivable will appear as an asset on the balance sheet. The receivable represents cash that will be received in the future as a result of the credit sale. However, if indeed the missing non-current assets identified in Table 10 were sold on credit, then corresponding receivables should be evident somewhere among the balance sheet assets.

Examination of the AWU WAB balance sheets reveals there are no obvious receivable amounts pertaining to non-current asset sales on credit. None of the three non-current assets listed between 1992 and 1997 is a receivable (see "Resources held (assets)" section, note T4.3 on page 13). And among the current assets listed between 1992 and 1997, the only item that would qualify as a possible receivable related to non-current asset sales on credit is "Other debtors/prepayments" (see "Resources held (assets)" section, note T4.2 on page 12). But it would be reasonable to expect most, of not all, of the "Other debtors/prepayments" asset amounts listed on the balance sheets would relate to transactions other than non-current asset sales on credit. Membership dues in arrears and prepaid expenses are two examples of transactions that would legitimately be included in "Other debtors/prepayments" asset amounts, and that would normally be associated with trade union activities.

Nonetheless even if it was assumed, for the sake of argument, all of the "Other debtors/prepayments" asset amounts on Branch balance sheet represented non-current asset sales on credit, the missing non-current assets identified in Table 10 would still not be explained. The asset deficiency would admittedly be smaller, but it would still be very substantial in dollar amount (see Table 11 below).

Table 11 – Non-current asset balance sheet misstatements 1992 to 1997: all inclusive perspective

Data source	1992	1993	1994	1995	1996	1997
Table 10 asset deficiency	(176,818)	(178,668)	(145,141)	(690,034)	(221,390)	(100,179)
Other debtors/prepayments	27,301	66,455	16,615	30,262	19,530	38,818
Adjusted asset deficiency	**(149,517)**	**(112,213)**	**(128,526)**	**(659,772)**	**(201,860)**	**(61,361)**

Table 11 makes clear that credit-based transactions do not explain the large non-current asset deficiencies identified in Table 10.

Serious anomaly no.2: Non-current liabilities misstated on the balance sheets

Due to their long term nature (greater than one year repayment period), long term loans are classified as non-current liabilities on a balance sheet. As earlier discussion signalled, there should always be consistency between a cash flow statement and a balance sheet. For any one financial year, the increase or decrease in non-current liabilities evident when comparing two consecutive balance sheets should exactly match the increase or decrease in non-current liabilities implied by the cash flow statement

As was explained earlier (see "Cash Flow Statement analysis" section, at page 21), the financing activities section of a cash flow statement deals exclusively with loans of a long term nature. The section shows new loans taken out during the year (cash inflows), and loan repayments made (cash outflows). The difference between the two cash flows represents the amount by which overall long term loan liabilities have either increased or decreased.

Yet, as Table 12 below indicates, for every year between 1992 and 1997, there is no correlation between what the Branch balance sheets imply on the one hand, and what the Branch cash flow statements imply on the other. For each year there is either a deficiency of non-current liabilities or an excess of non-current liabilities. In a nutshell, non-current liabilities on the AWU WAB balance sheets are grossly misstated.

Table 12 – Non-current liability balance sheet misstatements 1992 to 1997

Data source	1992	1993	1994	1995	1996	1997
Balance sheet data:						
Total non-current liabilities	545,827	937,165	849,780	955,784	953,443	974,338
Liability increase / (decrease)	6,851	391,338	(87,385)	106,004	(2,341)	20,895
Cash flow statement data:						
Cash received from new loans	133,228	782,777	15,157	155,573	57,715	881
Cash paid on loan repayments	60,128	66,249	162,315	257,292	26,528	1,761
Liability increase / (decrease)	73,100	716,528	(147,158)	(101,719)	31,187	(880)
Liability excess / (deficiency)	**(66,249)**	**(325,190)**	**59,773**	**207,723**	**(33,528)**	**21,775**

On each of the 1992, 1993 and 1996 balance sheets, there is a deficiency of non-current liabilities. New long term loans taken out during those years were not, apparently, recorded on the balance sheet. The implication is that even though loans were taken out in the name of the Branch, these were not included in Branch non-current liabilities. Table 12 shows the opposite situation for 1994, 1995 and 1997. For those three years, there is an excess of non-current liabilities. New long term loans were recorded on the balance sheet with no evidence that such loans were ever taken out by the Branch. The implication is that loans not related to the Branch were somehow included in Branch non-current liabilities.

Critically low liquidity

It is not an exaggeration to say that cash is the lifeblood of any business. All business entities must generate sufficient cash, and have adequate cash on hand, in order to survive. Not having enough cash, or cash generating capability, leads to business death – bankruptcy or liquidation. People are often puzzled and surprised when seemingly profitable businesses suddenly "fold" and cease to exist. But such puzzlement is due to not understanding the difference between cash and profits.

"Cash" and "profits" are not the same. This is because not all items of revenue or expense for the year necessarily involve the flow of cash. Unpaid revenue or unpaid expenses are still included in the current year revenue and expense and thereby contribute to current year profit. It is thus possible for an otherwise profitable entity (as shown on the income statement) to experience severe, even terminal, financial difficulty in terms of adequate cash flow (as shown on the cash flow statement).

With some exceptions, the primary goal of any business is to generate profits. There would be little point in operating a business if the profit motive was absent. Maximising revenue and minimising expenses will result in the largest possible profit. However, and over the longer term, if sufficient profits are not generated, businesses ultimately die and cease to exist. Thus, by any measure, profits are crucial determinants of business survival.

Poor cash flow can threaten business survival every bit as much as poor profit performance. If profitable businesses are to continue making profits into the future, adequate cash resources must be available to ensure business survival. Some businesses are so good at generating profits they completely forget about having or generating adequate cash flow, and experience business failure as a result. As stated above, cash truly is the lifeblood of any business.

The extent to which an organisation has sufficient cash to meet its immediate short term obligations, or assets that can be quickly converted to do this, is referred to as "liquidity". Within limits, the more liquid a business is, the greater its prospects of survival. This is because inability to meet even small business debts can result in a Court Order to close a business down. If a business has insufficient cash to pay even relatively small amounts owing, the Courts can insist the entity sells its non-current assets in order to satisfy its current debts. Without adequate non-current assets, however, the business cannot make profits. And without the non-current assets needed to generate profits, a business will not survive.

The traditional accounting measure used to assess business liquidity is the current ratio, which is defined as the proportion of current assets to current liabilities. Although some accountants dispute the usefulness of this ratio to assess business liquidity, it is generally agreed that a current ratio of 200 per cent would represent an adequate level of cash resources. That is to say, businesses should have twice the amount of current assets as they do current liabilities in order to be reasonably assured of survival. Table 13 below presents current ratio calculations for the AWU WAB for the period 1991 to 1997. As can be seen from the Table, in terms of the traditional accounting benchmark, Branch liquidity was far from adequate for each of the seven years analysed.

Table 13 – AWU WAB current ratio 1991 to 1997

At financial year end	1991	1992	1993	1994	1995	1996	1997
Current assets	30,914	56,774	68,050	18,046	197,562	336,383	199,985
Current liabilities	807,434	586,910	1,085,151	986,651	630,249	682,854	658,166
Current ratio (%)	**3.83**	**9.67**	**6.27**	**1.83**	**31.35**	**49.26**	**30.39**

If a current ratio value of 200 per cent is considered to be the desirable threshold of cash adequacy, Branch liquidity was virtually non-existent – especially during the period 1991 to 1994. Granted there was very significant improvement in liquidity after 1994, but this was nowhere near enough to be considered adequate when judged by traditional accounting benchmarks. In short, during the period 1991 to 1997, the AWU WAB was in critical danger of being forced into bankruptcy or liquidation. Realistically, little, if any, assurance about Branch survival could have been given between 1991 and 1997.

Questionable cash flow management

Earlier in this paper it was explained that cash flow statements contain cash flow information divided into three categories - cash flows from operating activities, cash flows from investing activities and cash flows from financing activities (see "Cash Flow Statement analysis" section, at page 20). Operating activities are those activities associated with an entity's main purpose or reason for being. Investing activities involve the purchase and sale of non-current assets. And financing activities involve taking out new loans of a long term nature, and making repayments on such loans. Hence, cash inflows and cash outflows can arise from any one or more of the three activity types just indicated. But when it comes to generating the cash needed to ensure an entity's ongoing survival, does it matter which activity is primarily involved? The short answer to this question is "Yes, it does matter." Although each of the three activity types can and does play a key role in the survival and success of any business entity, not all activity types are equally desirable in the long run. In short, cash flows need to be appropriately managed in order to bring about lasting business success.

For any successful business, the critical mainstay of a healthy cash and cash flow position must be cash flow from operating activities. A business must be able to "pay its way" and not rely on selling its non-current assets (cash flow from investing activities), or borrowing from external sources (cash flow from financing activities), in order to survive. There is a limit to which investing activities and financing activities can be relied on to produce and maintain adequate cash resources.

Selling non-current assets will certainly generate immediate cash to overcome a present cash shortage, but this needs to be kept within manageable and sustainable limits. Firstly, you can only sell the "furniture" or the "farm" once. You will then have no non-current assets to sell whenever the next cash shortage arises. Secondly, selling the "furniture" or the "farm" means you no longer have the means to generate cash flows in the future. You might have overcome the present cash shortage, but in all likelihood you have created fertile conditions for future cash shortages to seriously threaten business survival.

Borrowing from external sources also needs to be kept within manageable and sustainable limits. There is a limit to how much an entity can borrow from lenders. External lenders will only lend money if they are sufficiently confident loans will be repaid. Lenders will assess an entity's ability to generate the future cash flows needed to repay debt. If an entity is experiencing difficulty in generating positive cash flows, it will become very much harder to convince lenders to extend finance. Furthermore, lenders are sometimes reluctant to lend money for short term purposes. Many lenders would not, for example, lend money to cover unpaid staff wages. And those who do are likely to impose strict conditions in the form of higher interest rates and shorter repayment periods.

The foregoing discussion points to a single clear and unmistakable conclusion – there is no real substitute for generating healthy cash flows from operating activities. Cash flows from investing and financing activities are from time to time necessary, and even indispensable, but in the final analysis it is cash flow from operations that underpins and determines business success. Sooner or later, all entities must face up to this reality.

Table 14 below shows which activity type was most prominent among AWU WAB cash flows from 1992 to 1997. Prominence is here defined in terms of absolute dollar amount, and ignores whether net cash movements are inflows or outflows.

Table 14 – AWU WAB cash flow outcomes 1992 to 1997

Description	1992	1993	1994	1995	1996	1997
Net cash flow from operating activities	245,503	(481,594)	98,340	126,503	(72,612)	9,125
Net cash flow from investing activities	(146,180)	(262,812)	48,654	(24,247)	195,801	(3,422)
Net cash flow from financing activities	73,100	716,528	(147,158)	(101,719)	31,187	(880)
Main cash flow activity	operating	financing	financing	operating	investing	operating
Cash flow type	inflow	inflow	outflow	inflow	inflow	inflow
Outcome description	normal activities	new loans taken out	loan repayments	normal activities	non-current asset sales	normal activities

In terms of the cash flow management, Table 14 indicates mixed performance by the Branch between 1992 and 1997. For 1992, the most prominent net cash flow was an overall $245,503 cash inflow from operating activities. Other things being equal, this is in line with sound cash flow management principles. But cash flow from financing activities rose to prominence in each of the next two years.

During the 1993 financial year, massive net loans totalling $716,528 were taken out by the Branch. At the same time, the Branch posted its worst net cash flow from operations for the entire six year period, namely a $481,594 net cash outflow. In 1994, repayment of loans constituted the most prominent net cash flow – $147,158 in total.

For two of the remaining three years (1995 and 1997) sound cash flow management principles were once again in evidence. For both years net cash inflows from operations were the most prominent items on the cash flow statement. The 1996 financial year was most notable for its large scale non-current asset sales. These provided net cash inflow of $195,801. The 1997 cash flow summary is unusual for the vastly reduced level of reported net cash flows compared to the five previous years. It is almost as if cautious inactivity replaced the lively activity of earlier years with regard to the overall management of cash flows. A small cash surplus from operating activities ($9,125), modest non-current asset purchases ($3,422) and modest loan repayments ($880) are suggestive of a significant, and perhaps deliberate, reduction in the scale of Branch cash flow activity compared to previous financial years.

In summary, cash flow management by the AWU WAB leadership between 1992 and 1997 was, like the Curate's egg, "good in parts". The years 1992, 1995 and 1997 can be regarded as constituting relatively good performance from a cash flow management perspective. In each of those years there seems to have been emphasis on generating positive cash flow from operations. But the same cannot be said for the other three years – especially 1993 and 1994. These two years seem to have been characterised by a puzzling emphasis on long term borrowing – massive loans taken out in 1993 followed by substantial loan repayments in 1994. Indeed, 1993 and 1994 stand out for especially questionable cash flow management.

Was the AWU WAB a going concern between 1991 and 1997?

For at least the past 50 years, accounting standards have been predicated on a series of important assumptions, one of which is the "going concern" principle – a principle that is universally understood and accepted by accounting professionals. In essence, the principle assumes an organisation will continue to exist, and will not close down in the foreseeable future. Among other things, accountants take it for granted that an entity's value as a going concern is greater than it would be if the entity was considered to be at risk of imminent closure. This, of course, carries significant implications for an entity's financial statements. The breakup value of an entity's assets is likely to be considerably less than if those assets were part of a continuing operation. After all, when a business closes down, its assets are often sold at bargain prices. The issue at hand here is whether there was ever cause to doubt the going concern status of the AWU WAB between the years 1991 and 1997.

Were there signs of financial distress?

There are certain circumstances that, alone or together, might give cause to doubt whether an organisation should be regarded as a going concern. Included in such circumstances would be the following possible indicators of financial difficulty: ongoing losses, negative operating cash flows, poor cash flow, unrecoverable loans to outside parties, liabilities greater than assets and a net current liability position. Alone or in concert, these indicators are not guarantees that an organisation is experiencing financial distress, and that its going concern status is at risk. At the very least, however, they are danger signs that ought to be taken seriously from the moment they become apparent. History and accounting research both show that all too often indicators of this kind are precursors to business collapse. And to a greater or lesser degree, the indicators mentioned were clearly evident in AWU WAB published financial statements for the years 1991 to 1997 (see Table 15 below). The listed indicators have been cross referenced to information presented earlier in this paper.

Table 15 – Possible threats to AWU WAB going concern status between 1991 and 1997

Possible threat	Reference
An operating deficit each year except 1992	Table 1 on page 6
Substantial loans receivable written off in 1997	Table 1 on page 6
A deficiency of total assets over total liabilities in 1995, 1996 and 1997	Table 6 on page 16
Poor cash flows each year with the possible exception of 1992 and 1996	Table 7 on page 21
A massive negative operating cash flow in 1993	Schedule T7.1 on page 22
Current liabilities exceeding current assets each year	Table 13 on page 30

It is clear from Table 15 that unmistakable signs of financial distress were evident in Branch operations between 1991 and 1997. Furthermore, the signs were such that many accountants would judge them as pointing to only one conclusion – for much of the period 1991 to 1997, the AWU WAB was not a going concern. All this begs an important question. Did the external auditors ever question the going concern status of the Branch?

External auditors, audit reports and financial statements

An external auditor is a qualified professional who examines the financial statements of an organisation, asks whatever questions he/she deems necessary, considers answers received to the questions asked and then provides a written opinion (audit report) as to whether the financial statements present a true and fair picture of the organisation. An external auditor must be independent of the organisation whose financial statements are being audited.

As mentioned earlier, auditors do not give guarantees but merely provide written opinions. However, and as befits a professional calling, audit opinions must be soundly based in terms of adequate transaction testing and proper enquiry. Auditors must also state in their reports whether or not the financial statements audited were drawn up in accordance with any specific laws or rules that the organisation is obliged to comply with.

Each year between 1991 and 1997, the AWU WAB retained the same chartered accounting firm, Hewitt & Company, to audit its financial statements. The firm changed its name to Haines Norton in 1996. The same audit partner signed the audit report for all seven years. (See "Financial data and financial statements analysed" section, Figure 5 on page 4.) The confidential internal source referred to earlier in this paper (at page 24) told the author that the Branch bookkeeper "prepared the accounts with Hewitt and Co." and "Borovac did the audit".

Of itself, and provided certain safeguards are implemented, it is not unusual or alarming that accounting firms prepare the financial statements they subsequently are asked to audit. For cost and other reasons, an organisation might prefer to employ a bookkeeper rather than a fully qualified accountant. The organisation therefore lacks the expertise to ensure its financial statements are properly prepared. In such a situation, it is commonplace for original transaction files and records to be handed to the external audit firm and for its staff to then assist in the preparation of financial statements. The internal controls needed to safeguard audit independence under these circumstances would be that the audit firm not be involved in creating the original transaction records, and that the person signing the audit report not be involved in preparing the financial statements.

An audit report will always fall into one of three categories – unqualified, qualified and adverse. In an unqualified audit report (also known as a "clean" audit report), the auditor opines that an organisation's financial statements are adequately determined and divulged in all material respects. A qualified audit report is one in which the auditor has concluded the financial statements present a true and fair view of the organisation other than for a few non-pervasive issues. An adverse audit opinion (also known as a "disclaimer") reflects the auditor's belief the financial statements are not transparent, or that it was not possible to determine whether they present a true and fair view of the organisation.

What did the AWU WAB external auditors think?

For all but two years between 1991 and 1997, the AWU WAB external auditors gave the Branch a clean audit report. In 1995, and also 1996, the Branch received a qualified audit report. The audit qualification was the same for both years, and was issued because "the Branch has a deficit of assets against liabilities". Strangely, however, a clean audit report was provided for 1997 even though Branch liabilities exceeded Branch assets in that year by a far greater margin than in 1995 and 1996 (see Table 6 on page 16).

The 1995 and 1996 audit qualifications mentioned the Branch's major liability was to the AWU Head Office (see Schedule T5.3 on page 16), and that "the Branch will need to have continued support from Head Office to meet its liabilities as and when they fall due". The qualifications also drew attention to the fact that uncertainty surrounded the Branch's largest current asset for both 1995 and 1996, the amount owing from the National

Construction Branch (see Schedule T4.2 on page 12). The auditors stated that recoverability of the amounts claimed from the NCB ($165,332 in 1995 and $160,509 in 1996) was "subject to approval by the National Executive of the union". The implication was clear cut. Even with the NCB receivables included among its assets, the Branch still reported a deficit of assets against liabilities in 1995 and 1996. The deficit would have been much bigger had the receivables asset been excluded from the balance sheets because of uncertainty of receipt. As it transpired, the amounts owing from the NCB were subsequently written off by the Branch as an abnormal expense on the 1997 income statement (see Table 1 on page 6).

Each audit report provided by the external auditors between 1991 and 1997 contained written attestations that:

- The management of the Union was responsible for the preparation and presentation of the financial statements and the information contained therein.
- The audit had been conducted in accordance with Australian Auditing Standards.
- Australian Auditing Standards had been adhered to in order to "provide reasonable assurance as to whether the financial report is free of material misstatement".
- The financial statements were presented fairly in accordance with Australian accounting concepts and standards and the Industrial Relations Act 1988.
- To the best of the auditors' knowledge and belief, all information and explanations necessary for the purposes of the audit had been obtained.

In short, between 1991 and 1997, the external auditors gave consistently favourable opinions as to the truth and fairness of Branch financial statements. Certainly doubts were expressed about some aspects of the financial reports in 1995 and 1996, and these resulted in qualified audit reports. But these doubts were evidently not sufficient for the external auditors to question the going concern status of the AWU WAB.

A very interesting, and very significant, postscript

The 1998 audit report was signed by Vojislav Borovac, the same audit partner who signed the 1991 to 1997 audit reports. That year the Branch received a clean audit report.

In 1999, the AWU WAB audit report was signed by a different audit partner, A G Bevan. The 1999 audit report was qualified because of a $220,649 amount disclosed on the balance as a current receivable (asset). The amount was receivable from the AWU Head Office. The debt owing by Head Office drew this comment from the auditor:

> *There is uncertainty surrounding the collectability of this amount due to the deteriorating financial position and the continued operating deficits being reported by National Office.*

It was the opinion of the auditor that the receivable should not have been reported as an asset on the balance sheet. Instead, the amount should have been shown as a doubtful debt expense in the income statement, thereby increasing the reported Branch deficit for the year from $18,986 to $239,635.

Notwithstanding the above audit qualification, the 1999 audit report stands out for the following remarkable paragraph at the end of the report:

> ***Inherent Uncertainty Regarding Continuation as a Going Concern***
> *Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 to the financial report, there is significant uncertainty whether*

the organisation will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Note 1 to the financial report formed part of the Branch accounts for 1999, and was entitled "Statement of Accounting Policies". Among other things, the Note contained the following paragraph:

There is significant uncertainty that the branch will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. This uncertainty arises due to the financial and legal inter-relationships between the branch and the Australian Workers Union National Office and the fact that the financial position of National Office has deteriorated with continued operating deficiencies being reported. The ability of National Office to repay loans to the West Australian Branch is uncertain. In addition, the major asset reported in the balance sheet of the West Australian Branch (land and buildings) is actually owned by National Office. Should this asset be sold there is no guarantee that the funds will be used to discharge the liabilities of the West Australian Branch. The ability of the West Australian Branch to continue as a going concern is therefore considered to be dependent upon the financial viability of National Office.

It was only in 1999 that formal recognition was given by both the Branch and its external auditor that the going concern status of the AWU WAB was under threat. The threat arose from the Union's premises in Perth. The land and buildings were listed on the AWU WAB balance sheet and constituted the Branch's largest single non-current asset (see Schedule T4.3 on page 13). The premises also represented a high proportion of the Branch's total assets as depicted in Table 16 below.

Table 16 – Land and buildings as a proportion of Branch total assets 1991 to 1997

At financial year end	1991	1992	1993	1994	1995	1996	1997
Total assets	2,236,995	2,210,193	2,302,043	2,019,935	1,484,565	1,291,556	1,053,802
Land & buildings	1,455,534	1,442,355	1,461,614	1,439,641	870,654	601,029	577,065
Proportion (%)	**65.07**	**65.26**	**63.49**	**71.27**	**58.65**	**46.54**	**54.76**

It might seem strange that an organisation would list assets on its balance sheet when it does not legally own those assets. Why would the AWU WA count land and buildings among its assets when those land and buildings are legally owned by Head Office? The answer to this question lies in present day accounting standards.

It is true that, historically, the defining characteristic of an asset was legal ownership. But this is no longer the case. Since the 1980s, accounting standards have defined assets in terms of "control" and now explicitly preclude legal ownership as the determinant of an asset's existence. If an organisation controls an asset, that asset must be included on the organisation's balance sheet. Legal ownership is irrelevant. The Union premises in Perth were controlled by the Branch and not Head Office, and as a consequence appeared as an asset on the AWU WAB balance sheet.

However the new emphasis on "control" can sometimes give rise to going concern problems – a point illustrated well by the AWU WAB case. Unless appropriate guarantees are put in place in respect of assets that are controlled but not legally owned, there is no assurance affected organisations can continue as going concerns. In the absence of such guarantees, there can be no confidence the assets of an organisation will be available to cover the organisation's liabilities in the event of financial distress.

As a closing comment on going concern, the AWU WAB continued to exist following release of the 1999 qualified audit report. The Branch published financial reports each year after 1999, and still does so to this day.

Conclusion

At the start of this research paper, several research questions were posed. The questions sought to identify essential differences between the bogus and fraudulent AWU WRA operation on the one hand, and the legitimate AWU WAB operation on the other. How did the two operations compare in size? Were the two operations essentially 'quarantined' from one another, or were the affairs of each intermingled? Were the financial dealings of both operations similar, or were they different? Were the perpetrators of the fraud upon the AWU good stewards of AWU WAB resources entrusted to them – did they run the Branch efficiently and effectively? Or did they run the Branch with the same recklessness and ruthless self-interest so clearly evident in the fraudulent AWU WRA operation?

The research focus was driven by the observation that the key players who allegedly conceived and directed the massive fraud upon the AWU between 1991 and 1995 (Wilson and Blewitt), were also the same persons who ran the official Western Australia branch of the Union between mid-1991 and early 1995. It was felt conducting a financial analysis of the legitimate AWU WAB operation would provide the best means of exploring the research questions above. Having completed a financial analysis of the AWU WAB for the years 1991 to 1997, it is now possible to provide some tentative answers to the research questions posed.

How did the two operations compare in size?

There no doubt the bogus and fraudulent AWU WRA operation was huge in terms of the dollars involved – estimated at between $880,633 and $993,169 in historical dollars or between $1.39 million and $1.58 million when measured in December 2013 purchasing power equivalents. But as substantial as it was, the bogus and fraudulent operation was much smaller than the legitimate AWU WAB operation. During the years the fraud operated, the AWU WAB reported average income in excess of $2.5 million per annum and average total assets in excess of $2 million.

Were the two operations separate or intermingled?

On the evidence examined, there is no basis for believing the two operations were intermingled. Indeed, it seems logical the two operations would be conducted separately and quarantined from one another if for no other reason than the AWU WAB financial statements were subject to independent audit each year, and would have been distributed to external parties such as the AWU Head Office and the federal Industrial Relations Commission of Australia.

Were the financial dealings of both operations similar, or were they different?

The financial dealings of both operations were quite different when looked at in terms of their predominant income source and activity. The legitimate AWU WAB derived the vast bulk of its income from member contributions. The Branch's main activity was servicing the needs of its members. The fraudulent AWU WRA derived the vast bulk of its income from receiving misdirected monies from companies or government authorities.

The Association's main activity seemed to be moving funds into, and out of, unauthorised bank accounts opened and operated by the alleged perpetrators of the fraud upon the AWU.

Were those who ran the bogus operation good stewards of AWU WAB resources entrusted to them?

The evidence examined suggests the AWU WAB was poorly run, especially during the years 1993 to 1995. The period of analysis was notable for declining membership, a shrinking income base and operating deficits. Very substantial amounts of non-current assets were missing from every balance sheet for the 1991 to 1997 period. Large non-current liabilities were also missing or grossly misstated. Liquidity was consistently at a critically low level. Good cash flow management was rarely in evidence. Indeed, there was considerable reason to believe that for much of the time the Branch was virtually bankrupt and that its status as a going concern was in serious jeopardy. In short, it is not possible to conclude the alleged perpetrators of the fraud upon the AWU ran the Branch efficiently and effectively, and that they were good stewards of AWU WAB resources entrusted to them.

Was the AWU WAB run with the same recklessness and ruthless self-interest as the AWU WRA?

This is a difficult question to answer since the financial reports of the AWU WAB are limited in what they reveal. However, and at a minimum, there is sufficient evidence contained within the financial reports to conclude there was ample scope and opportunity for the exercise of reckless and ruthless self interest. Missing assets, unexplained loan contracts, unusually large individual asset holdings, unexpectedly high individual expenses and strange transaction recording practices would all be consistent with the exercise of reckless and ruthless self interest.

Prepared by Dr John Lourens, FCPA

Melbourne, Victoria

February 2014

Further reading

The fraud upon the AWU click here

The 1996 Ian Cambridge Affidavit click here

Australian Consumer Price Index (CPI) history click here

Motor vehicle details and pricing click here

Going concern issues in financial reporting click here

Possible indicators of financial difficulty click here

AWU WAB financial reports 2002 – 2012 click here