

CHAPTER 8 - EXCESSIVE BENEFITS?

8.1 This chapter chiefly deals with the known sources of income available to Michael Williamson. However he is not the only person on the Union payroll who is well paid. The table below sets out, with respect to the dozen most highly paid Union officers and employees - ignoring one recorded as being on maternity leave - their pay as at 30 September 2010 and 12 months later, and the percentage increases. All this information is taken from a staff and salaries list provided to us by the Union. The figures show total salary and allowances:

Name	Position	30.09.10	30.09.11	Increase
M. Williamson	General Secretary	\$315,272.82	\$394,675.87	25%
K. Jackson	Executive President	\$173,314.00	\$286,976.00	66%
P. Mylan	Deputy General Secretary	\$197,879.10	\$222,881.36	13%
M. Bolano	Deputy General Secretary	\$118,737.00	\$201,463.00	70%
G. Hayes	Divisional Secretary	\$164,026.64	\$194,980.88	19%
C. Glen	Divisional Secretary /	\$104,999.00	\$184,951.00	76%
K. Seymour	Assistant Divisional Secretary	\$118,246.58	\$161,959.45	37%
C. McMillan	Procurement Manager	\$124,985.60	\$155,525.42	24%
B. Gibson	Chief Financial Controller	\$120,209.00	\$155,100.00	29%
D. Williamson	Manager, Recruitment and Marketing	\$111,205.00	\$141,140.00	27%
M. Irvine	Lead Organiser	\$119,325.00	\$141,140.00	18%
J. Astill	Administration Manager	\$98,150.00	\$131,835.00	34%

8.2 Our understanding is that Mylan is now being paid on an acting basis in M. Williamson's stead, and certainly he has had a very heavy burden upon him over the last few months. Part of the reason why Jackson, Bolano and Glen have had such large increases is because the salaries and allowances paid in Victoria were,

prior to the amalgamation, markedly less than those paid to New South Wales officers.

- 8.3 C. Glen resigned with effect from 1 December 2011. She was replaced by S. Miller, who is now paid \$174,650 per annum, and was previously employed as an organiser on \$82,963 per annum.
- 8.4 In the case of M. Williamson, we have been made aware of the process by which his salaries and allowances were fixed. The first step was that a consultant was engaged. She was Beth Jensen, and the minutes show that she is the partner of the Union's Victorian barrister, D. Langmead. She recommended increases within a range, and then the Union President in discussions with the General Secretary set his salary at the top of the recommended range.
- 8.5 In addition to the \$394,675.87 paid to him by the Union by way of salary and allowances, Williamson presumably receives income from United Edge, and perhaps also from Imaging Partners Online. The amounts are not known to us, because private companies do not need to publish accounts or their dividend outcomes.
- 8.6 Other income he received until he resigned recently came from board positions he held with each of First State Super, Sydney Water and the SGE Credit Union.
- 8.7 Was this additional income due and payable by Williamson to the Union? As a matter of law and general practice, the answer must be in the negative. We take an example from industry. An individual who runs a large manufacturer, X Limited, is also a director of Y Bank Limited. Income received from the latter goes into the pocket of the individual, and is not due and payable to X Limited.
- 8.8 Should a different approach perhaps be taken with respect to Union bosses? There can be little doubt that Williamson held these extra positions by reason of his long period of service, and his position, with the Union. Further, he is very well paid and should have devoted his entire working time and attention to the Union and its affairs. Accordingly, and this applies equally to other officers and

employees, he could and should be precluded by contract or the Union rules or both from taking any outside position except by permission of Union Council. And the rules could require that any income received through holding any outside position be paid to the Union:

8.9 We recommend that the Union consider such a change to Union rules, and such a change in future employment contracts, so that members do not see people such as Williamson profiting personally from outside activities. Having said this, we recognise two things. First, such changes would have to apply to future arrangements. Williamson was and is entitled to keep income from outside positions for himself. Secondly, such changes would place those who run unions in a less privileged position than are private sector bosses. Whether this should be the situation is a policy question for Union Council to deliberate upon and decide.

8.10 The Union, as with all employers, provides superannuation for its employees. A small number of executives and employees (approximately 14) are members of two older type "*defined benefits*" schemes, where the members are entitled to a specific amount upon retirement. These schemes, which are not open to new members, were underfunded as at 30 September 2011 by \$3,085,899 and such shortfall is disclosed as a liability of HSUeast. The extent of the underfunding increased during that year by \$1,727,838 and this amount was treated as a cost of the Union for that year. We have not investigated the Union's options in respect of these defined benefits funds, but strongly recommend an immediate review to determine possible remedial actions. We have included this observation, due to its relevance in respect of executive benefits as the cost of these defined benefits funds to the Union has exceeded \$1.5 million in each of the last two years and only relates to a relatively small number of employees.

CHAPTER 9 - PROCUREMENT PRACTICES

9.1 There can be found in each of Chapters 2 (CommuniGraphix), 3 (Access Focus), 4 (United Edge), 5 (Mah-Chut Architects) and 6, concerning the Banksmeadow warehouse and Canme Services, examples of poor and/or suspicious procurement practices. Other examples could be given. We deal now with the use of Union credit cards, and expense reimbursements.

Credit Cards

9.2 There are no guidelines on the use of the Union's credit cards, or expense reimbursements, to explain the type of expenditure that can and cannot be incurred, nor differing levels of authority for approval of different categories of expenditure. Union credit cards currently on issue to officers and employees of the Union incur total expenditure averaging in excess of \$600,000 per annum (over the last 4 years).

9.3 Union credit cards were also used to procure discount shopping/giftcards for sale to members as part of the Union's reward (discount) program. These involved costs in excess of \$1,100,000 on average each year being processed via Union credit cards, reinforcing the need for the formulation of control procedures. We have been advised that this service to members has now ceased (it is now outsourced) and hence we did not conduct any further investigation on the controls over this program. Our cursory examination indicated the controls over gift cards were inadequate.

9.4 Credit card expenditure incurred by HSUeast in the last 4 years was:

	Discount Card Purchases	Other Expenditures	Total
Y/E 30.9.2011	\$1,183,457	\$538,705	\$1,722,162
Y/E 30.9.2010	\$1,428,312	\$633,448	\$2,061,760
Y/E 30.9.2009	\$1,190,257	\$734,312	\$1,924,569
Y/E 30.9.2008	\$ 756,989	\$629,365	\$1,386,354
Total	<u>\$4,559,015</u>	<u>\$2,535,830</u>	<u>\$7,094,845</u>
Annual Average	<u>\$1,139,754</u>	<u>\$ 633,957</u>	<u>\$ 1,773,711</u>

9.5 Expenditure incurred on credit cards is instant and can result in expenditure being incurred without the normal pre approval/authorisation process that forms part of an organisation's system of internal control (i.e. there are less controls in place at the time the credit card expense is incurred as opposed to controls normally in place for payments by cheque). Accordingly there is a need for a complete and detailed policy in respect of the use of credit cards.

9.6 Almost invariably there is nothing to justify the HSUeast credit card expense in question (i.e. not shown why the taxi trip taken, entertainment incurred, why flowers were purchased and so we could go on). We set out, hereunder, a handful of examples from the year ended 30 September 2011, but what is about to be stated could be endlessly repeated:

- Employee purchased \$50 Krispy Kreme doughnuts – on each of 4 consecutive days.
- Senior officer incurred expenditure at IGA on 4 occasions in 1 month and removed the half of the IGA docket which disclosed the products acquired (\$100; \$40; \$27; \$68).
- More senior officer incurred a total of \$2,799 in restaurant entertainment on 5 occasions over a 6 day period.
- Another senior officer incurred a total of \$1,370 on restaurant entertainment on 2 occasions (\$370 + \$1,000) within days.
- Employee incurred \$840 travel with Qantas.
- Employee incurred \$170 per week on flowers from "Eden Floral Design".
- Same employee regularly incurred CBD parking (7.5 hours costing \$80.58).

9.7 In none of these cases has any reason or justification been noted for the expenditure being incurred at HSUeast's expense. The vast majority of credit card expenditure sighted by us, similarly, provides no reason for the expense. Whilst some employees and officers, if questioned, may be able to provide "after the event" reasons, this is not a component of proper control procedures.

Expense Reimbursements

9.8 Whilst most employees/officers incurred expenditure via credit cards, Michael Williamson appears to have not used a Union credit card. He was reimbursed by HSUeast for expenditure he claimed to have incurred on behalf of the Union. In a 9 month period before he stood himself aside, the amounts reimbursed totalled \$56,267.75, averaging \$6,251.97 per month. We analysed 16 reimbursement cheques paid to Williamson which disclosed monthly expenditure on average as to these categories:

Accommodation	\$1,272.86
Taxis	\$588.55
Petrol	\$503.62
Parking and Tolls	\$240.88
Meals and Entertainment	\$2,879.89
Others	\$165.86

9.9 We have sighted expenditure by Williamson in August 2008 for accommodation in London (at the Sheraton Park Tower Hotel) and the room rate paid was \$A1,191.78 per night; the hotel account for 4 nights totalled \$A6,039.75.

9.10 We have sighted expenditure by Williamson in August 2008 for accommodation in Dublin (at the Morrison Hotel) totalling \$A5,771.62. This amount appears on Williamson's personal credit card statement, but as the hotel account was not included as a voucher we were unable to determine either the number of night's accommodation or the room rate. The sum in question was reimbursed to Williamson by the Union.

9.11 The vouchers supporting Williamson's expense claims (like credit card expenditure) do not identify the reasons for the expense nor why the expense is a cost of the Union. The Union should extend any new credit card policies and controls to also encompass expenditure reimbursement claims by officers and employees.

A Satisfactory System

9.12 The characteristics of a satisfactory procurement system for an organisation such as the Union, which is not a private concern but a member-based organisation responsible for other people's money, are to:

- obtain at least two prices before ordering any goods or services;
- establish a formal process and documentation for the calling of tenders or expressions of interest.
- ensure that formal tenders or expressions of interest are called for the supply of goods or services or both where the likely annual expenditure exceeds \$200,000 (or such other amount as the Union determines to be appropriate);
- in such cases, do this regularly and in any case at least each 3 years;
- place orders in writing, and retain copies of order forms;
- keep a written record of goods actually received, and services actually provided, and any shortcomings;
- check invoices against orders, and the records last mentioned, as part of the payment approval process;
- formalise authorisation/payment processes, and incorporate requirements as to appropriate levels of seniority and segregation of duties/responsibility;
- compare actual levels and timing of expenditure throughout the year with those of the organisation's approved budget and cash forecasts; and

- require discretionary and semi-discretionary expenditure to have the reason for expenditure noted contemporaneously, in a manner adequate for the approval process to determine appropriateness.

We recommend accordingly.

- 9.13 This last point relates to matters such as entertainment, travel, taxis, accommodation, flowers, sundry purchases and the like. There is no such requirement at present and substantial amounts of the Union's money are currently spent on such matters. The documentation in respect of this type of expenditure does not give any reason how the expenditure incurred related to the Union's operations. Much of this expenditure is incurred via credit cards.
- 9.14 Such a system - and we stress these are minimal requirements - has two prime purposes. One is to ensure that value for money is received. That cannot be done unless prices proposed by suppliers are checked against the market. Secondly, the possibility of abuses of position by either suppliers or members of procurement staff or both, including merely cosy or frankly illegal practices, are minimised.
- 9.15 Existing Union practices satisfy none of the requirements in [9.12] above, save that a rudimentary matrix is kept as to items of uniforms ordered and received.
- 9.16 The Union's lack of controls around procurement practices is most unsatisfactory. In Robertson's 40 years of auditing practice, he has seen few systems with such lack of formalised controls. The external auditors in their draft management letter dated 7 February 2012 also refer to a number of areas where they are of the opinion that controls need to be implemented or improved.
- 9.17 Our role does not extend to developing a detailed system concerning governance, processes and controls. We are willing, however, to provide further comments to management that may assist in determining and implementing necessary changes.

Whose Fault?

9.18 We have not sought to allocate responsibility for the present unsatisfactory situation. It has prevailed for many years. What matters is to fix it. Internal controls are the responsibility of both Union Council and senior management.

The Audit Process

9.19 Auditors do not just sign off on the financial report as representing a true and fair view as to a company's position as at balance date. They also draw to the attention of management and the governing board any procedures they have observed which give rise to risk of losses to the company. This is generally done by way of a management letter.

9.20 BDO has been the Union's auditor for a number of years past. We have been advised no management letters have been sent over those years. Whether or not the audit partner drew matters to the attention of management, otherwise than in writing, we cannot say. This year two things changed. First, the former BDO partner responsible for the audit in previous years changed and a new audit partner was appointed. Secondly, there was substantial overlap between the time when the audit was conducted and when our inquiry was under way. During that time Robertson spoke to BDO and pointed out the lack of management letters in previous years.

9.21 On 7 February 2012, BDO wrote the letter which appears on the next page. After request and delay it was provided to us by Union management. The appendix to that letter is Appendix 2 to this report. The BDO letter highlights a number of areas where internal controls are either weak or non-existent.

9.22 We recommend that the Union call tenders for auditing services, consistently with [9.12] above, as soon as is practicable.



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7 February 2012

Dear Committee of Management / Councillors

MATTERS ARISING FROM OUR AUDIT OF:

- HSU EAST FOR THE YEAR ENDED 30 SEPTEMBER 2011
- HEALTH SERVICES UNION EAST BRANCH FOR THE YEAR ENDED 30 JUNE 2011

During the course of our audit of HSU East ('the Union') for the year ended 30 September 2011 and Health Services Union East Branch ('the Branch'), we identified matters that may be of interest to management and those charged with governance.

Appendix 1 to this letter sets out our findings which we would like to bring to your attention. We have discussed this letter in draft form with the Acting General Secretary (Mr Peter Mylan) and Chief Financial Controller (Mr Barry Gibson). We understand they will consider the matters raised by us along with the report to be received from Independent Panel of Experts, and formulate an appropriate action plan in response.

We remind you that the objective of an audit is to obtain reasonable assurance whether the financial report is free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, our audit would not usually identify all such matters.

This letter is prepared solely for the information of management and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours faithfully
BDO Audit (NSW-VIC) Pty Ltd

Jeff Abela
Director

Cc. Peter Mylan, Barry Gibson,

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Tasmania.

CHAPTER 10 - GOVERNANCE ISSUES

- 10.1 This chapter deals with issues of governance, and recommends certain changes. Most will require, for effective implementation, change to the rules of the Union. If that is to happen, there will have to be acceptance by those who run the Union of the need for change, and probably also pressure from the general membership.

Union Council

- 10.2 By the rules of HSUEast following amalgamation, and in particular rule 15, the affairs of the Union are vested in the Union Council which comprises 76 members as follows:

- (a) General Secretary (1) (elected by and from the members of the Branch)*
- (b) Executive President (1) (elected by and from the members of the Branch)*
- (c) Deputy General Secretaries (2) (elected by and from the members of the Branch)*
- (d) Divisional Secretaries (2) (elected by and from the members of the Branch)*
- (e) Assistant Divisional Secretaries (2) (elected by and from the members of the Branch)*
- (f) twenty-one Councillors from Hospitals or Health Services one of whom shall come from Health Managers Sub-Branched and with at least two but not more than three Councillors being drawn from each of the eight Area Health Services (refer note 1) (elected by the membership of the Branch from members of the Branch in New South Wales)*
- (g) Twenty General Representatives from New South Wales (elected by the membership of the Branch from members in New South Wales)*
- (h) Twenty-three Councillors from Victoria (elected by the membership of the Branch from members of the Branch in Victoria)*
- (i) One Councillor from a private hospital (elected by and from the members of the Branch)*

- (j) *One Councillor from an aged care facility (elected by and from the members of the Branch)*
- (k) *One Councillor from an Ambulance Service (elected by and from the members of the Branch)*
- (l) *one Councillor from the Australian Capital Territory (elected by the members of the Branch from members in the ACT)."*

and a further 4 following election of the President and 3 Vice-Presidents who are elected by and from the Council. By rule 15 (4):

"Where a member of the Union Council becomes the President or a Vice-President, he/she shall cease to be and act as a member of the Union Council and the office previously held shall be a casual vacancy and filled in accordance with rule 18."

10.3 We note that by rule 15 (3):

"All of the members of the Council shall have a vote on the Council except for the Divisional Secretaries, the Assistant Division Secretaries and any other employees of the Branch who hold office."

Union Elections

10.4 By rule 17, members of Union Council are elected every 4 years, and hold office for that period. However there has not been a contested election since 1999. On each occasion since a slate of candidates, called the "*Williamson ticket*", sufficient to fill all vacancies but no more, nominated. Each candidate was elected.

10.5 All candidates on such a ticket are beholden to the leader of it: the General Secretary. With his support, they become members of Union Council. That carries with it responsibilities, but also prestige and monetary benefits. Nearly all of those on the Williamson ticket support whatever he wants at Union Council level, and can be relied upon to vote as a block. These people clearly belong to, or travel along with, a faction which has run the Union for the past decade or more. And the leader of that faction is Williamson.

10.6 What has just been said was true up until amalgamation. It is untrue, or less true, now. On some issues nearly all the NSW members of Union Council take one position, and nearly all the Victorian members take another. But that has to do with conflict, and little to do with a functioning democracy

Size of Union Council

10.7 There is meant to be an Annual Delegates Convention, to be held each June. In 2011, a Centenary Convention was held in November, as the original predecessor organisation of HSUEast was registered on 12 October 2011. This year, we are told, no Convention is to be held. How this can be is a mystery to us, as by rule 36 (a):

"An Annual Delegates Convention of the Union shall be held within the month of June (the first being in June 2007) at such time and place as the Union Council may determine ..."

but that power of determination does not extend to not holding a Convention one year, or to holding it outside June.

10.8 In any event, there is meant to be and generally is a Convention each year. Each Sub-Branch sends a voting delegate, and depending on size may send up to 4 non-voting delegates. The Convention contributes to the democratic functioning of the Union, although we note that by r. 36 (i) it has no power *"to exercise any of the functions of management"*.

10.9 Given the required frequency of meetings of the Convention, which we are told are well attended and often lively affairs, it is quite unnecessary that there should be a Union Council as large as it is. Most large public companies in Australia have boards of directors comprising 10 or 12 members only. Because of the size of the Council and the way in which it has since 1999 been elected - see [10.4] above - it functions like a members' congress, or a powerless parliament, not a board of directors. Such a board is required to make decisions for the good of members generally, which decisions are then implemented by management. An additional benefit of radically reducing the size of Union Council, apart from giving it some

real power, is that there would be a greater likelihood of real elections for membership. This is in contrast to the present situation where those on a ticket are elected unopposed.

General Secretary/Treasurer

- 10.10 In some organisations - indeed in some countries - nearly all effective power is exercised by an individual, perhaps called the President. In a golf club that may not matter much, but in a union it matters greatly. One reason is that such a person tends to have allies, and to see all others as enemies. The latter are frozen out. Also ideas are better generated where power is dispersed, not centralised. And it is hard to make individuals properly accountable if they are all under the command of one person, as has been the case in HSUEast. By r. 24, the General Secretary is the chief executive officer, the keeper of the minutes, the keeper of the register of members, the holder of Union property, and "*shall run the affairs of the Union between Union Council meetings*". By r. 25, each of the Executive President, the Deputy General Secretaries, the Divisional Secretaries and the Assistant Divisional Secretaries are "*subject to the direction of the General Secretary*".
- 10.11 Rule 15A sets up an Executive Committee. It comprises the General Secretary, and each of those persons just mentioned. They have all been under his command. It must be expected that the Executive Committee will did his bidding. And that Committee has power by r. 15A (b), subject to the rules and Union Council, to "*conduct and manage the affairs of the Union and between meetings of the Union Council may exercise all the powers of Union Council*" save power to change the rules, or the pay or conditions of employment of full-time paid officers of HSUEast.
- 10.12 We can find nothing in the rules which requires that the General Secretary also be the Treasurer of the Union. However that is how it is in practice. In the 2011 Centenary Convention Journal, he was described as such, and at pp. 12-25 Mylan reported as "*Acting General Secretary/Treasurer*".

10.13 It is highly desirable that the functions of General Secretary and Treasurer should be held by separate individuals, with the latter not being subject to the direction of the former. The Treasurer should have responsibility for property and finances, for bringing forward an annual budget and cash forecast, for supervising preparation of periodic and annual financial statements, and for dealing with the Union's auditors.

Employees as Council Members

10.14 At present, by rule 15 (3), each member of Union Council has a vote "*except for the Divisional Secretaries, the Assistant Divisional Secretaries and any other employees of the Branch who hold office*". So the strange situation is that there are members of Council who are elected, accordingly have their employment situation with the Union entrenched and protected, are members of Union Council but cannot vote. There is no point in having them on Union Council as non-voting members. And it would be better for the Union if they were ordinary employees, capable of being dismissed in the ordinary way for misconduct or incompetence.

10.15 We recommend that the Union Council comprise:

- (a) not more than 12 directors, the number to be decided by the Union,
- (b) of whom one only, the General Secretary, be a paid employee of the Union, and
- (c) that the Council elect from its number 3 other officeholders, namely, the President who will preside at all Union Council meetings and Conventions, a Vice President who shall so preside if the President is absent, and a Treasurer who will have the functions stated in [10.13] and convene and preside over meetings of the Audit and Compliance Committee.

10.16 It is a nice question whether the board should be elected by the membership of the Union as a whole, or by discrete groups within the Union. We favour the

former as being more generally democratic. We recommend that rule 17 (d), which allows for a team nomination or ticket, be dispensed with in its entirety.

The Election Process

10.17 Because there have been no real elections since 1999, the great majority of members of Union Council have been appointed to casual vacancies. By r. 18, such vacancies are filled by Union Council.

10.18 The process that should be followed, but is not at present, is that casual vacancies be advertised widely within the Union, members encouraged to put their names forward with biographical and other information, and then a Union Council vote held. At a minimum, casual vacancies should be advertised in any two out of three of the Union Journal, the newsletter which is distributed with frequency, and the weekly television program. Even more obviously, the elections - held every 4 years - should be advertised both early and widely within the Union. A culture of engaged participation by members can only lead to a better Union.

Audit and Compliance Committee

10.19 Williamson has for years past decided the membership of Union committees. Ted Hinge, who has been a member of Union Council since early 2008 when he filled a casual vacancy, wanted to become a member of the new Audit and Compliance Committee after the amalgamation. He approached Williamson to that end, was unable to attend the next meeting of Union Council, and when he got the minutes found he had missed out. He sent Williamson an email on 9 September 2010 part of which read:

"Can you please enlighten me as to what process was followed with regard to the nomination and appointment of Council members to the Audit and Compliance Committee."

to which Williamson replied the same day:

"Hi Ted, will give you a call. I remember our conversation re your interest all OK. Will explain. Michael."

10.20 Williamson rang and told Hinge that some people had been on the committee for years, and *"we owe them, but you will be the next cab off the rank"*, or words to that effect.

10.21 Hinge told us that the committee comprises individuals chosen by Williamson, who individually and collectively lack either the ability or the inclination, perhaps both, to ask questions concerning accounts and finance. This tends to be borne out by our perusal of minutes of the Audit and Compliance Committee, and the Finance and Audit Committee which preceded it. The meetings were invariably short - typically they lasted for 15 or 20 minutes only - and the minutes follow much the same form, meeting after meeting. So far as appears from the minutes, the committee did not closely scrutinise figures or other information presented to it. And a person such as Hinge could have made a real contribution to the functioning of the committee. He is an accountant, presently working as property manager for the South Eastern Sydney and Illawarra Area Health Service, and has much experience with budgets and financial statements. Had positions on the committee been chosen on merit it is hard to see how he could have not been chosen.

10.22 We recommend that the rules be changed so as to require that the Audit and Compliance Committee comprise 5 members, one of whom is the Treasurer, the others being chosen by Union Council, not the General Secretary or the President. Its functions should include preparation of the budget and cash forecasts, close examination of regular - monthly or quarterly - financial statements, and protection of the property of the Union generally, including money and all other assets.

Internal Control

10.23 Internal Control can be described as:

"a process, effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability in reporting;
- compliance with applicable laws and regulations.

Internal control can be considered an integral part of an organisation's governance and risk management system - effected, understood and actively followed by the governing body, management and other personnel - to exploit the opportunities and to manage the risks in achieving the organisation's objectives ... all organisations, no matter their size or structure, private or public, should have an appropriate internal control system in place."

- see the December 2011 report of the Committee of Sponsoring Organisations ("COSO") of the Treadway Commission.

10.24 The five components of internal control (relating to each of the three main categories referred to in 10.23) can be described as:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities.

10.25 We have been advised that the Union's system of internal control has not been documented. This does not mean that a system (or part thereof) does not exist. Many procedures and customs adopted by an organisation and its staff and management may have evolved over many years as a partial development of a control system. The lack of a formal documented system of internal control, however, has inherent limitations:

- (a) non-documentation makes it impossible to determine the extent and sophistication (or otherwise) of any controls that may exist;
- (b) the system cannot be tested or monitored;
- (c) changes in employees and Councillors will, most likely, result in any procedures and controls being partially or completely lost;

10.26

of the system of internal control cannot occur.

Some basic (non-documented) procedures in operation, it is our view the Union does not have in place policies and procedures that can be properly described as a system of internal control. The Union should embark immediately on the formation and implementation of such a system. To the extent that established rules and procedures exist, they should be documented as a matter of urgency in a most basic and summarised manner (i.e. in bullet point form unless more detail is required) to enable existing procedures to be maintained, but without incurring substantial costs on recording these procedures that are likely to be changed substantially.

10.27 When formulating the system of internal control, the following areas should be included:

- procurement processes (tenders, orders, authorisation, payments)
- property management
- credit cards
- expense reimbursement
- recruitment, employment and remuneration/payroll processes
- accounting function (including recording processes, reconciliations and review of general ledger and expense allocation)
- cash controls (bank reconciliations, profit budgets, cash forecasts)
- capital expenditure budget
- management reporting framework
- records retention and business continuity/disaster recovery plan
- segregation of duties/responsibilities in all aspects of operations to underpin effectiveness of internal control system
- membership (recruitment, billings, services, registers)
- asset protection (registers, inventory controls, insurance).

This task is formidable and it may be appropriate for the Union to formulate a plan and prioritise components of that plan.

10.28 We recommend that the Union undertake a comprehensive review of its internal controls, with a view to enhancement as necessary, consistently with this report.

In Conclusion

10.29 This much of this final chapter had been written when the administrator was appointed: see [1.20] above. By final order made by the Federal Court on 21 June, all elected positions have been declared vacant. The Union will be under administration for 120 days from that date, possibly less, quite likely more, given the tasks that have to be performed before fresh Union Council elections can be held. The administrator can do many necessary things - for example, fix all aspects of the procurement and employment processes of the Union, rationalise staff, call tenders with suppliers, and consider whether proceedings for unjust enrichment should be brought - but he cannot achieve a democratically functioning union. That must await resumption of control by Union Council. Then it will depend upon acceptance by all concerned that the Union has not been governed for and by the members, as it ought to be, over a past extended period. And that this must change.

APPENDIX 1

IAN TEMBY QC

Born in Perth in 1942, Temby obtained a law degree with honours from the University of Western Australia, was admitted as a solicitor in 1966, and became a member of Northmore Hale Davy & Leake. He went to the independent Bar in 1978 and was appointed as a QC in 1980. Temby is a former President of the Law Society of WA, and of the Law Council of Australia, which is the peak national body for lawyers.

Temby became the first Director of Public Prosecutions for the Commonwealth in 1984, and the first Commissioner of the Independent Commission Against Corruption in Sydney in 1989. Since 1994 he has been in private practice as a barrister in Sydney. He is a long-serving member of a Bar professional conduct committee, has been on the Council of the Bar Association for several years and is currently serving as Treasurer. He was appointed as an Officer of the Order of Australia for his services to the law.

DENNIS ROBERTSON FCA

Robertson is fellow of the Institute of Chartered Accountants in Australia. Born in 1949, he joined the firm which is now Weston Woodley & Robertson in 1968, and became a partner in 1973. He is registered as a tax agent, and was registered as a company auditor for 38 years until 2010.

Robertson has worked continuously as an accountant for 45 years. He has experience in a range of industries including hospitals (public and private), construction and property development, multi-national companies, trade unions, government bodies, law firms and financial institutions. His work has chiefly been in the audit and business services areas, Robertson has conducted investigations both local and overseas for business and company acquisitions, and has acted as an expert in litigation, including for the liquidator of Spedley Securities Limited in actions against former auditors and other parties, and for the Bar Association in disciplinary matters.

Robertson was a member of the Institute of Chartered Accountants National Audit Advisory Committee for a number of years. He was granted the Institute's Meritorious Service Award in 2003.

APPENDIX 2

APPENDIX TO LETTER FROM BDO TO COMMITTEE OF MANAGEMENT/COUNCILLORS, HSUeast, 7 FEBRUARY 2012

3. SEGREGATION OF DUTIES - ADMINISTRATION ACCESS TO THE GENERAL LEDGER

Observation

The finance team currently have administrator access to the general ledger system, MYOB.

Implication

Administrator access in MYOB allows a person to go back, delete and modify transactions without an audit trail to track and report such changes.

Recommendation

We recommend someone independent of the accounting department be assigned administrator access to MYOB. This could be the IT personnel. The systems settings should be established to ensure the audit trail reporting is always on, and change requests are made only on proper approval of the request.

The finance team should only have user access. With a user access, incorrect postings have to be corrected through journal entries, which provide an audit trail.

4. REGISTER OF RELATED PARTIES

Observation

We noted that several related party relationships exist, some of which are disclosed in the statutory finance report of the Union and Branch and others that are not required to be disclosed but are relevant to Council decision making.

Implication

Related parties are a source of conflict of interest that may result in inappropriate dealings by the Union with related parties.

Recommendation

We recommend that a *"register of related parties"* be maintained.

Such a register would identify related parties, the Union's business dealings with the related party and details of authorisation/approval of the arrangements. We believe related parties should be broadly defined to include any person or entity for whom there could be a perceived *"conflict of interest"*. This definition would be beyond the definition described in Australian Accounting Standards for statutory reporting purposes.

Good governance practices would require that where there is a potential conflict of interest that the Officer or staff member involved abstain from the decision making.

If a business dealing is independently approved, we recommend it be recorded in a "related parties register" for transparency and reference be newly appointed Officers.

5. LONG SERVICE LEAVE RECORDS

Observation

We noted that the leave liability report has some software limitations and does not accurately record long service leave entitlements (LSL). In all instances, it appears that once an employee as a full entitlement to LSL after 10 years, the subsequent incremental accrual is not accurate.

However, we also note that when LSL is paid out or taken, a manual determination is made from underlying personnel records maintained.

Implication

The LSL provision reported in financial reports may not be accurate and the leave liability report is not necessary reliable for all individual employees.

Recommendation

We recommend that further consideration be given to using more accurate software for automated leave liability records.

6. RECONCILIATION OF MEMBERSHIP SYSTEM TO ACCOUNTING SYSTEM

Observation

We noted that the separately maintained membership system is not compared with the accounting records.

Implications

Without comparing the data from one system to the other, there is no way of ensuring that they are recording the same transactions or that income is complete.

Recommendation

Reports should be made available from the membership system on a monthly basis which are then tracked back and compared with the MYOB general ledger income balance.

7. EXCESSIVE ANNUAL LEAVE BALANCES

We noted excessive balances of annual leave and long service leave accrued per your "leave liability report" for many employees at year end. We note below those with entitlement balances as at 30 September 2011 or 500 hours or more for annual leave and 1,500 hours or more for long service leave:

Staff Name	Annual Leave Hours More Than 500 Hours	Long Service Leave Hours More than 1,500 Hours
A. Anset	681	
B. Morgan	722	
M. Bolano	807	
R.K. Feithem	875	1,923
B. Gibson	772	
G.J. Hayes	1,066	
J. Jackson	976	
K. Jackson	453	
C.R. McMillan	864	
P.J. Mylan	837	1,923
M.A. Williamson	539	2,216

Implication

Accumulation of excessive leave can lead to issues including staff fatigue and performance, if leave is not taken regularly. Internal controls can be enhanced by staff taking annual leave of at least 2 weeks as other staff are able to be trained in taking on other responsibilities. The taking of leave also reduces the incremental cost associated with annual leave being paid after successive pay rises and improves cashflow.

Recommendation

We recommend that a policy be formulated in respect of accumulation of leave entitlements.

8. CASH FLOW FORECASTS

Observation

In our opinion the Union has cashflow pressures which need to be carefully managed. The Union's bank facilities are currently being negotiated. We noted that cash flow forecasts are not prepared for future years.

Implications

The union has a significant loans balance payable with regular repayments required.

Without preparing a cashflow forecasts it will be difficult to determine the cash requirements. This may result in an increase cost of finance and incorrect decision in respect of discretionary spend, for instance to purchase or sell properties.

Recommendation

Cash-Flow forecast and comparisons to actual cash flows should be provided to the Committee of Management on a regular basis.

9. ACCOUNTING RESOURCES

Observation

We noted that the Chief Financial Controller has a significant workload which includes all accounting and associated financial reporting and transactions, as well as managing the Union's properties (which is not outsourced):

We do note that some changes are occurring in the Finance Department with expected staff movements.

Implications

The resources in the accounting management and property areas may be insufficient.

Recommendation

We recommend that the resourcing of finance department and property management functions be assessed in detail.

10. CREDIT CARD APPROVALS

Observation

We have observed that there are internal control procedures requiring credit card transactions to be supported by appropriate invoices/receipts and that during the year we noted that these were approved.

We note that credit card approvals for the Secretary are performed by the Deputy Secretary.

Implications

Because the Deputy Secretary is junior to the Secretary, this internal control may not be effective.

Recommendation

We recommend considering having the Secretary expenses approved by the President as we consider this to be more appropriate.

11. CREDIT CARD POLICY

Observation

There is no credit card policy covering the purpose and use of individual credit cards, for employees to sign upon receipt of a Union Credit Card.

Implications

Employees may use the credit card in a way that may be considered to be inappropriate by management. Without written policies and agreed terms and conditions as to its use with the staff member, it may be difficult to take action against the staff member for inappropriate use of the card. Also management approving the payments do not have a clear direction on the approval of the amounts charged or if they should be referred to a higher authority.

Recommendation

Card holders should be made aware of their rights and responsibilities when receiving a credit card. We recommend that the Union introduce a clear written policy for all members of staff that have credit cards. Staff member should only have a credit card if they have signed and agreed to all terms and conditions of its use.

12. PROPERTY, PLANT AND EQUIPMENT

Fixed Asset Register

Observation

The Union maintains its register on excel spreadsheets.

Implications

Excel is not a robust system to maintain the size and nature of the assets of the Union currently owns. It's very cumbersome to work on excel spreadsheets especially due to the substantial amount of assets.

Recommendation

We recommend you invest in a suitable system to replace the excel fixed assets register.

13. PROCUREMENT

Observation

We are not aware of the Union having any documented policies in respect of procurement of significant goods and services.

Implication

The union may not be securing the best value. Committee of Management may not be able to make meaningful assessments if not supplied with appropriate comparative data to make an informed decision.

Recommendations

We recommend that a procurement policy be established setting out the requirements for:

- Selecting suppliers
- Contracting for ongoing supply of goods and services
- Monitoring quality of service and delivery.

14. APPROVAL OF CAPITAL AND SIGNIFICANT EXPENDITURE

Observation

The Union's regulation, state that any expenditure between \$100,000 and \$200,000 needs to be approved by the Audit and Compliance Committee. Expenditure over \$200,000 needs the approval of the Council.

We noted during the year ended 30 September 2011, that the review and approval of expenditure by the Council only happens after the payment is made.

In the conduct of our work we did observe approvals for expenditure below \$100,000 in line with the above requirement. We did not observe the requirements being met in respect of capital expenditure exceeding \$100,000. These expenditures were ratified by Council after being paid.

We regard the requirement of the regulations to be that of "pre-approval" i.e. before the expenditure is committed to rather than ratification.

Implication

Transactions may be inappropriately authorised.

Recommendation

Significant capital expenditure to be undertaken by the Union should follow the authorisation procedure above. Any capital expenditure exceeding \$100,000 or \$200,000 should be authorised by the Audit and Compliance Committee or the Union Council, before the project commences. Subsequent payments should be approved in accordance with the pre-approved expenditure budget.