

CASE STUDY

FINANCIAL ABUSE OF OLDER PEOPLE

Case study six: Potential abuse of trust and theft

Source: CPA Australia member

Part 1

John was running his bakery business in a rural town. He was a very good baker and had won plenty of awards and prizes for his products. His customers loved his goods, but he was not really making much from the business. He visited Bill, his accountant in July 2012 and went through his figures for the year. He could not believe that he was making so little for all his hard work and he came away thinking he should try to give the business a real boost.

John decided to refurbish the store. He had some great ideas. He got a few quotes and they all were around \$150,000. He did not have \$150,000 but his mum, Wendy, said she would lend him the money. She had some savings and decided to withdraw the money and lend it to him for the refurbishment. She wanted to see him do well.

John shut his business while he did the refurbishment. It ended up costing more, about \$180,000 in total, plus his business was shut for two months and he had no income. He went to the bank and arranged an overdraft. He ended up asking Wendy for some more money and she gave it to him. By the time he opened up for business again he owed his mum \$180,000 and had a bank overdraft of \$40,000. Still he was sure that business was going to be good.

Just after he opened up for business, things seemed to be going really well. John's customers loved the new layout and everyone commented on how good it was.

Then he heard that the bakery in a nearby town was up for sale. He made some enquiries and found out that they wanted to sell quickly and wanted only \$120,000. Given how much he had just spent on his refurbishment, this seemed like a bargain. He had no time to waste as it would surely get snapped up at that price. He approached the

bank for a loan and they approved it, if he could provide security. Wendy was happy offering her house as security. She had no loans and it was great to see her son doing so well.

The Accountant:

Where does Bill the accountant fit in? Well, he really didn't know about all the borrowings until August 2013 when he was completing the end of year accounts. At that point business was really struggling. The growth had not been there and the shop they purchased was not very good because there was a new supermarket opened up nearby. Unfortunately, Bill was the accountant for both Wendy and John.

He did not like what had happened, and started to question them on how they got into this situation. He asked why they did not consult him first. He wanted Wendy to take some security for her loan. John really did not like the line of questioning and while Wendy understood that Bill was only trying to help protect her, she did not want to see her John's business fail.

The end result of this questioning was that John did not really trust Bill. He thought he was not looking after his interests. However, Wendy would not let him change accountants. John became secretive and sought other advice without telling Bill.

Part 2

One day Bill (who was the registered ASIC agent for the company) received a letter from ASIC to say that a third Party had lodged a form with ASIC appointing a new director. He immediately got on the phone to ask what was going on. It turns out the new director was the John's grandmother. John had been to the bank to ask for more money and they said they would only provide it if there was security. John said his grandmother would offer her house as security, but the bank would only accept that if she became a director of the company. It was even more complicated because things were so bad that the family were worried about John's mental health. Wendy and her mum would do almost anything to not upset him.

- Should these arrangements concern Bill? Why?
- If you were Bill, how would you advise John's grandmother?
- Would you advise Wendy to take any further measures?
- How would you approach your discussions with John?