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The Boardroom Report

Administrator perspectives on Hastie Group

> *"THERE WAS NO SINGLE SYSTEM INTRODUCED FOR ACCOUNTING OR REPORTING TO THE BOARD"*

The high profile case of engineering conglomerate Hastie Group is one that all directors should keep an eye on. This follows the release last month of administrator PPB Advisory's second report to creditors. The report identified a number of possible breaches of directors' duties.

In reporting the reasons for the failure of Hastie Group, the administrators state: "In our opinion, the board failed to regularly request and obtain a comprehensive set of performance reports; properly interrogate the reports presented to it; exercise an adequate level of control over the Hastie Group operations; and take action over declining performance in a timely manner, particularly in relation to the mechanical, electrical and plumbing divisions and Middle East divisions.

"Had the board undertaken the above, the Hastie Group's financial and operational issues may have been identified earlier, allowing remedial action to be taken and losses to be minimised or prevented."

The administrators' investigations also suggest a lack of adequate information requested by the board for a business of this size and complexity and that the board did not appear to have adequately challenged the financial information provided to it or to have exercised adequate control over the group's operations.

PPB says there was no *prima facie* evidence of the Hastie Group having traded whilst insolvent in the period between FY08 and its appointment date.

Craig Crosbie, partner at PPB Advisory, notes there are two ways to test solvency: the cash flow test and the balance sheet test, but neither indicated any problems at the Hastie Group. "However, we think that the impairments that were made probably weren't in the right accounting period. They should have happened earlier and probably should have been for larger amounts. If you go back and readjust the accounts, we suspect there may be question marks around insolvency.

"A lot of the time, administrators don't have all the information, so what we are suggesting is that there should be more investigation over this."

Crosbie adds that a key contributor to the Hastie Group's woes was its strategy. "The group was basically set up to increase market share through organic growth and acquisitions. The acquisition strategy involved buying competing businesses.

"But that's where the key lessons learnt come in. If directors are to grow a business, they really need to understand what their ultimate intention is with acquisitions. And when they do acquire businesses, they really need to monitor them and ensure they are properly integrated so that any expected synergies materialise. At Hastie Group, management was just buying companies and then moving on. It never stopped to fully integrate them.

"The group was buying small-to-medium sized mum and dad businesses and those mum and dads would become the managers of the operations. There was no single system introduced for accounting or reporting to the board, for example. If you have 10 different acquisitions, you have 10 different types of reporting.

"I get a strong sense that by the time Hastie Group did its $160 million capital raising in 2011, directors had no visibility on how the businesses were performing and had to trust the guys on the ground to tell them what was happening. The only way the board could operate was to ask questions and while this is very anecdotal, there seems to have been a culture that did not encourage the reporting of bad news."

Last week, Hastie Group's creditors unanimously voted for all 42 of its subsidiaries to be placed into liquidation. Law firm Slater and Gordon has confirmed it is investigating the claims of investors.

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