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MFS probe focus on conflict of interest

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LIQUIDATORS have raised concerns about a potential conflict of interest held by KPMG auditors who worked with funds management group MFS shortly before it collapsed owing \$2.4 billion.

Liquidators are trying to establish when MFS became insolvent and what happened to the money held in its vast web of subsidiaries. Loans within the group are suspected to total \$1 billion.

On the third day of examinations into MFS, later known as Octaviar, lawyers for the liquidators of Octaviar Investment Notes and Octaviar Investment Bonds yesterday asked the group's former chief operating officer, David Kennedy, also a former KPMG insolvency specialist, whether he was aware of any conflict in the use of KPMG as financial auditors.

Mr Kennedy said he was not.

MFS collapsed in 2008, and the NSW Supreme Court has heard this week the group was in a poor financial state at least as early as the second half of 2007, when it did not have the \$96 million needed to pay a promised dividend to shareholders but paid it anyway.

It was also under pressure to repay a \$250 million loan from Fortress Credit, and abandoned plans to sell its major revenue earner, tourism group Stella.

MFS chief financial officer David Anderson hailed from KPMG, as did the company secretary Kim Kercher and internal auditor Nigel Fitzgerald.

Mr Kennedy was asked about the previous relationship between Mr Anderson and KPMG's Mitchell Craig, who signed off on the MFS 2007 annual report.

"They were both partners at KPMG, but I'm not sure of the timing of it," Mr Kennedy said.

He said he had no contact with the KPMG auditors in his role at MFS.

He has spent the week being questioned by lawyers for Octaviar liquidators Kate Barnet and William Fletcher, of Bentleys. The examination is due to resume in the Supreme Court on April 27.

This story was found at: <http://www.smh.com.au/business/mfs-probe-focus-on-conflict-of-interest-20100414-se5l.html>