

Compliance Review Report

Liberal Party of Australia, NSW Division

December 2013



AEC

Australian Electoral Commission

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Review details

Location of review: Australian Electoral Commission
West Block, Queen Victoria Terrace
PARKES ACT 2600

AEC review officers: Anna Jurkiewicz
Brad Edgman
Warren Kelly

Party staff involved: Simon McInnes

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Background

Registered Political Parties and Associated Entities are required under the provisions of the *Commonwealth Electoral Act 1918* (the Act) to lodge annual disclosure returns. The Australian Electoral Commission (AEC) has powers under the Act to review records and gather relevant information to assess whether disclosure obligations have been met.

The purpose of the review was to assess whether the disclosure return for the 2010–11 financial year lodged on behalf of the Liberal Party of Australia, NSW Division (the Party) complies with disclosure obligations as set out in the Act.

Compliance and cooperation

The compliance review of the Party was conducted under the authority of s.316(2A) of the Act by a notice served on the Party Agent. In accordance with s.316(2A)(c) of the Act the Party Agent is required to produce the documents requested in the notice within the period and in the manner specified in the notice. Non-compliance with the requirements of the notice is an offence.

In the course of the review the AEC issued two s.316(2A) notices to the Party Agent, Mr Simon McInnes. The first notice requested the production of documents by the deadline of 9 November 2012. The response to this notice was received on 12 November 2012.

The second notice requesting records for five party units selected from the list of 494 party units with the deadline of 19 December 2012 was not responded to until 2 January 2013. The selected five party units are listed in the table below.

Table 1: Party units selected for review

Name of party unit	
1.	Granville/Merrylands (SEB) Branch
2.	Macarthur FEC
3.	Paterson FEC
4.	Waverley LGC
5.	Willoughby SEC

Whilst the Party provided the majority of the documents requested in the notice, the response to item 8 of the first notice to provide “any document or record forming part of the Party’s accounting records not covered in *Attachment A* of the notice but which was used in the compilation of the disclosure return” had been overlooked. Although the key missing records such as iMIS database were subsequently provided, it took an extended amount of time for the Party to extract and provide those records.

The review encountered further significant delays due to the Party’s late responses to issues for clarification and the Party Agent’s absence from the office for six weeks to which the review had not been alerted at the time. While the AEC was in a position to hold its exit interview and finalise the review in May 2013, the Party’s supporting staff advised that they could not assist with requests for final clarifying information until the return of the Party Agent. These delays ultimately resulted in a further delay of more than two months being encountered due to the commencement of the federal election campaign during which period the review was suspended. The review concluded with a meeting held with the Party Agent and key staff on 21 November 2013.

Review findings requiring amendment

Total receipts and payments

Section 314AB (2)(a) of the Act requires the agent of a registered political party to report the total amount received by, or on behalf of, the party during the financial year. Similarly, s.314AB(2)(b) of the Act requires the agent of a registered political party to report the total amount paid by, or on behalf of, the party during the financial year.

To satisfy this, the entire Party, that is, the State Office and all its party units, must account for all transactions that result in receipts from and payments to external entities including to other State branches or associated entities of the Party. These transactions must be accounted for on a gross basis without any offsetting, including of GST.

Transactions between the Party's accounts, including those between the State Office and its party units as well as between the party units themselves, represent internal transfers. Such transactions should be eliminated from the calculation of total receipts and payments to avoid inflating the total amounts reported in the disclosure return.

Our examination of bank and accounting records provided by the Party does not support the amounts reported by the Party in its disclosure return.

The Party's working papers indicate that bank statement records were used as the primary source document from which then necessary eliminations and additions were performed to derive the total amount of receipts and payments.

Although the approach to calculating the total amounts illustrated in the Party's working papers was appropriate, errors contained in the working papers contributed to the significant under-reporting of the total amount of receipts and payments. The key errors related to the omission to account for a number of transactions contained in the bank statement for Maxi Direct and Parliamentary Liberal Members accounts and incorrect extraction of internal transfers between the State Office's accounts.

The Party confirmed that it had eliminated \$15,880,254 of internal transfers based on the transactions contained in the General Ledger. However, our examination of the General Ledger against the bank statement records revealed that \$556,860 of those eliminations did not represent internal transfers as they were not reflected in the bank statements by corresponding credit or debit transactions.

On the other hand, the review also identified \$100,304 of internal transfers contained in the bank statements that were not captured in the Party's extraction of internal transfers from the General Ledger. In total, the review identified \$15,423,698 of internal transfers based on the records contained in the bank statements.

Attachment A provides the details of our calculations based on the transactions contained in the bank statements against the figures reported in the Party's disclosure return.

The following table provides a summary of the total amount of receipts and payments identified in the Party's records contrasted against the figures reported in the disclosure return.

Table 2: Total receipts and payments - comparison

Details	\$ Total Receipts	\$ Total Payments
Annual Disclosure Return	20,477,624.00	24,389,702.00
Reviewed amounts (bank statements) - State Office	22,373,482.62	26,890,009.80
Add: Reviewed party units – amounts under-reported *	63,059.57	0.00
Total reviewed amounts	22,436,542.19	26,890,009.80
Difference	(1,958,918.19)	(2,500,307.80)

* Refer to party units details discussed in the report under Matters for Future Action

The overall effect of the errors resulted in the total receipts and payments to be under-reported by \$1,958,918.19 and \$2,500,307.80 respectively.

Due to the significant omissions outlined above, Part 1 and Part 3 of the *Request for Amendment* form needs be completed to show the figures as set out below.

Required amendment

Previous total receipts:	\$20,477,624	Amended total receipts	\$22,436,542
Previous total payments:	\$24,389,702	Amended total payments	\$26,890,010

Receipts above the disclosure threshold

Section 314AC of the Act provides that if the sum of all amounts received by, or on behalf of, the party from a person or organisation during a financial year is more than the threshold, the return must include the particulars of that sum. For the 2010–11 financial year the threshold was the sum of the relevant amounts in excess of \$11,500.

In calculating the sum, an amount of \$11,500 or less need not be counted (s.314AC(2)).

To comply with this provision, the details of any amount above the threshold received from any external sources must be disclosed in the disclosure return regardless of the nature of the receipt, including the amount, name and address of the person or organisation. In the case of an unincorporated association or trust/foundation, the names and addresses of the executive committee or of the trustees of the trust/foundation must also be provided.

The Party reported 106 receipts above the threshold of \$11,500. However, an examination of the Party's records revealed that one of those receipts requires correction and a further eight totalling \$1,063,310 had been identified as not reported.

The Party advised that the receipts not reported were omitted due to errors in extracting information from its iMIS database. The details of the receipts requiring amendments are outlined below.

1. A & C Restaurant Pty / Kam Fook Seafood Restaurant

Batch number 101207-9 recorded in the iMIS database system on 7 December 2010 shows an amount of \$20,000 described as received from 'Restaurant'. This amount is reflected in the bank statement number 7438 of the General Maintenance Account also dated 7 December 2010.

The Party confirmed that the amount was a donation received from *A & C Restaurant* trading as *Kam Fook Seafood Restaurant* and was omitted in the disclosure return due to an iMIS system reporting error.

To correct the omission Part 2 of the *Request for Amendment* form needs to be completed showing the details as set out below.

Required amendment		
Name	Address	Amount
A & C Restaurant / Kam Fook Seafood Restaurant	28 Victor Street, Level 6 Westfield Centre, Chatswood NSW 2067	\$20,000

2. Australian Taxation Office

According to the bank statement records for the General Maintenance Account, the Party received three refunds from the ATO totalling \$891,010.11. The details of the three deposits are listed in the table below.

Table 3: ATO refunds

Details	Date	\$ Amount
ATO	31/03/2011	67,158.88
ATO	19/05/2011	807,869.23
ATO	09/06/2011	15,982.00
Total		891,010.11

As none of the above deposits were reported in the disclosure return, Part 2 of the *Request for Amendment* needs to be completed showing the details of the total sum received as set out below.

Required amendment

Name	Address	Amount
Australian Taxation Office	[to be provided]	\$891,010

3. Australian Water Holdings Pty Limited

According to the details contained in the Party's records two amounts were received from Australian Water Holdings Pty Limited, including:

- \$30,000 recorded in the accounting records as received on 20 December 2010; and
- \$21,800 deposited on 9 August 2010 into the General Maintenance Account.

While the amount of \$30,000 was reported in the Party's disclosure return, the receipt of \$21,800 was omitted.

To correct the omission, Part 2 of the *Request for Amendment* form needs to be amended to show the amount as set out below.

Required amendment

Name	Address	Amount
Original Entry: Australian Water Holdings	Level 6, 5 Celebration Drive BELLA VISTA NSW 2153	\$30,000
Amended Entry: Australian Water Holdings Pty Limited	Level 6, 5 Celebration Drive BELLA VISTA NSW 2153	\$51,800

4. Argos Investments Pty Ltd T/A The Commercial Hotel

The batch number 100805-12 recorded in the iMIS system on 5 August 2010 shows an amount of \$50,000 received from Argos Investments Pty Ltd T/A The Commercial Hotel.

As this transaction was not reported in the Party's disclosure return, its omission needs to be corrected with Part 2 of the *Request for Amendment* form completed and showing the details as set out below.

Required amendment

Name	Address	Amount
Argos Investments Pty Ltd T/A The Commercial Hotel	[to be provided]	\$50,000

5. Blue Star Print Group Pty Ltd

An examination of the accounting records provided indicates that the Party received an amount of \$22,000 from Blue Star Print Group Pty Ltd.

According to the details contained in the batch number 100712-4 extracted by the Party from its iMIS accounting system, the amount represents a sponsorship fee received from that company on 12 July 2010.

As this receipt was not reported in the disclosure return, Part 2 of the *Request for Amendment* form needs to be amended to show the amount as set out in the table below.

Required amendment

Name	Address	Amount
Blue Star Print Group Pty Ltd	[to be provided]	\$22,000

6. Dame Pattie Menzies Foundation

According to the details contained in the batch number 29971 extracted from the Exonet accounting system, the Party received the amount of \$27,000 from its associated entity, Dame Pattie Menzies Foundation. The amount was deposited into the Party's General Maintenance Account on 31 December 2010.

As this amount was omitted, Part 2 of the *Request for Amendment* form needs to be amended to show the amount as set out below.

Required amendment

Name	Address	Amount
Dame Pattie Menzies Foundation	[to be provided]	\$27,000

7. Thorn Group Limited

The batch number 100823-18 recorded in the iMIS database indicates that the Party received the amount of \$15,000 from Thorn Group Limited. According to the details contained in the Party's system the amount represents a sponsorship fee received on 23 August 2010.

As the amount was not reported in the disclosure return, Part 2 of the *Request for Amendment* form needs to show the amount as set out in the table below.

Required amendment

Name	Address	Amount
Thorn Group Limited	[to be provided]	\$15,000

8. Salt Group Constructions

The Party reported in its disclosure return a donation of \$14,000 as received from Mr William Aloisi. However, according to the details contained in the bank statement number 7414 for the General Maintenance Account, the deposit made on 3 November 2010 was received from Salt Group Constructions.

To ensure the accuracy of the disclosures made, it is necessary to ascertain and correctly record the actual source of the funds received. In this case, the details contained in the bank statement indicate that the amount deposited was sourced from the company's account rather than from Mr Aloisi's personal account. This is further evidenced by a donor return received from Salt Group Constructions following the AEC's discussion with Mr Aloisi on 18 January 2012 to confirm the actual source of the donation.

The Party's return therefore needs to be corrected with Part 2 of the *Request for Amendment* form showing the details of the receipt as set out below.

Required amendment

Name	Address	Amount
Original Entry: William Aloisi	Unit 16/15 Meadow Way, Banksmeadow NSW 2019	\$14,000
Amended Entry: Salt Group Constructions	12/1-3 Exell Street, Banksmeadow NSW 2019	\$14,000

9. Veolia Environment

The transaction records contained in the Party's accounting and bank statement records indicate that Veolia Environment made two deposits of \$16,500 each to the Party's General Maintenance Account on 4 August 2010 and 29 December 2010 respectively.

Whilst one of the \$16,500 deposits was reported in the Party's disclosure return, the other receipt of \$16,500 was missed. The Party confirmed this omission during the review process.

To correct this omission, Part 2 of the *Request for Amendment* form needs to show the amount as set out in the table below.

Required amendment		
Name	Address	Amount
Veolia Environment	[to be provided]	\$16,500

Matters requiring future action

The review identified a number of issues the Party should address in the future to achieve greater accuracy and completeness of its reporting to the AEC. The nature and a brief summary of those issues are outlined below.

iMIS database system and accuracy of reporting

The review encountered difficulties in obtaining relevant and appropriate evidence to support the Party's disclosure of the receipts above the disclosure threshold.

The Party advised that the 2010–11 financial year was the first in which it had relied on the reports produced by the newly implemented iMIS database system. The Party acknowledged that deficiencies identified in the system's ability to extract relevant reports were not apparent to the Party at the time of the system's implementation.

In the course of the review, however, the Party Agent advised that the problems with the iMIS reporting system were being addressed. He expressed a high level of confidence that the problems will be overcome in time for the next reporting period.

Given that the iMIS system is the Party's central database used to record most of its receipts from fundraising activities, it is of utmost importance if the Party is to be assured of discharging its legal responsibilities for complete and accurate disclosure under the Act that either the problems with the system are resolved without further delay or an alternative or shadow recording system be adopted until such time as the iMIS system is competent for disclosure purposes.

Bank reconciliations and batch system

The review requested bank reconciliation statements for each account as at 30 June 2010 and as at 30 June 2011. However, the reconciliation statements as at 30 June 2011 had been overlooked and not provided.

The review noted that the transactions listed as outstanding deposits and un-presented cheques are described by batch numbers. The batch number system appears to have been adopted as the key labelling method for most of the transactions in the General Ledger. As such descriptions do not provide sufficient details, in particular with regard to the source of the transactions, the amounts described by the batch numbers should be accompanied by the relevant transaction details.

As the review did not identify any outstanding batch deposits above the disclosure threshold on the reconciliation statements as at 30 June 2010, the details of those batches were not requested on this occasion. For future reviews, however, the details of the relevant batches should be provided as part of the reconciliation statements.

Party units: reporting to the State Office

Part of the review process involves an examination of the records to ascertain the consistency of the party units' internal records with those produced by external sources such as banks.

The records provided by the State Office with regard to party units suggest that 494 had lodged their returns with the State Office in the 2010–11 financial year. The review examined the records of five party units to check completeness and accuracy of their reporting to the State Office. The key documents examined included:

- copies of bank statements; and
- copies of the party unit financial disclosure returns containing *Receipts and Expenditure Details* lodged with the Party's State Office.

Our examination of the above records for the five selected party units revealed that the disclosures made in their returns adhered to the instructions included in the disclosure forms. However, the review of two party units, Granville/Merrylands (SEB) Branch and Macarthur FEC, highlighted issues concerning the instructions provided in the forms that appear to have contributed to incomplete reporting by those party units. The issues identified are outlined below in the context of the findings for each of those party units.

Party Unit: Granville/Merrylands (SEB) Branch

The review identified inconsistencies between the figures reported in the disclosure return for total receipts and payments and the figures contained in the documents examined.

Our analysis of the key records including the bank statements and a copy of the Branch's return lodged with the State Office revealed two issues:

- inconsistent reporting of the total receipts and payments by the Branch within the return lodged with the State Office; and
- deficiencies of the instructions contained in the return form.

The inconsistencies in reporting of the total receipts and payments are illustrated in the tables below by comparing the figures reported in the disclosure return for total receipts and payments against those identified in the *Receipts Details*, *Expenditure Details* and the bank statements records.

Table 4: Total receipts summary

	Disclosure return	Receipts Details	Bank statements
Total receipts	\$24,600.00	\$54,089.57	\$24,609.57
Difference		(\$29,489.57)	(\$9.57)

Table 5: Total payments summary

	Disclosure return	Expenditure Details	Bank statements
Total payments	\$46,729.70	\$46,801.12	\$27,017.41
Difference		(\$71.42)	\$19,712.29

The above figures indicate that the total receipts amount was under-reported by \$29,489.57 compared to the transactions contained in the return's *Receipts Details* report. In contrast, the total payment amount was consistent with the disclosures made in the *Expenditure Details* report but over-reported against the total withdrawals recorded in the bank statements.

To explain those inconsistencies the review contacted the treasurer of the Branch, Mr Steven Issa, who informed that he had retained some of the receipts in cash instead of depositing all cash into the Branch's bank account. Mr Issa also confirmed that he had paid large amounts in cash (\$7,500 and \$9,000) for the function venues as reported in the return.

Our examination of the return shows, however, that the Branch adhered to the instruction contained in the disclosure return and on that basis it had reported its figures accurately. The instructions provided for total receipts require reporting "*the gross amount of all cash benefits banked by the Branch*" but the instruction for total payments requires reporting "*the gross amount of all payments made by the Branch*".

To minimise the risk of reporting amounts limited to those that were banked, the Party should consider expanding the instructions requesting to incorporate also moneys held in cash. The instruction could also alert the party units to incorporate in their total receipts money or money's worth received as gifts-in-kind. The issue of omitting to include gifts-in-kind was highlighted in the review of Macarthur FEC discussed below.

Party Unit: Macarthur FEC

The review identified inconsistencies between the figures reported for total receipts and the figures contained in the records examined.

The key records examined included copies of the bank statements, a copy of the party unit's return and a copy of the tax invoice for \$2,565 received from Haters Sawmill. An annotation made on that tax invoice by the supplier indicates that the amount was to be treated as a donation in-kind made to Macarthur FEC.

The tables below provide a summary of the figures reported in the party unit's disclosure return contrasted against the figures reported in the *Receipts Details* report, *Expenditure Details* report and bank statements records.

Table 6: Total receipts summary

	Disclosure return	Receipts Details	Bank statements
Total receipts	\$3.00	\$36,135.00*	\$36,135.00*
Difference		(\$36,132.00)	(\$36,132.00)

* includes the value of gifts-in-kind for \$2,565

Table 7: Total payments summary

	Disclosure return	Expenditure Details	Bank statements
Total payments	\$37,224.87	\$37,226.68	\$37,226.87
Difference		(\$1.81)	(\$1.81)

As illustrated above, the party unit reported \$3 as the total amount received and \$37,224.87 as the total amount paid. While the total amount paid reported in the return is consistent with the records included in the bank statements and *Expenditure Details* report, the total receipts amount is substantially under-reported compared to the bank statements and the *Receipt Details* report.

In this case, the under-reporting of the total receipts may have resulted from the omission to complete the entire figure. It appears that the handwritten figure placed in the return was unfinished with space left after the digit number 3 followed by a comma separator. The mismatch of this figure to total payments, along with its presentation on the form, should have prompted clarification with the Treasurer before being included in the annual return.

The review found that the transaction records included in both the bank statements and the *Receipts Details* report show the total amount received amounting to \$33,570. However, the annotation made on the tax invoice received from Haters Sawmill indicates that the

REDACTION CODES

- 1 Personal Information (name) redacted.
- 2 Personal Information (facsimile of signature) redacted
- 3 Personal Information (facsimile of manuscript initialling) redacted
- 4 Personal Information (Individual's address)
- 5 Personal information (individual's telephone number)
- 6 Business information (Bank Account details) redacted.
- 7 Business information (Billing Account details) redacted.
- 8 Legal Professional Communication redacted.
- 9 Deliberative material redacted.
- 10 Irrelevant material redacted.

value of \$2,565 was donated to Macarthur FEC in addition to the amounts reported in the bank statements and the *Receipts Details* report. As such, the total receipt amount should have been increased to \$36,135 to reflect the in-kind donation received.

As mentioned earlier in the report, expanding the instructions for total receipts to include moneys held in cash and donations/gifts-in-kind received is necessary to ensure greater accuracy and consistency of reporting by the party units.

Conclusion

The review is unable to conclude that the disclosure return as a whole is free from material misstatement. The findings in this report are based on the Party's records including limited records of the sample of the five party units operating on behalf of the Party.

Substantial omissions and errors resulting in under-reporting of the total receipts and payments combined with the difficulties to extract complete and accurate information by the Party from its iMIS database system are of concern. The matters noted above should be remedied.

A request to effect the recommended amendments to the Party's disclosure return should be lodged with the AEC no later than **Friday, 20 December 2013**.

If it is your contention that our findings are incorrect or you wish to request amendments that are different or additional to those we have listed above, please also provide an explanation along with any supporting working papers and documents by this due date.

Enquiries and Assistance

Should the party require any assistance regarding its disclosure obligations under the Act, please contact the AEC's Funding and Disclosure Section either on telephone number (02) 6271 4552 or by email at fad@aec.gov.au.

ATTACHMENT A

Table 1: Total receipts – summary details

Details	\$ Bank accounts	\$Subtotals	\$Total amount
Disclosure Return - total receipts			20,477,624.00
Bank Statements			
100 Admin Account	15,093,858.18		
120 Maxi Direct	3,049,591.78		
278 Federal Maxi Direct	859,980.54		
286 State Maxi Direct	3,823,833.87		
938 State Working	13,314,468.96		
946 Fed Working	1,082,432.09		
Leaders Funds 74-8255	95,569.38		
Leaders Funds 73-1912	3.22		
Total bank		37,319,738.02	
Add: Total party units		4,096,570.33	
Add: receipts under-reported by Granville/Merrylands (SEB) Branch & Macarthur FEC		63,059.57	
Less: Internal party unit transfers as provided by the party		-3,822,141.44	
Less: Internal transfers within State Office's bank accounts as per bank statements		-15,423,698.12	
Add: Gifts-in-kind		203,013.83	
Grand Total			22,436,542.19
Difference			-1,958,918.19

ATTACHMENT B

Table 2: Total payments – summary details

Details	\$ Bank accounts	\$Subtotals	\$ Total amount
Disclosure Return - total receipts			24,389,702.00
Bank Statements			
100 Admin Account	15,245,075.46		
120 Maxi Direct	4,156,000.00		
278 Federal Maxi Direct	1,050,074.25		
286 State Maxi Direct	4,400,000.00		
938 State Working	13,404,402.72		
946 Fed Working	1,009,381.86		
Leaders Funds 74-8255	79,009.59		
Leaders Funds 73-1912	1,552.10		
Total bank		39,345,495.98	
Add: Total party units		3,446,834.50	
Less: Internal party unit transfers as provided by the party		-478,622.56	
Less: Internal transfers within State Office's bank accounts as per bank statements		-15,423,698.12	
Grand Total			26,890,009.80
Difference			-2,500,307.80