

**SELECT COMMITTEE INTO THE  
FINANCE BROKING INDUSTRY IN WESTERN AUSTRALIA**

**TRANSCRIPT OF EVIDENCE TAKEN  
AT PERTH  
FRIDAY, 6 OCTOBER 2000**

**SESSION 1 OF 3**

**Members**

**Hon Ken Travers (Chairman)  
Hon G.T. Giffard  
Hon Ray Halligan  
Hon Norm Kelly**

**Committee met at 10.30 am**

**RUDOLF, MR GEORGE,**  
**Consultant to the Supervisor of Global Finance,**  
**PPB Ashton Road,**  
**Level 1, 5 Mill Street,**  
**Perth, examined:**

**The CHAIRMAN:** On behalf of the committee, I welcome you to today's hearing. To begin, would you please state the capacity in which you appear before the committee?

**Mr Rudolf:** I am consultant to the supervisor of Global Finance.

**The CHAIRMAN:** You will have signed a document entitled "Information for Witnesses". Have you read and understood that document?

**Mr Rudolf:** Yes, I have.

**The CHAIRMAN:** These proceedings are being recorded by Hansard. To assist the committee and Hansard, could you please quote the full title of any document to which you refer during the course of this hearing. A transcript of your evidence will be provided to you. I remind you that your transcript will become a matter for the public record. If for some reason you wish to make a confidential statement during today's proceedings, you should request that the evidence be taken in closed session before speaking about the matter. Further, the committee may of its motion resolve to take evidence in closed session. The taking of evidence in closed session may be relevant where, for example, the committee believes that the evidence may breach term of reference (3) of its inquiry, which states -

The committee in its proceedings avoid interfering with or obstructing any inquiry being conducted into related matters and in particular inquiries by -

- (a) the police;
- (b) any liquidator or supervisor of any company;
- (c) the Gunning inquiry;
- (d) the Australian Securities and Investments Commission; or
- (e) any prosecution.

However, even if evidence is given to the committee in closed session, that evidence will become public when the committee reports on the item of business to the Legislative Council, unless the Legislative Council grants an ongoing suppression order at the time the committee tables its report.

Dealing with the committee's term of reference (3)(b), if members ask you any questions about your work with the liquidator and supervisor that you believe may interfere or obstruct, would you indicate that, rather than answering the question. In the past, we have put together any questions like that and have gone into private session at the end of the day. Similarly, if you want to raise any issues in private, we will have a private session at the completion of the public hearing.

Members obviously have questions we would like to ask you, but would you like to make an opening statement to committee members before we commence our questions?

**Mr Rudolf:** Not really, no.

**The CHAIRMAN:** I understand that prior to being a consultant to the supervisor of Global Finance, you worked for Global Finance.

**Mr Rudolf:** I did.

**The CHAIRMAN:** Could you outline your role at Global Finance?

**Mr Rudolf:** Basically, it was chasing up borrowers to collect monthly payments and authorising payments to investors, which entailed either collecting the payments or checking the ledgers to see if funds were available. On occasions when debtors defaulted, I would be responsible for making sure that notices of demand were issued and for following up for mortgagee sale of the properties. I was a cosignatory of cheques posted to investors for their interest payments, and generally I handled client inquiries and telephone calls.

**The CHAIRMAN:** Is that pretty much what you did?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Dealing with the bookwork or the financial side, did you handle any of the accounts?

**Mr Rudolf:** I used to calculate monthly interest on credit balances in the various ledgers.

**The CHAIRMAN:** You mentioned that one of your roles was chasing up the borrowers. Did you have to do that often? What percentage of your work did that involve, and how often did you have to do that?

**Mr Rudolf:** Basically, there was a payment card system for the payments due on any day. Each morning, I would look through those cards. For some of those accounts, funds were held in the trust account for payment of interest. I would authorise payment of those. There may have been one or two cases a day in which the borrowers intended to pay the interest themselves. I would ring them, sometimes a day or two before, remind them their payment was due, and follow them up for receipt of their payment.

**The CHAIRMAN:** You mentioned that you also issued demands and commenced mortgagee sales, if that was required. Did you have to do that often?

**Mr Rudolf:** Probably in the two and a half-odd years that I was there on and off, about half a dozen properties went to an eventual default sale.

**The CHAIRMAN:** Were the borrowers involved in those default sales different borrowers on each occasion?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Do you remember any of the borrowers involved?

**Mr Rudolf:** One was Paul Lance - that was the Armadale-Kelmscott self-storage units. Another property of his was in Halls Head, Mandurah. There was a chap called Joe Urbano - that was a house in Rockingham. There was a commercial property in Nedlands. I cannot remember the name of that person.

**The CHAIRMAN:** How many of the accounts that you had would have had money held in the trust account for the interest payments, as opposed to the borrower paying in the interest on a monthly basis?

**Mr Rudolf:** Two-thirds maybe.

**The CHAIRMAN:** Two-thirds which way?

**Mr Rudolf:** Of moneys held in the trust account.

**The CHAIRMAN:** Money that was a part of the original loan to a person was held in the trust account. You indicated that one of your roles was to check the ledger to ascertain whether funds were available. What occurred if funds were not available?

**Mr Rudolf:** Generally, if Mr Margaria had instructed me to follow up a borrower, I would follow up that borrower. On other occasions, I would refer the matter to Mr Margaria, and he would either make a decision to cover the payment or instruct me not to make the payment until money had been collected from the borrower.

**The CHAIRMAN:** Did that include the making of progress payments, or was it purely interest payments?

**Mr Rudolf:** No, it was purely interest payments to investors.

**The CHAIRMAN:** Was it your job to check that the funds were available in the main ledger or in the individual ledgers for each -

**Mr Rudolf:** In the individual ledgers.

**The CHAIRMAN:** Were there many occasions when funds were not available but you still made the payment?

**Mr Rudolf:** Probably for Mr Casella - he was the main one. Mr Margaria would say that he held several hundred thousand dollars of Global's own money in the trust account and that he was prepared to cover those payments against receipt of reimbursement from the borrowers.

**The CHAIRMAN:** In formally transferring funds from Mr Margaria to Mr Casella's account - or anyone else's account, for that matter - was there any internal mechanism that you used at that point to keep the individual ledger in a positive position?

**Mr Rudolf:** No. Mr Margaria was quite happy to have the individual trust ledger show an overdrawn balance. He used to keep a regular check that the overdrawn balances did not aggregate higher than the amount of funds Global had in the trust account.

**The CHAIRMAN:** How was that reconciliation carried out?

**Mr Rudolf:** At the end of each month, Mr Margaria's wife would do a trial balance, and part of that trial balance was adding up all the overdrawn accounts and comparing them with the Global credit accounts.

**The CHAIRMAN:** That was at the end of the month?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Was there the potential throughout the month for the trust account to be overdrawn, because obviously other moneys were held there in trust on behalf of other people? Was it ever done as it occurred, or was it only at the end of the month that you reconciled?

**Mr Rudolf:** It was only at the end of the month that it was reconciled. At the time I did not consider it would have been overdrawn, but in the past six or 12 months PPB Ashton Read has gone through the ledgers, and we have found a number of occasions on which, during the month, the total overdrawn ledgers exceeded Global's own money.

**The CHAIRMAN:** However, during the time you were working for Global Finance, that was never the way the business was conducted?

**Mr Rudolf:** No. Mr Margaria always assured me that he kept full control and that that was something he watched carefully.

**The CHAIRMAN:** Going back, what is your background? Do you have formal training in any areas?

**Mr Rudolf:** Basically, I have principally worked for the Australia and New Zealand Banking Group Ltd for 10 years and for Beneficial Finance Co Pty Ltd-Bank of South Australia for 15 years.

**The CHAIRMAN:** Had you had much experience of trust accounts previously at Beneficial Finance or at the bank?

**Mr Rudolf:** Not with trust accounts as such or with private mortgages. They were totally new to me.

**The CHAIRMAN:** At the time, were you aware of the problems of trust accounts being overdrawn and going into debt?

**Mr Rudolf:** No.

**The CHAIRMAN:** Are you now aware of that?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** What was the nature of the client inquiries? What sorts of issues did you deal with?

**Mr Rudolf:** If a payment was missed, of course the investors would ring to ascertain why it was missed. I would advise them what steps were being taken to collect those payments from the borrower. If it went over a month, I would draft a letter explaining the circumstances as told to me by the borrower - that is, whether the property was staying on the market and that type of thing. Mr Margaria would often review my drafts and make substantial changes to the advice to the investors. He was fairly close to a lot of his borrowers, so a large amount of the information I relayed to investors was based on what he told me about the borrower's position.

**The CHAIRMAN:** I recognise that this is with the benefit of hindsight, but was that information always correct?

**Mr Rudolf:** No.

**The CHAIRMAN:** What sorts of issues did he advise you to tell borrowers that you now know to be incorrect?

**Mr Rudolf:** I suppose the level of completion of construction, for example; council approval schemes; financial position of the borrowers.

**The CHAIRMAN:** You said that you were a cosignatory to the accounts. Did you ever sign off on those when progress payments needed to be made?

**Mr Rudolf:** I may have signed some of the cheques. Mr Margaria would usually fill out a disbursement authority. He would advise me that he had seen the property, that he was satisfied it was at the level at which it should be and that he had obtained the borrower's consent to draw the payment. He would show me the disbursement authority, and I would countersign the cheque.

**The CHAIRMAN:** When did you first become suspicious that those items were not what he had told you, or that what he had represented to you was not correct?

**Mr Rudolf:** Probably not until after the administration.

**The CHAIRMAN:** You never had any concerns or any suspicions that something might not be completely right until it was put into administration?

**Mr Rudolf:** No. Mr Margaria always maintained that he would never let an investor suffer. I had worked with him before - at Beneficial Finance and in his capacity as state leasing manager and state operations manager - and he had always been completely honest in his

dealings, to my past knowledge. I had no reason to mistrust him. There were two occasions that related to his saying that you should never let an investor suffer. One was the property sold in Halls Head, where there was a \$30 000 shortfall which he paid to the investors out of Global's own profits. The second was the Wyalkatchem property about which investors first contacted the Australian Securities and Investments Commission and Ministry of Fair Trading. When that was sold by the mortgagees in mid 1998, there was a shortfall. Mr Margaria offered to pay the investors their full principal plus 6 per cent interest out of his own moneys. Three of the investors accepted that offer, so there were no losses. The other investor carried on with his complaints. Apparently, all of the funds had been paid out to the borrower and the building had not been completed.

**The CHAIRMAN:** Why do you think Mr Margaria would have done that?

**Mr Rudolf:** I do not know.

**The CHAIRMAN:** Did you feel that that was odd at the time?

**Mr Rudolf:** To pay out the investors?

**The CHAIRMAN:** Yes. To pay, out of his own money, for a deal that had gone bad. That would have been taking a risk.

**Mr Rudolf:** He always maintained that he would never let an investor lose money through Global. He had seen it happen before - at Blackburne and Dixon - and one of his vows to the investors was that he would look after them.

**The CHAIRMAN:** Did he ever talk about what he had seen at Blackburne and Dixon?

**Mr Rudolf:** Not a great deal.

**The CHAIRMAN:** He obviously indicated that people had lost money there?

**Mr Rudolf:** Yes. He said he would always do better, and look after investors better, than Blackburne and Dixon did.

**The CHAIRMAN:** He clearly had concerns about the way in which Blackburne and Dixon operated?

**Mr Rudolf:** It appears that way.

**The CHAIRMAN:** But he never expressed any -

**Mr Rudolf:** Not directly. He did not speak of specific cases or anything like that.

**The CHAIRMAN:** Prior to the administration, did you ever receive visits from Ministry of Fair Trading officials?

**Mr Rudolf:** On two or three occasions that I know of. Mr Jack Willers and a representative from ASIC came down on one or two occasions. I did not always see them. The office was an old house that had been converted into an office. Mr Margaria's office was at the front, off the reception area. My office was about three rooms down so I often did not see who came and went.

**The CHAIRMAN:** How did you become aware that ministry officials had visited?

**Mr Rudolf:** Mr Margaria advised me.

**The CHAIRMAN:** Did you ever see any ministry officials visiting?

**Mr Rudolf:** Only Mr Willers. I sat in on one interview when Mr Willers went through some questions. Mr Margaria asked me to the meeting in case I could answer some of the questions.

**The CHAIRMAN:** Do you remember when that was?

**Mr Rudolf:** It would have been somewhere between July and December 1998.

**The CHAIRMAN:** Do you remember the nature of the issues that were raised?

**Mr Rudolf:** They were the problems of the Wyalkatchem property.

**The CHAIRMAN:** Can you recollect any of the details of the conversation or the discussion?

**Mr Rudolf:** I remember that the investor had lodged a complaint. There were dozens of questions, which Mr Willers went through. Some of the questions were valid while a lot of them did not appear to be valid.

**The CHAIRMAN:** In what way were they not valid?

**Mr Rudolf:** There was no complaint. Nothing had been done wrong. I cannot remember the questions offhand. From what I have found out over the past 12 to 18 months, I probably have a different perspective on some of these questions now than at the time.

**The CHAIRMAN:** What was the general nature of the questions? You can recollect that there were valid and invalid questions. I assume you must have a recollection of the nature of the questions that were asked by Mr Willers?

**Mr Rudolf:** The main point was that funds that should have been held for the completion of construction of the building had been released to the borrower and the building still needed some \$20 000 to \$30 000 to be completed. The basis of the complaint was that moneys that should have been held in trust for the building were released and were no longer held in trust.

**The CHAIRMAN:** Was that a valid question?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** What were the nature of the questions that you thought, at the time, were invalid?

**Mr Rudolf:** I cannot remember.

**The CHAIRMAN:** In a general sense.

**Mr Rudolf:** I remember that there were dozens and dozens of questions. It was not a valid complaint; there was nothing to complain about. This investor would complain about everything.

**The CHAIRMAN:** You can remember that there were invalid questions but you cannot remember the nature of those questions?

**Mr Rudolf:** No. I remember looking at some of the questions and saying that it was a load of rubbish. As I said, there were some valid ones, which related to the lack of funds to complete construction.

**The CHAIRMAN:** Was any examination of the ledger cards or any of the documentation carried out, or was it just a question and answer session?

**Mr Rudolf:** I could not say. I know both ASIC and Fair Trading took away a number of files.

**The CHAIRMAN:** I am talking about the meeting you sat in on with Mr Willers. Was there any -

**Mr Rudolf:** For the period that I was there, I do not think there was a perusal of the ledgers. I was not in the meeting the whole time.

**The CHAIRMAN:** Where in the office were the ledgers kept?

**Mr Rudolf:** In the photocopy room, towards the back.

**The CHAIRMAN:** If you dealt with the ledgers and they were looking at the ledger accounts, would you not have expected that they might have got you in to explain about them.

**Mr Rudolf:** Not really. I did not have a lot to do with the ledgers. Mr Margaria's wife did all the posting and balancing of the ledgers. I referred to the ledgers to check if there were funds to make payments. I did not really have any input in the ledgers and I had no involvement in the progress payments. There were times, when there were funds in the individual ledger, that if I was aware that the building had not been completed I would refer it to Mr Margaria saying, "Are these funds in this account there to complete construction or are they funds for interest?" and he would say, "We need that for construction. The rest can go to interest." He would say whether I could make a payment or whether I could not.

**The CHAIRMAN:** Then Mr Margaria's running of the office was very hands-on. Was anyone else, other than Mr Margaria, involved in those sorts of decisions? How many other people were working there at the time?

**Mr Rudolf:** Kim Wood was working full-time. June Clark was working part-time, three days a week, and in the last 12 months we also had a junior answering telephones etc. Mr Margaria was solely in charge of interviewing and assessing borrowers, inspecting properties and authorising progress payments.

**The CHAIRMAN:** What was Kim Wood's role?

**Mr Rudolf:** Effecting settlements and talking to investors. Often, when investors would ring from general newspaper advertisements inquiring about investments, a brochure was sent to them. If they wished to invest, Mr Margaria had a list of potential investments on his table and he would draft up the letter of proposal. In Mr Margaria's absence, either Kim Wood or I would print out that proposal from the computer and post it out to investors.

**The CHAIRMAN:** When you say post it out, who actually signed it?

**Mr Rudolf:** Whoever took the telephone call. There were ones that I signed, and Kim Wood would have signed a number. We did not see any of the properties or, in a lot of cases, we did not even know the borrowers.

**The CHAIRMAN:** Were you a licensed finance broker?

**Mr Rudolf:** Mr Margaria was.

**The CHAIRMAN:** Were you personally?

**Mr Rudolf:** No.

**The CHAIRMAN:** Did it ever worry you that you were sending to people what was, effectively, a proposal to which you were putting your name but about which you had no detail as to the accuracy?

**Mr Rudolf:** In hindsight I should have worried, but at the time I had no reason to mistrust Mr Margaria. I had worked with him at Beneficial Bank in South Australia for about eight years and I trusted him. I never expected that he would do anything other than tell the truth.

**The CHAIRMAN:** Kim Wood was never involved in any of this, other than client liaison and settlement? That includes processing the mortgage documents and those sorts of things?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Were you ever involved in those sorts of activities?

**Mr Rudolf:** To a limited degree. Some time after I joined, I found and perused a mortgage document that had come back from the solicitors. I knew this project was a construction



project but I noticed that there were no construction clauses in the mortgage. I looked up the solicitor instruction letter and found that the instructions simply said “please draw up the mortgage for x dollars, the borrower is this, the lender is this, this is the interest rate”. The solicitor was not told that it was moneys held for interest payments or for construction. I spoke with Mr Margaria about it and I said that he must tell the solicitor, if he wanted proper documents. From then on the advice to the solicitor incorporated those details. I had a limited involvement with mortgages. I did not instigate them. When the documents returned from the solicitor, Mr Margaria usually interviewed the borrowers and arranged the execution.

**The CHAIRMAN:** Going back to the issue that you identified, do you know whether the construction clauses were included in mortgage documents regularly after that?

**Mr Rudolf:** I am fairly sure that they were from then on.

**The CHAIRMAN:** From your current position, are you aware whether that is correct - that they were always included from that point on?

**Mr Rudolf:** Yes.

**Hon G.T. GIFFARD:** What was Mr Margaria’s reaction when you raised it with him?

**Mr Rudolf:** Pretty much indifference. His attitude was “I guess you are right, I suppose we should.”

**Hon G.T. GIFFARD:** Did it concern you that he would be so blasé about something like that?

**Mr Rudolf:** It concerned me in so far as I had raised it with him and told him that this should be done properly. I suppose I was probably not totally at ease with his indifferent attitude about what had been done in the past. My main concern was that they would be done more accurately in the future.

**Hon G.T. GIFFARD:** You were not alarmed by it at all? What was your feeling about that? Did you think, “Crikey, what is going on here?”

**Mr Rudolf:** I suppose I thought it was a lack of a concerted effort by him to get things done properly in the first place. As there had been no losses to date and everything seemed to be travelling fine at the time, I was not too worried about what had happened in the past.

**Hon G.T. GIFFARD:** When was that? When did that happen? Was it fairly early on, when you started working there?

**Mr Rudolf:** No. I started in August 1996 and I was only learning about private mortgages. In January 1997 I was diagnosed with cancer. I was on sick leave for about four months and then I returned as a part time employee. I had a year of regular doctor and dentist appointments so I was in and out. My recollection of when those sorts of events occurred - I am not too sure - is that it would not have been early in the piece. I imagine they were probably in late 1997 to early 1998.

**Hon G.T. GIFFARD:** Did you think at the time that he should have done it properly?

**Mr Rudolf:** He should have known that.

**Hon G.T. GIFFARD:** Would late 1997 or early 1998 be your best guess?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** What made you realise that was required to be done?

**Mr Rudolf:** An investor might have asked me about some detail of the mortgage, and I happened to pick up the mortgage and peruse it, and I realised that certain information that should be in a mortgage was not there.

**The CHAIRMAN:** Did you know that that from your previous experience?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** From what you were just saying to Hon Graham Giffard, being aware of Mr Margaria's previous experience, you would have expected him to know that these were things that had to be in a mortgage.

**Mr Rudolf:** His field of expertise was more in the equipment finance area, not in real estate. At the time, I told him I had a lot of experience in real estate, and suggested that when he was approached by a borrower, the three of us - myself, Kim Wood and John Margaria - should meet as a committee to assess the borrower. Mr Margaria said that was a good idea, but it never eventuated. He liked to keep everything under his hat.

**The CHAIRMAN:** When would that have been?

**Mr Rudolf:** Again, probably late 1997 or early 1998.

**Hon G.T. GIFFARD:** How many construction projects was Mr Margaria involved in?

**Mr Rudolf:** Over the whole five-year period?

**Hon G.T. GIFFARD:** Would you be able to provide a rough figure as to how many project he would have been involved in at any one time, from 1997-98 onwards?

**Mr Rudolf:** Probably between six and 12 at a time. Quite a few were deals done for a 12-month holding period, prior to further assessment for subdivision or construction.

**Hon G.T. GIFFARD:** Did you have a view then that he was not experienced in that area? Did you make an offer to him, to make available your experience.

**Mr Rudolf:** Yes.

**Hon G.T. GIFFARD:** And he did not take up that offer?

**Mr Rudolf:** That is correct. At one stage I referred him to the trust ledger cards and suggested that the practice at Beneficial had been to rubber stamp on each card the total funds required for construction, the amount available for completion of construction, and the funds available for interest. I suggested we do that on each construction card, but he replied that he held the information in his head, and he did not need to put it on paper. He told me that if I had any doubts I was to refer them to him.

**Hon G.T. GIFFARD:** Did you think that was a good way to do it?

**Mr Rudolf:** I was not entirely satisfied. On three occasions I considered resigning.

**Hon G.T. GIFFARD:** Was this due to your concerns about the way he was running the business?

**Mr Rudolf:** His business methods, his treatment of staff, and his contempt for some customers - the way he talked about them after they had left.

**The CHAIRMAN:** What do you mean by that?

**Mr Rudolf:** He would be pleasant enough to the customer, but once the customer had walked out of the office he would make derogatory remarks.

**The CHAIRMAN:** What sort of derogatory remarks?

**Mr Rudolf:** He would call them "silly old fools", and complain about having to lead them by the hand. I can recall nothing specific, but the way he talked about some people was not very nice.

**The CHAIRMAN:** How many projects would he have had on the go at any one time?

**Mr Rudolf:** I would say six to 12. It is difficult to estimate. Some may have taken a year to complete, some may have taken three months, and others were still in the holding stage.

**The CHAIRMAN:** He had all that detail in his head, or so he claimed?

**Mr Rudolf:** He would come into the office late in the afternoon, mainly on Mondays and Tuesdays, and work through until very late at night, sometimes midnight. He would come in on weekends, and he did a lot of his reviews during those times.

**The CHAIRMAN:** You mentioned having made some suggestions about trust accounts. Did you make any other comments at the time? You had obviously looked at the trust account. Was that the only thing you recommended to improve the trust accounts?

**Mr Rudolf:** Yes, so that it would be easy to ascertain how many funds had to be held to complete the construction. That was the main issue. If it was going to cost \$50 000 to finish a property, and there was \$70 000 in the account, then there was \$20 000 available to pay interest.

**The CHAIRMAN:** Was that to assist you to do your job of keeping the trust accounts in positive?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Did you learn that practice from Beneficial Finance?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** What was your role at Beneficial Finance?

**Mr Rudolf:** Initially, I was lending officer, then collection officer for some years, then securities, documentation.

**The CHAIRMAN:** What was your role in relation to trust accounts at Beneficial Finance?

**Mr Rudolf:** I was not involved with trust accounts. It was not a private mortgage business as such.

**The CHAIRMAN:** You were saying you got the idea from Beneficial Finance trust accounts. If you were not involved with trust accounts at Beneficial Finance, how did you get the idea? What trust accounts did they have at Beneficial Finance?

**Mr Rudolf:** At Beneficial it was more like the way funds are raised under debenture stock. They did not have private investors' money. Beneficial raised funds to finance projects. If a \$100 000 mortgage was approved, funds were allocated towards construction. I was not really dealing with a trust account, rather a straight-out mortgage loan funded by the company.

**The CHAIRMAN:** Are you saying your idea for the trust accounts was not learnt from dealing with trust accounts at Beneficial Finance?

**Mr Rudolf:** It was derived from a lending account rather than a trust account.

**The CHAIRMAN:** Were you ever involved with auditors when they visited?

**Mr Rudolf:** No. A couple of times during the period I worked there, people came in, and I was advised by either Kim Wood or John Margaria that they were the auditors, and were looking at the books. They would sit in the back room for a day or two perusing the ledgers. I did not supply them with any information or have any involvement with them.

**The CHAIRMAN:** They never asked any questions of you on any subject?

**Mr Rudolf:** No.

**The CHAIRMAN:** How many times would you say you were visited by the Ministry of Fair Trading?

**Mr Rudolf:** I thought it was two or three times, but I could not be sure.

**The CHAIRMAN:** How many times did the minister visit while you were there?

**Mr Rudolf:** I never saw the minister. I was not aware that he actually had visited. You are leading to the question that Mr Dennis Jarvis has raised, that the minister himself had been there, based on what I told him. From my recollection, Mr Margaria told me that one of the bosses, or the boss, from the Ministry of Fair Trading was interviewing him that day. When Mr Jarvis told me that he was seeing the head of the Ministry of Fair Trading, I assumed he was talking about the department head. I at no time assumed it was Mr Shave himself.

**The CHAIRMAN:** Did Mr Jarvis tell you that, or did you tell Mr Jarvis that?

**Mr Rudolf:** Mr Jarvis, in saying he had an interview himself with the head of the Ministry of Fair Trading, was obviously referring to Mr Shave. I think I told him at the time that the boss of the Ministry of Fair Trading was interviewing Mr Margaria. I thought it was the department head, when Mr Margaria told me that the boss of the Ministry of Fair Trading was seeing him that day. I never took it to mean the minister himself. When I spoke to Mr Jarvis, no names were mentioned, and he assumed I was talking about the minister.

**The CHAIRMAN:** But Mr Jarvis was also going to be meeting with the head of the Ministry of Fair Trading that day?

**Mr Rudolf:** He was to be meeting Mr Shave.

**The CHAIRMAN:** So Mr Jarvis was due to meet Mr Shave on the same day?

**Mr Rudolf:** Either that day or the next day. I am not sure.

**Hon NORM KELLY:** Are you aware of any relationship that Mr Margaria had with minister Shave?

**Mr Rudolf:** No. I think that if Mr Shave had been coming in that day Mr Margaria would have said "Doug Shave is coming to see me", but he talked only about the "top notch" in the Ministry of Fair Trading, who I just assumed was Mr Walker, or someone like that. I am not sure. I never saw the person, and no names were mentioned.

**Hon G.T. GIFFARD:** Is this the meeting that we have been told about that took place on either 5 or 15 March 1999?

**Mr Rudolf:** It was around that time. I know it was just after the administrators had been appointed, and obviously with 450 investors and just three staff it was a very hectic time.

**Hon G.T. GIFFARD:** I am just trying to get some clarity into that matter, as a bit of confusion exists. You are aware that Mr Jarvis has given evidence to this committee on his recollection of that meeting. You are also aware that Ms Denise Brailey referred to it in her submission that has been made public. I will tell you how this matter has unfolded before this committee. Ms Brailey says in her submission –

Jarvis had called the Global office and Rudolf answered the phone. Dennis asked to speak with Margaria, and was given the answer that John is in a meeting right now with the Minister. Jarvis asked "Minister who?" Rudolf replied "Minister Shave."

Mr Jarvis, when he came and gave evidence to this committee, said

Rudolf did not say, "Minister Shave" at all. I said that. He said to me, "He is tied up. He has got the Minister for Fair Trading." I said, "Oh, you mean Doug Shave." I thought he said, "Yes." I said that.

Mr Jarvis is not in agreement with Ms Brailey about the choice of words. Ms Brailey said that Jarvis said that you said “Minister Shave”, but Jarvis said those were his words, not yours. Your evidence a moment ago was that there was no mention of Mr Shave at all.

**Mr Rudolf:** I did not think there was.

**Hon G.T. GIFFARD:** Are you clear on that?

**Mr Rudolf:** I could not be positive. I had a look through my diaries, and I have no notes. As I said, there were hundreds of telephone calls every day. I do not remember the name coming up. Mr Shave did not have the high profile then that he has now. He may have said a name, and I might have said I did not know who it was.

**Hon G.T. GIFFARD:** Mr Jarvis supplied us with a set of contemporaneous notes he took on that occasion. His notes say that Doug Shave was in conference with Margaria. Mr Jarvis’ evidence makes it clear that when he spoke to you, in some way you led him to believe that the meeting was with Mr Shave. You did not see the person who called on Mr Margaria?

**Mr Rudolf:** I did not see him.

**Hon G.T. GIFFARD:** And you cannot be sure whether or not Mr Shave’s name was discussed.

**Mr Rudolf:** No.

**Hon G.T. GIFFARD:** : What do you recall about what Margaria said to you?

**Mr Rudolf:** He may have said that “The top notch from the Ministry of Fair Trading is seeing me this morning”, or something like that.

**Hon G.T. GIFFARD:** Did he tell you in advance that he was going to be seeing someone?

**Mr Rudolf:** Yes. He said he would be tied up.

**Hon G.T. GIFFARD:** So that was why, when Mr Jarvis rang, you were able to tell him Mr Margaria was in a meeting.

**Mr Rudolf:** With the top man from the ministry.

**Hon NORM KELLY:** So you may have said something like “He’s in with the ministry”, and that got confused with “the minister”.

**Mr Rudolf:** It could well have been.

**Hon G.T. GIFFARD:** Has Mr Jarvis contacted you about that subsequent conversation?

**Mr Rudolf:** I think he might have.

**Hon G.T. GIFFARD:** When was that?

**Mr Rudolf:** He rang several months ago to ask me if I could clarify that. I was not sure, so I rang the other three staff - Kim Wood, June Clark and Joanne Broun - and asked them if they remembered anything about that. I think that happened a week after Kim Wood had left, and the others had no recollection. It was an appointment made direct with Mr Margaria. He carried his own diary in his pocket; there was no diary left with the records to verify that.

**Hon G.T. GIFFARD:** You had two conversations with Mr Jarvis, did you? I am looking for the relevant section of the transcript. Did you have two conversations with Mr Jarvis this year in relation to that matter?

**Mr Rudolf:** Possibly, yes. I have spoken to him on numerous occasions regarding several projects in which he is an investor. I know that one time he specifically asked me that question and that is when I rang the other staff to see if any of them may have remembered what happened on that day. He may have mentioned it in passing during other inquiries.

**The CHAIRMAN:** I presume you and Mr Jarvis worked together at one stage?

**Mr Rudolf:** He was my bank manager when I worked at ANZ.

**The CHAIRMAN:** So you knew him reasonably well?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** In some of your earlier comments you were suggesting that Mr Jarvis indicated that he was meeting the minister fairly soon. Is this the reason there is this confusion - that he had raised the fact that he was meeting with Mr Shave either that day or within close proximity to that day?

**Mr Rudolf:** I am fairly sure he said he was meeting the minister. I cannot recall.

**The CHAIRMAN:** Obviously the minister's name was mentioned during the conversation, which could indicate why there was some of this confusion.

**Mr Rudolf:** That could be so, yes.

**The CHAIRMAN:** So it is your recollection that Mr Jarvis mentioned that he was having a meeting with the minister? You are fairly sure about that recollection, are you?

**Mr Rudolf:** It is difficult. Like I said, I have not only spoken to him this year but probably also last year trying to piece together something that he informed me about at a later date. I know he rang me some time after that and advised me that he had seen Mr Shave and had accused him of being at Global's office and he wanted me to confirm that. I remember saying, "I can't confirm it"; I did not see who was with Mr Margaria. I had meant the "ministry", not the minister himself, personally.

**The CHAIRMAN:** That was, what, a month or so after?

**Mr Rudolf:** Something like that.

**The CHAIRMAN:** Then you had another conversation about that matter with him this year?

**Mr Rudolf:** Yes. I have spoken to him two, three or four times and he has asked me if I could recollect if it was Mr Shave. I have said to him each time, "No, I couldn't; I didn't see who it was." I was not under the assumption it was Mr Shave; I assumed it was a departmental head from the ministry.

**The CHAIRMAN:** Did you tell him that at the meeting when he rang you a month after the original claimed conversation?

**Mr Rudolf:** I would have thought so, yes, but I cannot confirm who it was because I did not see them.

**The CHAIRMAN:** You cannot confirm who it was, but a month after the event you are more likely to have recollected what was happening. I realise the difficulty now of recollecting what happened two and a half years ago.

**Mr Rudolf:** I remember that he did ring and ask me to confirm that it was Mr Shave, and I said, "Look, that is not what I had thought I had said", and it never occurred to me then that it was Mr Shave personally. I had never intended to insinuate or mean that, and I never saw the person.

**The CHAIRMAN:** Returning to the issue of Mr Jarvis meeting Mr Shave, do you still think that was during the first telephone conversation?

**Mr Rudolf:** I cannot recollect. It might have been later on. I am pretty sure he said he was meeting the minister, and later he said he had met with him and accused him of being there

and Mr Shave had denied it. During the initial conversation he could well have said he was meeting him.

**The CHAIRMAN:** Fairly soon after that date?

**Mr Rudolf:** Yes.

**The CHAIRMAN:** Do you know why the head of the department was meeting with Mr Margaria that day?

**Mr Rudolf:** I do not know. I know Mr Margaria told me that the Australian Securities and Investments Commission had told him that he had to appoint an administrator or else they would appoint a liquidator. I am not aware of any such directives being given by the ministry. I do not know why they would be there. I know they had confiscated various books and records at earlier times.

**Hon NORM KELLY:** When Mr Margaria told you that the head of the ministry or one of the senior people was coming to see him, it was in this environment of ASIC being involved and there being the need to appoint a supervisor or some such intervention in the company?

**Mr Rudolf:** Yes. Mr Margaria maintained continually that he had done nothing wrong. He said that the ministry or ASIC may find a couple of little things, but as soon as they have gone through the books and records they would find everything was okay and we would be back to business as normal.

**Hon G.T. GIFFARD:** This was in early 1999?

**Mr Rudolf:** Yes. Even after he had appointed administrators he said to the staff, "There is nothing to worry about. Once they have gone through and reviewed everything they will give us a clean bill of health; we will carry on as normal."

**The CHAIRMAN:** You would have known that not to be the case at that point?

**Mr Rudolf:** At that point, no; it was not until some subsequent months when under Ashton Read I started reviewing the trust books and records and started finding out.

**The CHAIRMAN:** Did you not think that some of the issues, such as the mortgage documents and some of the other problems, would come back to haunt you fairly soon?

**Mr Rudolf:** Most of them were short-term loans for 12 months - the majority were. Most of the early mortgages would have been paid out and finalised and no longer applicable.

**The CHAIRMAN:** You said earlier that it was probably not until early 1998 when you raised that issue with Mr Margaria, so there would still have been quite a few loans, and there was also your concern that he did not have the expertise in real estate. Surely you would not have believed him at that point when he said that it would all go back to normal and be okay?

**Mr Rudolf:** As no losses had been suffered, and he had cleared those couple of shortfalls, he was always saying how many hundreds of thousands were in the account; he would never let anyone down. He was quite a smooth talker. As I said, previous loans would have been paid out, but I probably had some concerns that there may have been some minor problems. I did not anticipate anywhere near the types of problems that have surfaced and, not having seen the majority of properties, I had no idea the valuations were totally over-inflated or generous.

**The CHAIRMAN:** But from your position in the company, sitting there watching the trust accounts, making payments out of the trust accounts and looking at those sorts of items, you would have seen that money was coming from this trust account to prop up that deal, and then that deal would be closed down and another deal opened up and money from that one would be used to pay off the remaining balances on the other deal, which as you have already said was often short in terms of the construction costs. Did you have that concern yourself?

**Mr Rudolf:** I raised that with Mr Margaria fairly early in the piece and he showed me a number of instances. It was predominantly with the Casella loans. He would have a \$100 000 mortgage on a property that would sell for \$150 000, and the full \$150 000 would be credited to Global's trust account. The mortgage would be paid out and Casella would have \$50 000 surplus money. Margaria showed me numerous examples where it was only that surplus that he was transferring. He had Casella's authority to meet interest payments on various projects. It was not my position to carry out an audit on my employer. I took it at face value on the examples I had seen.

**The CHAIRMAN:** He actually took you and showed you the trust accounts where that was occurring?

**Mr Rudolf:** On those occasions. From what I have found out later, there were a lot of occasions where that was not the case; he obviously knew which ones he wanted to show me.

**The CHAIRMAN:** He scammed you, basically?

**Mr Rudolf:** Yes. At one stage I mentioned to him the Wyalkatchem property and said that, if there was a cost overrun halfway through, surely the borrower should meet that and you should maintain the payments to the end. He basically said that he keeps an eye on it. In that particular Wyalkatchem case he had faith in the builder to finish off the project from his own resources. It was in a country area with cost overruns and it was a one-off type of incident.

**The CHAIRMAN:** Was there a separate account run by Global, a short-term money market account, where the company held money?

**Mr Rudolf:** Yes. The project ledgers and the money market ledgers were virtually the internal books, which had a total balance of often \$3m or \$4m, and if there was a surplus in a bank account - a trust account - he had the bank put it into a term deposit. There may have been one or two term deposits, plus the operating trust account, which would total the project ledgers.

**The CHAIRMAN:** Returning to the instance where Mr Casella would have deposited \$150 000, how would that be reported in the trust account documents?

**Mr Rudolf:** Simply as "sales proceeds", which would be credited into that project ledger and the mortgagees would be paid out of that project ledger, together with final interest, and then that surplus would either be transferred to another project or left as a credit balance and utilised as it was needed for other payments. Every deal was different.

**The CHAIRMAN:** It obviously caused you some concern to raise it with Mr Margaria at the time.

**Mr Rudolf:** I saw that moneys were transferred from one project to another and I asked him what the story behind it was. He assured me that he transferred surpluses only.

**The CHAIRMAN:** When you went to check the trust accounts to see if there were sufficient funds, there was never anything missing? Did the ledger cards list all the payments going out of that particular trust account?

**Mr Rudolf:** Generally, I would refer it to him if I knew it was an unfinished construction project. I would ask him if there were sufficient funds to make interest payments. On some occasions he would say, "No; chase up the borrower", and on a lot of occasions he would say, "Yes, there is enough there to finish the project; you can make the payment."

**The CHAIRMAN:** Were there any other signatories to the cheque account, apart from yourself and Mr Margaria?

**Mr Rudolf:** Yes, Mrs Margaria and Kim Wood.



**The CHAIRMAN:** Did you ever make a payment or sign off on a payment that was coming out of the trust account and it was being recorded? I assume there was documentation as to which ledger it was to come out of. So a payment could come out of the ledger for project A and go to make a payment for something on project B.

**Mr Rudolf:** I did not see any of that. If a payment was due for project A, the payment came out of project A. I never saw a payment coming out of one project on behalf of another project.

**The CHAIRMAN:** But you did see some coming out of the general trust account not specified to a particular project?

**Mr Rudolf:** All payments related to a project. A progress payment on this property would come out of the project ledger for that property.

**The CHAIRMAN:** How were those surplus funds recorded? Even though a project had been paid out to the investors, would that lender account remain in the ledgers as a credit balance until that money was used for some other purposes?

**Mr Rudolf:** Yes; or, alternatively, if it was needed for another project, it would be transferred over to meet interest payments.

**The CHAIRMAN:** Did Mr Casella draw any money out of the trust account for his personal use?

**Mr Rudolf:** Even now, I have not seen any evidence of cheques having been drawn for Mr Casella. I have come across some instances in which a property was traded for, say, a motor vehicle. Mr Casella obviously sold the motor vehicle and the proceeds did not come back into the ledger. I did not see any cheques that were drawn and given to him.

**The CHAIRMAN:** Was a motor vehicle part of the settlement for deal?

**Mr Rudolf:** I saw one settlement statement some months ago for a subdivision that showed two blocks had been sold for \$70 000 each - \$70 000 proceeds and a \$70 000 Porsche as consideration for the other block. People like Mr Casella did not draw any funds. It appears that Global Finance Group Pty Ltd funded the whole lot, including purchase price, stamp duty, brokerage costs and interest. The borrower did not put in any money. It appears that Global funded virtually everything. In times of high inflation, in a year or two the properties may have sold for sufficient payback. However, as we have found, those properties are probably not worth what was borrowed against them.

**The CHAIRMAN:** While you were at Global Finance inflation was not high?

**Mr Rudolf:** No.

**The CHAIRMAN:** What was the relationship between Mr Margaria and Mr Casella?

**Mr Rudolf:** They appeared very close. Mr Margaria advised me that when he started Global, Mr Casella was not happy with Blackburne and Dixon and he had agreed to transfer all his business operations over to Global. Since then - maybe a year ago - Mr Casella told me he had funded Mr Margaria to open Global. He said that he and his partner, John Miller, had each put in \$40 000-odd to set up the premises - buy furniture, etc. This is what Mr Casella told me; I have never verified it. He said that initially the three of them would be partners and Mr Margaria would draw a wage. However, that never eventuated.

**The CHAIRMAN:** What do you mean?

**Mr Rudolf:** It never became a partnership.

**The CHAIRMAN:** Was that between Mr Casella, Mr Margaria and Mr Miller?

**Mr Rudolf:** Mr Margaria just took control. Mr Casella and Mr Miller stayed as customers and paid brokerage on all new loans.

**The CHAIRMAN:** Mr Margaria got the profits of the business rather than a wage?

**Mr Rudolf:** That is right.

**The CHAIRMAN:** Who is Mr Miller?

**Mr Rudolf:** He was Mr Casella's partner. They did quite a few joint ventures. I think they parted company two or three years ago. Prior to that they did a lot of joint venture developments.

**The CHAIRMAN:** Did you have many dealings with Mr Miller?

**Mr Rudolf:** I met him two or three times when he came in to see Mr Margaria.

**The CHAIRMAN:** Was there also a social relationship between Mr Casella and Mr Margaria, or was it purely a business relationship?

**Mr Rudolf:** I know they sometimes went out for tea together. Mr Margaria worked late in the evenings and quite often Mr Casella would come in for a meeting and maybe they would go out for a meal.

**The CHAIRMAN:** Is Mr Margaria a bit of a wheeler-dealer?

**Mr Rudolf:** I suppose you could call him that. Not as in wheeling and dealing in commodities or anything like that. I suppose he considered himself a money manager.

**The CHAIRMAN:** Did he get to circulate much around the business community, or did he have his one client?

**Mr Rudolf:** Generally, from what I have been able to work out, he had his borrower clients that he had taken with him from Blackburne and Dixon, and he would take on borrowers who were introduced by the existing clients. He never advertised for borrowers. It was simply people who were recommended to him or were known to him.

**The CHAIRMAN:** People who are like that often big note themselves and name drop. Was he that sort of the person?

**Mr Rudolf:** Not to my knowledge.

**The CHAIRMAN:** You said you handled client inquiries. Was there a trend in client inquiries over the time you were there? Did they increase? When did they noticeably jump?

**Mr Rudolf:** I would not say it changed in any way. We would get three or four inquiries a week, or maybe five or six.

**The CHAIRMAN:** That did not increase towards the end?

**Mr Rudolf:** No. If anything, towards the end, the level of inquiries did drop off - especially after a few adverse press articles from July 1998 onwards.

**The CHAIRMAN:** Do you know why Kim Wood left?

**Mr Rudolf:** She had been considering resigning as a director for probably 12 months or so. That was probably primarily because she was not involved in any of the decision-making process. Mr Margaria basically ran the place himself. She finally did resign. I think she put it off because she was a bit worried about Mr Margaria's wrath. She did eventually hand in her resignation as director in late 1998. In February, just after the administrators were appointed, she asked for month off because she had not been able to eat or sleep. She was stressed out and her doctor recommended she take a month off, which the administrators

agreed to. They virtually said, "Take the rest of your life off. Take the month off. We do not need you, so don't come back."

**The CHAIRMAN:** Had she expressed her concerns to you?

**Mr Rudolf:** Not in specific words. She was not entirely happy with Mr Sadek and one of his latest projects in Wellington Street. I discussed it with her. We decided that we were not entirely satisfied with Mr Sadek - especially as he had fallen into arrears with another account - and we would not promote Mr Sadek's project.

**The CHAIRMAN:** At that stage you obviously had some concerns about some of the deals that were going on?

**Mr Rudolf:** Particularly that one, because I could not get any money out of him to make payments. His accounts were falling into arrears

**The CHAIRMAN:** Did you raise that with Mr Margaria?

**Mr Rudolf:** I did. His answer was along the lines that he was pushing him to re-finance elsewhere and we should be able to get the accounts paid out without a problem.

**The CHAIRMAN:** You said she had been considering resigning as a director for over 12 months, so you had some conversations over that period about those concerns. What concerns did she raise over that 12-month period?

**Mr Rudolf:** I heard on a couple of occasions when she may have asked Mr Margaria a question and he virtually said to her, "None of your business. This is my show; I'm running it."

**The CHAIRMAN:** She was a co-director.

**Mr Rudolf:** Yes, but she did not appear to have any say in the direction or administration of the principal issues.

**The CHAIRMAN:** At the same time, when you were raising concerns with Mr Margaria, you were comfortable that he was telling you the truth, even though a co-director was telling you she could not get answers out of him?

**Mr Rudolf:** It was not so much answers. Maybe it was answers; I could not put my finger on it. She may have asked certain things. There may have been general questions; it might not have been specific to a particular project. I suppose it was on objection from her at being kept in the dark.

**The CHAIRMAN:** You also said that she was concerned about the wrath of Margaria. What did you mean by that?

**Mr Rudolf:** He tended to fly off the handle if something riled him. He could get verbally very aggressive. It was not often, but it could happen.

**The CHAIRMAN:** If one hands in one's resignation and leaves, one does not have to put up with that.

**Mr Rudolf:** She was considering resigning as a director, not as an employee - principally because she had no control over the direction or any of the principles of the company.

**The CHAIRMAN:** There was about 12 months during which she did not make that decision.

**Mr Rudolf:** I think so, something like that.

**The CHAIRMAN:** She wanted to keep her job, but not be the director?

**Mr Rudolf:** Yes.

**Hon RAY HALLIGAN:** Mr Rudolf, I will take you back a little and go over a few things that I believe require clarification. When did you leave the ANZ Bank?

**Mr Rudolf:** It would have been about 1979.

**Hon RAY HALLIGAN:** Does Mr Jarvis have a hearing problem?

**Mr Rudolf:** That I do not know.

**Hon RAY HALLIGAN:** Up to this time you were not aware of it. I have known Mr Jarvis for about 14 years, and I have had dealings with him. I can assure you that he has a serious hearing problem. You can see where I am coming from about the telephone calls. You mentioned that Mr Margaria had experience with equipment

**Mr Rudolf:** Yes, with equipment finance. He was the leasing hire purchase manager.

**Hon RAY HALLIGAN:** When he asked you to sign a cheque for progress payments, did he mention that he had been out and saw that sufficient progress had been undertaken?

**Mr Rudolf:** Yes.

**Hon RAY HALLIGAN:** Admittedly you can now use hindsight, but do you believe he had the experience and qualifications to make these statements?

**Mr Rudolf:** Now, no. At the time he had been with Blackburne and Dixon doing private mortgages for a number of years. He had been at Global for a number of years. Probably at the time he had maybe six or seven years' experience in private mortgages, so I had no reason to doubt he had not picked up the necessary experience.

**Hon RAY HALLIGAN:** You mentioned that there were occasions when there were large amounts of money in the trust account. I presume that any number of projects were quite large both in dollar value and in size?

**Mr Rudolf:** Yes.

**Hon RAY HALLIGAN:** You have had experience in the bank and with Beneficial Finance. I take it that the borrowers were not providing you with a budget breakdown of how they would utilise the moneys they were receiving?

**Mr Rudolf:** At the time I was with Global I never saw any of that sort of information. Only Mr Margaria interviewed borrowers. He worked out the plan, the budgets etc. From what I have found in files over the past 12 months, a lot of that consisted of scribbled notes by Mr Margaria, which are probably meaningless to anyone else.

**Hon RAY HALLIGAN:** Would it be correct to say that banking practice in 1979 and before required someone wanting to borrow from a bank to provide that information? That is a requirement today.

**Mr Rudolf:** Full costings or budgets would be required.

**Hon RAY HALLIGAN:** Are you aware whether any quantity surveyor was used to determine the costs and the breakdown of those costs?

**Mr Rudolf:** It appears that that did not happen. Having gone through the failed projects in the past year, it does not appear that quantity surveyors were used. They appeared to rely on valuations, which did not address the cost.

**Hon RAY HALLIGAN:** Not at all. Without that documentation, one would be totally unaware of what equity the borrower was putting into a project.

**Mr Rudolf:** That is correct.

**Hon RAY HALLIGAN:** Would it be correct to say that the total management of those projects was inept?

**Mr Rudolf:** I would have to agree.

**Hon RAY HALLIGAN:** You mentioned that the main trust account had subaccounts in the internal books. Apparently some Global Finance moneys were included. What did those moneys represent?

**Mr Rudolf:** Global Finance had about 10 of its own income accounts in the trust account. One may have been for collection fees. Investors paid Global Finance 0.35 per cent of the payments made to them as a collection or administration fee. There was also a brokerage account - each new account paid 2 per cent of the amount borrowed as a brokerage fee and a further 1 per cent was paid on extension. Global Finance also had an arrangement whereby investors in the money market were paid, for example, ANZ's overnight money market rate, which could have been 3 per cent. Because Global Finance had \$3m in the trust account, it attracted 6 per cent. Global Finance retained the difference in the income account. A couple of other minor accounts contained various inspection fees and so on that may have been charged. There were about 10 income accounts.

**Hon RAY HALLIGAN:** Were they recorded as subaccounts within the main account?

**Mr Rudolf:** Yes.

**Hon RAY HALLIGAN:** Were you told why they were kept in that trust account? Many of the accounts mentioned appear to be normal income accounts for the company that were not held in trust.

**Mr Rudolf:** Yes. Mr Margaria said he retained Global's money within the trust account to cover any ledgers he allowed to become overdrawn. Some months ago one of the officers at PPB Ashton Read found that in the early days Mr Margaria would allow a project ledger to become overdrawn and he would then transfer money out of Global's income account to cover it and then transfer it back. After some time he obviously decided it was a waste of bookkeeping energy to transfer the funds across and back. He maintained that as long as he had enough to cover the overdraft he was covered.

**Hon RAY HALLIGAN:** That appears to be the case. It appears to be manipulation of the situation on the part of Mr Margaria.

**Mr Rudolf:** If that were not allowed, surely the auditors would have reported it over the years.

**Hon RAY HALLIGAN:** It was something they should have picked up very early in the piece. With your experience in the bank, one quick look would have been sufficient to tell you there was something wrong.

**Mr Rudolf:** I knew there were overdrawn ledgers, but Mr Margaria advised that he had money to cover it and the auditors were happy with it, so I had no reason to question it.

**Hon RAY HALLIGAN:** I am not suggesting that you would as an employee; I am suggesting that one quick look at those subaccount names by the auditors would have been sufficient to trigger a question and it could have all been over and done with in five minutes.

**Mr Rudolf:** We did find a letter on file dated 1996 addressed to the auditors confirming that the Global Finance income accounts covered the overdrawn accounts. There was a letter of explanation.

**Hon RAY HALLIGAN:** Was it all spelt out that way?

**Mr Rudolf:** It was spelt out that the Global Finance money was there to cover the overdrawn balances.

**The CHAIRMAN:** Thank you for appearing before the committee.

**Committee suspended from 11.50 am to 12.16 pm**