

Towards the horizon
..... together

Tuesday, 2nd October, 2007.

The Members,
Healesville RSL Sub-Branch,
275-279 Maroondah Highway,
Healesville, Victoria, 3777.

Dear Members,

We are pleased to submit to you our report regarding our examining for you of a number of matters relating to your sub-branch's Extraordinary General Meeting of Members held on 29th July, 2007.

1. Terms of Reference.

We were initially instructed by the Sub-Branch President, Mr Sam Halim, in his letter to us of 1st August, 2007, "... on behalf of the Healesville Sub-Branch committee ... to conduct an investigation into allegations and concerns as stated in the Sub-Branch Extraordinary Meeting notice and request, dated 29th July 2007."

This instruction was subsequently amended on 8th August, 2007 in response to our request of 7th August, 2007 "... to limit the scope of our investigation ... to those matters of an accounting nature which are either specifically or generally the subject of the 29th July EGM Notice."

The initial letter of 1st August, 2007 from Mr. Halim also stated that, "Your instructions and assistance will only be given by the President, myself, the two Vice Presidents, Mr. David McKenzie and Mr Craig Sarre and information/material assistance by the Temporary Manager, Mrs A. Sarre."

That directive was itself subsequently amended in a telephone conversation on 16th August, 2007 by advice from Mr. Halim to Mr. Kerry Grills of our office to be "Sam Halim, John Finch, CEO Michael Annett, Peter Low (and) Ken Swincer".

The confirmation of those terms of reference under which we have conducted our work for you are contained in the attached documents marked as *Annexure 1* and *Annexure 2*.

Kerry Grillo and Associates Pty.Ltd. ABN 60 774 967 686
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2. Further Advice

On 13th August, 2007 we received advice from Mr David Lewien, "Member RSL – Victorian State Branch Executives" that "... with effect from 8th August, 2007, Mr Sam Halim is no longer a member of the Returned and Services League of Australia and as such has no longer any role/position within the Healesville RSL Sub Branch Inc."

A copy of that advice from Mr. David Lewien is attached as *Annexure 3*.

A notice was received by us on 14th August, 2007 which indicated that Mr Sam Halim had apparently been re-instated as President of the sub-branch.

A copy of that notice is included as *Annexure 4*.

On 22nd August, 2007 we received further advice in a telephone call from Mr Ken Swincer that he had been appointed as Acting President, succeeding Mr Sam Halim as President.

Mr Swincer subsequently wrote to us on 30th August, 2007 in that capacity as Acting President.

However, a further letter to us dated 24th August, 2007 purporting to have been sent by "M. Annett, Chief Executive Officer" and purporting to confirm Mr Swincer's appointment as Acting President of your sub-branch was unsigned and not on any form of RSL letterhead. Accordingly, we had no option but to ignore that further advice.

A copy of Mr Swincer's letter to us of 30th August, 2007, and the further letter to us of 24th August, 2007 as mentioned above are attached as *Annexure 5* and *Annexure 6*, respectively.

A further letter dated 17th September, 2007, signed by David J McLachlan, Major General (Ret'd), and addressed to Mr John Wells as "Chairman, Healesville Sub-Branch Committee of Management" was faxed to us by Mr Wells. Although Mr Wells' fax machine dated the transmission to us as "10/02/2005 05:05", our own facsimile journal recorded the date actually received by as 21/09/2007 at 16:17 hours.

A copy of each of Mr Wells' fax to us and of our facsimile journal is attached as *Annexure 7* and *Annexure 8*, respectively.

3. Extraordinary General Meeting of Healesville RSL Sub-branch Inc. (EGM)

At a meeting with Mr Sam Halim, Mr David McKenzie, and Mrs Anne Sarre on 2nd August, 2007, we were supplied with a copy of the Agenda for the EGM which we were informed was held on 29th July, 2007.

We were also given a copy of the backgrounding notes to the several motions which we were informed were put to the members of the Healesville RSL Sub-branch who were in attendance at the EGM. The backgrounding notes referred to here are headed "EXTRA ORDINARY GENERAL MEETING – TIME: 1015AM DATE: 29 JULY 2007" These backgrounding notes are in addition to the notes dated as 28th May, 2007 which were also provided to us. Throughout the course of our work for you we have elected to use the later dated backgrounding notes for reasons of being more current than the earlier set.

We were also provided with a copy of what we were informed were the written notes taken by Mr Peter McPhee during the EGM and which were to be used to form into the printed minutes of the EGM.

We were further provided with a document which has the main heading "DRAFT ONLY FURTHER INFORMATION TO BE SUPPLIED AND INSERTED", and which has the sub-heading of "Minutes of an extraordinary meeting of members of the Healesville RSL Sub Branch held on Sunday 29th July 2007" (the minutes). We were informed that, notwithstanding the main heading of the document (that is, that they are "Draft Only"), these minutes form an accurate representation of the proceedings of the EGM.

We have carried out an examination of the copy of the written notes and of the copy of the minutes document.

Our examination has led us to the view that, in the absence of any further information being supplied and inserted, the minutes would seem to fairly represent the notes taken during the EGM, and of the various matters which were decided by members at the EGM itself.

Copies of each of the preceding documents provided to us, and which are mentioned in this section of our report to you, are attached as *Annexure 9*, *Annexure 10*, *Annexure 11*, *Annexure 12*, and *Annexure 13*, respectively.

4. Reporting to the Members

If we accept that the minutes fairly represent the decisions made by those members who were in attendance at the EGM, which we do, then one resolution, and its resolved amendment, are jointly of significance insofar as our reporting of our examination to you is concerned.

We set out below the following resolution, together with the passed amendment, exactly as they are shown in the minutes and in their entirety:

That the members of the Healesville RSL Sub Branch Inc direct the committee to seek an independent investigation into allegations made against the present and previous committee members and that such report be presented to members.

Moved S Halim

Seconded J Finch

Mar Halim sought an independent investigator rather than a person appointed by State branch

Point of order/amendment

Can members have a copy of the full report/

Moved B Sands Seconded V Volker

Amendment carried

Motion put and carried

As a consequence of the resolution in this section of the minutes, we have therefore formed the view that we are required to report directly to the members at a meeting of members at a time and place to be determined.

We are also of the opinion that we are required by virtue of the carried amendment to provide members with "... a copy of the full report".

5. The matters examined by us

As the scope of our investigation has been limited (at our request) to "... those matters of an accounting nature which are either specifically or generally the subject of the 29th July EGM Notice", we will shortly proceed to report to you on the various matters examined by us during the course of our work for you.

However, when determining which matters fell within the scope of those of an accounting nature, we were faced with the initial task of gleaning each of them from the EGM Agenda (attached as *Annexure 9*).

As none of the proposed resolutions shown on the EGM Agenda, and which were at the time still to be put to the members, made any mention of anything of an accounting relevance, we were left with no choice than to look for any other relevant and directly associated document(s) to help us.

To that end, we sought permission to review the backgrounding notes (*Annexure 10*) and the minutes previously referred to (*Annexure 13*) for assistance in determining matters of accounting relevance. The copy of the handwritten notes which we were told were made during the course of the EGM (*Annexure 12*) also provided assistance with this.

The permission for this course of action by us was agreed to in a telephone conversation with the then President, Mr Sam Halim, on 7th August, 2007, as part of our conversation regarding the varied terms of reference.

For us to have done otherwise than refer to those supporting documents would have brought about either an abandonment of the assignment due to impossible-to-perform terms of reference or, alternatively, a convening of a further meeting of members of the sub-branch to give further direction to us as to our instructions.

This sensible remedy of permitting us to refer to other relevant and associated documents obviated the need to either abandon the assignment or to inconvenience the members by calling a further extraordinary general meeting.

We emphasise that those matters arising from the EGM which are not of an accounting nature, either specifically or generally, have been disregarded by us and are, therefore, not relevant to our report. We make no comment about such matters, and no inference of acceptance or rejection of all or any of those matters by us should be drawn from our silence.

6. Item 6A of the EGM Agenda regarding Mr Robert Gannaway

The backgrounding notes refer to property belonging to the sub-branch allegedly still in the possession of Mr Gannaway.

The items of property mentioned include, inter alia, a digital camera and a computer.

We make no comment about the digital camera. Nor do we comment about any of the other items allegedly in the possession of Mr Gannaway save and except for a computer.

So far as a computer is concerned, the backgrounding notes mention that Mr Gannaway is alleged to have claimed that he purchased a computer from the sub-branch. The backgrounding notes are silent as to the date of such a purchase, and are similarly silent as to the consideration purportedly paid.

X We report that we could find no evidence of an invoice being raised by the sub-branch for the sale of a computer to Mr Gannaway. Nor could we find evidence of a payment being made to the sub-branch by Mr Gannaway in respect of the purchase of a computer.

Further, we could find no mention in any of the committee minutes examined by us which refer to, or which sanction, the sale of a computer to Mr Gannaway.

7. Item 6A of the EGM Agenda regarding Mr Arthur Ford

The backgrounding notes refer to the allegation of "Suspicion of inappropriate use of welfare fund" by Mr Ford.

In reviewing the various welfare items allegedly used excessively by Mr Ford ("fuel, meals and drinks"), we report that we are unable to determine with any form of accuracy an amount by which any of the subject items is excessive.

Our reason for reporting to you in this way is because we were unable to determine any reliable yardstick or benchmark which would make us draw a conclusion contrary to that opinion.

That is not to say that some, or even all, of the items is not excessive. Rather, we would need better evidence than that which was observed by us, and such as would be needed to draw a conclusion different to that reported by us.

As a result, and in the absence of any substantive evidence to the contrary having yet been received by us, we offer no opinion as to whether the use by Mr Ford of any or all of the items mentioned is excessive.

We make no comment about any of the other matters concerning Mr Ford.

8. Item 6B of the EGM Agenda regarding Mr Peter McPhee

The allegations and concerns cited within the backgrounding notes relating to Mr McPhee are many and varied.

To the extent to which they are relevant to our examination from an accounting perspective, we intend to report our opinion on an item-by-item basis.

Again, for the sake of clarity and consistency, we make no comment on those matters which are not specifically or generally of an accounting nature.

Because there are 17 items cited in the backgrounding notes, we will report on each in the order in which they are listed in those notes:

1. This item deals with Mr McPhee having allegedly obtained a signature on a cheque by deceptive means.

We interviewed Mr Athol Egeberg on 13th August, 2007 about this allegation and made notes during the course of the interview with him. Mr Egeberg volunteered to sign our notes as being a fair representation of the interview we conducted.

A copy of those notes which have Mr Egeberg's signature appended is attached as *Annexure 14*.

We also interviewed Mr McPhee regarding this particular matter and about the relevant other matters cited.

A copy of Mr McPhee's responses is attached as *Annexure 15*.

We were informed that the cheque the subject of this matter was in respect of the purchase of equipment from BMP Installations Pty Ltd to the value of \$506.00 on 22nd February, 2007.

A copy of that company's invoice number A002749 is attached as *Annexure 16*.

In a subsequent interview we conducted with Mr Graeme Blyth on 24th September, 2007, Mr Blyth advised us that he had refused to sign the cheque presented by Mr McPhee for signing.

We are unable to comment on whether Mr Egeberg was "conned", as he put it, into signing the subject cheque, as this is a matter beyond the scope of our investigation.

However, we were unable to find any properly authorised order form in the sub-branch's order books which gave authority for the subject purchase.

Notwithstanding this lack of proper documentation being available for inspection by us, Mr McPhee informed us that the purchase was authorised by Mr Bob Dowie, and that the cheque paid to the supplier was signed by Mr Sam Halim and Mr McPhee himself. We have not seen any documents which would verify this information provided to us by Mr McPhee.

As regards the purchase of the motor vehicle for Mr McPhee's use, we have attached a copy of the sub-branch's order number 4722 dated 5th February, 2007 (*Annexure 17*).

The signature of the person who prepared the order appears to be that of Mr McPhee, and that of the Manager appears to be Mr Sam Halim's signature.

However, we were informed that the signature beside the space where the Treasurer's signature is required is Mr Arthur Ford's signature. We were further informed that Mr Ford was not the Treasurer of the sub-branch and, accordingly, was not himself authorised to sign the order.

2. This item deals with the alleged "Unauthorised use of and overspending on Healesville RSL Bank Card" by Mr McPhee.

During our interview with Mr McPhee we enquired about some specific items which had been charged to the credit card used by him on behalf of the sub-branch. We also enquired about other items of expense incurred by Mr McPhee on behalf of the sub-branch.

The items which we enquired about were as follows:

1. Airline tickets to Mildura and return for two people.

We were informed that the expense of \$912.65 was incurred in April, 2007 for people not themselves connected with Healesville RSL sub-branch, but rather with the Mitcham sub-branch.

We were further informed that the expense was to be reimbursed to the Healesville sub-branch.

We could find no evidence that the expense has been reimbursed.

We could find no properly completed order form giving authority for Mr McPhee to incur this expense against the Healesville sub-branch's credit card.

Mr McPhee advised us that he would provide details of the amount reimbursed by the Mitcham sub-branch. As at the date of this report we have not received those details from Mr McPhee.

2. Kings Parking Melbourne

On 2nd March, 2007, there were two amounts charged by Kings Parking Melbourne to the credit card used by Mr McPhee on behalf of the sub-branch of \$59.00 and \$37.00.

We asked Mr McPhee why there would have been two separate parking costs on the same day charged against his account.

Mr McPhee advised us that while he was unable to remember precisely, it was probable that he'd had to go to the City twice on that day.

We could find no properly completed order form for either of the expenditures which would have given authority for the expenses incurred.

3. Victoria Petroleum Mitcham

An expense of \$55.00 was incurred on 9th March, 2007 for a car wash.

We could find no properly completed order form which would have given authority for the expense incurred.

4. Mitcham RSL - \$119.60

On 21st November, 2006 an expense for \$119.60 was incurred for a business lunch.

Mr McPhee advised us that the lunch was for four people who necessarily attended a corporate governance meeting and which was approved by Mr Sam Halim.

Mr McPhee explained that two of the attendees were from the Healesville sub-branch (himself and Ms Helen Ibrahim) and two were from the Mitcham sub-branch.

We could find no properly completed order form which would have given authority for the expense incurred.

Nor could we find any amount of reimbursement from the Mitcham sub-branch for the costs of the lunch incurred by their two attendees.

Nor could we find any receipts which would verify the amount of expense incurred.

5. Mitcham RSL

On 12th December, 2006 there was an expense of \$1,424.14 incurred in respect of the Mitcham sub-branch for travel expenses.

We could not find any receipts which support the amount of the expense incurred.

We were unable to find a properly completed order form which would have given authority for the expense incurred.

There is a great number of other items which we believe have not been properly authorised or properly incurred.

The RSL (Victorian Branch) Inc Corporate Governance Compliance Manual (CGCM) for Sub-Branches provides clear guidance for those charged with administering the finances of sub-branches.

During the course of our investigation we examined in excess of 250 orders and individual transactions.

We found that the vast majority of the orders examined were not correctly authorised for the procurement of the goods or services sought as required by the CGCM.

We found also that many of the orders sighted did not show either the actual cost of the intended purchase or even an approximate cost for authorisation.

We further found that very few of the paid supplier accounts had an authorising order form attached for verification by those signing for the disbursement of funds

This lack of correct accounting and authorisation included items purchased generally by the sub-branch, as well with those which included the use of the sub-branch's credit card supplied to Mr McPhee.

From our observation, the problem would seem to be because of a general lack of internal control procedures being adhered to in accordance with the requirements of the CGCM.

These internal control procedures ought to be administered on a day-to-day basis under the active guidance of the General Manager, by members of staff generally when performing their respective duties, and in an overall fashion by the governing committee itself.

3. This item refers to "Inappropriate use of private vehicle, petrol, time for private use and other business involvements such as Visey and Mitcham RSL committee and management (conflict of interest)"

We make no comment on this item save and except for the matters of an accounting nature.

As indicated above, there are many hundreds of expenses which have been incurred within the sub-branch in general and by Mr McPhee in particular which have not been correctly authorised by a properly completed order form before being incurred.

If the expenses referred to in the heading of this item had been authorised in a timely and correct manner the problem referred to would have been obviated.

4. We make no comment on this item.
5. We make no comment on this item.
6. This item refers, inter alia, to the running of the raffle.

We make no comment on this item save and except for the financial results of the raffle.

During our interview with Mr McPhee, we showed him a snapshot of the financial results which Mr John Finch had provided to us from the information he produces on a regular basis.

The results of each raffle on the snapshot provided are generally signed off as being correct by both Mr Finch and the duty manager of the day.

However, it is apparent that there are discrepancies between the financial results reported by Mr Finch and those compiled by Mr McPhee and/or his staff.

Mr Finch has provided us with a Statutory Declaration which lends support to the accuracy of the information prepared by him and signed off by the responsible duty manager and himself as being correct.

In particular, Mr Finch has queried the expenses shown in Mr McPhee's Raffles Account document for Entertainment. Mr Finch advised us that there was no entertainment booked or paid for during either of the months of February and March, 2007, but that Mr McPhee's spreadsheet shows a charge of \$350.00 in each of those months.

We were unable to find any payments having been made for entertainment expenses which were relevant to the regular drawing of the raffles.

Mr Finch also particularly queried the charges against the Raffles Account for sandwiches and for Toscano's fruit and vegetable trays.

Mr Finch believes that the former should be charged at \$35.00 per week.

Whereas, the amounts charged in the Raffles Account spreadsheet for the months of January to August, 2007, inclusive, are shown as \$180.00, \$135.00, \$90.00, \$90.00, \$180.00, \$180.00, \$180.00, and \$45.00, per month, respectively.

Mr Finch also believes that the Toscano's account should be not greater than \$80.00 per week, and not the amounts charged in the Raffles Account spreadsheet which are considerably higher than that charge.

Mr McPhee said that he had not previously seen Mr Finch's workings, but that without being able to check the specific details, he could not generally accept or reject Mr Finch's view of the income shown in his (Mr Finch's) report, or of the correct amounts to be charged against the raffles.

We have formed the opinion that this is an area which needs particular vigilance in terms covered by the CGCM for Sub-Branches mentioned previously in this report.

A copy of each of the relevant documents mentioned in this item is attached as *Annexure 18* to *Annexure 23*, inclusive.

7. This item is covered in the preceding comments.
8. We make no comment on this item.
9. This item refers to the returning of a hire vehicle by Mr McPhee.

We have sighted the Healesville RSL sub-branch official order form number 4723 for the hire of a vehicle from TR Enterprises. We have been informed that the business is owned by Mr Bob Dowie, and the note on the order form would seem to confirm this.

We note that there is a concern that the vehicle was actually hired several days before the raising of the order form, but that the order form was dated to coincide with the date of a committee meeting.

We can make no valid comment about that concern as it is outside the scope of our investigation.

However, we do note that the order, likely so many previously mentioned, has not been correctly authorised by a properly completed order form.

A copy of the order form is attached as *Annexure 24*.

10. We are unable to comment on this item.
11. We are unable to comment on this item.
12. We are unable to comment on this item.

13. This item refers, inter alia, as to "... why 80 drinks were recorded on the till one morning, before 10 am, the opening time."

During our interview with Mr McPhee, we raised the above concern which was disclosed by the till receipts.

Mr McPhee advised us that it was as a result of a "Pink" fundraiser held the previous evening. Mr McPhee explained further that the drinks were included in the till register on the morning in question before the opening time because the President had not been able to ring the drinks up before closing the previous night.

We are unable to comment further on this matter of the 80 drinks.

However, notwithstanding that, this item also refers to "... stock abuse, stock control, staff, etc."

We are unable to comment on the issue of "stock abuse" or "staff".

However, we raised the issue of stock control with Mr McPhee and asked particularly about stock takes.

We asked if the sub-branch's auditor attended the stock take at year end or at any other time.

Mr McPhee advised us that the stock takes were only ever carried out by members of his staff. He further advised he has never been aware that the auditor should be present at a year-end stock take; that the auditor was never present at the Mitcham sub-branch year-end stock take; and that that's likely to be the case in other RSL sub-branches as well.

One of the fundamentals of internal control (which is itself an integral part of good corporate governance), and indeed of audited accounts, is that at least once a year an independent, and externally verified, identification of an entity's assets (including liquor) and liabilities is undertaken.

To do otherwise is to put into doubt the probity with which the accounts have been prepared, and the reliance which an independent observer (for example, your members, your creditors, your bank, and so on) might place upon the accounts presented.

14. We are unable to comment on this item.

15. This item refers to the "Repairs to his private car without president and committee approval".

We have been unable to positively identify any repairs made by Mr McPhee to his private vehicle save and except for one payment made to David Murray Motors on 27th February, 2007 for \$869.00.

We asked Mr McPhee about the authority by which this payment was made.

Mr McPhee advised us that the repairs were undertaken to his private vehicle by agreement with Mr Sam Halim as he (Mr McPhee) had used his own vehicle on behalf of the sub-branch for the whole of the period from his initial employment on 12th August, 2006 until he was provided with a fully maintained vehicle on 23 February, 2007.

We make no further comment on Mr McPhee's response to our question.

We note, however, that the payment was made without the authority of any correctly completed order form.

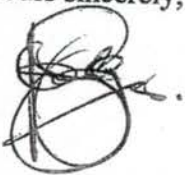
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This now completes our report to you regarding our examining for you of a number of matters relating to your sub-branch's Extraordinary Meeting of Members held on 29th July, 2007.

As you have seen, there are many items which are of an internal control nature which need to be addressed. We would be pleased to be allowed to help you if you would like assistance with any of these.

Finally, we thank you for asking us to assist you by preparing this report. We also thank each of the individuals who gave us assistance during the time of our working for you.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Kerry Grills', written over a circular stamp or seal.

Kerry Grills,
Director,
for and on behalf of
Kerry Grills & Associates Pty Ltd.