

“ ESTABLISHMENT ACCOUNT.”

246. In the balance-sheet of the Investment Executive Trust, Ltd., as at 30th June, 1933, there appeared the following item :—

	£	s.	d.
Establishment, records and statistics, debenture-holders .. ..	25,375	2	6

In the balance-sheet as at 30th June, 1934, the whole of the “ Establishment Account ” amounting to £61,750 5s. 9d. has been included among the assets of the “ Shareholders’ Section.” This was rendered possible by the company incurring a liability to J. W. S. McArthur and C. G. Alcorn for the British National Trust, Ltd., debentures handed over to the Investment Executive Trust of New Zealand, Ltd., and treated as an investment on account of debenture-holders. It is to be noted that the balance-sheets showing the alteration was issued after the Royal Commission commenced its sittings in Sydney.

RESIGNATION OF FIRST AUDITOR TO THE INVESTMENT EXECUTIVE TRUST OF  
NEW ZEALAND, LTD.

247. We think it is desirable to give certain extracts from evidence given before us by Mr. John Anderson, public accountant, of Auckland. Mr. Anderson said :—

“ I was the auditor of the Investment Executive Trust of New Zealand. I was appointed from the inception of the company. The appointment was made in the name of my then firm, Maben and Anderson, and that was announced in the prospectus. The appointment would be by the promoters or directors. I personally conducted the audit all the way through. I audited the accounts up to the 31st December, 1932. I had completed my audit of this by the 30th March, 1933 ; I resigned my position in the May following.

“ The reasons for my resignation were that I was not in accord with the Board on certain fundamental principles concerning the treatment of certain accounts. There was also a point relating to transactions with two companies that seemed to me to be subsidiary companies. I refer to the Sterling Investment Co. and the British National Investment Trust, Ltd. The latter was, I believe, a New Zealand company.

“ One thing I took objection to was the presence in the balance-sheet of what I deemed to be a purely fictitious asset, under the heading ‘ Statistics, Records, and Establishment.’ My objection to this was that I desired that the details of that account should be shown on the balance-sheet. I made a report to them under that heading. It is as follows—

“ ‘ Statistics and Records, £2,779 9s. 4d. ; brokerage in “ A ” Series, £1,320 10s. ; “ B ” Series, £13,134 10s. : total, £14,455 for the two series. That means a total capital expenditure of £17,234 9s. 4d. General expenses, including advertising, £14,735 19s. 5d. That makes a total of £31,970. Included in the amount of £14,735 is the sum of £12,768, paid to V. B. McInnes, Ltd., being additional fees over and above 5 per cent. brokerage.’

“ These various items appeared in the balance-sheet in one heading under the title ‘ Statistics, Records, and Establishment,’ and the amount was £31,970. That balance-sheet was in the form in which it was intended to submit it to the shareholders. It was submitted to me as the balance-sheet that I was to audit and append my certificate to for that purpose. The directors would not agree to the disclosure of the details that I required. There were present J. W. S. McArthur, W. A. Pilkington (chairman), and H. Glasson (secretary). They took the stand that they were putting it there as a temporary asset for the purpose of spreading it like preliminary expenditure. They did not write any proportion of it off in that year’s accounts. I find now on refreshing my memory and looking at the figures that they did write off a proportion in that year, and the sum shown under the asset would represent the balance. As to the £12,768 paid to V. B. McInnes, Ltd., I attacked that not merely because of the heading under which it appeared in the balance-sheet, but because I held it to be *ultra vires* and therefore an improper payment, and I asked that it should be shown as a separate item under a suspense heading, if they wished, pending investigation into it and a decision as to its legality. They did not accept my view and they just left the matter in abeyance.

“ At this time the total paid-up capital of the company was £7,367. The expenditure I am now calling attention to, therefore, was many times the total paid-up capital of the company. Therefore, it must have come out of the debenture-holders’ money.

“ It is to be remembered that this was the company’s second financial year and this was to be its second published balance-sheet. This capitalized expenditure that I complained about very largely increased in that year. Much of it in my opinion in this second year was proper revenue expenditure which should have been charged against revenue ; under that description there was the sum of £1,967, and there was also the £12,768 paid to V. B. McInnes and Co., Ltd.—a payment that I had questioned. My objection to the form of the accounts was that it meant submitting the accounts to the shareholders in a form in which the directors could recommend a payment of dividends to holders of ‘ A ’ and ‘ B ’ Series debentures. The balance-sheet shows that they had a balance in appropriation account of nett revenue totalling £6,312, and that would enable payment of a dividend on the debenture capital taking into account the dates on which it was paid up.